Annual Report and Accounts 2017

PHOENIX GROUP

PHOENIX IS THE LARGEST UK CONSOLIDATOR OF CLOSED LIFE ASSURANCE FUNDS, WITH 5.6 MILLION POLICYHOLDERS.

STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIALS

ADDITIONAL INFORMATION

These icons are used throughout the report to navigate to more information:

Read more within this document

Go online for further information

PHOENIX

OUR STRENGTHS

Overleaf you can read more about Phoenix's strengths and how this allows us to deliver value to stakeholders.

SCALE

A market leading platform and scale as the largest UK consolidator of closed life funds

We have 5.6 million policyholders and £74 billion assets under management. We aim to maximise economies of scale and capital efficiencies through internal fund restructuring and operational improvements.

5.6m
policyholders

£74bn
assets under management

SUSTAINABILITY

Phoenix has a long-term cash generation profile with a track record of enhancing value

Phoenix has a proven track record of achieving incremental growth through management actions. The Group's long-term cash generation profile supports our sustainable dividend policy enabling us to return value to our shareholders.

£653m
cash generation

25.1p
final dividend per share

SPECIALISM

A specialist operating model focused on closed life funds

As closed funds represent the core of our business, we are able to focus our energy and expertise on improving their performance for the benefit of customers and shareholders.

Providing an effective service to our policyholders is critical to our strategy

Our role as steward of our customers' funds is one we take very seriously. This year we achieved 92% customer satisfaction and we continue to seek ways to improve. We invest in IT systems and customer communication initiatives and aspire to deliver high levels of customer service.

92%
customer satisfaction score

STEWARDSHIP

Phoenix employs a talented and experienced team

Our area of specialisation allows us to recruit the best and most experienced individuals in the field, particularly in niche areas such as with-profits funds. We rely on the expert skills of our employees to succeed. We are proud that for the sixth year running, the Phoenix Group has been listed as one of Britain's Top Employers.

80%
employee engagement score

SKILLS

A wealth of acquisition opportunities exist in the sector

We are a consolidator in the closed fund market for the long-term. Approximately £380 billion of assets are held in other closed life funds in the UK (excluding Phoenix and the proposed Standard Life Assurance acquisition) and there is also significant market opportunity in the Bulk Purchase Annuity space, providing a wealth of further growth opportunities.

£380bn
of assets are held in closed life funds in the UK

SIGNIFICANT GROWTH

Group at a Glance

Our vision is to be the saver-friendly, industry solution for the safe, innovative and profitable management of closed life funds.

Our mission is to improve returns for policyholders while delivering value to shareholders.

OUR VISION AND MISSION

A focus on strategic priorities...

1. Improve customer outcomes
2. Drive value
3. Manage capital
4. Engage people

Read more on page 18

STRATEGIC PRIORITIES

...together with a specialist business model delivered through the Phoenix Way...

Operational Management

Standardising, streamlining and innovating the key processes and platforms across the Group improves efficiency and generates value.

Restructuring

Simplifying the Group's operating structure through life company consolidation and fund mergers reduces complexity and releases capital.

Effective Partnerships

Utilising external outsource partners and investment managers with proven track records provides access to expert knowledge and delivers a scalable cost base.

Read more on pages 12 to 15

SPECIALIST BUSINESS MODEL

...underpinned by risk management and responsible governance...

RESPONSIBILITIES

Risk management

Read more on page 32

Governance

Read more on page 47

Stakeholder engagement

Read more on page 38

...delivers value for stakeholders.

GENERATING VALUE

Key performance indicators

£653m APM REM
Operating companies' cash generation

£368m APM
Operating profit

£1.8bn
PGH Solvency II surplus (estimated)

164% APM
PGH Shareholder Capital Coverage ratio (estimated)

92% REM
Customer satisfaction score

80%
Employee engagement index score

Other performance indicators

25.1p
Final dividend per share

£(27)m
IFRS loss after tax

Read more on page 18

Note:
All amounts marked with an 'APM' are alternative performance measures. See 'Alternative Performance Measures' note on page 200 for further details of these measures.

All amounts marked with 'REM' are KPIs linked to executive remuneration. See 'Directors Remuneration Report' on page 63 for further details of executive remuneration including the financial and non-financial performance measures on which it is based.

Chairman's Statement

"The proposed acquisition of Standard Life Assurance and the Strategic Partnership with Standard Life Aberdeen is consistent with our strategy and financially compelling."

HENRY STAUNTON
CHAIRMAN

Dear Shareholders,

2017 was another successful year for the Group, with Phoenix continuing its track record of meeting or exceeding its publicly stated targets. In addition, the resilience of the Group's capital position was underscored by the issuance of over £800 million of subordinated bonds.

On 23 February 2018, Phoenix was delighted to announce the proposed acquisition of Standard Life Assurance and a Strategic Partnership with Standard Life Aberdeen plc.

The £2.9 billion acquisition is transformational for Phoenix, establishing the Group as the largest closed life consolidator in Europe.

The acquisition will be financed by a fully underwritten rights issue of £950 million, with the remaining cash consideration of £1,021 million funded by a mix of new debt and Phoenix's own resources. In addition, Standard Life Aberdeen will take a 19.99% equity stake in the enlarged Group on completion. The Board believes the acquisition is strategically and financially compelling and hopes the Group's shareholders will support the proposed rights issue.

The integration of both the AXA Wealth and Abbey Life businesses is ahead of plan with the Group exceeding its announced acquisition synergies. The Group has delivered £282 million of cash from AXA Wealth since the completion of the acquisition. Cash generation from the Abbey Life transaction is also on track with £236 million delivered this year. The recent experience gained from the integrations positions the Group to deliver significant value from the proposed Standard Life Assurance acquisition.

In June 2017 the Group held an Investor Day which focused on the improvement of the Phoenix customer journey, the Group's integration process and plans to deploy surplus capital for selective acquisitions in the Bulk Purchase Annuity ('BPA') market. There is a current lack of capacity in the BPA space to absorb potential demand and Phoenix's existing operating model offers the capability to compete in this market. BPA transactions constitute a complementary source of potential growth, alongside the Group's key focus on closed fund consolidation.

RECENT BOARD CHANGES

Against a backdrop of regulatory change and macroeconomic uncertainty in light of the prospective withdrawal of the UK from the EU, the Board aims to maintain the breadth and depth of experience required to create shareholder value and improve policyholder returns whilst navigating these risks. Therefore, we were delighted to welcome Karen Green and Belinda Richards to the Board in 2017 who bring with them a vast array of high quality executive and non-executive skills. In addition, as part of the Strategic Partnership, we will welcome two Standard Life Aberdeen Directors to the Board in 2018, bringing their additional skillsets and expertise.

Our Senior Independent Director, Ian Cormack, will retire from the Board at the Annual General Meeting ('AGM') in May 2018, having been involved with the Group since 2005. Ian's experience and strategic approach have been central to the success of Phoenix and I would also like to thank him for his support since I became Chairman. Ian will be replaced as the Senior Independent Director by Alastair Barbour who brings vast experience and business acumen to the role.

DIVIDEND POLICY

In line with the Group's previously stated expectations, the Board proposes a final 2017 dividend per share of 25.1p. This is a 5% increase on the 2016 final dividend and results in a new annualised dividend per share level of 50.2p.

Given the long-term run-off nature of the Group's business model, the Board believes it is prudent to maintain a stable and sustainable dividend per share which is reviewed at the time of an acquisition, in line with the criterion that any acquisition needs to at least sustain the current level of dividend per share. Therefore, following the announcement of the proposed Standard Life Assurance transaction, the Board expects to raise the dividend to an annualised amount of £338 million from the time of the final 2018 dividend. This corresponded to an equivalent 3% increase of the dividend per share at the time of announcement of the acquisition, taking into account the proposed rights issue and Standard Life Aberdeen shareholding.

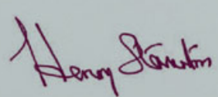
LOOKING AHEAD

The proposed Standard Life Assurance transaction is testament to the current re-shaping of the UK life insurance industry. Economic and regulatory pressures have resulted in the break-up of the traditional life insurance model, with certain players re-focusing their efforts on asset management and others concentrating on specific areas of new business whilst divesting legacy portfolios. This development was also discussed in the independent 'Meaning of Life 2' report published last November by the Pensions Institute, which Phoenix is proud to have sponsored.

Phoenix will continue to target consolidation opportunities in the closed life market. The acquisition of Standard Life Assurance will also provide an existing base in Europe, extending the market opportunity from £380 billion of closed life assets in the UK to £540 billion including Germany and Ireland.

Furthermore, Phoenix will have growth opportunities through its Strategic Partnership with Standard Life Aberdeen under which it will manufacture and administer workplace pension, SIPP and drawdown business for Standard Life Aberdeen.

To conclude, I would like to take this opportunity to thank all my colleagues for their hard work and commitment in progressing the Phoenix journey during another highly successful year.



HENRY STAUNTON
CHAIRMAN

14 March 2018

EFFECTIVE INTEGRATION

Group Chief Executive Officer's Report

"Phoenix has delivered on its objectives in 2017 and the proposed acquisition of Standard Life Assurance will make Phoenix the pre-eminent closed life fund consolidator in Europe"

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER

Phoenix has substantially completed the integration of the AXA Wealth and Abbey Life acquisitions. The Group exceeded its original synergy targets, delivering significant cost and capital benefits from the transactions.

Phoenix has delivered strong financial performance during the year, generating £653 million of cash from Phoenix Life and strengthening the Group's capital position through the issue of subordinated bonds to replace senior debt. The improved financial position of Phoenix resulted in a credit ratings upgrade by Fitch Ratings in July 2017.

These achievements during 2017 position us to deliver further value from the proposed acquisition of Standard Life Assurance which we announced on 23 February 2018.

The Group's operating model provides a solid basis for the integration of acquisitions. A key part of the operating model is the use of our outsource partners to undertake policy administration. These relationships allow us to move additional policies to our outsourcers on the same contractual terms, delivering cost synergies and also allowing us to utilise the outsourcers' transformation expertise. The Group's operating platform is therefore scalable and fully supports acquisitions. Phoenix retains a financial management skillset that delivers value creation through management actions.

In parallel to the closed life fund opportunity, the BPA market is a complementary source of annuity back books. The market has grown steadily in recent years and there is projected demand of approximately £550 billion over the next 15 years, as pension trustees look to de-risk current pensioner and deferred liabilities.

We are currently in exclusive discussions for our first external pensions buy-in transaction. Given the current capacity in the bulk annuity market, and recognising that Phoenix possesses both the skills and financial resources, the Group will continue to compete selectively on accretive transactions to generate incremental value.

AXA WEALTH INTEGRATION

The AXA Wealth acquisition comprised a pensions and investments business ('Embassy'), offering a range of propositions catering to both individual and corporate requirements and SunLife, a leader in the over 50s protection sector. The integration was complex from an operational perspective as the Embassy and SunLife businesses were based in different locations and multiple Transitional Service Agreements were required.

Phoenix generated significant diversification benefits, with the mortality exposure of the SunLife business partially offsetting the Group's existing longevity exposure from its annuity liabilities. The acquired businesses have been incorporated within the Group's Solvency II Internal Model and the policies were legally transferred to Phoenix Life Limited in the final quarter of 2017. These actions have helped to deliver £282 million of cash from the acquisition since its completion in November 2016.

The Embassy business ran its policy administration in-house and a key part of our integration process was to move this business onto our outsourcing model. This activity completed on 1 January 2018 with the commencement of outsourcing arrangements with Diligenta and FNZ which was supported by the transfer of 145 staff.

Our initial expectations of annual cost synergies at the time of the announcement of the acquisition were approximately £10 million. As at the start of this year, the Group has been able to deliver £17 million of pre-tax savings a year, on a run-rate basis. These savings have been achieved through close alignment with our outsource partners and the migration of core functions to our office in Wythall. Integration costs incurred to 31 December 2017 amounted to £28 million before tax.

We have restructured the SunLife business as a distribution company, with the mortality risk being underwritten by Phoenix Life Limited. This allows the ring-fenced management team based in Bristol to focus on their key skillsets of marketing, sales and the management of new customers. SunLife represents a positive adjunct for our business, providing options to our policyholder base and a complementary risk profile.

Group Chief Executive Officer's Report
continued

FINANCIAL PERFORMANCE

FINANCIAL TARGETS

At the time of Phoenix's 2016 full year results, the Group set a cash generation target of £1.0 billion to £1.2 billion between 2017 and 2018, in line with the expected timeframe to integrate the recent acquisitions and incorporate Abbey Life within the Group's Solvency II Internal Model. During the year, the Group generated a total of £653 million of cash and thus we are on track to achieve the top end of this short-term target.

The Group has set a new, longer-term cash generation target of £2.5 billion between 2018 to 2022, replacing the previous 2016 – 2020 target. In addition, we expect a further £3.8 billion of cash generation from 2023 onwards. Although this illustrative cash generation after 2023 does not assume any additional management actions, it is a clear demonstration of the long-term cash flow potential of the Group.

PHOENIX LIFE CAPITAL POSITION

The Phoenix Life companies hold capital management buffers in addition to the required Solvency Capital Requirement and any excess over these buffers ('Free Surplus') is available for distribution to the holding companies as cash. These capital management buffers provide the life companies with additional resilience in the event of market volatility.

The Free Surplus has remained constant at £0.7 billion as at 31 December 2017, with the remittance of Free Surplus as cash to the Group's holding companies during the year being offset by management actions undertaken, generation of recurring surplus and a reduction in capital requirements.

Key management actions have included a reduction in expenses charged to the life companies due to operational synergies, together with further investments in illiquid asset classes such as Equity Release Mortgages.

GROUP CAPITAL POSITION

The Group's surplus under Solvency II is estimated to be £1.8 billion as at 31 December 2017 compared to £1.1 billion as at 31 December 2016. The increase in the Solvency II surplus reflects the issuance of the subordinated bonds during 2017 together with management actions completed, offset partly by the impact of dividend payments and finance costs. The Shareholder Capital coverage ratio has increased from 139% as at 31 December 2016 to 164% as at 31 December 2017. The Group capital position includes a recalculation of Transitional Measures as at 31 December 2017 and recognises the 2017 final dividend payable in May 2018.

As part of the ongoing Group simplification process, Phoenix will put in place a new UK-registered holding company for the Group. This will be progressed following the completion of the proposed Standard Life Assurance acquisition and will provide greater clarity for the Group's stakeholders, including investors and regulators.

OPERATING PROFIT

The Group achieved an operating profit of £368 million in 2017 including £79 million from management actions, compared to £351 million in 2016, which included £157 million of management actions.

REGULATORY AND LEGISLATIVE CHANGES

Following the publication of the thematic review of the fair treatment of long-standing customers, Abbey Life received specific feedback and was informed of the actions that the Financial Conduct Authority ('FCA') expected Abbey Life to take to address specific issues. Good progress is being made to address these issues and Phoenix Life has rolled out its Customer Oversight Framework and Risk Management Framework to the Abbey Life business.

In addition, Abbey Life was referred to the FCA enforcement division to consider whether any of the issues identified in the thematic review warrant further intervention from the FCA and we continue to work with the FCA on the ongoing investigation.

With regard to annuities sales, Abbey Life has completed the thematic review of annuities and has agreed with the FCA to undertake a Past Business Review. We are working closely with the FCA on the scope of this review.

Both of these reviews were known issues at the time of acquisition and we expect that costs arising from these reviews to be covered by the indemnity agreed at the time of the acquisition of Abbey Life.

ABBEY LIFE INTEGRATION

The Abbey Life acquisition comprised unit-linked policies and annuities in payment, together with two small with-profit funds. Abbey Life was already run as a separate business with an existing outsource agreement in place with Capita. Therefore, compared to the integration of the AXA Wealth businesses, it was relatively less complex to transition the business to Phoenix Life.

Enhanced oversight of the business and its outsource arrangements was put in place quickly, including new governance and management structures. This has been particularly important given the ongoing enforcement action relating to Abbey Life that is being undertaken by the FCA.

With the exception of actuarial reporting, all functions have been fully migrated to Wythall and integrated into the 'Phoenix Way'. Closure of the Bournemouth office will follow the actuarial reporting migration and secure pre-tax cost synergies of £10m per annum from the first quarter of 2018.

Integration costs incurred to 31 December 2017 were £10 million before tax.

The Abbey Life business was reinsured into Phoenix Life Limited in December 2017. This has allowed the Group to access transitional benefits and will generate further efficiencies from the annuity portfolio by extending the Matching Adjustment benefits to all qualifying annuity liabilities. The use of Matching Adjustment results in the use of a higher discount rate for those annuity liabilities, increasing Free Surplus within Phoenix Life. Together with the transfer of the Abbey Life Pension Scheme to a Group holding company these actions have delivered £236 million of cash from the acquisition since its completion.

The application to move Abbey Life onto the Group's Internal Model was submitted during the fourth quarter of 2017 and the approval was granted in March 2018.

With regard to contract-based workplace pensions, Phoenix Life's Independent Governance Committee has published its second annual report. Given the unique set of circumstances surrounding this group of customers, Phoenix's life company boards agreed that annual fees on workplace pension products should be reduced to 1% from the end of 2017. A £27 million impact from the fee reduction has been recognised in the Group's results.

CUSTOMERS

Phoenix is currently investing in new online capabilities to connect digitally with as many of our customers as possible. Our vision is to offer customers access to information and services on a platform that is scalable for any future businesses we acquire.

We have already initiated our Digital Vision by offering online encashment for smaller pension pots, without needing to complete any paperwork. Currently, we see around 5,000 customers with non-GAR pension pots under £10,000 encash each month. The majority of these customers have taken advantage of pension freedoms to access smaller pots before their selected retirement date. We have seen an encouraging response from our customers, with current experience being that 23% of eligible customers with under £10,000 pots have transacted online. Along with being one of the early members of the Government-led Pensions Dashboard working group, Phoenix is driving forward with its Digital Vision and making significant investments to expand this digital offering in the future.

In addition to these digital enhancements, Phoenix Life continues to introduce initiatives to speed up processing and improve the customer experience. By allowing policyholders to encash small pension pots fully online, we have improved the process for many of our small life insurance claims. Where possible, we allow bereaved claimants to complete the claims process over the telephone.

We have a new programme to contact customers with policies such as endowments well ahead of the maturity date to encourage earlier engagement and ensure customers receive their proceeds rapidly. There are also a number of tools and calculators on the website, which aim to inform and educate customers in an interactive way. These tools, which include a pension and tax calculator, ensure that customers understand all considerations and benefits before making their retirement choice. The website also signposts various external services such as Pension Wise and the Money Advice Service where customers can obtain free, impartial advice.

Ensuring customers are repatriated with policies they may have become detached from as a result of lifestyle changes such as house moves, marriage and illness is a key part of our strategy. Lost policies are fairly typical for legacy books and we have undertaken considerable activity in the past to improve this issue. During 2017 we have focused on the repatriation of life insurance policies we suspect have been left unclaimed by a deceased's estate; in most cases because the beneficiaries were unaware the policy was in existence. Through our extensive tracing work, a number of policies have been paid out to the beneficiaries of the policy.

Phoenix Group provides annuities for vesting policyholders and wrote a total of £529 million of annuities in 2017, compared to £542 million in 2016. The majority of these are annuities with attractive guaranteed annuity rates ('GARs'). For policyholders looking to buy a non-guaranteed rate annuity, Phoenix has initiated a new programme which ensures customers have the opportunity to review the 'best deal' for their annuity via a whole-of-market panel of third party annuity providers. This is particularly important for customers with lifestyle and medical conditions who may be better served by an enhanced annuity. This action ensures that customers fully understand the financial implications of buying an annuity as part of their retirement planning and is in line with the regulator's position on the market.

Phoenix Life continues to be committed to delivering a high level of customer service. We recognise the importance of timely payments to our customers and have continued to deliver our pensions payments made through the Origo Faster Transfers system in 11.03 days on average, below the industry target of 12 days. Complaint handling is also a key area of focus and this is demonstrated by our strong performance as measured by the Financial Ombudsman Service with an overturn rate of 17%. We are pleased to note this is significantly below the most recently published industry average of 36%. We also continue to monitor customer satisfaction, with the vast majority of our customers surveyed being satisfied with the service they receive.

2017 TIMELINE

MARCH	JUNE	JULY	OCTOBER	DECEMBER
Approval granted by the PRA to incorporate the AXA Wealth businesses in the Group's Internal Model	Transfer of Abbey Life Pension Scheme from Abbey Life Assurance Company Limited to a Group holding company	Fitch Ratings announces an upgrade to the Group's credit rating Acquisition of £600 million portfolio of Equity Release Mortgages Launch of Customer Digital pilot scheme	Application made to incorporate Abbey Life in the Group's Internal Model	Reinsurance of Abbey Life business to Phoenix Life Limited Completion of the Part VII transfer of the AXA Wealth policies to Phoenix Life Limited

Group Chief Executive Officer's Report
continued

PEOPLE

Phoenix Group's ability to attract, retain and motivate outstanding talent was, for the sixth year in succession, formally recognised in 2017 through our accreditation as one of the UK's Top Employers. An engaged workforce is fundamental to the success of the Group. Our employee engagement index was 80%, in line with the high scores achieved in 2016, despite the challenges of integrating new colleagues from acquired entities.

We are a signatory to the Women In Finance Charter initiative and in 2017 made significant progress against our published targets on gender pay and on increasing female representation at senior levels of the organisation. We remain vigilant in this space and strive for a wholly inclusive culture for the benefit of all stakeholders.

Fundamental to our strength as a team is the continued ability to draw on our established succession plans for key resourcing decisions as they arise. Reviewing and developing succession remains a regular part of our corporate governance and management discipline.

The Group's corporate responsibility agenda plays a central part in the engagement of our people. This commitment extends to a number of community initiatives supported by the organisation and is a critical part of our overarching objective to put the financial, physical and mental wellbeing of our employees at the heart of our people strategy. I am pleased to report that staff-led fund raising activities in 2017 raised a total of over £160,000. This was raised primarily for our corporate partnerships with Midlands Air Ambulance Charity and London's Air Ambulance.

2018 will see us engage with our staff on a specific initiative to re-invigorate our commitment to our corporate values. We want to maintain the conduct of all our employees, from the leadership team downwards, at an exemplary level.

PROPOSED ACQUISITION OF STANDARD LIFE ASSURANCE AND STRATEGIC PARTNERSHIP WITH STANDARD LIFE ABERDEEN

The proposed £2.9 billion acquisition of Standard Life Assurance, representing 84% of Own Funds, will result in a 'bigger and better' Phoenix. The enlarged Group will have £240 billion of assets under management and 10.4 million policyholders. This greater scale and alignment with Phoenix's existing product mix strengthens the Group's capacity to generate shareholder value through the delivery of management actions and future accretive acquisitions.

The transaction enables both companies to focus on what they do best – Phoenix will become the largest closed life consolidator in Europe and Standard Life Aberdeen will focus on its world class investment management business and UK wealth platform.

The Strategic Partnership covers two key areas: firstly, Standard Life Aberdeen will continue to manage the majority of Phoenix's assets and secondly, Phoenix will underwrite workplace pensions and SIPP products which Standard Life Aberdeen will continue to market under its own brand.

We expect to generate a total of £5.5 billion of additional aggregate cash flows from the acquired in-force book, of which £1.0 billion is expected to be generated between 2018 and 2022 and £4.5 billion from 2023 onwards. The long-term nature of these cash flows enhances the sustainability of our dividend and allows us to increase our 2018 final dividend to an annualised level of £338 million, which is equivalent to a 3% uplift in dividend per share based on the share price on the day of announcement of the transaction. In addition, Fitch Ratings reaffirmed the Group's credit rating following our announcement of the proposed acquisition.

Our expectations of cash generation from the proposed acquisition includes expected cost savings and capital synergies of £720 million. Given our experience from integrating previous acquisitions I am confident that we will once again successfully deliver value for shareholders and policyholders.

The acquisition represents a pivotal moment in the Group's history. It will establish Phoenix as the largest closed life consolidator in Europe and increases Phoenix's potential market from around £380 billion of closed life fund assets in the UK to approximately £540 billion of assets across the UK, Germany and Ireland.

CONCLUSION

Phoenix has shown during 2017 that it has the operating platform and integration skills to deliver capital and cost synergies from acquisitions. I continue to believe that the impact of regulatory changes and the desire of open life companies to redeploy capital will provide Phoenix with further acquisition opportunities in future.

Two members of the Group's Executive Committee will leave the Group in 2018, Fiona Clutterbuck and Wayne Snow. I would like to thank them both for their commitment to Phoenix over the past years and wish them well in the future. We have already recruited internally to cover their responsibilities, demonstrating the strength and depth of Phoenix's management.

I would also like to thank all my colleagues for their continued hard work during a year that has seen Phoenix deliver its strategy for the benefit of both shareholders and policyholders.

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER

14 March 2018

2018 TIMELINE

FEBRUARY	MARCH
Announced the proposed acquisition of Standard Life Assurance and a Strategic Partnership with Standard Life Aberdeen plc	Approval granted to incorporate Abbey Life into the Group's Internal Model

The Marketplace

The UK life and pensions market is undergoing fundamental change, driven by changes in regulation and customer behaviour. Phoenix expects continued consolidation within the market.

ECONOMIC LANDSCAPE

Investment markets showed positive returns in 2017, driven by an expectation of stronger global macro-economic growth.

UK equity markets rose, with the FTSE All Share Index closing approximately 9% ahead of the 31 December 2016 position. Phoenix seeks to hedge its life company solvency from declines in equity markets through the use of derivatives. The increase in equity markets over the period led to a decline in value of these put options which has been recognised in the IFRS results, with the solvency position unchanged as expected.

Swap yields were broadly unchanged over the period. Credit spreads narrowed across ratings and implied future inflation rates increased during the year.

The decision of the UK to leave the European Union ('Brexit') is not expected to have any material direct impact on the existing Group. However, Phoenix may be affected by the indirect impact on investment markets from the ongoing Brexit negotiations during 2018. In addition, the proposed Standard Life Assurance acquisition includes branch operations in Ireland and Germany which we expect will be transferred to an Irish subsidiary (acquired as part of the transaction) by way of a Part VII transfer.

REGULATORY AND LEGISLATIVE LANDSCAPE

The Solvency II prudential framework which came into force in 2016 is now fully embedded. The Group's approved Internal Model is the key tool in managing Phoenix's capital position under the Solvency II regime. The Prudential Regulatory Authority ('PRA') has recently announced a number of consultations on a range of issues relating to Solvency II, including with regard to Matching Adjustments.

There have been significant changes to legislation from a conduct perspective in recent years. This includes the ending of compulsory annuitisation, reviews on the treatment of legacy customers and annuity sales, together with legislation to cap exit charges for customers. This has resulted in customers having a greater range of options at retirement and life companies have had to improve the quality of information provided to legacy customers.

COMPETITIVE LANDSCAPE

Phoenix sponsored a report by the Pensions Institute in November 2017 called 'The Meaning of Life 2'. This report updated the findings of a previous report published in 2015 on the UK life company business model and found that the life industry is bifurcating, with a number of players moving away from the traditional risk-based model to an asset management strategy that is less capital intensive. Consolidation is a key feature of this process as players look to restructure their businesses by disposing of their traditional capital intensive products and Phoenix seeks to be an important player in this industry process.

The Meaning of Life 2 Report can be accessed at www.thephoenixgroup.com/media/sponsored_report.aspx

CLOSED FUNDS

Phoenix estimates that the market opportunity is approximately £380 billion in terms of assets held within UK closed life funds (excluding Phoenix and the proposed Standard Life Assurance acquisition). The split of these assets by type of owner and product is set out in the pie charts below.

The proposed Standard Life Assurance acquisition includes operations in Germany and Ireland. Phoenix estimates that there is a potential additional closed life fund opportunity of £160 billion of assets in these two countries.

We believe there are a number of key drivers that will lead to future consolidation of closed life funds. These include the significant capital held within closed funds that owners may wish to redeploy, more intrusive regulation leading to pressure on owners and fixed cost pressures as closed funds decline in size over time.

Phoenix has key competitive advantages in generating value from acquiring and managing closed life funds. The Group's scale provides the ability to generate capital efficiencies through the diversification of risks and the wide range of product types that Phoenix currently manages provides a scalable platform for integrating further closed funds. The Group's outsourcing partners provide policy administration services and allow Phoenix to run a variable cost model, whereas the Group's approved Solvency II Internal Model provides greater clarity over capital requirements and the benefits of undertaking management actions.

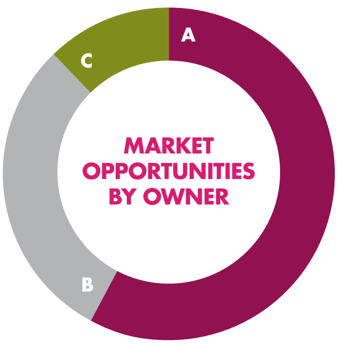
BULK PURCHASE ANNUITIES

Many Defined Benefit pension schemes are now closed to new members but have liabilities that will continue for many decades into the future. The BPA market offers employers the ability to mitigate the risk of their Defined Benefit pension liabilities whilst allowing the pension scheme trustees the ability to secure and protect their members' benefits.

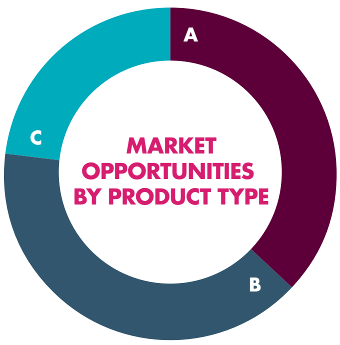
Phoenix has identified this market as a source for additional annuity assets, offering the potential for Phoenix to apply its proven and pre-existing skills set and acquisition experience to compete on selective transactions using the Group's existing capital resources. The criteria that Phoenix uses to assess potential BPA transactions are the same as those used for closed life fund acquisitions.

The size of the BPA market is significant, with around £550 billion of transactions forecasted over the next 15 years. During 2017 alone, transactions amounting to a total of approximately £12 billion were announced.

UK MARKETPLACE STATISTICS



A 58% UK life companies
B 30% Foreign owned
C 12% Bank owned



A 37% With-profit
B 40% Unit-linked
C 23% Non-profit

Operating Structure

Phoenix Group's operating structure is integral to its success in the closed life fund market.

PHOENIX GROUP

GROUP FUNCTIONS

Manage corporate and strategic activity and include the following:

- Group Finance including Tax, Treasury and Investor Relations
- Group Actuarial
- Group Risk
- Group HR
- Group Internal Audit
- Group Legal
- Strategy, Corporate Development and Corporate Communications
- Company Secretariat

PHOENIX LIFE

LIFE COMPANIES

Manage the financial assets for policyholders

Phoenix Life Limited

Phoenix Life Assurance Limited

Abbey Life Assurance Company Limited

DISTRIBUTION

Markets protection products for the over 50s

SunLife Limited

MANAGEMENT SERVICES COMPANIES

Provides life companies with management services

INVESTMENT MANAGEMENT

OUTSOURCE PARTNERS

GROUP FUNCTIONS

The Group operates centralised functions that provide Group-wide and corporate-level services and manage corporate and strategic activity.

Based both in Wythall, Birmingham and Juxon House, London, the Group is led by the Group Chief Executive Officer, Clive Bannister.

PHOENIX LIFE

Phoenix Life is responsible for the management of the Group's life funds. Based in Wythall, Birmingham, Phoenix Life is led by its Chief Executive Officer, Andy Moss.

LIFE COMPANIES

The life companies are regulated entities that hold the Group's policyholder assets. The Group simplifies its business model by bringing together separate life companies and funds, making more efficient use of the capital and liquidity in its life companies. This results in administrative expense savings and increased consistency of management practices and principles across the Group.

DISTRIBUTION

We have restructured the SunLife business, a leader in the over 50s protection sector, as a distribution company, with the mortality risk being underwritten by Phoenix Life Limited. The allows the ring-fenced management team based in Bristol to focus on their key skills of marketing and sales.

INVESTMENT MANAGEMENT

Investment management services are provided to the life companies by a number of external asset management companies, with the main partner being Aberdeen Standard Investments.

MANAGEMENT SERVICES COMPANIES

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. This benefits the life companies by providing price certainty and transferring some operational risks.

OUTSOURCE PARTNERS

The management services companies manage relationships with the outsource partners. Without further acquisitions, the number of policies declines over time and the cost of our operations as a proportion of policies will increase. This risk is managed by paying a fixed price per policy to our outsource partners for policy administration services, which reduces this fixed cost element of our operations and converts it to a variable cost structure.

Outsource partners have scale and common processes to benefit the Group, including reducing investment requirements, improving technology and reducing our operational risk.

Finance, actuarial, information technology, risk and compliance and oversight of the outsource partners are retained in-house, ensuring that Phoenix Life retains full control over the core capabilities necessary to manage and integrate closed life funds.

Our Key Products

Phoenix has a wide range of legacy products which are written across different funds.

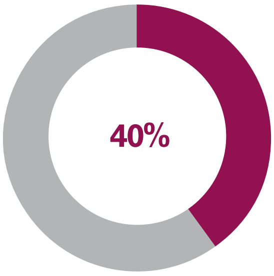
The features of each policy influences whether it is the policyholders or the shareholders who are exposed to the risks and rewards of a policy.

Fund Type | **Typical characteristics** | **Policyholder benefits** | **Shareholder benefits**

WITH-PROFIT

£29.3bn

Gross policyholder liabilities at 31 Dec 2017



Typical characteristics

These are typically savings and investment products.

They comprise endowments, whole of life and pensions products and (some) guaranteed annuity options which guarantee the annuity that a pension pot will be able to buy.

The policyholders and shareholders share in the risks and rewards of the policy, depending on the structure of the fund.

Excess assets created over time ('estate') provide a buffer to absorb cost of guarantees and capital requirements.

In the 'supported' with-profit funds, the shareholders provide capital support to the fund.

Policyholder benefits

Policyholders benefit from discretionary annual and/or final bonuses.

The bonuses are designed to distribute to policyholders a fair share of the return on the assets in the fund, together with other elements of experience in the fund.

Shareholder benefits

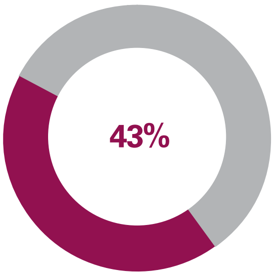
In the 'supported' with-profit funds, the shareholders' capital is exposed to all economic movements until the estate is rebuilt to cover the required capital, at which point the fund becomes 'unsupported'.

In the 'unsupported' with-profit funds, typically shareholders receive 10% of declared bonuses (90:10 structure) or nil (100:0 structure).

UNIT-LINKED

£31.3bn

Gross policyholder liabilities at 31 Dec 2017



Typical characteristics

These are insurance or investment contracts (savings and pensions) without guarantees.

The policyholders bear all of the investment risk.

Policyholders buy units with their premiums which are invested in funds.

Units are sold when a claim is made.

Policyholder benefits

Policyholders' benefits are in the form of unit price growth (based on the investment income and gains, but subject to management charges and investment transaction costs).

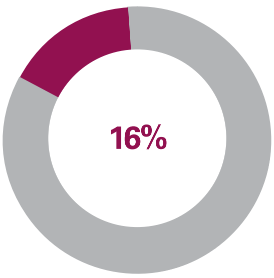
Shareholder benefits

Shareholders benefit from fees earned through management charges, bid/offer spreads and/or policy fees.

NON-PROFIT (ANNUITIES)

£11.4bn

Gross policyholder liabilities at 31 Dec 2017



Typical characteristics

Policyholders make fixed or variable payments in lieu of a future lump sum or a future income stream until death.

Policyholder benefits

Policyholders receive regular payments which start immediately (immediate annuity) or at some time in the future (deferred annuity).

Shareholder benefits

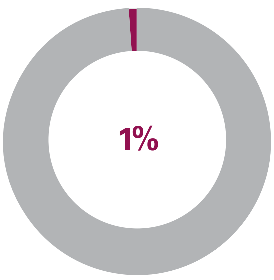
Shareholders earn a spread on the assets supporting the annuity payments.

The shareholders are directly exposed to all market and demographic risks.

NON-PROFIT (PROTECTION)

£0.3bn

Gross policyholder liabilities at 31 Dec 2017



Typical characteristics

Term assurance policies which pay a lump sum on death if death occurs within a specified period.

Whole of life policies which cover the entire life and pay a lump sum on death, whenever it occurs.

Policyholder benefits

Policyholders have certainty of the benefits they will receive.

Shareholder benefits

Profits are generated from investment returns and underwriting margins.

Shareholders are exposed to the majority of the risks and benefit from 100% of the profits or losses arising.

Our Business Model

Our strategic priorities help enhance the value we create through our business model

1 Improve customer outcomes

Read more on page 18

2 Drive value

Read more on page 20

3 Manage Capital

Read more on page 22

4 Engage People

Read more on page 24

We are set apart by our strengths which underpin our business model

SCALE OF OUR PLATFORM

Largest UK closed life fund consolidator

SUSTAINABLE CASH GENERATION

Track record of generating additional value

SPECIALIST OPERATING MODEL

A low cost scalable operating model

Read more on page 12

STEWARDSHIP

Effective service offering to our policyholders

Read more on page 18

SKILLS OF OUR PEOPLE

Experienced and talented employees

Read more on page 24

SIGNIFICANT GROWTH

Consolidation opportunities in the sector

Read more on page 11

Our cash generation helps us realise opportunities for growth

In-force book cash emergence

Capital requirements of operating life companies decline as policies mature, releasing capital in the form of cash

Management actions

Management track record of delivering incremental value

Mergers and acquisitions

Value accretive acquisitions generate increased cash flows and synergy opportunities through scale advantages

Bulk Purchase Annuity transactions

The Bulk Purchase Annuity market offers a complementary source of assets and growth

Read more about our cash generation process overleaf

Read more on page 16

Resulting outcomes delivered are positive for all stakeholders

Customers

Optimised customer outcomes

Read more on page 39

92% REM

Customer satisfaction

Shareholders

Shareholder value created and stable and sustainable dividends delivered

Read more on pages 26 and 46

£653m APM

Cash generation

5%

Increase in 2017 final dividend

Employees

Engaged employees

Read more on page 41

80%

employee engagement index

Community and Environment

Support for local communities and charity partners and reduced environmental impact

Read more on pages 43 and 44

over 3,000

employee volunteer hours

Cash Generation Process

Opening Free Surplus

WHAT IS THE OPENING FREE SURPLUS?

Life Company Own Funds
Life companies hold capital in accordance with Solvency II regulations, providing appropriate security for policyholders. This capital is known as Solvency II Own Funds

less Solvency Capital Requirement
The level of regulatory capital required is known as the Solvency Capital Requirement

less Capital Policy
The life companies hold additional internal capital buffers above the regulatory capital requirement for prudence

Any assets which the life companies hold in excess of overall capital buffers required is known as Free Surplus

OPENING FREE SURPLUS

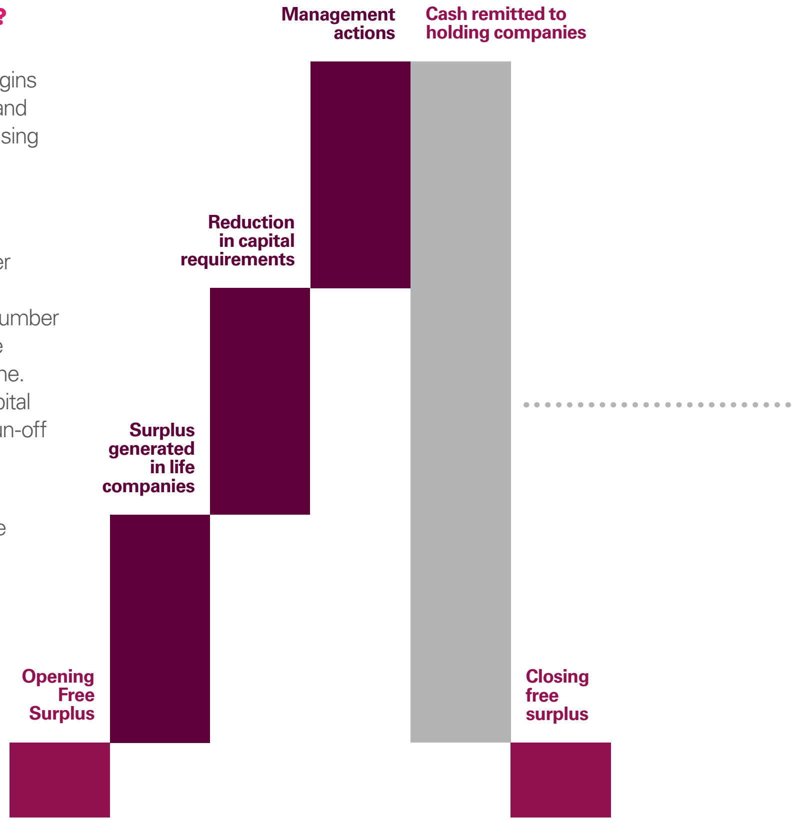
Illustrative sources of life company cash generation

HOW IS FREE SURPLUS GENERATED?

Margins earned
Life companies earn margins on different types of life and pensions products increasing Own Funds

Reduced capital requirements
As closed funds no longer actively sell new life or pensions products, the number of policies held within the funds will reduce over time. The related Solvency Capital Requirements will also run-off over a similar period

Management actions
These can either increase Own Funds or reduce capital requirements

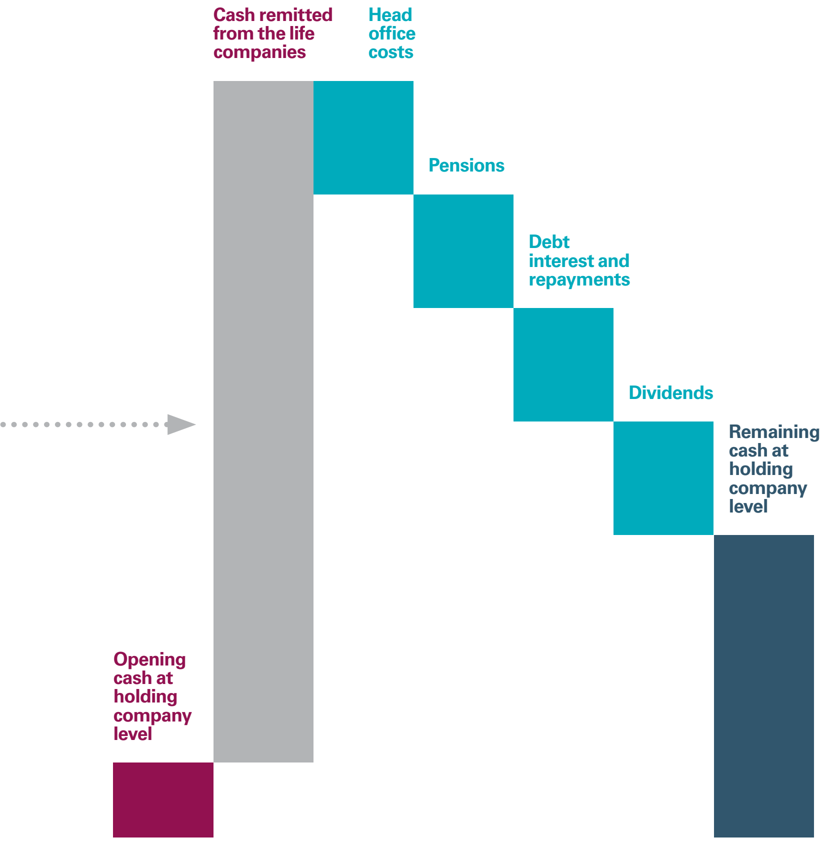


SOURCES OF CASH GENERATION

Read more about cash generation on page 26

USES OF CASH GENERATION

Illustrative uses of holding company cash generation



WHAT IS THE CASH REMITTED FROM THE LIFE COMPANIES USED FOR?

Head office costs
including salaries and other administration costs

Pensions contributions
to Group's employee Defined Benefit schemes

Debt interest and repayments
of outstanding Group shareholder debt

Dividends
The Group maintains a stable and sustainable dividend

GROWTH OPPORTUNITIES

Uses of remaining cash

WHAT IS THE REMAINING CASH USED FOR?

Mergers and acquisitions
Transactions must be value accretive and cash flow generative and needs to support the dividend level

Bulk purchase annuity transactions
Generate increased cash flows over the longer term

Cash at the holding company level provides resources and resilience for the Group

Our Strategy and KPIs

We have four areas of strategic focus which support the fulfilment of our mission and the realisation of our vision. Our initiatives and key performance indicators demonstrate how we have delivered against these strategic areas.

OUR STRATEGY AND KPIS

1 Improve customer outcomes

Improving customer outcomes is central to our vision of being the saver-friendly 'industry solution' for closed life funds.

We have six key areas of focus related to our customer offering:

- Security: ensuring all policy promises and guarantees are delivered.
- Improving value and effective with-profit fund run-off: through accelerating estate distribution where possible and providing appropriate investment exposure.
- Effective service delivery: using our outsourced model to leverage expertise and ensure costs run-off in line with policy volumes.
- Clear and effective communication: recognising the importance of clarity and simplicity for what can be complex products.
- Product governance: including a rolling review of our products to ensure they continue to deliver appropriate outcomes for our customers.
- Customer journey: improving customer experience wherever possible.

KEY INITIATIVES AND PROGRESS IN 2017

- A secure environment for the encashment journey for our smaller policies has been delivered, which allows customers to download a Digital Retirement Pack and submit their application online, reducing the overall time taken to them receiving their funds.
- We have been raising awareness and equipping our staff with the skills to actively identify customers in potentially vulnerable circumstances, understanding the issues they face, and deal with them appropriately. We have been engaging with a number of charities including RNIB, Age UK and Alzheimer's Society to help us in enhancing our offering for dealing with vulnerable customers.
- An extensive research programme with some of our customers has been undertaken to help us make further improvements to our communications. It has identified some valuable improvement opportunities which are being included into new communications to ensure our customers have all the information they need to make fully informed decisions. This work will continue on all of our mailings throughout 2018.
- A scheme to buy back certain annuities-in-payment has been introduced, allowing those in scope customers with small annuities the option and flexibility to take a lump sum payment. This will complete during 2018.
- We have put measures in place to limit exit charges to less than 1% for customers over the age of 55 looking to access pension freedoms introduced in 2015.
- Measures have also been put in place to limit charges on workplace pension schemes to no more than 1%.

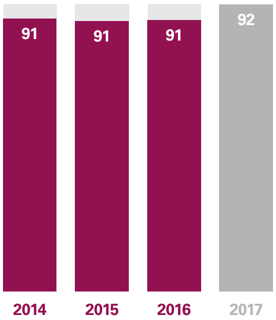
PRIORITIES FOR 2018

- Align the service offering for our recently acquired customers to the Phoenix Service Proposition, to make sure that all customers receive the same fair service.
- Look for further ways to enhance the customer experience, ensuring a positive customer journey, with more focus on the use of the digital channel.
- Explore possibilities to give our customers more flexibility and options around their policies, especially those who may no longer have a need for their product.
- Continued improvements of customer communications, making sure they are engaging; and with particular focus on ensuring they are clear and easy to understand and cover all the information they need to make fully informed choices.

Read more about customer engagement activities undertaken during the year on page 39

How we measure delivery

CUSTOMER SATISFACTION SCORE[1] %



WHY IS IT IMPORTANT?

This is an externally calculated measure of how satisfied customers are with Phoenix's servicing proposition based on the results of a satisfaction survey managed by the external research firm Ipsos MORI.

ANALYSIS

Customers surveyed were asked to give a satisfaction rating between 1 and 5 to a number of questions asked (with a rating of 4 or 5 regarded as satisfied) and 92% of all questions scored a rating of 4 or above. The Group satisfaction score of 92% reflects our commitment to ensuring customers are satisfied with our products and services.

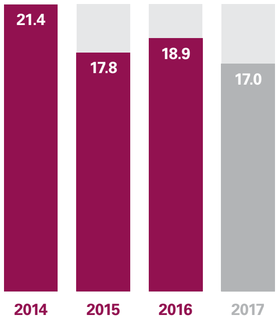
TARGET

To maintain a customer satisfaction score of 90%.

92% REM

2016: 91%

FINANCIAL OMBUDSMAN SERVICE ('FOS') OVERTURN RATE %



WHY IS IT IMPORTANT?

This is an independent view of how firms are handling complaints. It provides us with an opportunity to review and adjust our complaint handling proposition in line with best industry practice.

ANALYSIS

The FOS overturn rate of 17.0% has improved and is significantly below the most recently published industry average rate of 36% and also includes our newly acquired businesses. It is also lower than the 26% average overturn industry rate in the 'Decumulation, Life and Pensions' category (in which the majority of our business sits).

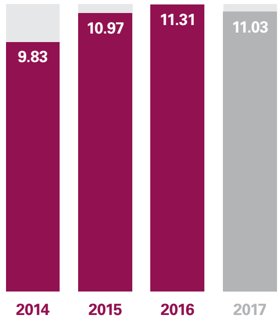
TARGET

To maintain a FOS overturn target of less than 30%.

17.0% REM

2016: 18.9%

SPEED OF PENSION TRANSFER PAYOUTS – ORIGO DAYS



WHY IS IT IMPORTANT?

This is a recognised industry measure for the speed of processing Pension Transfers, Open Market Options and Immediate Vesting Personal Pensions. It allows us to benchmark performance and our overall servicing and claims proposition against our peers.

ANALYSIS

The Group's pension transfer times are better than the industry target.

TARGET

12 days in line with the industry stated target for Origo Pension Transfers.

11.03 days REM

2016: 11.31 days

1 Excludes the acquired AXA Wealth and Abbey Life businesses.

Note:

All amounts in the Strategy and KPI section marked with an 'APM' are alternative performance measures. See 'Alternative Performance Measures' note on page 200 for further details of these measures.

All amounts in the Strategy and KPI section marked with 'REM' are KPIs linked to executive remuneration. See 'Directors Remuneration Report' on page 63 for further details of executive remuneration including the financial and non-financial performance measures on which it is based.

Our Strategy and KPIs
continued

2 Drive Value

In order to drive value, the Group looks to identify and undertake management actions, which increase and accelerate cash flows.

There are significant opportunities to increase and accelerate cash flows through the continued implementation of 'The Phoenix Way'. Management actions cover four key areas: operational management, risk management, restructuring and effective partnerships.

With the exception of the SunLife business acquired during 2016, the life companies are closed and generally do not write new business, although they accept additional policyholder contributions on in-force policies and allow pension savings plans to be reinvested at maturity into annuities. The closed life funds provide predictable fund maturity and liability profiles, creating stable long-term cash flows for distribution to shareholders and repayment of outstanding debt.

Additional value can be generated from further acquisitions of closed life books of business.

KEY INITIATIVES AND PROGRESS IN 2017

- The Group delivered £653 million in cash generation in the year against a target of £1.0 billion to £1.2 billion to be delivered between 2017 and 2018. This includes £165 million from the acquired AXA Wealth businesses and £236 million from Abbey Life.
- The Group delivered £321 million of management actions that increased Solvency II Own Funds in the year. This included the impact of strategic asset allocation initiatives such as the acquisition of further portfolios of equity release mortgages.
- The integration of the two acquisitions made in 2016 is substantially complete, with the AXA Wealth and Abbey Life businesses delivering run-rate synergies of approximately £17 million per year and £10 million per year respectively. This represents increases on our estimates which were originally £10 million for AXA Wealth and £7 million for Abbey Life.

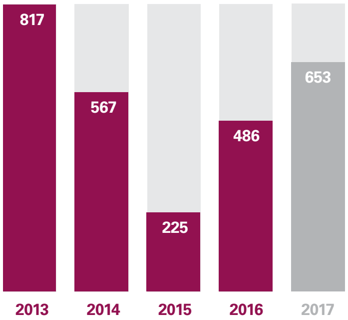
PRIORITIES FOR 2018

- Complete the proposed acquisition of Standard Life Assurance.
- Complete the final stages of the AXA Wealth and Abbey Life integration activities.
- Continue strategic asset allocation initiatives to invest in higher yielding asset classes such as infrastructure and commercial real estate debt.
- Explore investment opportunities in the bulk purchase annuity market as a complementary source of annuity back books.
- Seek further closed fund acquisition opportunities.

Management actions can reduce complexity, cost and optimise risk, thereby enhancing value generation

How we measure delivery

OPERATING COMPANIES' CASH GENERATION £m



WHY IS IT IMPORTANT?

Operating companies cash generation represents cash remitted by the Group's operating companies to the holding companies. Maintaining strong cash flow delivery underpins debt servicing and repayment as well as shareholder dividends.

ANALYSIS

Cash remitted reflects the generation of Free Surplus within the life companies and the benefit of management actions implemented in the period. Cash generation in 2017 was £653 million, of which £236 million arose from the acquired Abbey Life business and £165 million from the AXA Wealth businesses.

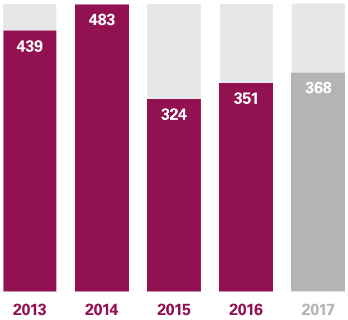
TARGET

To generate cash flows of £1.0 to £1.2 billion of cash between 2017 and 2018 and £2.5 billion of cash between 2018 and 2022.

£653m APM REM

2016: £486m

OPERATING PROFIT £m



WHY IS IT IMPORTANT?

Operating profit is a non-GAAP measure used by management and is considered a more representative measure of performance than IFRS profit or loss after tax as it provides long-term performance information unaffected by short-term economic volatility.

A reconciliation of operating profit to the IFRS loss after tax of £(27)million (2016: £(100) million) is included in the Business Review section.

ANALYSIS

Operating profit has increased by £17 million compared to prior year reflecting the inclusion of a full year's performance of the acquired AXA Wealth and Abbey Life businesses and net positive actuarial assumption changes. This has been partly offset by lower management actions with an operating profit impact and the benefit of model and methodology changes recognised in 2016.

£368m APM

2016: £351m

Read more about cash generation on page 26 and link to executive remuneration on page 64

Read more about operating profit on page 30

3 Manage capital

We continue to focus on the effective management of our risks and the efficient allocation of capital against those risks.

We aim to optimise our capital structure while addressing the diverse needs of various stakeholders, including policyholders, shareholders, lending banks, bondholders and regulators.

To ensure that unrewarded exposure to market volatility is minimised or the risks from market movements are managed, we execute our hedging strategy.

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.

KEY INITIATIVES AND PROGRESS IN 2017

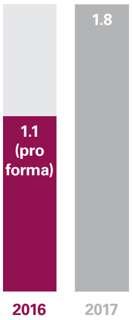
- Incorporation of the AXA Wealth businesses into the Group's Internal Model in March delivered capital synergies arising from the diversification of AXA Wealth's mortality risk with the Group's existing longevity risk.
- Additional diversification benefits arose on completion of the Part VII transfer of the AXA Wealth business into Phoenix Life Limited, with an effective date of September.
- Including the impacts of the AXA Wealth actions detailed above, the Group delivered £232 million of management actions that decreased SCR in the year. This included the impacts of risk hedging activities, including implementing the Group's equity hedging strategy to the acquired Abbey Life business.
- An application to include the acquired Abbey Life business into the Group's Internal Model was made in the second half of 2017 and was approved in March 2018.
- Completion in December 2017 of the reinsurance of the acquired Abbey Life business into Phoenix Life Limited, allowed the access of transitional benefits for Solvency II technical provisions.
- Issuance of capital qualifying US$500 million of Tier 2 subordinated debt and £450 million of Tier 3 subordinated debt in 2017, allowed the Group to repay senior debt and fully repay the Group's revolving credit facility, thereby providing additional capacity to fund future acquisitions.
- Credit rating upgrade of the Group's main life company ratings to A+ (strong) was received from Fitch Ratings in July, thereby enhancing the Group's position in the debt capital markets and improving its financial flexibility to fund future acquisitions.
- The Group's Internal Model was extended to Phoenix Group Holdings ('PGH') in 2017 and the Solvency II Capital adequacy assessment and Group supervision is now undertaken at the level of the ultimate parent.
- The on-shoring of the Group is progressing. PGH became UK resident for tax purposes in January 2018.

PRIORITIES FOR 2018

- Complete Part VII transfer of Abbey Life into Phoenix Life Limited.
- Progression of activity to put in place a new UK-registered holding company for the Group as soon as practicable post completion of the proposed acquisition of Standard Life Assurance.
- Implement further management actions and continue to execute the hedging strategy to enhance the Group's capital position, including for the proposed Standard Life Assurance acquisition.

How we measure delivery

SOLVENCY II SURPLUS £bn



WHY IS IT IMPORTANT?

The Solvency II surplus is the regulatory assessment of capital adequacy at PGH level.

It is the excess of Eligible Own Funds over the Solvency Capital Requirement.

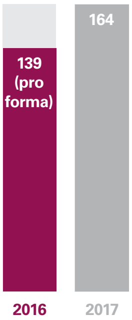
ANALYSIS

Our Solvency II surplus of £1.8 billion has increased due to surplus emergence, management actions undertaken during the period and the issuance of capital qualifying debt. This has been partly offset by the debt financing costs, pension contributions and dividend payments.

£1.8bn (estimated)

2016: £1.1bn (pro forma)[1]

SHAREHOLDER CAPITAL COVERAGE RATIO %



WHY IS IT IMPORTANT?

The Shareholder Capital Coverage Ratio demonstrates the extent to which shareholders' eligible Own Funds cover the Solvency Capital Requirements.

It is defined as the ratio of the Group Own Funds to Group SCR, after adjusting to exclude amounts relating to unsupported with-profit funds and PGL Pension Scheme.

ANALYSIS

A coverage ratio of 164% reflects the increase in the Solvency II surplus in the period and represents a resilient capital position, well within the Group's risk appetite.

164% APM (estimated)

2016: 139% (pro forma)[1]

Read more about the Solvency II surplus and Shareholder Capital Coverage Ratio on page 29

Maintaining a resilient capital position underpins our future cash generation

1 The position at 31 December 2016 included pro forma adjustments to illustrate the impacts of the issuance in January 2017 of the £300 million Solvency II qualifying Tier 3 bond and the receipt of the PRA's approval in March 2017 to include the acquired AXA Wealth businesses within the Group's Internal Model.

4 Engage people

Our people are at the heart of our business and key to the successful growth of Phoenix Group.

top EMPLOYER UNITED KINGDOM 2017
CERTIFIED EXCELLENCE IN EMPLOYEE CONDITIONS

For the sixth consecutive year, we were listed as one of the UK's Top Employers, an accreditation awarded to the best companies to work for in the UK.

During 2017, we increased our focus on ensuring our people were challenged, motivated and rewarded through opportunities for growth, both professionally and personally.

KEY INITIATIVES AND PROGRESS IN 2017

LEARNING AND DEVELOPMENT ('L&D')

- We designed and piloted a range of people management, talent and leadership development programmes, notably the Life Accounting Talent Programme, the People Manager Programme and the Leading Integration Programme. All programmes were aimed at developing the skills of management and the pilots were all successful. The programmes will now feature on our L&D offering for 2018.
- Following the success of our Open University Executive Education programme, we supported a third cohort of people who successfully completed the programme in 2017. The delegates worked on current business challenges and presented their findings and recommendations to the Executive Committee in October.
- We have partnered with Moving Ahead and the Institute and Faculty of Actuaries as one of the first ten organisations to take part in a new Actuarial Mentoring Programme for newly qualified female actuaries. This cross organisational programme is sponsored by our Chief Actuary with six mentors and six mentees currently participating.
- In partnership with the Chartered Management Institute, we launched an online self-development tool and created learning to support the new programmes. We now have over 200 people signed up and utilising the content, with a 94% satisfaction rate.

WELLBEING

- Our Corporate Responsibility agenda continued to play a central part in the engagement of our people and during 2017 offered a wide range of wellbeing activities for staff.

VOLUNTEERING

- 61% of staff participated in the 2017 volunteering programme contributing a total of 3,162 volunteering hours, an 11% increase on 2016.
- The Group continues to use the Midlands and London Air Ambulance charity partnerships to engage staff in fund raising activities, volunteering and events. Since partnering in 2014 the Group has raised in excess of £690,000 for the charities.

REWARD

- Participation figures for Flexit, the Phoenix Group Flexible Benefits scheme, are now at 86%.

DIVERSITY AND INCLUSION

- The Group continues to work towards the targets it set as part of The Women in Finance ('WIF') Charter and is raising further awareness of an inclusive workforce through the launch of a number of focused staff networks including the Professional Working Women's Network; Lesbian, Gay, Bisexual and Transgender ('LGBT') Network and the Working Parents' Network.
- In line with the WIF Charter targets previously set, which run to the end of 2018, the Group currently has women in 25% of the top 100 roles (target 30%), 35% of the Group's green/amber successors are female (target 40%) and the group-wide mean gender pay gap is 23% (target 22%). The gender pay figure for the WIF charter target is based on an internal calculation looking at base salary only, it is not based on the statutory gender pay gap calculations.

Phoenix' statutory gender pay figures will be made available on the Group's website www.thephoenixgroup.com/gpg

- A diversity index was introduced in the 2017 engagement survey and the results will be used to prioritise actions at a functional level.
- The Group now has mandatory unconscious bias training, to further contribute towards an inclusive workplace.

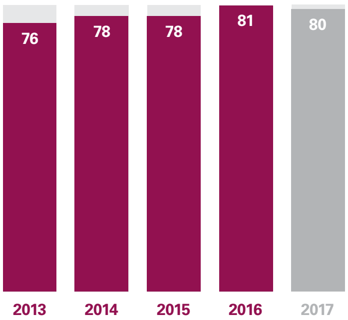
PRIORITIES FOR 2018

- Continue to attract and retain the very best talent by focusing on developing our people and strengthening our internal succession pipeline by the implementation of an online performance management succession planning tool.
- Grow the Diversity and Inclusion programme, providing a wide range of development opportunities and embedding changes to existing practices to deliver a diverse, engaged and inclusive workforce.
- Maintain support of our communities through employee volunteering and fund raising and engagement with our community projects.

Read more about employee engagement activities undertaken during the year on page 41

How we measure delivery

EMPLOYEE ENGAGEMENT INDEX %



WHY IS IT IMPORTANT?

We aim to ensure employees understand the purpose of their role and feel that their contribution is valued and we need to understand how well we are performing against these aims. The index is an aggregation of scores against a number of questions considered the most important factors for staff engagement.

ANALYSIS

The Group has remained stable with an employee engagement index of 80%. This year's survey was completed by 89% of Phoenix employees.

TARGET

To maintain an employee engagement index above 72%.

80%

2016: 81%

	2017	2016
Total workforce	**1,249**	1,301
Male	**694**	708
Female	**555**	593
Directors (includes Non-Executive Directors)	**11**	11
Male	**7**	8
Female	**4**	3
Executive Committee[1]	**6**	6
Male	**5**	5
Female	**1**	1
Workforce that is of Black, Asian or Minority Ethnic background	**107**	118[2]

1 The number of Executive Committee members excludes Executive Committee members who are also members of the Board of Directors.

2 Does not include workforce from the acquired AXA Wealth and Abbey Life businesses.

An engaged workforce, one that feels committed to our vision, mission and strategic priorities, is fundamental to the success of the Group

"I am pleased to report that the Group's financial performance in the year has again demonstrated the resilience of our cash generation and capital position."

JAMES MCCONVILLE
GROUP FINANCE DIRECTOR

BUSINESS REVIEW

CASH GENERATION SUPPORTED BY ACQUISITIONS

2017 saw excellent progress on the integration of the acquired AXA Wealth and Abbey Life businesses and this has supported the Group's cash generation during the year. The Group has delivered £653 million of cash generation and is on track to be at the top end of its 2017 to 2018 cash generation target range of between £1.0 billion and £1.2 billion.

CAPITAL STABILITY

We have strengthened the Group's Solvency II capital surplus position through actions such as the restructuring of the Group's debt from senior to subordinated instruments and the delivery of management actions. The Solvency II capital surplus of £1.8 billion remains resilient as a result of the Group's hedging programme.

IFRS LOSS AFTER TAX IMPACTED BY OUR HEDGING STRATEGY BUT GROUP OPERATING PROFIT REMAINS STABLE

The IFRS result for the year has been adversely impacted by negative investment variances arising from the hedging programme, which is calibrated to protect the Group's Solvency II surplus. When combined with one-off costs associated with debt refinancing and integration activities, the Group generated an IFRS loss after tax of £27 million for the year.

The Group has reviewed its actuarial assumptions to reflect the slow down of mortality improvements experienced in the industry, which has had a favourable impact on the results. This has been offset by changes to the Group's expectations of persistency for products with valuable guarantees given the continued low interest rate environment and an increase in people retiring later. Positive expense assumption changes as a result of operational synergies, together with the delivery of management actions has resulted in a positive impact on the Group's operating profit.

Cash generation

£653m APM REM

Operating companies' cash generation

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

Operating companies' cash generation represents cash remitted by the Group's operating companies to the holding companies.

Please see the Alternative Performance Measure ('APM') note on page 200 for further details of this measure.

The cash flow analysis that follows reflects the cash paid by the operating companies to the Group's holding companies, as well as the uses of those cash receipts.

CASH RECEIPTS

Cash remitted by the operating companies was £653 million (2016: £486 million) including £165 million generated from the acquired AXA Wealth businesses and £236 million generated from the acquired Abbey Life business (which includes a £74 million cash receipt in connection with the transfer of the Abbey Life Pension Scheme from the operating company to a holding company).

Note:

All amounts in the Business Review section marked with an 'APM' are alternative performance measures. See 'Alternative Performance Measures' note on page 200 for further details of these measures.

All amounts in the Business Review section marked with an 'REM' are KPIs linked to executive remuneration. See 'Directors Remuneration Report' on page 63 for further details of executive remuneration including the financial and non-financial performance measures on which is it based.

RECURRING CASH OUTFLOWS

The operating expenses of £36 million (2016: £33 million) are broadly in line with prior year and principally comprise corporate office costs, net of income earned on holding company cash and investment balances.

Pension scheme contributions of £92 million (2016: £55 million) have increased compared to prior year primarily as a result of £32 million of contribution payments to the Abbey Life Staff Pension Scheme for the first time in 2017 and revised timings of contribution payments to the Pearl Group Staff Pension Scheme. Contributions are now made to the Pearl Group Staff Pension Scheme on a monthly basis, whereas previously an annual payment of £40 million was made each September. There is no change in the overall quantum of agreed future funding. The 2017 figure includes £10 million settled in respect of the last quarter of 2016, together with the £40 million annual payment in respect of 2017 settled monthly. £10 million of contributions to the PGL Staff Pension Scheme have also been made in the year with no further contributions required under the existing funding agreement with the Scheme Trustees.

Debt interest increased to £60 million (2016: £58 million) reflecting the higher coupon payable on hybrid debt issued in the year which has more than offset the impact of lower debt principal balances following repayments.

NON-RECURRING CASH OUTFLOWS

Non-recurring cash outflows of £84 million include Group costs associated with integration activity and corporate related projects, the payment of collateral on hedging transactions partly offset by the receipt of proceeds from the disposal of internal holdings of the £428 million subordinated loan notes.

DEBT REPAYMENTS AND SHAREHOLDER DIVIDEND

External debt repayments of £1,053 million comprise full settlement of the £850 million revolving credit facility balance outstanding at 31 December 2016 and repayment of £178 million of the £300 million senior bonds which were redeemed at a premium of £25 million.

The 2016 comparative of £239 million comprised £182 million of the debt facility used to finance the acquisition of AXA Wealth, £50 million of the Group's revolving credit facility and £6 million redemption of the Group's remaining Tier 1 bonds.

The shareholder dividend of £193 million comprises the payment of the 2016 final dividend of £94 million and the payment of the 2017 interim dividend of £99 million, which reflected the 5% increase in dividend that followed the Abbey Life acquisition.

EQUITY RAISE (NET OF FEES)

The £908 million in 2016 was in relation to proceeds, net of fees, from the equity placement and the rights issue associated with the financing of the acquisition of the AXA Wealth and Abbey Life businesses respectively.

DEBT ISSUANCE (NET OF FEES)

The £830 million debt issuance comprises the net proceeds of the Tier 3 bond issuances of £300 million and £150 million completed in January and May 2017 respectively, as well as the Tier 2 bond issuance of US$500 million (£385 million), completed in July 2017.

TARGET CASH FLOWS

The Group has previously announced a five-year cumulative target cash flow for 2016 to 2020 of £2.8 billion, of which £1.0 billion to £1.2 billion is expected to be achieved in 2017 and 2018. With cash generation of £653 million for the year ended 31 December 2017, the Group expects to be at the top end of the £1.0 to £1.2 billion range for 2017 and 2018.

A new cash flow target of £2.5 billion has been announced in respect of the years 2018 to 2022.

The resilience of the cash generation target is demonstrated by the following illustrative stress testing in the table below.

EXPECTED CASH FLOWS AFTER 2022

Cash generation post 2022 is expected to be £3.8 billion. This assumes no management actions after 2022.

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Cash and cash equivalents at 1 January	**570**	706
Operating companies' cash generation:		
Cash receipts from Phoenix Life	**653**	486
Total cash receipts[1]	**653**	486
Uses of cash:		
Operating expenses	**(36)**	(33)
Pension scheme contributions	**(92)**	(55)
Debt interest	**(60)**	(58)
Total recurring outflows	**(188)**	(146)
Non-recurring outflows	**(84)**	(141)
Uses of cash before debt repayments and shareholder dividend	**(272)**	(287)
Debt repayments	**(1,053)**	(239)
Shareholder dividend	**(193)**	(126)
Total uses of cash	**(1,518)**	(652)
Equity raise (net of fees)	**–**	908
Debt issuance (net of fees)	**830**	428
Cost of acquisitions	**–**	(1,306)
Cash and cash equivalents at 31 December	**535**	570

1 Includes amounts received by the holding companies in respect of tax losses surrendered to the operating companies of £20 million (2016: £84 million).

Illustrative stress testing[1]	1 January 2018 to 31 December 2022 £bn
Base case five-year target	2.5
Following a 20% fall in equity markets	2.5
Following a 15% fall in property values	2.5
Following a 60bps interest rates rise[2]	2.7
Following a 80bps interest rates fall[2]	2.3
Following credit spread widening[3]	2.3
Following 6% decrease in annuitant mortality rates[4]	2.2
Following a 10% increase in assurance mortality rates	2.4
Following a 10% change in lapse rates[5]	2.4

1 Assumes stress occurs on 1 January 2018.
2 Assumes recalculation of Transitionals (subject to PRA approval).
3 Credit stress equivalent to an average 150bps spread widening across ratings, 10% of which is due to defaults/downgrades.
4 Equivalent of six months increase in longevity applied to the annuity portfolio.
5 Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.

Capital management

£1.8bn
PGH Solvency II surplus (estimated)

164% APM
PGH Shareholder Capital Coverage Ratio (estimated)

PGH SOLVENCY II SURPLUS OVERVIEW

A Solvency II capital assessment involves a valuation in line with Solvency II principles of the Group's Own Funds and a risk-based assessment of the Group's Solvency Capital Requirement ('SCR'). Phoenix Group Holdings ('PGH') Own Funds differ materially from the Group's IFRS equity for a number of reasons, including the recognition of future shareholder transfers from the with-profit funds and future management charges on investment contracts, the treatment of certain subordinated debt instruments as capital items, and a number of valuation differences, most notably in respect of insurance contract liabilities and intangible assets.

The SCR is calibrated so that the likelihood of a loss exceeding the SCR is less than 0.5% over one year. This ensures that capital is sufficient to withstand a broadly '1-in-200 year event'.

From 1 January 2016, the Solvency II capital assessment and the Group's regulatory supervision were performed at the Phoenix Life Holdings Level ('PLHL') level being the highest EEA insurance holding company. A waiver that was in place permitting Group supervision to take place at the level of the ultimate parent, PGH, via other methods as opposed to full Group supervision, expired on 30 June 2017. The Group's capital position is now being managed at the PGH level only.

In December 2015, the Group was granted the PRA's approval for use of its Internal Model to assess capital requirements. Following the 2016 acquisitions of the AXA Wealth and Abbey Life businesses, the Group obtained the PRA's approval to incorporate the acquired AXA Wealth businesses within the scope of the Group's Internal Model in March 2017.

The capital assessment of the Abbey Life business remained on a Standard Formula basis as at 31 December 2017. Therefore, the Solvency II position of the Group at that date is based partially on the Group's Internal Model and partially on Standard Formula. However, following completion of the reinsurance of the majority of the Abbey Life business into Phoenix Life Limited in December 2017, the SCR for the related risks is now being calculated in accordance with the Group's Internal Model.

Approval to include the Abbey Life business within the scope of the Group's Internal Model was received in March 2018.

The Solvency II surplus excludes the surpluses arising in the Group's unsupported with-profit funds and the PGL Pension Scheme of £0.6 billion (2016: £0.4 billion). In the calculation of the Solvency II surplus, the SCR of the with-profit funds and the PGL Pension Scheme is included, but the related Own Funds are recognised only to a maximum of the SCR amount. Surpluses that arise in with-profit funds and the PGL Pension Scheme, whilst not included in the Solvency II surplus, are available to absorb economic shocks. This means that the headline surplus is resilient to economic stresses.

As part of the ongoing simplification of the Group structure, Phoenix intends to put in place a new UK-registered holding company following the completion of the Standard Life Assurance acquisition. The new company will be the ultimate parent company and the highest EEA insurance Group holding company. When complete, the Solvency II capital assessment and Group supervision will be performed at this level.

The PGH Solvency II surplus position at 31 December 2017 is set out in the table below:

	Estimated position as at 31 December 2017 £bn	Pro forma position at 31 December 2016[4] £bn
Own Funds[1]	**6.6**	6.0
SCR[2]	**(4.8)**	(4.9)
Surplus[3]	**1.8**	1.1

1 Own Funds includes the net assets of the life and holding companies calculated under Solvency II rules, pension scheme surpluses calculated on an IAS19 basis not exceeding the holding companies' contribution to the Group SCR and qualifying subordinated liabilities. It is stated net of restrictions for assets which are non-transferable and fungible between Group companies within a period of nine months.

2 The SCR reflects the risks and obligations to which Phoenix Group Holdings is exposed.

3 The surplus equates to a regulatory coverage ratio of 139% as at 31 December 2017. (2016: 122% pro forma).

4 The position at 31 December 2016 included pro forma adjustments to illustrate the impacts of the issuance in January 2017 of the £300 million Solvency II qualifying Tier 3 bond and the receipt of the PRA's approval in March 2017 to include the acquired AXA Wealth business within the Group's Internal Model.

CHANGE IN PGH SOLVENCY II SURPLUS (ESTIMATED)

The PGH Solvency II surplus has increased to £1.8 billion (2016: £1.1 billion on a pro forma basis).

The increase includes surplus generation and reduction in capital requirements of £0.2 billion over the period. Management actions undertaken, including reductions in expenses from operating synergies and the impact of strategic asset allocation and hedging activities, increased the surplus by £0.4 billion.

The issuance of £150 million of Tier 3 bonds in May 2017 and US$500 million of Tier 2 bonds in July 2017 has increased the estimated Solvency II surplus by a total of £0.5 billion.

Assumption, experience and modelling changes were net neutral on a Solvency II basis, with the net impact of changes to longevity assumptions being offset by the impact of the continued low interest rate environment on the Group's expectations of persistency for products with valuable guarantees and the trend toward later retirements.

Economic and other variances of £(0.1) billion include the premium paid on partial redemption of the Group's £300 million senior bonds, the impact of the agreement to reduce annual charges on workplace pension products to 1% or lower and project and acquisition integration costs. Financing costs, pension contributions and the dividend payments (including the accrual for the 2017 final dividend) amount to £(0.3) billion.

SHAREHOLDER CAPITAL COVERAGE RATIO (ESTIMATED)

The Group focuses on a shareholder view of the capital coverage ratio which is considered to give a more accurate reflection of the capital strength of the Group. The Shareholder Capital Coverage Ratio is calculated as the ratio of Eligible Own Funds to SCR adjusted to exclude Own Funds and the associated SCR relating to the unsupported with-profit funds and the PGL Pension Scheme.

Please see the Alternative Performance Measures note on page 200 for further details of this measure.

Unsupported with-profit funds and the PGL Pension Scheme consist of £2.6 billion of Own Funds and £2.0 billion of SCR. Of the £2.6 billion of Own Funds, £2.0 billion consists of estate within the unsupported with-profit funds and £0.6 billion of Own Funds within the PGL Pension Scheme. As described on page 28, surpluses in these funds do not contribute to the PGH Solvency II surplus.

Excluding the SCR and Own Funds relating to the unsupported with-profit funds and the PGL Pension Scheme, the Solvency II Shareholder Capital Coverage ratio is 164% as at 31 December 2017 (2016: 139% on a pro forma basis).

PHOENIX LIFE FREE SURPLUS (ESTIMATED)

Phoenix Life Free Surplus represents the Solvency II surplus of the Life Companies that is in excess of their Board-approved capital management policies.

As at 31 December 2017, the Phoenix Life Free Surplus is £0.7 billion (2016: £0.7 billion). The table below analyses the movement during the period:

	Estimated position as at 31 December 2017 £bn
Opening Free Surplus	**0.7**
Surplus generation and expected run-off of capital requirements	0.2
Management actions	0.5
Assumptions, experience and modelling changes	(0.1)
Impact of economic and other variances	–
Free Surplus before cash remittances	**1.3**
Cash remittances to holding companies	(0.6)
Closing Free Surplus	**0.7**

SENSITIVITY AND SCENARIO ANALYSIS

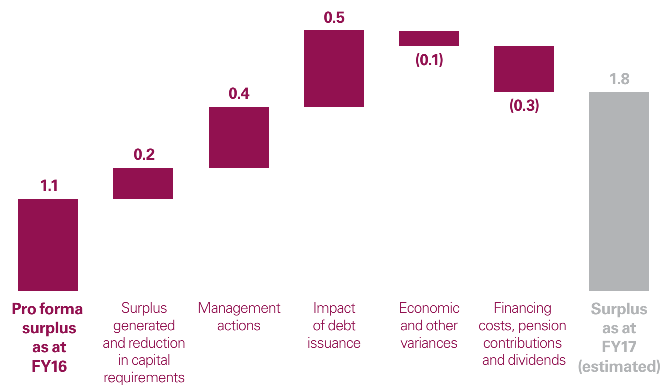
As part of the Group's internal risk management processes, the regulatory capital requirements are tested against a number of financial scenarios. The results of that stress testing[1], are provided below and demonstrate the resilience of the PGH Solvency II surplus.

In relation to the proposed acquisition of Standard Life Assurance, the Group has undertaken additional hedging activity in 2018 to protect the economic value of the acquired business from adverse equity and currency movements. Upon completion, the Group's hedging strategy will be applied to the business acquired. The sensitivities below have not been amended to reflect exposure to that additional hedging programme in the period prior to completion of the transaction. The sensitivities represent the standalone position for the Phoenix Group based on hedging in place as at 31 December 2017.

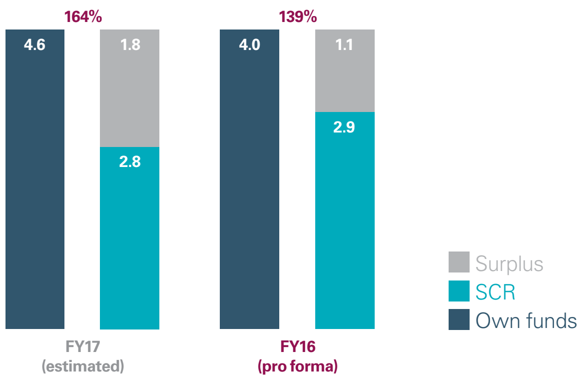
Illustrative stress testing[1]	Estimated PGH Solvency II surplus £bn
Base: 1 January 2018	1.8
Following a 20% fall in equity markets	1.8
Following a 15% fall in property values	1.8
Following a 60bps interest rates rise[2]	1.9
Following a 80bps interest rates fall[2]	1.7
Following credit spread widening[3]	1.6
Following 6% decrease in annuitant mortality rates[4]	1.5
Following 10% increase in assurance mortality rates	1.7
Following a 10% change in lapse rates[5]	1.7

1 Assumes stress occurs on 1 January 2018.
2 Assumes recalculation of transitionals (subject to PRA approval).
3 Credit stress equivalent to an average 150bps spread widening across ratings, 10% of which is due to defaults/downgrades.
4 Equivalent of six months increase in longevity applied to the annuity portfolio.
5 Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.

CHANGE IN PGH SOLVENCY II SURPLUS £bn



SHAREHOLDER CAPITAL COVERAGE RATIO £bn



IFRS results

£368m APM

Operating profit

£(27)m

IFRS loss after tax

OPERATING PROFIT

Operating profit is a non-GAAP financial performance measure based on expected long-term investment returns. It is stated before amortisation and impairment of intangibles, other non-operating items, finance costs and tax.

Please see the APM note on page 200 for further details of this measure.

The Group has generated an operating profit of £368 million (2016: £351 million). The increase compared to the prior year is primarily driven by the inclusion of the AXA Wealth and Abbey Life businesses acquired in 2016, together with the net positive impacts of actuarial assumption and model and methodology changes during 2017; partly offset by the lower impact of management actions within operating profit in 2017 compared to the prior year.

IFRS LOSS AFTER TAX

The IFRS loss after tax attributable to owners is £(27) million (2016: £(100) million). This reflects adverse economic variances arising on hedging positions held by the life companies to protect the Group's Solvency II surplus position, together with the impact of non-operating items. Non-operating items include a £27 million impact of the agreement to reduce annual charges on workplace pension products to 1% or lower, the £25 million premium paid on the partial redemption of the Group's £300 million senior bonds and acquisition integration costs of £21 million.

PHOENIX LIFE OPERATING PROFIT

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 long-term investment return are set out in note B2 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.

The with-profit operating profit of £84 million (2016: £81 million) represents the shareholders' one-ninth share of the policyholder bonuses, and is in line with the comparative period.

The with-profit funds where internal capital support has been provided generated an operating loss of £108 million (2016: £72 million loss). The loss is principally driven by the strengthening of actuarial assumptions to reflect the impact of the continued low interest rate environment on the Group's expectations of persistency for products with valuable guarantees and the associated assumptions in relation to late retirements.

The non-profit and unit-linked funds operating profit increased to £386 million (2016: £283 million), principally driven by the impact of updating actuarial assumptions, which had a net positive impact of £166 million on the result for the period (2016: £85 million). This includes the positive impact of updating longevity base and improvement assumptions to reflect latest experience analyses and the most recent Continuous Mortality Investigation 2016 core projection tables. The non-profit and unit-linked operating profit has also benefited from updates made to expense assumptions from operational synergies and the inclusion of the expected return of the acquired AXA Wealth and Abbey Life businesses.

The 2016 Phoenix Life operating profit benefited from the £31 million favourable impact of updates made to the IFRS reserving methodology to align more closely with the requirements of Solvency II.

Operating profit	**Year ended 31 December 2017 £m**	Year ended 31 December 2016 £m
Phoenix Life	**388**	357
Group costs	**(20)**	(6)
Operating profit	**368**	351
Investment return variances and economic assumption changes on long-term business	**(6)**	(207)
Variance on owners' funds	**(87)**	(5)
Amortisation of acquired in-force business, customer relationships and other intangibles	**(119)**	(82)
Other non-operating items	**(80)**	(95)
Profit/(Loss) before finance costs attributable to owners	**76**	(38)
Finance costs attributable to owners	**(104)**	(90)
Loss before the tax attributable to owners:	**(28)**	(128)
Tax credit attributable to owners	**1**	28
Loss for the period attributable to owners	**(27)**	(100)

Phoenix Life operating profit	**Year ended 31 December 2017 £m**	Year ended 31 December 2016 £m
With-profit	**84**	81
With-profit where internal capital support provided	**(108)**	(72)
Non-profit and unit-linked	**386**	283
One-off impact of IFRS methodology change	**–**	31
Long-term return on owners' funds	**5**	7
Management services	**21**	27
Phoenix Life operating profit before tax	**388**	357

The long-term return on owners' funds of £5 million (2016: £7 million) reflects the asset mix of owners' funds, primarily cash-based assets and fixed interest securities. The investment policy for managing these assets remains prudent.

The operating profit for management services of £21 million (2016: £27 million) comprises income from the life and holding companies in accordance with the respective management service agreements less fees related to the outsourcing of services and other operating costs. The decrease compared to the prior period reflects the impact of life company run-off.

GROUP COSTS

Group costs in the period were £20 million (2016: £6 million). The increase compared to the prior period principally reflects a lower return on the scheme surplus of the PGL Pension Scheme following the buy-in transaction entered into with Phoenix Life Limited in the second half of 2016, the recognition of the net interest cost on the Abbey Life Pension Scheme and the impact of higher project recharges from the service companies.

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

The net adverse investment return variances and economic assumption changes on long-term business of £6 million (2016: £207 million adverse) primarily arise on hedging positions held by the life funds following equity market gains during the year. The Group's exposure to equity movements arising from future profits in relation to with-profit bonuses and unit-linked charges is hedged to benefit the regulatory capital position. The impact of equity market movements on the value of the hedging instruments is reflected in the IFRS results, but the corresponding change in the value of future profits is not. Losses on these hedging positions have been partly offset by the positive impact of strategic asset allocation activities, including investment in higher yielding illiquid assets.

VARIANCE ON OWNERS' FUNDS

The adverse variance on owners' funds of £87 million (2016: £5 million negative) is principally driven by interest rate swaption positions held in the life companies' shareholder funds. Such positions are held to hedge the impact of interest rate risk on the Group's Solvency I surplus position. With swap yields remaining relatively stable during the period, option value associated with these contracts has fallen due to expected option expiry and reduced volatility.

AMORTISATION OF ACQUIRED IN-FORCE BUSINESS AND OTHER INTANGIBLES

Acquired in-force business and other intangibles of £2.7 billion were recognised on the acquisition of the operating companies in 2009. Following the acquisition of the AXA Wealth and Abbey Life businesses in 2016, a further £0.2 billion of acquired-in-force business and other intangibles have been recognised in the Group's balance sheet.

The acquired in-force business is being amortised in line with the run-off of the life companies. Amortisation of acquired in-force business during the year totalled £102 million (2016: £68 million). Amortisation of other intangible assets totalled £17 million in the year (2016: £14 million).

OTHER NON-OPERATING ITEMS

Other non-operating items of £80 million negative (2016: £95 million negative) includes a premium of £25 million paid on redemption of £178 million principal of the senior unsecured bond, costs of £21 million in respect of integration and restructuring of the Abbey Life and AXA Wealth businesses, costs of £20 million in respect of short-term expense overruns arising from the AXA Wealth businesses prior to the completion of the implementation of the Phoenix operating model, a provision of £27 million in respect of a commitment to the reduction of ongoing charges for workplace pension products, a £21 million increase in the provision for costs for claims relating to historic creditor insurance underwritten by a subsidiary of the Group, PA(GI) Limited, offset by the recognition of reimbursements of £39 million in respect of recoveries due or received from third parties under contractual arrangements; and net other one-off items totalling a cost of £5 million, including corporate project costs.

The prior period result included a £14 million gain following completion of data review procedures associated with the reassurance of PLAL annuities in 2015 and a £26 million gain arising from a longevity swap reassurance contract, offset by the recognition of a £33 million cost of providing for PA(GI) Limited creditor insurance claims, £30 million of acquisition integration costs, £42m of corporate project costs, £10 million of pension exit charges and a £20 million adverse impact of other one-off items.

FINANCE COSTS ATTRIBUTABLE TO OWNERS

	Year ended 31 Dec 2017 £m	Year ended 31 Dec 2016 £m
Bank finance costs	**8**	16
Other finance costs	**96**	74
Finance costs attributable to owners	**104**	90

Finance costs have increased by £14 million, comprising a £8 million decrease in bank finance costs driven by the repayment of bank debt; and a £22 million increase in other finance costs driven by hybrid debt issuances in the year, together with the impacts of the acceleration of deferred issue cost recognition on senior debt repaid in the year.

TAX CREDIT ATTRIBUTABLE TO OWNERS

The Group's approach to the management of its tax affairs is set out in its Tax Strategy document which is available in the Corporate Responsibility section of the Group's website. The Group's tax affairs and tax controls are managed by an in-house tax team who report on them to the Board and the Audit Committee on a regular basis throughout the year. The Board believes that its Tax Strategy accords with the Group's approach to its wider Corporate Social Responsibility. In the first half of 2017, the new UK requirement for large UK businesses to publish their tax strategy came into effect.

Implicit in the Group's Tax Strategy and the management of its tax affairs is a desire for greater transparency and openness that will help the Group's stakeholders better understand the published tax numbers. In this way the Group aims to participate in a substantive manner with HMRC and other insurance industry stakeholders on consultative documents and tax law changes that potentially impact on the insurance sector.

All of the Group's insurance operations are based in the UK and are liable to tax in accordance with applicable UK legislation. The Group derives a de minimis level of income from non-UK sources. Phoenix Group Holdings was a Jersey resident holding company until 31st January 2018 when it became tax resident in the UK. In 2017, the Company was subject to a 0% tax rate in Jersey but because its primary source of income was its UK subsidiaries the tax residency of Phoenix Group Holdings had a negligible impact on the UK tax payable by the Group.

The Group tax credit for the period attributable to owners is £1 million (2016: £28 million) based on a loss (after policyholder tax) of £(28) million (2016: £(128) million). The significant tax adjustments to loss before the tax attributable to owners are primarily due to the impact of non-taxable income of £(16) million offset by the impacts of current year tax losses not being recognised of £15 million and the valuation of current year losses at future lower tax rates of £4 million. See note C5 to the IFRS consolidated financial statements for further analysis.

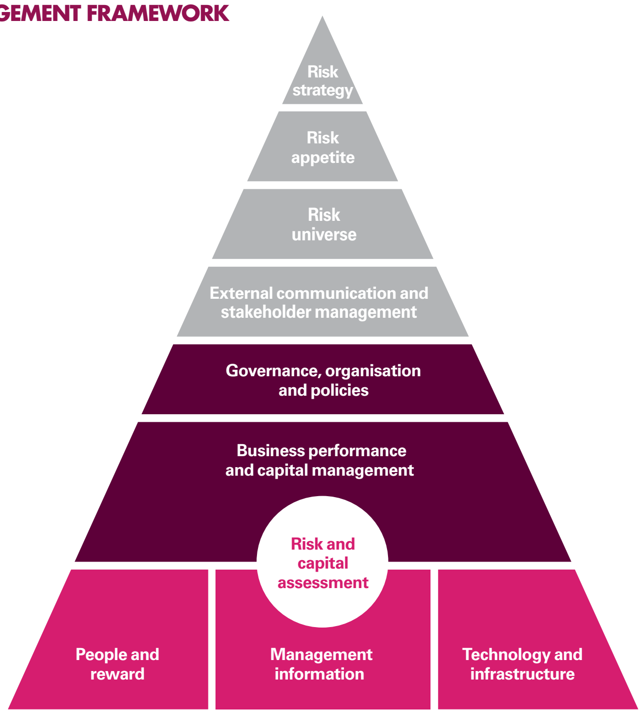
Risk Management

> **"By putting risk at the heart of what we do, Phoenix has safely and successfully on-boarded both the AXA Wealth and Abbey businesses."**

WAYNE SNOW
GROUP CHIEF RISK OFFICER

RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK



THE GROUP'S RISK MANAGEMENT FRAMEWORK

The Group's Risk Management Framework ('RMF') embeds proactive and effective risk management across the Group. It seeks to ensure that all risks are identified and managed effectively and that the Group is appropriately rewarded for the risks it takes.

During the year, adoption of the Risk Management Framework to the Abbey Life business has strengthened oversight and management of the legacy issues and the ongoing FCA enforcement investigations. The Group Risk function played a key role in the successful application to bring AXA Wealth, PGH and Abbey Life into the Group's Internal Model. The function has also led contingency planning activities in the event of an adverse outcome to the UK's exit from the EU. The key risk management skillsets and processes across the business support the Group in targeting transactions in the bulk annuity market. Finally, I was delighted to see our credit rating upgraded by Fitch Ratings, reflecting the Group's strong capitalisation, reduced leverage and the progress made in integrating the acquired businesses.

Further detail on the ten components of our RMF and the principal risks facing the Group are provided below.

RISK CULTURE

The Group seeks to embed a culture that is forward-looking and competent in its assessment and management of risk, a culture where everyone in the Group is aligned in their goals to deliver better risk-based decisions.

To support this goal, the Group defined a Risk Culture Statement which sets out the Group's aspirations for risk management:

'The Group has a balanced risk culture, supportive of commercial risk-taking coupled with strong execution in line with its risk appetite.

At its core are the Group's values and behaviours, clarity of accountability and a healthy tension between the first and second lines of defence.

Collectively this means people understand the Group's approach to risk, take personal responsibility to manage risk in everything they do and encourage others to follow their example.'

During 2017, Group Risk conducted its latest annual Risk Culture survey. The results of this survey enable us to assess and measure the Group's Risk Culture over time as well as being able to tailor training programmes to ensure the continued engagement and development of our employees.

OWN RISK AND SOLVENCY ASSESSMENT (ORSA)

The Group carries out an ORSA process to assess its risk profile on an ongoing basis. The ORSA considers risk, capital and return within the context of the business strategy on a forward-looking basis.

The ORSA is a fundamental part of the strategic risk and capital management processes of the business to prompt consideration of management actions and help shape strategic decision-making.

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 assists the business achieve its strategic objectives by supporting a more stable, well managed business with improved customer and shareholder outcomes.

This is achieved not by risk avoidance, but through the identification and management of an acceptable level of risk (its 'risk appetite') and by ensuring that the Group is appropriately rewarded for the risks it takes.

To ensure that all risks are managed effectively the Group is committed to:

- embedding a risk aware culture;
- maintaining a strong system of internal controls;
- enhancing and protecting customer and shareholder value by continuous and proactive risk management;
- maintaining an efficient capital structure; and
- ensuring that risk management is embedded into day-to-day management and decision-making processes.

RISK APPETITE

The Group's risk appetite is the level of risk the Group is willing to accept in pursuit of its strategic objectives. The statements below encapsulate our risk appetite for policyholder security and conduct, earnings volatility, liquidity and our control environment:

- **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.
- **Shareholder Value** – The Group will take action to protect its shareholder value.
- **Regulation** – The Group and each life company will, at all times, operate a strong control environment to ensure compliance with all internal policies and applicable laws and regulations, in a commercially effective manner.
- **Conduct** – Phoenix has zero appetite for deliberate acts of misconduct, including omissions, that result in customer detriment, reputational damage and/or pose a risk to the FCA statutory objectives.

The risk appetite and control framework supports the Group in operating within the boundaries of these statements by limiting the volatility of key parameters under adverse scenarios. Risk appetite limits are chosen which specify the maximum acceptable likelihood for breaching the agreed limits. Assessment against these limits is undertaken through extensive scenario and reverse stress testing.

RISK UNIVERSE

A key element of effective risk management is ensuring that the business has a complete understanding of the risks it faces. These risks are defined in the Group's risk universe.

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

- strategic risk;
- customer risk;
- financial soundness risk;
- market risk;
- credit risk;
- insurance risk; and
- operational risk.

Embedded within these categories, and customer risk in particular, are the conduct risks faced by the Group and its customers. These risks are separately monitored and reported across the organisation to ensure that conduct risk receives appropriate emphasis and oversight.

The Group has developed a PGH Board-approved risk appetite statement to manage conduct risk. The appetite statement is supported by the assessment of all conduct related risks faced by the Group on a quarterly basis. This regular assessment and reporting enables us to be forward-looking and proactive in the management of conduct risk.

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 Life Company Boards and the Executive Committee.

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

First line: Management

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

Second line: Risk Oversight

Risk oversight is provided by the Group Risk function and the Board Risk Committee. The Board Risk Committee comprises four independent Non-Executive Directors. It is supported by the Group Chief Risk Officer and met six times during 2017. During 2017, the Risk Committees of the Phoenix Life and Abbey Life Boards met five times and provided additional Board Committee focus on risk matters at Phoenix Life and Abbey Life.

Third line: Independent Assurance

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

ORGANISATION

The Group 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 Group Chief Risk Officer.

Risk Management
continued

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

The policies define:

– the individual risks the policy is intended to manage;
– the degree of risk the Group is willing to accept, which is set out in the policy risk appetite statements;
– the minimum controls required in order to manage the risk to an acceptable level; and
– the frequency of the control's operation.

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

The governance framework in operation throughout the Group can be found in the chart below.

BUSINESS PERFORMANCE AND CAPITAL MANAGEMENT
The Annual Operating Plan is assessed to ensure that the Group operates within our stated risk appetite. Business performance is routinely monitored with consolidated reporting against performance targets.

The Group operates a capital management policy where capital is allocated across risks where capital is held as a mitigant and the amount of risk capital required is reviewed regularly.

RISK AND CAPITAL ASSESSMENT
The Group operates a standardised assessment framework for the identification and assessment of the risks to which it may be exposed 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 in line with Solvency II requirements.

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 extensively to support the assessment of risk and provide analysis of their financial impact.

Independent reviews conducted by Group Risk provide further assurance to management and the Board that individual risk exposures and changes to our risk profile are being effectively managed.

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

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

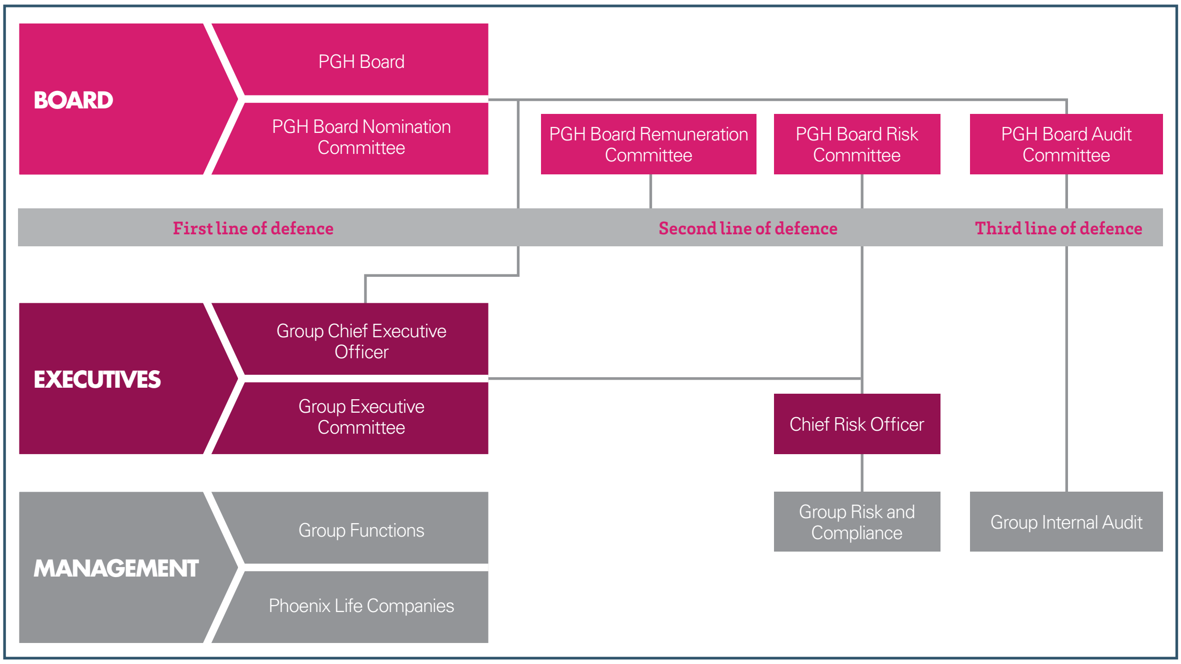
PEOPLE AND REWARD
Effective risk management is central to the Group's culture and its values. Processes are operated that seek to measure both individual and collective performance and discourage incentive mechanisms which could lead to undue risk taking. Training and development programmes are in place to support employees in their understanding of the RMF.

TECHNOLOGY AND INFRASTRUCTURE
The Group employs market leading risk 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.

RISK MANAGEMENT EFFECTIVENESS
The provisions of the UK Corporate Governance Code require an annual review of the effectiveness of the Group's risk management and internal control systems.

This assessment, described on page 60, provides assurance to management and the Boards that the RMF has been implemented consistently and is operating effectively across the Group.

GOVERNANCE FRAMEWORK



PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

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

Further details of the Group's exposure to financial and insurance risks and how these are managed are provided in note E6 of the IFRS consolidated financial statements.

Key to Strategic objectives icons	
Improve Customer outcomes	1
Drive Value	2
Manage Capital	3
Engage People	4

Change in risk from last year	
Risk Improving	↑
No Change	–
Risk Heightened	↓

Risk	Impact	Mitigation	Strategic priorities	Change from last year
In times of severe market turbulence, the Group may not have sufficient capital or liquid assets to meet its cash flow targets or may suffer a loss in value. **MARKET**	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 capital position. Since the introduction of Solvency II and a swaps-based discount rate, the Group is more sensitive to movements in swap yields.	The Group undertakes regular monitoring activities in relation to market risk exposure, including limits in each asset class, cash flow and liquidity forecasting, and stress and scenario testing. In response to this, the Group has implemented de-risking strategies to mitigate against adverse customer and shareholder outcomes from certain market movements such as equities and interest rates. The Group also maintains cash buffers in its holding companies and has access to a credit facility to reduce reliance on emerging cash flows. The Group's excess capital position continues to be closely monitored and managed, particularly in the low interest environment and any potential impact on financial markets as a result of Brexit.	1, 2, 3	↑ **RISK IMPROVING** Despite the uncertainty and delay in agreeing the terms of the UK's exit from the EU, equity markets continued to rise over 2017. The expected increase in the UK base rate occurred in November. The Group's financial strength has benefited from its hedging strategy, the extension of the Internal Model to cover the AXA Wealth and Abbey Life businesses and the refinancing of debt from senior to subordinated facilities.
Adverse changes in experience versus actuarial assumptions. **INSURANCE**	The Group has liabilities under annuities and other policies that are sensitive to future longevity, persistency and mortality rates. For example, if our annuity policyholders live for longer than expected, then their benefits will be paid for longer. The amount of additional capital required to meet those additional liabilities could have a material adverse impact on the Group's ability to meet its cash flow targets.	The Group undertakes regular reviews of experience and annuitant survival checks to identify any trends or variances in assumptions. The Group continues to actively manage its longevity risk exposures, which includes the use of reinsurance contracts to maintain this risk within appetite.	2	↑ **RISK IMPROVING** The continuing trend of reductions in future mortality improvements saw the Group amending assumptions accordingly. Policyholder persistency rates and the take-up of guarantees have been affected by the low interest rate environment and assumptions strengthened where indicated by recent experience.
Significant counterparty failure. **CREDIT**	The 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 these securities. This risk is reflected in the higher expected return, or spread, over less risky assets. An increase in credit spreads on debt securities, particularly if it is accompanied by a higher level of actual or expected issuer defaults, could adversely impact the value of the Group's assets. The Group is also exposed to trading counterparties failing to meet all or part of their obligations, such as reinsurers failing to meet obligations assumed under reinsurance arrangements.	The Group regularly monitors its counterparty exposure and has specific limits relating to individual exposures, counterparty credit rating, sector and geography. 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.	3	– **NO CHANGE** Counterparty exposures continue to be managed and monitored at a consolidated level across the Group. There have been no significant developments in counterparty exposures over 2017. Contingency plans are being progressed in respect of EU-based counterparties in the event of a 'Hard Brexit'.

Risk Management
continued

Risk	Impact	Mitigation	Strategic priorities	Change from last year
Changes in the regulatory and legislative landscape. OPERATIONAL	The conduct-focused regulator has had a greater focus on customer outcomes. This may continue to challenge existing approaches and/or may result in remediation exercises where Phoenix Life cannot demonstrate that it met the expected customer outcomes in the eyes of the regulator. Changes in legislation such as the implications of Brexit can also impact the Group's financial position.	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 and legislative change and the impact on our operations and lobbies where appropriate. Although not material in the context of the overall Group, we are exploring a range of options to ensure we can continue to service our Irish policyholders and manage the financial implications as part of Brexit contingency planning.	1 3	***NO CHANGE*** Phoenix implemented its customer model and Risk Management Framework to the Abbey Life business prior to commencing the transfer of operations to Phoenix Life. Although FCA investigations remain ongoing, warranties and indemnities are in place to mitigate against an adverse outcome. The Group's capital position is managed and reported at the PGH level following expiry of the Group regulatory supervision waiver at 30 June 2017.
The Group fails to effectively integrate or transition acquired businesses. STRATEGIC	Completion of the proposed purchase of Standard Life Assurance, as announced on 23 February 2018, is subject to regulatory approval. On completion, the challenge of transitioning Standard Life Assurance into the Group could introduce structural or operational challenges that result in Phoenix failing to generate the expected outcomes for policyholders or value for shareholders.	The financial and operational risks of the target business were assessed as part of the acquisition phase. Transition plans are being developed and resourced with appropriately skilled staff to ensure that the target operating models are delivered in line with expectations.	1 2 3	***RISK HEIGHTENED*** Integration of the AXA Wealth and Abbey Life acquired businesses has progressed well, with the Group's Internal Model extended to include both businesses. The heightened trend reflects the expected risks of integrating Standard Life Assurance upon completion.
Greater than anticipated redress cost relating to creditor insurance. CUSTOMER	High Court ruling that PA(GI) Limited ('PAGI'), a Group company, retained liability in relation to creditor insurance originally underwritten by PAGI. Cost of redress for these complaints may be greater than provisions held due to uncertainties with regard to the volumes of future complaints, the rates by which those complaints are upheld and the average redress value.	The Group has established efficient processes to review complaints received, and where appropriate, provide redress to the policyholder. The Group continues to monitor the level of complaints and emerging experience to ensure that the provisions remain appropriate. The Group has sought to recover incurred costs from third parties. (Further details in note G1 to the IFRS financial statements).	1 3	***RISK IMPROVING*** **No longer considered a principal risk at 31 December 2017.**
Concentration in the policy administration outsource industry. OPERATIONAL	Previous consolidation of the industry has led to an increased exposure for the Group to a smaller number of suppliers, with few alternative supply options. Further market concentration creates challenges regarding Phoenix's ongoing relationships and in the development and viability of effective exit plans under stressed conditions.	The Group's outsource strategy regularly considers our target operating model in light of the changing marketplace for policy administration outsourcing; the term remaining on current contractual arrangements and evolving regulatory and customer demands. The outcome of these reviews and related recommendations are shared with the Life Companies and approval sought for funding to support initiatives to implement transition/transformation activity where appropriate.	1 2 4	**New risk.**

The current assessment of the residual risk in respect of each of the Group's principal risks is illustrated in the chart opposite.

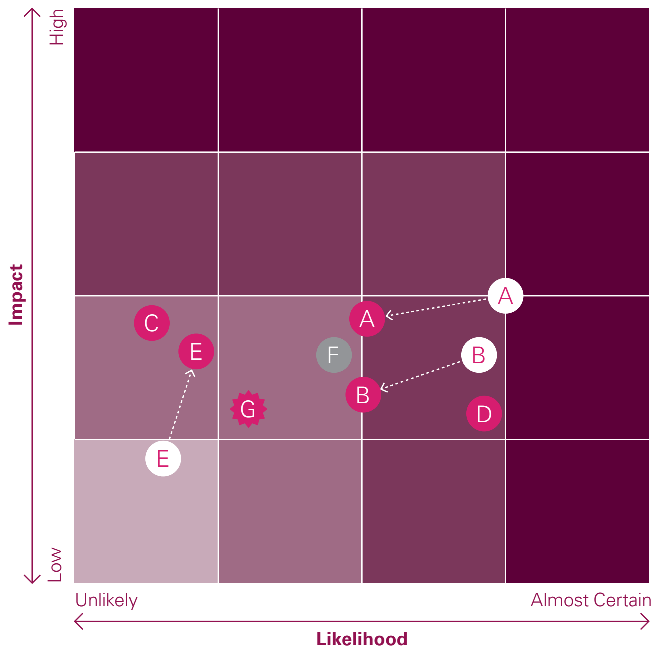
The residual risk is the remaining risk after controls and mitigating actions have been taken into account.

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

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

Risk Title	Description	Risk Universe Category
MARKET DISRUPTORS	The impact of alternative providers in the market or those with more comprehensive digital propositions.	Strategic
CYBER RISK	The Group continues to see itself as a comparatively low target due to the closed book nature of its business.	Operational
SOLVENCY II CHANGES	Changes to the solvency regime as a result of government review and the UK's exit from the EU.	Financial Soundness

PRINCIPAL RISKS



RISK

- A Market Volatility
- B Actuarial Assumptions
- C Counterparty Exposure
- D Regulatory and Legislative Change
- E Acquisition Transition
- F PAGI mis-selling (risk removed)
- G Outsourcer Market (new risk)

Movement since HY 2017

VIABILITY STATEMENT

In accordance with the provision of section C.2.2 of the 2016 revision of the UK Corporate Governance Code, the Board has completed an assessment of the prospects and viability of the Group over a five-year period to December 2022. The Board has determined that the five-year period to December 2022 is an appropriate period for the assessment, this being the period covered by the Group's Board approved annual operating plan ('AOP') and therefore the period over which the Directors have reasonable confidence and set internal and external targets.

In making the viability assessment, the Board has undertaken the following process:

- It considered Group prospects, taking into account current position and the principal risks and uncertainties that it is facing;
- it defined that viability is maintaining the capability to satisfy mandatory liabilities as they fall due and track towards targets;
- it reviewed the AOP which considers profits, liquidity, solvency and strategic objectives and the impacts of management actions on the Group. The AOP was finalised in November 2017 and reaffirmed the Group's strategy;
- it completed stress testing to assess viability under severe but plausible scenarios, including two adverse stresses which represent the key financial risks to the Group as follows:
  1. Market stress – a 1-in-10 year event combined market stress incorporating a fall in equity, property values and yields, with a widening of credit spreads.
  2. Longevity stress – a 1-in-10 year event longevity, persistency and yield stress, which implies a 1.5 year increase in life expectancy for a 65 year old male and 1.2 year increase for a 65 year old female, alongside an increase in persistency and a fall in yields.
- it completed reverse stress testing to understand how severe the above scenarios would need to be given the Groups current and expected levels of solvency and liquidity;
- It considered the principal medium to long-term risks facing the Group which have the potential to impact on viability as discussed in the Risk report above;
- it completed a qualitative assessment of all strategic risks to the Group and contingent actions available that could be implemented should any risk materialise that threatens the Group's resilience; and
- it reviewed the financials, synergies and risks associated with the proposed acquisition of Standard Life Assurance, taking into account its current position and under a market stress.

The Board has also made certain assumptions when making the assessment and these include the following:

- the stress occurs on 1 January 2018 with no allowance for any recovery, but do take into account the impact of transitionals recalculation;
- that whilst the actual impacts of Brexit on the Group are still unknown, the Group has plans in place to ensure it is able to service all policyholders in the event of a Hard Brexit; and
- that future acquisitions, including BPAs, are not relevant, as any transaction would only be progressed on the basis it was value accretive, in line with the stated criteria.

Based on the results of the procedures outlined above, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period of assessment.

Stakeholder Engagement

The Group's mission is to improve returns for policyholders, whilst delivering value for shareholders. The Group has responsibilities to a number of stakeholders, including its investors, customers, suppliers, employees and community partners. Stakeholders' needs are therefore considered in everything we do.

STAKEHOLDER ENGAGEMENT

OVERVIEW

Balancing the needs of all our stakeholders is key to the Group's success in meeting its strategic priorities. To help with this, the Group has a set of policies which provide a clear risk and governance framework and which must be complied with. Key policies and relevant outcomes for each stakeholder group along with engagement activities are outlined within this report.

Positive stakeholder engagement is also key to the Group's Corporate Responsibility agenda.

Go online for the Group's full Corporate and Social Responsibility Report
www.thephoenixgroup.com/CRreport2017

OUR CUSTOMERS

5.6 million policyholders with £74 billion of assets held by the Group's life companies. Key products include with-profit, unit-linked, non-profit (annuities) and non-profit (protection).

Read more on page 39

OUR SUPPLIERS

Phoenix has c.800 suppliers of which 16 are considered Strategic and Critical Service Providers.

Read more on page 40

OUR EMPLOYEES

1,249 staff supporting Phoenix Group, Phoenix Life and SunLife, based across operational sites: Wythall, London, Basingstoke, Bournemouth, Bristol, Glasgow and Jersey.

Read more on page 41

OUR COMMUNITY PARTNERS

36 partners including charities, schools, hospices and local community groups.

Read more on page 43

OUR ENVIRONMENT

The Group is committed to managing and reducing its environmental impact.

Read more on page 44

OUR INVESTORS

The Group maintains an active dialogue with its investors throughout the year.

Read more on page 46

OUR CUSTOMERS

The Group recognises the responsibility it has to all of its customers, as both custodian of their financial assets and supplier of their pension needs or life cover. Treating Customers Fairly is at the heart of the business, aiming to provide a responsible, fair and helpful service.

The Phoenix Life website can be accessed at www.phoenixlife.co.uk

Read more about key customer engagement activities undertaken during the year on page 18

LISTENING TO CUSTOMERS

Listening to the needs and wants of customers is helpful in delivering good customer outcomes, whilst underpinning this with a positive customer journey. Feedback is gathered through automated telephone surveys, individual research projects and most recently through talking with the wider 'customer community' about their experiences and how they like to engage with the Group. These interactions help to shape communications and future propositions that may be of interest.

Customer research enables improvements to be made to the customer journey. Recent examples include an online facility for the retirement process, to enable some Phoenix Life customers to select retirement options online, secure e-mail launched as an alternative communication channel for customers to make contact, and improvements to annual statements and communications, ensuring that key information can be easily understood and highlighted.

DIGITAL PROPOSITION

During the year the Group has continued to develop its digital offering for customers to enhance the value of customer relationships with Phoenix. The Phoenix Life website allows visitors greater access to information regarding policy information, whilst reducing the volume of paperwork routinely issued.

CUSTOMERS IN VULNERABLE CIRCUMSTANCES

Phoenix recognises the diversity of its customers and appreciates that a proportion could be living with issues that make them vulnerable and in need of support with their decision-making. The Group's goal is to ensure that customer vulnerability is recognised and acted upon appropriately, to ensure that it does not have a negative impact on customer outcomes.

To help raise awareness internally an online training module on customer vulnerability was designed and delivered by Money Advice Trust. The completion of this training is a mandatory requirement for staff and the increased awareness and understanding from this training will influence the Group's approach to design solutions for customers. The digital team is currently working on an online solution, providing accessibility to as many customers as possible, irrespective of any impairment they might have.

PROTECTING CUSTOMERS FROM PENSION SCAMS

The Group is dedicated to protecting its customers from pension scams. The Group continues to engage with Regulatory Authorities and Industry Working Groups on pension scams and looks at ways to better protect customers from becoming victims of pension scams. A dedicated phone line was set up with The Pension Advisory Service to refer customers when concerns were raised around wanting to transfer their pension funds. The Group continues to raise awareness of scams and warns its policyholders to remain vigilant of the evolving methods of fraudsters.

The Group's Customer Treatment Risk policy covers risks arising from the design or management of products, or from the failure to meet or exceed reasonable customer expectations, taking account of regulatory requirements. Customer treatment risks are aligned to the areas of focus in the Phoenix Group Customer Strategy.

LONG-STANDING CUSTOMERS COMMITTEE APPOINTMENT

The Association of British Insurers ('ABI') has appointed our Customer Director Susan McInnes as chair to its Long-Standing Customers Committee. Created in 2015, the Committee focuses on addressing the challenges to ensure all long-standing pension products are fit for purpose for customers and has provided input into the work of the Dormant Assets Commission, including work to help customers find policies which have transferred to other companies. The Committee also plays a critical role in developing the ABI's overall retirement and savings policy.

"I'm delighted to have the opportunity to help shape the work of the Long-Standing Customer Committee, as I believe it has the potential to help the industry address issues affecting older products and long-standing customers. Phoenix continually looks to improve customer experience, whilst looking for opportunities to improve outcomes and I look forward to working with the industry to do so."

Stakeholder Engagement
continued

Phoenix has circa 800 suppliers of which 16 are considered the most Strategic and Critical Service Providers[1] representing circa 70% of total spend.

OUR SUPPLIERS

SUPPLY CHAIN MANAGEMENT

Phoenix relies heavily on its Strategic Service Providers to support the delivery of its corporate objectives and management actions, whilst satisfying the outcomes required for all stakeholder groups. A key part of ensuring this takes place is managing the Group's supply chain in a sustainable and ethical manner.

Sourcing and Procurement at Phoenix is far broader than the initial evaluation and selection process in that it ensures that a beneficial relationship for our key stakeholders is implemented and managed. The Group works closely with its partners in order to closely monitor the operational and financial performance from Strategic Service Providers for any indications of instability and steps are taken where necessary and appropriate to mitigate risks to Phoenix or its stakeholders.

For Strategic and Critical Service Providers, Phoenix has a dedicated professional relationship manager assigned. Their role is to govern the relationship, measure and monitor performance and work to continually improve outcomes for all stakeholders.

The Group's Sourcing and Procurement policy sets the minimum operating standards relating to the management of sourcing and procurement risk throughout the Group and forms part of the sourcing and procurement control framework.

Phoenix is organised so that the Commercial Partnerships team manage a decentralised procurement model for low value / low volume spend, to enable the business to operate flexibly but within the controls of the Sourcing and Procurement policy. This has a robust oversight and governance model, administered and managed by the Commercial Partnerships team.

PROMPT PAYMENT CODE

The Group's culture is to meet its obligations including paying suppliers promptly. The Group voluntarily signed the Government's Prompt Payment Code in 2012. The Group's intention was to show its commitment to supply chain sustainability and to aid in the transformation of the culture of late invoice payments in the business community. As at the end of 2017 c.80% of all invoices presented to the Group were paid within 40 days of the invoice being created to allow for invoices to be received via post. This is actively monitored throughout the business and the Group is exploring means to improve on this percentage.

MODERN SLAVERY

Phoenix Group takes active steps to ensure its supply chain is not engaging in any form of modern slavery or human trafficking. In March 2017 a statement was published on the Group website pursuant to Section 54, Part 6 of the Modern Slavery and Human Trafficking Act 2015, which has been adopted by all subsidiaries. The statement details the policies Phoenix has in place and the ongoing actions that will be taken to continue to support the combating of modern slavery and human trafficking in supply chains.

The Group's Modern Slavery and Human Trafficking Statement is available on the Group's website: www.thephoenixgroup.com/mss

ANTI-BRIBERY AND CORRUPTION

In order to ensure that any anti-corruption and bribery matters or occurrences are effectively managed, the Group has a number of policies and practices in operation. The Group's Anti-Bribery policy addresses bribery and corruption risks alongside the Financial Crime policy which addresses risks such as anti-money laundering and fraud. Both policies detail the minimum control standards and risks that are to be managed to mitigate any potential issues.

Adherence to the Anti Bribery and Financial Crime policies is managed by the Financial Crime team via assessments of the minimum control standards that make up the policies as well as themed Financial Crime Reviews and Assurance testing.

Staff are required to complete annual computer-based training around both financial crime prevention and adherence with the Code of Business Ethics and Ethical Conduct. Staff are also required to complete a Gifts and Hospitality Register which is overseen and managed by the Financial Crime team.

The Group has a zero tolerance towards bribery and corruption in all its forms and adheres to the 2010 Bribery Act. Service Providers are advised of and engaged in the zero tolerance approach to bribery and corruption and are expected to comply with Phoenix's minimum control standards.

No instances or breaches were recorded during the year.

The Group's Anti-Bribery Statement is available on the Group's website: www.thephoenixgroup.com/abs

1 A Strategic Service Provider is classified as a supplier who the Group has made a conscious decision to work closely with due to the strategic nature of the services they provide. Critical Supply are service providers where the nature of the service provision is limited to few suppliers, and barriers to change are complex.

OUR EMPLOYEES

We are an employer of choice offering rewarding careers and opportunities, promoting physical and mental wellbeing in the workplace and empowering a wholly inclusive workforce.

The Group's Human Resources ('HR') policy defines people risk, which, if unmanaged, could result in a reduction in earnings or value, through financial or reputational loss. The minimum control standards in place enable effective management around the attraction, recruitment, development and engagement of staff, whilst ensuring compliance with any legislation and external regulatory requirements.

Adherence to this policy is managed by the Group Human Resources department via quarterly assessment of the minimum control standards. There were no material issues raised during the year.

This section will detail the actions taken and outcomes achieved across the year.

EMPLOYEE CONSULTATION

In response to the 2016 employee engagement survey, where 62% of staff (excluding former Abbey and AXA Wealth employees) answered positively that they 'feel safe to speak up and challenge', a series of focus groups and surveys were held. The purpose was to raise the level of dialogue around Phoenix's values and to give greater clarity on associated working behaviours. Planning for the launch of the Big Conversation took place towards the end of 2017, which will provide all employees with an opportunity to voice their opinions. The outcomes of staff workshops will provide a clear behavioural framework aligned to the values and organisational strategy. This will then be embedded into the Group's recruitment, development and retention programmes.

The Group operates a Whistleblowing policy, prompting staff to disclose information where they believe wrongdoing, malpractice or risk exists across any of Phoenix's operations. Employees are encouraged to speak up about matters that concern them, with the understanding that confidentiality will be maintained, and that they will not be treated inappropriately.

EMPLOYEE SURVEY

88% of employees across Phoenix Group participated in the annual employee engagement survey. The 2017 survey results included responses from former Abbey and AXA Wealth employees and revealed an Employee Engagement Index value of 80%, which compares positively to the Financial Services benchmark.

EMPLOYEE NETWORKS

The Group values the power of its employee voice and has several networks in operation. The 'Engagement Forum' is the longest standing network, which welcomes members from all functions and levels of seniority. This group is invited to meet with Phoenix Management team members on a quarterly basis to share views and shape future engagement activity across sites.

More recently the Group has launched a 'Professional Women's Network', a 'LGBT Network' and a 'Working Parents' Network'. The purpose of each network is to encourage connections, skills development and provide a safe place to share common experiences, issues or challenges. The network groups meet regularly in work hours.

LEARNING AND DEVELOPMENT

A team of Learning and Development professionals offer a programme of development activities which include leadership development, individual skills training, online learning and coaching.

As part of the Group's HR processes, there is an established succession plan. This tracks internal succession across all material roles and enables appropriate assessment of skills gaps. Internal succession continues to deliver the Group's most senior appointments.

The Group also works with external organisations to provide a wide range of learning and continual professional development opportunities including the Chartered Management Institute and The Institute of Chartered Accountants in England and Wales.

Relationships with business schools such as Ashridge and the London Business School and with The Open University continue to develop the Group's most senior talent pipeline.

73% of staff positively noted they have the 'opportunity for personal development and growth' in the 2017 engagement survey.

REWARD

The Group continues to attract, develop and retain talented staff by offering a comprehensive range of benefits and development opportunities. All employees are paid at least the Living Wage as set by the Living Wage Foundation.

86% of staff participate in the flexible benefits scheme, which allows benefits to be selected that meet personal circumstances. For 2017 buying and selling annual leave remained the most utilised, followed by childcare vouchers and insurance related products. For 2018, private medical insurance cover will be available to all staff and their partner regardless of their status within the organisation.

All Group employees participate in an Annual Incentive Plan and are able to become shareholders in the Company. Over half of the staff population are voluntarily participating in one or more of the share-save or share incentive plans, benefiting in the Group's increased share performance.

Read more about key employee engagement activities undertaken during the year on page 24

Stakeholder Engagement
continued

EMPLOYEE WELLBEING

The Group's wellbeing programme covers physical, mental and financial matters, offering staff and their dependents information and support across a range of areas. A programme of wellbeing activity took place during the year which included onsite health-checks, flu vaccinations, nutritional information talks and stress management sessions.

The Group operates an Employee Assistance Programme which is a service designed to provide free, independent and confidential advice on matters affecting an individual's wellbeing.

The Group was a sponsor of National Walking Month 2017, working with Living Streets charity to create a series of cultural city walks for staff based at the London office.

94%

of staff are happy to 'go the extra mile' at work

87%

of staff believe Phoenix does a good job of offering tools and initiatives that help support their health and wellbeing

Britain's Healthiest Workplace benchmark was completed for the fourth consecutive year, resulting in improved scores. The Group achieved fourth position from 139 participating companies in the 'Healthy Employer' category, and second position when compared with only mid-sized companies.

HUMAN RIGHTS

The Group is committed to ensuring that human rights are respected and processes are in place to remove any human rights issues both internally and externally via outsourced relationships.

In line with the Equality Act 2010 and in order to ensure that the Group is aligned to relevant Articles of the United Nations Universal Declaration of Human Rights, the Group has a Dignity at Work policy in place. The policy covers bullying and harassment of and by managers, employers, contractors, suppliers, agency staff and other individuals engaged with the Group. All staff are required to comply with the policy and take appropriate measures to ensure harassment and bullying does not occur. Adherence to the policy is managed by the Group Human Resources department via assessments of the minimum control standards, which ensure effective resolution of employee disputes. In addition all staff are required to complete annual computer based training in business ethics and ethical conduct.

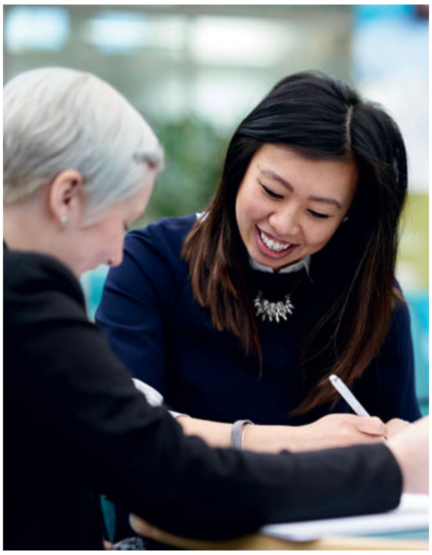
During the year the Group effectively resolved all employee disputes and as a result was involved in no employment tribunals.

HEALTH AND SAFETY

The Group operates a Health and Safety policy which helps the organisation to effectively manage risks and any adverse effects. Health and Safety risks that are not properly managed could lead to a reduction in earnings and / or value through financial or reputation loss associated with adverse impacts on the health and safety of employees, customers and third parties in the workplace.

All staff are required to complete annual Health and Safety training which includes a review of their individual workstation. The Group had no reportable accidents under the Reporting of Incidents, Disease and Dangerous Occurrence Regulations ('RIDDOR') during 2017.

PROFESSIONAL WOMEN'S NETWORK



Phoenix launched its Professional Women's Network in September 2017. The network's vision is to support and inspire women in the Group to achieve their full potential and help break down barriers through the development of their skills and competencies and through sharing their knowledge and experience.

To date, 1 in 4 women have joined the network and over 100 employees attended the launch event.

Phoenix Group is serious about diversity and inclusion and in 2016 was one of the first 72 companies to sign up to the Government's Women in Finance Charter.

In 2018 there will be further coaching, mentoring and learning opportunities available to members, including an accelerated development programme for women.

OUR COMMUNITY PARTNERS

We contribute to our local communities – providing donations, skills, time and resources to the cause.

Charity partners of the year

LONDON'S AIR AMBULANCE

MIDLANDS AIR AMBULANCE CHARITY®

PHOENIX GROUP'S CHARITY PARTNERS OF THE YEAR

Now into its fourth year of the six-year partnership with Midlands Air Ambulance Charity and London's Air Ambulance, the Group is continuing to use this collaboration to engage staff in fundraising, volunteering and events for the cause.

Since partnering in 2014 the Group has donated in excess of £690,000 to the charities.

OTHER CHARITABLE DONATIONS

Through the Group's 'Our Community, Your Choice' programme staff are able to fundraise for any UK registered charity, providing the cause meets the Group's charity criteria. The Group does not support any political or religious causes.

Over £22,000 was donated to other charities across the year, helping causes from within the communities in which our employees are based. Examples include: Birmingham St Mary's Hospice, Guide Dogs for the Blind, Macmillan Cancer Support, Ark Cancer Centre Charity, Dorset and Somerset Air Ambulance and Jessie May Trust.

The Group also offers a staff-matched fundraising scheme whereby staff can participate in charitable activity in their own time and request matching of the amount they raise. Over £25,000 has been donated across the year.

COMMUNITY INVESTMENT

The Group has worked closely with 36 community partners over the year.

With the assistance of The Money Charity, Phoenix sponsored 40 financial workshops in local secondary schools, reaching 1,100 pupils across academic term 2016-2017. The workshops explained the difference between credit and interest along with manageable and unmanageable debt. The main objective was to get young people thinking about real-life budgeting and how to make difficult decisions around prioritisation of money.

The Group was also premier sponsor of the 'Wythall and Hollywood Fun Run' which included a 10km, 5km and 1.5km run through the heart of Wythall's community and entered the site's grounds as part of the official distance.

VOLUNTEERING

Employees regularly volunteer on either an individual basis or with their team to make a difference in their local community. Employees within the Group are permitted 14 hours per year to support a variety of causes.

61% of staff participated in this year's volunteering programme contributing 3,162 hours, an increase of 11%. There has been a shift in more staff wishing to participate in skills-based volunteering, offering their time to be mentors, reading buddies and number partners at local schools.

At the SunLife operations in Bristol, volunteering is also a key part of their culture, with 43% of staff contributing 408 hours across the year to causes within their local community.

SCHOOL PARTNERSHIPS

Our Wythall office continues its partnership with Ark Kings Academy in Kings Norton and sessions were run onsite for all year-11 pupils to attend GCSE maths revision, as well as a second session focussing on CV writing, interview skills and social media presence – both helping pupils prepare for their future. The school launched a new library during the year, which was designed and supported by Phoenix, and fully supports the work of the 2017 Vision for Literacy Business Pledge.

In London the Group supported Draper's Sixth Form Academy by offering pupils work experience opportunities within Actuarial and Group Finance functions. In addition, the Group's CEO welcomed maths pupils to a Future Forums event, where they could hear first-hand what it is like to work for the Group.

Stakeholder Engagement
continued

OUR ENVIRONMENT

Our Corporate Responsibility programme supports our commitment to monitoring and reducing our environmental footprint.

The Group's environmental aim is to 'put back' what it takes out. As a financial services organisation, the Group's impact on the environment is minimal when compared with other industries.

Various staff-led initiatives took place during the year, focusing largely on internal resource-use, and the 3 R's – reduce, re-use and recycle.

The Corporate Responsibility Steering Committee reviews environmental progress and agrees activity for future implementation such as the current investigation into electric vehicle charging facilities onsite in 2018.

CONSERVATION

The Group has been partners with the Heart of England Forest since 2013 and now boasts over 6,000 trees within its own Phoenix Way Wood. The charity has continued to provide opportunities for staff to get involved in woodland management, tree planting and conservation. Pupils from partner school Ark Kings Academy were given the opportunity to plant trees within the wider Heart of England Forest allowing them to spend time in the greater outdoors, give back to future generations and directly help the charity with its aim of 'creating the largest broadleaf forest in the UK'. The SunLife operations in Bristol are also members of the Woodland Trust.

Staff actively take an interest in outdoor environmental-based volunteering projects and have supported the Canal and River Trust, Warwickshire Wildlife Trust, London Wildlife Trust and Bromsgrove District Council across the year. Onsite at the Wythall office, a nature walk was launched, highlighting bio-diversity elements.

INTERNAL PRINT RESOURCE

Reducing print and paper consumption onsite remained one of the Group's primary environmental focuses for 2017. Staff within Phoenix Group and Life received personalised dashboards detailing print usage and ratio of colour print, so they could directly manage what impact their print habits have on the wider environment.

With technological advances and greater availability to online content the Group's print and paper consumption is moving in the right direction.

CONSERVATION PROJECTS

Employees based in Wythall have been assisting Bromsgrove District Council in various conservation projects within their local parklands.

Staff helped thin woodland at Millennium Wood, within Arrow Valley Country Park, in Redditch and subsequently used fallen branches to create a natural hedge-way and hibernaculum to house local wildlife onsite. In addition, at Sanders Park, Bromsgrove teams assisted with removing Himalayan balsam from the water-ways, an invasive weed which if left would overly consume the natural stream habitat. A third team assisted with removing overgrowth from the water-ways at Lickey End Park, near Bromsgrove helping to protect the resident water vole.

Volunteering opportunities such as these give staff the opportunity to team-build, provide networking opportunities and a chance to boost wellbeing. This volunteering encouraged healthy exercise whilst taking part in environmentally-focused activities which will benefit future generations.

WASTE MANAGEMENT

All core sites continue to divert 100% of its waste from landfill. The London office which is shared tenancy achieved two accolades for its achievements in waste management, waste minimisation and re-use in the form of the Green Apple Awards and Clean City Awards Scheme. Donations of old furniture, carpet tiles and electrical equipment were distributed to various community partners in the London and Wythall areas, reducing the requirement for waste removal, but adding value by creating a new lease of life for the items being donated. In addition, following the city-centre office move for staff based at SunLife in Bristol, any unwanted furniture and accessories were donated to the Julian Trust for the Homeless.

ENVIRONMENTAL REPORTING

This section includes an update on our annual greenhouse gas emissions. Emissions disclosed relate to facilities and activities where the Group has operational control.

Since the acquisitions of AXA Wealth's pension and protection business from AXA UK plc and Abbey Life Assurance Company Limited, Abbey Life Trustee Services Limited and Abbey Life Trust Securities Limited from Deutsche Bank Holdings No. 4 Ltd in late 2016, the three properties acquired (Winterthur Way in Basingstoke and 100 Holdenhurst Way and Marlborough House in Bristol), have been included under the Group's operational control. These three properties have therefore been included in the Group's carbon footprint (absolute GHG emissions) for the 2017 calendar year. However, as these three properties were not owned for the whole two-year period that is used for intensity measurement calculations, they have been excluded from these metrics to avoid skewed intensity results.

The emissions reported are based on the main requirements of the ISO14064 Part 1 and the GHG Protocol Corporate Standard (revised edition). Data was gathered at meter level to compile the carbon footprint. The Government's 2017 Conversion Factors for GHG Company Reporting have been used to convert energy data into carbon dioxide equivalent (CO_2e) emissions.

The Group reports Scope 2 emissions using the GHG Protocol dual-reporting methodology, stating two figures to reflect the GHG emissions from purchased electricity, using both:

- A location-based method that reflects the average emissions intensity of the UK electricity grids from which consumption is drawn; and
- A market-based method that reflects emissions from electricity specific to each supply / contract. Currently, the Group has used residual mix factors in the absence of contractual instruments.

In 2017 absolute emissions have increased by 18% due to the inclusion of the three ex-AXA Wealth and Abbey Life acquired properties. This increase has outweighed the reduction in the emission factor for consumption of purchased electricity (Scope 2) and the reduced consumption at the end of the year due to the ex-AXA Wealth Bristol office lease expiring on the 21st December 2017. Approximately 7.7% of 2017 emissions are estimated as full year data were not available for all facilities. A sample of emissions from fuel use for company-owned transport, backup generation and fugitive emissions from refrigerants were calculated and were determined to be non-material to the overall footprint, so have not been included.

Intensity reduced from 2016 to 2017 due to a reduction in electricity and natural gas consumption at the Juxon House and Wythall offices as well as the reduction in emissions factors from the UK electricity grid.

GREENHOUSE GAS EMISSIONS

GLOBAL ABSOLUTE GHG EMISSIONS DATA IN TONNES OF CO_2e

Emissions, tonnes of CO_2e, from:	2017 (location-based)	2017 (market-based)	2016 (location-based)
Combustion of fuel and operation of facilities (Scope 1)	**1,203**	**1,203**	1,078
Electricity, heat, steam and cooling purchased for own use (Scope 2)	**2,754**	**3,119**	2,286
Total Carbon Footprint (Scopes 1 + 2)	**3,957**	**4,322**	3,364

PHOENIX GROUP'S CHOSEN INTENSITY MEASUREMENT[1]

	2017 (location-based)	2016 (location-based)
Emissions reported above on a per floor area intensity	**64 kg CO_2e/m^2**	81 kg CO_2e/m^2
Emissions reported above on a per full-time equivalent employee (FTE) intensity	**3.5 tonnes CO_2e/FTE**	4.3 tonnes CO_2e/FTE

1 Our intensity measurement calculations exclude former AXA Wealth and Abbey Life subsidiaries to avoid skewed intensity results over the two-year period.

Go online for the Group's full Corporate and Social Responsibility Report www.thephoenixgroup.com/CRreport2017

To download a copy of the Group's complete Economic, Social and Governance measures, please visit the Corporate Responsibility section of the Group website. www.thephoenixgroup.com/esg

Stakeholder Engagement
continued

We value an active dialogue with the Group's financial audiences including institutional investors, private investors, buy and sell-side analysts and prospective investors. Phoenix therefore conducts a comprehensive investor relations programme co-ordinating the interaction with these stakeholders.

MEETINGS WITH INSTITUTIONAL EQUITY INVESTORS

Throughout the year members of the Executive Committee and the Investor Relations department held meetings with investors to provide updates on the Group's strategy and operations. This involved a total of 23 shareholder roadshows conducted in the UK, Continental Europe and the US. The Investor Relations department, together with the Executive Committee thus met with 211 investors, holding circa 72% of the Group's outstanding share capital.

The Chairman and Non-Executive Directors are available for investor meetings to discuss subjects such as strategy, corporate governance and Director's remuneration as required.

RESULTS PRESENTATIONS AND INVESTOR DAYS

Full year and interim results were presented to analysts and investors by the Group. The presentations were webcast live on Phoenix's website and presentation materials were also made available.

Phoenix held an Investor Day on 14 June in London with presentations focused on the improvement of the Phoenix customer journey, the Group's integration process, Solvency II and the Group's plans to examine selective acquisitions in the BPA market. The event also provided attendees with the opportunity to meet with management. Investor day presentations are filmed and the video as well as the presentation materials and transcript are made available on the Group's website.

CONFERENCES

Conferences enable the Group to meet with a significant number of investors and at the same time are important platforms for presenting on Phoenix's investment proposition. This year, Phoenix attended seven conferences in the UK and one in the US, including conferences organised by Bank of America Merrill Lynch, Barclays, Berenberg, J.P. Morgan Cazenove and Morgan Stanley.

ANALYSTS AND EQUITY SALES FORCES

Phoenix maintains an active dialogue with its equity and debt research analysts who, in addition to results presentations, are invited to attend investor events such as the Investor Day. The Executive Directors also held seven presentations to the sales force teams at major investment banks to promote the Phoenix investment case.

DEBT INVESTORS

The debt investor relations programme is managed by the Investor Relations department in collaboration with the Group Treasury department.

Senior management conducted eight deal and non-deal related debt investor roadshows in the UK, Continental Europe and Asia, meeting circa 140 debt investors overall. In addition, the team held a non-deal group lunch in London on 2 October where Phoenix presented on its credit story and provided debt investors with the opportunity to meet with management.

CREDIT RATING AGENCIES AND BANKS

Phoenix's life companies and outstanding bonds have credit ratings by Fitch Ratings. The Group meets with the rating agency at least once per year for the annual ratings review. The Group Treasury Team and management last provided Fitch with an update in June 2017. The Group Treasury department and senior management also keep a constant dialogue with the Group's relationship banks.

PRIVATE SHAREHOLDERS

Private shareholders are encouraged to engage with the Group through the Investor Relations department and Company Secretariat.

ANNUAL GENERAL MEETING ('AGM')

The Group uses its AGM as an opportunity to communicate with shareholders. Business to be discussed at the meeting is notified to shareholders in advance through the Notice of Meeting and comprises topics such as the annual election of Directors, the appointment of the Auditor and the dividend declaration.

OUR INVESTOR RELATIONS

SHAREHOLDER CONSULTATION

In May of this year, the Group engaged HSBC to undertake an independent, in-depth shareholder consultation focused particularly on investor attitudes toward management actions, balance sheet strength as well as M&A and financing of acquisitions. HSBC spoke to 14 institutions through face to face and telephone interviews between May to June.

The results disclosed to the Group in July showed that there was a high degree of confidence in management as well as broad support for the Group's M&A strategy.

In this section

IN THIS SECTION

CORPORATE GOVERNANCE

Chairman's Introduction

"Our Board is committed to keeping strong governance at the heart of our business, providing robust protection for our current and future shareholders and customers."

HENRY STAUNTON
CHAIRMAN

STRONG GOVERNANCE AT THE HEART

BOARD OF DIRECTORS

I would like to start my introduction to this Governance section by commenting on the renewal of our Board membership over the last 18 months, which has focused on the skills required to drive the Group forward in its M&A strategy and generating value for our shareholders and policyholders.

Our recent Board appointees, who have a strong mix of experience and skills gained at senior industry level (please see biographies on pages 50 to 51 for further information), are:

- Wendy Mayall (appointed September 2016) – Asset management;
- John Pollock (appointed September 2016) – Life insurance and pensions, customer, FTSE 100 financial services board experience;
- Nicholas Shott (appointed September 2016) – M&A, corporate finance;
- Karen Green (appointed July 2017) – Insurance, M&A, corporate finance; and
- Belinda Richards (appointed October 2017) – Life insurance and pensions, M&A integration, FTSE 100 financial services board experience.

The appointments in 2017 responded to a Board skills audit we undertook at the start of 2017, which took account of anticipated retirements from our Board, and followed a thorough recruitment process. Isabel Hudson and David Woods left our Board at the May 2017 AGM, both after over seven years of sterling service.

Our Senior Independent Director, Ian Cormack, will retire from the Board at the AGM in May 2018. Ian has been on the Board since September 2009 and prior to that from 2005 was on the Pearl Group Board when Pearl acquired Resolution in 2008 to form what is now the Phoenix Group. He has been the Senior Independent Director since October 2013 and Chairman of the Remuneration Committee from 2010 until the 2017 AGM. During his tenure, Ian's logical approach, huge financial services experience and strategic expertise have been central to the success of the Board and the Group. I am very grateful to him for his support to me since my appointment as Chairman from September 2015.

The Board has selected Alastair Barbour to succeed Ian Cormack as Senior Independent Director. Alastair has chaired our Audit Committee since his appointment to the Board in 2013 and brings vast experience and business acumen to the role.

I am very pleased that our recruitment has set our Board up to continue to successfully drive the Group forward. It is our intention that the Board will, from our May 2018 AGM, comprise of ten directors, which for several years has been considered by the Board as its optimum number.

I am also pleased with our increasing gender diversity, such that our independent Non-Executive Directors are anticipated to be majority female from our May 2018 AGM. We are also giving considerable attention to increasing the proportion of female senior executives. Please see pages 24 and 42 for details of the initiatives being undertaken.

Our most recent Board Evaluation Review, undertaken towards the end of 2017 under the external facilitation of Equity Communications concluded that we have a 'highly committed Board with an impressive and carefully selected range of skills and experience.' Further details are contained in our Corporate Governance Report.

SHAREHOLDERS

As ever, I am grateful for the strong support of our shareholders. At our May 2017 AGM, all 20 resolutions were passed with a majority of at least 95% of votes cast for each resolution.

UK CORPORATE GOVERNANCE CODE

As detailed in the Corporate Governance Report on pages 53 to 62, we complied in 2017 with all the provisions of the UK Corporate Governance Code ('the Code'), such that in the last five years we have had only one matter of non-compliance with the Code.

The following sections provide more detail on our Board of Directors, Executive Management team, operation of governance and remuneration practices as follows:

- Board and committee structure;
- Board of Directors;
- Executive Management Team;
- Corporate Governance Report;
- Directors' Remuneration Report; and
- Directors' Report.

Board Structure

Phoenix Group Holdings Board and Committees

The main focus of the Phoenix Group Holdings Board is on Group strategy and performance, with input from Board committees. The chart below sets out the composition and main activities of the Phoenix Group Holdings Board and its committees. More detailed operational and customer-focused matters are addressed at the subsidiary board and committee level.

PHOENIX GROUP HOLDINGS BOARD

Henry Staunton (Chair)
- Ian Cormack – SID
- Clive Bannister
- James McConville
- Alastair Barbour
- Karen Green
- Wendy Mayall
- John Pollock
- Belinda Richards
- Nicholas Shott
- Kory Sorenson

- Group Strategy
- Major Transactions
- Group Budget
- Group Risk Appetite
- Performance Monitoring
- External/Shareholder Reporting
- External Debt

AUDIT COMMITTEE

Alastair Barbour (Chair)
- Karen Green
- John Pollock
- Kory Sorenson

- Financial Reporting
- Internal Controls
- External Audit
- Internal Audit

RISK COMMITTEE

John Pollock (Chair)
- Alastair Barbour
- Wendy Mayall
- Belinda Richards

- Risk Appetite and high-level Risk Matters
- The Group's Risk Management Framework

NOMINATION COMMITTEE

Henry Staunton (Chair)
- Ian Cormack
- Alastair Barbour
- Nicholas Shott

- Board Appointments
- Senior Executive Appointments
- Diversity and Inclusion
- Board and Senior Executive Succession Planning

REMUNERATION COMMITTEE

Kory Sorenson (Chair)
- Karen Green
- Nicholas Shott

- Group Remuneration Framework
- Executive Director Remuneration
- Employee Share Schemes

Board of Directors

The Group is governed by our Board of Directors.
Biographical details of all Directors are shown below.

HENRY STAUNTON
CHAIRMAN

COMMITTEE MEMBERSHIP
Nomination Committee (Chairman)

APPOINTED TO THE BOARD
1 September 2015

EXPERIENCE
Henry Staunton was appointed Chairman of the Board of Directors with effect from 1 September 2015. Mr Staunton is Non-Executive Chairman of WH Smith plc, the leading FTSE 250 retail group, and a Non-Executive Director of Capital & Counties Properties plc. From 2004 until 2013, Mr Staunton was a Non-Executive Director, Chairman of the Audit Committee and latterly Senior Independent Director and Vice Chairman of Legal & General Group plc, where he gained significant insight into the life and pensions industry. He was also a Non-Executive Director of Ashtead Group from 1997 to 2004 including as Chairman from 2001. During his executive career he was Finance Director of ITV plc from 2003 to 2006, and Finance Director of Granada plc from 1993 to 2003. Prior to that he joined Price Waterhouse as a graduate trainee, rising to become a Senior Partner of the audit practice.

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER

APPOINTED TO THE BOARD
28 March 2011

EXPERIENCE
Clive Bannister joined the Group in February 2011 as Group Chief Executive Officer. Prior to this, Mr Bannister 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.

JAMES MCCONVILLE
GROUP FINANCE DIRECTOR

APPOINTED TO THE BOARD
28 June 2012

EXPERIENCE
Between April 2010 and December 2011, Mr McConville was Chief Finance 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 and Director of Finance for the Insurance and Investments Division. During 2011 and 2012, Mr McConville was a Non-Executive Director of the life businesses of Aegon UK. In 2014, Mr McConville joined the board of Tesco Personal Finance plc as a Non-Executive Director. Mr McConville qualified as a Chartered Accountant whilst at Coopers and Lybrand.

ALASTAIR BARBOUR
INDEPENDENT NON-EXECUTIVE DIRECTOR

COMMITTEE MEMBERSHIP
Audit Committee (Chairman), Nomination Committee, Risk Committee

APPOINTED TO THE BOARD
1 October 2013

EXPERIENCE
Alastair Barbour has over 30 years audit experience with KPMG where he worked across the full spectrum of financial services clients from large general insurers and reinsurers to the life insurance 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 Audit Committee Chairman of RSA Insurance Group plc and Liontrust Asset Management plc (both 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 group listed on the New York Stock Exchange and in Bermuda.

IAN CORMACK
SENIOR INDEPENDENT DIRECTOR

COMMITTEE MEMBERSHIP
Nomination Committee

APPOINTED TO THE BOARD
2 September 2009

EXPERIENCE
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. Mr Cormack is Non-Executive Chairman of Maven Income & Growth VCT 4 plc and a Non-Executive Director of Just Group plc and Hastings Group Holdings plc. Mr Cormack was Chief Executive Officer of AIG, Inc. in Europe from 2000 to 2002 and prior to that he spent 32 years at Citibank where he was Chairman of Citibank International plc and Co-Head of the Global Financial Institutions Client Group at Citigroup and UK Country Head.

KAREN GREEN
INDEPENDENT NON-EXECUTIVE DIRECTOR

COMMITTEE MEMBERSHIP
Audit Committee, Remuneration Committee

APPOINTED TO THE BOARD
1 July 2017

EXPERIENCE
Karen Green is the former Chief Executive of Aspen UK, which comprised the UK insurance companies of the global US-listed insurer and reinsurer, Aspen Insurance Holdings and was a member of the Aspen Group Executive Committee for 12 years. She also held a number of other senior positions including as Group Head of Corporate Development, Strategy, and Office of the Group CEO. She remains Deputy Chairman of Aspen Managing Agency Limited, which conducts Aspen's interests at Lloyd's of London and continues to act for the Aspen Group on a wide range of corporate development activities.

Prior to that, she held various senior private equity and corporate finance roles from 1997 to 2005 at GE Capital and then MMC Capital, gaining substantial M&A experience, having worked previously at Baring Brothers and Schroders. Ms Green is a Council Member of Lloyd's of London. She is also a Vice President of the Insurance Institute of London.

WENDY MAYALL
INDEPENDENT NON-EXECUTIVE DIRECTOR

COMMITTEE MEMBERSHIP
Risk Committee

APPOINTED TO THE BOARD
1 September 2016

EXPERIENCE
Wendy Mayall has over 30 years of asset management experience, including as Group Chief Investment Officer and later consultant at Liverpool Victoria from 2012 to 2015, having previously been Chief Investment Officer for Unilever's UK pension fund from 1996 to 2011 and holding management responsibility for Unilever's pension funds globally. From 2006 to 2009, Mrs Mayall was the Chair of the Investment Committee of the Mineworkers Pension Scheme, a British government appointment to one of the largest government backed pension schemes in the UK. Mrs Mayall is a Non-Executive Director of Aberdeen Global Funds (Luxembourg) and Old Mutual Wealth Oversight Council. She is also the Senior Independent Director and Audit Committee Chair of Fidelity Investments Life Insurance Company and Chair of the Funding Committee for TPT Retirement Solutions. Limited and Chair of the Funding Committee for TPT Retirement Solutions.

JOHN POLLOCK
INDEPENDENT NON-EXECUTIVE DIRECTOR

COMMITTEE MEMBERSHIP
Risk Committee (Chairman), Audit Committee

APPOINTED TO THE BOARD
1 September 2016

EXPERIENCE
John Pollock had a career in life assurance at the Legal & General Group from 1980 to 2015, including as an Executive Director of Legal & General Group plc from 2003 to 2015. Mr Pollock held numerous senior roles, gaining wide strategic and technical experience, finally as Chief Executive Officer of LGAS (L&G Assurance Society), one of Legal and Generals' three primary business units. Prior to Mr Pollock's retirement from Legal and General in 2015, he held positions as Deputy Chair of the FCA Practitioner Panel, Chairman of investment platform Cofunds, and as a Non-Executive Director of the Cala Homes Group.

BELINDA RICHARDS
INDEPENDENT NON-EXECUTIVE DIRECTOR

COMMITTEE MEMBERSHIP
Risk Committee

APPOINTED TO THE BOARD
1 October 2017

EXPERIENCE
Belinda Richards has held senior executive positions at KPMG, EY, and latterly Deloitte from 2000 to 2010 where she was a senior corporate finance Partner and the Global Head of Merger Integration and Separation Advisory Services. She is an experienced Non-Executive Director, currently on the Boards of WM Morrison Supermarkets plc, The Monks Investment Trust plc and Schroder Japan Growth Fund plc. Previously, she has also been on the Boards of Aviva UK Life & Pensions, Grainger plc and Balfour Beatty plc.

NICHOLAS SHOTT
INDEPENDENT NON-EXECUTIVE DIRECTOR

COMMITTEE MEMBERSHIP
Nomination Committee, Remuneration Committee

APPOINTED TO THE BOARD
1 September 2016

EXPERIENCE
Nicholas Shott is an investment banker, who has been European Vice Chairman of Lazard since 2007 and Head of UK Investment Banking at Lazard since 2009. Mr Shott joined Lazard in 1991 and became a partner in 1997. He is also a Non-Executive Director on the Board of the Home Office.

KORY SORENSON
INDEPENDENT NON-EXECUTIVE DIRECTOR

COMMITTEE MEMBERSHIP
Remuneration Committee (Chair), Audit Committee

APPOINTED TO THE BOARD
1 July 2014

EXPERIENCE
Kory Sorenson is currently a Non-Executive Director and Chairman of the Audit Committee of SCOR SE, and a Non-Executive Director of Pernod Ricard SA, a member of the Supervisory Board of Uniqa Insurance Group AG, a member of Supervisory Board of the privately-owned Bank Gutmann AG and Non-Executive Director of Aviva Insurance Limited (from which Ms Sorenson has resigned with effect from 31 March 2018). Ms Sorenson has over 25 years of experience in the financial services sector, most of which has been focused on insurance and banking. She was Managing Director, Head of Insurance Capital Markets of Barclays Capital and held senior positions in the financial institutions divisions of Credit Suisse, Lehman Brothers and Morgan Stanley. She began her career in the finance department of Total SA.

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

Roles and responsibilities

- 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's 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

Roles and responsibilities

- Develops and delivers the Group's financial business plan in line with strategy
- Ensures 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 enable all reporting obligations to be met
- Supports the Group Chief Executive Officer in managing the Group's key external stakeholders
- Enhances shareholder value through clear, rigorous assessment of business opportunities.

FIONA CLUTTERBUCK
HEAD OF STRATEGY, CORPORATE DEVELOPMENT AND COMMUNICATIONS

Roles and responsibilities

- 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.

STEPHEN JEFFORD
GROUP HUMAN RESOURCES DIRECTOR

Roles and responsibilities

- 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 HR matters to the Group Chief Executive Officer, ExCo and the Group Board and Remuneration Committee
- Delivers HR services to the Group.

ANDY MOSS
CHIEF EXECUTIVE, PHOENIX LIFE

Roles and responsibilities

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

WAYNE SNOW
GROUP CHIEF RISK OFFICER

Roles and responsibilities

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

SIMON TRUE
GROUP CHIEF ACTUARY

Roles and responsibilities

- 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.

QUENTIN ZENTNER
GENERAL COUNSEL

Roles and responsibilities

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

Corporate Governance Report

The Board is committed to high standards of corporate governance and the Group's Corporate Governance policy is aligned to compliance with 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 2017 with the provisions set down in the Code.

THE BOARD

The Board comprises the Non-Executive Chairman, the Group Chief Executive Officer, the Group Finance Director and eight independent Non-Executive Directors. Biographical details of all Directors are provided on pages 50 to 51.

The Board considers that the following Directors are independent: Alastair Barbour, Ian Cormack, Karen Green, Wendy Mayall, John Pollock, Belinda Richards, Nicholas Shott and Kory Sorenson. The Board has considered the criteria proposed by the Code in assessing the independence of the Directors.

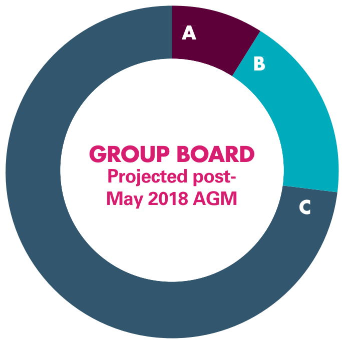
THE CHAIRMAN, GROUP CHIEF EXECUTIVE OFFICER AND SENIOR INDEPENDENT DIRECTOR

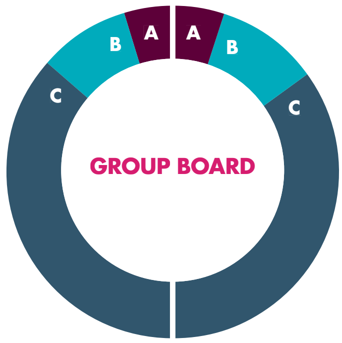
Henry Staunton is Chairman of the Board of Directors of the Company, having joined the Board as Chairman on 1 September 2015. There is a division of responsibility, approved by the Board, between the Chairman, who is responsible for the leadership and effective operation of the Board and the Group Chief Executive Officer, Clive Bannister, who is responsible to the Board for the overall management and operation of the Group. The Chairman's other commitments are set out in his biographical details on page 50. The Chairman was appointed on the basis of committing two days per week to Phoenix.

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 occurred in November 2017.

Evolution since January 2016

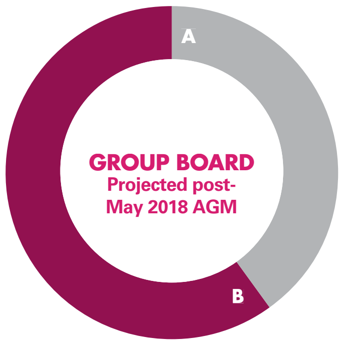
BOARD COMPOSITION

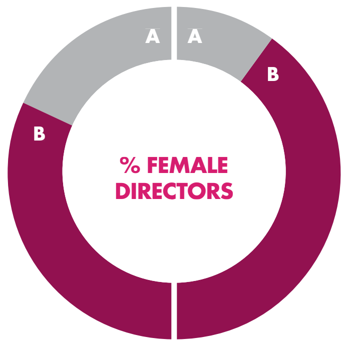




	Projected post May 2018 AGM	December 2017	January 2016
A Chairman	10%	9%	10%
B Executive Directors	20%	18%	20%
C Independent Non-Executive Directors	70%	73%	70%

BOARD GENDER DIVERSITY





	Projected post May 2018 AGM	December 2017	January 2016
A Female	40%	36%	20%
B Male	60%	64%	80%

KEY STATISTICS

	December 2017	January 2016
Market Cap	£3.1bn	£2.1bn
FTSE position	137	164
AGM votes in favour of all resolutions	May 2017 – 95%	May 2016 – 91%
UK Corporate Governance Code	Fully compliant in 2017	Fully compliant in 2016

Corporate Governance Report
continued

BOARD SUCCESSION PLANNING AND CHANGES

The Board undertakes regular reviews of executive and non-executive succession planning, as it did on several occasions in 2017, to ensure that robust plans are in place. Succession planning for executive directors and other senior management takes consideration of both external and internal markets. Please refer to the Chairman's Introduction on page 48 for details of how the Board succession planning has worked over the last two years.

BOARD EFFECTIVENESS AND INDUCTION

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 2017. The process was externally facilitated by Equity Communications, who have no connection with the Group. The process involved individual in-depth interviews between the evaluators and each Director and also the Company Secretary and Head of Strategy, who is a regular Board attendee. The interviews covered various aspects of Board, Committee and Director effectiveness, concluding in a Board report which was discussed by the Board in November 2017.

Specific key focus areas covered by the review were Performance & Strategy, Board Dynamics & Structure, and Succession. The review recommended a set of actions which will be taken forward and their progress reviewed by the Board.

All actions related to matters of Board process to support the Board's focus of successfully taking forward the Group's strategy.

– In terms of Board composition, the review stated: "You all think that the Board is greatly improved in terms of composition, and has the right balance in terms of experience and skills to be an effective Board. It is clear that Board members are highly committed and actively enjoy being part of this group of Directors."
– In terms of skills and experience, the review stated: "The Board of Phoenix Group Holdings is a good example of a solidly reliable, highly committed Board with an impressive and carefully selected range of skills and experience."
– In terms of challenge and culture for the future, the review stated: "It is clear that your Board members feel that, given the scale of challenge you have faced in the not-so-distant past, this Board with its strong culture and healthy dynamic is well placed to take PGH to its next stage."

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. All Directors receive a tailored induction on joining the Board in accordance with a process approved by the Board. The new Non-Executive Directors in 2017, Karen Green and Belinda Richards, undertook a comprehensive induction, including detailed strategic and operational briefings and information, before and following their appointments in July and October 2017 respectively. Their comments on the induction process are shown below.

INDUCTION INSIGHTS

Our two new Directors, who joined the Board in 2017, share their insights on their induction.

Karen Green

Belinda Richards

	Karen Green	Belinda Richards
WHAT DID YOUR INDUCTION INVOLVE?	The induction comprised a good mix of formal introductory sessions with the Executive team and other key Group function holders supplemented by less formal sessions and meetings at the Group's principal operating company in Wythall. Through this, I was able to get a very good feel for how the Group thinks about strategy, the risk management framework and capital/solvency considerations which underpin it at the centre, before spending a day with the life company management team in Wythall and seeing how this is executed in practice.	I spent three days meeting senior managers at the Group's head office in London in order to understand the structure and operation of the Group functions and the risk and solvency model. Following this I spent a full day at the life company in Wythall, meeting the management team and understanding more about the business operations.
WHAT WERE YOUR OVERALL IMPRESSIONS?	The induction process was very well structured and thorough. I experienced an open culture and a general willingness to arrange follow up sessions where I wanted to explore aspects of the business further. This is reflective of the culture of the Group as a whole.	I thought that the induction process at Phoenix was excellent. I have spent nearly eight years as a Non Exec in the UK Life and Pensions sector and the induction truly enabled me to get a good grasp of Phoenix's approach. The management team has been very open and helpful, and I look forward to spending more time in the business over the coming year.

OPERATION OF THE BOARD

The Board is responsible to the shareholders for the overall performance of the Group. 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; and
- 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.

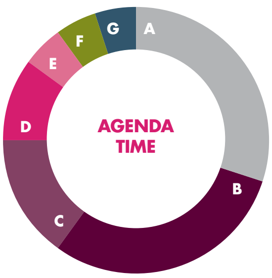
The terms of appointment for the Directors state that they are expected to attend in person regular (at least six per year) and additional Board meetings of the Company and to devote appropriate preparation time ahead of each meeting. In January 2018, the Nomination Committee reviewed the time spent by Directors and concluded that the time required of (and given by) the Company's Directors is considered at least at the level expected in their appointment terms and is believed to be high in comparison with other FTSE 250 companies.

The remuneration of the Directors is shown in the Directors' Remuneration Report on pages 63 to 87. 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 (except Ian Cormack, who is standing down from the Board) will submit themselves for election or re-election at the Company's AGM on 2 May 2018.

The Nomination Committee has confirmed it's absolute satisfaction with the time and overall commitment given to Phoenix by all Directors.

The Board met seven times during 2017 and is scheduled to meet seven times in 2018 including for 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 2017.

BOARD ALLOCATION OF AGENDA TIME



A 30%	CEO Report	Strategy, performance, governance and regulatory overview
B 30%	Strategy and Planning	Strategic and Operational planning; consideration of corporate transactions
C 15%	CFO/MI Report	Monitoring performance against objectives
D 10%	Financial Reporting	Approval of external financial reporting
E 5%	Reports from Chairs of Board, Committees and Subsidiary Boards	Audit, Nomination, Remuneration and Risk Committee activity
F 5%	Board and Board Committee Changes and Issues	Appointments, succession and performance
G 5%	Other Matters	

BOARD/COMMITTEE ATTENDANCE 2017

	Board meetings		Audit		Risk		Nomination		Remuneration	
	Maximum	Actual	Maximum	Actual	Maximum	Actual	Maximum	Actual	Maximum	Actual
Chairman										
Henry Staunton	7	7					6	6		
Executive Directors										
Clive Bannister (Group CEO)	7	7								
James McConville (Group FD)	7	7								
Non-Executive Directors										
Alastair Barbour	7	7	7	7	6	5	6	5		
Ian Cormack[3]	7	5					6	4	3	3
Karen Green[1]	4	4	2	2					3	2
Isobel Hudson[2]	3	3	3	3					3	3
Wendy Mayall	7	7			6	6				
John Pollock	7	7	4	4	6	6				
Belinda Richards[1]	2	2			2	1				
Nicholas Shott	7	7					3	3	6	6
Kory Sorenson	7	7	7	7					6	6
David Woods[2]	3	3	3	3	3	3	3	3		

1 Karen Green and Belinda Richards were appointed to the Board on 1 July and 1 October 2017 respectively.
2 Isabel Hudson and David Woods resigned from the Board on 11 May 2017.
3 Ian Cormack did not attend two Board Meetings due to other unavoidable commitments.

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

AUDIT COMMITTEE

"As we pursue our acquisition strategy, the Audit Committee will continue to focus on ensuring that robust controls are both in place and are applied across the Group."

ALASTAIR BARBOUR
AUDIT COMMITTEE CHAIRMAN

OTHER CURRENT MEMBERS
Karen Green
John Pollock
Kory Sorenson

Changes during 2017:
- John Pollock was appointed to the Committee with effect from 11 May 2017.
- Karen Green was appointed to the Committee with effect from 1 July 2017.
- Isabel Hudson was a member of the Committee up to 11 May 2017.
- David Woods was a member of the Committee up to 11 May 2017.

The composition of the Audit Committee is in accordance with the requirements of the Code and also with DTR 7.1.1AR that the majority of members should be Independent Non-Executive Directors, that at least one member of the committee has recent and relevant financial experience and the members of the Committee as a whole have competence relevant to the sector in which the Company is operating. The Audit Committee met seven times during 2017. Its meetings are attended by the Chairman of the Risk Committee (who is also a member of the Audit Committee), the Group Finance Director, the Deputy Group Finance Director, the Group Head of Internal Audit, the external auditors and usually also by the Group Chairman and the Group Chief Executive Officer. The Audit Committee holds private meetings at least annually with each of the Group Finance Director, the Group Head of Internal Audit and the external auditors.

AUDIT COMMITTEE'S ROLE

- Receiving and reviewing the Annual Report and Accounts and other financial results, statements and disclosures, although the ultimate responsibility for these matters remains 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 including approval of external auditor fees and non-audit services 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.
- Considering and approving the remit of the Internal Audit Function and reviewing its effectiveness.
- Oversight of activities of subsidiary audit committees through receipt and review of minutes, discussions between the Chairmen of the Audit Committee and subsidiary audit committees, and the Audit Committee Chairman's attendance at the Phoenix Life Audit Committee on an occasional basis, as well as his receipt of all papers going to the Phoenix Life Audit Committee. This has been enhanced through the occasional attendance at the Audit Committee by the Phoenix Life Audit Committee Chairman.

AUDIT COMMITTEE'S PRINCIPAL ACTIVITIES DURING 2017

EXTERNAL REPORTING AND CONTROLS

- Reviewed the Company's 2016 Annual Report and Accounts and 2017 Interim Financial Statements, recommending their approval to the Board, as well as related disclosures and the financial reporting process, supported by reports from management and the external auditors.
- Considered and addressed a number of significant matters in relation to the IFRS consolidated financial statements for 2016 (annual), 2017 (interim) and 2017 (annual) as summarised in the table on page 59. These matters were considered by the Audit Committee to be areas subject to the most significant levels of judgement or estimation, and identified with regard to the significant risks assessed by the Group's external auditors as set out in their audit opinion on pages 95 to 97.
- 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, the Group's ongoing viability and in support of dividend payments.
- Reviewed the Line 1 risk and controls report from management, the annual internal controls effectiveness report (and the half year update) prior to its consideration by the Board and received reports regarding consequential actions; and received a dedicated briefing on acquisition accounting and continued consideration of the future impact of IFRS17.
- Reviewed reports from Internal Audit on the control environment in the Group's outsource service providers and on the effectiveness of the internal audit work undertaken within the outsource service providers, noting that this was addressed in more detail at the Phoenix Life Audit Committee.
- Considered and noted the independence of KPMG in relation to post-acquisition audit work undertaken with regard to Abbey Life for the year ended 31 December 2016.

EXTERNAL AUDIT

- Undertook a review of the effectiveness, engagement and remuneration of the current external auditors. This culminated in a recommendation to re-appoint EY, which was approved by the Board and subsequently approved by shareholders at the May 2017 AGM – see 'Assessment of the effectiveness of the external audit process' and 'Auditor's Appointment' on page 58.
- Reviewed and monitored the independence of the external auditors including their provision of non-audit services and fees– see Auditor's Independence and External Auditor Policy on page 58.

INTERNAL AUDIT

- Assessed the effectiveness of Internal Audit, noting the positive responses received from Management.
- Approved the Group Internal Audit Proposition for 2018 and the continuation of the move from a static policy approach to a plan more focused on thematic audits based on emerging risks and topical matters.
- Approved the annual update of the Group Internal Audit Charter (which was aligned to the CIIA Code for 'Effective Internal Audit in Financial Services') 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 control environment supporting the hedging processes surrounding the EU referendum.
- Reviewed the internal audit control environment opinion which included Internal Audit's view of the risk management framework across the Group.

AUDIT COMMITTEE'S PERFORMANCE

- The Committee's performance was reviewed as part of the overall Board Evaluation Review by external facilitators, Equity Communications who stated that the Committee was "seen as high-performance."

GENERAL

- Reviewed arrangements for whistleblowing (and whistleblowing activity) should an employee wish to raise concerns, in confidence, about any possible improprieties; and approved an updated whistleblowing policy which complied with the FCA and PRA's whistleblowing rules and the appointment of the Phoenix Life Audit Committee Chairman as Whistleblowing Champion under the Senior Insurance Managers Regime.
- Reviewed and approved updates to the Group Tax Policy, Group External Auditor Policy and the Group Liquidity & Funding Policy.

AUDITOR'S APPOINTMENT

In accordance with the requirements of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, the Audit Committee undertook a competitive audit tender in 2016 to take effect for the 2017 statutory audit, which it considered to be in the best interests of its shareholders in light of the length of association with the current auditors.

The tender process in 2016 was overseen by the Audit Committee. The Audit Committee concluded, and recommended to the Board, that the incumbent audit firm, EY, should be retained as the external auditor of the Group from 2017 and supported the recommendation for the re-appointment of the external auditor for the 2017 statutory audit. EY also became auditor for Abbey Life for the first time in 2017. The current audit partner is Ed Jervis, who has held that role from the 2014 statutory audit and will rotate off that role after the 2018 statutory audit.

ASSESSMENT OF THE EFFECTIVENESS OF THE EXTERNAL AUDIT PROCESS

The effectiveness of the external audit process was assessed through the completion of a questionnaire by the key divisions and Group functions within Phoenix Group covering EY's performance during the 2016 financial reporting cycle.

AUDITOR'S INDEPENDENCE AND EXTERNAL AUDITOR POLICY

The Company has an external auditor policy 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 engagement of EY to perform any non-audit service is subject to a process of pre-approval by the Audit Committee. Furthermore, the Group's external auditor policy prescribes a limit for fees associated with non-audit services of 70% of the average statutory audit fee for the three preceding years. This aligns with requirements introduced by the EU Audit Directive and Regulations in 2016. In 2017, total fees of £6 million were paid to EY, of this amount £4.2 million related to statutory audit fees of the parent and its subsidiaries, with a further £0.9 million incurred in relation to services provided pursuant to legal or regulatory requirements. The remaining fees of £0.9 million are classified as non-audit services under the EU Directive and Regulations, and give rise to a ratio of 22% non-audit to audit fees in 2017.

The Audit Committee is satisfied that the non-audit services performed during 2017 have not impaired the independence of EY in its role as external auditor. Further information on non-audit fees is provided in Auditor's Remuneration in Notes to the IFRS Consolidated Financial Statements on page 119.

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

Significant matters in relation to the 2017 IFRS financial statements	How these issues were addressed
Review of the actuarial valuation process, to include the setting of actuarial assumptions and methodologies, and the robustness of actuarial data	– Management presented papers to the Phoenix Life Audit Committee detailing recommendations for the actuarial assumptions and methodologies to be used for the interim and year-end reporting periods with justification and benchmarking as appropriate. These assumptions and methodologies were debated and challenged by the Phoenix Life Audit Committee, with focus on longevity, persistency and expenses, prior to their approval. – A summary of these papers was presented for oversight review by the Audit Committee, and the Phoenix Life Audit Committee's conclusions were reported to the Audit Committee through minutes of its meeting and a discussion between the Chairmen of the two committees. The Audit Committee discussed, and questioned management and EY on, the content of the summary papers and the Phoenix Life Audit Committee's conclusions. – Pension assumptions for use in the IAS 19 Employee Benefits valuations were reviewed and approved by the Audit Committee prior to the finalisation of the valuation reports. – The Audit Committee received and considered detailed written and verbal reporting from the external auditors setting out their observations and conclusions in respect of the assumptions, methodologies and actuarial models.
Valuation of complex and illiquid financial assets	– Management presented papers setting out the basis of valuation of financial assets, including changes in methodology and assumptions, for the interim and year-end reporting periods to the Phoenix Life Audit Committee. The assumptions, valuations and processes, particularly for financial assets determined by valuation techniques using significant non-observable inputs (Level 3), were debated and challenged by the Phoenix Life Audit Committee prior to being approved. – The valuation information was then presented for oversight review by the Audit Committee who considered and confirmed the appropriateness of the basis of valuation.
Acquisition Accounting	– The Audit Committee considered the impact of the acquisitions of the AXA Wealth businesses and Abbey Life on the Group consolidated IFRS financial statements including consideration as to whether any adjustments were required to the initial acquisition fair values recognised. This included consideration of the adoption of Group accounting policies and methodologies by the acquired businesses. – Management presented details on the key judgement areas in deriving the acquisition balance sheets for the AXA Wealth and Abbey businesses, including the valuation of tangible net assets in accordance with IFRS 3, valuation of Acquired Value of In-Force, other intangibles and residual goodwill. – The Audit Committee considered and confirmed the appropriateness of the result of annual impairment testing carried out in respect of goodwill balances and reviews for indicators of impairment performed in respect of definite life intangibles.
Operating Profit	– The Audit Committee reviewed the allocation of key items to operating profit to ensure the allocations were in line with the Group's operating profit framework and consistent with previous practice.
Assessment of whether the Annual Report and Accounts are fair, balanced and understandable	– The Audit Committee considered an analysis of the processes and conclusions in support of management's conclusions that the Annual Report and Accounts are fair, balanced and understandable. In particular, the Audit Committee sought assurance from management and EY as to the review processes that operated over the production of the Annual Report and Accounts.
Going concern analysis	– A comprehensive going concern assessment was undertaken by the Audit Committee for the 2017 year-end and 2017 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.
Viability Statement	– The Audit Committee reviewed the process to support, and the contents of, the Viability Statement. The Committee concluded that the period covered by the Viability Statement should continue to be five years to align it to the Group's strategic plan.

Please note that references in this table to the Phoenix Life Audit Committee include the Audit Committee for the acquired Abbey Life business.

RISK COMMITTEE

"Having become Risk Committee Chairman less than a year ago, I am keen to drive a forward-looking agenda as well as maintaining and enhancing the strong Risk Management Framework and governance inherent in Phoenix."

JOHN POLLOCK
RISK COMMITTEE CHAIRMAN

OTHER CURRENT MEMBERS

Alastair Barbour
Wendy Mayall
Belinda Richards

Changes during 2017:
- David Woods was Chair of the Committee up to his resignation from the Board on 11 May 2017.
- John Pollock was appointed Chair of the Committee with effect from 11 May 2017.
- Belinda Richards was appointed to the Committee on 1 October 2017.

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, comprised totally 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 2017. Its meetings are attended by the Chairman of the Audit Committee (who is also a member of the Risk Committee), the Chief Risk Officer, the Group Head of Internal Audit and occasionally also by the Group Chairman and the Group Chief Executive Officer.

The Risk Committee advises the Board on risk appetite and tolerance in setting the future strategy, taking account of the Board's overall degree of risk aversion, the current financial situation of the Group and the Group's capacity to manage and control risks within the agreed strategy. It advises the Board on all high-level risk matters. Details of the Risk Management Framework, for which the Risk Committee has oversight, are provided in the Risk Management section on pages 32 to 34.

RISK COMMITTEE'S PRINCIPAL ACTIVITIES DURING 2017

- Reviewed the Group's risk appetite and recommended to the Board the Group's overall risk management strategy.
- Monitored progress against the 2017 Group Risk Function 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.
- Monitored implementation of the Group's Risk Management Framework in acquired entities.
- Reviewed the Group's risk profile, monitoring it against the risk categories of Market, Insurance, Credit, Financial Soundness, Customer and Operational with particular attention to risk appetite, risk trends, risk concentrations, provisions, experience against budget and key performance indicators for risk as well as contingency planning.
- Received regular updates on Cyber Security.
- Reviewed Reverse Stress Testing analysis.
- Approved updates to the Group counterparty concentration framework.
- Implemented recommendations from the Oliver Wyman Financial Risk Framework review.
- Provided oversight of, and challenge to, the design and execution of the Group's stress and scenario testing, including any changes of assumptions.
- Considered a Line 2 review of the 2018 Annual Operating Plan.
- Undertook horizon scanning to consider emerging risks that could impact the Group including more prominent badging of forward-looking work in risk papers.
- Considered risks, issues and matters that are escalated from the Phoenix Life Risk Committee and Abbey Life Risk Committee.
- Informed the Remuneration Committee regarding the management of the Group's material risks to support their consideration of executive's Annual Incentive Plan rewards.
- Provided oversight and due diligence on risk issues relating to material transactions and strategic proposals.
- Held a joint briefing session with the Phoenix Life Risk Committee.

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 14 March 2018. 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 2017, in accordance with the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' 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.

NOMINATION COMMITTEE

"I am very pleased with the Nomination Committee's role in the continual and effective renewal of skills and experience, and enhanced gender diversity, on our Board through the appointment of two new Non-Executive Directors in 2017 following three new Non-Executive Directors in 2016."

HENRY STAUNTON
NOMINATION COMMITTEE CHAIRMAN

OTHER CURRENT MEMBERS

Alastair Barbour
Ian Cormack
Nicholas Shott

Changes during 2017:
– David Woods was a member of the Committee up to 11 May 2017.
– Nicholas Shott was appointed to the Committee on 11 May 2017.

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 six times in 2017.

The standard process used by the Committee for Board appointments involves the use of an external search consultancy to source candidates external to the Group and, in the case of executive appointments, also considers 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 appointments of Karen Green and Belinda Richards in 2017. The search consultancy used in 2017 for Director appointments was The Zygos Partnership which has no other connection with the Company.

NOMINATION COMMITTEE'S PRINCIPAL ACTIVITIES DURING 2017

- Delivered recommendations to the Board for the appointments of Karen Green and Belinda Richards as Non-Executive Directors following a comprehensive search process led by the Nomination Committee with Zygos search consultancy.
- Delivered recommendations to the Board for Kory Sorenson to be appointed Board Remuneration Committee Chair and John Pollock Board Risk Committee Chair, having considered their skills and experience for the roles.
- Undertook a skills audit to re-assess the ideal blend of skills and knowledge on the Board, aligned to the Group's strategy, and taking account of Board departures. The output of this audit informed the requirements for the two new Non-Executive Director appointments in 2017.
- In conjunction with the skills audit and taking account of the Board Evaluation Review, reviewed the balance of skills, diversity, experience, independence and knowledge on the Board.
- In conjunction with the skills audit and taking account of the Board Evaluation Review, reviewed the structure, size and composition of the Board.
- Reviewed the time spent by Directors in fulfilling their duties, concluding that the time spent appeared to be high in comparison with other FTSE 250 companies.
- Reviewed the succession plan for Executive and Non-Executive Directors and recommended its approval to the Board.
- Reviewed progress updates on Diversity and Inclusion, supporting initiatives being undertaken to accelerate and enhance management diversity.

The Board's policy on diversity is as follows:

- The Board supports the enhancement of diversity, including gender, as a consideration when recruiting new Directors.
- The Board's overriding aim is to appoint the right Directors to the Board to drive forward the Group's strategy within a robustly compliant framework.
- The Board will undertake regular skills audits to ensure the Board's skills remain appropriate for its strategy and providing diversity where possible.

REMUNERATION COMMITTEE

"Our key aim is to align remuneration to the achievement of our strategy and value generation. We greatly appreciated the high level of exchange with our shareholders that we have enjoyed over the past year."

KORY SORENSON
REMUNERATION COMMITTEE CHAIR

OTHER CURRENT MEMBERS

Karen Green

Nicholas Shott

Changes during 2017:
- Kory Sorenson was appointed Chair with effect from 11 May 2017.
- Ian Cormack resigned as Chairman with effect from 11 May 2017 although remained on the Committee until 1 July 2017.
- Karen Green was appointed to the Committee with effect from 1 July 2017.
- Isabel Hudson was a member of the Committee up to 11 May 2017.

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 six times during 2017.

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 2017 are provided in the Directors' Remuneration Report on pages 63 to 87.

FIT Remuneration Consultants provided advice to the Remuneration Committee in 2017 and are independent of the Group.

Directors' Remuneration Report
Remuneration Committee Chairman's letter

DEAR SHAREHOLDER

I am delighted to write to you as the Chairman of the Remuneration Committee of Phoenix Group Holdings having served on the Committee as a member since 2014 and becoming its Chairman in May 2017. I am particularly grateful to Ian Cormack for his hard work and guidance as my predecessor in this role.

On behalf of the Board, I am pleased to present our Directors' Remuneration Report for the year ended 31 December 2017. This report covers remuneration for Executive Directors and Non-Executive Directors of the Company.

COMPANY PERFORMANCE

2017 was a year of further progression for Phoenix Group as set out in more detail in the Group Chief Executive Officer's report at the beginning of this Annual Report and Accounts. These achievements demonstrate a strong performance by the Company's management team. Accordingly, the Remuneration Committee ('Committee') concluded that the outturns of the Annual Incentive Plan ('AIP') and Long-Term Incentive Plan ('LTIP') are appropriate, as more fully described below.

Particular highlights for the year which were considered by the Committee included:

Corporate highlights

- Cash generation of £653 million in 2017, with the Group on track to achieve towards the top end of the 2017 to 2018 target range for cash generation of £1.0 billion to 1.2 billion.
- Successful integration of the AXA Wealth and Abbey Life acquisitions, realising significant cost and capital synergies from both transactions.
- Issuance of over £800 million of subordinated debt, increasing the Group's Solvency II surplus to £1.8 billion as at 31 December 2017.
- The upgrading of the Group's credit rating by Fitch Ratings in July 2017, with its two principal operating life companies, Phoenix Life Limited and Phoenix Life Assurance Limited being assigned Insurer Financial Strength ratings of 'A+'.
- Recognition for the sixth successive year, that Phoenix has been formally acclaimed as one of 'Britain's Top Employers'.

Customer highlights

- Delivery of a secure environment for the encashment of smaller policies, which allows customers to submit their application online, reducing the overall time taken for them to receive their funds.
- Further improved Financial Ombudsman Service overturn rate to 16.7%, well below the industry benchmarks.
- Strong Customer Satisfaction scores of 92%.

REMUNERATION POLICY FOR 2018

Key points are as follows:

- Shareholders gave over 99% approval to the renewal of our Directors' Remuneration Policy at the 2017 AGM.
- In Ian Cormack's letter introducing last year's Directors' Remuneration Report, he said that we would be undertaking a wider review of remuneration in 2017. Having undertaken the review and consulted with shareholders, we concluded that our current policy as approved at the 2017 AGM remains appropriate. We are thus not seeking to amend our policy at the 2018 AGM.
- Following the review, however, the Committee determined that a broader range of metrics for both the AIP and LTIP should be introduced given the evolving nature of the Company. This will ensure that management incentives continue to be aligned to the success of the Company and the experience felt by the shareholder.
- To this end, the Committee has included two new metrics in the AIP to complement the existing cash generation metric:
  - **Adjusted Shareholder Solvency II Own Funds** to balance short-term cash release with the preservation of long-term value. Calculated as Shareholder Solvency II Own Funds minus subordinated debt, it is a transparent proxy measure of value, based on publicly disclosed information that can be used to determine value generation.
  - **Management Actions** are those measures taken by management to increase cash generation and long-term value which are relatively insensitive to external factors and the natural unwind of the closed life assurance funds. Management Actions are a key performance indicator for the Group, tracked closely by management, the Board and investors to assess the success of management's execution of our strategy. The total figure relating to Management Actions is published annually in the Annual Report and Accounts.
- At the same time, to reflect feedback received from our shareholders during our consultation at the end of 2017, we have increased the weighting on Corporate measures within the AIP to 80% (from 70% in 2017) and correspondingly reduced the weighting on Personal measures to 20% (from 30% in 2017).
- With respect to the LTIP, the Committee has also included the Adjusted Shareholder Solvency II Own Funds metric, again to reflect the more balanced scorecard between year-on-year cash generation and long-term value that we are aiming to achieve.

The metrics for 2018 onwards are set out below. The metrics for 2017 have been provided for reference only.

ANNUAL INCENTIVE PLAN ('AIP') FOR 2018

	Weightings	
Metric	2017	2018 onwards
Cash Generation	50% (71% of Corporate component)	24% (30% of Corporate component)
Adjusted Shareholder Solvency II Own Funds	–	24% (30% of Corporate component)
Management Actions	–	12% (15% of Corporate component)
Customer Experience	20% (29% of Corporate component)	20% (25% of Corporate component)
Personal Objectives	30%	20%

LONG-TERM INCENTIVE PLAN ('LTIP') FOR 2018

	Weightings	
Metric	Current	2018 onwards
Cash Generation	50%	40%
Return on Adjusted Shareholder Solvency II Own Funds	–	35%
TSR	50%	25%

These modifications are permitted within our current policy, so no formal resolution is required. However, we engaged with our largest shareholders and their representative bodies to validate this approach before introducing these changes and received positive feedback.

Following the year-end, Phoenix announced a proposal to acquire Standard Life Assurance. Consistent both with best practice guidelines and with past practice at Phoenix, following completion, the Committee will review any adjustments to the targets within our variable pay plans (including the potential to review in-flight LTIP targets) that might be necessary to ensure that the plans operate as originally intended and properly reflect our aim to reward long-term value generation for our shareholders. Given the scale of the proposed acquisition, the Committee will of course review our reward policy to ensure that it remains appropriate for the dynamics of the new business.

The Committee values greatly the support that we have received from our shareholders in recent years, and hopes that the modifications that we have made within the scope of our policy, as explained in this Directors' Remuneration Report, will receive their support and they will vote in favour of the resolutions proposed at the 2018 AGM.

Yours sincerely,

Kory Sorenson

KORY SORENSON
REMUNERATION COMMITTEE CHAIR

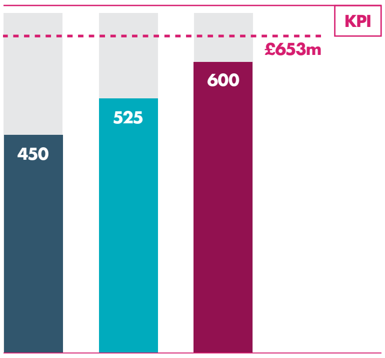
14 March 2018

Directors' Remuneration Report
At a glance

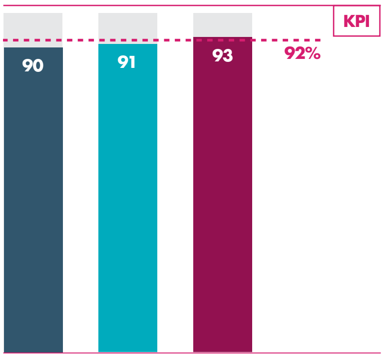
HOW WE PERFORMED IN 2017
GROUP PERFORMANCE MEASURES
Annual Incentive Plan ('AIP'):

Below we show the target ranges and outturn against the metrics within the 2017 AIP. More details of the 2017 AIP can be found on page 71. AIP metrics that are stated Group KPIs are flagged below and evidences the direct link between Company strategy and remuneration outcomes.

OPERATING COMPANIES' CASH GENERATION (£m)



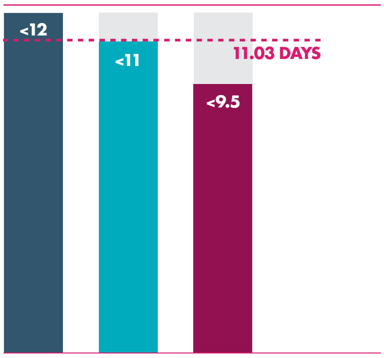
CUSTOMER SATISFACTION (%)



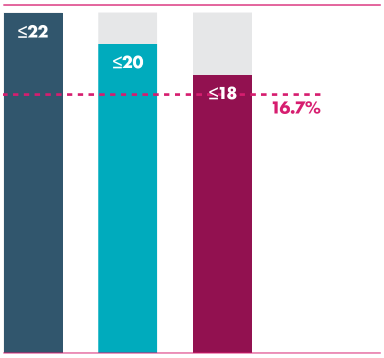
CAT. A INCIDENT CLOSURES (%)

Threshold level for AIP   Target level for AIP   Maximum level for AIP   ---- Performance

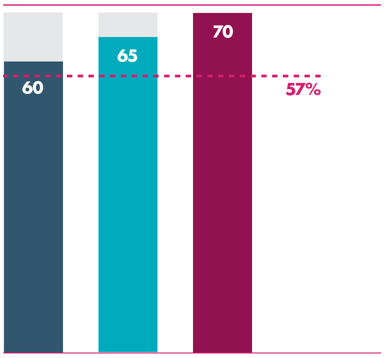
ORIGO TIMESCALES (DAYS)



FOS OVERTURN RATE (%)[1]



SERVICING COMPLAINT CLOSURE (%)



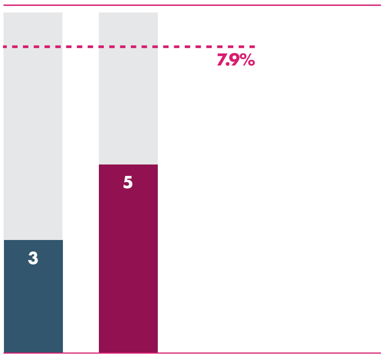
Threshold level for AIP   Target level for AIP   Maximum level for AIP   ---- Performance

1 See Note 5 on page 71 for detail of the FOS Overturn Rate used in the AIP.

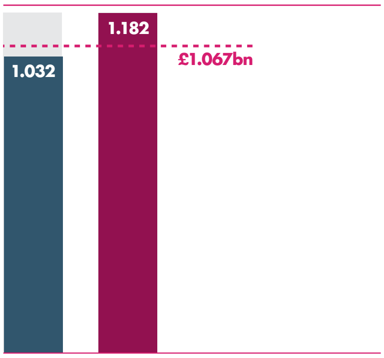
Long-Term Incentive Plan ('LTIP'):

Below, we show outturn against the measures which apply for the 2015 LTIP awards which are reflected in the Single Figure Table on page 70. Embedded value growth, cumulative cash generation and TSR performance are shown over the 3-year performance period (financial years 2015, 2016 and 2017). TSR is measured against the constituents of the FTSE 250 (excluding Investment Trusts), with median being the 50th percentile and upper quintile the 80th percentile.

GROWTH IN EMBEDDED VALUE (%)

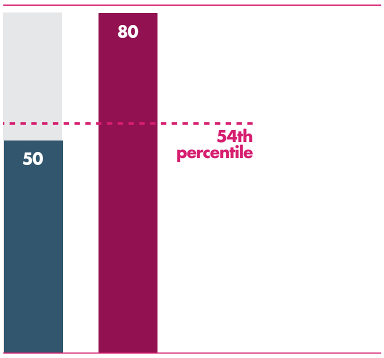


CUMULATIVE CASH GENERATION (£bn)



Threshold target   Maximum target   ---- Performance

TOTAL SHAREHOLDER RETURN (Percentile)

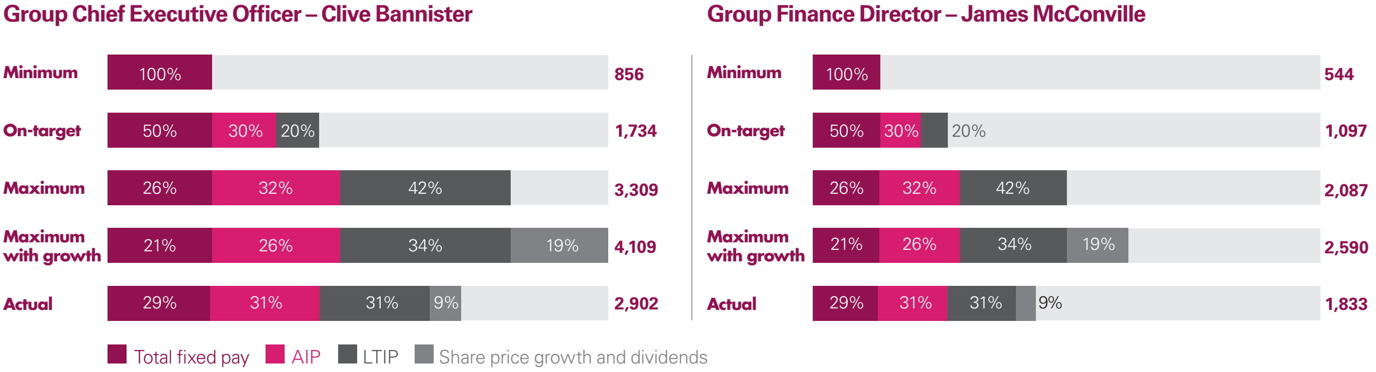


Median   Upper quintile   -- Performance

HOW MUCH THE EXECUTIVE DIRECTORS EARNED IN 2017 (£000)

The charts below compare the maximum levels of Total Remuneration payable under the Directors' Remuneration Policy (see page 80) and the actual payments for 2017 detailed in the Single Figure Table.

TOTAL REMUNERATION OPPORTUNITY (£000)



- Minimum, on-target and maximum represent the scenario charts required by the Directors' Remuneration Policy – see the data assumptions below which are unchanged from our 2016 Directors' Remuneration Report (as no element of our Executive Directors' Remuneration has been changed).
- Maximum with growth is the maximum scenario, but with the LTIP element increased to reflect a 10% CAGR share price growth assumption and assumed current dividend yields being maintained for three years until LTIP vesting. The element of the total representing the value from these assumptions on share price growth and dividends is shown separately.
- Actual represents the values shown in the 2017 Single Figure Table. Within this, the actual share price growth and dividends in the three-year period until LTIP vesting are shown separately.

Name	Base salary £000	Benefits £000	Pension £000	**Total fixed £000**
Clive Bannister	700	16	140	**856**
James McConville	440	16	88	**544**

Minimum	Consists of base salary, benefits and pension: – Base salary is the salary to be paid in 2018 (unchanged from 2017). – Benefits measured as benefits paid in 2017 as set out in the Single Figure Table. – Pension measured as the full entitlement of 20% of base salary receivable either as a pension contribution or as cash, and ignoring the reduction to payments made in cash for employers' national insurance contributions.
On-target	Based on what the Executive 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). In addition, the potential value of Sharesave and Share Incentive Plan ('SIP') participation is also recognised.
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 (normal award 200% of base salary). Sharesave and SIP valued on the same basis as in the on-target row.

Directors' Remuneration Report
continued

INTRODUCTION

This report contains the material required to be set out as the Directors' Remuneration Report ('Remuneration Report') for the purposes of Part 4 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, which amended The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('the DRR regulations').

The Company has complied with the DRR regulations as a matter of good practice although it is not strictly required to do so as a non-UK incorporated quoted company.

DIRECTORS' REMUNERATION POLICY

The Directors' Remuneration Policy ('Remuneration Policy') was approved by the Company's shareholders at the Company's AGM on 11 May 2017 and has been in effect for all payments made to Directors from that date. The Remuneration Policy is included at the end of this Remuneration Report for information and ease of reference – it is not subject to the advisory vote on the Remuneration Report at the 2018 AGM. Within the Remuneration Policy, the 'scenario charts' have been deleted as this material is now reproduced in the 'At a Glance' section of this report on page 64.

The Remuneration Policy is also available within the Remuneration Committee ('Committee') section under Board Committees on the Company's website.

ANNUAL IMPLEMENTATION REPORT – UNAUDITED INFORMATION

IMPLEMENTATION OF REMUNERATION POLICY IN 2018

Element of Remuneration Policy	Detail of Implementation of Policy for 2018
Base Salary	Base salaries are set by reference to appropriate market comparables. Salaries in 2018 will remain unchanged at £700,000 for the Group Chief Executive Officer (unchanged from 2011) and £440,000 for the Group Finance Director (unchanged from 2014). This means that their salaries will not have increased for seven and four years respectively.
Benefits	There are no proposed changes to the benefits offered to Executive Directors in 2018.
Pension	There are no proposed changes to the pension benefits offered to Executive Directors in 2018.
Annual Incentive Plan ('AIP')	The AIP for 2018 will operate on a basis that is consistent with how the AIP operated in 2017, although there have been changes to the precise measures and weightings of the Corporate (financial and strategic) performance measures to reflect our evolving business focus, and to the percentage weighting for Corporate versus Personal measures to reflect feedback from investors.

The AIP maximum potential and on-target levels remain unchanged at 150% of base salary and at 50% of maximum levels (75% of base salary) respectively.

The overall weightings between Corporate and Personal performance measures for AIP in 2018 are:

- Corporate (financial and strategic) performance measures – 80% (2017: 70%).
- Personal (individual objectives) – 20% (2017: 30%).

The weightings of the AIP performance measures for 2018 are summarised below:

Performance measure	% of incentive potential
Corporate measure	
Operating Companies' Cash Generation	(30% of Corporate component) 24%
Adjusted Shareholder Solvency II Own Funds	(30% of Corporate component) 24%
Management Actions	(15% of Corporate component) 12%
Customer Experience	(25% of Corporate component) 20%
Personal	
Individual Objectives	20%
TOTAL	**100%**

The changes made from 2017's Corporate performance measures for AIP are designed to provide a more balanced scorecard that better aligns remuneration to the success of the Company and the experience felt by the shareholder:

- **Adjusted Shareholder Solvency II Own Funds** has been added as a new performance measure to balance short-term cash release with the preservation of long-term value. Calculated as Shareholder Solvency II Own Funds minus subordinated debt, it is a transparent proxy measure of value based on publicly disclosed information that can be used to determine value generation.
- **Management Actions** has been added as a new performance measure. Management Actions are those measures taken by management to increase cash generation and long-term value which are relatively insensitive to external factors and the natural unwind of the closed life assurance funds. Management Actions are a key performance indicator for the Group, tracked closely by management, the Board and investors to assess the success of management's execution of our strategy. The total figure relating to Management Actions is published annually in the Annual Report and Accounts.

Element of Remuneration Policy	Detail of Implementation of Policy for 2018
Annual Incentive Plan ('AIP') (continued)	– To reflect feedback received from our shareholders during our consultation at the end of 2017, we have also increased the weighting on corporate measures within the AIP to 80% (from 70% in 2017) and correspondingly reduced the weighting on personal measures to 20% (from 30% in 2017). Outcomes from performance measures for 2018's AIP may be moderated by the Committee in line with the approved Remuneration Policy. This will include a review by the Committee that the Company has operated within its stated risk appetite and that there are no other risk-related concerns before any 2018 AIP outcomes are confirmed. The targets for the specific performance measures for AIP in 2018 are regarded as commercially sensitive by the Company but will be disclosed retrospectively in the Remuneration Report for 2018. 40% of AIP outcomes for 2018 will be delivered as an award of deferred shares under the Deferred Bonus Share Scheme which will vest after a three-year deferral period.
Deferred Bonus Share Scheme ('DBSS')	DBSS awards made in 2018 (in respect of 2017's AIP outcome) will be made automatically on the fourth dealing day following the announcement of the Company's 2017 annual results in accordance with the Remuneration Policy. The number of shares for DBSS awards will be calculated using the average share price for the three dealing days before the grant of the DBSS awards. The three-year deferral period will run to the three-year anniversary of the making of the DBSS awards. Dividend entitlements for the shares subject to DBSS awards will accrue over the three-year deferral period.
Long-Term Incentive Plan ('LTIP')	Awards under the LTIP will be made automatically on the fourth dealing day following the announcement of the Company's 2017 annual results under a procedure similar to that described above for awards under the DBSS. The number of shares for LTIP awards will be calculated using the average share price for the three dealing days before the grant of the LTIP awards. The initial three-year vesting period will run to the three-year anniversary of the making of the LTIP awards. At this time, the performance conditions will be determined. All annual LTIP awards made to Executive Directors are subject to a holding period so that any LTIP awards for which the performance conditions are satisfied will not be released for a further two years from the third anniversary of the original award date. Dividend accrual for LTIP awards will continue until the end of the holding period. Award levels for Executive Directors for 2018 are unchanged at 200% of base salary. The weightings of the LTIP performance measures for 2018 are summarised below:

Performance measure	Weighting of performance measure
Cumulative cash generation	40%
Return on Adjusted Shareholder Solvency II Own Funds	35%
TSR	25%
TOTAL	**100%**

Long-Term Incentive Plan ('LTIP') (continued)	Return on Adjusted Shareholder Solvency II Own Funds is included as an LTIP measure for 2018 awards as it is a proxy value metric and thus rewards the preservation of long-term value as a balance to year-on-year cash generation. The performance measures are measured over a period of three financial years, commencing with financial year 2018. All 2018 LTIP awards are subject to a further underpin measure relating to debt and risk management within the Group, consideration of customer satisfaction and, to meet Solvency II requirements, in exceptional cases, personal performance. These measures and the relative weightings are considered to be appropriate for 2018's LTIP awards. The relative TSR measure is calculated against the constituents of the FTSE 250 (excluding Investment Trusts), with vesting commencing at median (where 25% of this part of the award vests) and full vesting at upper quintile levels, subject to an underpin regarding underlying financial performance. The performance targets for the Cumulative cash generation measure are £1,474 million (where 25% of this part of the award vests) and £1,674 million (full vesting of this part of the award). The performance targets for the return on Adjusted Shareholder Solvency II Own Funds measure are 4% in excess of the risk-free rate (where 25% of this part of the award vests) and 6% in excess of the risk-free rate (full vesting of this part of the award).
All-Employee Share Plans	Executive Directors have the opportunity to participate in HMRC tax advantaged Sharesave and Share Incentive Plans on the same basis as all other UK employees.
Shareholding requirements	Requirement levels are 200% of base salary for the Executive Directors. Where any performance vested LTIP awards are subject to a holding period requirement, the relevant LTIP award shares (discounted for anticipated tax liabilities) will count towards the shareholding requirements. Unvested awards under the LTIP and DBSS are not included in this assessment. Details of current shareholding levels are shown on page 77.

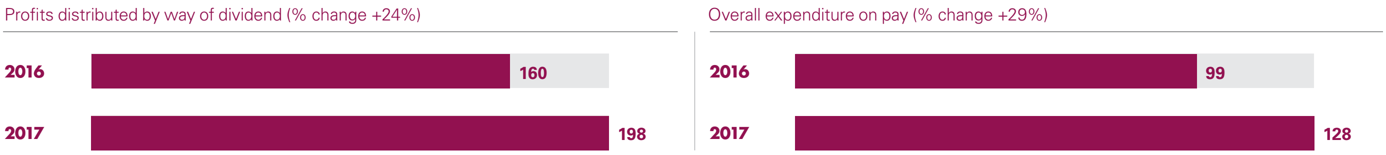
Element of Remuneration Policy	Detail of Implementation of Policy for 2018
Chairman and Non-Executive Directors’ fees	Fee levels for the Chairman are £325,000. Whilst the base for Non-Executive Directors remains unchanged, following a market review carried out in 2017, it was considered appropriate to make certain increases. As a result, with effect from 1 July 2017, the fees for serving as Senior Independent Director (‘SID’) increased from £5,000 to £10,000 and the fee for chairing each of the Audit, Remuneration and Risk Committees increased from £10,000 to £20,000. The fee levels for 2018 are £325,000 for the Chairman (although as part of our normal governance process this fee will be reviewed in 2018), £105,000 for the role of Non-Executive Director with additional fees of: (i) £10,000 payable for the role of SID; and/or (ii) £20,000 payable where an individual also chairs the Audit, Remuneration or Risk Committee; and/or (iii) £20,000 payable where a Non-Executive Director also serves on the board of a subsidiary company; and/or (iv) £10,000 payable for service on the Solvency II Model Governance Committee.

Note: All incentive plans are subject to malus/clawback. See page 85 ‘Notes to the Remuneration Policy’ for details.

DISTRIBUTION STATEMENT

The DRR regulations require each quoted company to provide a comparison between profits distributed by way of dividend and overall expenditure on pay.

RELATIVE IMPORTANCE (£ millions)



Profit distributed by way of dividend has been taken as the dividend paid and proposed in respect of the relevant financial year. For 2017 this is the interim dividend paid (£99 million) and the recommended final dividend of 25.1p per share multiplied by the total share capital issued at the date of the Annual Report as set out in note D1 in the notes to the consolidated financial statements. No share buy-backs were made in either year.

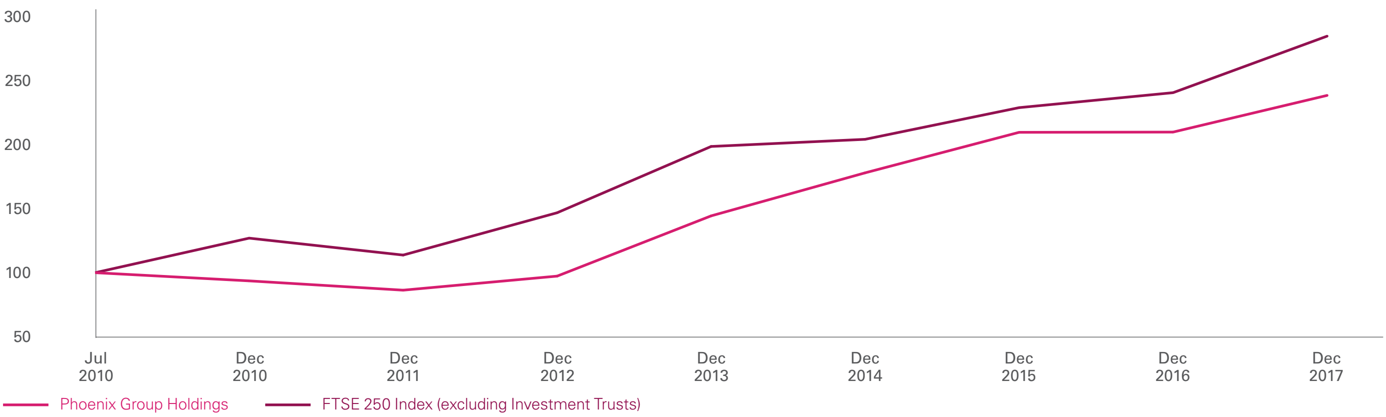
Overall expenditure on pay has been taken as the employee costs as set out in note C2 ‘Administrative expenses’ in the notes to the consolidated financial statements. Expenditure on pay has increased by 29%, primarily due to the current year expenditure including a full year of costs for both the acquired AXA Wealth and Abbey Life businesses, whereas 2016 included only two months of costs for AXA Wealth and none for Abbey Life. This expenditure excludes redundancy costs which are included within ‘restructuring and integration costs’ in note C2. The year-on-year increase excluding the AXA Wealth and Abbey Life costs is 7%, which reflects small increases in share-based payment costs (see note I2) and AIP costs, and also the impact of the salary increase for staff during the year.

PERFORMANCE GRAPH AND TABLE

The graph below shows the value to 31 December 2017 on a TSR basis, of £100 invested in Phoenix Group Holdings on 5 July 2010 (the date of the Company’s Premium Listing) compared with the value of £100 invested in the FTSE 250 Index (excluding Investment Trusts).

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

TOTAL SHAREHOLDER RETURN



Source: Thomson Reuters Datastream

The DRR regulations also require that a performance graph is supported by a table summarising aspects of the Group Chief Executive Officer’s remuneration for the period covered by the above graph (which will in due course be for a period of ten years).

GROUP CHIEF EXECUTIVE OFFICER REMUNERATION

		Single figure of total remuneration (£000)	Annual variable element award rates against maximum opportunity ('AIP')	Long-term incentive vesting rates against maximum opportunity ('LTIP')
2017	Clive Bannister	2,902	86%	64%
2016	Clive Bannister	2,878[1]	84%	55%
2015	Clive Bannister	2,867	82%	57%
2014	Clive Bannister	3,104	68%	57%[2]
2013	Clive Bannister	2,737	69%	67%[2]
2012	Clive Bannister	1,583	69%	n/a[3]
2011	Clive Bannister[4]	1,333	73%	n/a[3]
	Jonathan Moss[4,5]	704	n/a	n/a
2010	Jonathan Moss	2,307	88%	100%

1 The single figure of total remuneration for 2016 has been restated and now reflects the actual price of shares on the day the 2014 LTIP vested (26 March 2017: 787.5p per share) rather than the three-month average share price to 31 December 2016 (730.0761p per share) which was required to be used last year for the single figure of total remuneration.

2 The long-term incentive vesting rate for 2013 is shown at 67% and for 2014 is shown as 57%. In both years the Group Chief Executive Officer decided to waive voluntarily any entitlement in excess of two-thirds of the shares which would otherwise have vested.

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 left the role of Group Chief Executive Officer on 7 February 2011 and left Phoenix 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.

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

PERCENTAGE CHANGE IN PAY OF THE GROUP CHIEF EXECUTIVE OFFICER 2016 TO 2017

In accordance with the DRR regulations, the table below provides a comparison of the percentage change in the prescribed pay elements of the Group Chief Executive Officer (salary, taxable benefits and annual incentive outcomes) between financial years 2016 and 2017 and the equivalent percentage changes in the average of all staff (representing all permanent staff during 2016 and 2017 on a matched basis). This group was selected as being representative of the wider workforce using the same process as was used for this comparison in last year's annual report and accounts.

Year-on-year % change	Salary	Taxable Benefits	Annual incentive	Total
Group Chief Executive Officer	0.00%	0.29%	2.16%	1.20%
Staff	3.76%	3.03%	3.77%	5.34%

Overall the data shows minimal change in the level of remuneration for the Group Chief Executive; the small increase in annual incentive being due to a higher outcome under the Corporate element of the AIP. Staff more generally have experienced a small overall increase, due in part again to higher outcomes under the Corporate element of the AIP. The increase in taxable benefits reflects an increase in the cost of funding private medical insurance for eligible employees to maintain their same level of benefit. The median salary increase for staff was 2.25%; this is lower than the figures above which are based on averages.

VOTING OUTCOMES FROM THE 2017 AGM

The table below shows the votes cast to approve the Directors' Remuneration Report for the year ended 31 December 2016 and to approve the Directors' Remuneration Policy at the 2017 AGM held on 11 May 2017.

	For		Against		
	Number	% of votes cast	Number	% of votes cast	Abstain Number
To approve the Directors' Remuneration Report for the year ended 31 December 2016	296,340,105	99.70	883,405	0.30	95,909
To approve the Directors' Remuneration Policy	296,336,785	99.67	976,191	0.33	2,243

DILUTION

The Company monitors the number of shares issued under the Phoenix Group employee share plans and their impact on dilution limits. The Company's practice is for all the executive share plans to use market purchase shares on exercise of any awards. For the Company's Sharesave scheme only, new shares are issued. Therefore the usage of shares compared to the relevant dilution limits set by the Investment Association in respect of all share plans as at 31 December 2017 is 0.68%, and no shares count towards the dilution limit for executive plans only (5% in any rolling ten-year period).

Directors' Remuneration Report
continued

CONSIDERATION OF EMPLOYEE PAY

When determining Executive Directors' remuneration, the Committee takes into account pay throughout the Group to ensure that the arrangements in place remain appropriate.

As required by Solvency II regulations, the Group has one consistent reward policy for all levels of employees, and this policy is made available to all staff. Therefore, the same reward principles guide reward decisions for all Group employees, including Executive Directors, although remuneration packages differ to take into account appropriate factors in different areas of the business:

- **Fixed Pay** – the Remuneration Committee reviews the average Group-wide base salary increase each year. All employees are paid at least the Living Wage as set by the Living Wage Foundation. All Group employees are invited to participate in the Company's Group Pension Plan or contributory defined contributions pension arrangement in accordance with the plans that are open at that time. Death in service benefits are provided for all staff.
- **Benefits** – All Group employees have access to a range of benefits under our flexible benefits scheme and, from 2018, all are eligible to receive private medical insurance cover.
- **AIP** – all Group employees participate in the AIP, although the quantum and balance of corporate to individual objectives varies by grade (and may also vary between different business lines). The most senior staff are subject to the regulatory requirements of Solvency II, and these individuals also receive part of their bonus in Company shares deferred for a period of three years. A different scorecard of AIP performance measures applies for employees in 'control functions' (risk, compliance, internal audit and actuarial) to exclude financial performance measures.
- **LTIP** – our most senior employees participate in the LTIP currently based on the same performance conditions as those for Executive Directors, although the Committee reserves the discretion to vary the performance conditions for awards made to employees below Board level or to grant restricted stock for future awards to such employees. In addition, selected individuals may receive ad-hoc share awards contingent on continued employment. More bespoke incentive plans may be operated in stand-alone subsidiaries.
- **All-employee share plans** – the Committee considers it important for all employees to have the opportunity to become shareholders in the Company. The Company offers two HMRC tax advantaged arrangements in which all UK employees can participate and acquire shares on a discounted and tax advantaged basis (Sharesave and SIP).

The Remuneration Committee acknowledges requests from, amongst others, the Investment Association, for companies to publish ratios comparing CEO to employee pay in remuneration reports. Once a common methodology is determined the Company's expectation is that it will publish ratios showing comparisons in future years.

IMPLEMENTATION REPORT – AUDITED INFORMATION

SINGLE FIGURE TABLE

	Salary/fees[1]		Benefits[2]		Annual Incentive[3]		Long-term incentives		Pension[6]		Total	
£000	**2017**	2016[5]	**2017**	2016	**2017**	2016	**2017[4]**	2016[5] (restated)	**2017**	2016	**2017**	2016[5] (restated)
Clive Bannister	**700**	700	**16**	16	**902**	883	**1,161**	1,156	**123**	123	**2,902**	2,878
James McConville	**440**	440	**16**	16	**567**	555	**733**	727	**77**	77	**1,833**	1,815

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

2 Benefits for Clive Bannister comprise car allowance and private medical insurance totalling £16,157. Benefits for James McConville comprise car allowance and private medical insurance totalling £15,926.

3 Annual incentive amounts are presented inclusive of any amounts which must be deferred into shares for three years (i.e. 40% of the AIP award for 2017; 33.33% for 2016). In 2017 and 2016, £360,835 and £294,490 respectively of Clive Bannister's incentive payment is subject to three-year deferral delivered in shares, and £226,810 and £185,108 of James McConville's incentive payment is subject to a similar deferral. Details of the performance measures and targets applicable to the AIP for 2017 are set out below.

4 In accordance with the requirements of the DRR regulations, the 2017 value for long-term incentives is an estimate of the vesting outcomes for LTIP awards granted in 2015 and which are due to vest on 28 September 2018 for Clive Bannister and James McConville. These estimated vesting levels are at 64.28% reflecting outcomes against the embedded value growth, cumulative cash generation and TSR performance measures to 31 December 2017 (see page 72) and assumptions regarding dividends for the period until vesting. This vesting outcome is then applied to the average share price between 1 October 2017 and 31 December 2017 (759.8462p) to produce the estimated long-term incentives figures shown for 2017 in the above table. These assumptions will be trued up for actual share prices and dividends on vesting in the report for 2018. For James McConville the total also includes the intrinsic gain made on a Sharesave option granted on 13 April 2017 when the share price was 747p.

5 For 2014's LTIP awards which are reflected in the 2016 long-term incentives column above, the performance conditions were met as to 55% of maximum. The 2016 long-term incentives values in the above table reflect the value of the Company's shares on the date of vesting which was 26 March 2017 (787.5p per share) multiplied by the number of shares vesting, whereas the equivalent figure within the published 2015 Single Figure Table was an estimate which reflected the average share price between 1 October 2016 and 31 December 2016 (730.0761p per share) and certain assumptions regarding the cumulative value of dividends on the number of shares vesting.

6 Clive Bannister and James McConville are entitled to each receive a Company pension contribution of 20% of base salary, which may at their own choice, be paid to their Group Personal Pension ('GPP') or received in cash. Pension contributions paid as cash supplements are reduced for the effect of employers' National Insurance contributions. Both Clive Bannister and James McConville received the pension contributions as cash supplements. No Director participated in a defined benefit pension arrangement in the year.

There were no payments made to former Directors and no payments for loss of office in the year.

AIP OUTCOMES FOR 2017

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

Against the specific Corporate measures, outturns were as follows:

Performance measure	Threshold performance level for 2017 AIP	Target performance level for 2017 AIP	Maximum performance level for 2017 AIP	Performance level attained for 2017 AIP	% of incentive potential based on Performance Measure	% achieved
Operating companies' cash generation	£450m	£525m	£600m	£ 653m	71.43	71.43%
Customer experience						
Customer satisfaction[1,6]	90%	91%	93%	92%	8.57	6.43%
Origo timescales[2]	<12 days	<11 days	<9.5 days	11.03 days	8.57	4.16%
CAT A incident closures[3,6]	80%	82.5%	85%	100%	5.71	5.71%
Servicing complaint closure[4]	60%	65%	70%	57%	2.86	–
FOS overturn rate[5,6]	<=22%	<=20%	<=18%	16.7%	2.86	2.86%
Total					100.00	90.59%

1 The rating is a customer satisfaction score based on the results of a satisfaction survey managed by Ipsos MORI (an external research firm). Customers surveyed were asked to give a satisfaction rating of between 1 and 5 to a number of questions (with a rating of 4 or 5 regarded as satisfied). 92% of all questions asked scored a rating of 4 or above.

2 The Origo Options service is a recognised industry-wide initiative for processing Pension Transfers to ensure payments are made in a timely fashion. The service has set a benchmark standard of a 12 calendar day average elapsed time for processing transfers.

3 This measure looks at the resolution of incidents for which there could be customer detriment (financial or non-financial). It measures the timeliness of actions when things go wrong.

4 This measure looks at servicing (i.e. not product or advice) complaints which are closed within three days.

5 This measure looks at the proportion of cases where the Financial Ombudsman Service disagrees with our decision making in dealings with customers or an aspect of it. For the AIP the FOS overturn rate is calculated based on an average of the H1 current year and H2 prior year rates. This is due to the timing of when the FOS rates are published. The 17.0% FOS overturn disclosed in the KPI section on page 19 is the latest available 2017 year end position and includes our newly acquired businesses.

6 Excludes the AXA Wealth and Abbey Life operating business. All five customer experience measures in 2018 will include the performance of the AXA Wealth and Abbey Life businesses.

Before confirming these outcomes for the 2017 AIP, the Committee undertook a review which confirmed that the Company had operated within its stated risk appetite during the year and that there were no other risk-related concerns that required the moderation of 2017 AIP outcomes.

Personal objectives were agreed by the PGH Board and shared with the Remuneration Committee at the start of the year.

The Board regards a number of the personal objectives set for the Executive Directors as commercially sensitive and, accordingly, it is not appropriate for such objectives to be disclosed. However a number of achievements for the Executive Directors are shown below:

– Executive Director Strategic Achievements:

In addition to the significant achievements of meeting all financial KPIs (including in relation to expense management), exceeding staff engagement target levels, and maintaining a satisfactory risk and control environment across the Group, further specific individual achievements by the Executive Directors which were considered by the Remuneration Committee included the following:

– Clive Bannister:
  - Progression of our on-shoring strategy enabling the announcement to the market of this major corporate restructure;
  - Maintaining a rigorous discipline in delivering across the full range of Phoenix KPI's ;
  - Successful integration of AXA Wealth and Abbey Life delivering favourable synergies and value to the Group; and
  - Sustaining a strategy that balances opportunity, value, and price discipline in reviewing assets in the Closed Life sector.

– James McConville:
  - Strengthened the Group's investor coverage with an increase from 9 to 12 in the number of analysts covering Phoenix;
  - Delivery of the Group's debt strategy including over £800m of subordinated debt issuance;
  - Securing an improved credit rating for the Group; and
  - As Chairman of the Group's Diversity and Inclusion ('D&I') Committee, promoting commitments under the Women in Finance Charter and spearheading the implementation of a programme of initiatives to help women achieve promotion to senior roles.

For the Personal objectives element of 2017 AIP, the performance of both the Executive Directors was discussed with the Board, and the Remuneration Committee considered individual performance in light of their objectives, on the basis of a 5-point scale, separately assessing both 'what' was achieved and 'how' it was delivered, with equal weightings given to each assessment.

Taking account of the attainment of objectives, each of the Group Chief Executive Officer and the Group Finance Director received a 75% payout for this element, consistent with their ratings for 2017.

The table below shows the actual outturn against the annual incentive maximum. For 2017 AIP, Corporate (financial and strategic) measures applied to 70% of incentive opportunity and Personal (individual objectives) measures applied to 30% of incentive opportunity.

	Corporate		Personal		Total	Maximum
Name	As a % of maximum corporate element	As a % of salary	As a % of maximum personal element	As a % of salary	As a % of salary	As a % of salary
Clive Bannister	90.59	95.12	75.00	33.75	128.87	150.00
James McConville	90.59	95.12	75.00	33.75	128.87	150.00

As described in the Annual Implementation Report for AIP 2018 on page 67, 40% of 2017 AIP outcomes will be delivered as an award of deferred shares under the Deferred Bonus Share Scheme which will vest after a three-year deferral period.

In addition, whilst the performance measures for the AIP for 2018 have been disclosed (see Implementation of Remuneration Policy for 2018), the performance targets for these measures are regarded as commercially sensitive at the current time and accordingly are not disclosed. However, the Company intends to disclose the performance targets for 2018's AIP retrospectively in next year's Remuneration Report on a similar basis to the disclosures made above in respect of 2017's AIP.

LTIP OUTCOMES FOR 2015 AWARDS

Performance measure and weighting	Target range	Performance achieved	Vesting outcome	% achieved
Embedded Value growth[1] (40%)	Target range between Embedded Value growth in excess of the risk-free rate by 3% per annum and Embedded Value growth in excess of the risk-free rate by 5% per annum.	7.9%	100%	40.00%
Cumulative cash generation (40%)	Target range between Cumulative cash generation of £1.032 billion and Cumulative cash generation of £1.182 billion.	1.067bn	43%	17.02%
TSR (20%)	Target range between median performance against the constituents of the FTSE 250 (excluding Investment Trusts) rising on a pro rata basis until full vesting for upper quintile performance. In addition, the Committee must consider whether the TSR performance is reflective of the underlying financial performance of the Company.	54th	36%	7.26%
Total				64.28%

1 As disclosed on page 68 of the 2015 Directors' remuneration report, with the introduction of Solvency II, Phoenix no longer reports MCEV.
MCEV growth for the Company's LTIP is measured using a combination of the growth in balance sheet values plus the value of dividends paid over a three-year performance period. As MCEV is no longer reported by Phoenix from 31 December 2015, for the proportion of the 2015 LTIP awards subject to an MCEV growth measure, the Remuneration Committee considered it appropriate to measure the balance sheet element of MCEV growth using growth in MCEV over the period of one financial year to 31 December 2015 as reported, and then deriving the growth rate for the 2016 and 2017 financial years by using the percentage growth in Solvency II Own Funds, which has been adjusted for Solvency II specific items ('Adjusted Shareholder Solvency II Own Funds'). Adjusted Shareholder Solvency II Own Funds is considered appropriate as it is the economic value of an entity calculated on a Solvency II basis. With the addition of dividends paid over the period to 31 December 2017, the MCEV growth achieved for the 2015 LTIP awards was 7.9%.

The above targets were all measured over the period of three financial years 1 January 2015 to 31 December 2017.

In addition to the above targets, the Committee confirmed that the underpin performance condition relating to debt levels and associated interest costs, and management of debt, capital restructuring and risk management within the Group (as described more fully on page 75 had been achieved in the performance period.

NON-EXECUTIVE FEES

The emoluments of the Non-Executive Directors for 2017 based on the current disclosure requirements were as follows:

Name	Directors' salaries/fees 2017 £000	Directors' salaries/fees 2016 £000	Benefits[1] 2017 £000	Benefits[1] 2016 £000	Total 2017 £000	Total 2016 £000
Non-Executive Chairman						
Henry Staunton	**325**	325	**–**	–	**325**	325
Non-Executive Directors						
Rene-Pierre Azria[2]	–	96	–	–	–	96
Alastair Barbour	**150**	145	**3**	6	**153**	151
Ian Cormack	**116**	140	**–**	–	**116**	140
Tom Cross-Brown[3]	–	46	–	–	–	46
Karen Green[4]	**52**	–	**–**	–	**52**	–
Isabel Hudson[5]	**39**	105	**–**	–	**39**	105
Wendy Mayall[6]	**118**	35	**–**	–	**118**	35
John Pollock[7]	**136**	35	**–**	–	**136**	35
Belinda Richards[8]	**26**	–	**–**	–	**26**	–
Nicholas Shott[9]	**105**	35	**–**	–	**105**	35
Kory Sorenson	**116**	105	**–**	–	**116**	105
David Woods[10]	**53**	145	**2**	13	**55**	158
Total	**1,236**	1,212	**5**	19	**1,241**	1,231

1 The amounts within the benefits columns reflect the fact that the reimbursement of expenses to Non-Executive Directors for travel and accommodation costs incurred in attending Phoenix Life Holdings Limited Board and associated meetings represent a taxable benefit. This position has been clarified with HMRC and the amounts shown are for reimbursed travel and accommodation expenses (and the related tax liability which is settled by the Group).
2 Rene-Pierre Azria retired from the Board 30 November 2016.
3 Tom Cross-Brown retired from the Board 11 May 2016.
4 Karen Green joined the Board 1 July 2017.
5 Isabel Hudson retired from the Board 11 May 2017.
6 Wendy Mayall joined the Board 1 September 2016.
7 John Pollock joined the Board 1 September 2016.
8 Belinda Richards joined the Board 1 October 2017.
9 Nicholas Shott joined the Board 1 September 2016.
10 David Woods retired from the Board 11 May 2017.

The aggregate remuneration of all Executive and Non-Executive Directors under salary, fees, benefits, cash supplements in lieu of pensions and annual incentive was £4.082 million (2016: £4.041 million).

Directors' Remuneration Report
continued

SHARE-BASED AWARDS

As at 31 December 2017, Directors' interests under long-term share-based arrangements were as follows:

LTIP

	Date of grant	Share price on grant[1]	No. of shares as at 1 Jan 2017[1]	No. of shares granted in 2017	No. of dividend shares accumulated as at vesting[2]	No. of shares exercised[3]	No. of shares not vested[4]	No. of shares as at 31 Dec 2017	Vesting date[6]
Clive Bannister									
LTIP	26 Mar 2014	630.5p	**222,048**	–	**44,856**	**(146,797)**	**(120,107)**	–	26 Mar 2017
LTIP	28 Sept 2015	703.8p	**198,931**	–	–	–	–	**198,931**	28 Sept 2018
LTIP	2 Jun 2016	746.1p	**187,634**		–	–	–	**187,634**	2 Jun 2019
LTIP[5]	24 Mar 2017	788.1p	–	**177,627**	–	–	–	**177,627**	24 Mar 2020
			608,613	**177,627**	**44,856**	**(146,797)**	**(120,107)**	**564,192**	
James McConville									
LTIP	15 Nov 2013	605.4p	**90,535**	–	–	**(90,535)**	–	–	15 Nov 2016
LTIP	26 Mar 2014	630.5p	**139,573**	–	**28,192**	**(92,270)**	**(75,495)**	–	26 Mar 2017
LTIP	28 Sept 2015	703.8p	**125,041**	–	–	–	–	**125,041**	28 Sept 2018
LTIP	2 Jun 2016	746.1p	**117,940**	–	–	–	–	**117,940**	2 Jun 2019
LTIP[5]	24 Mar 2017	788.1p	–	**111,651**	–	–	–	**111,651**	24 Mar 2020
			473,089	**111,651**	**28,192**	**(182,805)**	**(75,495)**	**354,632**	

1 The number of shares for outstanding LTIP awards granted between 2013 and 2016 were increased to take into account the impact of the rights issue which took place on 9 November 2016. This adjustment was based on the Theoretical Ex-Rights Price ('TERP') and approved by the Remuneration Committee. The share price on grant shown has also been adjusted to reflect the impact of the rights issue on all share prices.

2 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 (and which for awards made from 2015, will include dividends paid during any applicable holding period).

3 Gains of Directors from share options exercised and vesting shares under the LTIP in 2017 were £2,533,277 (2016: £1,121,682). Clive Bannister's gain was £1,136,810 arising from an LTIP award exercised on 29 March 2017 at a share price of £7.744097; James McConville's gain totalled £1,396,467 arising from an LTIP award exercised on 5 January 2017 at a share price of £7.532102 (£681,919) and an LTIP award exercised on 29 March 2017 at a share price of £7.744097 (£714,548).

4 The 2014 LTIP award vested at 55% of maximum.

5 The face value of LTIP awards granted as nil cost options n in 2017 is £1,399,996 for Clive Bannister and £879,996 for James McConville. This represents the maximum vesting of awards granted (but before any credit for dividends over the period to vesting) and is calculated using a share price of £7.881667p being the average of the closing middle market prices of Phoenix shares for the three dealing days preceding the award date. The vesting percentage at threshold performance (2017 awards) for Clive Bannister and James McConville is 25%.

6 As detailed earlier, for LTIP awards made from 2015 onwards, a holding period applies so that any LTIP awards for which the performance vesting requirements are satisfied will not be released for a further two years from the third anniversary of the original award date.

The performance conditions for the 2015, 2016 and 2017 awards are set out below:

Performance measure	2015 award (40% Embedded value growth, 40% Cumulative cash generation and 20% TSR)	2016 award (50% Cumulative cash generation and 50% TSR)	2017 award (50% Cumulative cash generation and 50% TSR)
Embedded value growth[1] 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 Embedded value growth in excess of the risk-free rate by 3% per annum and Embedded value growth in excess of the risk-free rate by 5% per annum.	Not applicable.	Not applicable.
Cumulative 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 of £1.032 billion to £1.182 billion.	Target range of £1.311 billion to £1.511 billion.	Target range of £1.372 billion to £1.572 billion.
TSR 25% of this part vests at threshold performance rising on a pro rata basis until 100% vests. In addition, the Committee must consider whether the TSR performance is reflective of the underlying financial performance of the Company. Measured over three financial years commencing with the year of award.	Target range between median performance against the constituents of the FTSE 250 (excluding Investment Trusts) rising on a pro rata basis until full vesting for upper quintile performance.	Target range as for 2015.	Target range as for 2015.

Underpin: Notwithstanding the Embedded value growth, Cumulative cash generation and TSR performance targets, if the Committee determines that the Group's debt levels and associated interest costs have not remained within parameters acceptable to the Committee over the performance period, and that the Group has not made progress considered to be reasonable by it in executing any strategy agreed by the Board on debt management, capital structuring and risk management, the level of awards vesting will either be reduced or lapse in full. For 2016 and 2017 awards, the underpin has been extended to include consideration of customer satisfaction and, to meet Solvency II requirements, in exceptional cases, personal performance.

1 Please see footnote 1 on page 72 regarding the discontinuation of reporting on MCEV Growth.

DBSS

	Date of grant	Share price on grant[1]	No. of shares as at 1 Jan 2017[1]	No. of shares granted in 2017	No. of dividend shares accumulated as at vesting	No. of shares exercised[2]	No. of shares lapsed/ waived	No. of shares as at 31 Dec 2017	Vesting date
Clive Bannister									
DBSS	28 Mar 2014	554.4p	**40,020**	–	8,081	(48,101)	–	–	28 Mar 2017
DBSS	28 Sept 2015	703.8p	**33,917**	–	–	–	–	**33,917**	19 Mar 2018
DBSS	2 Jun 2016	746.1p	**38,464**	–	–	–	–	**38,464**	24 Mar 2019
DBSS[3]	24 Mar 2017	788.1p	–	**37,363**	–	–	–	**37,363**	20 Mar 2020
			112,401	**37,363**	**8,081**	**(48,101)**	**–**	**109,744**	
James McConville									
DBSS	28 Mar 2014	554.4p	**24,011**	–	4,847	(28,858)	–	–	28 Mar 2017
DBSS	28 Sept 2015	703.8p	**22,491**	–	–	–	–	**22,491**	19 Mar 2018
DBSS	2 Jun 2016	746.1p	**25,283**	–	–	–	–	**25,283**	24 Mar 2019
DBSS[3]	24 Mar 2017	788.1p	–	**23,485**	–	–	–	**23,485**	20 Mar 2020
			71,785	**23,485**	**4,847**	**(28,858)**	**–**	**71,259**	

1 The number of shares for all outstanding DBSS awards was increased to take into account the impact of the rights issue which took place on 9 November 2016. This adjustment was based on the Theoretical Ex Rights Price ('TERP') and approved by the Remuneration Committee. The share price on grant shown has also been adjusted to reflect the impact of the rights issue on all share prices.

2 Gains of Directors from share options exercised and vesting shares under the DBSS in 2017 were £595,978 (2016: £530,014). Clive Bannister's gain was £372,499 arising from an award exercised on 29 March 2017 at a share price of £7.744097. James McConville's gain was £223,479 arising from an award exercised on 29 March 2017 at a share price of £7.744097.

3 The face value of DBSS awards granted as nil cost options in 2017 is £294,482 for Clive Bannister and £185,101 for James McConville. This is calculated using a share price of £7.881667, being the average closing market price on the three days preceding the award date.

The DBSS is the share scheme used for the deferral of AIP. No performance conditions apply therefore, other than being subject to continued employment. In addition to the shares awarded under the DBSS presented above, participants receive an additional number of shares to reflect the dividends paid during the vesting period.

SHARESAVE

	As at 1 Jan 2017	Shares granted in 2017	Shares exercised	Shares lapsed	As at 31 Dec 2017	Exercise price	Exercisable from	Date of expiry
Clive Bannister	–	–	–	–	–	–	–	–
James McConville	–	**2,852**	–	–	**2,852**	£6.31	1 Jun 2020	1 Dec 2020

Gains of Directors from share options exercised under Sharesave during 2017 were nil (2016: £4,998). Sharesave options are granted with an option price that is a 20% discount to the three-day average share price when invitations are made. This is permitted by HMRC regulations for such options.

Aggregate gains of Directors from share options exercised and vesting shares under all share plans in 2017 were £3,129,255 (2016: £1,656,694).

During the year ended 31 December 2017, the highest mid-market price of the Company's shares was 798.5p and the lowest mid-market price was 723.0p. At 31 December 2017, the Company's share price was 782.0p.

DIRECTORS' INTERESTS

The number of shares and share plan interests held by each Director are shown below:

Name	As at 1 January 2017 or date of appointment if later	As at 31 December 2017 or retirement if earlier	Total share plan interests as at 31 December 2017 – LTIP	Total share plan interests as at 31 December 2017 – DBSS	Total share plan interests as at 31 December 2017 – Sharesave
Clive Bannister	614,521	727,329	564,192	109,744	–
James McConville	123,465	187,493	354,632	71,259	2,852
Alastair Barbour	6,625	6,625	–	–	–
Ian Cormack	5,779	5,779	–	–	–
Karen Green	–	–	–	–	–
Isabel Hudson[1]	6,142	6,142	–	–	–
Wendy Mayall	–	25,000	–	–	–
John Pollock	–	10,000	–	–	–
Belinda Richards	–	–	–	–	–
Nicholas Shott	–	5,000	–	–	–
Kory Sorenson	2,185	2,185	–	–	–
Henry Staunton	70,000	70.000	–	–	–
David Woods[2]	5,541	5,541	–	–	–

1 Isabel Hudson retired from the Board 11 May 2017.
2 David Woods retired from the Board 11 May 2017.

There have been no changes in the Directors' share interests between 31 December 2017 and 27 February 2018 (being one month prior to the date of the notice of the AGM).

SHAREHOLDING REQUIREMENTS

As explained in the Remuneration Policy under the Shareholding guidelines section, the Executive Directors are subject to shareholding requirements.

The extent to which Executive Directors have achieved the requirements by 31 December 2017 (using the share price of 782.0p as at 31 December 2017) can be summarised as follows:

Position	Shareholding Guideline (minimum % of salary)	Value of shares held at 31 December 2017 (% of salary)
Clive Bannister	200%	813%
James McConville	200%	333%

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

ADDITIONAL UNAUDITED INFORMATION

DIRECTORS' SERVICE CONTRACTS

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

EXECUTIVE DIRECTORS' CONTRACTS

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

Subject to Board approval, Executive Directors are permitted to accept outside appointments on external boards as long as these are not deemed to interfere with the business of the Group. The Executive Directors are entitled to retain any external fees. During 2017, Clive Bannister received £45,000 from Punter Southall Group and CHF 50,000 from UniGestion in respect of two external directorships. James McConville received £112,000 from Tesco Personal Finance plc.

NON-EXECUTIVE DIRECTORS' CONTRACTS

Name	Date of letter of appointment	Date of Joining the Board	Appointment end date	Unexpired term (months)
Alastair Barbour	30 September 2016	1 October 2013	2 May 2018	2
Ian Cormack	25 May 2016	2 September 2009	2 May 2018	2
Karen Green	29 June 2017	1 July 2017	1 July 2020	28
Wendy Mayall	24 August 2016	1 September 2016	1 September 2019	18
John Pollock	24 August 2016	1 September 2016	1 September 2019	18
Nicholas Shott	24 August 2016	1 September 2016	1 September 2019	18
Belinda Richards	29 June 2017	1 October 2017	1 October 2020	31
Kory Sorenson	9 May 2014	1 July 2014	2 May 2018	2
Henry Staunton	19 August 2015	1 September 2015	1 September 2018	6

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

REMUNERATION COMMITTEE GOVERNANCE

The Group established the Committee in 2010. The terms of reference of the Committee are available at www.thephoenixgroup.com. The main determinations of the Committee in 2017 in respect of the application of the Remuneration Policy are summarised in the Committee Chairman's letter to shareholders at the start of the Remuneration Report.

The table below shows the independent Non-Executive Directors who served on the Committee during 2017 and their date of appointment:

Member	From	To
Ian Cormack (Committee Chairman to 11 May 2017)	18 February 2010	1 July 2017
Isabel Hudson	18 February 2010	11 May 2017
Nicholas Shott	20 October 2016	To date
Kory Sorenson (Committee Chair from 11 May 2017)	3 July 2014	To date
Karen Green	1 July 2017	To date

Under the Committee's Terms of Reference, the Committee meets at least twice a year but more frequently if required. During 2017, six Committee meetings were held and details of attendance at meetings are set out in the Corporate Governance Report on page 55.

Consistent with the requirements of Solvency II, the Committee is responsible for establishing, implementing, overseeing and reviewing the firm-wide remuneration policy in the context of business strategy and changing risk conditions. The firm-wide remuneration policy focuses on ensuring sound and effective risk management so as not to encourage risk-taking outside of the Company's risk appetite. None of the Committee members has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business.

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

ADVICE

The Committee received independent remuneration advice during the year from its appointed adviser, FIT Remuneration Consultants LLP ('FIT'). FIT is a member of the Remuneration Consultants Group (the professional body for remuneration consultants) and adheres to its code of conduct. This appointment was made by the Committee following consideration of FIT's experience in this sector. FIT provided no other services to the Group and the Committee was satisfied that the advice provided by FIT was objective and independent. FIT's fees in respect of 2017 were £190,945, all of which were attributed to work relating to the Committee. FIT's fees were charged on the basis of the firm's standard terms of business for advice provided.

As part of our normal governance process, a review of the independent remuneration adviser was undertaken by the Committee in 2017. Following tender submissions and a full review, the Committee decided to appoint PwC as adviser from May 2018.

The Committee consulted with the Group Chief Executive Officer, Group HR Director and Deputy Group Finance Director who attended, by invitation, various Committee meetings during the year although no executive is ever permitted to participate in discussions or decisions regarding his or her own remuneration.

Input is also sought from the Chief Risk Officer (without management present) and from representatives from finance, as appropriate. The Chief Risk Officer is asked to confirm each year that the Company has operated within its stated risk appetite during the year and also to confirm whether there were otherwise any risk-related concerns that required the Committee to consider using its judgement to moderate incentive plan outcomes. There were no such concerns in 2017.

APPROVAL

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

KORY SORENSON
REMUNERATION COMMITTEE CHAIR

14 March 2018

Directors' Remuneration Policy

The information in this supplement is the Directors' Remuneration Policy as approved by the Company's shareholders at the Company's 2017 AGM on 11 May 2017. It does not form part of the Directors' Remuneration Report for 2017 and is not subject to the advisory vote at the 2018 AGM on the Directors' Remuneration Report for 2017.

GENERAL POLICY

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

Overall Positioning*

The Company's overall positioning on remuneration for Executive Directors remains unchanged from prior years:

- An appropriate balance is maintained between fixed and variable components of remuneration.
- Our Remuneration Policy benchmarks the total target remuneration for the Executive Directors between FTSE 31-100 and FTSE 250 data sets, and remuneration for both Executive Directors is positioned appropriately between these data sets.

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

Summary of Changes from Previous Policy:

As more fully detailed in the 'Changes from Previous Policy' column in the Remuneration Policy table, the key changes to the Remuneration Policy are the following:

Element	Changes from previous policy
Base salary	– Confirmation of caps for each element of the policy, including base salary. For base salaries, we have clarified the target positioning of Executive Directors' base salaries as between the FTSE 31-100 and FTSE 250 data sets.
Annual Incentive Plan	– Increasing the level of bonus deferral to 40% of outcomes (from 33% of outcomes). – Confirming that at least 50% of performance measures in any year will relate to financial measures. – Confirming the automatic grant of deferred shares on the fourth dealing day following the announcement of annual results each year.
Long-Term Incentive Plan	– Confirming the automatic grant of LTIP awards on the fourth dealing day following the announcement of annual results each year. – Confirming the application of holding periods (which have applied to LTIP awards from 2015 onwards). – Confirming that no material changes will be made to the current performance measures or the current mix of performance measures for LTIP awards made in any year without consulting major shareholders.

Remuneration Policy table

Element and purpose

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

Policy and operation

- Base salaries are reviewed each year against companies of similar size and complexity. Both salary levels and overall remuneration are set by reference to the median data of comparators which the Remuneration Committee considers to be suitable using both the FTSE 31-100 and the FTSE 250 as a whole, and positioning the Executive Directors' salaries around the average of the median positions in these pan-sector groups. Consideration is also given to other relevant insurance company data.
- The Remuneration Committee uses this data as a key reference point in considering the appropriate level of salary. Other relevant factors including corporate and individual performance and any changes in an individual's role and responsibilities, and the level of salary increases awarded to other employees of the Group are also considered.
- Base salary is paid monthly in cash.
- Changes to base salaries normally take effect from 1 January.

Maximum

- The Remuneration Committee will apply the factors set out in the previous column in considering any salary adjustments during the duration of this policy. No increase will be made if it would take an Executive Director's salary above £780,000 (being the median level of salaries for CEOs in the FTSE 31-100), provided that this figure may be increased in line with UK RPI inflation for the duration of this policy.

Performance measures

- N/A

Changes from previous policy

- No material changes. 'Cap' for base salaries re-expressed as a monetary amount and relative positioning is confirmed.

Remuneration Policy table continued

Element and purpose

Benefits

To provide other benefits valued by recipient

Policy and operation

- The Group provides market competitive benefits in kind. Details of the benefits provided in each year will be set out in the Implementation Report. 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.

Maximum

- 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.

Performance measures

- N/A

Changes from previous policy

- No material changes.

Element and purpose

Pension

To provide retirement benefits and remain competitive within the market place

Policy and operation

- The Group provides a competitive employer sponsored defined contribution 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. Any such cash payments are reduced for the effect of employers' National Insurance Contributions.
- Phoenix will honour the pensions obligations entered into under all previous policies in accordance with the terms of such obligations.

Maximum

- A contribution limit of 20% of base salary per annum per Executive Director has been set for the duration of this policy.

Performance measures

- N/A

Changes from previous policy

- No material changes.

Directors' Remuneration Policy
continued

Remuneration Policy table continued

Element and purpose

Annual Incentive Plan ('AIP') and Deferred Bonus Share Scheme ('DBSS')

To motivate employees and incentivise delivery of annual performance targets

Policy and operation

- 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).
- At least 40% 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 deferral level or the period of deferral.
- Deferral of AIP outcomes into shares is currently made under the DBSS.
- Awards under DBSS will be in the 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).
- DBSS awards are made automatically each year on the fourth dealing day following the announcement of annual results, using the average of the preceding three dealing days' share prices to calculate the number of shares in awards.
- The three-year period of deferral will run to the third anniversary of the award date.
- Dividend entitlements will accrue over the three-year deferral period and be delivered as additional vesting shares.
- Malus/clawback provisions apply to the AIP and to amounts deferred under DBSS as explained in the notes to this table.

Maximum

- The maximum annual incentive level for an Executive Director is 150% of base salary per annum.

Performance measures

- 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. However, the weighting of financial performance measures will not be reduced below 50% of total AIP potential in any year for the duration of this policy.
- 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 performance level 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 take account of such activity and ensure the targets continue to reflect performance as originally intended.
  ii. There is a specific adjustment factor of 80%-120% of the provisional outturn whereby the Remuneration Committee may adjust the provisional figure (but subject to any over-riding cap) to take account of its broad assessment of performance both against pre-set targets and more generally, of the wider universe of stakeholders. 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 outturn (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.

Changes from previous policy

Increased the minimum level of compulsory deferral from 33% to 40%.

Confirmed that financial performance measures will always have at least a 50% weighting for any year.

Provides for the automatic making of DBSS awards on the fourth dealing day following the announcement of annual results.

Remuneration Policy table continued

Element and purpose

Long-Term Incentive Plan ('LTIP')

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

Policy and operation

- Awards under the LTIP may be in any of the forms of awards to receive shares for nil-cost (as described for DBSS above).
- LTIP awards are made automatically each year on the fourth dealing day following the announcement of annual results, using the average of the preceding three dealing days' share prices to calculate the number of shares in awards.
- The vesting period will be at least three years and run until the third anniversary of the award date (unless a longer vesting period is introduced).
- A holding period will apply so that Executive Directors may not normally exercise vested LTIP awards until the fifth anniversary of the award date.
- Dividend entitlements will accrue until the end of the holding period in respect of performance vested shares and be delivered as additional vesting shares.
- Malus/clawback provisions apply on a basis consistent with the equivalent provisions in the AIP and DBSS and as explained in the notes to this table.
- The Company will honour the vesting of all awards granted under previous policies in accordance with the terms of such awards.

Maximum

- The formal limit under the LTIP is 300% of base salary per annum (and 400% per annum in exceptional cases).
- The Remuneration Committee's practice is to make LTIP awards to Executive Directors each year over shares with a value (as at the award date) of 200% of the individual's annual base salary although discretion is reserved to make awards up to the maximum levels for the policy as stated above.

Performance measures

- The Remuneration Committee may set such performance measures for LTIP awards as it considers appropriate (whether financial or non-financial and whether corporate, divisional or individual). The Remuneration Committee would expect to consult with its major shareholders if it proposed changing materially the current performance measures applied for LTIP awards made to Executive Directors or the relative weightings between these performance measures.
- For every LTIP award, appropriate disclosures regarding the proposed performance conditions will be made in the annual Implementation Report.
- 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 measures, provided that any adjusted performance measure is, in its opinion, neither materially more nor less difficult to satisfy than the original measure.
- 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 the applicable performance periods for LTIP awards.

Changes from previous policy

- Provides for the automatic making of LTIP awards on the fourth dealing day following the announcement of annual results.
- Recognises the introduction of holding periods on LTIP awards since the previous policy was approved (holding periods have applied to all LTIP awards for Executive Directors since 2015).
- Confirms that material changes to either the current performance measures or the relative weightings of such measures would be subject to consultation with major shareholders.

Directors' Remuneration Policy
continued

Remuneration Policy table continued

Element and purpose

All-employee share plans

To encourage share ownership by employees, thereby allowing them to participate in the long-term success of the Group and align their interests with those of the shareholders

Policy and operation

– Executive Directors are able to participate in all-employee share plans on the same terms as other Group employees as required by HMRC legislation.

Maximum

– 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% 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 and receive up to two matching shares for every purchased share. Maximum saving is £150 each month (or up to such level as permitted by the Company in line with HMRC legislation). 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).

Performance measures

– Consistent with normal practice, such awards are not subject to performance conditions.

Changes from previous policy

– No material changes.

Element and purpose

Shareholding guidelines

To encourage share ownership by the Executive Directors and ensure interests are aligned

Policy and operation

– 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 minimum of 200% of their base salary in 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.

Maximum

– N/A

Performance measures

– N/A

Changes from previous policy

– No material changes.

Remuneration Policy table continued

Element and purpose
Chairman and Non-Executive Director fees

Policy and operation
- 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.
- 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 a Board committee, or sit on the board of a subsidiary company or on the Solvency II Model Governance Committee, and to the Senior Independent Director ('SID'). No separate Board committee membership fees are currently paid.
- Fees are paid monthly in cash.
- Fee levels for Non-Executive Directors are reviewed annually with any changes normally taking effect from 1 January.

Maximum
- 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.

Performance measures
- N/A

Changes from previous policy
- No material changes.

NOTES TO THE REMUNERATION POLICY TABLE

1. Differences between the Policy on Remuneration for Directors and the Policy on Remuneration of other employees

When determining Executive Directors' remuneration, the Committee takes into account pay throughout the Group to ensure that the arrangements in place remain appropriate.

The Group has (as required by Solvency II regulations) one consistent reward policy for all levels of employees and this policy is made available to all staff. Therefore, the same reward principles guide reward decisions for all Group employees, including Executive Directors, although remuneration packages differ to take into account appropriate factors in different areas of the business:

- **AIP** – all Group employees participate in the AIP, although the quantum and balance of corporate to individual objectives varies by level. The most senior staff are subject to the regulatory requirements of Solvency II, and these individuals also receive part of their bonus in Company shares deferred for a period of three years. A different scorecard of AIP performance measures applies for employees in 'control functions' (risk, compliance and internal audit) to exclude financial performance measures.
- **LTIP** – our most senior employees participate in the LTIP currently based on the same performance conditions as those for Executive Directors, although the Committee reserves the discretion to vary the performance conditions for awards made to employees below the Board for future awards.
- **All-employee share plans** – the Committee considers it is important for all employees to have the opportunity to become shareholders in the Company. The Company offers two HMRC tax advantaged arrangements in which all UK employees can participate and acquire shares on a discounted and tax advantaged basis (Sharesave and SIP). In recent years, the terms of both plans have been made more generous to encourage employee take-up (increasing the Sharesave discount to 20% and in 2017 increasing the SIP match from 1 for 6 to 1 for 3). In addition, selected individuals may receive ad hoc share awards contingent on continued employment.

2. Stating maximum amounts for the Remuneration Policy

The DRR 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 Remuneration Policy, these will operate simply as caps and are not indicative of any aspiration.

3. Malus and clawback

Malus (being the forfeiture of unvested awards) and clawback (being the ability of the Company to claim repayment of paid amounts as a debt) provisions apply to the AIP, DBSS and LTIP. These provisions may be applied where the Remuneration Committee considers it appropriate to do so following:

- a review of the conduct, capability or performance of an individual;
- a review of the performance of the Company or a Group member;
- any material misstatement of the Company's or a Group member's financial results for any period;
- any material failure of risk management by an individual, a Group member or the Company; or
- any other circumstances that have a sufficiently significant impact on the reputation of the Company.

4. Travel and hospitality

While the Remuneration Committee does not consider this to form part of benefits in the normal usage of that term, it has been advised that corporate hospitality (whether paid for by the Company or another) and certain instances of business travel (including any related tax liabilities settled by the Company or another Group company) for Directors may technically be considered as benefits and so the Remuneration Committee expressly reserves the right to authorise such activities and reimbursement of associated expenses within its agreed policies.

5. Discretions reserved in operating incentive plans

The Remuneration Committee will operate the AIP, DBSS and LTIP according to their respective rules and the above Remuneration Policy table. The Remuneration Committee retains certain discretions, consistent with market practice, in relation to the operation and administration of these plans including:

- (as described in the Remuneration Policy table) the determination of performance measures and targets and resultant vesting and pay-out levels;
- (as described in the Remuneration Policy table) the ability to adjust performance measures and targets to reflect events and/or to ensure the performance measures and targets operate as originally intended;
- (as described in the Termination Policy section below) determination of the treatment of individuals who leave employment, based on the rules of the incentive plans, and the treatment of the incentive plans on exceptional events, such as a change of control of the Company; and
- the ability to make adjustments to existing awards made under the incentive plans in certain circumstances (e.g. rights issues, corporate restructurings or special dividends).

Directors' Remuneration Policy
continued

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 DRR 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 awards in connection with the recruitment to buy-out awards forfeited by the individual on leaving a previous employer. For such buy-out 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 buy-out awards will be appropriately disclosed.
- All such buy-out awards, whether under the AIP, LTIP or otherwise (for example, specific arrangements made under Listing Rule 9.4.2), 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 buy-out awards subject to what are, in its opinion, comparable requirements in respect of service and performance. However, the Remuneration 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 interests of shareholders and 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 buy-out awards are not subject to a formal cap.
- A new Non-Executive Director would be recruited on the terms explained in the Remuneration Policy for such Directors.

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 Director finds alternative employment. Contracts do not contain change of control provisions. The template contract is reviewed from time-time and may be amended provided it is not overall more generous than the terms described above.

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.

Non-Executive Directors

The Non-Executive Directors, including the Chairman, have letters of appointment which set out their duties and responsibilities. Appointment is for an initial fixed term of three years (which may be renewed), terminable by one month's notice from either side (six months in the case of the Chairman). 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.

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[1]	Bad Leaver	Exceptional Events
	A participant is considered a Good Leaver if leaving through redundancy, serious ill health or death or otherwise at the discretion of the Remuneration Committee	A participant would typically be considered a Bad Leaver following a 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 at the end of the original vesting period	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 and, generally, any holding period will continue to apply Remuneration Committee discretion to disapply pro-rating or to accelerate vesting to the date of leaving (subject to pro-rating and performance conditions) and/or the release of any holding period	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

1 Where the reason for leaving is retirement, the individual will be required to provide confirmation of his continued retirement before any payments are released to him after the end of the vesting period.

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.

In the event of cessation of a Non-Executive Director's appointment (excluding the Chairman) they would be entitled to a one month's notice period. The Chairman, as detailed in his letter of appointment, would be entitled to a six months' notice period.

CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE GROUP

As explained in the notes to the Remuneration Policy table, 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 Remuneration Policy.

The Remuneration Committee is cognisant of the requests from, amongst others, the Investment Association, for companies to publish ratios comparing CEO to employee pay. The Remuneration Committee has not however published this data in the Directors' Remuneration Report given the absence of a common methodology for these comparisons; the Company's expectation is that it will publish ratios showing comparisons in future years when, as can be expected, UK regulations or guidance develop a common methodology.

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 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 proposing the changes reflected in this Remuneration Policy.

Directors' Report

The Directors of the Group present their report for the year ended 31 December 2017.

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 therefore not required to comply with the requirements of section 415 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	25.1p per share (2016: 22.7p[1] per share)
Recommended final dividend	25.1p per share (2016: 23.9p per share)
Total ordinary dividend	50.2p per share (2016: 46.6p[1] per share)

1 2016 dividends per share figures have been rebased to take into account the bonus element of the rights issue completed in November 2016.

As a result of regulatory changes applicable to the Group under Solvency II, dividends declared in respect of the Company's ordinary shares must be capable of being cancelled and withheld or deferred at any time prior to payment. This is in order that the Company's ordinary shares be counted towards Group capital. Accordingly, the final dividend will be declared on a conditional basis and the Directors reserve the right to cancel or defer the recommended dividend. The Directors do not expect to exercise this right other than where they believe that it may be necessary to do so as a result of legal or regulatory requirements.

SHARE CAPITAL

The issued share capital of the Company was increased by 382,827 ordinary shares during 2017 which related to shares issued under the Company's Sharesave Scheme.

At 31 December 2017, the issued ordinary share capital totalled 393,232,644. Subsequently, 18,792 ordinary shares have been issued in 2018 in connection with the Company's Sharesave Scheme to bring the total in issue to 393,251,436 at the date of this report.

Full details of the authorised, issued and fully paid share capital as at 31 December 2017 and movements in share capital during the period are presented in note D1 to the IFRS consolidated financial statements.

At the Company's AGM held on 11 May 2017, 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.

Subject to obtaining shareholder approval for the renewal of this authority at the forthcoming AGM on 2 May 2018, 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), 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.

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 Phoenix Group 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.

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 individual authorisation 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 13 March 2018, the Company had been notified of the following significant holdings of voting rights in its shares.

	Number of voting rights in shares	Percentage of shares in issue
Standard Life Aberdeen plc	31,443,586	7.99%
Prudential plc group of companies	20,632,741	5.24%
BlackRock Inc.	20,268,506	5.15%
Ameriprise Financial Inc. and its group	20,065,999	5.10%
Aviva plc & its subsidiaries	19,863,516	5.05%

ANNUAL GENERAL MEETING ('AGM')

The AGM of the Company will be held at Stationers' Hall Ave, Maria Lane, London, ECM4 7DD on Wednesday 2 May 2018 at 10.00am.

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.

COMMUNICATION WITH INVESTORS AND SHAREHOLDERS

The Company places considerable importance on communication with investors/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. Please see page 46 for further details regarding the Company's engagement with investors.

In addition, continued engagement is undertaken with shareholders and proxy advisers on evolving governance issues.

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 insurance 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. The Company also undertakes perception studies, when appropriate, designed to determine the investment community's view of the core business.

The Company's AGM provides another opportunity to communicate with its shareholders. At the 2017 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 2018 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 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.

BOARD

BOARD OF DIRECTORS

The membership of the Board of Directors during 2017 is given within the Corporate Governance Report on pages 53 and 55, which is incorporated by reference into this report. Details of Directors' (and persons closely associated with them) interests in the shares of the Company are shown in the Directors' remuneration report.

During 2017 and up to the date of this report, the following changes to the Board took place:

- Isobel Hudson and David Woods resigned from the Board on 11 May 2017.
- Karen Green and Belinda Richards were appointed to the Board with effect from 1 July and 1 October 2017 respectively.

Details of related party transactions which took place during the year with Directors of the Company and consolidated entities where Directors are deemed to have significant influence, are provided in the Directors' Remuneration Report and in note I4 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, except for Ian Cormack who is standing down from the Board, should be put forward for election/re-election at the forthcoming AGM to be held on 2 May 2018.

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 (amended), 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.

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.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

EMPLOYEES

DIVERSITY AND INCLUSION

The Group is committed to creating a work environment free of discrimination where everyone is treated with dignity and respect.

We value the individuality, diversity, and creativity that every employee brings to the workplace. Everyone has the right to be treated with dignity and respect and not to be disadvantaged in any way as a result of their age, race, gender, disability, religion or belief, sexual orientation, gender re-assignment, marriage and civil partnership or pregnancy and maternity. The Company is committed to achieving equality of opportunity and the equal treatment of all our people and those applying to join us. Equality of opportunity, which includes equality of pay, is seen as an integral part of our employment practices, policies and procedures. 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 Company will not tolerate bullying and harassment of any kind. All allegations of bullying and harassment will be investigated and, if appropriate, disciplinary action will be taken. The Company will also not tolerate victimisation of a person for making allegations of bullying or harassment in good faith or supporting someone to make such a complaint.

Directors' Report
continued

EMPLOYEE ENGAGEMENT
Phoenix Group continues to communicate with staff across a wide variety of channels, including regular news bulletins via the intranet, 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 engagement.

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

GOVERNANCE
GOING CONCERN
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The Strategic Report also provides details of any key events affecting the Company (and its consolidated subsidiaries) since the end of the financial year. The Strategic Report includes details of the Group's cash flow and solvency position, including sensitivities for both. Principal risks and their mitigation are detailed on pages 35 to 37. In addition, the IFRS consolidated financial statements include, amongst other things, notes on the Group's borrowings (note E5), management of its financial risk including market, credit and liquidity risk (note E6), its commitments and contingent liabilities (notes I6 and I7) and its capital and management (note I3). The Strategic Report (on pages 2 to 38) sets out the business model and how the Group creates value for shareholders and policyholders.

The Board has followed the requirements of the UK Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, (September 2014) 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 liquidity and solvency of the Group under both normal and stressed conditions as at the date of preparation of the statement of consolidated financial position.

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

The Directors have acknowledged their responsibilities in the Statement of Directors' Responsibilities in relation to the IFRS financial statements for the year ended 31 December 2017.

VIABILITY STATEMENT
The Viability Statement, as required by section C.2.2 of the Code, has been undertaken for period of five years to align to the Group's business planning and is contained in the Risk Management section on page 37.

CORPORATE GOVERNANCE STATEMENT
The disclosures required by section 7.2 of the FCA's Disclosure Guidance and Transparency Rules can be found in the Corporate Governance Report on pages 47 to 62 which is incorporated by reference into this Directors' Report and comprises the Company's Corporate Governance Statement. The disclosures required in respect of the Company's diversity policy are addressed in the Strategy and KPIs section of the Strategic Report on page 24. 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 Environmental Report forming part of the Strategic Report on page 45.

FINANCIAL RISK MANAGEMENT
The Group operates a Risk Management Framework ('RMF') consisting of several components, as detailed in the Risk Management section of the Strategic Report. The RMF provides a consistent approach to highlighting and controlling key risks throughout the organisation. This is achieved primarily through review and compliance, at a functional level, with the risk universe and related policies (and the risk appetites therein). At its highest level the RMF considers the following risks: strategic, market, credit, insurance, financial soundness, customer 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. Changes proposed at the 2 May 2018 AGM will be set out in the notice for that meeting.

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 LLP ('EY') has indicated its willingness to continue in office and a resolution that it is re-appointed will be proposed at the AGM on 2 May 2018.

There is no cap on auditor liability in place in relation to audit work carried out on the IFRS consolidated financial statements and the Group's UK subsidiaries' individual financial statements.

Details of fees paid to EY during 2017 for audit and non-audit work are disclosed in note C3 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 2017 financial period was Gerald Watson.

CONTRACTUAL/OTHER SIGNIFICANT AGREEMENTS IMPACTED BY A CHANGE OF CONTROL OF THE COMPANY

There are change of control clauses contained in certain of the Group's financing agreements. The £900million revolving credit facility has a provision which would enable the lending banks to require repayment of all amounts borrowed following a change of control. 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.

DISCLOSURES UNDER LISTING RULE 9.8.4R

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

Section	Requirement	Location
1	Statement of interest capitalised	Note E5 to the Consolidated Financial Statements
2	Publication of unaudited financial information	Not applicable
3	Deleted	Not applicable
4	Details of long-term incentive schemes	Not applicable
5	Waiver of emoluments by a Director	Not applicable
6	Waiver of any future emoluments by a Director	Not applicable
7	Non pre-emptive issue of equity for cash	Not applicable
8	As per 7, but for major subsidiary undertakings	Not applicable
9	Parent participation in any placing of a subsidiary	Not applicable
10	Contracts of significance	Not applicable
11	Controlling shareholder provision of services	Not applicable
12	Shareholder dividend waiver	Not applicable
13	Shareholder dividend waiver – future periods	Not applicable
14	Controlling shareholder agreements	Not applicable

Statement of Directors' Responsibilities in respect of the Annual Report and Accounts

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

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

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 2017, covers the future developments in the business of Phoenix Group Holdings and its consolidated subsidiaries, and provides details of any important events affecting the Company and its subsidiaries after the year-end. For the purposes of compliance with DTR 4.1.5R(2) and DTR 4.1.8R, the required content of the 'Management Report' can be found in the Strategic Report and this Directors' Report, including the sections of the Annual Report and Accounts incorporated by reference.

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

In preparing these financial statements the Directors are required to:

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

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

The Directors as at the date of this report, whose names and functions are listed in the Board of Directors section on pages 50 to 51, confirm that, to the best of their knowledge:

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

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

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

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

The Strategic Report and the Directors' Report were approved by the Board of Directors on 14 March 2018.

By order of the Board

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER

JAMES MCCONVILLE
GROUP FINANCE DIRECTOR

14 March 2018

In this section

FINANCIALS

Independent Auditor's Report to the Members of Phoenix Group Holdings

OUR OPINION ON THE FINANCIAL STATEMENTS

In our opinion:

- Phoenix Group Holdings' consolidated financial statements and parent company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2017 and of the Group's loss and of the parent company's profit for the year then ended; and
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB').

WHAT WE HAVE AUDITED

We have audited the consolidated financial statements of Phoenix Group Holdings and its subsidiaries (collectively 'the Group') and the parent company financial statements for the year ended 31 December 2017, included within the Annual Report and Accounts, which comprise:

Group	Parent company
– The consolidated income statement for the year then ended	– The statement of comprehensive income for the year then ended
– The consolidated statement of comprehensive income for the year then ended	– The statement of financial position as at 31 December 2017
– The pro forma reconciliation of Group operating profit to results attributable to owners for the year then ended	– The statement of cash flows for the year then ended
– The statement of consolidated financial position as at 31 December 2017	– The statement of changes in equity for the year then ended
– The statement of consolidated cash flows for the year then ended	– Related notes 1 to 17 to the financial statements
– The statement of consolidated changes in equity for the year then ended	
– Related notes A1 to I8 to the consolidated financial statements	

Certain required disclosures have been presented elsewhere in the Annual Report and Accounts, rather than in the notes to the financial statements. These have been cross-referenced from the financial statements and are identified as audited.

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

REPORT ON MATTERS PRESCRIBED BY OUR ENGAGEMENT LETTER

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the information given in the Corporate Governance Report set out on pages 53 to 62 with respect to internal control and risk management systems in relation to financial reporting processes is consistent with the financial statements; and
- the part of the Directors' Remuneration Report that has been described as audited has been properly prepared in accordance with the basis of preparation as described therein.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs') and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

USE OF OUR REPORT

This report is made solely to the company's members, as a body, in accordance with our engagement letter dated 7 March 2018 and with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

CONCLUSIONS RELATING TO PRINCIPAL RISKS, GOING CONCERN AND VIABILITY STATEMENT

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on page 32- 37 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 37 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 90 in the consolidated financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 37 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

OVERVIEW OF OUR AUDIT APPROACH

Materiality	– Group materiality is £63 million (2016: £67 million) which represents 2.0% (2016: 2.0%) of total equity attributable to owners of the parent ('Group equity').
Audit scope	– We performed an audit of the complete financial information of the Group Function and Phoenix Life Division, and audit procedures on specific balances for Other Group Companies. We further subdivided Phoenix Life Division into two locations, separately identifying Abbey Life Assurance Company Limited ('ALAC') and the remaining Life Division operations. Our scope is explained further on page 98. – The reporting units where we performed full or specific audit procedures accounted for more than 99% of the equity and loss before tax of the Group.
Key audit matters	– Valuation of insurance contract liabilities, comprising of the following risk areas: • actuarial assumptions; • actuarial modelling; and • data. – Valuation of complex and illiquid financial investments

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all the risks identified in our audit.

Risk

Valuation of insurance contract liabilities (£45.4 billion; 2016: £46.7 billion)

Refer to the Audit Committee Report (page 59); Critical accounting estimates (page 111); Accounting policies and notes F1 of the consolidated financial statements (pages 145 to 146) .

We considered the valuation of insurance contract liabilities to be a significant risk for the Group. Specifically we considered the actuarial assumptions and modelling that are applied, as these involve complex and significant judgements about future events, both internal and external to the business for which small changes can result in a material impact to the resultant valuation. Additionally, the valuation process is conditional upon the accuracy and completeness of the data.

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

– actuarial assumptions;
– actuarial modelling; and
– data.

Independent Auditor's Report to the Members of Phoenix Group Holdings continued

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

Risk area	Our response to the risk	Key observations communicated to the Audit Committee
Actuarial assumptions *There has been no change in our assessment of this risk from the prior year.* Economic assumptions are set by management taking into account market conditions as at the valuation date. Non-economic assumptions such as future expenses, longevity and mortality are set based on past experience, market experience, market practice, regulations and expectations about future trends. The assumptions that we consider to have the most significant impact are the base and trend longevity and persistency assumptions. These assumptions are used as inputs into a valuation model which uses standard actuarial methodologies.	To obtain sufficient audit evidence to conclude on the appropriateness of actuarial assumptions, we: – tested the design and operating effectiveness of key controls over management's process for setting and updating actuarial assumptions; – compared the methodology and assumptions used with those we would expect based on our knowledge of the Group, industry standards and regulatory and financial reporting requirements; – assessed the results of management's experience analysis, which supports the adopted assumptions and methodology, and checked that the assumptions used are consistent with this experience analysis; – in respect of mortality we have evaluated the choice of the industry standard Continuous Mortality Investigation ('CMI') model and the parameters used to ensure that it was appropriate given the demographics of policyholders; – benchmarked the demographic and economic assumptions against those of other industry participants; and – reviewed the disclosures made in the consolidated financial statements regarding the sensitivity of the valuation of insurance contract liabilities to changes in the key actuarial assumptions. We performed full scope audit procedures over this risk area in two locations, which covered 100% of the risk amount.	We determined that the actuarial assumptions used by management are reasonable based on the analysis of the experience to date, industry practice and the financial and regulatory requirements.
Actuarial modelling *There has been no change in our assessment of this risk from the prior year.* We consider the integrity and appropriateness of models to be critical to the overall valuation of insurance contract liabilities. Over £41.3 billion of the £45.4 billion of insurance contract liabilities are modelled using the actuarial modelling systems with the residual balance modelled outside these systems to cater for ancillary business. The key risk is therefore associated with the modelling systems but risks also exist in the calculation of amounts outside these systems.	To conclude on actuarial models, including those models outside the core system, we: – have for existing businesses, confirmed in prior periods that the core system appropriately values liabilities, and tested the design, implementation and operating effectiveness of key controls over management's process for testing and approval of model changes during the year; – for ALAC, being the first year of our appointment as auditors, performed independent re-projections based on underlying policy terms to substantiate the reserve calculated; – evaluated the methodology, inputs and assumptions used for a sample of model changes based on our knowledge of the Group, industry standards and regulatory and financial reporting requirements; – reviewed the governance process around model changes and assessed the completeness of identified model changes; – assessed the results of the analysis of movements in insurance contract liabilities in order to confirm the completeness of model changes; and – tested the design, implementation and operating effectiveness of key controls over management's process for modelling insurance contract liabilities outside the actuarial modelling systems. We performed full scope audit procedures over this risk area in two locations, which covered 100% of the risk amount.	We determined that the models used are appropriate and that changes to the models were implemented as intended and that controls over management's processes for modelling insurance contract liabilities outside of the actuarial modelling system were operating effectively.

Risk area	Our response to the risk	Key observations communicated to the Audit Committee
Data *There has been no change in assessment of this risk from the prior year.* The actuarial data is a key input into the valuation process. The valuation of insurance contract liabilities is therefore conditional upon the accuracy and completeness of the data used.	To obtain sufficient audit evidence to assess the integrity of actuarial data we: – tested the adequacy of Outsourced Service Provider ('OSP') controls regarding the maintenance of policyholder data and, where applicable, reviewed the Service Organisation Controls ('SOC1') Reports produced by the OSPs; – confirmed that the actuarial model data extracts provided by the OSPs were those used as an input to the actuarial model; – tested the design and operating effectiveness of key controls, including information technology general controls, over management's data collection, extraction and validation process; – assessed the integrity of policy level data, performing corroborative testing on i) changes to static data during the period and ii) unusual trends and anomalies in the data. We did this based upon our knowledge of the Group's products, industry standards and through using advanced data analytics; – assessed the appropriateness of management's grouping of data for input into the actuarial model; and – tested the reconciliations of premiums and claims information from the actuarial data extract to the general ledger, where applicable. We performed full scope audit procedures over this risk area in two locations, which covered 100% of the risk amount.	We determined based on our audit work that the data used for the actuarial model inputs is materially complete and accurate.
Valuation of complex and illiquid financial investments (£1.4 billion; 2016: £1.8 billion) *We have refined our assessment of risk from the prior year, focussing on those investments with the highest degree of judgement such as Equity Release Mortgages ('ERM'), In Retirement Services property reversions ('IRS'), a form of equity release product, and the Abbey Life longevity contracts (known as Corporate Transactions).* *Refer to the Audit Committee Report (page 59); Critical accounting estimates (page 111); Accounting policies and notes E1 and E2 of the consolidated financial statements (page 123-127).* The extent of judgement applied by management in valuing the Group's financial investments varies with the nature of securities held, the markets in which they are traded and the valuation methodology applied. We performed additional audit procedures on the ERM and IRS financial investments as well as the longevity contracts which require judgement to be applied and for which quoted market prices are not readily available and consequently where management use models and other inputs to estimate their value. These investments are referred to as Level 3 assets in the financial statements.	To obtain sufficient audit evidence to conclude on the valuation of complex and illiquid financial investments, we: – tested the design and operating effectiveness of key controls over management's process in respect of the valuation of complex and illiquid financial investments such as ERMs, IRSs and Corporate Transactions; – evaluated the methodology, inputs and assumptions used (such as voluntary early repayment, house price inflation and mortality improvement), and compared them to published market benchmarks and other demographic and economic assumptions used by other industry participants, to confirm that key valuation inputs were consistent with industry norms and our understanding of the asset type; – considered the results of management's experience analysis and assessed the reasonableness of the movement in valuation during the year; – tested the completeness and accuracy of data used in the valuation model; – assessed the reasonableness of a sample of property valuations within the IRS model; and – reviewed that disclosures have been made in the financial statements regarding the sensitivity of the valuation of certain illiquid and complex assets to changes in the key assumptions. We performed full scope audit procedures over this risk area in two locations, which covered 99% of the risk amount.	Based on our procedures performed on the ERM and IRS models and Corporate Transactions, we are satisfied that the valuation of these complex and illiquid assets is reasonable.

We have removed the significant risk identified in the prior year in relation to 'Acquisition of AXA Wealth Limited and Abbey Life Assurance Company Limited', as this related to the one-off risk arising in the year of acquisition.

Independent Auditor's Report to the Members of Phoenix Group Holdings continued

THE SCOPE OF OUR AUDIT

TAILORING THE SCOPE

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each reporting unit ('component') within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of Group-wide controls, changes in the business environment and other factors when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the consolidated financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the consolidated financial statements, we selected four reporting components of the Group. The Group reporting components consists of Phoenix Life Division, ALAC, Group Function and 'Other Companies'. In the Phoenix Life Division component the most significant insurance companies are Phoenix Life Assurance Limited and Phoenix Life Limited. The Group Function consists of Group entities that primarily hold external debt, PA(GI) Limited and the pension schemes of the Group. The Other Companies include the service companies.

Details of the four components which were audited by component teams are set out below:

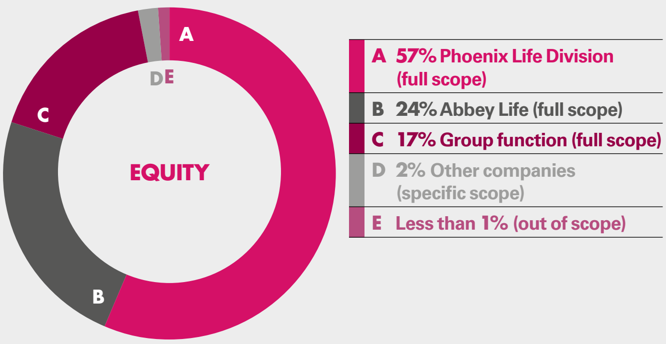
Component	Scope	Auditor
Phoenix Life Division	Full	EY
Abbey Life Assurance Company Limited	Full	EY
Group Function	Full	EY
Other Companies	Specific	EY

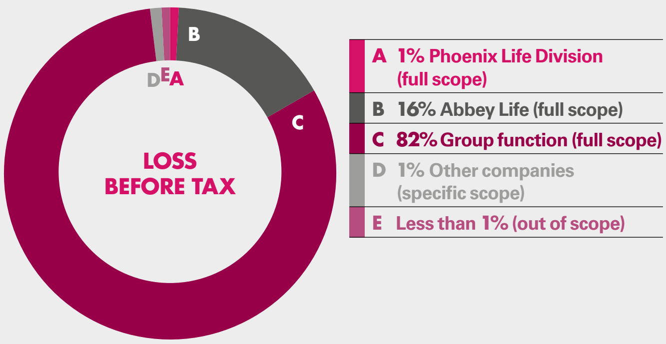
Management refers to Phoenix Life as a reporting segment in the accounts. This includes the Phoenix Life Division, Abbey Life Assurance Company Limited and Service Companies as defined in our scope.

For the Other Companies component, we performed audit procedures on provisions, accruals and deferred income, and administrative expenses for the service companies. The extent of audit work in respect of Other Companies component was based on our assessment of the risks of material misstatement at a financial statement line level.

The reporting components where we performed audit procedures accounted for more than 99% of the Group equity and the Group's operating profit. For the current year, the full scope components contributed 98% (2016: 98%) of the equity and 99% (2016: 92%) of the Group's loss before tax. The specific scope component contributed 2% (2016: 1%) of the Group's equity and 1% (2016: 7%) of the Group's loss before tax. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

The charts below illustrate the coverage obtained from the work performed by our audit teams.





CHANGES FROM THE PRIOR YEAR

During the year, we were appointed as the auditor of ALAC. This component continues to be designated as a full scope component. AXA Wealth Limited was incorporated into the Phoenix Life Division component during the year, and is no longer a separate identifiable component of the Group.

INVOLVEMENT WITH COMPONENT TEAMS

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by the component auditors operating under our instruction.

The Group audit team provided detailed audit instructions to the component teams which included guidance on areas of focus, including the relevant risks of material misstatement detailed above, and set out the information required to be reported to the Group team.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visited each of the locations where the Group audit scope was focused at least once every year and the most significant of them more than once a year. For all full audit components, in addition to the location visit, the Group audit team reviewed key working papers and participated in the component team's planning, including the component team's discussion of fraud and error. The Group team attended the closing meetings with the management of the Phoenix Life Division and ALAC and attended key Audit Committee meetings.

For the specific scope component, the Group team have reviewed the audit procedures performed by the component team on the specific accounts.

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

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

MATERIALITY

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £63 million (2016: £67million), which is 2.0% (2016: 2.0%) of Group equity. Whilst profit before tax or operating profit are common bases used across the life insurance industry, we believe that the use of equity as the basis for assessing materiality is more appropriate given that the Group is a closed life assurance consolidator and as such equity provides a more stable, long-term measure of value. We note also that equity more closely correlates with key Group performance metrics such as Solvency II capital requirements and Own Funds. However, as these measures are non-GAAP measures, we consider equity to be most appropriate.

We determined materiality for the parent company to be £22 million (2016: £23 million), which is 2% (2016: 2%) of parent company equity. We have used a capital based measure for determining materiality for consistency with the approach taken for the Group where we consider equity to be the most appropriate basis when considering against other measures such as IFRS profit before tax with its inherent volatility considering the nature of the parent company as a holding company.

During the course of our audit, we reassessed initial materiality and concluded that materiality assessed at planning stages of our audit remained appropriate.

PERFORMANCE MATERIALITY

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2016: 50%) of our planning materiality, namely £31 million (2016: £34 million).

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £6 million to £24 million (2015: £7 million to £25 million).

REPORTING THRESHOLD

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report all uncorrected audit differences in excess of £3.0 million (2016: £3.0 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

REPORTING THRESHOLD

The other information comprises the information included in the annual report set on pages 2 to 92, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and , except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Independent Auditor's Report to the Members of Phoenix Group Holdings continued

IN CONNECTION WITH OUR AUDIT OF THE FINANCIAL STATEMENTS

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 92 – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting set out on pages 56 to 59 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 92 – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are 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.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Statement of Directors' Responsibilities set out on page 92, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- report as to whether the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- report as to whether the information given in the Corporate Governance Statement with respect to internal control and risk management systems in relation to financial reporting processes is consistent with the financial statements;
- report as to whether the section in the Directors' Remuneration Report that is described as audited has been properly prepared in accordance with the basis of preparation described therein; and
- report if we are not satisfied that:
  - adequate accounting records have been kept (including returns from those branches which have not been visited); or
  - the financial statements are in agreement with the records and returns; or
  - we have obtained all the information and explanations which we consider necessary for the purposes of the audit.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit:

- in respect of fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management; and
- in respect of irregularities, considered to be non-compliance with laws and regulations, are to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements ('direct laws and regulations'), and perform other audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. We are not responsible for preventing non-compliance with laws and regulations and our audit procedures cannot be expected to detect non-compliance with all laws and regulations.

Our approach was as follows:

- we obtained a general understanding of the legal and regulatory frameworks that are applicable to the Company and its subsidiaries and determined that the relevant laws and regulations related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA') and UK Listing Authority ('UKLA). We obtained a general understanding of how Phoenix Group Holdings is complying with those frameworks by making enquiries of management and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and UK regulatory bodies; reviewed minutes of the Board and Executive Committee; and gained an understanding of the Company's approach to governance, demonstrated by the Board's approval of the Company's governance framework.
- for direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.
- for both direct and other laws and regulations, our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Company's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and PRA.
- the Company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

Independent Auditor's Report to the Members of Phoenix Group Holdings continued

– we assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, including complex transactions, performance targets, external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk (valuation of insurance contract liabilities). These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

OTHER MATTERS WE ARE REQUIRED TO ADDRESS

– we were appointed as auditors by the Company in May 2009 to audit the financial statements for the year ending 31 December 2009 and subsequent financial periods.

– the period of total uninterrupted engagement including previous renewals and reappointments is nine years, covering the years ending 31 December 2009 to 31 December 2017.

– the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.

– the audit opinion is consistent with the additional report to the Audit Committee.

Ernst & Young LLP

ERNST & YOUNG LLP

LONDON
14 MARCH 2018

Consolidated Income Statement

For the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Gross premiums written		**1,130**	999
Less: premiums ceded to reinsurers	F3	**(205)**	(75)
Net premiums written		**925**	924
Fees		**173**	88
Net investment income	C1	**4,986**	6,361
Total revenue, net of reinsurance payable		**6,084**	7,373
Gain on transfer of business		**–**	52
Other operating income		**5**	20
Net income		**6,089**	7,445
Policyholder claims		**(3,897)**	(3,726)
Less: reinsurance recoveries		**443**	456
Change in insurance contract liabilities		**1,392**	(1,970)
Change in reinsurers' share of insurance contract liabilities		**(423)**	(281)
Transfer (to)/from unallocated surplus	F2	**(46)**	4
Net policyholder claims and benefits incurred		**(2,531)**	(5,517)
Change in investment contract liabilities		**(2,673)**	(1,194)
Acquisition costs		**(6)**	(9)
Change in present value of future profits	G7	**5**	(11)
Amortisation of acquired in-force business	G7	**(109)**	(76)
Amortisation of other intangibles	G7	**(17)**	(14)
Administrative expenses	C2	**(590)**	(506)
Net income attributable to unitholders		**(43)**	(66)
Total operating expenses		**(5,964)**	(7,393)
Profit before finance costs and tax		**125**	52
Finance costs	C4	**(132)**	(122)
Loss for the year before tax		**(7)**	(70)
Tax charge attributable to policyholders' returns	C5	**(21)**	(58)
Loss before the tax attributable to owners		**(28)**	(128)
Tax charge	C5	**(20)**	(30)
Add: tax attributable to policyholders' returns	C5	**21**	58
Tax credit attributable to owners	C5	**1**	28
Loss for the year attributable to owners		**(27)**	(100)
Attributable to:			
Owners of the parent		**(27)**	(101)
Non-controlling interests	D3	**–**	1
		(27)	(100)
Earnings per ordinary share			
Basic (pence per share)	B3.1	**(7.0)p**	(34.3)p
Diluted (pence per share)	B3.2	**(7.0)p**	(34.3)p

Statement of Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Loss for the year		**(27)**	(100)
Other comprehensive (expense)/income:			
Items that are or may be reclassified to profit or loss:			
Cash flow hedges:			
Fair value losses arising during the year		**(13)**	–
Reclassification adjustments for amounts recognised in profit or loss		**2**	–
Items that will not be reclassified to profit or loss:			
Owner-occupied property revaluation gains	G8	**1**	–
Remeasurements of net defined benefit asset/liability	G6	**43**	219
Tax credit/(charge) relating to other comprehensive income items	C5	**3**	(1)
Total other comprehensive income for the year		**36**	218
Total comprehensive income for the year		**9**	118
Attributable to:			
Owners of the parent		**9**	117
Non-controlling interests	D3	**–**	1
		9	118

Pro forma Reconciliation of Group Operating Profit to Result attributable to owners

For the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Operating profit			
Phoenix Life		**388**	357
Group costs		**(20)**	(6)
Total operating profit		**368**	351
Investment return variances and economic assumption changes on long-term business	B2.2	**(6)**	(207)
Variance on owners' funds	B2.3	**(87)**	(5)
Amortisation of acquired in-force business		**(102)**	(68)
Amortisation of other intangibles		**(17)**	(14)
Other non-operating items	B1.2	**(80)**	(95)
Profit/(loss) before finance costs attributable to owners		**76**	(38)
Finance costs attributable to owners		**(104)**	(90)
Loss before the tax attributable to owners	B1.2	**(28)**	(128)
Tax credit attributable to owners		**1**	28
Loss for the year attributable to owners		**(27)**	(100)

Statement of Consolidated Financial Position

As at 31 December 2017

	Notes	2017 £m	2016 £m
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	D1	**–**	–
Share premium		**1,452**	1,643
Shares held by the employee benefit trust	D2	**(2)**	(7)
Foreign currency translation reserve		**96**	96
Owner-occupied property revaluation reserve		**5**	4
Cash flow hedging reserve		**(11)**	–
Retained earnings		**1,615**	1,597
Total equity		**3,155**	3,333
Liabilities			
Pension scheme liabilities	G6	**633**	680
Insurance contract liabilities			
Liabilities under insurance contracts	F1	**44,435**	45,807
Unallocated surplus	F2	**925**	879
		45,360	46,686
Financial liabilities			
Investment contracts		**26,733**	27,332
Borrowings	E5	**1,778**	2,036
Deposits received from reinsurers		**368**	392
Derivatives	E3	**1,242**	1,567
Net asset value attributable to unitholders		**840**	1,040
Obligations for repayment of collateral received		**1,961**	1,623
	E1	**32,922**	33,990
Provisions	G1	**134**	109
Deferred tax	G2	**366**	378
Reinsurance payables		**23**	21
Payables related to direct insurance contracts	G3	**522**	484
Current tax	G2	**5**	12
Accruals and deferred income	G4	**179**	204
Other payables	G5	**144**	102
Total liabilities		**80,288**	82,666
Total equity and liabilities		**83,443**	85,999

Statement of Consolidated Financial Position

As at 31 December 2017
continued

	Notes	2017 £m	2016 £m
ASSETS			
Pension scheme asset	G6	**322**	225
Intangible assets			
Goodwill		**57**	57
Acquired in-force business		**1,298**	1,407
Other intangibles		**202**	214
	G7	**1,557**	1,678
Property, plant and equipment	G8	**26**	25
Investment property	G9	**612**	646
Financial assets			
Loans and deposits		**1,812**	1,232
Derivatives	E3	**2,760**	3,003
Equities		**17,234**	17,759
Investment in associate		**550**	525
Fixed and variable rate income securities		**26,998**	29,290
Collective investment schemes		**18,901**	18,432
Reinsurers' share of investment contract liabilities		**6,085**	6,808
	E1	**74,340**	77,049
Insurance assets			
Reinsurers' share of insurance contract liabilities	F1	**3,320**	3,744
Reinsurance receivables		**32**	37
Insurance contract receivables		**7**	11
		3,359	3,792
Current tax	G2	**47**	44
Prepayments and accrued income		**355**	361
Other receivables	G10	**580**	513
Cash and cash equivalents	G11	**2,245**	1,666
Total assets		**83,443**	85,999

Statement of Consolidated Cash Flows

For the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Cash flows from operating activities			
Cash generated/(utilised) by operations	I2	**1,156**	(1,845)
Taxation paid		**(35)**	(52)
Net cash flows from operating activities		**1,121**	(1,897)
Cash flows from investing activities			
Acquisition of AXA subsidiaries, net of cash acquired	H2.1	**–**	(343)
Acquisition of Abbey Life subsidiaries, net of cash acquired	H2.2	**–**	(886)
Net cash flows from investing activities		**–**	(1,229)
Cash flows from financing activities			
Proceeds from issuing ordinary shares, net of associated commission and expenses	D1	**2**	908
Ordinary share dividends paid	B4	**(193)**	(126)
Coupon paid on Perpetual Reset Capital Securities		**–**	(1)
Cash settlement of Perpetual Reset Capital Securities		**–**	(6)
Fees associated with the amendment of existing bank facility		**–**	(3)
Repayment of policyholder borrowings		**(77)**	(38)
Repayment of shareholder borrowings		**(1,053)**	(882)
Proceeds from new shareholder borrowings, net of associated expenses		**830**	1,079
Proceeds from sale of internal holding in £428 million subordinated notes		**32**	–
Interest paid on policyholder borrowings		**(8)**	(6)
Interest paid on shareholder borrowings		**(75)**	(73)
Net cash flows from financing activities		**(542)**	852
Net increase/(decrease) in cash and cash equivalents		**579**	(2,274)
Cash and cash equivalents at the beginning of the year		**1,666**	3,940
Cash and cash equivalents at the end of the year	G11	**2,245**	1,666

Statement of Consolidated Changes in Equity

For the year ended 31 December 2017

	Share capital (note D1) £m	Share premium £m	Shares held by the employee benefit trust (note D2) £m	Foreign currency translation reserve £m	Owner-occupied property revaluation reserve £m	Cash flow hedging reserve £m	Retained earnings £m	Total £m
At 1 January 2017	–	**1,643**	**(7)**	**96**	**4**	–	**1,597**	**3,333**
Loss for the year	–	–	–	–	–	–	**(27)**	**(27)**
Other comprehensive income for the year	–	–	–	–	**1**	**(11)**	**46**	**36**
Total comprehensive income for the year	–	–	–	–	**1**	**(11)**	**19**	**9**
Issue of ordinary share capital, net of associated commissions and expenses	–	**2**	–	–	–	–	–	**2**
Dividends paid on ordinary shares	–	**(193)**	–	–	–		–	**(193)**
Credit to equity for equity-settled share-based payments	–	–	–	–	–	–	**8**	**8**
Shares distributed by the employee benefit trust	–	–	**9**	–	–		**(9)**	–
Shares acquired by the employee benefit trust	–	–	**(4)**	–	–	–	–	**(4)**
At 31 December 2017	–	**1,452**	**(2)**	**96**	**5**	**(11)**	**1,615**	**3,155**

Statement of Consolidated Changes in Equity

For the year ended 31 December 2016

	Share capital (note D1) £m	Share premium £m	Shares held by the employee benefit trust (note D2) £m	Foreign currency translation reserve £m	Owner-occupied property revaluation reserve £m	Retained earnings £m	Total £m	Non-controlling interests (note D3) £m	Total £m
At 1 January 2016	–	861	(5)	96	4	1,478	2,434	570	3,004
(Loss)/profit for the year	–	–	–	–	–	(101)	(101)	1	(100)
Other comprehensive income for the year	–	–	–	–	–	218	218	–	218
Total comprehensive income for the year	–	–	–	–	–	117	117	1	118
Issue of ordinary share capital, net of associated commissions and expenses	–	908	–	–	–	–	908	–	908
Dividends paid on ordinary shares	–	(126)	–	–	–	–	(126)	–	(126)
Coupon paid to non-controlling interests, net of tax relief	–	–	–	–	–	–	–	(1)	(1)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	7	7	–	7
Redemption of non-controlling interests	–	–	–	–	–	–	–	(6)	(6)
Elimination of non-controlling interest following loss of control							–	(564)	(564)
Shares distributed by the employee benefit trust	–	–	5	–	–	(5)	–	–	–
Shares acquired by the employee benefit trust	–	–	(7)	–	–	–	(7)	–	(7)
At 31 December 2016	–	1,643	(7)	96	4	1,597	3,333	–	3,333

Phoenix Group Holdings is subject to Cayman Islands Companies Law. Under Cayman Islands Companies Law distributions can be made out of profits or share premium subject, in each case, to a solvency test. The solvency test is broadly consistent with the Group's going concern assessment criteria.

Retained earnings comprise the owners' interest in the post-acquisition retained earnings of the subsidiary companies and the retained earnings of the Company. Distribution of retained earnings held within the long-term business funds and surplus assets held within the owners' funds of the life companies is subject to retaining sufficient funds to protect policyholders' interests.

Notes to the Consolidated Financial Statements

A. SIGNIFICANT ACCOUNTING POLICIES

A1. BASIS OF PREPARATION

The consolidated financial statements for the year ended 31 December 2017 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 going concern basis and on a historical cost basis except for investment property, owner-occupied property and those financial assets, financial liabilities and insurance and investment contracts with discretionary participation features ('DPF') that have been measured at fair value.

Statement of compliance

The consolidated financial statements have been prepared, in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB'). The financial statements are presented in sterling (£) rounded to the nearest million except where otherwise stated.

Assets and liabilities are offset and the net amount reported in the statement of consolidated financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the consolidated income statement unless required or permitted by an IFRS or interpretation, as specifically disclosed in the accounting policies of the Group.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings, including collective investment schemes, where the Group exercises overall control. In accordance with the principles set out in IFRS 10 *Consolidated Financial Statements*, the Group controls an investee if and only if the Group has all the following:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including relevant activities, substantive and protective rights, voting rights and purpose and design of an investee. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Further details about the consolidation of subsidiaries, including collective investment schemes, is included in note H1.

A2. ACCOUNTING POLICIES

The principal accounting policies have been consistently applied in these consolidated financial statements. Where an accounting policy can be directly attributed to a specific note to the consolidated financial statements, the policy is presented within that note, with a view to enabling greater understanding of the results and financial position of the Group. All other significant accounting policies are disclosed below.

A2.1 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.

A3. 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. Disclosures of judgements made by management in applying the Group's accounting policies include those that have the most significant effect on the amounts that are recognised in the Group's financial statements. Disclosures of estimates and associated assumptions include those that have a significant risk of resulting in a material change to the carrying value of assets and liabilities within the next year. 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, income tax assets and liabilities and valuation of pension scheme assets and liabilities. Impairment of intangible assets is no longer included as a critical accounting estimate as management currently believes that a reasonably foreseeable change in key assumptions would not result in a material change to the carrying value of the intangible assets.

The application of critical accounting judgements that could have the most significant effect on the recognised amounts include recognition of pension surplus, the determination of operating profit and the recognition of an investment as an associate. There were no acquisitions during the current year and consequently the identification of intangibles is no longer considered to be a critical accounting judgement. Details of all critical accounting estimates and judgements are included below.

A3.1 Insurance and investment contract liabilities

Insurance and investment contract liability accounting is discussed in more detail in the accounting policies in note F1 with further detail of the key assumptions made in determining insurance and investment contract liabilities included in note F4. Economic assumptions are set taking into account market conditions as at the valuation date. Non-economic assumptions, such as future expenses, longevity and mortality are set based on past experience, market practice, regulations and expectations about future trends.

The valuation of insurance contract liabilities is sensitive to the assumptions which have been applied in their calculation. Details of sensitivities arising from significant non-economic assumptions are detailed on page 148 in note F4.

A3.2 Fair value of financial assets and liabilities

Financial assets and liabilities are measured at fair value and accounted for as set out in the accounting policies in note E1. 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 using 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 E2. In relation to the Level 3 financial instruments, sensitivity analysis is performed in respect of the key assumptions used in the valuation of these financial instruments. The details of this sensitivity analysis are included in note E2.3.

A3.3 Income tax assets and liabilities

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which the losses can be relieved. Forecasts of future profitability are made which by their nature involve management's judgement.

The UK taxation regime applies separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a capital or trading nature may affect the recognition of deferred tax assets.

The determination of tax provisions included in current tax liabilities involves the use of estimates and judgements.

The accounting policy for income taxes (both current and deferred) is discussed in more detail in the accounting policy in notes C5 and G2.

A3.4 Pension scheme obligations

The valuation of pension scheme obligations is determined using actuarial valuations that depend upon a number of assumptions, including discount rate, inflation and longevity. External actuarial advice is taken with regard to setting the financial assumptions to be used in the valuation. As defined benefit pension schemes are long-term in nature, such assumptions can be subject to significant uncertainty.

Further detail on these estimates and the sensitivity of the defined benefit obligation to key assumptions is provided in note G6.

A3.5 Recognition of pension scheme surplus

A pension scheme surplus can only be recognised to the extent that the sponsoring employer can utilise the asset through a refund of surplus or a reduction in contributions. A refund is available to the Group where it has an unconditional right to a refund on a gradual settlement of liabilities over time until all members have left the scheme. A review of the Trust Deeds of the Group's pension schemes that recognise a surplus has highlighted that the Scheme Trustees are not considered to have the unilateral power to trigger a wind-up of the Scheme and the Trustees' consent is not needed for the sponsoring company to trigger a wind-up. Where the last beneficiary died or left the scheme, the sponsoring company could close the Scheme and force the Trustees to trigger a wind-up by withholding its consent to continue the Scheme on a closed basis. This view is supported by external legal opinion and is considered to support the recognition of a surplus. Further details of the Group's pension schemes are provided in note G6.

A3.6 Operating profit

Operating profit is the Group's non-GAAP measure of performance. The Group is required to make judgements as to the appropriate longer-term rates of investment return for the determination of operating profit, as detailed in note B2, and as to what constitutes an operating or non-operating item in accordance with the accounting policy detailed in note B1.2.

Notes to the Consolidated Financial Statements
continued

A. SIGNIFICANT ACCOUNTING POLICIES continued

A3.7 Recognition of the investment in UK Commercial Property Trust Limited ('UKCPT') as an associate

UKCPT is a property investment company which the Group deconsolidated in 2016 and now classifies as an associate held at fair value. Judgement continues to be applied in determining whether the Group controls the activities of UKCPT. The Group held 47.9% of the issued share capital of UKCPT as at 31 December 2017 and deemed that it did not control its investment in UKCPT throughout the year ending on that date. The Group does not hold a unilateral power of veto in general meetings and is restricted by the terms of an existing relationship agreement it has with UKCPT.

A4. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS IN 2017

The consolidated financial statements for the year ended 31 December 2017, set out on pages 103 to 181, were authorised by the Board of Directors for issue on 14 March 2018.

In preparing the consolidated financial statements, the Group has adopted the following amendments effective from 1 January 2017:

Amendments to IAS 7 *Disclosure initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group's liabilities arising from financing activities consist of borrowings (for which further details are provided in note E5). A reconciliation between the opening and closing balances of these items is provided in that note. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in note E5 the application of these amendments has had no impact on the Group's consolidated financial statements.

Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*

The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group's existing approach to assessing the sufficiency of future taxable profits is consistent with that required under the amended standard.

Annual Improvements to IFRSs 2014-2016 Cycle

The Group has applied the amendments to IFRS 12 Disclosure of Interests in Other Entities included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and have not been early adopted by the Group (see note A5).

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Group's consolidated financial statements as none of the Group's interests in these entities have been classified, or included in a disposal group that is classified, as held for sale in either the current or prior period.

A5. NEW ACCOUNTING PRONOUNCEMENTS NOT YET EFFECTIVE

The IASB has issued the following new or amended standards and interpretations which apply from the dates shown. The Group has decided not to early adopt any of these standards, interpretations or amendments where this is permitted.

- IFRS 9 *Financial Instruments* (2018 – Deferred to 2021). Under IFRS 9, all financial assets will be measured either at amortised cost or fair value and the basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. In relation to the impairment of financial assets, IFRS 9 requires the use of an expected credit loss model, as opposed to the incurred credit loss model required under IAS 39. The expected credit loss model will require the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

  The Group has taken advantage of the temporary exemption granted to insurers in IFRS 4 *Insurance Contracts* from applying IFRS 9 until 1 January 2021 as a result of meeting the exemption criteria as at 31 December 2015. As at this date the Group's activities were considered to be predominantly connected with insurance as the percentage of the total carrying amount of its liabilities in relation to insurance relative to the total carrying amount of all its liabilities was greater than 90%. There have been no changes to the activities of the Group that require this assessment to be re-performed. IFRS 9 will instead be implemented at the same time as the new insurance contracts standard (IFRS 17 *Insurance Contracts*). The Group expects to continue to value the majority of its financial assets as at fair value through profit or loss on initial recognition, so as to eliminate or reduce any potential accounting mismatch. When applying the exemption, IFRS 4 requires that a number of disclosures be made in 2018 to provide information to allow comparison with entities adopting the standard in 2018.

- IFRS 15 *Revenue from contracts with Customers* (2018). IFRS 15 establishes a single comprehensive framework for determining whether, how and when revenue is recognised. The standard does not apply to insurance contracts or financial instruments within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*. Accordingly, a detailed impact assessment has been performed to consider the impact of IFRS 15 in relation to revenue streams from the Group's investment contracts and the provision of investment management services. As a result of the outcome of the assessment, the Group considers that the application of IFRS 15 will not have a significant impact on the financial position and/or financial performance of the Group. IFRS 15 introduces additional disclosure requirements which will be reflected in the 2018 consolidated financial statements.
- Classification and measurement of share-based payment transactions (Amendments to IFRS 2) (2018). The Group does not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements as the Group does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments.
- Transfers of Investment Property (Amendments to IAS 40) (2018). The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties). The Group anticipates that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should there be a change in use of any of its properties.

- Annual Improvements to IFRSs 2014-2016 Cycle (2018). The Annual Improvements include amendments to IFRS 1 and IAS 28 which are not yet mandatorily effective for the Group. The package also includes amendments to IFRS 12 which is mandatorily effective for the Group in the current year (see note A4). The Group does not anticipate that the application of the amendments in the future will have any impact on the Group's consolidated financial statements as the Group is neither a first-time adopter of IFRS nor a venture capital organisation. Furthermore, the Group does not have any associate or joint venture that is an investment entity.
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (2018). IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue). The Group does not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.
- IFRS 16 *Leases* (2019). IFRS 16 will replace IAS 17 Leases. The new standard removes the classification of leases as either operating or finance leases for the lessee, thereby treating all leases as finance leases. This will result in the recognition of a right-to-use asset and a lease liability for all of the Group's previously classified operating leases. Short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements. The Group anticipates that following the application of IFRS 16 the Group will need to amend the accounting for its operating leases (see note I5). Given the limited number of these contracts and their relative values, we expect the impact on the Group's consolidated financial statements to be immaterial.
- IFRIC 23 *Uncertainty over Income Tax Treatments* (2019). This interpretation clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.
- IFRS 17 *Insurance Contracts* (2021). IFRS 17 is expected to significantly change the way the Group measures and reports its insurance contracts. The new standard uses three measurement approaches and the principles underlying these measurement approaches will significantly change the way the Group measures its insurance contracts and investment contracts with DPF. These changes will impact profit emergence patterns and add complexity to valuation processes, data requirements and assumption setting. As a consequence, during 2017 the Group commenced a project to perform an assessment of the impact of the standard on the Group and to produce a detailed implementation plan. Implementation activities will continue in 2018/19.
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) (Effective date to be determined).

Where not specifically stated, the impact on the Group of adopting the above standards, amendments and interpretations is subject to evaluation.

B. EARNINGS PERFORMANCE

B1. 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.

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. For reporting purposes, business units are aggregated where they share similar economic characteristics including the nature of products and services, types of customers and the nature of the regulatory environment. As such, Phoenix Life is considered to be the Group's only reportable segment, which includes all of the operating insurance entities and management services entities in the Group.

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. 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.

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. Segmental results include those transfers between business segments which are then eliminated on consolidation.

Predominantly all revenues from external customers are sourced in the UK. No revenue transaction with a single customer external to the Group amounts to greater than 10% of the Group's revenue.

Predominantly all non-current assets are located in the UK. There are no differences between the measurement of the assets and liabilities reflected in the primary statements and that reported for the segments.

Notes to the Consolidated Financial Statements
continued

B. EARNINGS PERFORMANCE continued
B1. SEGMENTAL ANALYSIS continued
B1.1 Segmental result

2017	Phoenix Life £m	Unallocated Group £m	Total £m
Net premiums written	**925**	**–**	**925**
Fees	**173**	**–**	**173**
Net investment income	**4,977**	**9**	**4,986**
Other operating income	**5**	**–**	**5**
Net income	**6,080**	**9**	**6,089**
Net policyholder claims and benefits incurred	**(2,531)**	**–**	**(2,531)**
Amortisation:			
Amortisation of acquired in-force business	**(109)**	**–**	**(109)**
Amortisation of other intangibles	**(17)**	**–**	**(17)**
	(126)	**–**	**(126)**
Change in investment contract liabilities	**(2,673)**	**–**	**(2,673)**
Other expenses	**(528)**	**(106)**	**(634)**
Total operating expenses	**(5,858)**	**(106)**	**(5,964)**
Profit/(loss) before finance costs and tax	**222**	**(97)**	**125**
Finance costs	**(52)**	**(80)**	**(132)**
Profit/(loss) before tax	**170**	**(177)**	**(7)**
Tax attributable to policyholders' returns	**(21)**	**–**	**(21)**
Segmental result before the tax attributable to owners	**149**	**(177)**	**(28)**

2016	Phoenix Life £m	Unallocated Group £m	Total £m
Net premiums written	924	–	924
Fees	88	–	88
Net investment income	6,357	4	6,361
Gain on transfer of business	52	–	52
Other operating income	20	–	20
Net income	7,441	4	7,445
Net policyholder claims and benefits incurred	(5,517)	–	(5,517)
Amortisation:			
Amortisation of acquired in-force business	(76)	–	(76)
Amortisation of other intangibles	(14)	–	(14)
	(90)	–	(90)
Change in investment contract liabilities	(1,194)	–	(1,194)
Other expenses	(486)	(106)	(592)
Total operating expenses	(7,287)	(106)	(7,393)
Profit/(loss) before finance costs and tax	154	(102)	52
Finance costs	(56)	(66)	(122)
Profit/(loss) before tax	98	(168)	(70)
Tax attributable to policyholders' returns	(58)	–	(58)
Segmental result before the tax attributable to owners	40	(168)	(128)

B1.2 Reconciliation of operating profit to the segmental result

The Company has chosen to report a non-GAAP measure of performance, being operating profit. Operating profit is considered to provide a comparable measure of the underlying performance of the business as it excludes the impact of short-term economic volatility and other one-off items. This measure incorporates an expected return, including a longer-term return on financial investments backing shareholder and policyholder funds over the period, with consistent allowance for the corresponding expected movements in liabilities. Annuity new business profits are included in operating profit using valuation assumptions consistent with the pricing of the business (including the Company's expected longer-term asset allocation backing the business).

Operating profit includes the effect of variances in experience for non-economic items, such as mortality and expenses, and the effect of changes in non-economic assumptions. It also incorporates the impacts of significant management actions where such actions are consistent with the Company's core operating activities (for example, actuarial modelling enhancements and data reviews). Operating profit is reported net of policyholder finance charges and policyholder tax.

Operating profit excludes the impact of the following items:

- the difference between the actual and expected experience for economic items and the impacts of changes in economic assumptions on the valuation of liabilities (see notes B2.2 and B2.3);
- amortisation and impairments of intangible assets (net of policyholder tax);
- finance costs attributable to owners;
- gains or losses on the disposal of subsidiaries, associates or joint ventures (net of related costs of disposal);
- the financial impacts of mandatory regulatory change;
- integration, restructuring or other significant one-off projects; and
- any other items which, in the Directors' view, should be disclosed separately by virtue of their nature or incidence to enable a full understanding of the Company's financial performance. This is typically the case where the nature of the item is not reflective of the underlying performance of the operating companies.

Whilst the excluded items are important to an assessment of the consolidated financial performance of the Group, management considers that the presentation of the operating profit metric provides useful information for assessing the performance of the Group's operating companies on an ongoing basis. This is considered particularly important given the Group's acquisitive strategy of closed life fund consolidation and the underlying long term business. The IFRS results are significantly impacted by the amortisation of intangible balances arising on acquisition, the one-off costs of integration activities and the costs of servicing debt used to finance acquisition activity, which are not indicative of the underlying operational performance of the Group's segments.

Furthermore, the hedging strategy of the Group is calibrated to protect the Solvency II surplus position and cash generation capability of the operating companies, as opposed to the IFRS financial position. This can create additional volatility in the IFRS result which is excluded from the operating profit metric.

The Company therefore considers that operating profit provides a more representative indicator of the ability of the Group's operating companies to generate cash available for the servicing of the Group's debts and for distribution to shareholders. Accordingly, the measure is more closely aligned with the business model of the Group and how performance is managed by those charged with governance.

2017	**Phoenix Life £m**	**Unallocated Group £m**	**Total £m**
Operating profit/(loss)	**388**	**(20)**	**368**
Investment return variances and economic assumption changes on long-term business	**(6)**	**–**	**(6)**
Variance on owners' funds	**(72)**	**(15)**	**(87)**
Amortisation of acquired in-force business	**(102)**	**–**	**(102)**
Amortisation of other intangibles	**(17)**	**–**	**(17)**
Other non-operating items	**(18)**	**(62)**	**(80)**
Financing costs attributable to owners	**(24)**	**(80)**	**(104)**
Segmental result before the tax attributable to owners	**149**	**(177)**	**(28)**

Other non-operating items include:

- a premium of £25 million paid on redemption of £178 million principal of the senior unsecured bond;
- costs of £21 million in respect of integration and restructuring of the Abbey Life and AXA Wealth businesses;
- costs of £20 million in respect of short-term expense overruns arising from the AXA Wealth businesses prior to completion of the implementation of the Phoenix operating model;
- a provision of £27 million in respect of a commitment to the reduction of ongoing charges for workplace pension products;
- a £21 million increase in the provision for costs for claims relating to historic creditor insurance underwritten by a subsidiary of the Group, PA(GI) Limited, offset by the recognition of recoveries due or received from third parties under contractual arrangements of £39 million; and
- net other one-off items totalling a cost of £5 million, including corporate project costs.

Further details of the investment return variances and economic assumption changes on long-term business, and the variance on owners funds are included in note B2.

2016	Phoenix Life £m	Unallocated Group £m	Total £m
Operating profit/(loss)	357	(6)	351
Investment return variances and economic changes on long-term business	(207)	–	(207)
Variance on owners' funds	11	(16)	(5)
Amortisation of acquired in-force business	(68)	–	(68)
Amortisation of other intangibles	(14)	–	(14)
Other non-operating items	(15)	(80)	(95)
Financing costs attributable to owners	(24)	(66)	(90)
Segmental result before the tax attributable to owners	40	(168)	(128)

B. EARNINGS PERFORMANCE continued
B1. SEGMENTAL ANALYSIS continued
Other non-operating items include:

- a gain of £26 million on the implementation of a longevity swap reassurance contract on a portfolio of the Group's annuities;
- a gain of £14 million arising as a result of a premium adjustment on the 2015 reassurance arrangement with RGA International following completion of a data review;
- acquisition related costs of £31 million, comprising £12 million of transaction costs related to the acquisition of AXA Wealth's pensions and protection business and £19 million of transaction costs related to acquisition of Abbey Life;
- a provision for costs of £30 million associated with the integration and restructuring of the acquired AXA Wealth businesses;
- the costs of providing for claims and associated costs relating to creditor insurance underwritten prior to 2016 by a subsidiary of the Group, PA(GI) Limited, of £33 million;
- recognition of costs of £10 million associated with the introduction of regulations that cap early exit charges for pension customers aged over 55 at 1%, which came into force from 2017;
- costs of £6 million associated with the transfer of non-profit annuities from with-profit funds to non-profit matching adjustment funds;
- the costs of £4 million on PGL pension scheme buy-in;
- other corporate project costs of £19 million; and
- net other one-off items totalling a cost of £2 million.

B2. INVESTMENT RETURN VARIANCES AND ECONOMIC ASSUMPTION CHANGES

The long-term nature of much of the Group's operations means that, for internal performance management, the effects of short-term economic volatility are treated as non-operating items. The Group focuses instead on an operating profit measure that incorporates an expected return on investments supporting its long-term business. The accounting policy adopted in the calculation of operating profit is detailed in note B1.2. The methodology for the determination of the expected investment return is explained below together with an analysis of investment return variances and economic assumption changes recognised outside of operating profit.

B2.1 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, and reflects hedging arrangements the Group has in place .

The long-term risk-free rate used as a basis for deriving the long-term investment return is set by reference to the swap curve at the 15 year duration plus 10bps at the start of the year. A risk premium of 350bps is added to the risk-free yield for equities (2016: 350bps), 250bps for properties (2016: 250bps), 150bps for other fixed interest assets (2016: 150bps) and 50bps for gilts (2016: 50bps).

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

	2017 %	2016 %
Equities	**5.0**	5.8
Properties	**4.0**	4.8
Gilts	**2.0**	2.8
Other fixed interest	**3.0**	3.8

B2.2 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 return variances and economic assumption changes excluded from the long-term business operating profit are as follows:

	2017 £m	2016 £m
Investment return variances and economic assumption changes on long-term business	**(6)**	(207)

The net adverse investment return variances and economic assumption changes on long-term business of £6 million (2016: £207 million adverse) primarily arise on hedging positions held by the life funds following equity market gains during the year. The Group's exposure to equity movements arising from future profits in relation to with-profit bonuses and unit-linked charges is hedged to benefit the Solvency II surplus position. The impact of equity market movements on the value of the hedging instruments is reflected in the IFRS results, but the corresponding change in the value of future profits is not. Losses on these hedging positions have been partly offset by the positive impact of strategic asset allocation activities, including investment in higher yielding illiquid assets.

The net adverse investment return variances and economic assumption changes on long-term business for the year ended 31 December 2016 of £207 million primarily resulted from the adverse impact of a fall in yields on the life funds, which increased the margin held within insurance liabilities in respect of longevity risk. The investment return variances were adversely impacted by losses arising on equity hedging positions held by life funds following equity market gains in the period. Included in the negative variance is the minority share of the result of the consolidated UKCPT property investment structure prior to its deconsolidation during 2016 of a positive £1 million.

B2.3 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:

	2017 £m	2016 £m
Variances on owners' funds of subsidiary undertakings	**(87)**	(5)

The adverse variance on owners' funds of £87 million (2016: £5 million adverse) is principally driven by interest rate swaption positions held in the life companies' shareholder funds. Such positions are held to hedge the impact of interest rate risk on the Group's Solvency II surplus position. With swap yields remaining relatively stable during the period, option value associated with these contracts has fallen due to expected option expiry and reduced volatility.

The adverse variance on owners' funds for the year ended 31 December 2016 of £5 million was principally driven by losses from equity hedging positions held in the Group holding companies offset by gains on interest rate hedging positions held in the life companies' shareholder funds arising from falling yields.

B3. EARNINGS PER SHARE

The Group calculates its basic earnings per share based on the present shares in issue 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.

Diluted earnings per share are calculated based on the potential future shares in issue assuming the conversion of all potentially dilutive ordinary shares. The weighted average number of ordinary shares in issue is adjusted to assume conversion of dilutive share awards granted to employees and warrants.

B3.1 Basic earnings per share

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

	2017 £m	2016 £m
Loss for the period	**(27)**	(100)
Share of result attributable to non-controlling interests	**–**	(1)
Loss attributable to owners of the parent	**(27)**	(101)

The weighted average number of ordinary shares outstanding during the period is calculated as detailed below:

	2017 Number million	2016 Number million
Issued ordinary shares at beginning of the period (restated for bonus element of rights issue)	**393**	266
Effect of ordinary shares issued	**–**	30
Own shares held by the employee benefit trust	**–**	(1)
Weighted average number of ordinary shares	**393**	295

Basic earnings per share is as follows:

	2017 pence	2016 pence
Basic earnings per share	**(7.0)**	(34.3)

B3.2 Diluted earnings per share

The result attributable to owners of the parent used in the calculation of diluted earnings per share is the same as that used in the basic earnings per share calculation in B3.1 above. The diluted weighted average number of ordinary shares outstanding during the period is also the same as that used in the basic earnings per share calculation in B3.1 above. As losses have an anti-dilutive effect, none of the share-based awards have a dilutive effect for the years ended 31 December 2017 and 31 December 2016.

Diluted earnings per share is as follows:

	2017 pence	2016 pence
Diluted earnings per share	**(7.0)**	(34.3)

5 million warrants issued on 2 September 2009 to certain entities providing finance to the Group could potentially dilute basic earnings per share in the future. The warrants would not have had a dilutive effect for the periods presented due to the exercise price being significantly higher than the share price of the Company. Details of the warrants are given in note E3.3.

Notes to the Consolidated Financial Statements
continued

B. EARNINGS PERFORMANCE continued
B4. 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.

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.

	2017 £m	2016 £m
Dividends declared and paid in 2017	**193**	126

On 17 March 2017, the Board recommended a final dividend of 23.9p per share in respect of the year ended 31 December 2016. The dividend was approved at the Company's Annual General Meeting, which was held on 11 May 2017. The dividend amounted to £94 million and was paid on 15 May 2017.

On 23 August 2017, the Board declared an interim dividend of 25.1p per share for the half year ended 30 June 2017. The dividend amounted to £99 million and was paid on 2 October 2017.

C. OTHER INCOME STATEMENT NOTES
C1. NET INVESTMENT INCOME

Net investment income comprises interest, dividends, rents receivable, net interest income/(expense) on the net defined benefit asset/(liability), fair value gains and losses on financial assets, financial liabilities 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 and financial liabilities designated at fair value through profit or loss are recognised in the consolidated income statement. Fair value gains and losses includes both realised and unrealised gains and losses.

	2017 £m	2016 £m
Investment income		
Interest income on loans and deposits at amortised cost	**1**	1
Interest income on financial assets designated at fair value through profit or loss on initial recognition	**972**	859
Dividend income	**1,073**	902
Rental income	**23**	38
Net interest (expense)/income on Group defined benefit pension scheme liability/asset	**(11)**	21
	2,058	1,821
Fair value gains		
Financial assets and financial liabilities at fair value through profit or loss:		
Designated upon initial recognition	**2,754**	3,236
Held for trading – derivatives	**165**	1,278
Investment property	**9**	26
	2,928	4,540
Net investment income	**4,986**	6,361

C2. ADMINISTRATIVE EXPENSES

Administrative expenses are recognised in the consolidated income statement as incurred.

	2017 £m	2016 £m
Employee costs	**128**	99
Outsourcer expenses	**129**	91
Professional fees	**39**	55
Office costs	**34**	25
Investment management expenses and transaction costs	**160**	129
Direct costs of life companies	**2**	6
Direct costs of collective investment schemes	**7**	11
Pension service costs	**1**	3
Pension administrative expenses	**4**	4
Advertising and sponsorship	**43**	7
Movement in PA(GI) provision, net of reimbursement (see note G1)	**(18)**	33
Integration and restructuring costs	**21**	30
Premium paid on part redemption of the £300 million senior bond	**25**	–
Other	**15**	13
	590	506

Employee costs comprise:

	2017 £m	2016 £m
Wages and salaries	**115**	90
Social security contributions	**13**	9
	128	99

	2017 Number	2016 Number
Average number of persons employed	**1,304**	837

C3. AUDITOR'S REMUNERATION

During the year the Group obtained the services from its auditor at costs as detailed in the table below.

	2017 £m	2016 £m
Audit of the consolidated financial statements	**0.7**	0.7
Audit of the Company's subsidiaries	**3.5**	3.5
	4.2	4.2
Audit-related assurance services	**0.5**	0.5
Reporting accountant assurance services	**0.1**	0.3
Total fee for assurance services	**4.8**	5.0
Corporate finance services	**0.7**	3.6
Other non-audit services	**0.5**	0.1
Total fees for other services	**1.2**	3.7
Total auditor's remuneration	**6.0**	8.7

No services were provided by the Company's auditors to the Group's pension schemes in either 2017 or 2016.

Audit-related assurance services includes fees payable for services where the reporting is required by law or regulation to be provided by the auditor, such as reporting on regulatory returns. It also includes fees payable in respect of reviews of interim financial information and services where the work is integrated with the audit itself.

Reporting accountant assurance services relate to assurance reporting on historical information included within investment circulars. In 2016, this included public reporting associated with the issuance of equity as part of the acquisition of Abbey Life and the issuance of a Medium Term Note Programme.

Corporate finance services fees were £0.7 million (2016: £3.6 million). These fees include the provision of assurance services to the Board and sponsoring banks in support of disclosures made in public transaction documentation relating to debt issuances undertaken in the period. It also includes fees associated with the performance of due diligence activities. The 2016 balance reflects services provided in connection with the acquisition of AXA Wealth and Abbey Life. £1.9 million of the fees related to the engagement of the external auditors to perform actuarial and finance due diligence procedures where synergies were anticipated to arise with subsequent audit work. The remaining balance of £1.7m related to the provision of assurance services to the Board and the sponsoring banks in support of disclosures made in the public transaction documentation relating to the two acquisitions.

Other non-audit services of £0.5 million (2016: £0.1 million) include £0.4 million of fees associated with a review of Abbey Life past business practices undertaken at the request of the regulator. This engagement was entered into prior to the firm's appointment as auditors of Abbey Life. The remaining fees were incurred in connection with other assurance activities. The 2016 fees for other non-audit services were primarily in respect of assurance provided over aspects of the Group's Solvency II internal model.

Further information on auditor's remuneration and the assessment of the independence of the external auditor is set out in the Audit Committee report on page 58.

Notes to the Consolidated Financial Statements
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C. OTHER INCOME STATEMENT NOTES continued
C4. FINANCE COSTS

Interest payable is recognised in the consolidated income statement as it accrues and is calculated using the effective interest method.

This note analyses the interest costs on the Group's borrowings which are described in note E5.

	2017 £m	2016 £m
Interest expense:		
On financial liabilities at amortised cost	**118**	109
On financial liabilities at fair value through profit or loss	**14**	13
	132	122
Attributable to:		
policyholders	**28**	32
owners	**104**	90
	132	122

C5. TAX CHARGE

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.

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.

C5.1 Current year tax charge

	2017 £m	2016 £m
Current tax:		
UK corporation tax	**13**	46
Overseas tax	**21**	15
	34	61
Adjustment in respect of prior years	**(9)**	(8)
Total current tax charge	**25**	53
Deferred tax:		
Origination and reversal of temporary differences	**(1)**	(13)
Change in the rate of UK corporation tax	**4**	(10)
Write up of deferred tax assets	**(8)**	–
Total deferred tax credit	**(5)**	(23)
Total tax charge	**20**	30
Attributable to:		
policyholders	**21**	58
owners	**(1)**	(28)
Total tax charge	**20**	30

The Group, as a proxy for policyholders in the UK, is required to pay taxes on investment income and gains each year. Accordingly, the tax credit or expense attributable to UK life assurance policyholder earnings is included in income tax expense. The tax charge attributable to policyholder earnings was £21 million (2016: £58 million).

C5.2 Tax (credited)/charged to other comprehensive income

	2017 £m	2016 £m
Current tax credit on share schemes	**(1)**	(1)
Deferred tax (credit)/charge on defined benefit schemes	**(2)**	3
Deferred tax credit on share schemes	**–**	(1)
	(3)	1

C5.3 Reconciliation of tax charge

	2017 £m	2016 £m
Loss before tax	**(7)**	(70)
Policyholder tax charge	**(21)**	(58)
Loss before the tax attributable to owners	**(28)**	(128)
Tax credit at standard UK rate of 19.25%[1] (2016: 20%)	**(5)**	(26)
Non-taxable income and gains[2]	**(16)**	(10)
Disallowable expenses[3]	**1**	24
Prior year tax credit for shareholders	**(7)**	(6)
Movement on acquired in-force amortisation at less than 19.25% (2016: 20%)	**3**	2
Profits taxed at rates other than 19.25% (2016: 20%)	**2**	–
Recognition of previously unrecognised deferred tax assets	**(2)**	(5)
Deferred tax rate change[4]	**4**	(9)
Current year losses not valued[5]	**15**	–
Other	**4**	2
Owners' tax credit	**(1)**	(28)
Policyholder tax charge	**21**	58
Total tax charge for the period	**20**	30

1 The Phoenix Life operating segment operates predominantly in the UK. The reconciliation of the tax charge 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 was applicable to Phoenix Group Holdings during the period.

2 Includes non-taxable dividends and gains, non-taxable pension scheme items, non-taxable hedge accounting adjustment on consolidation and non-taxable recoveries from third parties relating to the claims for redress on creditor insurance underwritten by PA(GI) Limited.

3 2016 included non-recurring disallowable deductions in relation to claims and other costs relating to creditor insurance underwritten by PA(GI) Limited of £7 million and a consolidation adjustment on the PGL Pension scheme 'buy-in' agreement £12 million.

4 Represents current year losses carried forward and recognised at future lower tax rates. (2016 represented the effect of the 1% reduction in tax rate from April 2020).

5 Represents current year losses carried forward on which the recognition of an asset cannot be supported by current short-term tax projections.

D. EQUITY
D1. 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.

	2017 £	2016 £
Authorised:		
410 million (2016: 410 million) ordinary shares of €0.0001 each	**31,750**	31,750
Issued and fully paid:		
393.2 million (2016: 392.8 million) ordinary shares of €0.0001 each	**33,145**	33,112

The value of the authorised share capital was translated at a historical rate. Issued and fully paid share capital transactions are translated at the rate prevailing at the date of issue.

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:

2017	**Number**	**£**
Shares in issue at 1 January	**392,849,817**	**33,112**
Ordinary shares issued in the period	**382,827**	**33**
Shares in issue at 31 December	**393,232,644**	**33,145**

During the year, the Company issued 382,827 shares at a premium of £2 million in order to satisfy its obligations to employees under the Group's sharesave schemes (see note I1).

2016	Number	£
Shares in issue at 1 January	225,419,446	18,463
Placement of ordinary shares	22,542,000	1,748
Ordinary shares issued under the rights issue	144,727,282	12,888
Other ordinary shares issued in the period	161,089	13
Shares in issue at 31 December	392,849,817	33,112

On 1 June 2016, the Group completed an equity placing of 22,542,000 new ordinary shares in association with the acquisition of the AXA Wealth businesses which raised gross proceeds of £194 million. The proceeds from the equity placing, net of deduction of commissions and expenses, were £190 million.

On 9 November 2016, the Group issued 144,727,282 shares following a rights issue undertaken in connection with the acquisition of Abbey Life, where 7 rights issue shares were issued at 508 pence per share for every 12 existing Phoenix Group Holdings shares held. The rights issue raised gross proceeds of £735 million and proceeds, net of deduction of commission and expenses, were £717 million.

During 2016, the Company issued 161,089 shares at a premium of £1 million in order to satisfy its obligations to employees under the Group's sharesave schemes.

Notes to the Consolidated Financial Statements
continued

D. EQUITY continued
D2. SHARES HELD BY THE EMPLOYEE BENEFIT TRUST

Where the Phoenix Group Employee Benefit Trust ('EBT') 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 EBT are charged or credited to the own shares account in equity.

The EBT holds shares to satisfy awards granted to employees under the Group's share-based payment schemes.

	2017 £m	2016 £m
At 1 January	**7**	5
Shares acquired by the EBT in year	**4**	7
Shares awarded to employees by the EBT in year	**(9)**	(5)
At 31 December	**2**	7

During the year 1,217,505 (2016: 690,711) shares were awarded to employees by the EBT and 445,560 (2016: 1,196,011) shares were purchased. The number of shares held by the EBT at 31 December 2017 was 320,689 (2016: 1,092,634).

The Company provides the EBT with an interest-free facility arrangement to enable it to purchase the shares. Details of this loan are included in note 10.4 to the parent company accounts.

D3. NON-CONTROLLING INTERESTS

Non-controlling interests are stated at the share of net assets attributed to the non-controlling interest holder at the time of acquisition, adjusted for the relevant share of subsequent changes in equity. The Group did not recognise any non-controlling interests as at 31 December 2016 or 31 December 2017.

	Perpetual Reset Capital Securities £m	UK Commercial Property Trust Limited £m	Total £m
At 1 January 2016	7	563	570
Profit for the year	–	1	1
Coupon paid, net of tax relief	(1)	–	(1)
Redemption of Notes	(6)	–	(6)
Derecognition of non-controlling interest following loss of control	–	(564)	(564)
At 31 December 2016 and 31 December 2017	–	–	–

D3.1 Perpetual Reset Capital Securities ('the Notes')
On 25 April 2016 the coupon that was due on the remaining Notes was settled and Pearl Group Holdings (No.1) Limited redeemed the remaining £6 million of Notes at par.

D3.2 UK Commercial Property Trust Limited
UK Commercial Property Trust Limited ('UKCPT') is a property investment company which is domiciled in Guernsey and is admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange. In February 2016, the Group reduced its holdings to 48.9% of the issued share capital of UKCPT. The Group deems that it no longer exercises control over UKCPT and as a result UKCPT has been deconsolidated from the effective date of this loss of control. The Group's remaining interest in UKCPT is recognised as an associate and held at fair value (see note H3 for further details).

E. FINANCIAL ASSETS & LIABILITIES
E1. FAIR VALUES

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.

The majority of the Group's loans and deposits are designated as loans and receivables and are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and only include assets where a security has not been issued. These loans and deposits 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. The Group also holds a portfolio of loans that are designated at fair value through profit or loss.

Derivative financial instruments are largely 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. Derivative financial instruments are not classified as held for trading where they are designated and effective as a hedging instrument. For such instruments, the timing of the recognition of any gain or loss that arises on remeasurement to fair value in profit or loss depends on the nature of the hedge relationship.

Equities, fixed and variable rate income securities, collective investment schemes and certain loans and deposits 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 the financial assets are managed and reduces a measurement inconsistency that would otherwise arise with regard to the insurance liabilities that the assets are backing.

Reinsurers share of investment contract liabilities without DPF are valued on a basis consistent with investment contract liabilities without DPF as detailed under Financial liabilities below.

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 period end 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.

Associates

Investments in associates that are held for investment purposes are accounted for under IAS 39 *Financial Instruments*: *Recognition and Measurement* as permitted by IAS 28 *Investments in Associates and Joint Ventures*. These are measured at fair value through profit or loss. There are no investments in associates which are of a strategic nature.

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 without DPF 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.

E. FINANCIAL ASSETS & LIABILITIES continued
E1. FAIR VALUES continued

Investment contracts without DPF

Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as investment contracts and accounted for as financial liabilities.

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 the 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.

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.

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.

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.

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.

Hedge accounting

The Group designates certain derivatives as hedging instruments in order to effect cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk. Note E3 sets out details of the fair values of the derivative instruments used for hedging purposes.

Where a cash flow hedging relationship exists, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in net investment income.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time is recycled to profit or loss over the period the hedged item impacts profit or loss.

The table below sets out a comparison of the carrying amounts and fair values of financial instruments as at 31 December 2017:

2017	Carrying value Total £m	Carrying value Amounts due for settlement after 12 months £m	Fair value £m
Financial assets measured at carrying and fair values			
Financial assets at fair value through profit or loss:			
Held for trading – derivatives	**2,760**	**2,613**	**2,760**
Designated upon initial recognition:			
Loans and deposits	**1,444**	**1,424**	**1,444**
Equities[1]	**17,234**	**–**	**17,234**
Investment in associate[1] (see note H3)	**550**	**–**	**550**
Fixed and variable rate income securities	**26,998**	**26,069**	**26,998**
Collective investment schemes[1]	**18,901**	**–**	**18,901**
Reinsurers' share of investment contract liabilities[1]	**6,085**	**–**	**6,085**
Financial assets measured at amortised cost:			
Loans and deposits at amortised cost	**368**	**13**	**368**
Total financial assets[2]	**74,340**		**74,340**

2017	Carrying value Total £m	Carrying value Amounts due for settlement after 12 months £m	Fair value £m
Financial liabilities measured at carrying and fair values			
Financial liabilities at fair value through profit or loss:			
Held for trading – derivatives	**1,242**	**1,170**	**1,242**
Designated upon initial recognition:			
Borrowings	**182**	**143**	**182**
Net asset value attributable to unitholders[1]	**840**	**–**	**840**
Investment contract liabilities[1]	**26,733**	**–**	**26,733**
Financial liabilities measured at amortised cost:			
Borrowings	**1,596**	**1,584**	**1,812**
Deposits received from reinsurers	**368**	**339**	**368**
Obligations for repayment of collateral received[3]	**1,961**	**–**	**–**
Total financial liabilities	**32,922**		**31,177**

1 These assets and liabilities have no expected settlement date.
2 Total financial assets includes £1,115 million (2016: £1,196 million) of assets held in a collateral account pertaining to the PGL pension scheme buy-in agreement. See note G6.2 for further details.
3 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

E. FINANCIAL ASSETS & LIABILITIES continued
E1. FAIR VALUES continued

2016	Carrying value Total £m	Carrying value Amounts due for settlement after 12 months £m	Fair value £m
Financial assets measured at carrying and fair values			
Financial assets at fair value through profit or loss:			
Held for trading – derivatives	3,003	2,909	3,003
Designated upon initial recognition:			
Loans and deposits	812	789	812
Equities[1]	17,759	–	17,759
Investment in associate[1]	525	–	525
Fixed and variable rate income securities	29,290	26,408	29,290
Collective investment schemes[1]	18,432	–	18,432
Reinsurers' share of investment contract liabilities[1]	6,808	–	6,808
Loans and deposits at amortised cost	420	14	420
Total financial assets[2]	77,049		77,049

2016	Carrying value Total £m	Carrying value Amounts due for settlement after 12 months £m	Fair value £m
Financial liabilities measured at carrying and fair values			
Financial liabilities at fair value through profit or loss:			
Held for trading – derivatives	1,567	1,482	1,567
Designated upon initial recognition:			
Borrowings	270	270	270
Net asset value attributable to unitholders[1]	1,040	–	1,040
Investment contract liabilities[1]	27,332	–	27,332
Financial liabilities measured at amortised cost:			
Borrowings	1,766	1,735	1,879
Deposits received from reinsurers	392	363	392
Obligations for repayment of collateral received[3]	1,623	–	–
Total financial liabilities	33,990		32,480

1 These assets and liabilities have no expected settlement date.
2 Total financial assets includes £1,196 million of assets held in a collateral account pertaining to the PGL pension scheme buy-in agreement. See note G6.2 for further details.
3 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.

Fair value hierarchy information for non-financial assets measured at fair value is included in note G8 for property held at valuation and in note G9 for investment property.

E2. FAIR VALUE HIERARCHY
E2.1 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 indicate 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, derivatives and some borrowings with no external market is determined by internally developed discounted cash flow models using appropriate assumptions corroborated with external market data where possible.

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

E2.2 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.

2017	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	28	2,588	144	2,760
Financial assets designated at fair value through profit or loss upon initial recognition:				
Loans and deposits	–	–	1,444	1,444
Equities	16,621	6	607	17,234
Investment in associate	550	–	–	550
Fixed and variable rate income securities	19,194	7,393	411	26,998
Collective investment schemes	17,923	929	49	18,901
Reinsurers' share of investment contract liabilities	–	6,085	–	6,085
	54,288	14,413	2,511	71,212
Total financial assets measured at fair value	54,316	17,001	2,655	73,972
Financial assets for which fair values are disclosed				
Loans and deposits at amortised cost	–	368	–	368
	54,316	17,369	2,655	74,340

2017	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Derivatives	39	1,103	100	1,242
Financial liabilities designated at fair value through profit or loss upon initial recognition:				
Borrowings	–	–	182	182
Net asset value attributable to unitholders	840	–	–	840
Investment contract liabilities	–	26,733	–	26,733
	840	26,733	182	27,755
Total financial liabilities measured at fair value	879	27,836	282	28,997
Financial liabilities for which fair values are disclosed				
Borrowings at amortised cost	–	1,521	291	1,812
Deposits received from reinsurers	–	368	–	368
Total financial liabilities for which fair values are disclosed	–	1,889	291	2,180
	879	29,725	573	31,177

E2. FAIR VALUE HIERARCHY continued
E2.2 Fair value hierarchy of financial instruments continued

2016 Restated[1]	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	74	2,876	53	3,003
Financial assets designated at fair value through profit or loss upon initial recognition:				
Loans and deposits	–	–	812	812
Equities	17,078	10	671	17,759
Investment in associate	525	–	–	525
Fixed and variable rate income securities	17,282	11,862	146	29,290
Collective investment schemes	17,235	1,108	89	18,432
Reinsurers' share of investment contract liabilities	–	6,808	–	6,808
	52,120	19,788	1,718	73,626
Total financial assets measured at fair value	52,194	22,664	1,771	76,629
Financial assets for which fair values are disclosed				
Loans and receivables at amortised cost	–	420	–	420
	52,194	23,084	1,771	77,049

2016	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Derivatives	25	1,270	272	1,567
Financial liabilities designated at fair value through profit or loss upon initial recognition:				
Borrowings	–	–	270	270
Net asset value attributable to unitholders	1,040	–	–	1,040
Investment contract liabilities	–	27,332	–	27,332
	1,040	27,332	270	28,642
Total financial liabilities measured at fair value	1,065	28,602	542	30,209
Financial liabilities for which fair values are disclosed				
Borrowings at amortised cost	–	748	1,131	1,879
Deposits received from reinsurers	–	392	–	392
Total financial liabilities for which fair values are disclosed	–	1,140	1,131	2,271
	1,065	29,742	1,673	32,480

1 Comparative figures have been restated following a re-assessment of the lowest level input that is significant to the fair value measurement of collective investment schemes on the Abbey Life acquisition balance sheet. This resulted in £3,687 million of collective investment schemes being reclassified from Level 2 to Level 1.

E2.3 Level 3 financial instrument sensitivities

Level 3 investments in equities (including private equity and unlisted property investment vehicles) 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.

Fixed and variable rate income securities categorised as Level 3 investments are valued using broker quotes with the exception of a property investment structure, certain local authority loans and private placements. 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.

Level 3 investments in equities and fixed and variable rate income securities include equity and debt holdings in a property investment structure with a value of £1 million (2016: £22 million) and £41 million (2016: £22 million) respectively.

During the period, the investment was restructured affecting the weighting between the Group's debt and equity holdings and prompting an amendment to the valuation methodology. The valuation is now performed for the structure as a whole on a discounted cash flow basis and allocated to the debt and equity components in order of priority. The valuation is sensitive to the discount rate applied. A decrease in the discount rate of 175bps would increase the value by £5 million whilst an increase of 200bps would decrease the value by £7 million. Due to the restructuring of the investment in the period, no comparative sensitivities have been disclosed.

Included within fixed and variable rate income securities are investments in local authority loans with a value of £185 million (2016: £46 million). These investments are valued using a calculation model that takes a comparable UK Treasury stock and applies a credit spread to reflect reduced liquidity. The credit spread is derived from a sample broker quote. The valuations are sensitive to movements in this spread. An increase of 25bps would decrease the value by £6 million (2016: £1 million) and a decrease of 25bps would increase the value by £7 million (2016: £nil).

Also included within fixed and variable rate income securities are private placements, which are loans secured on various assets, with a value of £116 million (2016: £nil). The loans are valued using a discounted cash flow model. The discount rate is made up of a risk-free rate and a spread. The risk-free rate is taken from an appropriate gilt of comparable duration. The spread is taken from a basket of comparable securities. The valuations are sensitive to movements in the spread. An increase of 25bps would decrease the value by £2 million and a decrease of 25bps would increase the value by £2 million.

Included within loans and deposits are investments in equity release mortgages with a value of £1,255 million (2016: £433 million). The loans are valued using a discounted cash flow model, the key inputs to which include demographic assumptions, economic assumptions (including house price index) and the use of a Black-Scholes model for valuation of the no-negative equity guarantee. The no-negative equity guarantee caps the loan repayment in the event of death or entry into long-term care to be no greater than the sales proceeds from the property. The significant sensitivities arise from movements in the yield curve, inflation rate and house prices.

An increase of 100bps in the yield curve would decrease the value by £108 million (2016: £42 million) and a decrease of 100bps would increase the value by £118 million (2016: £47 million). An increase of 1% in the inflation rate would increase the value by £7 million (2016: £3 million) and a decrease of 1% would decrease the value by £14 million (2016: £4 million).

An increase of 10% in house prices would increase the value by £3 million (2016: £1 million) and a decrease of 10% would decrease the value by £9 million (2016: £2 million).

Also included within loans and deposits are investments in commercial real estate loans of £77 million entered into during the period. The loans are valued using a model which discounts the expected projected future cash flows at the risk-free rate plus a spread derived from a proxy basket of asset backed securities. The valuation is sensitive to changes in the discount rate. An increase of 100bps in the discount rate would decrease the value by £5 million and a decrease of 100bps would increase the value by £5 million.

Included within borrowings measured at fair value and categorised as Level 3 financial liabilities are property reversion loans with a value of £131 million (2016: £183 million), measured using an internally developed model. The valuation is sensitive to key assumptions of the discount rate and the house price inflation rate. An increase in the discount rate of 1% would increase the value by £3 million (2016: £5 million) and a decrease of 1% would decrease the value by £3 million (2016: £5 million). An increase of 1% in the house price inflation rate would increase the value by £3 million (2016: £6 million) and a decrease of 1% would decrease the value by £3 million (2016: £6 million).

Included within financial assets and liabilities are related loans and deposits of £112 million (2016: £380 million), borrowings of £51 million (2016: £87 million) and derivative liabilities of £21 million (2016: £255 million) pertaining to a reinsurance and retrocession arrangement assumed following the acquisition of Abbey Life. These assets and liabilities are valued using a discounted cash flow model that includes valuation adjustments in respect of liquidity and credit risk. At 31 December 2017, the net of these balances was an asset of £40 million (2016: asset of £38 million). The valuation is sensitive to movements in the euro swap curve. An increase of 100bps in the swap curve would decrease the aggregate value by £3 million (2016: £4 million) and a decrease of 100bps would increase the aggregate value by £3 million (2016: £4 million).

During 2017, the valuation methodology for each leg of this transaction was revised such that the period covered by the cash flow projections for the valuation of both the derivative liability and loan asset were restricted to the date of the expected contractual novation of the arrangement. The change reduced the fair value of both instruments but did not impact the valuation of the arrangement on a net basis.

Also included within derivative assets and derivative liabilities are longevity swap contracts with corporate pension schemes assumed following the acquisition of Abbey Life with a fair value of £144 million (2016: £53 million) and £77 million (2016: £17 million) respectively. These derivatives are valued on a discounted cash flow basis, key inputs to which are the EIOPA interest rate swap curve and RPI and CPI inflation rates.

An increase of 100bps in the swap curve would decrease the value by £13 million (2016: £10 million) and a decrease of 100bps would increase the value by £17 million (2016: £10 million). An increase of 1% in the RPI and CPI inflation rates would increase the value by £10 million (2016: £5 million) and a decrease of 1% would decrease the value by £10 million (2016: £5 million).

E2.4 Transfers of financial instruments between Level 1 and Level 2

2017	**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:		
Derivatives	**–**	**6**
Fixed and variable rate income securities	**5**	**138**
Collective investment schemes	**23**	**–**
Financial liabilities measured at fair value		
Financial liabilities designated at fair value through profit or loss upon initial recognition:		
Derivatives	**–**	**3**

2016	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	155	153

Consistent with the prior year, all of 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, resulted in an overall net movement of financial assets from Level 2 to Level 1 in the current period and from Level 1 to Level 2 in the comparative period.

E. FINANCIAL ASSETS & LIABILITIES continued
E2. FAIR VALUE HIERARCHY continued
E2.5 Movement in Level 3 financial instruments measured at fair value

2017	At 1 January 2017 £m	Net gains/(losses) in income statement £m	Purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2017 £m	Unrealised gains/(losses) on assets held at end of period £m
Financial assets								
Derivatives	53	98	–	(7)	–	–	144	93
Financial assets designated at fair value through profit or loss upon initial recognition:								
Loans and deposits	812	(223)	937	(82)	–	–	1,444	(223)
Equities	671	55	53	(171)	–	(1)	607	50
Fixed and variable rate income securities	146	8	281	(18)	–	(6)	411	5
Collective investment schemes	89	(18)	5	(46)	19	–	49	(4)
	1,718	(178)	1,276	(317)	19	(7)	2,511	(172)
	1,771	(80)	1,276	(324)	19	(7)	2,655	(79)

2017	At 1 January 2017 £m	Net gains in income statement £m	Purchases £m	Sales/ repayments £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2017 £m	Unrealised gains on liabilities held at end of period £m
Financial liabilities								
Derivatives	272	(172)	–	–	–	–	100	(172)
Financial liabilities designated at fair value through profit or loss upon initial recognition:								
Borrowings	270	(23)	–	(65)	–	–	182	(23)
	542	(195)	–	(65)	–	–	282	(195)

2016	At 1 January 2016 £m	Net gains/ (losses) in income £m	Effect of acquisitions/ purchases £m	Sales £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2016 £m	Unrealised gains on assets held at end of period £m
Financial assets								
Derivatives	–	–	53	–	–	–	53	–
Financial assets designated at fair value through profit or loss upon initial recognition:								
Loans and deposits	268	31	536	(23)	–	–	812	31
Equities	606	89	83	(106)	1	(2)	671	91
Investment in joint venture	149	–	–	(149)	–	–	–	–
Fixed and variable rate income securities	330	(2)	20	(209)	31	(24)	146	7
Collective investment schemes	82	11	8	(12)	–	–	89	7
	1,435	129	647	(499)	32	(26)	1,718	136
Less amounts classified as held for sale	(149)	–	–	149	–	–	–	–
	1,286	129	700	(350)	32	(26)	1,771	136

2016	At 1 January 2016 £m	Net losses in income £m	Effect of acquisitions £m	Repayments £m	Transfers from Level 1 and Level 2 £m	Transfers to Level 1 and Level 2 £m	At 31 December 2016 £m	Unrealised losses on liabilities held at end of period £m
Financial liabilities								
Derivatives	–	–	272	–	–	–	272	–
Financial liabilities designated at fair value through profit or loss upon initial recognition:								
Borrowings	194	15	87	(26)	–	–	270	15
	194	15	359	(26)	–	–	542	15

During the year, updates to the Group's observations, in particular with regard to the nature and liquidity of underlying assets held within a collective investment scheme, resulted in a net transfer from Levels 1 and 2 to Level 3.

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 in either the current or comparative periods.

E. FINANCIAL ASSETS & LIABILITIES continued
E3. DERIVATIVES

The Group purchases derivative financial instruments principally 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. The Group also holds derivatives to hedge financial liabilities denominated in foreign currency.

Derivative financial instruments are largely classified as held for trading. Such instruments are recognised initially at fair value and are subsequently remeasured to fair value. The gain or loss on remeasurement to fair value is recognised in the consolidated income statement. Derivative financial instruments are not classified as held for trading where they are designated as a hedging instrument and where the resultant hedge is assessed as effective. For such instruments, any gain or loss that arises on remeasurement to fair value is initially recognised in other comprehensive income and is recycled to profit or loss as the hedged item impacts the profit or loss. See note E1 for further details of the Group's hedging accounting policy.

E3.1 Summary
The fair values of derivative financial instruments are as follows:

	Assets 2017 £m	**Liabilities 2017 £m**	Assets 2016 £m	Liabilities 2016 £m
Forward currency	**58**	**21**	24	83
Credit default options	**–**	**1**	4	9
Contract for differences	**1**	**–**	1	–
Interest rate swaps	**2,212**	**1,032**	2,437	1,160
Total return bond swaps	**21**	**1**	21	–
Swaptions	**278**	**–**	364	–
Inflation swaps	**17**	**16**	19	14
Equity options	**4**	**–**	64	3
Stock index futures	**8**	**33**	7	20
Fixed income futures	**16**	**6**	8	6
Retrocession contracts	**–**	**21**	–	255
Longevity swap contracts	**144**	**77**	53	17
Currency futures	**1**	**2**	1	–
Cross currency swap held for hedging purposes	**–**	**32**	–	–
	2,760	**1,242**	3,003	1,567

E3.2 Corporate transactions
Abbey Life, a Group entity, has in place longevity swap arrangements with corporate pension schemes which do not meet the definition of insurance contracts under the Group's accounting policies. Under these arrangements the majority of the longevity risk has been passed to third parties. Derivative assets of £144 million and derivative liabilities of £77 million have been recognised as at 31 December 2017 (2016: £53 million and £17 million respectively).

In addition, Abbey Life has entered into a transaction under which it has accepted reinsurance on a portfolio of single and regular premium life insurance policies and retroceded the majority of the insurance risk. Taken as a whole, this transaction does not give rise to the transfer of significant insurance risk to the Group and therefore does not meet the definition of an insurance contract under the Group's accounting policies. The fair value of amounts due from the cedant are recognised within loans and deposits (see note E1). The fair value of amounts due to the retrocessionaire are recognised as a derivative liability and totalled £21 million at 31 December 2017 (2016: £255 million). A loan liability has been recognised in respect of financing obtained for the initial reinsurance premium (see note E5). During 2017, the valuation methodology for these instruments was changed (see note E2.3).

E3.3 Warrants over shares
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 2017 the terms of Lenders' warrants entitled the holders to purchase 1.027873 (2016: 1.027873) ordinary shares per Lenders' warrant for an exercise price of £14.59 (2016: £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 (2016: £18.97) on each of 20 consecutive trading days. The Company must give not less than 30 days' notice of the redemption date. Each warrant may then be exercised by the warrant holder (in whole or any part) at its option.

The holders are entitled to exercise their warrants for cash, assignment of an amount of outstanding principal/accrued interest of any Global Debt (i.e. any debt owed to the registered holder by any Group company) or on a cashless basis where the Company redeems the warrants. Any warrant either not exercised or tendered back to the Company by the redemption date shall be cancelled on the books of the Company and have no further value except for the €0.01 redemption price.

These Lenders' warrants are not traded in an active market and have therefore been valued using an extended Black-Scholes valuation model to capture the embedded barrier feature. The key assumptions used to ascertain a value as at 31 December 2017 are:

- the share price as at 31 December 2017 of £7.82 (2016: 7.35);
- volatility of 25% (2016: 25%);
- the warrants are adjusted for a dividend yield of 6.3%; and
- the valuation incorporates the impact of amending some of the terms of the warrants on 8 May 2012.

The value of the warrants at the year end was £56,000 (2016: £143,000).

E4. COLLATERAL ARRANGEMENTS

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.

E4.1 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 2017 (2016: 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.

2017

		Related amounts not offset		
Financial assets	**Gross and net amounts of recognised financial assets £m**	**Financial instruments and cash collateral received £m**	**Derivative liabilities £m**	**Net amount £m**
OTC derivatives	**2,731**	**2,089**	**562**	**80**
Exchange traded derivatives	**29**	**–**	**17**	**12**
Stock lending	**578**	**578**	**–**	**–**
Total	**3,338**	**2,667**	**579**	**92**

		Related amounts not offset		
Financial liabilities	**Gross and net amounts of recognised financial liabilities £m**	**Financial instruments and cash collateral received £m**	**Derivative assets £m**	**Net amount £m**
OTC derivatives	**1,193**	**631**	**562**	**–**
Exchange traded derivatives	**50**	**18**	**17**	**15**
Total	**1,243**	**649**	**579**	**15**

2016

		Related amounts not offset		
Financial assets	Gross and net amounts of recognised financial assets £m	Financial instruments and cash collateral received £m	Derivative liabilities £m	Net amount £m
OTC derivatives	2,927	2,050	683	194
Exchange traded derivatives	76	–	4	72
Stock lending	446	446	–	–
Total	3,449	2,496	687	266

		Related amounts not offset		
Financial liabilities	Gross and net amounts of recognised financial liabilities £m	Financial instruments and cash collateral received £m	Derivative assets £m	Net amount £m
OTC derivatives	1,543	625	683	235
Exchange traded derivatives	24	16	4	4
Total	1,567	641	687	239

E. FINANCIAL ASSETS & LIABILITIES continued

E4.2 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.

The fair value of financial assets accepted as collateral for OTC derivatives but not recognised in the statement of consolidated financial position amounts to £466 million (2016: £820 million).

The amounts recognised as financial assets and liabilities from cash collateral received at 31 December 2017 are set out below.

	OTC derivatives	
	2017 £m	2016 £m
Financial assets	**1,961**	1,628
Financial liability	**(1,961)**	(1,628)

The maximum exposure to credit risk in respect of OTC derivative assets is £2,731 million (2016: £2,927 million) of which credit risk of £2,651 million (2016: £2,733 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 £29 million (2016: £76 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. The value of assets pledged at 31 December 2017 in respect of OTC derivative liabilities of £1,193 million (2016: £1,543 million) amounted to £631 million (2016: £625 million).

E4.3 Stock lending collateral arrangements

The Group lends listed financial assets held in its investment portfolio to other institutions.

The Group conducts stock lending 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.

The fair value of financial assets accepted as such collateral but not recognised in the statement of financial position amounts to £623 million (2016: £474 million).

The maximum exposure to credit risk in respect of stock lending transactions is £578 million (2016: £446 million) of which credit risk of £578 million (2016: £446 million) is mitigated through the use of collateral arrangements.

E4.4 Other collateral arrangements

Collateral has also been pledged and charges have been granted in respect of certain Group borrowings. The details of these arrangements are set out in note E5.

E5. BORROWINGS

The Group classifies the majority of its interest bearing borrowings as financial liabilities carried at amortised cost and these 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 in the financial liabilities accounting policy (see note E1). Transaction costs relating to borrowings designated upon initial recognition at fair value through profit or loss are expensed as incurred.

Borrowings are classified as either policyholder or shareholder borrowings. Policyholder borrowings are those borrowings where there is either no or limited shareholder exposure, for example, borrowings attributable to the Group's with-profit operations or secured on a block of business

E5.1 Analysis of borrowings

	Carrying value		Fair value	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Limited recourse bonds 2022 7.59% (note a)	**56**	65	**66**	74
Property Reversions loan (note b)	**131**	183	**131**	183
Retrocession contracts (note c)	**51**	87	**51**	87
Total policyholder borrowings	**238**	335	**248**	344
£200 million 7.25% unsecured subordinated loan (note d)	**177**	167	**225**	207
£300 million senior unsecured bond (note e)	**121**	298	**137**	332
£900 million unsecured revolving credit facility (note f)	**–**	843	**–**	850
£428 million subordinated notes (note g)	**426**	393	**513**	416
£450 million Tier 3 subordinated notes (note h)	**448**	–	**481**	–
US $500 million Tier 2 bonds (note i)	**368**	–	**390**	–
Total shareholder borrowings	**1,540**	1,701	**1,746**	1,805
Total borrowings	**1,778**	2,036	**1,994**	2,149
Amount due for settlement after 12 months	**1,727**	2,005		

a. In 1998, Mutual Securitisation plc 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. The bonds were split between two classes, which ranked pari passu and were listed on the Irish Stock Exchange. 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 £60 million (2016: £72 million) have an average remaining life of 2 years and mature in 2022. Phoenix Life Assurance Limited ('PLAL') has provided collateral of £26 million (2016: £29 million) to provide security to the holders of the recourse bonds in issue. During 2017, repayments totalling £12 million were made (2016: £11 million).

b. The Property Reversions loan from Santander UK plc ('Santander') was recognised in 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. As part of the arrangement Santander receive an amount calculated by reference to the movement in the Halifax House Price Index and the Group 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 2017, repayments totalling £24 million were made (2016: £27 million). Note G9 contains details of the assets that support this loan.

c. In July 2012, AXIA Insurance Limited ('AXIA') provided financing to Abbey Life, a Group company, for Abbey Life to in turn provide the financing for the securitisation of the future surplus arising on a block of 1.7 million life insurance policies originating from the wholly owned Spanish and Portuguese insurance subsidiaries of Banco Santander, S.A. (the 'Cedants'). This transaction was executed in the form of a reinsurance and retrocession arrangement that, taken as a whole, does not meet the definition of an insurance contract under the Group's accounting policies (see note E3.2). Abbey Life received an upfront reinsurance commission from AXIA and makes monthly repayments based on the surplus emerging from the securitised policies as defined in the contracts. The repayments comprise a minimum guaranteed surplus amount and a share of any excess surplus, net of certain other amounts. Any excess amount serves to accelerate the repayment of the principal. Repayments are contingent on the receipt of payments due from the Cedants. Repayment of the loan principal is expected to occur by 2021. The contracts are recognised in the consolidated financial statements at fair value.

E. FINANCIAL ASSETS & LIABILITIES continued

E5. BORROWINGS continued

d. 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, following a Part VII transfer, these loan notes were transferred into the shareholder fund of Phoenix Life Limited ('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 consolidated financial position. The fair value adjustments, which were recognised on acquisition, will unwind over the remaining life of these subordinated loan notes. With effect from 23 December 2014, minor modifications were made to the terms of the notes to enable them to qualify as Tier 2 capital for regulatory reporting purposes. Expenses incurred in effecting these modifications amounted to £10 million. Given the modifications were not substantial, the carrying amount of the liability was adjusted accordingly and the expenses are being amortised over the life of the notes.

e. On 7 July 2014, the Group's financing subsidiary, PGH Capital plc ('PGHC'), issued a £300 million 7 year senior unsecured bond at an annual coupon rate of 5.75% ('£300 million senior bond'). On 20 March 2017, the Company was substituted in place of PGHC as issuer of the £300 million senior bond. On 5 May 2017, the Company completed the purchase of £178 million of the £300 million senior bond at a premium of £25 million in excess of the principal amount. Accrued interest on the purchased bonds was settled on this date.

f. In March 2016, the Group agreed an amendment of its PGHC £900 million 5 year unsecured bank facility, which comprised a £450 million revolving credit facility and a £450 million amortising term loan, into a £650 million unsecured revolving credit facility, maturing in June 2020. On 9 November 2016, this facility was fully repaid using proceeds from the rights issue before being drawn down again on 28 December 2016. On the same date the Group drew down a further £250 million tranche of this facility to finance part of the Abbey Life acquisition, increasing borrowings on the revolving credit facility to £900 million. On 29 December 2016, £50 million of the facility was repaid. On 20 January 2017, the proceeds from the issue of £300 million of Tier 3 subordinated notes were used to repay £300 million of the facility. On 28 February 2017, the Company became an additional borrower under the £900 million revolving credit facility. On 6 July 2017, the proceeds from the issuance of the US $500 million Tier 2 bonds were used to repay £384 million of the revolving credit facility and on 8 August 2017, the remaining outstanding balance of £166 million was repaid. There are no mandatory or target amortisation payments associated with the revolving credit facility but prepayments are permissible. The facility accrues interest at LIBOR plus 1.1%, a reduced rate following the upgrade to the Company's credit rating on 25 July 2017 (previously LIBOR plus 1.35%). On 20 January 2017, the utilisation fee was reduced from 0.4% p.a. to 0.2% p.a. and it was further reduced to 0.1% p.a. on 6 July 2017 following subsequent repayments of the outstanding balance (2016: 0.4% p.a.).

g. On 23 January 2015, PGHC issued £428 million of subordinated notes due 2025 at a coupon of 6.625%. Fees associated with these notes of £3 million were deferred and are being amortised over the life of the notes in the statement of consolidated financial position. Upon exchange £32 million of these notes were held by Group companies. On 27 January 2017, £17 million of the £428 million subordinated notes held by Group companies were sold to third parties and a further £15 million were sold to third parties on 31 January 2017, thereby increasing external borrowings by £32 million. On 20 March 2017, the Company was substituted in place of PGHC as issuer of the £428 million subordinated notes.

h. On 20 January 2017, PGHC issued £300 million Tier 3 subordinated notes due 2022 at a coupon of 4.125%. On 20 March 2017, the Company was substituted in place of PGHC as issuer of the £300 million Tier 3 subordinated notes. On 5 May 2017, PGH completed the issue of a further £150 million of Tier 3 subordinated notes, the terms of which are the same as the Tier 3 subordinated notes issued in January 2017. The Group received a premium of £2 million in excess of the principal amount. Fees associated with these notes of £5 million were deferred and are being amortised over the life of the notes.

i. On 6 July 2017, PGH issued US $500 million Tier 2 bonds due 2027 with a coupon of 5.375%. Fees associated with these notes of £2 million were deferred and are being amortised over the life of the notes.

Changes to the Group's borrowings since 31 December 2017 have been detailed in note I8.

E5.2 Reconciliation of liabilities arising from financing

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

		Cash movements		Non-cash movements			
	At Jan 2017 £m	New borrowings, net of costs £m	Repayments[1] £m	Changes in fair value £m	Movement in foreign exchange £m	Other movements[2] £m	At 31 Dec 2017 £m
Limited recourse bonds 2022 7.59%	65	–	(12)	–	–	3	56
Property Reversions loan	183	–	(24)	(28)	–	–	131
Retrocession contracts	87	–	(41)	5	–	–	51
£200 million 7.25% unsecured subordinated loan	167	–	–	–	–	10	177
£300 million senior unsecured bond	298	–	(178)	–	–	1	121
£900 million unsecured revolving credit facility	843	–	(850)	–	–	7	–
£428 million subordinated notes	393	32	–	–	–	1	426
£450 million Tier 3 subordinated notes	–	447	–	–	–	1	448
US $500 million Tier 2 bonds	–	383	–	–	(15)	–	368
	2,036	862	(1,105)	(23)	(15)	23	1,778

1 Repayment of shareholder borrowings in the statement of consolidated cash flows includes a premium of £25 million in excess of the principal amount on repayment of the £300 million senior unsecured bond.

2 Primarily comprises amortisation under the effective interest method applied to borrowings held at amortised cost.

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E. FINANCIAL ASSETS & LIABILITIES continued

E6. RISK MANAGEMENT – FINANCIAL RISK

This note forms one part of the risk management disclosures in the consolidated financial statements. The Group's management of insurance risk is detailed in note F4.

E6.1 Financial risk and the asset liability management ('ALM') framework

The use of financial instruments naturally exposes the Group to the risks associated with them, chiefly 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 many of the Group's funds, within policy guidelines agreed by the board of each life company and overseen by investment committees of the boards of each life company supported by management oversight committees. Derivatives are primarily used for risk hedging purposes or for efficient portfolio management, including the activities of the Group's Treasury function.

More detail on the Group's exposure to financial risk is provided in note E6.2 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, administrative expenses and new business pricing. More detail on the Group's exposure to insurance risk is provided in note F4.

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 framework 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 include all of the Group's participating business), non-linked non-profit funds and unit-linked funds.

E6.2 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.

E6.2.1 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 the minority interest in consolidated collective investment schemes and those assets that back policyholder liabilities, represents the Group's maximum exposure to credit risk.

The impact of non-government fixed and variable rate income securities and, inter alia, the change in market credit spreads during the year is fully reflected in the values shown in these financial statements. Credit spreads are the excess of corporate bond yields over gilt yields to reflect the higher level of risk. Similarly, the value of derivatives that the Group holds takes into account fully the changes in swap rates.

There is an exposure to spread changes affecting the prices of corporate bonds and derivatives. This exposure applies to with-profit funds, non-profit funds (where risks and rewards fall wholly to shareholders) and shareholders' funds.

The Group holds £5,640 million (2016: £6,253 million) of corporate bonds which are used to back annuity liabilities in non-profit funds. These annuity liabilities include an aggregate credit default provision of £225 million (2016: £322 million) to fund against the risk of default.

A 100bps 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 £55 million (2016: £41 million).

A 100bps 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 £53 million (2016: £29 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 external credit rating:

2017	**AAA £m**	**AA £m**	**A £m**	**BBB £m**	**BB £m**	**B and below £m**	**Non-rated £m**	**Unit-linked £m**	**Total £m**
Loans and deposits	**–**	**53**	**366**	**20**	**–**	**–**	**1,371**	**2**	**1,812**
Derivatives	**–**	**41**	**1,942**	**557**	**–**	**–**	**210**	**10**	**2,760**
Fixed and variable rate income securities	**3,867**	**12,853**	**5,571**	**3,586**	**276**	**84**	**546**	**215**	**26,998**
Reinsurers' share of insurance contract liabilities	**–**	**1,406**	**1,849**	**–**	**–**	**–**	**65**	**–**	**3,320**
Reinsurers' share of investment contract liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6,085**	**6,085**
Cash and cash equivalents	**–**	**694**	**1,400**	**114**	**–**	**–**	**–**	**37**	**2,245**
	3,867	**15,047**	**11,128**	**4,277**	**276**	**84**	**2,192**	**6,349**	**43,220**

2016	AAA £m	AA £m	A £m	BBB £m	BB £m	B and below £m	Non-rated £m	Unit-linked £m	Total £m
Loans and deposits	–	80	106	420	–	–	623	3	1,232
Derivatives	–	20	1,807	1,024	–	–	145	7	3,003
Fixed and variable rate income securities	4,343	13,283	6,358	4,230	326	119	439	192	29,290
Reinsurers' share of insurance contract liabilities	–	1,820	1,865	2	–	–	57	–	3,744
Reinsurers' share of investment contract liabilities	–	–	–	–	–	–	–	6,808	6,808
Cash and cash equivalents	–	573	918	89	4	–	–	82	1,666
	4,343	15,776	11,054	5,765	330	119	1,264	7,092	45,743

Credit ratings have not been disclosed in the above tables for holdings in unconsolidated collective investment schemes. The credit quality of the underlying debt securities within these vehicles is managed by the safeguards built into the investment mandates for these vehicles.

Assets held directly by the life companies backing unit-linked business have not been analysed in these tables as the credit risk on such financial assets is borne by the policyholders. However, these assets have been included as a separate column in these tables to reconcile the information to the statement of consolidated financial position. Shareholder credit exposure on unit-linked assets is limited to the level of fee income to the extent it is dependent on the underlying assets.

The Group maintains accurate and consistent risk ratings across its asset portfolio. This enables management to focus on the applicable risks and to compare credit exposures across all lines of business, geographical regions and products. The rating system is supported by a variety of financial analytics combined with market information to provide the main inputs for the measurement of counterparty risk. All risk ratings are tailored to the various categories of assets and are assessed and updated regularly.

The Group operates an Internal Credit Rating Committee to monitor and control oversight of both externally rated and internally rated assets. A variety of methods are used to validate the appropriateness of credit assessment from external institutions and fund managers. Internally rated assets are those that do not have a public rating from an external credit assessment institution. This Committee reviews the policies, processes and practices to ensure the appropriateness of the internal ratings assigned to asset classes.

The Group has increased exposure to illiquid credit assets (e.g. equity release mortgages and commercial real estate loans) with the aim of achieving greater diversification and investment returns.

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.

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E. FINANCIAL ASSETS & LIABILITIES continued
E6. RISK MANAGEMENT – FINANCIAL RISK continued

2017	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 deposits	1,810	–	–	–	–	2	1,812
Derivatives	2,750	–	–	–	–	10	2,760
Fixed and variable rate income securities	26,783	–	–	–	–	215	26,998
Reinsurers' share of insurance contract liabilities	3,320	–	–	–	–	–	3,320
Reinsurers' share of investment contract liabilities	–	–	–	–	–	6,085	6,085
Reinsurance receivables	32	–	–	–	–	–	32
Prepayments and accrued income	355	–	–	–	–	–	355
Other receivables	580	–	–	–	–	–	580
Cash and cash equivalents	2,208	–	–	–	–	37	2,245

2016	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 deposits	1,229	–	–	–	–	3	1,232
Derivatives	2,996	–	–	–	–	7	3,003
Fixed and variable rate income securities	29,098	–	–	–	–	192	29,290
Reinsurers' share of insurance contract liabilities	3,744	–	–	–	–	–	3,744
Reinsurers' share of investment contract liabilities	–	–	–	–	–	6,808	6,808
Reinsurance receivables	37	–	–	–	–	–	37
Prepayments and accrued income	358	–	–	–	–	3	361
Other receivables	493	–	–	–	–	20	513
Cash and cash equivalents	1,584	–	–	–	–	82	1,666

Please refer to page 191 for additional life company asset disclosures which include the life companies' exposure to peripheral Eurozone debt securities. Peripheral Eurozone is defined as Portugal, Spain, Italy, Ireland and Greece. The Group's exposure to peripheral Eurozone debt continues to be relatively small compared to total assets.

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 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 through stress and scenario testing.

Reinsurance

The Group is exposed to credit risk as a result of insurance risk transfer contracts with reinsurers. This also gives rise to concentration of risk with individual reinsurers, due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The Group manages its exposure to reinsurance credit risk through the operation of a credit policy, collateralisation where appropriate, and regular monitoring of exposures at the Reinsurance Management Committee.

Collateral

The credit risk of the Group is mitigated, in certain circumstances, by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral is mainly in respect of stock lending, certain reinsurance arrangements and to provide security against the maturity proceeds of derivative financial instruments. Management monitors the market value of the collateral received, requests additional collateral when needed, and performs an impairment valuation when impairment indicators exist and the asset is not fully secured (and is not carried at fair value). See note E4 for further information on collateral arrangements.

E6.2.2 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 derived from the value of invested assets of the business.

The Group manages the levels of market risk that it accepts through the operation of a market risk policy and 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 and supported participating funds. For unsupported 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. Changes in the value of the Group's holdings in swaptions as the result of time decay or changes to interest rate volatility are not captured in the sensitivity analysis.

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 unsupported 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 unsupported participating business to the Group result is largely limited to the shareholders' share of the declared annual bonus. The contribution of the supported participating business to the Group result is determined by the shareholders' interest in any change in value in the capital advanced to the with-profit funds.

In the non-participating funds, policy liabilities' sensitivity to interest rates are matched primarily with fixed and variable rate income securities and hedging if necessary to match duration, with the result that sensitivity to changes in interest rates is very low. The Group's exposure to interest rates principally arises from the Group's hedging strategy to protect the regulatory capital position, which results in an adverse impact on profit on an increase in interest rates.

An increase of 1% in interest rates, with all other variables held constant would result in a decrease in profits after tax in respect of a full financial year, and in equity, of £110 million (2016: £146 million).

A decrease of 1% in interest rates, with all other variables held constant, would result in an increase in profits after tax in respect of a full financial year, and in equity, of £196 million (2016: £319 million).

E. FINANCIAL ASSETS & LIABILITIES continued

E6. RISK MANAGEMENT – FINANCIAL RISK continued

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 profits after tax in respect of a full financial year, and in equity, of £73 million (2016: £75 million).

A 10% increase in equity prices, with all other variables held constant, would result in a decrease in profits after tax in respect of a full financial year, and in equity, of £71 million (2016: £74 million).

A 10% decrease in property prices, with all other variables held constant, would result in a decrease in profits after tax in respect of a full financial year, and in equity, of £11 million (2016: £4 million).

A 10% increase in property prices, with all other variables held constant, would result in an increase in profits after tax in respect of a full financial year, and in equity, of £5 million (2016: £2 million).

The sensitivity to changes in equity prices is primarily driven by the Group's equity hedging arrangements over the value of future management charges that are linked to asset values.

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 2017, since unhedged exposure to foreign currency was relatively low (2016: not considered significant).

E6.2.3 Financial soundness risk

Financial soundness risk is a broad risk category encompassing capital management risk, tax risk and liquidity and funding risk.

Capital management risk is defined as the failure of the Group, or one of its separately regulated subsidiaries, to maintain sufficient capital to provide appropriate security for policyholders and meet all regulatory capital requirements whilst not retaining unnecessary capital. The PLHL Group has exposure to capital management risk through the requirements of the Solvency II capital regime, 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 Solvency II regulatory capital requirements mandated by the PRA at the solo level. The Group's approach to managing capital management risk is described in detail in note I3.

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. 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. Industry consultation resulted in changes to mitigate the impact of restrictions on the rules relating to the loss absorbing capacity of deferred tax introduced during 2017.

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.

The Board of Phoenix Group Holdings has defined a number of governance objectives and principles and the liquidity risk frameworks of each subsidiary are designed to ensure that:

– liquidity risk is managed in a manner consistent with the subsidiary company boards' strategic objectives, risk appetite and Principles and Practices of Financial Management ('PPFM');
– cash flows are appropriately managed and the reputation of the Group is safeguarded; and
– appropriate information on liquidity risk is available to those making decisions.

The Group's policy is to maintain sufficient liquid assets of suitable credit quality at all times including, where appropriate, by having access to borrowings so as to be able to meet all foreseeable current liabilities as they fall due in a cost-effective manner. Forecasts are prepared regularly to predict required liquidity levels over both the short and medium term allowing management to respond appropriately to changes in circumstances.

The vast majority of the Group's derivative contracts are traded OTC and have a two day collateral settlement period. The Group's derivative contracts are monitored daily, via an end of day valuation process, to assess the need for additional funds to cover margin or collateral calls.

Some of the Group's commercial property investments are held through collective investment schemes. The collective investment schemes have the power to restrict and/or suspend withdrawals, which would, in turn, affect liquidity. This was invoked as a result of the market volatility experienced following the result of the referendum on membership of the European Union in 2016 in line with other firms across the industry. In 2017, all unit trusts processed 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.

E. FINANCIAL ASSETS & LIABILITIES continued

E6. RISK MANAGEMENT – FINANCIAL RISK continued

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 *Insurance Contracts*:

2017	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	**4,739**	**12,169**	**27,527**	**–**	**44,435**
Investment contracts	**26,733**	**–**	**–**	**–**	**26,733**
Borrowings[1]	**144**	**1,161**	**972**	**131**	**2,408**
Deposits received from reinsurers[1]	**28**	**99**	**302**	**–**	**429**
Derivatives[1]	**72**	**153**	**1,283**	**–**	**1,508**
Net asset value attributable to unitholders	**840**	**–**	**–**	**–**	**840**
Obligations for repayment of collateral received	**1,961**	**–**	**–**	**–**	**1,961**
Reinsurance payables	**23**	**–**	**–**	**–**	**23**
Payables related to direct insurance contracts	**522**	**–**	**–**	**–**	**522**
Accruals and deferred income	**179**	**–**	**–**	**–**	**179**
Other payables	**144**	**–**	**–**	**–**	**144**

2016	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	3,406	11,143	31,258	–	45,807
Investment contracts	27,332	–	–	–	27,332
Borrowings[1]	121	1,733	552	183	2,589
Deposits received from reinsurers[1]	29	103	327	–	459
Derivatives[1]	85	170	1,384	254	1,893
Net asset value attributable to unitholders	1,040	–	–	–	1,040
Obligations for repayment of collateral received	1,623	–	–	–	1,623
Reinsurance payables	21	–	–	–	21
Payables related to direct insurance contracts	484	–	–	–	484
Accruals and deferred income	204	–	–	–	204
Other payables	102	–	–	–	102

1 These financial liabilities are disclosed at their undiscounted value and therefore differ to the statement of consolidated financial position which discloses the discounted value.

Investment contract policyholders have the option to terminate or transfer their contracts at any time and to receive the surrender or transfer value of their policies. Although these liabilities are payable on demand, and are therefore included in the contractual maturity analysis as due within one year, the Group does not expect all these amounts to be paid out within one year of the reporting date.

A significant proportion of the Group's financial assets are held in gilts, cash, supranationals and investment grade securities which the Group considers sufficient to meet the liabilities as they fall due. The vast majority of these investments are readily realisable immediately since most of them are quoted in an active market.

E6.3 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.

F. INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DPF AND REINSURANCE
F1. LIABILITIES UNDER INSURANCE CONTRACTS

Classification of contracts

Contracts are classified as insurance contracts where the Group accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain event adversely affects the policyholder.

Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as investment contracts or derivatives and accounted for as financial liabilities (see notes E1 and E3 respectively).

Some insurance and investment contracts contain a Discretionary Participation Feature ('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.

Insurance contracts and investment contracts with DPF

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy.

Insurance liabilities

Insurance contract liabilities for non-participating business, other than unit-linked insurance contracts, are calculated on the basis of current data and assumptions, using either a net premium or gross premium method. Where a gross premium method is used, the liability includes allowance for prudent lapses. Negative policy values are allowed for on individual policies:

– where there are no guaranteed surrender values; or
– in the periods where guaranteed surrender values do not apply even though guaranteed surrender values are applicable after a specified period of time.

For unit-linked insurance contract liabilities the provision is based on the fund value, together with an allowance for any excess of future expenses over charges, where appropriate.

For participating business, the liabilities under insurance contracts and investment contracts with DPF are calculated in accordance with the following methodology:

– liabilities to policyholders arising from the with-profit business are stated at the amount of the realistic value of the liabilities, adjusted to exclude the owners' share of projected future bonuses;
– acquisition costs are not deferred; and
– reinsurance recoveries are measured on a basis that is consistent with the valuation of the liability to policyholders to which the reinsurance applies.

The with-profit bonus reserve for an individual contract is determined by either a retrospective calculation of 'accumulated asset share' approach or by way of a prospective 'bonus reserve valuation' method. The cost of future policy related liabilities is determined using a market consistent approach, mainly based on a stochastic model calibrated to market conditions at the end of the reporting period. Non-market related assumptions (for example, persistency, mortality and expenses) are based on experience adjusted to take into account of future trends.

The realistic liability for any contract is equal to the sum of the with-profit bonus reserve and the cost of future policy-related liabilities.

Where policyholders have valuable guarantees, options or promises in respect of the with-profit business, these costs are generally valued using a stochastic model.

In calculating the realistic liabilities, account is taken of the future management actions consistent with those set out in the Principles and Practices of Financial Management ('PPFM').

Present value of future profits on non-participating business in the with-profit funds

For UK with-profit life funds, an amount may be recognised for the present value of future profits ('PVFP') on non-participating business written in a with-profit fund where the determination of the realistic value of liabilities in that with-profit fund takes account, directly or indirectly, of this value.

Where the value of future profits can be shown to be due to policyholders, this amount is recognised as a reduction in the liability rather than as an intangible asset. This is then apportioned between the amounts that have been taken into account in the measurement of liabilities and other amounts which are shown as an adjustment to the unallocated surplus.

Where it is not possible to apportion the future profits on this non-participating business to policyholders, the PVFP on this business is recognised as an intangible asset and changes in its value are recorded as a separate item in the consolidated income statement (see note G7).

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 F4.

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.

Consolidated income statement 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.

F. INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DPF AND REINSURANCE continued
F1. LIABILITIES UNDER INSURANCE CONTRACTS continued

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
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 and are accounted for on a payable basis. 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.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

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.

The table below shows a summary of the liabilities under insurance contracts and the related reinsurers' share included within assets in the statement of consolidated financial position.

	Gross liabilities 2017 £m	**Reinsurers' share 2017 £m**	Gross liabilities 2016 £m	Reinsurers' share 2016 £m
Life assurance business:				
Insurance contracts	**33,481**	**3,319**	34,749	3,743
Investment contracts with DPF	**10,954**	**1**	11,058	1
	44,435	**3,320**	45,807	3,744
Amounts due for settlement after 12 months	**39,697**	**2,996**	42,401	3,478

	Gross liabilities 2017 £m	**Reinsurers' share 2017 £m**	Gross liabilities 2016 £m	Reinsurers' share 2016 £m
At 1 January	**45,807**	**3,744**	39,983	3,954
Amounts classified as held for sale at 1 January	**–**	**–**	1,587	1,521
	45,807	**3,744**	41,570	5,475
Premiums	**1,130**	**205**	999	75
Claims	**(3,897)**	**(443)**	(3,726)	(456)
Foreign exchange adjustments	**20**	**(1)**	44	32
Acquisition of AXA Wealth and Abbey Life[1]	**–**	**–**	3,875	100
Annuity liabilities transfer	**–**	**–**	(1,652)	(1,582)
Other changes in liabilities[2]	**1,375**	**(185)**	4,697	100
At 31 December	**44,435**	**3,320**	45,807	3,744

1 Gross liabilities in respect of the acquisition of AXA Wealth businesses and Abbey Life are stated after the recognition of negative reserves of £181 million that arise on acquisition of AXA Wealth.

2 Other changes in liabilities principally comprise changes in economic and non-economic assumptions and experience.

F2. 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.

	2017 £m	2016 £m
At 1 January	**879**	877
Transfer from/(to) consolidated income statement	**46**	(4)
Acquisition of Abbey Life	**–**	6
At 31 December	**925**	879

F3. REINSURANCE

This section includes disclosures in relation to reinsurance. Further disclosures and accounting policies relating to reinsurance are included in note F1.

F3.1 Premiums ceded to reinsurers

Premiums ceded to reinsurers during the period were £205 million (2016: £75 million).

During 2016, the Group entered into a longevity swap arrangement with RGA International in respect of a portfolio of the Group's in-force immediate annuities of £2.0 billion.

On 30 December 2016, the reinsurance agreement with ReAssure Life Limited (formerly Guardian Assurance Limited) was replaced by a transfer of the business using a scheme under Part VII of the Financial Services and Markets Act 2000. Prior to the business transfer, in order to mitigate the risk of counterparty default, ReAssure Life Limited held assets in a collateral account over which the Group had a fixed charge as disclosed in note F3.2.

F3.2 Collateral arrangements

It is the Group's practice to obtain collateral to mitigate the counterparty risk related to reinsurance transactions usually in the form of cash or marketable financial instruments.

Where the Group receives collateral in the form of marketable financial instruments which it is not permitted to sell or re-pledge except in the case of default, it is not recognised in the statement of consolidated financial position. The fair value of financial assets accepted as collateral for reinsurance transactions but not recognised in the statement of consolidated financial position amounts to £3,640 million (2016: £3,780 million).

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 2017 are set out below.

	Reinsurance transactions	
	2017 £m	2016 £m
Financial assets	**368**	392
Financial liabilities	**368**	392

F4. RISK MANAGEMENT – INSURANCE RISK

This note forms one part of the risk management disclosures in the consolidated financial statements. Financial risk is included in note E6.

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
Pricing	inadequate or inappropriate pricing of new business.

F. INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DPF AND REINSURANCE continued

F4. RISK MANAGEMENT – INSURANCE RISK continued

Objectives and policies for mitigating insurance risk

The Group uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, experience analyses, external data comparisons, sensitivity analyses, scenario analyses and stress testing.

The profitability of the run-off of the closed long-term insurance businesses within the Group depends, to a significant extent, on the values of claims paid in the future relative to the assets accumulated to the date of claim. Typically, over the lifetime of a contract, premiums and investment returns exceed claim costs in the early years and it is necessary to set aside these amounts to meet future obligations. The amount of such future obligations is assessed on actuarial principles by reference to assumptions about the development of financial and insurance risks.

It is therefore necessary for the Directors of each life company to make decisions, based on actuarial advice, which ensure an appropriate accumulation of assets relative to liabilities. These decisions include investment policy, bonus policy and, where discretion exists, the level of payments on early termination.

Sensitivities

Insurance liabilities are sensitive to changes in risk variables, such as prevailing market interest rates, currency rates and equity prices, since these variations alter the value of the financial assets held to meet obligations arising from insurance contracts and changes in investment conditions also have an impact on the value of insurance liabilities themselves. Additionally, insurance liabilities are sensitive to the assumptions which have been applied in their calculation, such as mortality and lapse rates. Sometimes allowance must also be made for the effect on future assumptions of management or policyholder actions in certain economic scenarios. This could lead to changes in assumed asset mix or future bonus rates. The most significant non economic sensitivities arise from mortality, longevity and lapse risk.

A decrease of 5% in assurance mortality, with all other variables held constant, would result in an increase in the profit after tax in respect of a full year, and an increase in equity of £34 million (2016: £43 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 £34 million (2016: £41 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 £137 million (2016: £127 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 £138 million (2016: £128 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 £99 million (2016: £38 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 £77 million (2016: £36 million).

F4.1 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

Following the implementation of the Solvency II regulatory regime effective from 1 January 2016, the Group made certain changes to the assumptions and estimates used in the valuation of insurance contracts during the year ended 31 December 2016, as follows:

- In determining the discount rate to be applied when calculating participating and non-participating insurance contract liabilities, the Group amended the risk-free reference curve from a gilt yield curve plus a liquidity premium of 10bps to the swap curve plus 10bps.
- For non-participating insurance contract liabilities, the Group previously used a valuation rate of interest and adjusted the liability discount rate by reference to the yield on the assets backing the liabilities to account for credit, default and reinvestment risk. The Group now makes an explicit adjustment to the risk-free rate to adjust for illiquidity in respect of assets backing illiquid liabilities. This approach does not take any additional credit for investment margins compared to the previous methodology.
- For non-participating insurance contract liabilities, the Group previously derived demographic assumptions by adding an implicit prudent margin to best estimate assumptions. The Group amended its approach in this regard and now sets assumptions at management's best estimates and recognises an explicit margin for demographic risks. For participating business in realistic basis companies, the assumptions about future demographic trends continue to represent 'best estimates'.

The assumption changes were made to align the IFRS basis more closely with the requirements of Solvency II removing the volatility that would otherwise arise from the use of reference rates that differ across reporting bases and aligning the calculation of liquidity premiums with that performed under Solvency II.

The amendments to the risk-free reference rate and the approach for adjusting for illiquidity increased insurance contract liabilities by £77 million in the year ended 31 December 2016. This was more than offset by the impact of the change in approach for determining the demographic prudence margin, which reduced insurance contract liabilities by £115 million. After allowing for other second order impacts of the changes (including the revaluation of certain current liabilities using the swap rather than gilt curve), the overall impact of the above changes in the year ended 31 December 2016 was a benefit to profit before tax of £31 million.

Expense inflation

Expenses are assumed to increase at the rate of increase in the Retail Price Index ('RPI') plus fixed margins in accordance with the various management service agreements ('MSAs') the Group has in place with outsource partners. For with-profit business the rate of RPI inflation is determined within each stochastic scenario. For other business it is based on the Bank of England inflation spot curve. For MSAs with contractual increases set by reference to national average earnings inflation, this is approximated as RPI inflation plus 1%. In instances in which inflation risk is not mitigated, a further margin for adverse deviations may then be added to the rate of expense inflation.

Mortality and longevity rates

Mortality rates are based on published tables, adjusted appropriately to take account of changes in the underlying population mortality since the table was published, company experience and forecast changes in future mortality. Where appropriate, a margin is added to assurance mortality rates to allow for adverse future deviations. Annuitant mortality rates are adjusted to make allowance for future improvements in pensioner longevity.

Lapse and surrender rates (persistency)

The assumed rates for surrender and voluntary premium discontinuance depend on the length of time a policy has been in force and the relevant company. Surrender or voluntary premium discontinuances are only assumed for realistic basis companies. Withdrawal rates used in the valuation of with-profit policies are based on observed experience and adjusted when it is considered that future policyholder behaviour will be influenced by different considerations than in the past. In particular, it is assumed that withdrawal rates for unitised with-profit contracts will be higher on policy anniversaries on which Market Value Adjustments do not apply.

Discretionary participating bonus rate

For realistic basis companies, the regular bonus rates assumed in each scenario are determined in accordance with each company's PPFM. Final bonuses are assumed at a level such that maturity payments will equal asset shares subject to smoothing rules set out in the PPFM.

Policyholder options and guarantees

Some of the Group's products give potentially valuable guarantees, or give options to change policy benefits which can be exercised at the policyholders' discretion. These products are described below.

Most with-profit contracts give a guaranteed minimum payment on a specified date or range of dates or on death if before that date or dates. For pensions contracts, the specified date is the policyholder's chosen retirement date or a range of dates around that date. For endowment contracts, it is the maturity date of the contract. For with-profit bonds it is often a specified anniversary of commencement, in some cases with further dates thereafter. Annual bonuses when added to with-profit contracts usually increase the guaranteed amount.

There are guaranteed surrender values on a small number of older contracts.

Some pensions contracts include guaranteed annuity options (see deferred annuities in note F4.2 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 £1,965 million (2016: £2,239 million) and £131 million (2016: £183 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 £334 million (2016: £376 million) and £48 million (2016: £13 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.

Assumption changes

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

	(Decrease)/increase in insurance liabilities 2017 £m	(Decrease)/increase in insurance liabilities 2016 £m
Change in longevity assumptions	**(148)**	(83)
Change in persistency assumptions	**120**	142
Change in mortality assumptions	**15**	1
Change in expenses assumptions	**(79)**	(8)

The £148 million positive impact of changes in longevity assumptions reflects updates to base and improvement assumptions to reflect latest experience analyses and the most recent Continuous Mortality Investigation 2016 projection tables.

The £120 million adverse impact of changes in persistency assumptions is principally driven by the strengthening of actuarial assumptions to reflect the impact of the continued low interest rate environment on the Group's expectations of persistency for products with valuable guarantees and associated late retirements.

The £79 million positive impact of changes in expense assumptions includes the impact of expense synergies arising from integration of the acquired Abbey Life business, together with the impact of revisions to the life expense agreements between the life and service companies.

F. INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DPF AND REINSURANCE continued
F4. RISK MANAGEMENT – INSURANCE RISK continued
F4.2 Managing product risk
The following sections give an assessment of the risks associated with the Group's main life assurance products (as shown below gross of longevity swaps) and the ways in which the Group manages those risks.

2017	Gross Insurance contracts £m	Gross Investment contracts with DPF £m	Reinsurance Insurance contracts £m	Reinsurance Investment contracts with DPF £m
With-profit funds:				
Pensions:				
Deferred annuities – with guarantees	**7,458**	**78**	**665**	**–**
Deferred annuities – without guarantees	**1,234**	**–**	**–**	**–**
Immediate annuities	**1,029**	**–**	**699**	**–**
Unitised with-profit	**4,244**	**8,936**	**–**	**–**
Total pensions	**13,965**	**9,014**	**1,364**	**–**
Life:				
Immediate annuities	**8**	**–**	**4**	**–**
Unitised with-profit	**761**	**804**	**2**	**1**
Life with-profit	**2,509**	**–**	**18**	**–**
Total life	**3,278**	**804**	**24**	**1**
Other	**1,344**	**–**	**77**	**–**
Non-profit funds:				
Deferred annuities – without guarantees	**121**	**–**	**–**	**–**
Immediate annuities	**11,303**	**–**	**1,854**	**–**
Protection	**289**	**–**	**61**	**–**
Unit-linked	**3,420**	**1,136**	**66**	**–**
Other	**(239)**	**–**	**(127)**	**–**
	33,481	**10,954**	**3,319**	**1**

2016	Gross Insurance contracts £m	Gross Investment contracts with DPF £m	Reinsurance Insurance contracts £m	Reinsurance Investment contracts with DPF £m
With-profit funds:				
Pensions:				
Deferred annuities – with guarantees	8,576	144	499	–
Deferred annuities – without guarantees	1,572	–	–	–
Immediate annuities	1,208	–	609	–
Unitised with-profit	1,000	9,005	8	–
Total pensions	12,356	9,149	1,116	–
Life:				
Immediate annuities	11	–	4	–
Unitised with-profit	633	751	6	–
Life with-profit	4,166	–	6	1
Total life	4,810	751	16	1
Other	2,211	–	82	–
Non-profit funds:				
Deferred annuities – with guarantees	479	–	–	–
Deferred annuities – without guarantees	571	–	2	–
Immediate annuities	11,376	–	2,247	–
Protection	274	–	89	–
Unit-linked	2,426	1,153	73	–
Other	246	5	118	–
	34,749	11,058	3,743	1

With-profit fund (unitised and traditional)

The Group operates a number of with-profit funds in the UK in which the with-profit policyholders benefit from a discretionary annual bonus (guaranteed once added in most cases) and a discretionary final bonus. Non-participating business is also written in some of the with-profit funds and some of the funds may include immediate annuities and deferred annuities with Guaranteed Annuity Rates ('GAR').

The investment strategy of each fund differs, but is broadly to invest in a mixture of fixed interest investments and equities and/or property and other asset classes in such proportions as is appropriate to the investment risk exposure of the fund and its capital resources.

The Group has significant discretion regarding investment policy, bonus policy and early termination values. The process for exercising discretion in the management of the with-profit funds is set out in the PPFM for each with-profit fund and is overseen by with-profit committees. Advice is also taken from the with-profit actuary of each with-profit fund. Compliance with the PPFM is reviewed annually and reported to the PRA, Financial Conduct Authority ('FCA') and policyholders.

The bonuses are designed to distribute to policyholders a fair share of the return on the assets in the with-profit funds together with other elements of the experience of the fund. The shareholders of the Group are entitled to receive one-ninth of the cost of bonuses declared for some funds and £nil for others.

Unitised and traditional with-profit policies are exposed to equivalent risks, the main difference being that unitised with-profit policies purchase notional units in a with-profit fund whereas traditional with-profit policies do not. Benefit payments for unitised policies are then dependent on unit prices at the time of a claim, although charges may be applied. A unitised with-profit fund price is typically guaranteed not to fall and increases in line with any discretionary bonus payments over the course of one year.

Deferred annuities

Deferred annuity policies are written to provide either a cash benefit at retirement, which the policyholder can use to buy an annuity on the terms then applicable, or an annuity payable from retirement. The policies contain an element of guarantee expressed in the form that the contract is written in, i.e. to provide cash or an annuity. Deferred annuity policies written to provide a cash benefit may also contain an option to convert the cash benefit to an annuity benefit on guaranteed terms; these are known as GAR policies. Deferred annuity policies written to provide an annuity benefit may also contain an option to convert the annuity benefit into cash benefits on guaranteed terms; these are known as Guaranteed Cash Option ('GCO') policies.

During the last decade, interest rates and inflation have fallen and life expectancy has increased more rapidly than originally anticipated. The guaranteed terms on GAR policies are more favourable than the annuity rates currently available in the market available for cash benefits. The guaranteed terms on GCO policies are currently not valuable. Deferred annuity policies which are written to provide annuity benefits are managed in a similar manner to immediate annuities and are exposed to the same risks.

The option provisions on GAR policies are particularly sensitive to downward movements in interest rates, increasing life expectancy and the proportion of customers exercising their option. Adverse movements in these factors could lead to a requirement to increase reserves which could adversely impact profit and potentially require additional capital. In order to address the interest rate risk (but not the risk of increasing life expectancy or changing customer behaviour with regard to exercise of the option), insurance subsidiaries within the Group have purchased derivatives that provide protection against an increase in liabilities and have thus reduced the sensitivity of profit to movements in interest rates (see note E6.2.2).

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. In addition, the Group has in place longevity swaps that provide downside protection over longevity risk.

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.

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES

G1. PROVISIONS

A provision is recognised when the Group has a present legal or constructive obligation, as a result of a past event, which is likely to result in an outflow of resources and where a reliable estimate of the amount of the obligation can be made. If the effect is material, the provision is 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.

A provision is recognised for onerous contracts when the expected benefits to be derived from the contracts are less than the related unavoidable costs. 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.

Where it is expected that a part of the expenditure required to settle a provision will be reimbursed by a third party the reimbursement is recognised when, and only when, it is virtually certain that the reimbursement will be received. This reimbursement shall be recognised as a separate asset within other receivables and will not exceed the amount of the provision.

2017	Leasehold properties £m	Staff related £m	Known incidents £m	PA(GI) provision £m	FCA thematic reviews provision £m	Restructuring provision £m	Other £m	Total £m
At 1 January	5	13	2	33	25	30	1	109
Additions in the year	1	–	–	21	29	13	6	70
Utilised during the year	–	(2)	(1)	(14)	–	(26)	–	(43)
Released during the year	(1)	(1)	–	–	–	–	–	(2)
At 31 December	5	10	1	40	54	17	7	134

Leasehold properties

The leasehold properties provision includes a £3 million (2016: £3 million) dilapidations provision in respect of obligations under operating leases. In addition, a provision has been made for £2 million (2016: £2 million) 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.

Staff related

Staff related provisions mainly includes provisions for unfunded pensions of £6 million (2016: £6 million) and private medical insurance costs for former employees of £2 million (2016: £3 million).

Known incidents

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.

PA(GI) provision

In 2015, PA(GI), a subsidiary of the Group, was subject to a Companies Court judgement that directed that PA(GI) is liable to claimants for redress relating to creditor insurance policies within a book of insurance underwritten by PA(GI) until 2006. As a consequence, PA(GI) is liable for complaint handling and redress with regard to the complaints.

The PA(GI) provision of £40 million (2016: £33 million) represents the Group's best estimate of the likely future costs. However, this is subject to a number of risks and uncertainties including volumes of future complaints, the rates by which those complaints are upheld and the average redress value. At 31 December 2017, a reimbursement asset of £32 million (2016: £nil) has been recognised in other receivables in connection with the Group's exposure to these complaints. This represents recoveries due from third parties under contractual arrangements. Recoveries of £7 million (2016: £nil) have been received during the year.

FCA thematic reviews provision

On 3 March 2016, the FCA published a thematic review report on the fair treatment of long-standing customers in the life insurance sector. Following completion of the review, Abbey Life is subject to additional investigations. Specifically, the FCA is exploring whether remedial and/or disciplinary action is necessary or appropriate in respect of exit or paid-up charges being applied. Additionally, Abbey Life is being investigated for potential contravention of regulatory requirements across a number of other areas assessed in the thematic review. The FCA has confirmed that these investigations have been commenced in order to enable the FCA to establish the reasons for the practices within firms and determine whether customers have suffered detriment as a result. No conclusion has been reached as to whether there have been any breaches of regulatory requirements. The commencement of investigations itself therefore cannot be taken to indicate that disciplinary action against Abbey Life will result nor does it indicate that a penalty will inevitably be imposed or that redress will be payable.

In addition, on 14 October 2016, the FCA published its thematic review of non-advised annuity sales. In its findings, the FCA identified concerns in a small number of firms relating to significant communications that took place orally, usually on the telephone. The FCA also identified other areas of possible concern, including in relation to the recording and maintenance of records of calls. The FCA encouraged all firms to consider its feedback and take appropriate action to address the points raised.

The Group has recognised a provision of £54 million as at 31 December 2017 (2016: £25 million) in relation to its best estimate of its obligations arising as a result of Abbey Life's past practices in the areas covered by the two thematic reviews. Any resultant outflow of economic benefits is subject to uncertainty given the absence of final findings from the FCA review procedures, which would determine the extent to which the FCA may require Abbey Life to carry out remediation activities or impose financial penalties.

Under the terms of the acquisition, Deutsche Bank has provided PLHL with an indemnity, with a duration of up to eight years, in respect of exposures that may arise in Abbey Life as a result of the FCA's final thematic review findings. The maximum amount that can be claimed under the indemnity is £175 million and it applies to all regulatory fines and to 80% to 90% of the costs of customer remediation. The indemnity would be expected to mitigate any additional costs not covered by the existing provision, arising in the event of a crystallisation of exposures deemed not to trigger the recognition of a provision based on current information, or a deterioration in management's estimate of the liabilities associated with present obligations. At 31 December 2017, a reimbursement asset of £23 million (2016: £nil) has been recognised in other receivables under this indemnity, which is net of £6 million tax relief arising on recognition of costs in the year.

Restructuring provision

Following the acquisition of AXA Wealth in 2016, the Group commenced the restructuring of these businesses to align their operating model with that of the other Group companies. These activities include separation and integration activities associated with the exiting of interim services agreements entered into with the vendor, and costs involved with implementing the Group's preferred outsourcer model. A provision of £30 million was recognised in 2016, of which £17 million was utilised during 2017. The remaining £13 million is expected to be utilised within 6 months.

Following the acquisition of Abbey Life on 30 December 2016, a similar restructuring provision of £13 million was recognised in 2017 in respect of committed Abbey Life integration activities. During 2017, £8 million of this provision was utilised with the remaining £4 million expected to be utilised within 6 months.

Other provisions

Other provisions include litigation and onerous contract provisions, together with obligations arising under a gift voucher scheme operated by the SunLife business.

G2. TAX ASSETS AND LIABILITIES

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.

	2017 £m	2016 £m
Current tax:		
Current tax receivable	**47**	44
Current tax payable	**(5)**	(12)
Deferred tax:		
Deferred tax liabilities	**(366)**	(378)

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued
G2. TAX ASSETS AND LIABILITIES continued
Movement in deferred tax assets/(liabilities)

2017	1 January £m	Recognised in consolidated income statement £m	Recognised in other comprehensive income £m	Other movements £m	31 December £m
Trading losses	23	25	–	–	48
Expenses and deferred acquisition costs carried forward	3	21	–	–	24
Provisions and other temporary differences	23	(20)	–	5	8
Non-refundable pension scheme surplus	(13)	–	–	–	(13)
Committed future pension contributions	34	(10)	1	–	25
Pension scheme deficit	15	(4)	1	–	12
Accelerated capital allowances	7	2	–	–	9
Unpaid interest	16	–	–	–	16
Acquired in-force business	(364)	23	–	–	(341)
Customer relationships	(37)	4	–	–	(33)
Unrealised gains	(37)	(44)	–	–	(81)
IFRS transitional adjustments	(48)	8	–	–	(40)
	(378)	5	2	5	(366)

2016	1 January £m	Recognised in consolidated income statement £m	Recognised in other comprehensive income £m	Acquisition of AXA Wealth and Abbey Life (see note H2)	31 December £m
Trading losses	14	(5)	–	14	23
Expenses and deferred acquisition costs carried forward	16	(13)	–	–	3
Provisions and other temporary differences	8	13	1	1	23
Non-refundable pension scheme surplus	(7)	(3)	(3)	–	(13)
Committed future pension contributions	42	(8)	–	–	34
Pension scheme deficit	–	–	–	15	15
Accelerated capital allowances	6	1	–	–	7
Unpaid interest	21	(5)	–	–	16
Acquired in-force business	(359)	29	–	(34)	(364)
Customer relationships	(37)	4	–	(4)	(37)
Unrealised gains	–	(2)	–	(35)	(37)
IFRS transitional adjustments	(54)	8	–	(2)	(48)
Adjustment for insurance policies held with related parties in respect of the PGL pension scheme	(4)	4	–	–	–
	(354)	23	(2)	(45)	(378)

The Finance Act 2016 reduced the rates of corporation tax from 20% to 19% in April 2017 and to 17% from April 2020. Consequently a blended rate of tax has been used for the purposes of providing for deferred tax in these financial statements.

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

	2017 £m	2016 £m
Deferred tax assets have not been recognised in respect of:		
Tax losses carried forward	37	25
Excess expenses and deferred acquisition costs	–	33
Provisions and other temporary differences	–	3
Deferred tax assets not recognised on capital losses[1]	16	18

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

On 29 March 2017 the UK Government triggered Article 50 initiating a 2 year process for leaving the EU. There is some uncertainty about how the existing tax legislation will apply after the UK's exit. No changes are required to the measurement of tax in these financial statements but this will be monitored and reassessed at each reporting period as negotiations continue.

G3. PAYABLES RELATED TO DIRECT INSURANCE CONTRACTS

Payables related to direct insurance contracts are recognised when due and are measured on initial recognition at the fair value of the consideration payable. Subsequent to initial recognition, these payables are measured at amortised cost using the effective interest rate method.

	2017 £m	2016 £m
Payables related to direct insurance contracts	522	484
Amount due for settlement after 12 months	–	–

G4. ACCRUALS AND DEFERRED INCOME

This note analyses the Group's accruals and deferred income at the end of the year.

	2017 £m	2016 £m
Accruals and deferred income	179	204
Amount due for settlement after 12 months	–	–

G5. OTHER PAYABLES

Other payables are recognised when due and are measured on initial recognition at the fair value of the consideration payable. Subsequent to initial recognition, these payables are measured at amortised cost using the effective interest rate method.

	2017 £m	2016 £m
Investment broker balances	76	37
Other payables	68	65
	144	102
Amount due for settlement after 12 months	–	–

G6. PENSION SCHEMES

Defined contribution pension schemes

Obligations for contributions to defined contribution pension schemes are recognised as an expense in the consolidated income statement as incurred.

Defined benefit pension schemes

The net surplus or deficit (the economic surplus or deficit) in respect of the defined benefit pension schemes is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value and the fair value of any scheme assets is deducted.

The economic surplus or deficit is subsequently adjusted to eliminate on consolidation the carrying value of insurance policies issued by Group entities to the defined benefit pension schemes (the reported surplus or deficit). A corresponding adjustment is made to the carrying values of insurance contract liabilities and investment contract liabilities.

As required by IFRIC 14, IAS 19 – *'The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'*, to the extent that the economic surplus will be available as a refund, the economic surplus is stated after a provision for tax that would be borne by the scheme administrators when the refund is made. The Group recognises a pension surplus on the basis that it is entitled to the surplus of each scheme in the event of a gradual settlement of the liabilities, due to its ability to order a winding up of the Trust.

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 opening 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.

This note describes the Group's three main staff pension schemes for its employees, the Pearl Group Staff Pension Scheme, the PGL Pension Scheme, and the Abbey Life Staff Pension Scheme and explains how the pension asset/liability is calculated.

Notes to the Consolidated Financial Statements
continued

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued
G6. PENSION SCHEMES continued

An analysis of the defined benefit asset for each pension scheme is set out below:

	2017 £m	2016 £m
Pearl Group Staff Pension Scheme		
Economic surplus	**572**	448
Minimum funding requirement obligation	**(50)**	(66)
Provision for tax on that part of the economic surplus available as a refund on a winding-up of the Scheme	**(200)**	(157)
Net defined benefit asset	**322**	225
PGL Pension Scheme		
Economic surplus (including £420 million (2016: £387 million) available as a refund on a winding-up of the Scheme)	**500**	465
Adjustment for insurance policies eliminated on consolidation	**(916)**	(913)
Adjustment for amounts due from subsidiary eliminated on consolidation	**–**	(6)
Net economic deficit	**(416)**	(454)
Minimum funding requirement obligation	**–**	(4)
Provision for tax on that part of the economic surplus available as a refund on a winding-up of the Scheme	**(147)**	(135)
Net defined benefit liability	**(563)**	(593)
Abbey Life Staff Pension Scheme		
Net defined benefit liability	**(70)**	(87)

In December 2016, the PGL Pension Scheme entered into a buy-in transaction with PLL which converted the existing longevity swap contract into a bulk annuity contract. Further details are included in section G6.2.

The Group's defined benefit schemes typically expose the Group to a number of risks, the most significant of which are:

Asset volatility – the value of the schemes' assets will vary as market conditions change and as such is subject to considerable volatility. The volatility in the schemes' 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 schemes' 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 all 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 schemes' 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.

G6.1 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 benefit scheme

The Pearl Scheme is established under, and governed by, the trust deeds and rules and is funded by payment of contributions to a separately administered trust fund. A Group company, Pearl Group Holdings No.2 Limited ('PGH2'), is the principal employer of the Pearl Scheme. The principal employer meets the administration expenses of the Scheme. The Pearl Scheme is administered by a separate Trustee company, P.A.T. (Pensions) Limited, 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 2017, undertaken by independent qualified actuaries. The present values of the defined benefit obligation and the related interest costs have been measured using the projected unit credit method.

Funding

A triennial funding valuation of the Pearl Scheme as at 30 June 2015 was completed in September 2016. This showed a deficit as at 30 June 2015 of £300 million, on the agreed technical provisions basis. The funding and IFRS accounting bases of valuation can give rise to different results for a number of reasons. The funding basis of valuation is based on general principles of prudence whereas the accounting valuation is based on best estimates. Discount rates are gilt-based for the funding valuation whereas the rate used for IFRS valuation purposes is based on a yield curve for high quality AA-rated corporate bonds. In addition, the values are prepared at different dates which will result in differences arising from changes in market conditions and employer contributions made in the subsequent period.

On 27 November 2012 the principal employer and the Trustee of the Pearl Scheme entered into a revised pensions funding agreement (the 'Pensions Agreement'), the principal terms of which have not been altered following the 30 June 2015 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 timing of payment of contributions changed during 2017 so that the contributions are paid on a monthly basis following the last annual payment of £40 million completed in September 2016. The Pensions Agreement includes a sharing mechanism, related to the level of dividends paid out of PGH2, that in certain circumstances allows for an acceleration of the contributions to be paid to the Pearl Scheme;

- additional 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 security claim granted under the share charges is capped at the lower of £600 million and 100% of the Pearl Scheme deficit (calculated on a basis linked to UK government securities) revalued every three years thereafter; and
- covenant tests relating to the embedded value of certain companies with the Group.

It should be noted that the terms of the £900 million facility agreement (see note E5) restrict the Group's ability, with certain exceptions, to transfer assets into the secured companies over which the Trustee holds a charge over shares.

An additional liability of £50 million (2016: £66 million) has been recognised, reflecting a charge on any refund of the resultant IAS 19 surplus that arises after adjustment for discounted future contributions of £143 million (2016: £189 million) in accordance with the minimum funding requirement. A deferred tax asset of £24 million (2016: £32 million) has also been recognised to reflect tax relief at a rate of 17% (2016: 17%) that is expected to be available on the contributions, once paid into the scheme.

Contributions totalling £50 million were paid into the scheme in 2017 (2016: £40 million), £10 million in relation to the last quarter of 2016 and £40 million in relation to 2017 by monthly instalments. Contributions totalling £40 million are expected to be paid into the scheme in 2018.

Summary of amounts recognised in the consolidated financial statements

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

2017	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	**2,685**	**(2,237)**	**(157)**	**(66)**	**225**
Interest income/(expense)	69	(56)	(4)	(2)	7
Included in profit or loss	69	(56)	(4)	(2)	7
Remeasurements:					
Return on plan assets excluding amounts included in interest income	76	–	–	–	76
Gain from changes in demographic assumptions	–	51	–	–	51
Loss from changes in financial assumptions	–	(51)	–	–	(51)
Experience loss	–	(15)	–	–	(15)
Change in provision for tax on economic surplus available as a refund	–	–	(39)	–	(39)
Change in minimum funding requirement obligation	–	–	–	18	18
Included in other comprehensive income	76	(15)	(39)	18	40
Employer's contributions	50	–	–	–	50
Benefit payments	(158)	158	–	–	–
At 31 December	**2,722**	**(2,150)**	**(200)**	**(50)**	**322**

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G6. PENSION SCHEMES continued

G6.1 Pearl Group Staff Pension Scheme continued

2016	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	2,213	(1,937)	(97)	(74)	105
Interest income/(expense)	84	(73)	(3)	(3)	5
Included in profit or loss	84	(73)	(3)	(3)	5
Remeasurements:					
Return on plan assets excluding amounts included in interest income	453	–	–	–	453
Loss from changes in demographic assumptions	–	(15)	–	–	(15)
Loss from changes in financial assumptions	–	(367)	–	–	(367)
Experience gains	–	50	–	–	50
Change in provision for tax on economic surplus available as a refund	–	–	(57)	–	(57)
Change in minimum funding requirement obligation	–	–	–	11	11
Included in other comprehensive income	453	(332)	(57)	11	75
Employer's contributions	40	–	–	–	40
Benefit payments	(105)	105	–	–	–
At 31 December	2,685	(2,237)	(157)	(66)	225

Scheme assets

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

	2017		2016	
	Total £m	**Of which not quoted in an active market £m**	Total £m	Of which not quoted in an active market £m
Hedging portfolio	**1,823**	**(35)**	2,327	(38)
Equities	**165**	**–**	134	–
Fixed interest gilts	**88**	**–**	129	–
Other debt securities	**1,090**	**–**	958	–
Properties	**270**	**270**	206	206
Private equities	**35**	**35**	38	38
Hedge funds	**18**	**18**	30	30
Cash and other	**120**	**–**	84	–
Obligations for repayment of stock lending collateral received	**(887)**	**–**	(1,221)	–
	2,722	**288**	2,685	236

The actual return on plan assets was a gain of £145 million (2016: £537 million gain).

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 Pearl 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 Pearl Scheme uses swaps, UK Government bonds and UK Government stock lending to hedge the interest rate and inflation exposure arising from the liabilities which are disclosed in the table above as 'Hedging Portfolio' assets. Under the Scheme's stock lending programme, the Scheme lends a Government bond to an approved counterparty and receives a similar value in the form of cash in return which is typically reinvested into other Government bonds. The Scheme retains economic exposure to the Government bond, hence the bonds continue to be recognised as scheme assets with a corresponding liability to repay the cash received as disclosed in the table above.

Defined benefit obligation

The calculation of the defined benefit obligation can be allocated to the scheme's members as follows:

– Deferred scheme members: 37% (2016: 38%); and
– Pensioners: 63% (2016: 62%)

The weighted average duration of the defined benefit obligation at 31 December 2017 is 17 years (2016: 17 years).

Principal assumptions

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

	2017 %	2016 %
Rate of increase for pensions in payment (5% per annum or RPI if lower)	**3.05**	3.05
Rate of increase for deferred pensions ('CPI')	**2.20**	2.20
Discount rate	**2.50**	2.65
Inflation – RPI	**3.20**	3.20
Inflation – CPI	**2.20**	2.20

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 based on the SAPS standard tables for males and for females based on year of use. Future longevity improvements are based on CMI 2016 Core Projections (2016: CMI 2014 Core Projections) and a long-term rate of improvement of 1.75% per annum for males and 1.50% per annum for females up to and including age 85 then decreasing linearly to 0% per annum at age 110 (2016: Long-term rate of improvement of 2% per annum up to and including age 75 then decreasing linearly to 0% per annum at age 110). Under these assumptions, the average life expectancy from retirement for a member currently aged 40 retiring at age 60 is 30.0 years and 32.0 years for male and female members respectively (2016: 31.0 and 33.1 respectively).

A quantitative sensitivity analysis for significant actuarial assumptions is shown below:

2017

Assumptions	**Base**	**Discount rate**		**RPI**		**Life expectancy**	
Sensitivity level		**25bps increase**	**25bps decrease**	**25bps increase**	**25bps decrease**	**1 year increase**	**1 year decrease**
Impact on the defined benefit obligation (£m)	**2,150**	**(82)**	**88**	**57**	**(54)**	**85**	**(84)**

2016

Assumptions	Base	Discount rate		RPI		Life expectancy[1]	
Sensitivity level		25bps increase	25bps decrease	25bps increase	25bps decrease	1 year increase	1 year decrease
Impact on the defined benefit obligation (£m)	2,237	(86)	91	60	(56)	85	(84)

1 The 2016 comparative has been restated following the adoption in 2017 of a refined methodology for calculating the life expectancy sensitivity numbers.

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 ongoing consultation on this matter. Once this consultation process has reached a conclusion, the Group will be able to quantify the impact of this change.

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G6. PENSION SCHEMES continued

G6.2 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 £6 million (2016: £6 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 2017, 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 2015 was completed in June 2016. This showed a surplus as at 30 June 2015 of £164 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 in total over the period from October 2013 to August 2017 would remain unchanged. The remaining contributions totalling £10 million were paid into the scheme in 2017 (2016: £15 million) and there are no further committed contributions to pay.

In 2016, an additional liability was recognised of £4 million reflecting a charge on any refund of the resultant economic surplus (prior to the elimination of insurance policies) that arose after adjustment for discounted future contributions of £10 million in accordance with the minimum funding requirement. A deferred tax asset of £2 million was recognised to reflect tax relief at a rate of 17% that was expected to be available on the contributions, once paid into the scheme.

Liability management exercises

Two liability management exercises were carried out in 2016 that impacted on the results in the comparative period. No such exercises were undertaken in the current period.

In January 2016, the Group carried out a pension increase exchange ('PIE') exercise in respect of the PGL Pension Scheme. Existing in-scope pensioners were offered the option to exchange future non-statutory pension increases for a one-off uplift to their current pension, thereby reducing longevity and inflation risk for the Group. The financial effect of all acceptances received in the prior period has been recognised in 2016 in the consolidated financial statements as a reduction in scheme liabilities of £3 million shown as a past service credit in the consolidated income statement.

In February 2016, the Group commenced a flexible retirement option ('FRO') exercise whereby defined members who are eligible to retire within the PGL Pension Scheme were offered a transfer value on standard terms or a pension in the scheme. The financial effect of all acceptances received has been recognised in 2016 in the consolidated financial statements and an experience gain of £2 million on liabilities arose as a result of this exercise.

Insurance policies with Group entities

In June 2014, the PLL non-profit fund entered into a longevity swap with the PGL Pension Scheme with effect from 1 January 2014, under which the Scheme transferred the risk of longevity improvements to PLL. The financial effect of this contract was eliminated on consolidation.

In December 2016, the PGL Pension Scheme entered into a 'buy-in' agreement with PLL, which converted the longevity swap contract into a bulk annuity contract. The Scheme transferred certain additional risks in respect of the benefits payable to the deferred members covered by the longevity swap arrangement, including the investment risk associated with the assets covering those benefits. The Scheme transferred £1,164 million of plan assets to a collateral account and this transfer constituted the payment of premium to PLL and was net of a £23 million prepayment by PLL to the scheme in respect of benefits up to 31 May 2017. The assets transferred to PLL are recognised in the relevant line within financial assets in the statement of consolidated financial position. An adjustment of £6 million to the value of the premium was paid by PLL to the PGL Scheme in 2017. The economic effect of the 'buy-in' transaction in the Scheme is to replace the plan assets transferred with a single line insurance policy reimbursement asset which is eliminated on consolidation. The value of this insurance policy at 31 December 2017 was £895 million (2016: £892 million).

Included within insurance policies with Group entities of £916 million (2016: 913 million) is a further insurance policy reimbursement asset of £21 million (2016: £21 million) which was also eliminated on consolidation.

At the same time as the buy-in transaction, there was a rule change made with respect to pre-1997 excess benefits for members of the Phoenix section of the PGL Scheme. Pensions increases will now be increased in line with CPI inflation subject to a maximum of 5% per annum. Prior to this, members received discretionary increases in payment on these benefits with the discretionary increases not allowed for in the defined benefit obligation. The financial impact of this change was to recognise in 2016 an increase in the defined benefit obligation of £6 million, and a past service cost in the consolidated income statement.

Summary of amounts recognised in the consolidated financial statements

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

2017	**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	**1,195**	**(1,649)**	**(135)**	**(4)**	**(593)**
Interest income/(expense)	**31**	**(43)**	**(4)**	**–**	**(16)**
Administrative expenses	**(2)**	**–**	**–**	**–**	**(2)**
Included in profit or loss	**29**	**(43)**	**(4)**	**–**	**(18)**
Remeasurements:					
Return on plan assets excluding amounts included in interest income	**22**	**–**	**–**	**–**	**22**
Experience loss	**–**	**(6)**	**–**	**–**	**(6)**
Loss from changes in financial assumptions	**–**	**(38)**	**–**	**–**	**(38)**
Gain from changes in demographic assumptions	**–**	**37**	**–**	**–**	**37**
Change in provision for tax on economic surplus available as a refund	**–**	**–**	**(8)**	**–**	**(8)**
Change in minimum funding requirement obligation	**–**	**–**	**–**	**4**	**4**
Included in other comprehensive income	**22**	**(7)**	**(8)**	**4**	**11**
Employer's contributions	**10**	**–**	**–**	**–**	**10**
Benefit payments	**(77)**	**77**	**–**	**–**	**–**
Income received from insurance policies	**27**	**–**	**–**	**–**	**27**
At 31 December	**1,206**	**(1,622)**	**(147)**	**–**	**(563)**

2016	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	2,006	(1,397)	(199)	(9)	401
Interest income/(expense)	76	(52)	(8)	–	16
Administrative expenses	(2)	–	–	–	(2)
Past service costs	–	(3)	–	–	(3)
Included in profit or loss	74	(55)	(8)	–	11
Remeasurements:					
Return on plan assets excluding amounts included in interest income	349	–	–	–	349
Experience gains	–	15	–	–	15
Loss from changes in financial assumptions	–	(289)	–	–	(289)
Loss from changes in demographic assumptions		(8)			(8)
Change in provision for tax on economic surplus available as a refund	–	–	72	–	72
Change in minimum funding requirement obligation	–	–	–	5	5
Included in other comprehensive income	349	(282)	72	5	144
Scheme assets transferred as premium for buy-in transactions	(1,164)	–	–	–	(1,164)
Employer's contributions	15	–	–	–	15
Benefit payments	(85)	85	–	–	–
At 31 December	1,195	(1,649)	(135)	(4)	(593)

Notes to the Consolidated Financial Statements
continued

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued
G6. PENSION SCHEMES continued
G6.2 PGL Pension Scheme continued

Scheme assets

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

	2017 Total £m	2017 Of which not quoted in an active market £m	2016 Total £m	2016 Of which not quoted in an active market £m
Fixed interest gilts	**357**	**–**	320	–
Index-linked bonds	**866**	**–**	732	–
Swaps	**7**	**7**	7	7
Properties	**111**	**111**	104	104
Hedge funds	**90**	**90**	85	85
Corporate Bonds	**17**	**–**	13	–
Cash and other	**12**	**–**	29	–
Obligations for repayment of stock lending collateral received	**(254)**	**–**	(95)	–
Reported scheme assets	**1,206**	**208**	1,195	196
Add back:				
Insurance policies eliminated on consolidation	**916**	**–**	913	–
Amounts due from subsidiary eliminated on consolidation	**–**	**–**	6	–
Economic value of assets	**2,122**	**208**	2,114	196

The actual return on plan assets was £53 million (2016: £425 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 passively managed against a liability benchmark in order to hedge the duration and inflation risks.

The PGL Scheme uses swaps, UK Government bonds and UK Government stock lending to hedge the interest rate and inflation exposure arising from the liabilities. Under the Scheme's stock lending programme, the Scheme lends a Government bond to an approved counterparty and receives a similar value of cash in return which it typically reinvested into other Government bonds. The Scheme retains economic exposure to the Government bonds, hence the value of the gilts continues to be recognised as a scheme asset with a corresponding liability to repay the cash received as disclosed in the table above.

Defined benefit obligation

The calculation of the defined benefit obligation can be allocated to the scheme's members as follows:

- Deferred scheme members: 39% (2016: 39%); and
- Pensioners: 61% (2016: 61%).

The weighted average duration of the defined benefit obligation at 31 December 2017 is 19 years (2016: 19 years).

Principal assumptions

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

	2017 %	2016 %
Rate of increase for pensions in payment (7.5% per annum or RPI if lower)	**3.20**	3.25
Rate of increase for deferred pensions ('CPI')	**2.20**	2.20
Discount rate	**2.50**	2.65
Inflation – RPI	**3.20**	3.20
Inflation – CPI	**2.20**	2.20

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 86%/94% of S1PL base tables with future longevity improvements in line with CMI 2016 Core Projections (2016: CMI 2014 Core Projections) and a long-term rate of improvement of 1.75% per annum up to and including age 85 then decreasing linearly to 0% at age 110 (2016: Long-term rate of improvement of 2% per annum up to and including age 75 then decreasing linearly to 0% at age 110). Under these assumptions, the average life expectancy from retirement for a member currently aged 40 retiring at age 62 is 28.3 years (2016: 29.4 years) and 29.6 years (2016: 30.6 years) for male and female members respectively.

A quantitative sensitivity analysis for significant actuarial assumptions is shown below:

2017

Assumptions	Base	Discount rate		RPI		Life expectancy	
Sensitivity level		**25bps increase**	**25bps decrease**	**25bps increase**	**25bps decrease**	**1 year increase**	**1 year decrease**
Impact on the defined benefit obligation (£m)	**1,622**	**(69)**	**74**	**47**	**(50)**	**61**	**(60)**

2016

Assumptions	Base	Discount rate		RPI		Life expectancy[1]	
Sensitivity level		25bps increase	25bps decrease	25bps increase	25bps decrease	1 year increase	1 year decrease
Impact on the defined benefit obligation (£m)	1,649	(70)	75	47	(51)	60	(59)

1 The 2016 comparative has been restated following the adoption in 2017 of a refined methodology for calculating the life expectancy sensitivity numbers.

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 ongoing consultation on this matter. Once this consultation process has reached a conclusion, the Group will be able to quantify the impact of this change.

G6.3 Abbey Life Staff Pension Scheme

Scheme details

The Abbey Life Staff Pension Scheme ('the Abbey Life Scheme') was consolidated into the Group statement of financial position following the acquisition of Abbey Life Assurance Company Limited ('Abbey Life') (see note H2.2). The scheme is a defined benefit scheme which is currently open to future accrual.

On 30 June 2017, the Abbey Life Scheme was transferred from Abbey Life to Pearl Life Holdings Limited ('PeLHL'), a fellow subsidiary. PeLHL assumed the scheme covenant together with all obligations of the scheme following implementation of the transfer. The Abbey Life Scheme is a registered occupational pension scheme, set up under Trust, and legally separate from the employer PeLHL. The scheme is administered by Abbey Life Trust Securities Limited (The Trustee), a corporate trustee. There are three Trustee Directors, one of whom is nominated by the scheme members and two of whom are appointed by PeLHL. The Trustee is responsible for administering the scheme in accordance with the Trust Deed and rules and pensions laws and regulations.

The valuation has been based on an assessment of the liabilities of the Abbey Life Scheme as at 31 December 2017 undertaken by independent qualified actuaries. The present values of the defined benefit obligation and the related interest costs have been measured using the projected unit credit method.

Funding

The last funding valuation of the Scheme was carried out by a qualified actuary as at 31 March 2015 and showed a deficit of £107 million. A new schedule of contributions was introduced with effect from 1 July 2016 following completion of the 31 March 2015 funding valuation. In respect of future accrual of benefits up until 30 June 2017, Abbey Life paid 39.5% of gross pensionable earnings from 1 July 2016 and in relation to deficit contributions, Abbey Life paid the following:

– a lump sum of £15 million into the Scheme (paid on 24 June 2016);
– monthly contributions of £246,000 into the Scheme. These amounts were paid to the Scheme on or before the 19th of the calendar month following that to which the payment related;
– annual payments of £2.92 million into the 2016 Charged Account by 31 July each year, with the first payment being paid by 31 July 2016.

Following the transfer of the Scheme to PeLHL a revised schedule of contributions was agreed effective from 1 July 2017, for PeLHL to pay 39.5% of gross personable earnings and the following amounts in respect of deficit contributions:

– a lump sum of £25 million into the Scheme settled on 31 July 2017;
– fixed monthly contributions of £400,000 payable up to 30 June 2026 and monthly contributions of £83,552 in respect of administration expenses which are payable up to 30 June 2028 and will increase annually in line with the Retail Prices Index assumption; and
– annual payments of £4 million into the 2016 Charged Account by 31 July each year, with the first payment being made on 31 July 2017, and the last payment due by 31 July 2025.

The Charged Accounts are escrow accounts which were created in 2010 to provide the Trustees with additional security in light of the funding deficit. The amounts held in the Charged Accounts do not form part of Scheme assets.

Under the terms of the 2013 Funding Agreement dated 28 June 2013, the funding position of the Scheme will be assessed as at 31 March 2021. A payment will be made from the 2013 Charged Account to the Scheme if the results of the assessment reveal a shortfall calculated in accordance with the terms of the 2013 Funding Agreement. The amount of the payment will be the lower of the amount of the shortfall and the amount held in the 2013 Charged Account.

Under the terms of the 2016 Funding Agreement dated 23 June 2016, the funding position of the Scheme will be assessed as at 31 March 2027. A payment will be made from the 2016 Charged Account to the Scheme if the results of the assessment reveal a shortfall calculated in accordance with the terms of the 2016 Funding Agreement. The amount of the payment will be the lower of the amount of the shortfall and the amount held in the 2016 Charged Account.

Notes to the Consolidated Financial Statements
continued

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G6. PENSION SCHEMES continued

G6.3 Abbey Life Staff Pension Scheme continued

Summary of amounts recognised in the consolidated financial statements

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

2017	Fair value of scheme assets £m	Defined benefit obligation £m	Total £m
At 1 January	**237**	**(324)**	**(87)**
Current service cost	**–**	**(1)**	**(1)**
Interest income/(expense)	**6**	**(8)**	**(2)**
Administrative expenses	**(2)**	**–**	**(2)**
Included in profit or loss	**4**	**(9)**	**(5)**
Remeasurements:			
Return on plan assets excluding amounts included in interest income	**6**	**–**	**6**
Experience loss	**–**	**(1)**	**(1)**
Loss from changes in financial assumptions	**–**	**(12)**	**(12)**
Loss from changes in demographic assumptions	**–**	**(1)**	**(1)**
Included in other comprehensive income	**6**	**(14)**	**(8)**
Employer's contributions	**30**	**–**	**30**
Benefit payments	**(26)**	**26**	**–**
At 31 December	**251**	**(321)**	**(70)**

2016	Fair value of scheme assets £m	Defined benefit obligation £m	Total £m
At 1 January	–	–	–
Acquisition of Abbey Life	237	(324)	(87)
At 31 December	237	(324)	(87)

As the acquisition of Abbey Life took place on 30 December 2016, no amounts are recognised in the 2016 consolidated income statement or in the statement of comprehensive income in relation to the Abbey Life Scheme.

Scheme assets

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

2017	Total £m	Of which not quoted in an active market £m
Equities – UK	**28**	**–**
Fixed interest government bonds	**105**	**–**
Corporate bonds	**149**	**–**
Derivatives	**(40)**	**(40)**
Cash and cash equivalents	**9**	**–**
Pension scheme assets	**251**	**(40)**

2016	Total £m	Of which not quoted in an active market £m
Equities – UK	25	–
Fixed interest government bonds	115	–
Corporate bonds	123	–
Derivatives	(35)	(35)
Cash and cash equivalents	9	–
Pension scheme assets	237	(35)

The actual return on plan assets was £12 million (2016: £nil).

Derivative values above include interest rate and inflation rate swaps and foreign exchange forward contracts. The Abbey Life Scheme has hedged its inflation risk through an inflation swap. It is currently exposed to interest rate risk to the extent that the holdings in bonds are mismatched to the scheme liabilities. The long-term intention is to fully hedge this risk through an interest rate swap. Further key risks that will remain are longevity and credit spread exposures.

Defined benefit obligation

The calculation of the defined benefit obligation can be allocated to the scheme's members as follows:

- Active scheme members: 5% (2016: 5%);
- Deferred scheme members: 55% (2016: 59%); and
- Pensioners: 40% (2016: 36%)

The weighted average duration of the defined benefit obligation at 31 December 2017 is 18 years (2016: 18 years).

Principal assumptions

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

	2017 %	2016 %
Rate of increase for pensions in payment	**3.05**	3.05
Rate of increase for deferred pensions ('CPI' subject to caps)	**2.20**	2.20
Discount rate	**2.50**	2.70
Inflation – RPI	**3.20**	3.20
Inflation – CPI	**2.20**	2.20
Rate of salary increases	**4.20**	4.20
Commutation of benefits to lump sums on retirement	**15.00**	15.00

The discount rate and inflation assumptions have been determined by considering the shape of the appropriate yield curves and the duration of the Abbey Life 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 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 31 March 2015, using the SAPS S2 'Light' tables for males and for females based on year of use. Future longevity improvements are based on CMI 2016 Core Projections (2016: CMI 2015 Core Projections) and a long-term rate of improvement of 1.75% per annum for males and 1.50% per annum for females up to and including age 85 then decreasing linearly to 0% per annum at age 110 (2016: Long-term rate of improvement of 1.25% per annum). Under these assumptions the average life expectancy from retirement for a member currently aged 45 retiring at age 65 is 25.8 years and 27.2 years for male and female members respectively (2016: 25.0 years and 27.2 years respectively).

A quantitative sensitivity analysis for significant actuarial assumptions is shown below:

2017

Assumptions	Base	Discount rate		RPI		Life expectancy	
Sensitivity level		25bps increase	25bps decrease	25bps increase	25bps decrease	1 year increase	1 year decrease
Impact on the defined benefit obligation (£m)	**321**	**(15)**	**15**	**11**	**(11)**	**10**	**(9)**

2016

Assumptions	Base	Discount rate		RPI		Life expectancy	
Sensitivity level		25bps increase	25bps decrease	25bps increase	25bps decrease	1 year increase	1 year decrease
Impact on the defined benefit obligation (£m)	324	(14)	15	11	(11)	10	(10)

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 ongoing consultation on this matter. Once this consultation process has reached a conclusion, the Group will be able to quantify the impact of this change.

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued
G7. 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 relevant cash generating units. Goodwill is impaired when the recoverable amount is less than the carrying value.

Acquired in-force business
Insurance and investment contracts with 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. This acquired in-force business is amortised over the estimated life of the contracts on a basis which recognises the emergence of the economic benefits.

The value of acquired in-force business related to investment contracts without DPF is recognised at its fair value and is amortised on a diminishing balance basis.

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.

The acquired in-force business is allocated to relevant cash generating units for the purposes of impairment testing.

Customer relationships
The customer relationship intangible asset includes vesting pension premiums and is measured on initial recognition at cost. The cost of this intangible asset acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, the customer relationship intangible asset is carried at cost less any accumulated amortisation and any accumulated impairment losses.

The intangible asset is amortised on a straight-line basis over its useful economic life and assessed for impairment whether there is an indication that the recoverable amount of the intangible asset is less than its carrying value. The customer relationship intangible asset is allocated to relevant cash generating units for the purposes of impairment testing.

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.

Present value of future profits on non-participating business in the with-profit fund
The present value of future profits is determined on a realistic basis.

Brands
Brands acquired in a business combination are recognised at fair value at the acquisition date, and measured on initial recognition at cost. Amortisation is calculated using the straight-line method to allocate the cost of brands over their estimated useful lives. They are tested for impairment annually or when there is evidence of possible impairment. For impairment testing, they are allocated to the relevant cash generating unit. Brands are impaired when the recoverable amount is less than the carrying value.

2017	Goodwill £m	Acquired in-force business £m	Other intangibles: Customer relationships £m	Other intangibles: Present value of future profits £m	Other intangibles: Brands £m	Other intangibles: Total other intangibles	Total £m
Cost or valuation							
At 1 January	57	2,266	297	6	20	323	2,646
Revaluation	–	–	–	5	–	5	5
At 31 December	57	2,266	297	11	20	328	2,651
Amortisation and impairment							
At 1 January	–	(859)	(109)	–	–	(109)	(968)
Amortisation charge for the year	–	(109)	(15)	–	(2)	(17)	(126)
At 31 December	–	(968)	(124)	–	(2)	(126)	(1,094)
Carrying amount at 31 December	57	1,298	173	11	18	202	1,557
Amount recoverable after 12 months	57	1,201	158	11	16	185	1,443

2016	Goodwill £m	Acquired in-force business £m	Other intangibles: Customer relationships £m	Present value of future profits £m	Brands £m	Total other intangibles £m	Total £m
Cost or valuation							
At 1 January	39	2,048	297	17	–	314	2,401
On acquisition of AXA Wealth	10	38	–	–	20	20	68
On acquisition of Abbey Life	8	180	–	–	–	–	188
Revaluation	–	–	–	(11)	–	(11)	(11)
At 31 December	57	2,266	297	6	20	323	2,646
Amortisation							
At 1 January	–	(783)	(95)	–	–	(95)	(878)
Amortisation charge for the year	–	(76)	(14)	–	–	(14)	(90)
At 31 December	–	(859)	(109)	–	–	(109)	(968)
Carrying amount at 31 December	57	1,407	188	6	20	214	1,678
Amount recoverable after 12 months	57	1,302	174	6	18	198	1,557

G7.1 Goodwill

The carrying value of goodwill has been tested for impairment at the year end. No impairment has resulted as the value in use of this intangible continues to exceed its carrying value.

£47 million of the goodwill is attributable to the management services business of the Phoenix Life segment including the £8 million arising on acquisition of Abbey Life. Value in use has been determined as the present value of certain future cash flows associated with this business. The cash flows used in this calculation have been valued using a risk adjusted discount rate of 7.1% (2016: 7.7%) and are consistent with those adopted by management in the Group's operating plan and, for the period 2023 and beyond, reflect the anticipated run-off of the Phoenix Life insurance business. The underlying assumptions of these projections include management's best estimates with regards to longevity, persistency, mortality and morbidity.

During 2016, goodwill of £10 million was recognised on the acquisition of AXA Wealth and was determined to represent the value of the workforce assumed and the potential for future value creation. This is considered to relate to the ability to invest in and grow the SunLife brand. A separate impairment test was performed to consider the recoverability of the AXA Wealth goodwill along side the brand intangible. Value in use has been determined as the present value of certain future cash flows associated with that business. The cash flows used in the calculation are consistent with those adopted by management in the Group's operating plan, and for the period 2023 and beyond, assume a zero growth rate. The underlying assumptions of these projections include market share, customer numbers, commission rates and expense inflation. The cash flows have been valued at a risk adjusted discount rate of 11% that makes prudent allowance for the risk that future cashflows may differ from that assumed.

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.

G7.2 Acquired in-force business

Acquired in-force business on insurance contracts and investment contracts with DPF represents the difference between the fair value of the contractual rights under these contracts 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.

Acquired in-force business on investment contracts without DPF is being amortised on a 15% diminishing balance basis. This basis of amortisation has been updated following the application of the amendment to IAS 38 *Intangible Assets*, effective from 1 January 2016. This change has had no impact on the amounts recognised in the consolidated financial statements.

During 2016, acquired in-force business of £38 million and £180 million was recognised upon the acquisitions of AXA Wealth and Abbey Life respectively. The £38 million arising upon the acquisition of AXA Wealth is analysed as £116 million in respect of the value in-force of acquired unit linked business and negative AVIF of £78 million arising on consolidation in respect of the acquired protection business.

G7.3 Customer relationships

The customer relationships intangible at 31 December 2017 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.

No indicators of impairment were identified during the period and consequently no impairment test on this intangible has been carried out.

G7.4 Present value of future profits on non-participating business in the with-profit fund

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 F4.1. 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

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G7.5 BRANDS

The brand intangible of £20 million was recognised on acquisition of AXA Wealth and represents the value attributable to the SunLife brand as at 1 November 2016. The intangible asset was valued on a 'multi-period excess earnings' basis. Impairment testing was performed in a combined test with the AXA goodwill (see section G7.1). The value in use continues to exceed its carrying value.

The brand name intangible is being amortised over a 10 year period.

G8. PROPERTY, PLANT AND EQUIPMENT

Owner-occupied property is stated at its 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. Land is not depreciated. Gains and losses on owner-occupied property are recognised in the statement of consolidated comprehensive income.

	2017 £m	2016 £m
Owner-occupied properties	**26**	25

Owner-occupied properties have been valued by accredited independent valuers at 31 December 2017 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 properties of £26 million has been categorised as Level 3 based on the non-observable inputs to the valuation technique used.

The following table shows reconciliation from the opening to the closing fair value for the Level 3 owner-occupied properties at valuation:

	2017 £m	2016 £m
At 1 January	**25**	19
On acquisition of AXA Wealth businesses (see note H2.1)	**–**	6
Remeasurement recognised in other comprehensive income	**1**	–
At 31 December	**26**	25
Unrealised gains for the year	**1**	–

The fair value of the owner-occupied properties was derived using the investment method supported by comparable evidence. The significant non-observable inputs used in the valuations are the expected rental values per square foot and the capitalisation rates.

The fair value of the owner-occupied properties valuation would increase (decrease) if the expected rental values per square foot were to be higher (lower) and the capitalisation rates were to be lower (higher).

G9. 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.

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Where investment property is leased out by the Group, rental income from these operating leases is recognised as income in the consolidated income statement on a straight-line basis over the period of the lease.

	2017 £m	2016 £m
At 1 January	**646**	1,942
On acquisition of Abbey Life	**–**	7
Improvements	**10**	23
Disposals	**(53)**	(44)
On loss of control of UKCPT	**–**	(1,308)
Gains on adjustments to fair value (recognised in consolidated income statement)	**9**	26
At 31 December	**612**	646
Unrealised gains on properties held at end of period	**5**	27

As at 31 December 2017, a property portfolio of £474 million (2016: £444 million) is held by the life companies in a mix of commercial sectors, spread geographically throughout the UK.

In February 2016, the Group assessed that it no longer controlled UKCPT and consequently deconsolidated this group of subsidiaries effective from this date. As a result, the UKCPT property portfolio was no longer included within the Group investment property portfolio from this date.

Investment properties also include £138 million (2016: £202 million) of property reversions arising from sales of the NPI Extra Income Plan (see note E5 for further details).

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 customers' 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 the deferred possession rate. Assumptions are also made in the valuation for future movements in property prices. The residential property reversions have been substantially refinanced under the arrangements with Santander as described in note E5.

The fair value measurement of the investment properties has been categorised as Level 3 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) 2017	Range (weighted average) 2016
Commercial Investment Property	RICS valuation	Expected income per sq. ft.	£5.39 – £100.40 (£23.85)	£4.91 - £99.97 (£22.62)
		Capitalisation rate	4.72% – 10.48% (5.83%)	4.72% - 9.96% (6.12%)
Residential Property Reversions	DCF Model and RICS valuation	Mortality	130% IFL92C15 – Female	130% IFL92C15 - Female
			130% IML92C15 – Male	130% IML92C15 - Male
		Future growth in house prices	Risk free rate (4 year swap)	5 year RPI estimate + 1% margin
		Discount rates	Risk free rate (4 Year swap) + deferred possession rate (3.6%)	5 year Gilt spot rate + 1.7% margin

The estimated fair value of commercial properties would increase (decrease) if:

– the expected income were to be higher (lower); or
– the capitalisation rate were to be lower (higher).

The key valuation sensitivities in respect of the residential property reversions are noted below:

– an increase of 1% in the deferred possession rate would decrease the market value by £6 million;
– a decrease of 1% in the deferred possession rate would increase the market value by £6 million;
– an increase of 10% in the mortality rate would increase the market value by £1 million; and
– a decrease of 10% in the mortality rate would decrease the market value by £1 million.

Direct operating expenses (offset against rental income in the consolidated income statement) in respect of investment properties that generated rental income during the year amounted to £1 million (2016: £1 million). The direct operating expenses arising from investment property that did not generate rental income during the year amounted to £4 million (2016: £2 million).

Future minimum lease rental receivables in respect of non-cancellable operating leases on investment properties were as follows:

	2017 £m	2016 £m
Not later than 1 year	**22**	21
Later than 1 year and not later than 5 years	**61**	57
Later than 5 years	**62**	48

G10. OTHER RECEIVABLES

Other receivables are recognised when due and measured on initial recognition at the fair value of the amount receivable. Subsequent to initial recognition, these receivables are measured at amortised cost using the effective interest rate method.

	2017 £m	2016 £m
Investment broker balances	**55**	71
Cash collateral pledged	**338**	295
Reimbursement assets (note G1)	**55**	–
Other debtors	**132**	147
	580	513
Amount recoverable after 12 months	**34**	–

G11. 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.

	2017 £m	2016 £m
Bank and cash balances	**1,181**	1,073
Short-term deposits (including demand and time deposits)	**1,064**	593
	2,245	1,666

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 consolidated collective investment schemes of £1,878 million (2016: £1,517 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

H. INTERESTS IN SUBSIDIARIES AND ASSOCIATES
H1. SUBSIDIARIES

Subsidiaries are consolidated from the date that effective control is obtained by the Group (see basis of consolidation in note A1) and are excluded from consolidation from the date they cease to be subsidiary undertakings. For subsidiaries 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 including non-controlling interests, is recognised in the consolidated income statement.

The Group uses the acquisition method to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the consideration. Any excess of the cost of acquisition over the fair value of the net assets acquired is recognised as goodwill. Any excess of the fair value of the net assets acquired over the cost of acquisition is recognised in the consolidated income statement. Directly attributable acquisition costs are included within administrative expenses, except for acquisitions undertaken prior to 2010 when they are included within the cost of the acquisition. Costs directly related to the issuing of debt or equity securities are included within the initial carrying amount of debt or equity securities where these are not carried at fair value. Intra-group balances and income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

The Group has invested in a number of collective investment schemes such as Open-ended Investments Companies ('OEICs'), unit trusts, Société d'Investissement à Capital Variable ('SICAVs') and private equity funds. These invest mainly in equities, bonds, property and cash and cash equivalents. The Group's percentage ownership in these collective investment schemes can fluctuate according to the level of Group and third party participation in structures.

For such collective investment schemes, the following circumstances may indicate, in substance that the Group has power over the investee:

- where the investee is managed by fund managers outside the Group, the Group has existing substantive rights (such as power of veto and liquidation rights) that give it the ability to direct the current activities of the investee. In assessing the Group's ability to direct an investee the Group considers its ability relative to other investors.
- the investee is managed by the Group's fund manager, and the Group holds a significant investment in the investee. It is generally presumed that the Group has rights to variable returns and has the ability to use its power to affect its returns where the Group's holding is greater than 50%. For holdings between 25% and 50% the Group performs an assessment of power and associated control on a case by case basis. This assessment includes establishing the nature of the decision making rights that the fund manager has over the investee and whether these rights give it the power to control the investee.

Where Group companies are deemed to control such collective investment schemes they are consolidated in the Group financial statements, with the interests of external third parties recognised as a liability, see the accounting policy for 'Net asset value attributable to unitholders' in note E1.

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.

H1.1 Significant restrictions

The ability of subsidiaries to transfer funds to the Group in the form of cash dividends or to repay loans and advances is subject to local laws, regulations and solvency requirements.

Each UK Life company and the Group must retain sufficient capital at all times to meet the regulatory capital requirements mandated by or otherwise agreed with the PRA. Further information on the capital requirements applicable to Group entities are set out in the Capital Management note (I3). Under UK company law, dividends can only be paid if a UK company has distributable reserves sufficient to cover the dividend.

In addition, contractual requirements may place restrictions on the transfer of funds as follows:

- the Pearl Pension Scheme funding agreement includes certain covenants which restrict the transfer of funds within the Group. Details are provided in note G6.1.
- Pearl Life Holdings Limited ('PeLHL') is required to make payments of contributions into charged accounts on behalf of The Abbey Life Staff Pension Scheme. These amounts do not form part of the pension scheme assets and at 31 December 2017, PeLHL held £40 million within fixed and variable rate income securities and £5 million within cash and cash equivalents in respect of these charged accounts. Further details of when these amounts may become payable to the pensions scheme are included in note G6.

H2. ACQUISITIONS AND DISPOSALS
H2.1 Acquisition of AXA Wealth

On 1 November 2016, the Group acquired 100% of the issued share capital of AXA Wealth Limited ('AWL'), AXA Wealth Services Limited, AXA Sun Life Direct Limited, Winterthur Life UK Holdings Limited and AXA Trustee Services Limited from AXA UK plc for total cash consideration of £373 million. The fair values of the identifiable assets acquired, liabilities assumed and the resultant goodwill determined at the date of acquisition have not been adjusted within the 12 month period since the date of acquisition.

H2.2 Acquisition of Abbey Life

On 30 December 2016, the Group acquired 100% of the issued share capital of Abbey Life Assurance Company Limited, Abbey Life Trustee Services Limited and Abbey Life Trust Securities Limited from Deutsche Holdings No.4 Ltd (a wholly owned subsidiary of Deutsche Bank AG) for total cash consideration of £933 million. The fair values of the identifiable assets acquired, liabilities assumed and the resultant goodwill determined at the date of acquisition have not been adjusted within the 12 month period since the date of acquisition.

H2.3 Disposal of Pearl Breakfast Unit Trust

On 25 February 2016, the Group completed the sale of its entire interest in an investment property joint venture which was held by the Pearl Breakfast Unit Trust. The units in the Pearl Breakfast Unit Trust were sold to Tesco Property Holdings (No.2) Limited and Tesco Property Holdings Limited. As part of the sale agreement Tesco plc also purchased the Group's investment in Tesco Property Partner (GP) Limited. No gain or loss arose on this disposal.

H3. ASSOCIATES: LOSS OF CONTROL OF INVESTMENT IN UK COMMERCIAL PROPERTY TRUST LIMITED ('UKCPT')

UKCPT is a property investment company which is domiciled in Guernsey and is admitted to the official list of the UK Listing Authority and to trading on the London Stock Exchange.

In February 2016, the Group reduced its holding in the issued share capital of UKCPT to 48.9%. The Group deems that it no longer controls its investment in UKCPT as it no longer has a unilateral power of veto in general meetings and also because the Group is restricted by the terms of the existing relationship agreement it has with UKCPT. Consequently, UKCPT has been deconsolidated from the date of this loss of control.

No gain or loss arose on this effective disposal. The Group's investment in UKCPT is now treated as an associate and held at fair value.

The Group's remaining interest in UKCPT continues to be held in the with-profit funds of the Group's life companies. Therefore, the shareholder exposure to fair value movements in the Group's investment in UKCPT continues to be limited to the impact of those movements on the shareholder share of distributed profits of the relevant fund.

As at 31 December 2017 the Group held 47.9% (2016: 47.9%) of the issued share capital of UKCPT and the value of this investment, measured at fair value, was £550 million (2016: £525 million). Summary financial information for UKCPT is shown below:

	2017 £m	2016 £m
Non-current assets	**640**	608
Current assets	**69**	61
Non-current liabilities	**(120)**	(120)
Current liabilities	**(11)**	(14)
	578	535
Revenue	**77**	30
Profit before tax	**65**	19
Taxation	**(2)**	3
Profit for the year after tax	**63**	22

H4. STRUCTURED ENTITIES

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities; (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors; (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Group has determined that all of its investments in collective investment schemes are structured entities. In addition, a number of debt security structures, private equity funds and the Group's joint venture have been identified as structured entities. The Group has assessed that it has interests in both consolidated and unconsolidated structured entities as shown below:

- Unit trusts;
- OEICs;
- SICAVs;
- Private Equity Funds ('PEFs');
- Asset backed securities;
- Collateralised Debt Obligations ('CDOs');
- Other debt structures; and
- Phoenix Group Employee Benefit Trust ('EBT')

The Group's holdings in the above investments are subject to the terms and conditions of the respective fund's prospectus and are susceptible to market price risk arising from uncertainties about future values. The Group holds redeemable shares or units in each of the funds. The funds are managed by internal and external fund managers who apply various investment strategies to accomplish their respective investment objectives. All of the funds are managed by fund managers who are compensated by the respective funds for their services. Such compensation generally consists of an asset-based fee and a performance-based incentive fee and is reflected in the valuation of each fund.

H4.1 Interests in consolidated structured entities

The Group has determined that where it has control over funds, these investments are consolidated structured entities.

The EBT is a consolidated structured entity that holds shares to satisfy awards granted to employees under the Group's share-based payment schemes.

At 31 December 2017 the Group has granted further loans to the EBT of £4 million (2016: £7 million). Further loans are expected to be granted in 2018. Details of this loan are included in note 10.4 to the parent company accounts.

As at the reporting date the Group has no intention to provide financial or other support in relation to any other consolidated structured entity.

H4.2 Interests in unconsolidated structured entities

The Group has interests in unconsolidated structured entities. These investments are held as financial assets in the Group's consolidated statement of financial position held at fair value through profit or loss. Any change in fair value is included in the consolidated income statement in 'net investment income'. Dividend and interest income is received from these investments.

A summary of the Group's interest in unconsolidated structured entities is included below. These are shown according to the financial asset categorisation in the consolidated statement of financial position and further analysed by type of fund in which the entity is invested.

	2017 Carrying value of financial assets £m	2016 Carrying value of financial assets £m
Equities	**344**	288
Collective investment schemes:		
Directly held collective investment schemes[1]:		
Equities	**4,166**	4,690
Bonds	**3,175**	3,436
Property	**472**	502
Diversified	**1,359**	364
Short-term liquidity	**8,465**	8,052
Indirectly held collective investment schemes[2]	**1,264**	1,388
Fixed and variable rate income securities:		
CDOs	**–**	3
Asset backed securities	**607**	617
	19,852	19,340

1 Directly held collective investment schemes refer to those structured entities directly invested in by Group companies. Such investments have been analysed by reference to the predominant asset class the structure is investing in.

2 Indirectly held collective investment schemes are those interests in structured entities that are held by collective investment schemes over which it has been assessed that the Group exercises overall control and have been consolidated into the financial statements.

The Group's maximum exposure to loss with regard to the interests presented above is the carrying amount of the Group's investments. Once the Group has disposed of its shares or units in a fund, it ceases to be exposed to any risk from that fund. The Group's holdings in the above unconsolidated structured entities are largely less than 50% and as such the size of these structured entities are likely to be significantly higher than their carrying value.

Details of commitments to subscribe to private equity funds and other unlisted assets are included in note I6.

H. INTERESTS IN SUBSIDIARIES AND ASSOCIATES continued

H5. GROUP ENTITIES

The table below sets out the Group's subsidiaries (including collective investment schemes that have been consolidated within the Group's financial statements), joint ventures, associates and significant holdings in undertakings (including undertakings where holding amounts to 20% or more of the nominal value of the shares or units and they are not classified as a subsidiary, joint venture or associate).

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares/ units held
Subsidiaries:				
Phoenix Life Assurance Limited (life assurance company)	Wythall[1]		Ordinary shares	100.00%
Phoenix Life Limited (life assurance company)	Wythall[1]		Ordinary shares	100.00%
Phoenix AW Limited (life assurance company)	Wythall[1]		Ordinary shares	100.00%
Abbey Life Assurance Company Limited (life assurance company)	Wythall[1]		Ordinary shares	100.00%
Phoenix Wealth Services Limited (management services company)	Wythall[1]		Ordinary shares	100.00%
Phoenix SL Direct Limited (management services company)	Wythall[1]		Ordinary shares	100.00%
Phoenix Wealth Trustee Services Limited (management services company)	Wythall[1]		Ordinary shares	100.00%
Phoenix Wealth Holdings Limited (holding company)	Wythall[1]		Ordinary shares	100.00%
Abbey Life Trust Securities Limited (pension trustee company)	Wythall[1]		Ordinary shares	100.00%
Impala Holdings Limited (holding company)	Wythall[1]		Ordinary shares	100.00%
Mutual Securitisation plc (finance company)	Republic of Ireland[2]		N/A	N/A[3]
NP Life Holdings Limited (holding company)	Wythall[1]		Ordinary shares	100.00%
Opal Reassurance Limited (non-trading company)[4]	Bermuda[5]		Ordinary shares	100.00%
PGH Capital plc (finance company)[4]	Republic of Ireland[6]		Ordinary shares	100.00%
PGH (LCA) Limited (finance company)[4]	Wythall[1]		Ordinary shares	100.00%
PGH (LCB) Limited (finance company)[4]	Wythall[1]		Ordinary shares	100.00%
PGH (LC1) Limited (finance company)	Wythall[1]		Ordinary shares	100.00%
PGH (LC2) Limited (finance company)	Wythall[1]		Ordinary shares	100.00%
PGH (MC1) Limited (finance company)	Wythall[1]		Ordinary shares	100.00%
PGH (MC2) Limited (finance company)	Wythall[1]		Ordinary shares	100.00%
PGH (TC1) Limited (holding company)[4]	Wythall[1]		Ordinary shares	100.00%
PGH (TC2) Limited (holding company)[4]	Wythall[1]		Ordinary shares	100.00%
Pearl Group Holdings (No. 1) Limited (finance company)	London[7]		Ordinary shares	100.00%
Pearl Group Holdings (No. 2) Limited (holding company)	Wythall[1]		Ordinary shares	100.00%
Pearl Life Holdings Limited (holding company)	Wythall[1]		Ordinary shares	100.00%
Pearl Group Services Limited (management services company)	Wythall[1]		Ordinary shares	100.00%
Pearl Group Management Services Limited (management services company)	Wythall[1]		Ordinary shares	100.00%
Phoenix Life Holdings Limited (holding company)	Wythall[1]		Ordinary shares	100.00%
PGMS (Ireland) Limited (management services company)	Republic of Ireland[8]		Ordinary shares	100.00%
PA(GI) Limited (non-trading company)	Wythall[1]		Ordinary shares	100.00%
National Provident Life Limited (non-trading company)	Wythall[1]		Ordinary shares	100.00%
Phoenix Customer Care Limited (financial services company)	Wythall[1]		Ordinary shares	100.00%
Britannic Finance Limited (finance and insurance services company)	Wythall[1]		Ordinary shares	100.00%
Britannic Money Investment Services Limited (investment advice company)	Wythall[1]		Ordinary shares	100.00%
Phoenix Unit Trust Managers Limited (unit trust manager)	Wythall[1]		Ordinary shares	100.00%
Pearl Customer Care Limited (financial services company)	Wythall[1]		Ordinary shares	100.00%
Pearl Life Services Limited (property landlord)	Wythall[1]		Ordinary shares	100.00%
Pearl (WP) Investments LLC (investment company)	USA[9]		Ordinary shares	100.00%
Phoenix SCP Limited (investment company)	Wythall[1]		Ordinary shares	100.00%

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares/ units held
SMA (Jersey) Limited (investment company)	Jersey[11]		Ordinary shares	100.00%
ILC1 (Jersey) Limited (investment company)	Jersey[11]		Ordinary shares	100.00%
PGH1 (Jersey) Limited (investment company)	Jersey[11]		Ordinary shares	100.00%
IH (Jersey) Limited (investment company)	Jersey[11]		Ordinary shares	100.00%
Pearl Assurance Group Holdings Limited (investment company)	Wythall[1]		Ordinary shares	100.00%
PGMS (Ireland) Holdings Unlimited Company (holding company)	Republic of Ireland[8]		Ordinary shares	100.00%
PGMS (Glasgow) Limited (investment company)	Glasgow[10]		Ordinary shares	100.00%
Phoenix SCP Pensions Trustees Limited (trustee company)	Wythall[1]		Ordinary shares	100.00%
Phoenix SCP Trustees Limited (trustee company)	Wythall[1]		Ordinary shares	100.00%
PGS 2 Limited (investment company)	Wythall[1]		Ordinary shares	100.00%
Century Group Limited (investment company)	Wythall[1]		Ordinary shares	100.00%
Pearl RLH Limited (investment holding company)	Glasgow[10]		Ordinary shares	100.00%
SPL (Holdings) Limited (investment holding company)	Glasgow[10]		Ordinary shares	100.00%
Alcobendas Entrust Limited (investment company)	Wythall[1]		Ordinary shares	100.00%
Scottish Mutual Pension Funds Investment Limited (trustee company)	Glasgow[10]		Ordinary shares	100.00%
Abbey Life Trustee Services Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
Britannic Group Services Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
Phoenix Pensions Trustee Services Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
Pearl (Covent Garden) Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
NPI Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
NPI (Westgate) Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
NPI (Printworks) Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
Pearl (Barwell 2) Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
Pearl (Chiswick House) Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
Pearl (Printworks) Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
Pearl (Stockley Park) Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
London Life Trustees Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
Pearl Trustees Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
Pearl Group Secretariat Services Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
Phoenix Life Pension Trust Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
Century Trustee Services Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
Pearl AL Limited (dormant company)	Glasgow[10]		Ordinary shares	100.00%
Phoenix Pensions Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
PG Dormant (No 6) Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
Clearfol Investment Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
PG Dormant (No 4) Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
SL Liverpool plc (dormant company)	Wythall[1]		Ordinary shares	100.00%
SPL (Holdings 1) Limited (non-trading company)	Glasgow[10]		Ordinary shares	100.00%
Zilmer Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
Alba Life Trustees Limited (non-trading company)	Glasgow[10]		Ordinary shares	100.00%
Scottish Mutual Customer Care Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
BA (FURBS) Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
SunLife Limited (financial services distribution company)	Wythall[1]		Ordinary shares	100.00%
PG Dormant (No 3) Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
Phoenix Pension Scheme (Trustees) Limited	Wythall[1]		Ordinary shares	100.00%
Evergreen Trustee Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%

H. INTERESTS IN SUBSIDIARIES AND ASSOCIATES continued
H5. GROUP ENTITIES continued

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares/ units held
Corunna Limited (dormant company)	Glasgow[12]		Ordinary shares	100.00%
Pearl ULA Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
Scottish Mutual Nominees Limited (dormant company)	Glasgow[12]		Ordinary shares	100.00%
National Provident Institution (dormant company)	Wythall[1]		Unlimited without shares	N/A
Phoenix & London Assurance Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
Cityfourinc (dormant company)	Wythall[1]		Ordinary shares	100.00%
Phoenix Life Insurance Services Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
PG Dormant No 2 Holdings (holding company)	Republic of Ireland[8]		Ordinary shares	100.00%
London Life Limited (non-trading company)	Wythall[1]		Ordinary shares	100.00%
Pearl RLG Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
The London Life Association Limited (dormant company)	Wythall[1]		Limited by guarantee	N/A
PG Dormant (No 5) Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
The Scottish Mutual Assurance Society (dormant company)	Glasgow[10]		Limited by guarantee	N/A
The Phoenix Life SCP Institution (dormant company)	Glasgow[10]		Limited by guarantee	N/A
Alba LAS Pensions Management Limited (dormant company)	Glasgow[10]		Ordinary shares	100.00%
Pearl (Martineau Phase 2) Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
Pearl MG Birmingham Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
The Pearl Martineau Galleries Limited Partnership (dormant company)	Wythall[1]		Limited Partnership	100.00%
Pearl (Martineau Phase 1) Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
Pearl MP Birmingham Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
The Pearl Martineau Limited Partnership (dormant company)	Wythall[1]		Limited Partnership	100.00%
Pearl (Moor House 1) Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
Pearl (Moor House 2) Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
Pearl (Moor House) Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
Phoenix ER1 Limited (finance company)	Wythall[1]		Ordinary shares	100.00%
Phoenix ER2 Limited (dormant company)	Wythall[1]		Ordinary shares	100.00%
Phoenix ER3 Limited (finance company)	Wythall[1]		Ordinary shares	100.00%
Phoenix ER4 Limited (finance company)	Wythall[1]		Ordinary shares	100.00%
Phoenix Group Holdings Limited (dormant company)	London[7]		Ordinary shares	100.00%
CH Management Limited (investment company)	Bushey[13]		Ordinary shares	100.00%
Phoenix Group Employee Benefit Trust		Jersey[11]	Trust	100.00%
Janus Henderson Diversified Growth Fund		London[14]	OEIC, sub fund	84.27%
Janus Henderson Global Funds – Janus Henderson Institutional Overseas Bond Fund		London[14]	OEIC, sub fund	99.14%
Janus Henderson Institutional Mainstream UK Equity Trust		London[14]	Authorised unit trust	100.00%
Janus Henderson Strategic Investment Funds – Janus Henderson Institutional European Index Opportunities Fund		London[14]	OEIC, sub fund	79.52%
Janus Henderson Strategic Investment Funds – Janus Henderson Institutional Japan Index Opportunities Fund		London[14]	OEIC, sub fund	65.39%
Janus Henderson Strategic Investment Funds – Janus Henderson Institutional North American Index Opportunities Fund		London[14]	OEIC, sub fund	83.91%
Janus Henderson Strategic Investment Funds – Janus Henderson Institutional Asia Pacific ex Japan Index Opportunities Fund		London[14]	OEIC, sub fund	70.44%
Janus Henderson Institutional UK Equity Tracker Trust		London[14]	Authorised unit trust	100.00%
Janus Henderson Institutional Short Duration Bond Fund		London[14]	Authorised unit trust	86.54%

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares/ units held
PUTM Bothwell Floating Rate ABS Fund		Wythall[1]	Authorised unit trust	100.00%
PUTM Bothwell Global Credit Fund		Wythall[1]	Authorised unit trust	99.98%
PUTM Bothwell Fixed ABS Sterling Hedged Fund		Wythall[1]	Authorised unit trust	100.00%
PUTM Bothwell Asia Pacific (Excluding Japan) Fund		Wythall[1]	Authorised unit trust	99.32%
PUTM Bothwell Emerging Market Debt Unconstrained Fund		Wythall[1]	Authorised unit trust	100.00%
PUTM Bothwell Emerging Markets Equity Fund		Wythall[1]	Authorised unit trust	99.88%
PUTM Bothwell European Credit Fund		Wythall[1]	Authorised unit trust	85.04%
PUTM Bothwell Europe Fund		Wythall[1]	Authorised unit trust	98.13%
PUTM Bothwell Credit Financial Sterling Hedged Fund		Wythall[1]	Authorised unit trust	100.00%
PUTM Bothwell Global Bond Fund		Wythall[1]	Authorised unit trust	99.73%
PUTM Bothwell Global Equity Fund		Wythall[1]	Authorised unit trust	97.34%
PUTM Bothwell Index-Linked Sterling Hedged Fund		Wythall[1]	Authorised unit trust	100.00%
PUTM Bothwell Japan Tracker Fund		Wythall[1]	Authorised unit trust	99.49%
PUTM Bothwell Long Gilt Sterling Hedged Fund		Wythall[1]	Authorised unit trust	100.00%
PUTM Bothwell North America Fund		Wythall[1]	Authorised unit trust	90.28%
PUTM Bothwell Credit Non Financial Sterling Hedged Fund		Wythall[1]	Authorised unit trust	100.00%
PUTM Bothwell UK Equity Smaller Companies Fund		Wythall[1]	Authorised unit trust	98.53%
PUTM Bothwell Sterling Government Bond Fund		Wythall[1]	Authorised unit trust	98.82%
PUTM Bothwell Euro Sovereign Fund		Wythall[1]	Authorised unit trust	99.56%
PUTM Bothwell Sterling Credit Fund		Wythall[1]	Authorised unit trust	97.62%
PUTM Bothwell Tactical Asset Allocation Fund		Wythall[1]	Authorised unit trust	100.00%
PUTM Bothwell UK Equity 350 Fund		Wythall[1]	Authorised unit trust	99.27%
PUTM Bothwell UK Equity Income Fund		Wythall[1]	Authorised unit trust	100.00%
PUTM Bothwell Sub-Sovereign Bond Fund		Wythall[1]	Authorised unit trust	100.00%
PUTM UK All-Share Index Unit Trust		Wythall[1]	Authorised unit trust	99.96%
PUTM Cautious Unit Trust		Wythall[1]	Authorised unit trust	99.29%
PUTM European Unit Trust		Wythall[1]	Authorised unit trust	99.50%
PUTM Far Eastern Unit Trust		Wythall[1]	Authorised unit trust	99.73%
PUTM International Growth Unit Trust		Wythall[1]	Authorised unit trust	99.56%
PUTM Opportunity Unit Trust		Wythall[1]	Authorised unit trust	99.99%
PUTM UK Stock Market Fund (Series 3)		Wythall[1]	Authorised unit trust	100.00%
PUTM UK Stock Market Fund		Wythall[1]	Authorised unit trust	100.00%
PUTM UK Equity Unit Trust		Wythall[1]	Authorised unit trust	99.89%
PUTM Growth Unit Trust		Wythall[1]	Authorised unit trust	100.00%
PUTM Bothwell Institutional Credit accum		Wythall[1]	Authorised unit trust	100.00%
Standard Life Investments Sterling Short Duration Managed Liquidity Fund		Republic of Ireland[8]	OEIC, sub fund	92.06%
Ignis Strategic Solutions Funds plc – Fundamental Strategies Fund		Republic of Ireland[8]	OEIC, sub fund	100.00%
Ignis Strategic Solutions Funds plc – Systematic Strategies Fund		Republic of Ireland[8]	OEIC, sub fund	100.00%
Ignis Private Equity Fund LP		Cayman Islands[15]	Limited Partnership	100.00%
Ignis Strategic Credit Fund LP		Cayman Islands[15]	Limited Partnership	100.00%
Standard Life Investments Global SICAV – Emerging Market Debt Unconstrained Fund		Luxembourg[17]	SICAV, sub fund	84.30%
AB SICAV I – ESG Responsible Global Factor Portfolio AB		Luxembourg[17]	SICAV, sub fund	71.39%
BlackRock LBG DC 'A' Fund		London[16]	Authorised unit trust	93.81%
Aberdeen Capital Trust		London[19]	Authorised unit trust	99.64%

H. INTERESTS IN SUBSIDIARIES AND ASSOCIATES continued
H5. GROUP ENTITIES continued

	Registered address of incorporated entities	If unincorporated, address of principal place of business	Type of investment (including class of shares held)	% of shares/ units held
Associates:				
UK Commercial Property Trust Limited (property investment company)	Guernsey[20]		Ordinary shares	47.87%
UK Commercial Property Estates Holdings Limited (property investment company)	Guernsey[20]		Ordinary shares	47.87%
UK Commercial Property Holdings Limited (property investment company)	Guernsey[20]		Ordinary shares	47.87%
UK Commercial Property Estates Limited (property investment company)	Guernsey[20]		Ordinary shares	47.87%
UK Commercial Property Nominee Limited (property investment company)	Guernsey[20]		Ordinary shares	47.87%
UK Commercial Property GP Limited	Guernsey[20]		Ordinary shares	47.87%
UKCPT Limited Partnership	Guernsey[20]		Limited Partnership	47.87%
UK Commercial Property Finance Holdings Limited	Guernsey[20]		Limited Partnership	47.87%
Brixton Radlett Property Limited	Manchester[21]		Limited Partnership	47.87%
Significant holdings:				
Janus Henderson Global Care Funds – Janus Henderson Institutional Global Care Managed Fund		London[14]	OEIC, sub fund	60.10%
Janus Henderson UK & Europe Funds – Janus Henderson Institutional UK Gilt Fund		London[14]	OEIC, sub fund	71.33%
Janus Henderson Institutional UK Index Opportunities Fund		London[14]	Authorised unit trust	72.18%
AB SICAV I – Global Factor Portfolio (SF1)		Luxembourg[17]	SICAV, sub fund	39.22%
AXA Fixed Interest Investment ICVC – Sterling Strategic Bond Fund		London[18]	OEIC, sub fund	59.73%
AQR UCITS Funds – AQR Global Risk Parity UCITS Fund		Luxembourg[23]	OEIC, sub fund	21.60%
AB SICAV I – Diversified Yield Plus Portfolio S GBP Acc		Luxembourg[17]	SICAV, sub fund	42.65%
BlackRock Market Advantage X GBP Acc		London[16]	Authorised unit trust	66.03%
Scottish Widows International Bond Fund		Edinburgh[24]	OEIC, sub fund	59.86%
Standard Life Investments – Sterling Liquidity Fund		Dublin[8]	OEIC, sub fund	42.11%
Standard Life Investments UK Real Estate Income Feeder Fund		Edinburgh[22]	OEIC, sub fund	29.04%
Aberdeen UK Smaller Companies Equity Fund		Aberdeen[25]	OEIC, sub fund	26.05%
Aberdeen Global Emerging Markets Quantitative Equity Fund		London[19]	OEIC, sub fund	21.52%
Scottish Widows Ethical Fund		Edinburgh[24]	OEIC, sub fund	22.44%
American Century SICAV – Concentrated Global Growth Equity		Luxembourg[23]	SICAV, sub fund	42.23%
Architas Diversified Real Assets Fund		London[26]	OEIC, sub fund	26.83%
Architas MA Active Dynamic Fund Class R Net Accumulation		London[26]	OEIC, sub fund	21.86%

1 1 Wythall Green Way, Wythall, Birmingham, B47 6WG
2 Marsh Management Services (Dublin) Limited, DS-28 Adelaide Road, Dublin 2, Republic of Ireland
3 The shares of this subsidiary undertaking are held by a trust. The Group has assessed that it exercises overall control in respect of this subsidiary undertaking
4 These subsidiary undertakings are directly owned by Phoenix Group Holdings
5 The Argus Building, 12 Wesley Street, Hamilton, Bermuda
6 Arthur Cox Building, Earlsfort Terrace, Dublin 2, Dublin, Republic of Ireland
7 Juxon House, 100 St Paul's Churchyard, London, EC4M 8BU
8 25–28 North Wall Quay, IFSC, Dublin 1, Republic of Ireland
9 c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, USA
10 301 St Vincent Street, Glasgow, Strathclyde, G2 5HN
11 32 Commercial Street, St Helier, Jersey, JE2 3RU
12 50 Bothwell Street, Glasgow, G2 6HR
13 19 Middle Furlong, Bushey, England, WD23 3SZ
14 201 Bishopsgate, London, EC2M 3AE
15 Ugland House, Grand Cayman, Cayman Islands, KY1-1104
16 12 Throgmorton Avenue, London, EC2N 2DL
17 2–4, Rue Eugène Ruppert, Luxembourg, L-2453
18 7 Newgate Street, London, EC1A 7NX
19 1 Bread Street, London, EC4M 9HH
20 Trafalgar Court, Les Banques, St Peter Port, Guernsey, GY1 3QL
21 100 Barbirolli Square, Manchester, M2 3AB
22 1 George Street, Edinburgh, EH2 2LL
23 33 Rue de Gasperich, Luxembourg, E-5826
24 15 Dalkeith Road, Edinburgh, EH16 5BU
25 10 Queens Terrace, Aberdeen, AB10 1YG
26 30 St Mary, London, EC3A 8BF

The following associate and subsidiaries were fully disposed of during the period. The subsidiaries were deconsolidated from the date of disposal:

– Castle Hill Asset Management LLC;
– PUTM North American Unit Trust; and
– Janus Henderson Institutional Credit Fund

The following subsidiaries were reclassified as significant holdings due to the loss of effective control by the Group during the period:

– AB SICAV I – Global Factor Portfolio (SF1);and
– AXA Fixed Interest Investment ICVC – Sterling Strategic Bond Fund

The Group no longer has significant holdings in the following undertakings:

– Janus Henderson Global Funds – World Select Fund

I. OTHER NOTES
I1. SHARE-BASED PAYMENT

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. Further details regarding the determination of the fair value of equity-settled share-based transactions are set below.

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.

I1.1 Share-based payment expense

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

	2017 £m	2016 £m
Expense arising from equity-settled share-based payment transactions	**8**	7

I1.2 Share-based payment expense

Long-Term Incentive Plan ('LTIP')

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, the 2014 and 2015 LTIP awards are subject to performance conditions tied to the Company's financial performance over a three year period in respect of growth in MCEV (up to 31 December 2015), growth in Own Funds (from 1 January 2016), cumulative cash generation and total shareholder return ('TSR'). The 2016 and 2017 LTIP awards are subject to performance conditions tied to the Company's performance in respect of cumulative cash generation and TSR.

For all LTIP awards made from 2015 onwards, a holding period applies so that any LTIP awards to Executive Committee members for which the performance vesting requirements are satisfied will not be released for a further two years from the third anniversary of the original award date. Dividends will accrue on LTIP awards until the end of the holding period. There are no cash settlement alternatives.

2017 LTIP awards were granted on 24 March 2017. The number of shares for all outstanding LTIP awards as at 9 November 2016 were increased to take into account the impact of the Group's rights issue (see note D1). This adjustment was based on the Theoretical Ex-Rights Price. The 2014 LTIP awards vested during the year. The 2015 awards will vest on 28 September 2018, the 2016 awards will vest on 30 March 2019 and 2 June 2019 and the 2017 awards will vest on 24 March 2020.

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. The fair value is adjusted in respect of the TSR performance condition which is deemed to be a 'market condition'. The fair value of the 2016 and 2017 TSR elements of the LTIP awards has been calculated using a Monte Carlo model. The inputs to this model are shown below:

	2017 TSR performance condition	2016 TSR performance condition – March grant	2016 TSR performance condition – June grant
Share price (p)	787.5	943.5	871.0
Expected term (years)	2.8	3.0	3.0
Expected volatility (%)	24	26	26
Risk-free interest rate (%)	0.2	0.4	0.4
Expected dividend yield (%)	Dividends are received by holders of the awards therefore no adjustment to fair value is required		

Deferred bonus share scheme ('DBSS')

Each year, part of the annual incentive for certain executives 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 three years. For DBSS awards made in 2015 and in subsequent years, the three year deferral period will run to the dealing day following the third anniversary of the announcement of the annual results. Dividends will accrue for DBSS awards over the three year deferral period. The 2017 DBSS was granted on 24 March 2017 and is expected to vest on 20 March 2020. The number of shares for all outstanding DBSS awards has been increased to take into account the impact of the Group's rights issue (see note D1). This adjustment has been based on the Theoretical Ex-Rights Price. The 2014 DBSS awards vested during the year. The 2015 awards are expected to vest on 19 March 2018 and the 2016 awards are expected to vest on 24 March 2019.

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.

Sharesave scheme

The sharesave scheme allows participating employees to save up to £250 each month over a period of either three or five years. This amount was increased to £500 each month with respect to the sharesave schemes from 2014 onwards.

Under the sharesave arrangement, participants remaining in the Group's employment at the end of the three or five 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 three or five year periods.

The fair value of the awards has been determined using a Black-Scholes valuation model. Key assumptions within this valuation model include expected share price volatility and expected dividend yield.

The 2012 sharesave awards were increased during 2013, and the exercise prices updated, as a result of the equity raising on 21 February 2013. All sharesave awards were increased in November 2016 following the Group's rights issue (see note D1) and the exercise price of these awards was also amended as a result of this issue. The 2017 sharesave awards were granted on 13 April 2017.

Notes to the Consolidated Financial Statements continued

I. OTHER NOTES continued

I1.2 Share-based payment expense continued

The following information was relevant in the determination of the fair value of the 2013 to 2017 sharesave awards:

	2017 sharesave	2016 sharesave	2015 sharesave	2014 sharesave	2013 sharesave
Share price (p)	**747.0**	889.0	843.0	674.0	630.0
Exercise price (£) (Revised)	**6.31**	6.39	6.29	5.13	4.76
Expected life (years)	**3.25 and 5.25**	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25
Risk-free rate (%) – based on UK government gilts commensurate with the expected term of the award	**0.2 (for 3.25 year scheme) and 0.4 (for 5.25 year scheme)**	0.6 (for 3.25 year scheme) and 1.0 (for 5.25 year scheme)	0.8 (for 3.25 year scheme) and 1.2 (for 5.25 year scheme)	1.3 (for 3.25 year scheme) and 1.9 (for 5.25 year scheme)	0.4 (for 3.25 year scheme) and 0.8 (for 5.25 year scheme)
Expected volatility (%) based on the Company's share price volatility to date	**30.0**	30.0	30.0	30.0	30.0
Dividend yield (%)	**6.3**	6.0	6.3	7.9	8.5

Other share schemes

During the year, the Group launched a Chairman's share award which is granted to a small number of employees in recognition of their outstanding contribution in the previous year. On 24 March 2017, 22,830 nil-cost options were granted and these awards are expected to vest on 24 March 2020.

The Group operates a Share Incentive Plan ('SIP') which allows participating employees to purchase 'Partnership shares' in the Company through monthly contributions which are limited to the lower of £150 per month and 10% of gross monthly salary. For every three Partnership shares purchased, the Company gives the employee one 'Matching share'. Matching shares are required to be held for three years.

The fair value of the Matching shares granted is estimated as the share price at date of grant, taking into account terms and conditions upon which the instruments were granted. At 31 December 2017, 33,705 matching shares were conditionally awarded to employees.

I1.3 Movements in the year

The following tables illustrate the number of, and movements in, LTIP, Sharesave and DBSS share options during the year:

	Number of share options 2017		
	LTIP	**Sharesave**	**DBSS**
Outstanding at the beginning of the year	**3,469,421**	**1,037,156**	**633,118**
Granted during the year	**1,034,157**	**675,549**	**229,465**
Forfeited during the year	**(754,443)**	**(64,886)**	**(4,409)**
Exercised during the year	**(779,638)**	**(382,827)**	**(227,685)**
Outstanding at the end of the year	**2,969,497**	**1,264,992**	**630,489**

	Number of share options 2016		
	LTIP	Sharesave	DBSS
Outstanding at the beginning of the year	2,694,173	832,680	529,084
Granted during the year	1,438,958	388,143	279,239
Forfeited during the year	–	(8,533)	–
Cancelled during the year	(273,167)	(15,456)	–
Exercised during the year	(390,543)	(159,678)	(175,205)
Outstanding at the end of the year	3,469,421	1,037,156	633,118

The weighted average fair value of options granted during the year was £4.75 (2016: £6.11).

The weighted average share price at the date of exercise for the rewards exercised is £7.72 (2016: £7.69).

The weighted average remaining contractual life for the rewards outstanding as at 31 December 2017 is 1.5 years (2016: 1.3 years).

I2. CASH FLOWS FROM OPERATING ACTIVITIES

The following analysis gives further detail behind the 'cash utilised by operations' figure in the statement of consolidated cash flows.

	2017 £m	2016 £m
Loss for the year before tax	**(7)**	(70)
Non-cash movements in profit for the year before tax:		
Fair value gains on:		
Investment property	**(9)**	(26)
Financial assets	**(2,896)**	(4,548)
Change in fair value of borrowings	**(23)**	34
Amortisation of intangible assets	**126**	90
Change in present value of future profits	**(5)**	11
Change in unallocated surplus	**46**	(4)
Share-based payment charge	**8**	7
Interest expense on borrowings	**132**	122
Premium paid on partial redemption of £300 million unsecured bond	**25**	–
Net interest expense/(income) on Group defined benefit pension scheme asset/liability	**11**	(21)
Other costs of pension schemes	**5**	5
Decrease/(increase) in investment assets	**4,411**	(650)
Decrease in reinsurance assets	**1,154**	345
(Decrease)/increase in insurance contract and investment contract liabilities	**(1,933)**	2,489
(Decrease)/increase in deposits received from reinsurers	**(24)**	14
Increase in obligation for repayment of collateral received	**338**	898
Net increase in working capital	**(113)**	(486)
Other Items:		
Contributions to defined benefit pension schemes	**(90)**	(55)
Cash generated/(utilised) by operations	**1,156**	(1,845)

I3. CAPITAL MANAGEMENT

The Group's capital management is based on the new Solvency II framework. This involves a valuation in line with Solvency II principles of the Group's Own Funds and risk based assessment of the Group's Solvency Capital Requirement ('SCR').

This note sets out the Group's approach to managing capital and provides an analysis of Own Funds and SCR.

Risk and capital management objectives

The risk management objectives and policies of the Group are based on the requirement to protect the Group's regulatory capital position, thereby safeguarding policyholders' guaranteed benefits whilst also ensuring the Group can meet its various cash flow requirements. Subject to this, the Group seeks to use available capital to achieve increased returns, balancing risk and reward, to generate additional value for policyholders and shareholders.

In pursuing these objectives, the Group deploys financial and other assets and incurs insurance contract liabilities and financial and other liabilities. Financial and other assets principally comprise investments in equity securities, fixed and variable rate income securities, collective investment schemes, property, derivatives, reinsurance, trade and other receivables, and banking deposits. Financial liabilities principally comprise investment contracts, borrowings for financing purposes, derivative liabilities and net asset value attributable to unit holders.

The risk management disclosures in the consolidated financial statements set out the major risks that the Group businesses are exposed to and describe the Group's approach to managing these. The section on financial risk is included in note E6, the section on insurance risk is included in note F4 and the sections on risk and capital management objectives and other risks are included below. The Group's risk management framework is described in the risk management commentary on pages 32 to 37 of the Annual Report and Accounts.

Other risks

Customer risk

Customer risk is the risk of reductions in earnings and/or value, through inappropriate or poor customer treatment (including poor advice).

Operational risk

Operational risk is the risk of reductions in earnings and/or value, through financial or reputational loss, from inadequate or failed internal processes and systems, or from people related or external events.

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 under the Solvency II regime while not retaining unnecessary excess capital;
- to ensure sufficient liquidity to meet obligations to policyholders and other creditors;
- to optimise the Fitch Rating's financial leverage to maintain an investment grade credit rating; and
- to maintain a stable and sustainable dividend policy.

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.

Group capital

Group capital is managed on a Solvency II basis.

Under the Solvency II framework, the primary sources of capital managed by the Group comprise of the Group's Own Funds as measured under the Solvency II principles adjusted to exclude surplus funds attributable to the Group's unsupported with-profit funds and unsupported pension schemes. In addition, the Group has access to the undrawn portion of the revolving credit facility of £900 million as at 31 December 2017 (2016: £50 million). For further details, see note E5.

A Solvency II capital assessment involves valuation in line with Solvency II principles of the Group's Own Funds and a risk-based assessment of the Group's Solvency Capital Requirement ('SCR'). Solvency II surplus is the excess of Own Funds over the SCR.

The Group aims to maintain a Solvency II surplus at least equal to its Board-approved capital policy, which reflects board risk appetite for meeting prevailing solvency 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.

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.

Own funds and SCR

Basic Own Funds represents the excess of assets over liabilities from the Solvency II balance sheet adjusted to add back any relevant subordinated liabilities that meet the criteria to be treated as capital items.

The Basic Own Funds are classified into three Tiers based on permanency and loss absorbency (Tier 1 being the highest quality and Tier 3 the lowest). The Group's Own Funds are assessed for their eligibility to cover the Group SCR with reference to both the quality of capital and its availability and transferability. Surplus funds in with-profit funds of the Life companies and in the pension schemes are restricted and can only be included in Eligible Own Funds up to the value of the SCR they are used to support.

Eligible Own Funds to cover the SCR are obtained after applying the prescribed Tiering limits and transferability restrictions to the Basic Own Funds.

The SCR is calibrated so that the likelihood of a loss exceeding the SCR is less than 0.5% over one year. This ensures that capital is sufficient to withstand a broadly '1 in 200 year event'.

In December 2015, the Group was granted the PRA's approval for use of its Internal Model to assess capital requirements. Following the 2016 acquisitions of the AXA Wealth and Abbey Life businesses, the Group obtained the PRA's approval to incorporate the acquired AXA Wealth businesses within the scope of the Group's Internal Model in March 2017. The capital assessment of the Abbey Life business remained on a Standard Formula basis as at 31 December 2017. Therefore, the Solvency II position of the Group at that date is based partially on the Group's Internal Model and partially on Standard Formula. However, following completion of the reinsurance of the majority of the Abbey Life business into Phoenix Life Limited in December 2017, the SCR for the related risks is now being calculated in accordance with the Group's Internal Model.

Approval to include the Abbey Life business within the scope of the Group's Internal Model was received in March 2018.

Notes to the Consolidated Financial Statements continued

I. OTHER NOTES continued

Group capital resources – unaudited

The Group capital resources is based on the Group's pro forma Own Funds adjusted for shareholder borrowings as analysed below:

Unaudited	2017 £bn	2016 Pro forma[1] £bn
PGH Own Funds	**6.6**	6.0
Remove Own Funds pertaining to unsupported with-profit funds and the PGL pension scheme	**(2.0)**	(2.0)
Group capital resources	**4.6**	4.0

1 The 2016 Own Funds include pro forma adjustments to illustrate the impacts of the issuance in January 2017 of the £300 million Solvency II qualifying Tier 3 bond and the receipt of the PRA's approval in March 2017 to include the acquired AXA Wealth business within the Group's internal model.

Solvency II surplus

Until 1 July 2017, the Group's Solvency II assessment and Group supervision was performed at the PLHL level as this was the highest EEA insurance holding company. A waiver which permited Group supervision to take place at the level of the ultimate parent, PGH, via other methods as opposed to full Group supervision expired on 30 June 2017. The Group's capital position is now being managed at the PGH level only.

An analysis of the PGH Solvency II surplus as at 31 December 2017 is provided in the business review section on page 28 of the Annual Report and Accounts.

Additional information on the PGH Own Funds, SCR and MCR is included in the additional capital disclosures on pages 198 to 199 of the Annual Report and Accounts.

I4. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Group and its subsidiaries carry out transactions with related parties as defined by IAS 24 *Related party disclosures*.

I4.1 Transactions with pension scheme and associate

During the year, the Group entered into the following transactions with its pension schemes and associate:

	Transactions 2017 £m	Balances outstanding 2017 £m	Transactions 2016 £m	Balances outstanding 2016 £m
Pearl Group Staff Pension Scheme				
Payment of administrative expenses	**(3)**	**–**	(2)	–
UK Commercial Property Trust Limited				
Dividend income	**23**	**–**	17	–
Reduction in investment	**–**	**–**	12	–

I4.2 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:

	2017 £m	2016 £m
Salary and other short-term benefits	**4**	4
Equity compensation plans	**2**	2

Details of the shareholdings and emoluments of individual Directors are provided in the Remuneration report on pages 62 to 87.

I5. OPERATING LEASES

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Where the Group is the lessee, payments made under operating leases, net of any incentives received from the lessor are charged to the consolidated income statement on a straight-line basis over the period of the lease.

Operating lease rentals charged within administrative expenses amounted to £6 million (2016: £6 million).

The Group has commitments under non-cancellable operating leases as set out below:

	2017 £m	2016 £m
Not later than 1 year	**5**	7
Later than 1 year and not later than 5 years	**11**	16

The principal operating lease commitments for 2017 concern office space located at St Vincent Street, Glasgow, Juxon House, London and Redcliff Street, Bristol (2016: St Vincent Street, Glasgow and Juxon House, London).

Disclosures of future minimum lease rental receivables in respect of non-cancellable operating leases on investment properties are included in note G9.

I6. COMMITMENTS

This note analyses the Group's other commitments.

	2017 £m	2016 £m
To subscribe to private equity funds and other unlisted assets	**543**	646
To purchase, construct or develop investment property	–	7
For repairs, maintenance or enhancements of investment property	**1**	3

I7. CONTINGENT LIABILITIES

Where the Group has a possible future obligation as a result of a past event, or 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.

During 2016, the FCA published two thematic reviews into the fair treatment of long-standing customers and into the practices of non-advised annuity sales. Following the acquisition of Abbey Life, a provision has been recognised in respect of obligations identified as a result of past practices adopted by the entity in the areas covered by the two reviews. As part of this exercise, other potential exposures were identified where it is not yet possible to conclude that the Group has a present obligation that will require an outflow of economic benefits. The determination of any liability arising remains dependent on the occurrence of uncertain future events, including finalisation of the FCA's enforcement investigation into Abbey Life that commenced in response to the findings of the review into the fair treatment of long-standing customers. Further detailed information on these exposures is included in note G1.

I8. 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.

With effect from 31 January 2018 the central management, control and head office of the Company moved from Jersey to the UK. Phoenix Group Holdings is considered to be resident in the UK for tax purposes from this date.

On 23 February 2018, the Group announced the proposed acquisition of the majority of Standard Life Assurance Limited and Vebnet Limited for a total consideration of £2,930 million. The consideration will be financed through a cash consideration of £1,971 million and the issuance of shares in Phoenix Group Holdings representing approximately 19.99% of the enlarged share capital of the Group. The Group proposes to finance the cash consideration via a £950 million rights issue with the remaining cash consideration of £1,021 million financed from up to £1,500 million of underwritten debt facilities and up to £250 million of own cash resources.

The £1,500 million of underwritten debt facilities comprises a £900 million backstop revolving credit facility ("the backstop facility") and a sterling term loan facility with an aggregate principal amount of £600 million ("the acquisition facility"). Both agreements were entered into on 23 February 2018.

The terms of the backstop facility closely mirror the terms of the Group's existing £900 million unsecured revolving credit facility (see note E5), with an additional condition that the drawdown of loans under the backstop facility results in the cancellation in full of the current revolving credit facility.

The acquisition facility has a final maturity date of twelve months after completion. The Group is entitled to request two six month extensions to the term of the facility (which would together extend the maturity date to 24 months after completion). The interest period may be selected by the Group and the interest rate for the initial six month period is LIBOR plus a margin of 0.5%.

On 27 February 2018, the Company updated the terms of its £900 million unsecured revolving credit facility which extends the term of the facility to 30 June 2022.

On 14 March 2018, the Board recommended a final dividend of 25.1p per share (2016: 23.9p per share) for the year ended 31 December 2017. Payment of the final dividend is subject to shareholder approval at the AGM. The cost of this dividend has not been recognised as a liability in the financial statements for 2017 and will be charged to the statement of changes in equity in 2018.

H Staunton
C Bannister
J McConville
A Barbour
I Cormack
K Green
W Mayall
J Pollock
B Richards
N Shott
K Sorenson

14 March 2018

Parent Company Accounts
Statement of Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Net investment income	4	**174**	92
Net income		**174**	92
Administrative expenses	5	**(27)**	(54)
Total operating expenses		**(27)**	(54)
Profit before finance costs and tax		**147**	38
Finance costs	6	**(60)**	–
Total comprehensive income for the year attributable to owners		**87**	38

The Company was exempt from tax in the Cayman Islands on any profits, income, gains or appreciations from 11 May 2010.

There are no other comprehensive income items for 2017 and 2016.

Statement of Financial Position

As at 31 December 2017

	Notes	2017 £m	2016 £m
EQUITY AND LIABILITIES			
Equity attributable to owners			
Share capital	D1	**–**	–
Share premium		**1,449**	1,640
Foreign currency translation reserve		**89**	89
Retained earnings		**697**	602
Total equity		**2,235**	2,331
Liabilities			
Financial liabilities			
Borrowings	7	**1,412**	–
Other amounts due to Group entities	15	**160**	98
Accruals and deferred income	8	**22**	1
Total equity and liabilities		**3,829**	2,430
ASSETS			
Investments in Group entities	9	**1,664**	1,664
Financial assets			
Equities	10.1	**1**	–
Fixed and variable rate income securities	10.2	**41**	–
Collective investment schemes	10.3	**28**	25
Loans and receivables	10.4	**2,070**	737
Other amounts due from Group entities	15	**25**	4
Total assets		**3,829**	2,430

The notes identified numerically on pages 185 to 190 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 alphanumerically) on pages 110 to 181.

Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Cash flows from operating activities			
Cash generated/(utilised) by operations	11	**52**	(78)
Net cash flows from operating activities		**52**	(78)
Cash flows from investing activities			
Dividends received from Group entities		**2**	8
Loan advance to Group entities		**(585)**	(657)
Capital contributions to Group entities		**–**	(929)
Repayment of loans from Group entities including price premium received		**929**	775
Interest received from Group entities		**72**	25
Return of share capital from Opal ReAssurance Limited ('Opal Re')		**–**	77
Net cash flows from investing activities		**418**	(701)
Cash flows from financing activities			
Proceeds from issuing ordinary shares		**2**	908
Ordinary share dividends paid		**(193)**	(126)
Interest paid		**(60)**	–
Proceeds from new borrowings, net of associated expenses		**534**	–
Repayment of borrowings including price premium paid		**(753)**	(3)
Net cash flows from financing activities		**(470)**	779
Net decrease in cash and cash equivalents		**–**	–
Cash and cash equivalents at the beginning of the year		**–**	–
Cash and cash equivalents at the end of the year		**–**	–

Statement of Changes in Equity

For the year ended 31 December 2017

	Share capital (note D1) £m	Share premium £m	Foreign currency translation reserve £m	Retained earnings £m	Total £m
At 1 January 2017	**–**	**1,640**	**89**	**602**	**2,331**
Total comprehensive income for the year attributable to owners	**–**	**–**	**–**	**87**	**87**
Issue of ordinary share capital (note D1)	**–**	**2**	**–**	**–**	**2**
Dividends paid on ordinary shares (note B4)	**–**	**(193)**	**–**	**–**	**(193)**
Credit to equity for equity–settled share–based payments (note I1)	**–**	**–**	**–**	**8**	**8**
At 31 December 2017	**–**	**1,449**	**89**	**697**	**2,235**

Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital (note D1) £m	Share premium £m	Foreign currency translation reserve £m	Retained earnings £m	Total £m
At 1 January 2016	–	858	89	557	1,504
Total comprehensive income for the year attributable to owners	–	–	–	38	38
Issue of ordinary share capital (note D1)	–	908	–	–	908
Dividends paid on ordinary shares (note B4)	–	(126)	–	–	(126)
Credit to equity for equity–settled share–based payments (note I1)	–	–	–	7	7
At 31 December 2016	–	1,640	89	602	2,331

Phoenix Group Holdings is subject to Cayman Islands Companies Law. Under Cayman Islands Companies Law distributions can be made out of profits or share premium subject, in each, to a solvency test. The solvency test is broadly consistent with the Group's going concern assessment criteria.

The notes identified numerically on pages 185 to 190 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 alphanumerically) on pages 110 to 181.

Notes to the Parent Company Financial Statements

1. ACCOUNTING POLICIES

(A) BASIS OF PREPARATION

The financial statements have been prepared on an historical cost basis except for those financial assets and financial liabilities that have been measured at fair value.

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB').

The financial statements are presented in sterling (£) rounded to the nearest million unless otherwise stated.

Assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Income and expenses are not offset in the statement of comprehensive income unless required or permitted by an IFRS or interpretation, as specifically disclosed in the accounting policies of the Company.

(B) ACCOUNTING POLICIES

The accounting policies in the separate financial statements are the same as those presented in the consolidated financial statements on pages 110 to 113, except for the policy noted below. In addition, the Company does not adopt the Group's policy of hedge accounting. Where an accounting policy can be directly attributed to a specific note to the consolidated financial statements, the policy is presented within that note. Each note within the Company financial statements makes reference to the note to the consolidated financial statements containing the applicable accounting policy. The accounting policy in relation to foreign currency transactions is included within note A2.1 to the consolidated financial statements.

Investments in Group entities

Investments in Group entities are carried in the statement of financial position at cost less impairment.

The Company assesses at each reporting date whether an investment is impaired. The Company first assesses whether objective evidence of impairment exists. Evidence of impairment needs to be significant or prolonged to determine that objective evidence of impairment exists. If objective evidence of impairment exists, the Company calculates the amount of impairment as the difference between the recoverable amount of the Group entity and its carrying value and recognises the amount as an expense in the statement of comprehensive income.

The recoverable amount is determined based on the cash flow projections of the underlying entities.

2. FINANCIAL INFORMATION

In preparing the financial statements the Company has adopted the standards, interpretations and amendments effective 1 January 2017 which have been issued by the IASB as detailed in note A4 to the consolidated financial statements, none of which have had a significant impact on the Company's financial statements. Details of standards, interpretations and amendments to be adopted in future periods are also detailed in note A5 to the consolidated financial statements and details about adoption of the standard IFRS 9 *Financial Instruments* effective from 1 January 2018 are outlined below.

Under IFRS 9, all financial assets will be measured either at amortised cost or fair value and the basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. In relation to the impairment of financial assets, IFRS 9 requires the use of an expected credit loss model, as opposed to the incurred credit loss model required under IAS 39. The expected credit loss model will require the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The Company has performed a high-level impact assessment to consider the impact of IFRS 9. Overall, the Company expects no significant impact on its statement of financial position and equity from applying both the classification and expected credit loss requirements of the standard. A process has been established to calculate the expected credit loss allowance for debt instruments held at amortised cost including loans and other receivables. This considers both qualitative and quantitative information and based upon information currently available no material expected credit loss allowances are expected.

3. 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 182 to 184. The accounting policy for segmental analysis is included in note B1 to the consolidated financial statements.

Predominantly, all revenues from external customers are sourced in the UK.

Predominantly, all assets are located in the UK.

4. NET INVESTMENT INCOME

The accounting policy for net investment income is included in note C1 to the consolidated financial statements.

	2017 £m	2016 £m
Investment income		
Interest income on financial assets designated at fair value through profit and loss on initial recognition	4	–
Dividend income from other Group entities	25	8
Interest income from other Group entities	114	72
Premium on partial redemption of loans due from PGH (LCA) Limited and PGH (LCB) Limited	3	–
Recharge of bank facility fees to other Group companies	4	–
	150	80
Fair value gains/(losses) on financial assets at fair value through profit and loss:		
Held for trading – derivatives	2	–
Designated upon initial recognition	(3)	–
	(1)	–
Gain on return of capital from subsidiary (note 9)	25	12
Net investment income	**174**	**92**

Notes to the Parent Company Financial Statements
continued

5. ADMINISTRATIVE EXPENSES

The accounting policy for administrative expenses is included in note C2 to the consolidated financial statements.

	2017 £m	2016 £m
Employee costs[1]	1	1
Professional fees	5	25
Write down of loans due from other Group entities	7	11
Staff costs recharged from other Group entities	12	10
Other	2	7
Administrative expenses	**27**	54

1 In addition to the Non-Executive Directors, one employee was employed by Phoenix Group Holdings during the period (2016: one). Other Group employees are employed by other Group entities.

6. FINANCE COSTS

The accounting policy for finance costs is included in note C4 to the consolidated financial statements.

This note analyses the interest costs on the Company's borrowings which are described in note 7.

	2017 £m	2016 £m
Interest expense:		
On financial liabilities at amortised cost	60	–

7. BORROWINGS

The accounting policy for borrowings is included in note E5 to the consolidated financial statements.

	Carrying value		Fair value	
	2017 £m	2016 £m	2017 £m	2016 £m
£300 million senior unsecured bond (note a)	133	–	137	–
£428 million subordinated loans (note b)	459	–	513	–
£450 million Tier 3 subordinated notes (note c)	452	–	481	–
US $500 million Tier 2 bonds (note d)	368	–	390	–
Total borrowings	**1,412**	–	**1,521**	–
Amount due for settlement after 12 months	1,412	–		

All borrowings are measured at amortised cost using the effective interest method.

a. On 7 July 2014, the Group's financing subsidiary, PGH Capital plc ('PGHC'), issued a £300 million 7 year senior unsecured bond at an annual coupon rate of 5.75% ('£300 million senior bond'). On 20 March 2017, the Company was substituted in place of PGHC as issuer of the £300 million senior bond, which was initially recognised at fair value of £336 million net of transaction costs. On 5 May 2017, the Company completed the purchase of £178 million of the £300 million senior bond at a premium of £25 million in excess of the principal amount. Transaction costs charged to the Company on substitution were deferred and are being amortised over the life of the bond.

b. On 23 January 2015, PGHC issued £428 million of subordinated notes due 2025 at a coupon of 6.625%. On 20 March 2017, the Company was substituted in place of PGHC as issuer of the £428 million subordinated notes which was initially recognised at fair value of £462 million net of transaction costs. The transaction costs charged to the Company on substitution were deferred and are being amortised over the life of the notes.

c. On 20 January 2017, PGHC issued £300 million Tier 3 subordinated notes due 2022 at a coupon of 4.125%. On 20 March 2017, the Company was substituted in place of PGHC as issuer of the £300 million Tier 3 subordinated notes which were initially recognised at fair value of £301 million net of transaction costs. On 5 May 2017, the Company also completed the issue of a further £150 million of Tier 3 subordinated notes, the terms of which are the same as the Tier 3 subordinated notes issued in January 2017. The Company received a premium of £2 million in excess of the principal amount. Fees of £1 million associated with the additional £150 million notes issued were deferred. All deferred issue costs associated with these notes are being amortised over the life of the notes.

d. On 6 July 2017, the Company issued US $500 million Tier 2 bonds due 2027 with a coupon of 5.375%. Fees associated with these notes of £2 million were deferred and are being amortised over the life of the bond.

e. On 28 February 2017, the Company became an additional borrower under a £900 million 5 year unsecured revolving credit facility with an outstanding balance on that date of £544 million, net of issue costs. On 6 July 2017, the proceeds from the issuance of the US $500 million Tier 2 bonds were used to repay £384 million of the revolving credit facility and on 8 August 2017, the remaining outstanding balance of £166 million was repaid. There are no mandatory or target amortisation payments associated with the revolving credit facility but prepayments are permissible. The facility accrues interest at LIBOR plus 1.1%, a reduced rate following the upgrade to the Company's credit rating on 25 July 2017 (previously LIBOR plus 1.35%). On 20 January 2017, the utilisation fee was reduced from 0.4% per annum to 0.2% per annum and it was further reduced to 0.1% per annum on 6 July 2017 following subsequent repayments of the outstanding balance (2016: 0.4% per annum).

For the purposes of the additional fair value disclosures for financial liabilities for which fair value is disclosed, £1,521 million is categorised as Level 2 financial instruments. There were no gains or losses recognised in other comprehensive income in the current period.

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Company's statement of cash flows as cash flows from financing activities.

		Non-cashflows			Cashflows		
	At Jan 2017 £m	Loans issued via substitution[1] £m	Movement in foreign exchange £m	Other movements[2] £m	New borrowings net of costs £m	Repayments[3] £m	At 31 Dec 2017 £m
£300 million senior unsecured bond	–	336	–	(3)	–	(200)	133
£428 million subordinated notes	–	462	–	(3)	–	–	459
£450 million Tier 3 subordinated notes	–	301	–	–	151	–	452
US $500 million Tier 2 bonds	–	–	(15)	–	383	–	368
£900 million unsecured revolving credit facility	–	544	–	6	–	(550)	–
	–	1,643	(15)	–	534	(750)	1,412

1 Loans issued via substitution is a non-cashflow item as consideration was the transfer of loans and receivables (refer to note 10.4).
2 Primarily comprises amortisation under the effective interest method applied to borrowings held at amortised cost.
3 Repayment of borrowings in the statement of cashflows includes a premium of £3 million in excess of the fair value amount on repayment of the £300 million senior unsecured bond.

8. ACCRUALS AND DEFERRED INCOME

The accounting policy for accruals and deferred income is included in note G4 to the consolidated financial statements.

	2017 £m	2016 £m
Accruals and deferred income	22	1
Amount due for settlement after 12 months	–	–

9. INVESTMENTS IN GROUP ENTITIES

	2017 £m	2016 £m
Cost		
At 1 January	2,101	1,237
Additions	–	929
Return of share capital from Opal Re	–	(65)
At 31 December	2,101	2,101
Impairment		
At 1 January	(437)	(437)
Charge for the year	–	–
At 31 December	(437)	(437)
Carrying amount		
At 31 December	1,664	1,664

On 24 March 2016, the Company received £77 million as a result of a return of share capital from Opal Re. As the cost of the Company's investment in Opal Re was £65 million, a gain in 2016 of £12 million was recognised on return of the capital. On 1 September 2017, a further gain of £25 million was recognised in respect of the return of the remaining share capital from Opal Re.

During 2016, the Company made capital contributions totalling £929 million in an equal share to PGH (LCA) Limited and PGH (LCB) Limited.

For a list of principal Group entities, refer to note H5 of the consolidated financial statements. The entities directly held by Phoenix Group Holdings are separately identified.

10. FINANCIAL ASSETS

The accounting policy for financial assets is included in note E1 to the consolidated financial statements.

10.1 EQUITIES

	Carrying value		Fair value	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Equities	**1**	–	**1**	–
Amount due for settlement after 12 months	**–**	–		

All investments are categorised as Level 3 financial instruments. The investment is an equity holding in a property investment structure and was acquired by the Company during 2017 and all fair value movements are included in net investment income in the statement of comprehensive income. Unrealised losses of £3 million were recognised in other comprehensive income in the current period. Sensitivities are included in note E2.3

10.2 FIXED AND VARIABLE RATE INCOME SECURITIES

	Carrying value		Fair value	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Investment in fixed and variable rate income securities	**41**	–	**41**	–
Amount due for settlement after 12 months	**41**	–		

All investments are categorised as Level 3 financial instruments. The investment is a debt holding in a property investment structure and was acquired by the Company during 2017 and all fair value movements are included in the net investment income in the statement of comprehensive income. There were no gains or losses recognised in other comprehensive income in the current period. Sensitivities are included in note E2.3.

10.3 COLLECTIVE INVESTMENT SCHEMES

	Carrying value		Fair value	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Investment in collective investment schemes	**28**	25	**28**	25
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 E2 to the consolidated financial statements.

10.4. LOANS AND RECEIVABLES

	Carrying value		Fair value	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Loans due from PGH (LCA) Limited and PGH (LCB) Limited (note a)	**634**	603	**781**	718
Loans due from PGH (MC1) Limited and PGH (MC2) Limited (note b)	**142**	128	**250**	235
Loans due from Phoenix Life Holdings Limited (note c)	**1,291**	–	**1,388**	–
Loans due from Phoenix Group Employee Benefit Trust (note d)	**3**	6	**3**	6
	2,070	737	**2,422**	959
Amounts due after 12 months	**1,956**	731		

The accounting policy for loans and receivables is included in note E1 to the consolidated financial statements.

All loans and receivables balances are due from Group entities and are measured at amortised cost using the effective interest method. The fair value of these loans and receivables are also disclosed.

a. 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 International Stock Exchange. Interest accrues on these Eurobonds at a rate of LIBOR plus a margin of 2.5% and the final maturity date is 30 June 2025. The Eurobonds were initially recognised at fair value and are accreted to par over the period to 2025. At 31 December 2017, £207 million was due (2016: £191 million).

   In June 2015, the Company was assigned loans of £436 million issued equally by PGH (LCA) Limited and PGH (LCB) Limited. These loans accrue interest at a rate of LIBOR plus a margin of 2.9% and mature on 5 June 2020. During the year, interest of £12 million was capitalised (2016: £16 million) and £177 million of repayments were received (2016: £50 million). At 31 December 2017 £247 million was due (2016: £412 million).

On 20 March 2017, the Company was assigned a £295 million loan equally by PGH (LCA) Limited and PGH (LCB) Limited. These loans were initially recognised at fair value of £337 million and are accreted to par over the period to 2021. These loans accrue interest at a rate of 6.15% and mature on 7 July 2021. Interest of £27 million has been deferred and has been added to the loan value and becomes due and payable on 31 July 2018. Interest will accrue on the deferred interest at LIBOR plus a margin of 1%. During the year, £176 million of repayments were received in addition to a premium of £27 million. At 31 December 2017, £170 million was due (2016: £nil).

On 20 March 2017, the Company was assigned a £900 million revolving credit facility with a balance outstanding of £544 million net of issue costs by PGH (LCA) Limited and PGH (LCB) Limited. Interest of £10 million has been deferred and has been added to the loan value and becomes due and payable on 31 July 2018. Interest will accrue on the deferred interest at LIBOR plus a margin of 1%. On 6 July 2017, £384 million repayments were received and on 8 August 2017, a further £166 million was repaid. At 31 December 2017, £10 million was due (2016: £nil).

b. 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 is 30 June 2025. The Eurobonds were initially recognised at fair value and are accreted to par over the period to 2025. At 31 December 2017, £142 million was due (2016: £128 million).

c. On 20 March 2017, the Company was assigned a £428 million subordinated loan by Phoenix Life Holdings Limited. This loan was initially recognised at fair value of £466 million and is accreted to par over the period to 2025. The loan accrues interest at a rate of 6.675% and matures on 18 December 2025. Fees associated with this loan of £3 million were deferred and are being amortised over the life of the loan. At 31 December 2017, £461 million was due (2016: £nil).

On 20 March 2017, the Company was assigned a £300 million subordinated loan by Phoenix Life Holdings Limited. This loan was initially recognised at fair value of £306 million and is accreted to par over the period to 2022. The loan accrues interest at a rate of 4.175% and matures on 20 July 2022. Interest of £9 million has been deferred and has been added to the loan balance and becomes due and payable on 20 July 2018. Interest will accrue on the deferred interest at 6 month LIBOR plus a margin of 3%. On 5 May 2017, the Company issued another £150 million subordinated loan. Fees associated with these loans of £5 million were deferred and are being amortised over the life of the loan. At 31 December 2017, £462 million was due (2016: £nil).

On 6 July 2017, the Company issued a US $500 million loan to Phoenix Life Holdings Limited due 2027 with a coupon of 5.375%. Fees associated with this loan of £2 million were deferred and being amortised over the life of the loans. The foreign exchange movement in the period was £15 million. At 31 December 2017, £368 million was due (2016: £nil).

d. On 16 July 2010, the Company entered into an interest free facility arrangement with Phoenix Group Employee Benefit Trust ('EBT'). In 2017, an additional £4 million was drawn down against this facility (2016: £7 million). The loan is recoverable until the point the awards held by the EBT vest to the participants, at which point the loan is reviewed for impairment. Any impairments are determined by comparing the carrying value to the estimated recoverable amount of the loan. Following the vesting of awards in 2017 £7 million of the loan (2016: £6 million) has been written off. At 31 December 2017, £3 million was due (2016: £6 million).

No other loans are considered to be past due or impaired.

For the purposes of the additional fair value disclosures for assets recognised at amortised cost, all loans and receivables are categorised as Level 3 financial instruments. The fair value of loans and receivables with no external market is determined by internally developed discounted cash flow models using a risk adjusted discount rate corroborated with external market data where possible.

Details of the factors considered in determination of fair value are included in note E2 to the consolidated financial statements.

11. CASH FLOWS FROM OPERATING ACTIVITIES

	2017 £m	2016 £m
Profit for the year before tax	**87**	38
Adjustments to reconcile profit for the year to cash flows from operating activities:		
Investment income from other Group entities	**(150)**	(80)
Gain on return of capital from subsidiary	**(25)**	(12)
Write down of loans to Group entities	**7**	11
Share-based payment charge	**8**	7
Finance costs	**60**	–
Fair value losses	**1**	–
Net increase in investment assets	**2**	(14)
Net decrease/(increase) in working capital	**62**	(28)
Cash generated/(utilised) by operations	**52**	(78)

12. CAPITAL AND RISK MANAGEMENT

The Company's capital comprises share capital and all reserves. At 31 December 2017, total capital was £2,235 million (2016: £2,331 million). The movement in capital in the year comprises the total comprehensive income for the year attributable to owners of £87 million (2016: £38 million), proceeds from the issue of ordinary share capital of £2 million (2016: £908 million) and a credit to equity for equity-settled share-based payments of £8 million (2016: £7 million), partly offset by payment of dividends of £193 million (2016: £126 million). Details of the Groups capital management policies are outlined in note I3 to the consolidated statements.

The principal risks and uncertainties facing the Company are interest rate risk, liquidity risk and credit risk. Details of the Group risk management policies are outlined in note E6 to the consolidated financial statements.

Notes to the Parent Company Financial Statements
continued

13. SHARE-BASED PAYMENTS

For detailed information on the long-term incentive plans, sharesave schemes and deferred bonus share schemes refer to note I1 to the consolidated financial statements.

14. DIRECTORS' REMUNERATION

Details of the remuneration of the Directors' of Phoenix Group Holdings is included in the Directors' remuneration report on pages 63 to 87 of the Annual Report and Accounts.

15. 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 I4 to the consolidated financial statements.

During the year ended 31 December 2017, the Company entered into the following transactions with Group entities:

	2017 £m	2016 £m
Dividend income from other Group entities	**25**	8
Interest income from other Group entities	**114**	72
Premium received on partial redemption of loans due from PGH (LCA) Limited and PGH (LCB) Limited	**3**	–
Gain on return of capital from subsidiary	**25**	12
Recharge of bank facility fees to other Group companies	**4**	–
	171	92

Amounts due from related parties at the end of the year:

	2017 £m	2016 £m
Loans due from Group entities	**2,070**	737
Other amounts due from Group entities	**25**	4
	2,095	741
Amount due for settlement after 12 months	**1,956**	731

Amounts due to related parties at the end of the year:

	2017 £m	2016 £m
Other amounts due to Group entities	**160**	98
Amount due for settlement after 12 months	**–**	–

16. AUDITOR'S REMUNERATION

Details of auditor's remuneration, for Phoenix Group Holdings subsidiaries, is included in note C3 to the consolidated financial statements.

17. EVENTS AFTER THE REPORTING PERIOD

Details of events after the reporting date are included in note I8 to the consolidated financial statements

As part of the Group's on-shoring plan the Board moved its tax residency from Jersey to the UK, effective from 31 January 2018. This change in residency was preceded by the Company waiving the outstanding balance on the Eurobonds with PGH (LCA) Limited, PGH (LCB) Limited, PGH (MC1) Limited and PGH (MC2) Limited on 29 January 2018.

H Staunton
C Bannister
J McConville
A Barbour
I Cormack
K Green
W Mayall
J Pollock
B Richards
N Shott
K Sorenson

14 March 2018

Additional Life Company Asset Disclosures

The analysis of the asset portfolio provided below comprises the assets held by the Group's life companies, and it is stated net of derivative liabilities. It excludes other Group assets such as cash held in the holding and service companies and the assets held by the non-controlling interests in consolidated collective investment schemes.

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

31 December 2017 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	1,906	2,554	4,312	2,355	11,127
Debt securities – gilts	3,059	470	6,461	963	10,953
Debt securities – bonds	7,362	1,627	6,166	3,049	18,204
Equity securities	158	52	5,350	16,845	22,405
Property investments	112	52	847	651	1,662
Other investments[4]	1,745	206	1,547	6,103	9,601
At 31 December 2017	14,342	4,961	24,683	29,966	73,952
Cash and cash equivalents in Group holding companies					535
Cash and financial assets in other Group companies					456
Financial assets held by the non-controlling interest in consolidated collective investment schemes					1,012
Total Group consolidated assets					75,955
Comprised of:					
Investment property					612
Financial assets					74,340
Cash and cash equivalents					2,245
Derivative liabilities					(1,242)
					75,955

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 equity release mortgages of £1,255 million, policy loans of £12 million, other loans of £199 million, net derivative assets of £1,563 million, reinsurers' share of investment contracts of £6,085 million, and other investments of £487 million.

Additional Life Company Asset Disclosures
continued

31 December 2016 Carrying value	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
Cash and cash equivalents	1,239	2,457	4,342	1,858	9,896
Debt securities – gilts	3,121	425	6,724	2,163	12,433
Debt securities – bonds	8,645	1,878	6,427	2,926	19,876
Equity securities	182	53	5,699	15,747	21,681
Property investments	144	74	802	619	1,639
Other investments[1]	833	188	1849	7,449	10,319
At 31 December 2016	14,164	5,075	25,843	30,762	75,844
Cash and cash equivalents in Group holding companies					570
Cash and financial assets in other Group companies					449
Financial assets held by the non-controlling interest in consolidated collective investment schemes					931
Total Group consolidated assets					77,794
Comprised of:					
Investment property					646
Financial assets					77,049
Cash and cash equivalents					1,666
Derivative liabilities					(1,567)
					77,794

1 Includes equity release mortgages of £433 million, policy loans of £10 million, other loans of £308 million, net derivative assets of £1,468 million, reinsurers' share of investment contracts of £6,808 million, and other investments of £1,292 million.

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

31 December 2017 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	**3,059**	**470**	**6,461**	**963**	**10,953**
Other government and supranational[2]	**1,163**	**333**	**2,109**	**871**	**4,476**
Corporate – financial institutions	**2,812**	**443**	**1,902**	**187**	**5,344**
Corporate – other	**2,810**	**161**	**1,550**	**1,962**	**6,483**
Asset backed securities ('ABS')	**577**	**690**	**605**	**29**	**1,901**
At 31 December 2017	**10,421**	**2,097**	**12,627**	**4,012**	**29,157**

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

31 December 2016 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	3,121	425	6,724	2,163	12,433
Other government and supranational[2]	1,195	474	2,103	328	4,100
Corporate – financial institutions	3,375	531	1,983	2,081	7,970
Corporate – other	3,219	184	1,700	401	5,504
Asset backed securities ('ABS')	856	689	641	116	2,302
At 31 December 2016	11,766	2,303	13,151	5,089	32,309

The life companies' debt portfolio was £29.2 billion at 31 December 2017. Shareholders had direct exposure to £12.5 billion of these assets (including supported participating funds), of which 99% 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 40% of the debt portfolio in respect of shareholder exposure, or £5.0 billion, at 31 December 2017. 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 2017 **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	**3,413**	**519**	**6,722**	**971**	**11,625**
Supranationals	**606**	**89**	**359**	**25**	**1,079**
USA	**–**	**3**	**122**	**346**	**471**
Germany	**78**	**72**	**507**	**74**	**731**
France	**26**	**25**	**113**	**62**	**226**
Netherlands	**29**	**20**	**117**	**11**	**177**
Italy	**55**	**–**	**–**	**34**	**89**
Spain	**–**	**–**	**–**	**37**	**37**
Other – non-Eurozone	**7**	**66**	**592**	**258**	**923**
Other – Eurozone	**8**	**9**	**38**	**16**	**71**
At 31 December 2017	**4,222**	**803**	**8,570**	**1,834**	**15,429**

31 December 2016 **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	3,369	494	7,051	2,173	13,087
Supranationals	673	144	446	20	1,283
USA	16	5	25	107	153
Germany	143	103	526	45	817
France	40	25	90	11	166
Netherlands	16	12	112	6	146
Italy	–	–	–	26	26
Spain	–	–	–	10	10
Other – non-Eurozone	45	114	542	87	788
Other – Eurozone	14	2	35	6	57
At 31 December 2016	4,316	899	8,827	2,491	16,533

Additional Life Company Asset Disclosures
continued

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 reporting 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 2017 **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	**1,428**	**83**	**827**	**106**	**2,444**
USA	**598**	**47**	**425**	**25**	**1,095**
Germany	**72**	**9**	**47**	**3**	**131**
France	**100**	**34**	**80**	**4**	**218**
Netherlands	**190**	**66**	**186**	**28**	**470**
Italy	**7**	**–**	**7**	**–**	**14**
Spain	**3**	**–**	**16**	**–**	**19**
Other – non-Eurozone	**389**	**182**	**283**	**14**	**868**
Other – Eurozone	**25**	**22**	**31**	**7**	**85**
At 31 December 2017	**2,812**	**443**	**1,902**	**187**	**5,344**

31 December 2016 **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	1,607	65	736	924	3,332
USA	602	56	403	271	1,332
Germany	75	1	27	34	137
France	165	6	73	121	365
Netherlands	249	58	190	112	609
Italy	15	–	7	11	33
Ireland	30	–	–	29	59
Spain	1	–	15	10	26
Other – non-Eurozone	550	328	499	516	1,893
Other – Eurozone	81	17	33	53	184
At 31 December 2016	3,375	531	1,983	2,081	7,970

The life companies had £10 million (2016: £46 million) shareholder exposure to financial institution corporate debt of the Peripheral Eurozone, defined as Portugal, Italy, Ireland, Greece and Spain, at 31 December 2017. The £3,255 million (2016: £3,906 million) total shareholder exposure to financial institution corporate debt comprised £2,648 million (2016: £2,125 million) senior debt, £2 million (2016: £2 million) Tier 1 debt and £605 million (2016: £1,779 million) Tier 2 debt.

The £3,255 million shareholder exposure to financial institution corporate debt comprised £2,037 million (2016: £2,170 million) bank debt and £1,218 million (2016: £1,736 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 2017

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	**1,248**	**66**	**783**	**747**	**2,844**
USA	**561**	**31**	**200**	**72**	**864**
Germany	**241**	**43**	**142**	**25**	**451**
France	**219**	**16**	**139**	**19**	**393**
Netherlands	**5**	**–**	**15**	**3**	**23**
Italy	**47**	**1**	**32**	**5**	**85**
Ireland	**5**	**–**	**–**	**8**	**13**
Spain	**46**	**1**	**20**	**2**	**69**
Other – non-Eurozone	**345**	**3**	**185**	**1,041**	**1,574**
Other – Eurozone	**93**	**–**	**34**	**40**	**167**
At 31 December 2017	**2,810**	**161**	**1,550**	**1,962**	**6,483**

31 December 2016

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	1,517	74	830	211	2,632
USA	567	33	303	83	986
Germany	256	38	128	25	447
France	276	17	127	28	448
Netherlands	69	–	17	4	90
Italy	62	1	35	5	103
Ireland	4	–	1	6	11
Spain	48	–	23	5	76
Other – non-Eurozone	381	7	217	31	636
Other – Eurozone	39	14	19	3	75
At 31 December 2016	3,219	184	1,700	401	5,504

Additional Life Company Asset Disclosures
continued

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

31 December 2017 **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	**507**	**523**	**527**	**28**	**1,585**
USA	**–**	**–**	**2**	**–**	**2**
Germany	**–**	**9**	**4**	**–**	**13**
France	**15**	**45**	**–**	**–**	**60**
Netherlands	**9**	**76**	**23**	**1**	**109**
Ireland	**36**	**–**	**26**	**–**	**62**
Other – non-Eurozone	**10**	**5**	**5**	**–**	**20**
Other – Eurozone	**–**	**32**	**18**	**–**	**50**
At 31 December 2017	**577**	**690**	**605**	**29**	**1,901**

31 December 2016 **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	729	488	551	108	1,876
USA	10	8	4	1	23
Germany	–	74	29	–	103
France	–	29	–	–	29
Netherlands	9	84	32	1	126
Ireland	30	1	18	–	49
Other – non-Eurozone	78	2	7	3	90
Other – Eurozone	–	3	–	3	6
At 31 December 2016	856	689	641	116	2,302

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

31 December 2017

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	**1,162**	**867**	**1,568**	**549**	**4,146**
AA	**4,169**	**747**	**7,055**	**995**	**12,966**
A	**3,154**	**325**	**1,264**	**280**	**5,023**
BBB	**1,652**	**33**	**1,716**	**282**	**3,683**
BB	**49**	**2**	**187**	**23**	**261**
B and below	**–**	**1**	**101**	**1**	**103**
Non-rated	**235**	**122**	**736**	**1,882**	**2,975**
At 31 December 2017	**10,421**	**2,097**	**12,627**	**4,012**	**29,157**

99% of rated securities were investment grade at 31 December 2017 (2016: 98%). The percentage of rated securities that were investment grade in relation to the shareholder and policyholders' funds were 99% and 98% respectively (2016: 99% and 98% respectively).

31 December 2016

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	1,333	935	1,626	519	4,413
AA	4,578	943	7,962	1,415	14,898
A	3,358	287	1,312	550	5,507
BBB	2,274	54	1,624	360	4,312
BB	132	4	167	47	350
B and below	16	2	117	11	146
Non-rated	75	78	343	2,187	2,683
At 31 December 2016	11,766	2,303	13,151	5,089	32,309

Additional Capital Disclosures

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 under the Solvency II regime while not retaining unnecessary excess capital;
– to ensure sufficient liquidity to meet obligations to policyholders and other creditors;
– to optimise the Fitch Rating's financial leverage ratio to maintain an investment grade credit rating;
– to support the Group's progress in putting in place a new UK-registered holding company for the Group; and
– to maintain a stable and sustainable dividend policy.

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

Further information is provided in note I3 of the IFRS financial statements.

This section provides additional analysis of PGH's Solvency II Own Funds, SCR and MCR.

PGH SOLVENCY II SURPLUS

The PGH surplus at 31 December 2017 is £1.8 billion (2016: £1.1 billion, pro forma). The rationale for the use of the pro forma metric in 2016 is set out on page 23.

	31 December 2017 Estimated £bn	31 December 2016 Pro forma £bn
Own Funds	**6.6**	6.0
SCR	**(4.8)**	(4.9)
Surplus	**1.8**	1.1

COMPOSITION OF OWN FUNDS

Own Funds items are classified into different Tiers based on the features of the specific items and the extent to which they possess the following characteristics, with Tier 1 being the highest quality.

– availability to be called up on demand to fully absorb losses on a going-concern basis, as well as in the case of winding-up ('permanent availability');
– in the case of winding-up, the total amount that is available to absorb loses before repayment to the holder until all obligations to policyholders and other beneficiaries have been met ('subordination').

PGH's Own Funds are analysed by Tier as follows:

	31 December 2017 Estimated £bn	31 December 2016 Pro forma £bn
Tier 1	**5.0**	5.0
Tier 2	**1.0**	0.6
Tier 3	**0.6**	0.4
Total Own Funds	**6.6**	6.0

PGH's Tier 1 capital accounts for 76% (2016: 83%) of total Own Funds and comprises ordinary share capital, surplus funds of the unsupported with-profit funds which are recognised only to a maximum of the SCR, and the accumulated profits of the remaining business.

Tier 2 capital comprise of subordinated notes whose terms enable them to qualify as Tier 2 capital for regulatory reporting purposes.

Tier 3 items include the Tier 3 subordinated notes of £0.5 billion (31 December 2016: £0.3 billion, pro forma for the January 2017 Tier 3 subordinated notes issuance) and the deferred tax asset of £0.1 billion (2016: £0.1 billion).

BREAKDOWN OF SCR

An analysis of the undiversified SCR of PGH is presented below:

	31 December 2017 %	31 December 2016 Pro forma %
Longevity	**30**	33
Credit	**15**	16
Persistency	**14**	13
Interest rates	**7**	9
Operational	**9**	7
Swap spreads	**3**	4
Other market risks	**15**	10
Other non-market risks	**7**	8
	100%	100%

The principal risks of the Group are described in detail in note E6 and F4 in the IFRS financial statements.

BREAKDOWN OF SHAREHOLDER CAPITAL POSITION

The shareholder capital position is an adjusted PGH position which excludes Own Funds and the associated SCR relating to the unsupported with-profit funds and the PGL Pension Scheme of £2.0 billion as at 31 December 2017 (2016: £2.0 billion).

The shareholder capital position is further analysed between the contributions of the life companies and holding companies as follows:

	31 December 2017 Estimated £bn	31 December 2016 Pro forma £bn
Own funds	**4.6**	4.0
Phoenix Life	4.0	4.0
Holding company	0.6	–
SCR	**(2.8)**	(2.9)
Phoenix Life	(2.4)	(2.6)
Holding company	(0.4)	(0.3)
Surplus	**1.8**	1.1
Phoenix Life	1.6	1.4
Holding Company	0.2	(0.3)

Own Funds within Phoenix Life of £4.0 billion (2016: £4.0 billion) comprise £0.8 billion (2016: £1.0 billion) in the shareholders' funds, £2.1 billion (2016: £1.8 billion) in the non-profit funds, £0.5 billion (2016: £0.6 billion) in the supported with-profit funds and future shareholder transfers of £0.6 billion (2016: £0.5 billion).

Own Funds within the holding companies of £0.6 billion (2016: £nil) principally comprises cash and other financial assets held in the holding companies, net of shareholder borrowings which do not qualify as capital under the Solvency II regulations.

MINIMUM CAPITAL REQUIREMENTS

Minimum Capital Requirement ('MCR') is the minimum amount of capital an insurer is required to hold below which policyholders and beneficiaries would become exposed to an unacceptable level of risk if an insurer was allowed to continue its operations.

The MCR is calculated according to a formula prescribed by the Solvency II regulations and is subject to a floor of 25% of the SCR or EUR 3.7 million, whichever is higher, and a cap of 45% of the SCR. The MCR formula is based on factors applied to technical provisions and capital at risk.

PGH's MCR at 31 December 2017 is £1.2 billion (2016: £1.3 billion) which is a sum of the underlying insurance companies' MCRs.

PGH's eligible Own Funds to cover MCR is £5.3 billion (2016: £5.2 billion) leaving an excess of eligible Own Funds over MCR of £4.1 billion (2016: £4.0 billion), which translates to an MCR coverage ratio of 448% (2016: 409%).

The eligible Own Funds to cover the MCR is subject to quantitative limits as shown below:

- the eligible amounts of Tier 1 items should be at least 80% of the MCR; and
- the eligible amounts of Tier 2 items shall not exceed 20% of the MCR.

	31 December 2017 Estimated £bn	31 December 2016 Pro forma £bn
Eligible Own Funds to cover MCR		
Tier 1	**5.1**	5.0
Tier 2	**0.2**	0.2
Total eligible Own Funds to cover MCR	**5.3**	5.2

Alternative Performance Measures

The Group assesses its financial performance based on a number of measures. Some measures are management derived measures of historic or future financial performance, position or cash flows of the Group; which are not defined or specified in accordance with relevant financial reporting frameworks such as International Financial Reporting Standards ('IFRS') or Solvency II. These measures are known as Alternative Performance Measures ('APMs').

APMs are disclosed to provide stakeholders with further helpful information on the performance of the Group and should be viewed as complementary to, rather than a substitute for, the measures determined according to IFRS and Solvency II requirements. Accordingly, these APMs may not be comparable with similarly titled measures and disclosures by other companies.

A list of the APMs used in our results as well as their definitions, why they are used and, if applicable, how they can be reconciled to the nearest equivalent GAAP measure is provided below.

Further discussion of these measures can be found in the business review on page 26 and the definitions of all APMs are included in the glossary on page 204.

APM	Definition	Why is this measure used	Reconciliation to financial statements
Operating companies' cash generation	Cash remitted by the Group's operating companies to the Group's holding companies.	The statement of cash flows prepared in accordance with IFRS combines cash flows relating to shareholders with cash flows relating to policyholders, but the practical management of cash within the Group maintains a distinction between the two. The Group therefore focuses on the cash flows of the holding companies which relate only to shareholders. Such cash flows are considered more representative of the cash generation that could potentially be distributed as dividends or used for debt repayment and servicing, group expenses and pension contributions. Operating companies' cash generation is a key performance indicator used by management for planning, reporting and executive remuneration.	Operating companies' cash generation is not directly reconcilable to an equivalent GAAP measure (IFRS consolidated statement of cash flows) as it includes amounts that eliminate on consolidation. Further details of holding companies' cash flows are included within the business review on page 27 and a breakdown of the Groups cash position by type of entity is provided in the additional life company asset disclosures note on page 191.
Operating profit	Operating profit is a financial performance measure based on expected long-term investment returns. It is stated before tax and non-operating items including amortisation and impairments of intangibles, finance costs attributable to owners and other non-operating items which in the Director's view should be excluded by their nature or incidence to enable a full understanding of financial performance. Further details of the components of this measure and the assumptions inherent in the calculation of the long-term investment return are included in note B1.2 to the IFRS financial statements.	This measure provides a more representative view of the Group's performance than the IFRS result after tax as it provides long-term performance information unaffected by short-term economic volatility and one-off items, and is stated net of policyholder finance charges and tax. It helps give stakeholders a better understanding of the underlying performance of the Group by identifying and analysing non-operating items.	A reconciliation of operating profit to the IFRS result before tax attributable to owners is included in the business review on page 30 and in the primary financial statements on page 103.
Shareholder Capital Coverage Ratio	Represents total eligible own funds divided by the Solvency Capital Requirements ('SCR'), adjusted to a shareholder view through the exclusion of amounts relating to those ring-fenced with-profit funds and Group pension schemes whose own funds exceed their SCR.	The unsupported with-profit funds and Group pension funds do not contribute to the Group Solvency II surplus. However, the inclusion of related Own Funds and SCR amounts dampens the implied Solvency II capital ratio. The Group therefore focuses on a shareholder view of the capital coverage ratio which is considered to give a more accurate reflection of the capital strength of the Group.	Further details of the Shareholder Capital Coverage Ratio and its calculation are included in the business review on page 29 and the additional capital disclosures note on page 198.
Phoenix Life Free Surplus	The Solvency II surplus of the life companies that is in excess of their Board approved capital management policies.	This figure provides a view of the level of surplus capital in the Life companies that is available for distribution to the holding companies, and the generation of Free Surplus underpins future operating cash generation.	Please see business review section page 29 for further analysis of the solvency positions of the life companies.

In this section

ADDITIONAL INFORMATION

Shareholder Information

ANNUAL GENERAL MEETING

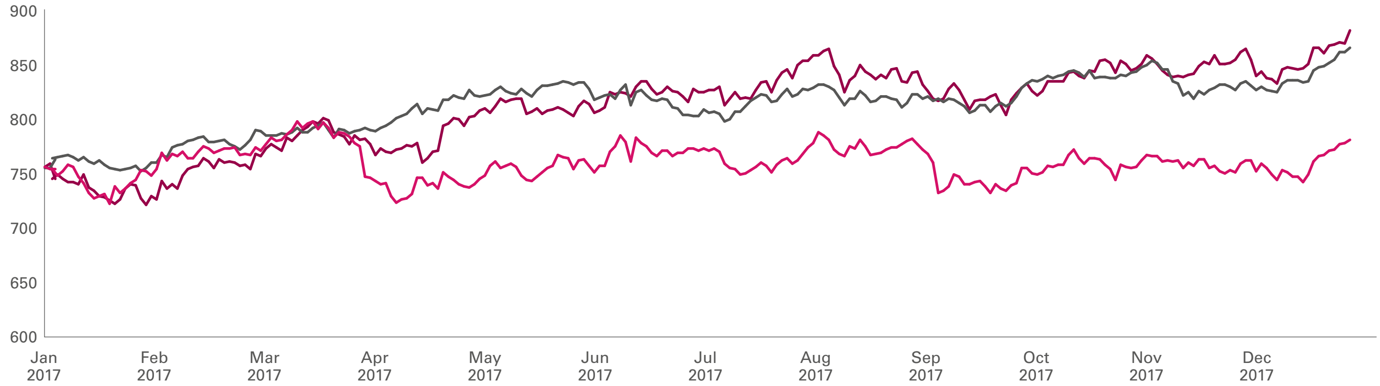
Our Annual General Meeting ('AGM') will be held on 2 May 2018 at 10:00am.

The voting results for our 2018 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



Phoenix Group
FTSE 250 (excluding investment trusts)
FTSE 350 Life Assurance

SHAREHOLDER PROFILE AS AT 31 DECEMBER 2017

Range of shareholdings	No. of shareholders	%	No. of shares	%
1–1,000	570	30.37	285,032	0.07
1,001–5,000	652	34.74	1,536,552	0.39
5,001–10,000	141	7.51	1,022,502	0.26
10,001–250,000	345	18.38	24,029,812	6.11
250,001–500,000	52	2.77	18,009,250	4.58
500,001 and above	117	6.23	348,349,496	88.59
Total	**1,877**	**100.00**	**393,232,644**	**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 directly using the contact details set out below.

REGISTRAR DETAILS

Computershare Investor Services (Cayman) Limited
Queensway House
Hilgrove Street
St Helier
Jersey, JE1 1ES

Shareholder helpline number +44 (0) 370 702 0000
Fax number +44 (0) 370 703 6101
Shareholder helpline e-mail 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; and
- if the calls persist, hang up.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme ('FSCS'). The FCA can also be contacted by completing an online form available at www.fca.org.uk/consumers/scams/investment-scams/share-fraud-and-boiler-room-scams/reporting-form.

Details of any share dealing facilities that the Company endorses will be included in Company mailings.

More detailed information on this or similar activity can be found on the FCA website available at www.fca.org.uk/consumers.

SHARE PRICE

You can access the current share price of Phoenix Group Holdings on the Group's website together with electronic copies of the Group's financial reports and presentations at www.thephoenixgroup.com/investor-relations.aspx.

ORDINARY SHARES – 2017 FINAL DIVIDEND

Ex-dividend date	**22 March 2018**
Record date	**23 March 2018**
Payment date for the recommended final dividend	**4 May 2018**

GROUP FINANCIAL CALENDAR FOR 2018

Annual General Meeting	**2 May 2018**
Announcement of unaudited six months' Interim Results	**23 August 2018**

FORWARD-LOOKING STATEMENTS

The 2017 Annual Report and Accounts contains, and the Group may make other statements (verbal or otherwise) containing, forward-looking statements and other financial and/or statistical data about the Group's current plans, goals and expectations relating to future financial conditions, performance, results, strategy and/or objectives.

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

- domestic and global economic and business conditions;
- asset prices;
- market-related risks such as fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, and the performance of financial markets generally;
- the policies and actions of governmental and/or regulatory authorities, including, for example, new government initiatives related to the financial crisis and the effect of the European Union's 'Solvency II' requirements on the Group's capital maintenance requirements;
- the political, legal and economic effects of the UK's vote to leave the European Union;
- 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; and
- 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 and other financial and/or statistical data within the 2017 Annual Report and Accounts.

The Group undertakes no obligation to update any of the forward-looking statements contained within the 2017 Annual Report and Accounts or any other forward-looking statements it may make or publish.

The 2017 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 2017 Annual Report and Accounts is or should be construed as a profit forecast or estimate.

Glossary

ABBEY LIFE	The companies comprising of Abbey Life Assurance Company Limited, Abbey Life Trustee Services Limited and Abbey Life Trust Securities Limited
ABS	Asset Backed Securities – A collateralised security whose value and income payments are derived from a specified pool of underlying assets
ACQUIRED VALUE IN FORCE ('AVIF')	The present value of future profits on a portfolio of long-term insurance and investment contracts, acquired either directly or through the purchase of, or investment in, a business
ALM	Asset Liability Management – Management of mismatches between assets and liabilities within risk appetite
ALTERNATIVE PERFORMANCE MEASURE	An Alternative Performance Measure ('APM') is a financial measure of historic or future financial performance, financial position,or cash flows, other than a financial measure defined under IFRS or under Solvency II regulations. The Group uses a range of these metrics to provide a better understanding of the underlying performance of the Group. All APMs are defined within this glossary and an APM note is provided on page 200
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
ASSETS UNDER MANAGEMENT	Represents all assets managed or administered by or on behalf of the Group, including those assets managed by third parties.
BREXIT	The vote by the people of the United Kingdom to leave the EU in the referendum held on 23 June 2016
CLOSED LIFE FUND	A fund that no longer accepts new business. The fund continues to be managed for the existing policyholders
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
EXPERIENCE VARIANCES	Current period differences between the actual experience incurred and the assumptions used in the calculation of 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 regulatory solvency capital requirement, plus the capital required under the Board approved capital management policy
FCA	Financial Conduct Authority – The body responsible for supervising the conduct of all financial services firms and for the prudential regulation of those financial services firms not supervised by the Prudential Regulation Authority ('PRA'), such as asset managers and independent financial advisers
FOS	Financial Ombudsman Service – An ombudsman established in 2000, and given statutory powers in 2001 by the Financial Services and Markets Act 2000, to help settle disputes between consumers and UK-based businesses providing financial services
GAR	Guaranteed Annuity Rate – A rate available to certain pension policyholders to acquire an annuity at a contractually guaranteed conversion rate
HMRC	HM Revenue and Customs
HOLDING COMPANIES	Refers to Phoenix Group Holdings, PGH Capital plc, 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
IFRS	International Financial Reporting Standards – Accounting standards, interpretations and the framework adopted by the International Accounting Standards Board
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
INTERNAL MODEL	The agreed methodology and model, approved by the PRA, to calculate the Group Solvency Capital Requirement pursuant to Solvency II
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
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
MINIMUM CAPITAL REQUIREMENTS ('MCR')	MCR is the minimum amount of capital that the Group needs to hold to cover its risks under the Solvency II regulatory framework
MSA	Management Services Agreement – Contracts that exist between Phoenix Life and management services companies or between management services companies and their outsource partners
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, where risks and rewards of the fund fall wholly to shareholders
OPERATING COMPANIES	Refers to the trading companies within Phoenix Life
OPERATING COMPANIES' CASH GENERATION	Operating companies' cash generation represents cash remitted by the Group's operating companies to the holding companies
OPERATING PROFIT	Operating profit is a non-GAAP measure that is considered a more representative measure of performance than IFRS profit or loss after tax as it is based on expected long-term investment returns
ORIGO	An electronic pensions transfer system
OWN FUNDS	Basic Own Funds comprise the excess of assets over liabilities valued in accordance with the Solvency II principles and subordinated liabilities which qualify to be included in Own Funds under the Solvency II rules. Eligible Own Funds are the amount of Own Funds that are available to cover the Solvency Capital Requirements after applying prescribed tiering limits and transferability restrictions to Basic Own Funds
PART VII TRANSFER	The transfer of insurance policies under Part VII of Financial Services and Markets Act 2000. The insurers involved can be in the same corporate group or in different groups. Transfers require the consent of the High Court, which will consider the views of the PRA and FCA and of an Independent Expert
PARTICIPATING BUSINESS	See with-profit fund
PERIPHERAL EUROZONE	Refers to Portugal, Ireland, Italy, Greece and Spain
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
SHAREHOLDER CAPITAL COVERAGE RATIO	Represents total eligible Own Funds divided by the Solvency Capital Requirements ('SCR'), adjusted to a shareholder view through the exclusion of amounts relating to those ring-fenced with-profit funds and Group pension schemes whose Own Funds exceed their SCR
SOLVENCY II	A new regime for the prudential regulation of European insurance companies that came into force on 1 January 2016
SOLVENCY II SURPLUS	The excess of Eligible Own Funds over the Solvency Capital Requirement
SOLVENCY CAPITAL REQUIREMENTS ('SCR')	SCR relates to the risks and obligations to which the Group is exposed, and is calibrated so that the likelihood of a loss exceeding the SCR is less than 0.5% over one year. This ensures that capital is sufficient to withstand a broadly '1-in-200-year event'
STANDARD FORMULA	A set of calculations prescribed by the Solvency II regulations for generating the SCR

Glossary
continued

STANDARD LIFE ASSURANCE	Standard Life Assurance means the majority of the business of Standard Life Assurance Limited and Vebnet Limited that is proposed to be acquired by the Group as announced on 23 February 2018. It includes Standard Life Assurance Limited's UK and European life insurance, pensions and savings business, but excludes Standard Life Assurance Limited's retail platform and growth business infrastructure, as well as its advice business
TRANSITIONAL MEASURES ON TECHNICAL PROVISIONS	Transitional Measures to Technical Provisions ('TMTP') is an allowance, subject to the PRA's approval, to apply a transitional deduction to technical provisions. The transitional deduction corresponds to the difference between net technical provisions calculated in accordance with Solvency II principals and net technical provisions calculated in accordance with the previous regime and is expected to decrease linearly over a period of 16 years starting from 1 January 2016 to 1 January 2032. TMTP is subject to a mandatory recalculation every two years or on the occurrence of certain defined events
TSR	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	A property investment company which is domiciled in Guernsey and listed on the London Stock Exchange
UNIT-LINKED POLICY	A policy where the benefits are determined by the investment performance of the underlying assets in the unit-linked fund
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

Online Resources

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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.

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www.thephoenixgroup.com

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Design and production Radley Yeldar

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FSC® C001785
FSC www.fsc.org

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