CASH RESILIENCE GROWTH

A SUSTAINABLE PHOENIX

PHOENIX GROUP

ANNUAL REPORT AND ACCOUNTS 2018

2018 WAS TRANSFORMATIONAL FOR PHOENIX AS WE DELIVERED CASH, RESILIENCE AND GROWTH.

WITH THE RESTRUCTURING OF THE LIFE AND PENSIONS INDUSTRY, WE ARE IN A POSITION TO TAKE ADVANTAGE OF FURTHER OPPORTUNITIES.

THE SUCCESSFUL ACQUISITION OF THE STANDARD LIFE ASSURANCE BUSINESSES HAS ALLOWED US TO EVOLVE FROM BEING A HERITAGE BUSINESS TO ONE THAT EXTENDS TO OPEN BUSINESS AND EUROPE.

THIS HAS ENHANCED THE SUSTAINABILITY OF THE GROUP AND WILL PROPEL US TOWARDS OUR NEW VISION TO BECOME **EUROPE’S LEADING LIFE CONSOLIDATOR.**

More information online at
www.thephoenixgroup.com

PHOENIX GROUP AT A GLANCE

OUR VISION

Become Europe's Leading Life Consolidator.

OUR PURPOSE

Inspire confidence in the future.

WHAT WE DO

As the largest life and pensions consolidator in Europe, Phoenix specialises in the acquisition and management of closed life insurance and pension funds. We call this our Heritage business.

Transactions in the bulk purchase annuity market offer a complementary source of growth for the Group and the management actions we deliver help increase and accelerate cash flows.

Alongside this, we have an Open business which manufactures and underwrites new products and policies to support people saving for their future in areas such as workplace pensions and self-invested personal pensions. This Open business is supported by the Strategic Partnership with Standard Life Aberdeen plc following our acquisition of Standard Life Assurance Limited in 2018. We also have a market leading brand – SunLife – which sells a range of financial products specifically for the over 50s market.

Read more on our operating structure and business model on **P8 and 14**

Read more on our marketplace on **P12**

STRATEGIC REPORT

CORPORATE GOVERNANCE

OUR MISSION

Improve outcomes for customers and deliver value for shareholders.

KEY PERFORMANCE INDICATORS

£664m
OPERATING COMPANIES' CASH GENERATION
APM REM

£3.2bn
PGH SOLVENCY II SURPLUS (ESTIMATED)

167%
PGH SHAREHOLDER CAPITAL COVERAGE RATIO (ESTIMATED)
APM

23.4p
FINAL DIVIDEND PER SHARE

£708m
OPERATING PROFIT
APM

93%
CUSTOMER SATISFACTION SCORE[1]

OTHER PERFORMANCE INDICATORS

£410m
IFRS PROFIT AFTER TAX

£226bn
ASSETS UNDER ADMINISTRATION
APM

£154m
NEW BUSINESS CONTRIBUTION[2]
APM

22%
FINANCIAL LEVERAGE RATIO[3]
APM

Read more on P28

All amounts throughout the report market with 'REM' are KPIs linked to Executive Remuneration.

See Directors' Remuneration Report **P76**

All amounts throughout the report marked with 'APM' are alternative performance measures.

Read more on **P230**

1 Phoenix Life score only.
2 On a pro forma post tax basis assuming the acquisition of the Standard Life businesses took place on 1 January 2018.
3 As calculated by Phoenix using Fitch Ratings stated methodology.

OUR LOCATIONS

FINANCIALS

ADDITIONAL INFORMATION

With-profits	£56bn
Unit linked	£145bn
Non-Profit (Annuities)	£19bn
Non-Profit (Protection)	£3bn

* Based on assets under administration.

OUR STRATEGIC PRIORITIES

01
IMPROVE CUSTOMER OUTCOMES

02
DRIVE VALUE

03
MANAGE CAPITAL

04
ENGAGE COLLEAGUES

Read more on our strategic priorities
P18

OUR THREE MAIN BUSINESS SEGMENTS

UK HERITAGE

- With-profits
- Unit linked
- Annuities
- Protection

UK OPEN

Unit linked:

- Workplace
- Retail pension
- Wrap

Protection:

- SunLife over 50s

EUROPE

Ireland:

- Unit linked
- With-profits
- Annuities

Germany:

- With-profits
- Unit linked

Read more on our business segments
P10

OUR BRANDS

PHOENIX GROUP

Standard Life

SunLife

Read more on our brands
P12

UK Heritage	£118bn
UK Open	£85bn
Europe	£23bn

* Based on assets under administration.

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

I joined Phoenix as Chairman at a pivotal moment in the Group's history. 2018 was a defining year for the Group marked by outstanding strategic delivery and strong financial performance.

On 31 August, Phoenix completed the £2.9 billion acquisition of the Standard Life Assurance businesses and entered into a Strategic Partnership with Standard Life Aberdeen. This transaction established the Group as the largest life and pensions consolidator in Europe with £226 billion of assets under administration and 10 million policies as at 31 December 2018. Not only did the acquisition bring additional scale to the Group's Heritage business, but Phoenix also acquired a significant Open business in the form of Standard Life branded insurance products which the Group is committed to growing.

Our Strategic Partnership is underpinned by a 19.98% equity stake taken by Standard Life Aberdeen in Phoenix and our Board has been strengthened by the appointment of two Standard Life Aberdeen nominated Non-Executive Directors. We have a close and positive working relationship with Standard Life Aberdeen which extends through its management of c. 60% of our assets under administration and the distribution agreement generating new business. Our objectives are aligned as we seek to leverage our respective skill sets to grow our businesses.

"THE ACQUISITION OF THE STANDARD LIFE ASSURANCE BUSINESSES IN 2018 WAS TRANSFORMATIONAL FOR PHOENIX. WE ARE NOW EUROPE'S LARGEST LIFE AND PENSIONS CONSOLIDATOR."

NICHOLAS LYONS
CHAIRMAN

Phoenix marked a number of additional significant achievements this year including the completion of the integration of the AXA Wealth and Abbey Life businesses ahead of plan and targets and successfully entering into the Bulk Purchase Annuity market.

Finally, the Group extended its track record of meeting and exceeding all of its publicly stated financial targets by surpassing the upper end of its two-year cash generation target range of £1.0 – £1.2 billion, delivering £1.3 billion of cash generation over 2017 and 2018.

CAPITAL MARKETS DAY

In November Phoenix held a very well-attended Capital Markets Day to provide an update on the Standard Life Assurance acquisition. The presentation illustrated how Phoenix has evolved from being a 'closed' business to a consolidator of both Open and Heritage life businesses.

Organic growth through the capital-light new business written as part of the Strategic Partnership with Standard Life Aberdeen represents a fundamental strengthening of the Group's business model, stemming the natural run-off of our Heritage business and bringing sustainability to the Group's cash generation profile.

DIVIDEND POLICY

The additional cash flows acquired as part of the acquisition of the Standard Life Assurance businesses enhance the sustainability of our dividend. Therefore, in line with previously stated expectations the Board recommends raising the dividend to an annualised amount of £338 million from the time of the 2018 final dividend. This corresponds to a final 2018 dividend per share of 23.4p and constitutes a c. 3.5% uplift in dividend per share (rebased to take into account the bonus element of the rights issue completed in July 2018), resulting in a new annualised dividend per share level of 46.8p going forward.

Given the long-term run-off nature of the Group's Heritage business, the Board continues to consider it prudent to maintain a stable and sustainable dividend policy.

RECENT BOARD CHANGES

Against a backdrop of macroeconomic uncertainty in light of Brexit, the Board aims to maintain the breadth and depth of experience required to continue delivering shareholder value and improving customer outcomes. Therefore, we were delighted to welcome Campbell Fleming and Barry O'Dwyer from Standard Life Aberdeen to the Board. Both bring with them substantial experience and executive skills complementary to those of our existing Directors and very related to our evolving strategy.

LOOKING AHEAD

Despite our expectation that market conditions will remain turbulent leading up to and beyond Brexit, we look ahead with optimism as Phoenix's hedging programme brings resilience to the Group' solvency position and cash generation. Additionally, the Group's capital-light new business capability brings added sustainability to Phoenix's cash generation.

Simultaneously, the drivers for consolidation in the life insurance sector are increasing and we believe institutions will look to divest their capital intensive closed business to consolidators such as Phoenix. Phoenix has a proven track record of delivering value accretive acquisitions and I am confident that the Group is well placed to take advantage of these growth opportunities as and when they arise.

Phoenix will enter the FTSE100 Index on 18 March 2019. Entry into this index is recognition of the progress Phoenix has made as an organisation.

I would like to take this opportunity to thank all my colleagues for their hard work and commitment in what has been another hugely successful year for Phoenix and our investors for their continuing support. I look forward to working with you all in 2019.

NICHOLAS LYONS
CHAIRMAN

4 March 2019

£226bn
ASSETS UNDER ADMINISTRATION

10.0m
POLICIES

GROUP CHIEF EXECUTIVE OFFICER'S REPORT

The acquisition of the Standard Life Assurance businesses in 2018 was transformational for Phoenix. It allowed us to evolve from being a UK closed life consolidator into the largest life and pensions consolidator in Europe; with Heritage and Open businesses spanning the UK, Germany and Ireland.

Phoenix delivered strong financial performance during the year, generating £664 million of cash and increasing the resilience of the Group's capital position through the implementation of our hedging programme to the Standard Life Assurance businesses. Our leverage ratio remains below the target range and our credit ratings were affirmed by Fitch Ratings in September following completion of the acquisition.

Phoenix's substantial new business capabilities bring improved sustainability to our long-term cash generation. Our Open business is growing, driven by the success of the capital-light Standard Life branded products sold through the Strategic Partnership with Standard Life Aberdeen. This growth is augmented by our successful entry into the bulk purchase annuity market which, together with vesting annuities, keeps scale in our Heritage business.

Whilst the acquisition of the Standard Life Assurance businesses represents an important milestone in our consolidation journey, it is not our final destination and we remain confident in our ability to grow further through additional acquisitions.

"PHOENIX'S BUSINESS CONTINUES TO BE RESILIENT. OUR OPEN BUSINESS BRINGS IMPROVED SUSTAINABILITY TO CASH GENERATION AND WE ARE CONFIDENT ABOUT OUR GROWTH OPPORTUNITIES."

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER

ACQUISITION OF THE STANDARD LIFE ASSURANCE BUSINESSES AND STRATEGIC PARTNERSHIP WITH STANDARD LIFE ABERDEEN

Phoenix completed the acquisition of the Standard Life Assurance businesses on 31 August 2018 with 99.98% of voting shareholders supporting the transaction. The acquisition was funded through a £950 million rights issue completed in July with a take-up rate of 96.25%, and the issuance of £500 million Tier 1 notes in April and a €500 million Tier 2 bond in September. I would like to thank our investors for their overwhelming support for this acquisition.

The acquisition has brought additional scale to Phoenix's pre-existing UK Heritage business which now has £118 billion of assets under administration. It has also brought a significant Open business to Phoenix in the form of Standard Life branded workplace pension, retail pension and Wrap products.

These products are predominantly capital-light unit linked products and will be delivered to the customer through the Strategic Partnership with Standard Life Aberdeen. Under this partnership, Standard Life Aberdeen will undertake sales, marketing and distribution for new business which Phoenix will underwrite and administer. In this way, both companies continue to provide the services that align to their key strengths and is built to work seamlessly for customers with the full proposition being delivered under the Standard Life Brand.

We also now have a European business which contains both Heritage and Open business. We are poised to complete our preparations to ready this business for Brexit with a Part VII transfer to an Irish domiciled subsidiary, Standard Life International Designated Activity Company ('SL Intl') due to complete in March. We have injected £250 million of capital into SL Intl prior to this Part VII and will report our 2019 cash generation figures net of this injection.

Cost and capital synergies

Upon announcement of the transaction in February 2018, we set a total cost and capital synergy target for the transition of the Standard Life Assurance business within Phoenix of £720 million.

Upon completion of the acquisition in August, we worked with our new colleagues from Standard Life Assurance to design the operating model of our combined organisation.

It is clear to me that Phoenix will be forever strengthened by the breadth of skills that our new colleagues bring. I am extremely grateful for the hard work across all locations in the Group that has ensured that our transition programme has 'the best of both'. As a result of this collaboration, I am pleased to announce an increase of 70% to a new total synergy target of £1,220 million.

Transition programme

Our transition programme is making good progress and will deliver an end state operating model over three phases. We are now targeting savings of £75 million per annum from our 2018 business as usual combined cost base of £600 million and have also set a £30 million target for one-off cost savings.

Actuarial harmonisation

In 2018 we delivered £500 million of capital synergies in respect of the Standard Life Assurance businesses. This principally consists of the benefits from capital synergies from implementing the Group's equity and currency hedging strategy but also includes capital synergies by internally restructuring indemnity benefits within the Group.

We have increased our capital synergy target to £720 million to reflect the estimated impact of moving towards Phoenix's strategic asset allocation for annuity backing assets and creating a single life company.

In addition, the programme will also bring together our two internal models. This has never been done before and the timeline we outline today targeting PRA approval by the end of 2020 remains indicative as we work through a number of key decisions and work with our regulators to assess achievability.

THE END STATE OPERATING MODEL WILL BE DELIVERED IN THREE PHASES OVER THREE YEARS

Phase 1

Focuses on enabling Head Office functions such as HR, Legal and Risk to enhance process efficiency and remove duplication. This phase will also deliver a single Risk Management Framework and three lines of defence model.

Phase 2

Covers the Finance and Actuarial functions. This includes the harmonisation of the Group's capital framework and related internal model as well as improving the alignment of reporting processes as a combined business.

Phase 3

Will deliver the end state operating model for both the UK Heritage and UK Open segments. The end state operating model will be designed to respond to an evolving landscape from the Open business perspective while also providing a versatile platform for future consolidation.

Phase 1: Enabling Head Office Functions

Phase 2: Finance and Actuarial

Phase 3: Customer and Technology

2019 | 2020 | 2021

FINANCIAL PERFORMANCE

Cash generation is resilient and sustainable

Phoenix delivered £664 million cash generation in the year taking total cash generation in 2017 and 2018 to £1.3 billion and exceeding the upper end of the target range for this period of £1.0–£1.2 billion.

The Group has set new short and longer-term cash generation targets for the enlarged business. In 2019 we expect to generate £600 – £700 million of cash net of the cost of capitalising our Irish subsidiary for Brexit and our target for 2019 to 2023 is £3.8 billion. In addition we expect to generate a further £8.2 billion of cash from 2024 onwards.

The combined cash guidance of £12.0 billion reflects the cash for our in-force business only and does not include the additional cash flows that may be generated on new business. As our Open business grows, it will help to offset the run-off of our Heritage business and bring improved sustainability to our cash generation which in turn supports our stable and sustainable dividend policy.

Phoenix Group capital position

During 2018, the Group strengthened the resilience of its capital position, increasing the Solvency II surplus from a pro forma[1] of £2.5 billion as at 31 December 2017 to £3.2 billion as at 31 December 2018.

The Shareholder Capital coverage ratio also increased to 167% at 31 December 2018 from a 147% pro forma ratio at 31 December 2017, well within our target range of 140% to 180%.

Operating Profit

The Group delivered total operating profit of £708 million and reports for the first time operating profit across its three main business segments. The increase compared to the prior year is primarily driven by the inclusion of Standard Life Assurance for the four-month period post completion of the acquisition together with net positive impacts of management actions and experience and actuarial assumption changes during 2018.

Assets under administration

As at 31 December 2018, the Group had £226 billion of assets under administration, reduced from the £240 billion pro forma position at 31 December 2017. This fall is primarily driven by market movements experienced in the fourth quarter of 2018 when markets were particularly negative. During the year, strong net inflows on our UK Open and European businesses have partially offset net outflows on our UK Heritage business.

REGULATORY AND LEGISLATIVE CHANGES

In September we were informed by the Financial Conduct Authority ('FCA') that it had closed its investigation into Abbey Life Assurance Limited following the thematic review into the fair treatment of long standing customers in the life insurance sector. The FCA found that the conduct of Abbey Life Assurance Limited did not warrant enforcement action. Standard Life was referred to the FCA enforcement division to consider whether any of the issues identified in the thematic review on non-advised annuities sales warranted further intervention and we continue to work with the FCA on the ongoing investigation.

With regard to annuities sales, both Standard Life and Abbey Life agreed with the FCA to undertake a past business review and both programmes are well advanced. Both of these reviews were known issues at the time of acquisition and we expect the costs arising from these reviews to be covered by the indemnities agreed at the time of the acquisition.

CUSTOMERS

Phoenix places its customers at the heart of what it does and is committed to delivering a high level of customer service and to improving customer outcomes.

Phoenix invests in its online capabilities and we connect digitally with as many of our customers as possible.

For Phoenix Life, this digital journey is being shaped through our outsourcing arrangement with Diligenta. 80% of our Diligenta pension customers can now log on to our digital platform and during 2018 we saw over 40% of eligible customers taking advantage of our online encashment functionality. In absolute numbers this would be 80% of around 1 million customers.

In 2018, over 14,000 policies moved into drawdown with Standard Life and digital was the channel of choice for the majority of these customers. Furthermore, with more than three million logins last year, our mobile app is now the easiest way for Standard Life customers to interact with us when they want.

Since auto-enrolment we have supported 11,000 schemes into a qualifying workplace pension scheme with 1.7 million new joiners auto-enrolled into them by employers.

In August, I was delighted to announce that we would be introducing caps on ongoing charges across our Phoenix Life non-workplace unitised pensions business and removing exit charges on small unitised pensions policies. This change will benefit c. 250,000 policies and reduce the average Phoenix Life ongoing charge for unitised non-workplace pension policies to 1.1%.

We recognise the importance of customer service and monitor our performance through a number of metrics. We have exceeded all of our customer service targets in 2018.

ILLUSTRATIVE CASH GENERATION PROFILE OVER TIME

Management actions
Management actions increase or accelerate cash generation across the Heritage and Open businesses.

Open
Growth of Open business at 2018 levels will offset Heritage run-off.

Heritage
Our Heritage business runs off at 5-7% per annum.

1 Pro forma assuming the acquisition of the Standard Life businesses took place on 31 December 2017.

COLLEAGUES

Corporate responsibility plays a central role in the colleague experience at Phoenix. The three strands of physical, mental and financial wellbeing underpin our colleague and community initiatives, which now extend to the Standard Life Assurance businesses.

Volunteering is a priority across the Group with over 50% of Phoenix Group and Phoenix Life colleagues participating in volunteering activities over the year.

2018 saw Phoenix embark on a significant listening exercise to re-invigorate our commitment to our corporate values. 'The Big Conversation' brought these values to life and delivered an agreed set of behaviours – created by staff and championed by senior management sponsors.

2019 will see us engage colleagues in the creation of a combined set of values for the Group, building on previous work conducted at Standard Life Assurance and Phoenix.

This focus on engagement and colleague empowerment creates a rich and diverse working environment, reflected in our continued status as one of the UK's Top Employers.

CONCLUSION

In 2018, Phoenix delivered on its existing strategic priorities alongside a material acquisition. We completed the integration of both the AXA Wealth and Abbey Life during the year and to date have generated cash from both transactions of £968 million or over 70% of consideration. We also completed our on-shoring programme replacing the previous Cayman Islands registered holding company with a UK-incorporated one.

We look forward to 2019 with excitement. Whilst we will of course remain focused on the safe transition of our combined businesses, we have the management bandwidth to deliver on our growth strategy.

The drivers of consolidation in the life insurance industry are numerous: trapped capital, specialist skills shortages, stranded costs, and an increased regulatory burden. These drivers will generate future acquisition opportunities for Phoenix.

Phoenix has the skill set, scale and financial strength to be at the forefront of the UK and European life consolidation market. We remain optimistic about the opportunities that 2019 will bring and we are ready to move forward with transactions that add value to our investors.

I have been delighted to welcome former Standard Life colleagues to the Phoenix family and thank all of my colleagues throughout the Group for their 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

4 March 2019

THE DRIVERS OF CONSOLIDATION ARE INCREASING AND PHOENIX IS WELL PLACED TO BE THE LEADING LIFE CONSOLIDATOR IN EUROPE DURING THIS PROCESS."

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER

2018 TIMELINE

February
Announced proposed acquisition of the Standard Life Assurance businesses.

March
Integration of AXA Wealth and Abbey Life complete.

April
£500 million Tier 1 notes issued.

May
First BPA transaction announced.

July
£950 million rights issue.

August
Acquisition of the Standard Life Assurance businesses completed.

September
FCA closes Abbey Life enforcement investigation.
€500 million Tier 2 bond issued.
Fitch Ratings affirms ratings and places Phoenix on 'stable' outlook.

December
New UK holding company in place.
On-shoring complete.
Abbey Life Part VII complete.

OUR OPERATING STRUCTURE

PHOENIX GROUP'S OPERATING STRUCTURE IS EVOLVING AS WE TRANSITION TO A NEW END STATE OPERATING MODEL FOR THE COMBINED GROUP.

PHOENIX GROUP

GROUP FUNCTIONS

Manage corporate and strategic activity and include the following:

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

PHOENIX LIFE | **STANDARD LIFE**

Manage the financial assets for policyholders across our UK Heritage; UK Open and European main business segments

Life companies
- Phoenix Life Limited
- Phoenix Life Assurance Limited

Life companies
- Standard Life Assurance Limited
- Standard Life International Designated Activity Company

INVESTMENT MANAGEMENT AND DISTRIBUTION

MANAGEMENT SERVICES COMPANIES

Provide life companies with management services

OUTSOURCE PARTNERS

GROUP FUNCTIONS

The Group operates centralised functions that provide Group-wide and corporate-level services and manage corporate and strategic activity. Based in Edinburgh, Wythall near Birmingham and Juxon House, London, the Group is led by the Group Chief Executive Officer, Clive Bannister.

PHOENIX LIFE AND STANDARD LIFE

Phoenix Life and Standard Life are responsible for the management of the Group's life funds in the UK, Germany and Ireland across both Heritage and Open product lines. Phoenix Life is based in Wythall, Birmingham and is led by its Chief Executive Officer, Andy Moss. Susan McInnes is the Chief Executive of our Standard Life business which is primarily based in Edinburgh with significant operations in Frankfurt and Dublin.

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.

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.

Distribution

Distribution of non-workplace Standard Life branded products is provided by Standard Life Aberdeen under the Client Service and Proposition Agreement. We have also retained the SunLife distribution business within the Open business segment of the Group with a management team based in Bristol focused on their key skills of marketing and sales.

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

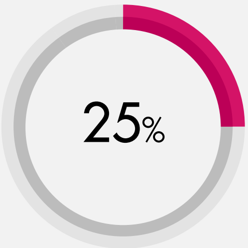
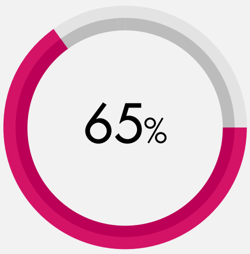
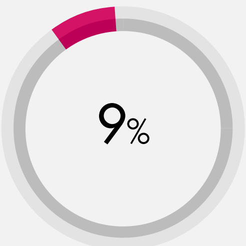
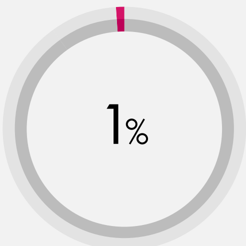
The management services companies manage relationships with the outsource partners for our Phoenix Life business. Without further acquisitions, the number of policies in our Heritage business declines over time and the cost of our Heritage operations as a proportion of policies will increase. This risk 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

WE HAVE A WIDE RANGE OF PRODUCTS WHICH ARE WRITTEN ACROSS DIFFERENT FUNDS.

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

Type of business		Typical characteristics	Policyholder benefits	Shareholder benefits
With-profit **£56bn** Assets under administration at 31 Dec 2018		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.	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.	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), including any estate distributed.
Unit linked **£145bn** Assets under administration at 31 Dec 2018		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.	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).	Shareholders benefit from fees earned through management charges, bid/offer spreads and/or policy fees.
Non-profit (annuities) **£19bn** Assets under administration at 31 Dec 2018		Policyholders make fixed or variable payments in lieu of a future lump sum or a future income stream until death.	Policyholders receive regular payments which start immediately (immediate annuity) or at some time in the future (deferred annuity).	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) **£3bn** Assets under administration at 31 Dec 2018		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.	Policyholders have certainty of the benefits they will receive.	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.

Note:
Total Assets under administration of £223 billion analysed by product type excludes £3 billion held in shareholder funds.

OUR BUSINESS SEGMENTS

PHOENIX HAS THREE MAIN BUSINESS SEGMENTS FOR ITS LIFE AND PENSIONS BUSINESS: UK HERITAGE, UK OPEN AND EUROPE.

The UK Heritage business segment comprises products that are no longer marketed to customers, for example with-profits, annuities and many legacy unit linked life and pension products. UK Open business comprises products that are actively marketed to new and existing customers and includes products sold under the Standard Life and SunLife brands. The European segment comprises both Heritage and Open business.

	UK HERITAGE	UK OPEN	EUROPE
IN FORCE	With-profits Unit linked Annuities Protection	**Unit linked:** Workplace Retail pension Wrap	**Ireland:** Unit linked With-profits Annuities **Germany:** With-profits Unit linked
NEW BUSINESS	VESTING ANNUITIES BULK PURCHASE ANNUITIES	UNIT LINKED	UNIT LINKED

UK HERITAGE

Phoenix specialises in the safe and efficient management of UK Heritage business and has a strong track record of delivery.

Our UK Heritage business comprises products that are no longer actively marketed to customers and has £118 billion of assets under administration.

With-profits (unsupported)	34%
With-profits (supported)	4%
Unit linked	42%
Non-profit (annuities)	15%
Non-profit (protection, shareholder funds and other non-profit)	5%

* Based on assets under administration at 31 December 2018.

In Force

The UK Heritage business has been built from two decades of consolidation and comprises over 100 legacy brands including Britannic, Pearl,Scottish Mutual, AXA, Abbey Life and Standard Life. It has a broad range of life and pensions products which provide Phoenix with natural diversification and includes business from both Phoenix Life and Standard Life.

The Group's strategy for our UK Heritage Business is simple – to deliver value to shareholders and customers and to improve customer outcomes.

Heritage business cash generation runs off at 5-7% per annum depending on the particular features of each legacy book. Organic cash emerges naturally from our UK Heritage business as it runs off over time and we enhance this organic cash generation through the delivery of management actions which either increase the overall cash flows from the business or accelerate the timing of these cash flows.

Integral to our efficient management of the UK Heritage business is ensuring that our cost base reduces more quickly than our policy count runs off.

New business

The Group generates new business in the Heritage business segment through vesting annuities and bulk purchase annuities, or from incremental contributions from existing pensions.

Vesting annuities

We offer annuities to existing policyholders when their pension policies vest across both the Phoenix Life and Standard Life product ranges. The majority of our vesting annuities are from pension policies which included guaranteed annuity options on maturity.

Bulk purchase annuities

In 2018 we successfully entered into the bulk purchase annuity market completing three transactions during the year. The bulk purchase annuity market is a potential source of value accretive annuity liabilities and we will continue to participate in this market in a proportionate and selective manner.

UK OPEN

Phoenix is committed to growing its capital-light UK Open business.

Our UK Open business comprises products that are actively marketed to customers and has £85 billion of assets under administration.

Workplace	44%
Retail pensions	29%
Wrap	27%

* Based on assets under administration at 31 December 2018.

In Force

Open business mainly relates to those products being sold under the Standard Life brand but also includes those aimed at the over 50's market distributed by SunLife.

Assets under administration in our open business are held in three product lines: Workplace, Retail pensions and Wrap. These are predominantly unitised products which have no guarantees and where investment risk sits with the customer. Our Open business therefore comprises capital-light products.

The Group's strategy for our Open business is shared with our Heritage book as we aim to deliver value to shareholders and customers alike. Our Strategic Partnership is important in supporting that strategy.

New business

Our Open business is growing through new business generated through the Client Service and Proposition Agreement with Standard Life Aberdeen and through an increase in pensions auto-enrolment.

Under this agreement, Standard Life Aberdeen is responsible for the distribution, branding and marketing of products. They do this through their existing networks of Retail and Independent Advisors and for some products using their successful investment platform. The exception to this are Workplace pensions products where distribution is performed by the Phoenix Group.

Responsibility for the Wrap Platform, which hosts some of our investment products such as Wrap SIPP and offshore bond also sits with Standard Life Aberdeen.

Where a customer needs or wants advice it can be delivered by Standard Life Aberdeen's in house advice arm.

Phoenix are responsible for providing the insurance product and the administration once the product is sold – this plays very much to our strengths given our existing expertise in product administration for our existing c. 5.5 million Phoenix Life customers. The relationship is built to work seamlessly for customers with the full proposition from distribution through to administration being done under the Standard Life brand.

Under the agreement, Phoenix collects product charges from customers and remits investment management fees to Standard Life Aberdeen. Where relevant, Standard Life Aberdeen may also collect a platform charges directly from the customer.

The SunLife business also generates new business across its range of over 50's products.

EUROPE

Our European business provides a platform for potential future consolidation.

It contains both open and heritage products split across Germany and Ireland and has £23 billion of assets under administration.

Germany	49%
Ireland	24%
International Bond	27%

* Based on assets under administration at 31 December 2018.

In Force

Germany

Germany closed its with-profits business to new business in 2015 and now distributes only unit linked life assurance products which have no material guarantees. These products target the over 50's market and utilise the broker distribution channels through operations in Frankfurt and Graz, Austria.

International bond

This business is all open business managed from our Dublin office targeting customers in the UK. The international bonds are unit linked products distributed by retail advisers, banks and wealth managers.

Ireland

A unit linked investment proposition for both the pre and post retirement market, the Irish business is also capital-light in nature and is distributed through adviser channels.

New business

New business is written across all open product lines of our European business.

The international bond is sold by Standard Life Aberdeen through the retail market and the investment platform. All other open products are sold by the European units themselves.

THE MARKETPLACE

THE UK LIFE AND PENSIONS MARKET REMAINS COMPETITIVE AND A STRONG BRAND IS THE KEY TO SUCCESS IN WINNING MARKET SHARE. THE PHOENIX BRAND IS DOMINANT IN THE CONSOLIDATION OF THE LIFE AND PENSIONS INDUSTRY AND IS TAKING A FOOTHOLD IN THE BULK PURCHASE ANNUITY MARKET. PHOENIX'S OPEN BUSINESS IS DELIVERED UNDER THE BRANDS OF STANDARD LIFE AND SUNLIFE.

PHOENIX GROUP

Phoenix has been a brand in the insurance industry since 1782. From its beginnings, more than 200 years ago, Phoenix has grown to become the largest life and pensions consolidator in Europe.

Closed life funds market

Phoenix estimates the size of the closed life funds market to be approximately £380 billion in the UK, increasing to £540 billion including Germany and Ireland.

Changes in customer behaviour, market dynamics and the regulatory environment resulted in insurers closing their old style capital-heavy insurance product lines to new business, replacing them with capital-light investment style products.

Opportunities and outlook

The Group expects to see continued consolidation in the closed life funds market in the future. This will be driven by 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 continues to seek opportunities to acquire and manage closed life funds. The Group's scale allows the generation of 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. In addition, Phoenix benefits from a variable cost model given the Group's outsourcing model and an approved Solvency II Internal Model which provides greater clarity over capital requirements.

Bulk purchase annuities market

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.

The size of the BPA market is significant, with in excess of £20 billion of transactions completed in 2018 and a similar volume of transactions expected in 2019.

Opportunities and outlook

Having successfully completed three bulk purchase annuity transactions in 2018, Phoenix has the acquisition experience and proven skills set to compete in this market and is targeting winning BPA liabilities of £0.5 – 1.0 billion per annum.

UK Life companies	58%
Foreign owned	30%
Bank owned	12%

With-profits	37%
Unit linked	40%
Non-profit	23%

Standard Life

Phoenix will continue to write new business under the Standard Life Brand through the Strategic Partnership with Standard Life Aberdeen. Phoenix is committed to the development of the Standard Life proposition which holds a strong position across the following markets:

Workplace pensions

The introduction of auto-enrolment, which obliges employers to provide and contribute to a workplace scheme for all eligible members, has resulted in strong growth in the workplace pensions market with more than 9.5 million people automatically enrolled through the scheme since 2012. (Source ONS)

Recent trends have included scheme reviews and employers shifting from unbundled to bundled arrangements.

Opportunities and outlook

Continued growth is expected in the workplace pensions market. 280,000 policies joined existing employer schemes in 2018 and the increase in mandatory contribution rates from 5% to 8% from April 2019 will contribute to the growth of this business in the future.

Standard Life has built a strong proposition to compete in this market with 15,000 active schemes serving 1.9 million customers and harnessing the benefit of strong relationships with large employer benefit consultants and employers.

Retail pensions

The retail pensions book is in part built up by the Strategic Partnership with Standard Life Aberdeen selling retail pensions products via independent advisers and has 750,000 customers with 14,000 new drawdown customers in 2018.

Opportunities and outlook

The retail pensions products offering has a strong digital and service offering which is critically important in this marketplace.

By offering a solution for both accumulation and decumulation, customers can keep their assets in the decumulation phase of their life and consolidate pension pots with other providers into one vehicle.

This flexibility enables us to keep our customers in the longer term and retain assets under administration with the Group evidenced by the steady flow of customers moving from our workplace schemes to retail pensions when they change employer.

We support the introduction of the Pensions Dashboard and are engaging with the Department of Workplace Pensions with the rest of the industry. We believe our business will benefit from customers greater visibility of their retirement savings and increased engagement.

Wrap

The Wrap platform is owned and operated by Standard Life Aberdeen offering a range of Standard Life branded products provided by Phoenix to circa 100,000 customers. The Wrap platform offers a high level of functionality which differentiates it from other platforms and the strong and integrated relationship with advisers gives it a market-leading position.

Opportunities and outlook

Whilst the platform market is very crowded and highly competitive, the Wrap platform remains number one in the market based on both advised gross and net volumes and is well placed to grow in the future.

Europe

Our European businesses in Germany and Ireland sell unit linked investment style business and the International bond is sold by Standard Life Aberdeen through the retail market and investment platform.

Our European business is specifically targeted to the more affluent population via broker distribution channels.

Opportunities and outlook

The strong Standard Life brand recognition and a financially strong parent support new business growth.

SunLife

Over 50s market

SunLife specialises in the distribution of insurance products to the over 50s. Phoenix underwrites and administers the life and pensions products within their range including life cover, equity release and funeral plans.

Opportunities and outlook

The SunLife brand holds a dominant position in the over 50s market with a 57.8% market share of all whole of life guaranteed acceptance plans bought directly. (Source: ABI statistics issued in November 2018 for 12 month period to 30 September 2018 based on new Phoenix Life policy sales trading as SunLife).

We will continue to invest in the SunLife brand and its service offering which was awarded the 2018 Feefo Gold Trusted Service Provider for the third year running.

BUSINESS MODEL
HOW WE CREATE VALUE

OUR STRATEGIC PRIORITIES HELP ENHANCE THE VALUE WE CREATE THROUGH OUR BUSINESS MODEL.

01 IMPROVE CUSTOMER OUTCOMES

Improving customer outcomes is central to our vision of being Europe's Leading Life Consolidator, and to inspire confidence in the future.

Read more on **P18**

02 DRIVE VALUE

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

Read more on **P22**

03 MANAGE CAPITAL

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

Read more on **P24**

04 ENGAGE COLLEAGUES

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

Read more on **P26**

WE ARE SET APART BY OUR STRENGTHS WHICH UNDERPIN OUR BUSINESS MODEL

SCALE OF OUR PLATFORM

Largest Life and Pensions Consolidator in Europe

SECURITY

Strong balance sheet which generates long term cash flows and provides security for all stakeholders

SPECIALIST OPERATING MODEL

Specialist operating model enabling us to efficiently manage and integrate heritage books

Read more on **P8**

SERVICE

Quality service to our customers and their intermediaries is critical to our strategy

Read more from **P18 to P21**

SKILLS

Talented and experienced team. We will continue to invest in this expertise

Read more on **P26**

SIGNIFICANT GROWTH

A wealth of acquisitions opportunities across the UK and Europe and organic growth through new business is available to us

Read more on **P12**

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

NEW BUSINESS
Capital-light new business under the Strategic Partnership with Standard Life Aberdeen and vesting annuities from our Heritage business

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 on
P16

RESULTING OUTCOMES DELIVERED ARE POSITIVE FOR ALL STAKEHOLDERS

CUSTOMERS
Optimised customer outcomes

Read more on
P48

93%
CUSTOMER SATISFACTION
REM

SHAREHOLDERS
Shareholder value created and stable and sustainable dividends delivered

Read more on
P58

£664m
CASH GENERATION
APM

3.5%
INCREASE IN 2018 FINAL DIVIDEND

COLLEAGUES
Challenged, motivated and rewarded colleagues

Read more on
P51

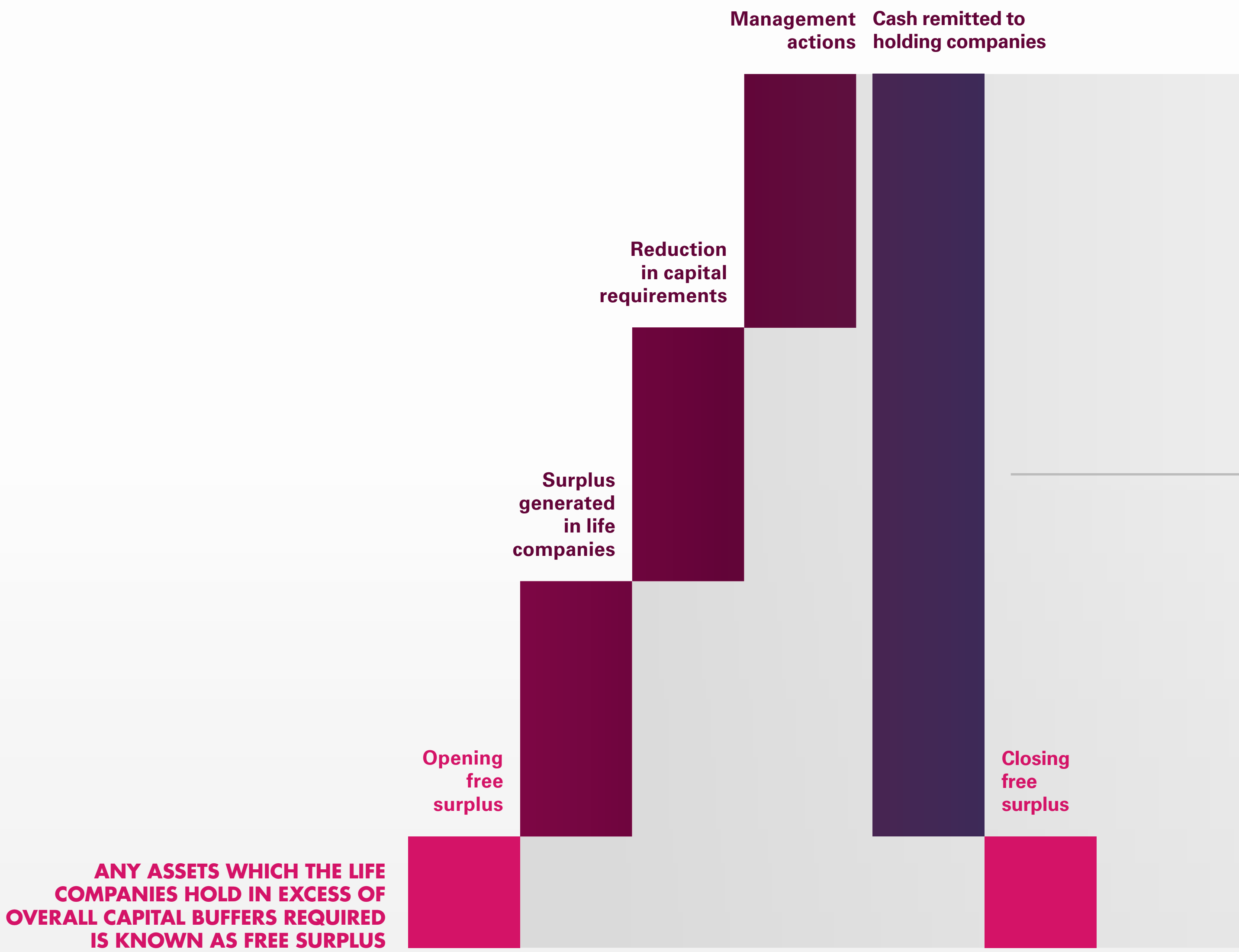
COMMUNITY & ENVIRONMENT
Support for local communities and charity partners and reduced environmental impact

Read more on
P54

£770k
DONATED TO MIDLANDS AND LONDON AIR AMBULANCE CHARITY PARTNERS

BUSINESS MODEL CONTINUED

OUR CASH GENERATION PROCESS



* For illustrative purposes only.

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.

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 our heritage business runs off, the Solvency Capital Requirements reduce.

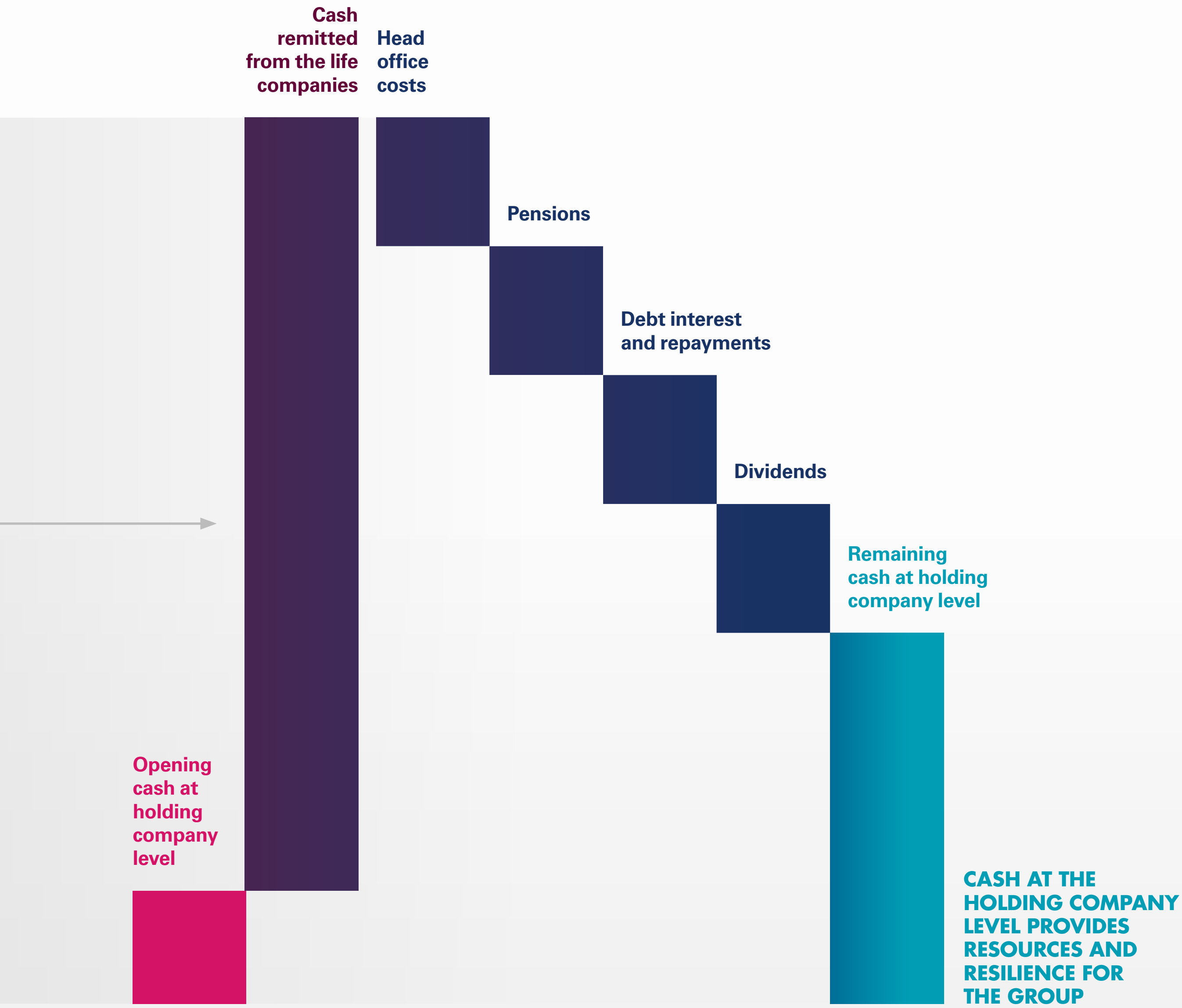
Management actions

These can either increase Own Funds or reduce capital requirements.

IMPACT OF NEW BUSINESS?

Capital-light open business

New business written across our open product range is capital-light.



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
On outstanding Group shareholder debt.

Dividends
The Group maintains a stable and sustainable dividend.

USES OF REMAINING CASH – GROWTH OPPORTUNITIES

WHAT IS THE REMAINING CASH USED FOR?

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

Bulk purchase annuity transactions
Generate increased cash flows over the longer term and are value accretive.

OUR STRATEGY AND KPIs

WE HAVE FOUR AREAS OF STRATEGIC FOCUS. OUR INITIATIVES AND KEY PERFORMANCE INDICATORS DEMONSTRATE HOW WE HAVE DELIVERED AGAINST THESE STRATEGIC AREAS.

01 IMPROVE CUSTOMER OUTCOMES
PHOENIX LIFE

Improving customer outcomes is central to our vision of being Europe's Leading Life Consolidator.

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

- Product Offering – Offering products based on customer needs using best solutions and value for money, from in-house or through external sourcing.
- Financial Security – Providing security to our customers including continuing to honour all policy guarantees.
- Improving Value and Effective With Profit fund run-off – Delivering improved value to customers and effectively managing With-Profits fund run-off.
- Effective Service Delivery – Delivering a fair, effective and value for money service to customers in a cost effective manner and having appropriate processes for identifying potential customer detriment.
- Clear and Effective Communications – Providing customers with clear, accurate and unbiased information and access to advice and guidance to support them in making informed choices.
- Product Outcomes – Ensuring that Phoenix product terms continue to deliver appropriate outcomes for customers and Phoenix.
- Customer Journey – Delivery of fair outcomes, appropriate quality and improvements in the customer journey.

KEY INITIATIVES AND PROGRESS IN 2018 – PHOENIX LIFE

- Customers can now digitally access an annuity shopping around service which can shape and save their annuity quotes and options and provide marketplace comparisons. A full Customer Dashboard has been delivered and allows some customers to access their full policy details, view online documents and self-serve.
- In August we announced a cap on ongoing charges of our non-workplace pension contracts at 1.5% for funds in excess of £5,000 and at 3% for smaller pension pots. All exit charges will be removed on pension pots of less than £5,000. This ensures that our pension contracts offer good value for money and there is no perceived barrier to exit for customers with small pension pots wishing to consolidate their savings.
- We have refined the requirements under our death claims payment process for benefits valued at £10,000 or less, ensuring a more simplified customer journey.
- Our service offering has been aligned across Phoenix Wealth and Abbey Life, ensuring that all customers receive the same fair service.
- Good progress has been made to improve our key point and regular communications, ensuring letters are engaging, clear and provide all required information for customer.
- Our performance on complaint handling, as measured by the independent complaints adjudicator, the Financial Ombudsman Service ('FOS'), once again shows our commitment and focus on our complaint handling. For FOS decisions during this reporting period, the overturn rate of 17% is significantly below the industry average rate of 30%.[1]
- A positive customer satisfaction score based on the results of the satisfaction survey managed by Ipsos MORI (an external research firm) has been received. Customers surveyed were asked to give a satisfaction rating of between 1 and 5 to a number of questions asked (with a rating of 4 or 5 regarded as satisfied) and 93% of all questions scored a rating of 4 or above.

Read more about customer engagement activities undertaken during the year on
P48

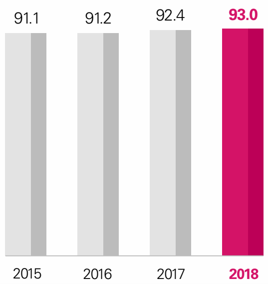
Note:
1 The most recent published industry average overturn rate across the industry in the Life and Pensions and Decumulation' category, in which the majority of our business sits was 22%.

PRIORITIES FOR 2019

- Progress work on our Digital Operating Model for Customer Services, which will give full digital self-serve capability and increase the ability of customers to interact with us digitally. This will deliver straight through customer journeys for Pension Transfers, Policy Enquiries, Life Surrenders (Quotes and Payments) and Maturities and further strengthens our commitment to a continued positive customer experience. We will also be extending our digital operating model to IFAs allowing them to engage and interact through our on-line channels.
- Complete the implementation of our charge reductions on non-workplace pensions contracts.

HOW WE MEASURE DELIVERY – PHOENIX LIFE

CUSTOMER SATISFACTION SCORE[1] (%)



Why is it important?

This is an externally calculated measure of how satisfied customers are with Phoenix's servicing proposition.

Analysis

The Group achieved a satisfaction score of 93% reflecting our commitment to ensuring customers are satisfied with our products and services.

Target

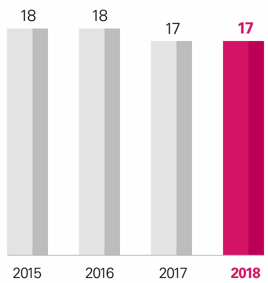
To maintain a customer satisfaction score of 90%.

93%

2017: 92%

REM

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% is significantly below the industry average of 34% and the 'Decumulation, Life and Pensions' category average of 27%.

Target

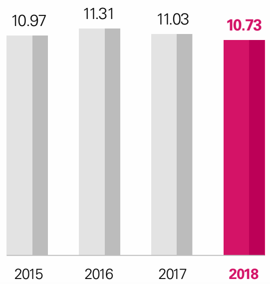
To maintain a FOS overturn target of less than the industry average of 30%.

17%

2017: 17%

REM

SPEED OF PENSION TRANSFER PAYOUTS – ORIGO (DAYS)[2]



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.

10.73 days

2017: 11.03 DAYS

REM

Notes:
1 The customer satisfaction score relates to Phoenix only.
2 Origo Timescales are Phoenix, Phoenix Wealth and Abbey – the overall timescale has been applied based on the way that timescales are calculated for each individual entity. These will be aligned from 2018.

01 IMPROVE CUSTOMER OUTCOMES
STANDARD LIFE

KEY INITIATIVES AND PROGRESS IN 2018 – STANDARD LIFE ASSURANCE

- Significant changes have been made to our online, app and telephony services in 2018 including extending our opening hours, implementing a new voice recognition system and extending our secure messaging facility which enables contact with us out of hours. We have implemented a new online registration process, making it easier to get registered, fingerprint, pin and facial recognition access to our mobile app and improvements to the investment switching journey online for trust schemes.
- Since Auto enrolment we have supported 11,000 schemes into a qualifying workplace pension scheme with 1.7 million new joiners auto enrolled into them by employers. We are continuing to enhance the administration experience we offer via our Workplace Hub platform.
- In 2018, we had 14,000 policies moving into drawdown with the majority using our digital platform, followed by our Telephony Guidance service. Of all cases processed via our retirement application we anticipate that we were able to process 60% 'straight-through'.
- Furthermore, with more than three million logins last year, our 24/7 mobile app is now the easiest way for our customers to interact with us when they want, time and time again.
- For customers in our non-advised Active Money Personal Pension drawdown plan, we have developed an online retirement review to help them assess if they are still on track and in the right investment based on their objectives. The timing of our pre-retirement communications has also been changed as feedback has shown that people start to think about major decisions in the run-up to milestone birthdays. Our communications now trigger at ages 49, 54, 59 and 64.
- Face-to-face retirement roadshows were run throughout 2018 to help our customers plan for their retirement. This year we have hosted 44 events in 19 locations, attended by around 2,000 customers and their guests. Following the success of the nationwide retirement roadshows we have introduced a digital option for retirement webinars.
- Our vulnerable customer policy and programme remains a key focus. An extensive training programme has taken place over 2018. This has been done through face-to-face training and via E-learning modules and 100% of our colleagues who have contact with customers have completed their training by the end of 2018. This training programme won 'Excellence in skills in Learning and Development' at the 2018 Contact Centre Association ('CCA') Awards.
- We continue to look for ways to improve the administration experience we offer financial advisers. In 2018 we enhanced our digital platform Adviser zone by delivering online portfolio analyser capabilities for an enhanced client experience and continued to provide live, online client valuations and contract enquiries through 15 of the top back office providers.

PRIORITIES FOR 2019

- Focus on improving the propositions we offer, the servicing and administration capabilities available and the overall experience we deliver to our clients, members and customers.
- Enhancing the proposition available for our workplace clients, listening and acting on the feedback they have given us on what is important to them. We will also be re-designing our Voice of Customer programme, to capture feedback more efficiently and demonstrate how we act on it.
- Helping workplace clients through auto enrolment phasing increases that take effect in April 2019.
- Investing in digital capability for financial advisers, as well as introducing save and replay functionality on our digital retirement journey. We will also be looking to make improvements to the investment switching journey online, for a majority of schemes.

HOW WE MEASURE DELIVERY – STANDARD LIFE ASSURANCE

NET EASY CUSTOMER EFFORT SCORE (%)

72%

Why is it important?
This is an internally calculated measure of how easy our customers find it to interact with our business. It asks one question 'Please tell us how easy it was to get what you needed today between 0 and 10, with 0 being very difficult and 10 being very easy'.

Analysis
The Net Easy customer effort score of 72% reflects that overall customers are finding us easy to deal with when they contact us.

FINANCIAL OMBUDSMAN SERVICE ('FOS') OVERTURN RATE (%)

17%

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% is significantly below the industry average of 34% and the 'Decumulation, Life and Pensions' category average of 27%.

SPEED OF PENSION TRANSFER PAYOUTS – ORIGO (DAYS)[1]

11.00 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 pension transfer times are better than the industry target of 12 days.

Note:
1 The acquisition of the Standard Life businesses completed on 31 August 2018 but this measure has been calculated for the full year 2018.

02 DRIVE VALUE

In order to drive value, the Group looks to identify organic and inorganic growth opportunities and deliver management actions which increase and accelerate cash flows.

The closed life funds within our Heritage business provide predictable fund maturity and liability profiles, creating stable long-term cash flows for distribution to shareholders and repayment of outstanding debt.

Our Open business provides the opportunity to grow organically through the matching of products to new and existing customers as part of our Strategic Partnership with Standard Life Aberdeen and under the Group's SunLife brand. Such growth brings additional scale to our business and dampens the run-off of our Heritage books.

Additional value can be generated from acquisitions of life and pension books of business and further investment in the bulk purchase annuity market.

Furthermore, there are significant opportunities to increase and accelerate cash flows through the delivery of management actions across four key areas: operational management, risk management, restructuring and effective partnerships.

KEY INITIATIVES AND PROGRESS IN 2018

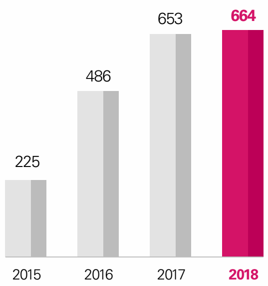
- The Group delivered £664 million in cash generation in the year. With total cash generation in 2017 and 2018 of £1.3 billion, the Group exceeded the upper end of its £1.0 billion to £1.2 billion target range.
- The acquisition of Standard Life Assurance and Strategic Partnership with Standard Life Aberdeen completed in August adding significant scale and supporting future cash generation. The Group expects to deliver cost synergies of £75 million per annum, to be delivered from a combined cost base of £600 million.
- The Open and European businesses delivered new business contribution of £154 million (net of tax on a pro forma basis assuming the acquisition of Standard Life Assurance took place on 1 January 2018). This measure provides a proxy for the expected future cash generation arising from the new business written in the year.
- £409 million of management actions were delivered in the year that increased Solvency II Own Funds. This includes anticipated cost savings arising from the planned move to a single, digitally enhanced outsourcer platform, together with the impact of strategic asset allocation actions such as investment in illiquid assets which offer improved matching adjustment benefits in the annuity portfolios. A total of £1.4 billion was invested in illiquid assets during the year, including equity release mortgage portfolios, commercial real estate and private placements.
- The integration of the AXA Wealth and Abbey Life businesses completed ahead of plan delivering cost synergy benefits of £27 million per annum and cumulative cash generation of £986 million.
- The Group successfully entered the bulk purchase annuity market with three transactions completed in 2018 and total contracted liabilities of £800 million. The Group has invested c. £100 million of capital to facilitate these transactions, reflecting the day 1 capital strain arising from the assets received. The bulk purchase annuity investments increase the Group's expected longer term cash generation by c. £300 million, to be delivered over the lifetime of the policies.

PRIORITIES FOR 2019

- Deliver Phase 1 of the Standard Life acquisition transition programme and finalise the end state operating model for the HR, Legal and Risk functions.
- Commence Phase 2 and 3 of the Standard Life acquisition transition programme related to the operating model for the Finance and Actuarial, Customer and IT functions.
- Implement further management actions including progressing activity to begin applying the Group's strategic asset allocation to the Standard Life Assurance annuity book.
- Seek further investment opportunities in the bulk purchase annuity market.
- Seek further acquisition opportunities.

HOW WE MEASURE DELIVERY

OPERATING COMPANIES' CASH GENERATION (£m)



Why it is 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 2018 was £664 million.

Target

To generate cash flows of between £600 to £700 million in 2019 and £3.8 billion of cash between 2019 and 2023.

£664m

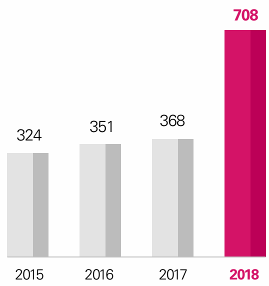
2017: £653m

APM

REM

Read more about cash generation on **P29**
Read more about the link to our executive remuneration on **P76**

OPERATING PROFIT (£m)



Why it is 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 of £708 million to the IFRS profit after tax of £410 million (2017: £(27) million) is included in the Business Review section.

Analysis

Operating profit has increased by £340 million compared to prior year, principally reflecting the impact of including the four month contribution of Standard Life Assurance post completion of the acquisition together with the net positive impact of updates to actuarial assumptions.

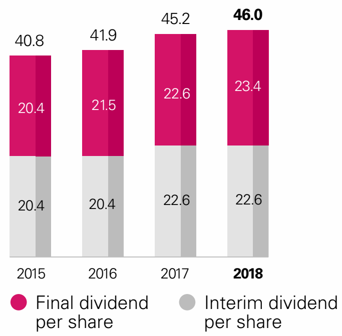
£708m

2017: £368m

APM

Read more about operating profit on **P35**

FINAL DIVIDEND PER SHARE (PENCE)[1]



Why it is important?

The Group's dividend per share helps measure how the Group delivers value to shareholders in accordance with its stable and sustainable dividend policy.

Analysis

The final dividend per share of 23.4p is a 3.5% increase on the 2017 final dividend.

Note:
1 Historic dividends per share rebased to take into account the bonus element of the rights issue completed in November 2016 and the rights issue completed in July 2018.

23.4p

FINAL DIVIDEND PER SHARE

03 MANAGE CAPITAL

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

The Group aims to optimise its 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 2018

- Receipt of regulatory approval to incorporate the Abbey Life business into the Group's Internal Model in March and the subsequent Part VII transfer of that business into Phoenix Life Limited in December.
- The Group delivered £161 million of management actions that decreased SCR in the year, including the impacts of the Abbey Life actions detailed above and other activities such as interest rate hedging.
- Capital synergies associated with the acquisition of the Standard Life Assurance businesses benefited the PGH Solvency II surplus by £0.5 billion primarily as a result of implementing Phoenix's equity and currency hedging strategy.
- Issuance of the capital qualifying £500 million Tier 1 Notes in April and the €500 million Tier 2 bond in September 2018 facilitated the funding strategy for the acquisition of the Standard Life Assurance businesses and provided additional financial flexibility to the Group.
- In September, following completion of the acquisition, Fitch assigned Standard Life Assurance Limited an Insurer Financial Strength rating of A+ with a 'stable' outlook. It also affirmed its A+ rating for the other principal insurance subsidiaries of the Group with 'stable' outlooks.
- The on-shoring of the Group completed at the end of the year. PGH became UK resident for tax purposes in January 2018 and a new UK – registered holding company, Phoenix Group Holdings plc, was put in place for the Group in December 2018.

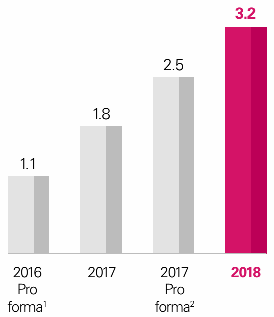
Read more about the Solvency II surplus and Shareholder Capital Coverage Ratio on
P32

PRIORITIES FOR 2019

- Implement further management actions to enhance the Group's capital position.
- Progress activity to begin harmonisation of the Group's capital framework towards a single Group Internal Model.

HOW WE MEASURE DELIVERY

SOLVENCY II SURPLUS (£bn)



Why it is important?

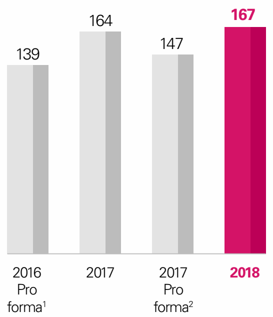
The Solvency II surplus is the regulatory assessment of capital adequacy at PGH plc level.

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

Analysis

The Group's Solvency II surplus of £3.2 billion has increased from a pro forma position of £2.5 billion[2] driven by capital synergies from the acquisition of the Standard Life Assurance businesses together with management actions and the issuance of additional subordinated debt compared to that assumed in the pro forma. The increase was partly offset by financing costs and dividend payments including accrual of the 2018 final dividend.

SHAREHOLDER CAPITAL COVERAGE RATIO (%)



Why it is 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 167% reflects the increase in the Solvency II surplus in the period and represents a resilient capital position.

Notes:

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.

2 Pro forma assuming the acquisition of the Standard Life Assurance businesses took place on 31 December 2017.

£3.2bn

2017: £2.5bn (PRO FORMA ENLARGED GROUP)[2]

167%

2017: 147% (PRO FORMA ENLARGED GROUP)[2]

APM

04 ENGAGE COLLEAGUES

Our focus on engagement and colleague empowerment creates a rich and diverse working environment, reflected in our continued status as one of the UK's Top Employers.

top EMPLOYER UNITED KINGDOM 2018
CERTIFIED EXCELLENCE IN EMPLOYEE CONDITIONS

Phoenix Group's ability to attract, retain and motivate outstanding talent was, for the eighth year in succession, formally recognised in 2018 through our accreditation as one of the UK's Top Employers. We are proud to be recognised as a responsible, sustainable and inclusive employer, who values and rewards the contribution our colleagues make to our business.

KEY INITIATIVES AND PROGRESS IN 2018

Learning and Development

- In partnership with Moving Ahead, we launched the Phoenix Group internal mentoring programme. We are fully committed to providing effective support for our colleagues personal and professional development and have 100 pairs currently working together across the Group.
- A new online performance management system was launched increasing the efficiency of the performance management process at Phoenix.

Our Values

- The Big Conversation was a significant listening exercise that was undertaken within Phoenix Group and Phoenix Life at the start of the year to raise the level of dialogue around the Group's values, and provided greater clarity around associated behaviours. The outcomes were shared with colleagues, and provided a clear framework for how individuals are recognised, developed and recruited.

Cultural Survey

- In the absence of an all-staff employee engagement survey, Phoenix issued a cultural survey to colleagues across the Group in November. This insight will help the Group shape its values and understand more about what is required to create a high-performing organisation following our acquisition of the Standard Life Assurance businesses.

Volunteering and Charity

- 58% of colleagues participated in the 2018 volunteering programme contributing 3,547 hours.
- Now into its fifth year of the six-year partnership with Midlands Air Ambulance Charity and London's Air Ambulance, the Group has donated in excess of £770,000 between the two charities since 2014.

Wellbeing

- Corporate responsibility continues to play a central role in the colleague experience at Phoenix. The three strands of physical, mental and financial wellbeing continue to underpin our colleague and community initiatives, which now extend to the Standard Life Assurance businesses.
- We continued to utilise our Corporate Responsibility agenda to provide opportunities for skills development and team building.

Diversity and Inclusion

- The Group remains committed towards creating an inclusive and attractive environment for all potential employees.
- The Group values the power of its employee voice and through the acquisition of Standard Life Assurance now has further networks in operation across the Enlarged Group. Alongside the combination of the Phoenix and Standard Life Assurance networks, we continue to adopt a 'best of both' approach to fusing colleague groups across the enlarged organisation.

PRIORITIES FOR 2019

- Remain an Employer of Choice, offering rewarding careers and opportunities across all sites within Phoenix.
- Provide a common incentive plan for all colleagues within the Enlarged Group, ensuring consistency of corporate goals and individual performance management.
- Enter into two further Corporate Charity Partnerships (Scotland's Charity Air Ambulance and Hampshire and Isle of Wight Air Ambulance), helping to unite the Enlarged Group by sharing common corporate charities.
- Expand the Diversity and Inclusion programme across the Enlarged Group, providing a wide range of development opportunities and embedding changes to existing practices to deliver a diverse, engaged and inclusive workforce.

- Phoenix is a signatory to the Women in Finance ('WIF') Charter and continues to strive for an inclusive culture which enables all of our colleagues to reach their full potential.
- In line with the WIF Charter Targets previously set, which were due for completion by the end of 2018, the group currently has women in 20% of the top 100 roles (target 30%), 26% of the Group's green/amber successors are female (target 40%) and the Group-wide mean gender pay gap is 23.3% (target 22%). Targets set for completion in 2018 were impacted by changes in senior management through acquisitions, structural changes, resignation and retirement; and these are now carried forward to 2021.
- Phoenix statutory pay figures are published on the Group's website. 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.
- Gender Pay statistics are calculated based on data gathered on 'Full Pay Relevant Employees' in the payroll period covering 5 April 2018. Of the employing entities within the Group, only Pearl Group Management Services Limited ('PGMS') has the required 250+ employees and so it is PGMS employees who are included in the regulatory reporting for 2018.

Reward

- The Group continues to attract and retain talented staff by offering a comprehensive range of benefits and development opportunities.
- Participation figures for the Phoenix Group flexible benefits scheme have increased to 95%.
- In 2018, private medical insurance was made available to all staff and their partner's regardless of status within the organisation.

Gender Pay and Bonus Gap (PGMS only)

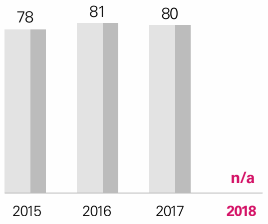
Quartile	Female	Male
Lower Quartile	55%	45%
Lower Middle Quartile	44%	56%
Upper Middle Quartile	38%	62%
Upper Quartile	25%	75%

	Mean	Medium
Pay Gap	26%	28%
Bonus Gap	53%	34%

	Female	Male
Proportion of employees receiving a bonus	91%	92%

HOW WE MEASURE DELIVERY

EMPLOYEE ENGAGEMENT INDEX (%)



Due to the Standard Life acquisition, no engagement survey was commissioned by the Group in 2018. There is an anticipated change to our engagement survey provider for 2019, to enable one engagement provision across the combined Group.

Why it is important?

We aim to ensure that employees understand the purpose of their role and feel that their contribution is valued. We need to understand how well we are performing against these aims.

2019 Target

To maintain an employee engagement index above 70%.

	2018	2017
Total workforce[1]	**4,088**	1,249
Male	**2,097**	694
Female	**1,991**	555
Directors (includes Non-Executive Directors)	**12**	11
Male	**8**	7
Female	**4**	4
Executive Committee	**9**	8
Male	**8**	7
Female	**1**	1
Workforce that is of Black, Asian or Minority Ethnic background[2]	**141**	107

Notes:
1 The 2018 figure of 4,088 does not include workforce based in Germany/Austria.
2 The 2018 figure of 141 does not include workforce from acquired Standard Life Assurance businesses or SunLife. Data relates to Phoenix Corporate and Phoenix Life companies only.

- Engage colleagues in the creation of a combined set of values for the Group, building on previous work conducted at Standard Life Assurance and Phoenix.
- Creating one single platform for Talent Acquisition for the combined Group.
- Maintain support of our communities across the Enlarged Group through employee volunteering, fund raising and engagement.

Read more about employee engagement activities undertaken during the year on **P51**

BUSINESS REVIEW

CASH GENERATION IN EXCESS OF TARGET, ENHANCED SCALE AND A RESILIENT CAPITAL POSITION

I am delighted to report that Phoenix has delivered a year of strong performance, achieving its financial targets and completing the transformational acquisition of the Standard Life Assurance businesses.

Cash generation remains our key reporting metric. The integration of the AXA Wealth and Abbey Life businesses were completed ahead of plan and this has supported the Group's cash generation of £664 million in the year. With total cash generation in 2017 and 2018 of £1.3 billion, the Group has exceeded the upper end of its £1.0 – £1.2 billion target range for that period.

The Group's Solvency II capital surplus position of £3.2 billion (2017: £2.5 billion pro forma[1]) has been positively impacted by the delivery of capital synergies following the acquisition of the Standard Life Assurance businesses, together with management actions delivered in the year and the issuance of capital qualifying subordinated debt. Implementation of the Group's hedging programme to the acquired business has ensured the surplus remains resilient to equity movements.

"2018 WAS ANOTHER YEAR OF EXCELLENT PROGRESS WITH THE GROUP ACHIEVING ALL OF ITS FINANCIAL TARGETS SET FOR THE YEAR."

JAMES MCCONVILLE
GROUP FINANCE DIRECTOR AND GROUP DIRECTOR, SCOTLAND

Our strong financial position has been recognised by Fitch Ratings who assigned Standard Life Assurance Limited an Insurer Financial Strength rating of A+ with a 'stable' outlook in September and reaffirmed its A+ rating for the other insurance subsidiaries of the Group.

The Group generated an IFRS profit after tax of £410 million for the year (2017: £27 million loss), reflecting the contribution of the Standard Life Assurance businesses for the four month period post completion of the acquisition and the positive impact of updates made to actuarial assumptions in the period, notably the continued slowdown of mortality improvements. As expected, the IFRS results continue to be impacted by investment variances arising from the Group's hedging programme, which is calibrated to protect the Group's Solvency II surplus. Declining equity markets in the second half of 2018 generated gains on these hedging instruments that have benefited the Group's IFRS results this year.

Following the acquisition of the Standard Life Assurance businesses, the Group now monitors additional performance metrics to reflect the Group's Open business capabilities. Assets under Administration ('AUA') provides a measure of the Group's future earnings capabilities and its success in attracting inflows from new business. AUA as at 31 December 2018 was £226 billion (2017: £240 billion pro forma[1]), with the reduction reflecting adverse equity movements in the year, together with net outflows on the Group's UK Heritage business. Net flows on the UK Open and European businesses were positive at £3.9 billion.

New business contribution reflects the increase in Solvency II shareholder Own Funds as a result of new business written by the Group's UK Open and European businesses.

Note: Presentation of financial information
Following the acquisition of the Standard Life Assurance businesses, the Group now has three main business segments: UK Heritage, UK Open and Europe. Within the Group's IFRS results, operating profit for each business segment is now reported.

IFRS results for the year ended 31 December 2018 include the Standard Life Assurance businesses for the four month period from 1 September post completion of the acquisition.

1 Pro forma assuming the acquisition of the Standard Life Assurance businesses took place on 31 December 2017.

The measure excludes any risk margin and restrictions recognised under Solvency II for contract boundaries and is considered a prudent proxy for future cash generation from new business written. Assuming the acquisition of the Standard Life Assurance businesses took place on 31 December 2017, the Group delivered a new business contribution of £154 million (net of tax).

Phoenix has set two new cash targets; a long-term cash generation target of £3.8 billion for the 5-year period 2019 to 2023 and a short term target of £600 to £700 million for 2019. The Group looks forward to the future from a position of financial strength.

ALTERNATIVE PERFORMANCE MEASURES

The Group assesses its financial performance based on a number of measures, some of which are not defined or specified in accordance with Generally Accepted Accounting Principles ('GAAP'). These metrics are known as Alternative Performance Measures ('APMs').

The Group's strategic focus prioritises the generation of sustainable cash flows from its operating companies through the margins earned on different life and pension products and the release of capital requirements. Performance metrics are monitored where they support this strategic purpose, which includes ensuring the capital strength of the Group is maintained.

As a result, GAAP measures typically used to assess financial performance, such as IFRS profit after tax, are considered by the Board to be of limited value when assessing Phoenix's performance against its strategy. IFRS results exclude any changes to the capital requirements and therefore do not fully reflect the performance of the Group.

As such, the key performance indicators for the Group mainly focus on cash generation and capital strength. Further information on the Group's APMs can be found on page 230, including definitions, why the measure is used and if applicable, how the APM can be reconciled to the nearest GAAP measure.

CASH GENERATION

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

Please see the Alternative Performance Measure ('APM') section on page 230 for further details of this measure.

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

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 £664 million (2017: £653 million).

Recurring cash outflows

The operating expenses of £32 million (2017: £36 million) principally comprise corporate office costs, net of income earned on holding company cash and investment balances.

Pension scheme contributions of £49 million (2017: £92 million) are made on a monthly basis and include total contributions of £40 million into the Pearl Group Scheme and £9 million into the Abbey Life Scheme, including £4 million paid into Charged Accounts and held in escrow.

The decrease in total contributions compared to prior year reflects the lump sum payment of £25 million paid as part of the transfer of the Abbey Life Scheme to the Group in 2017 and £10 million paid into the Pearl Group Scheme in respect of the final quarter of 2016 as part of the move from annual to monthly funding. In addition, no further contributions are expected to be paid into the PGL Staff Pension Scheme under the existing funding agreement (2017: £10 million).

Debt interest of £88 million (2017: £60 million) principally comprise coupon payments on the Tier 1 Notes issued in April and the Group's subordinated and senior bond instruments. The Group's £900 million unsecured revolving credit facility and £600 million acquisition facility are undrawn as at 31 December 2018. The increase compared to the prior year reflects the debt issued in 2018 to finance the acquisition of the Standard Life Assurance businesses.

Non-recurring net cash outflows

Non-recurring net cash outflows of £216 million include £22 million of option premiums and £143 million of cash paid to close out derivative instruments entered into by the holding companies to hedge the Group's exposure to equity and currency risk arising from the Group's acquisition of the Standard Life Assurance businesses. Standard Life Assurance Limited has subsequently applied the Group's hedging strategy and the derivative instruments are now held within this entity.

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Cash and cash equivalents at 1 January	**535**	570
Operating companies' cash generation:		
Cash receipts from Phoenix Life	**664**	653
Total cash receipts[1]	**664**	653
Uses of cash:		
Operating expenses	**(32)**	(36)
Pension scheme contributions	**(49)**	(92)
Debt interest	**(88)**	(60)
Total recurring cash outflows	**(169)**	(188)
Non-recurring cash outflows	**(216)**	(84)
Uses of cash before debt repayments and shareholder dividend	**(385)**	(272)
Debt repayments	**–**	(1,053)
Shareholder dividend	**(262)**	(193)
Total uses of cash	**(647)**	(1,518)
Equity raise (net of fees)	**934**	–
Debt issuance (net of fees)	**932**	830
Cost of acquisitions	**(1,971)**	–
Support of BPA activity	**(101)**	–
Cash and cash equivalents at 31 December	**346**	535

£664m

OPERATING COMPANIES' CASH GENERATION

APM

REM

Note:
1 Includes amounts received by the holding companies in respect of tax losses surrendered to the operating companies of £39 million (2017: £20 million).

All amounts in the Business Review section marked with an 'APM' are alternative performance measures. See 'Alternative Performance Measures' section on page 230 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 76 for further details of executive remuneration including the financial and non-financial performance measures on which is it based.

Non recurring cashflows also include a favourable collateral movement of £27 million on the Group's other hedging positions relating to the Group's debt. The remainder of the balance includes £43 million of expenses associated with the acquisition of the Standard Life Assurance businesses and £35 million of net other corporate costs, including integration costs.

Debt repayments and shareholder dividend

External debt repayments of £1,053 million in 2017 include the 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 shareholder dividend of £262 million represents the payment of £99 million in May for the 2017 final dividend and the payment of the 2018 interim dividend of £163 million in September. The final 2018 dividend per share proposed is 23.4p, which is a 3.5% increase on the 2017 final dividend.

Equity raise (net of fees)

The £934 million equity issuance relates to proceeds, net of fees, from the rights issue associated with the financing of the acquisition of the Standard Life Assurance businesses.

Debt issuance (net of fees)

The £932 million debt issuance comprises the net proceeds of the Tier 1 Notes of £500 million completed in April and the £445 million (€500 million) Tier 2 bond issuance in September.

Cost of acquisitions

Cost of acquisitions of £1,971 million relates to the cash consideration settlement to finance the acquisition of the Standard Life Assurance businesses.

Support of BPA activity

£101 million of funding has been provided to the life companies to support the bulk purchase annuity new business (based on the assets received on day 1).

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 was expected to be achieved in 2017 and 2018. With £664 million of cash generation in 2018 taking total cash generation for 2017 to 2018 to £1.3 billion, the Group has exceeded its £1.0 to £1.2 billion target range for 2017 and 2018.

A new long-term £3.8 billion cash generation target has been set by the Group for the 5-year period 2019 to 2023. The resilience of the cash generation target is demonstrated by the illustrative stress testing in the table below. In addition the Group has set a new short-term target of £600 to £700 million for 2019 which is net of expected Brexit costs of £250 million.

Expected cash flows after 2024

There is an expected £8.2 billion of cash to emerge after 2024. This assumes no management actions after 2023 and no additional value from future new business from the Group's Open business.

Illustrative stress testing[1]	1 Jan 2019 to 31 Dec 2023 £bn
Base case five-year target	**3.8**
Following a 20% fall in equity markets	**3.8**
Following a 15% fall in property values	**3.7**
Following a 60bps interest rates rise[2]	**3.9**
Following a 80bps interest rates fall[2]	**3.7**
Following credit spread widening[3]	**3.6**
Following 6% decrease in annuitant mortality rates[4]	**3.3**
Following a 10% increase in assurance mortality rates	**3.7**
Following a 10% change in lapse rates[5]	**3.4**

Notes:
1 Assumes stress occurs on 1 January 2019.
2 Assumes recalculation of transitionals (subject to PRA approval).
3 Credit stress equivalent to an average 120bps spread widening across ratings, and includes allowance for 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.

ASSETS UNDER ADMINISTRATION AND NEW BUSINESS

The Group's Assets under Administration ('AUA') represent assets administered by or on behalf of the Group, covering both policyholder funds and shareholder assets. This includes assets recognised in the Group's IFRS consolidated statement of financial position together with certain assets administered by the Group but for which beneficial ownership resides with customers.

AUA provides an indication of the potential earnings capability of the Group arising from its insurance and investment business, whilst AUA flows provide a measure of the Group's ability to deliver new business growth.

A reconciliation from the Group's IFRS consolidated statement of financial position to the Group's AUA is provided on page 222.

Please see the Alternative Performance Measure ('APM') section on page 230 for further details of this measure.

Opening pro forma AUA

The analysis that follows includes a Group AUA opening figure of £239.8 billion on a pro forma basis (assuming the acquisition of Standard Life Assurance completed on 31 December 2017). Movements in the year therefore include those of the acquired Standard Life Assurance businesses for the full year rather than the four month period post completion.

The decrease in Group AUA in the year from £239.8 billion to £226.3 billion was driven by adverse market movements, notably falls in global equity markets and the run-off of the Group's UK Heritage business; partly offset by net inflows from the Group's UK Open and European businesses.

UK Heritage net flows

UK Heritage net outflows of £(7.1) billion comprise total premiums received in the year from inforce contracts, net of policyholder outflows on claims such as maturities, surrenders and annuities in payment. In addition, UK Heritage net flows include £1.5 billion of new business inflows arising from vesting annuities and the three bulk purchase annuity transactions completed in the year.

UK Open flows

The UK Open segment experienced gross inflows of £10.7 billion during 2018, of which £7.4 billion was received in respect of new contracts transacted in the year.

Outflows for the UK Open business were £7.0 billion, resulting in net inflows of £3.7 billion, reflecting AUA growth in the Group's Wrap and Workplace products.

New inflows of £3.7 billion equates to 4% of the opening AUA for the UK Open business.

Europe net flows

The European business contributed a small positive net inflow of £0.2 billion to the Group's AUA.

Other movements including markets

AUA reduced by £10.3 billion as a result of other movements, largely driven by the impact of adverse equity market movements in the last quarter of the year.

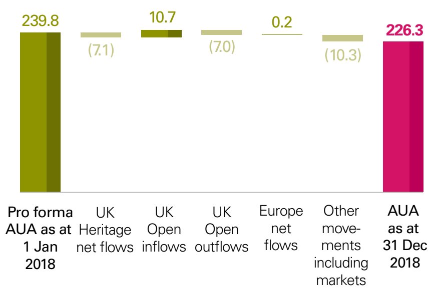
New business contribution

In respect of our Open and Europe business segments, we monitor new business contribution as the Group's measure of the future value delivered through the writing of new business.

New business contribution represents the increase in Solvency II shareholder Own Funds (net of tax) arising from new business written in the year, adjusted to exclude the associated risk margin and any restrictions recognised in respect of contract boundaries. It is stated net of 'Day 1' acquisition costs and is calculated as the value of expected cash flows from new business sold, discounted at the risk free rate. As such, it is considered a prudent proxy for the future cash generation that is expected to emerge over the life of the contract.

New business contribution for 2018 was £154 million (net of tax) and is stated on a pro forma basis, assuming the acquisition of the Standard Life Assurance businesses took place on 31 December 2017. This includes £137 million from the Group's UK Open business and £17 million from the Europe business.

MOVEMENT IN AUA (£bn)



£226bn

ASSETS UNDER ADMINISTRATION

APM

£154m

NEW BUSINESS CONTRIBUTION

APM

CAPITAL MANAGEMENT

PGH PLC SOLVENCY II SURPLUS OVERVIEW

Following completion of the on-shoring of the Group, a new UK-registered holding company, PGH plc was put in place in December 2018. The new company is the ultimate parent company and the highest EEA insurance Group holding company and the Group's Solvency II capital assessment and Group supervision is now being managed at the PGH plc level only.

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'). PGH plc's 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-profits 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'.

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 and Abbey Life businesses within the scope of the Group's Internal Model in March 2017 and March 2018 respectively.

The acquired Standard Life Assurance businesses determine their capital requirements in accordance with an approved partial Internal Model. As a result, the Enlarged Group currently uses a Partial Internal Model to calculate Group SCR, aggregating outputs from both the existing Phoenix Internal Model and the Standard Life Internal Model with no diversification between the two. A harmonisation programme to combine the two models into a single Internal Model has commenced.

The Solvency II surplus excludes the surpluses arising in the Group's unsupported with-profits funds and the PGL Pension Scheme of £2.1 billion (2017: £2.2 billion pro forma[4]). In the calculation of the Solvency II surplus, the SCR of the with-profits 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-profits 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.

CHANGE IN PGH PLC SOLVENCY II SURPLUS (ESTIMATED)

The PGH plc Solvency II surplus has increased to £3.2 billion (2017 pro forma: £2.5 billion). In this section, we focus on an explanation of the movements in the PGH plc Solvency II surplus on a pro forma basis as if the acquisition of the Standard Life Assurance businesses took place on 31 December 2017. Further details regarding the comparative actual position as at 31 December 2017 are set out in the additional capital disclosures section of this report on page 228.

The pro forma position as at 31 December 2017 for the Enlarged Group (i.e. including the acquired Standard Life Assurance businesses) was £2.5 billion, as set out in the acquisition prospectus disclosures.

Surplus generation and the impact of the reduction in capital requirements for the Enlarged Group added £0.3 billion to the surplus during the year.

The PGH plc Solvency II surplus position at 31 December 2018 is set out in the table below:

	Estimated position as at 31 December 2018 £bn	Pro forma position (Enlarged Group) as at 31 December 2017 £bn[4]
Own Funds[1]	**10.3**	10.2
SCR[2]	**(7.1)**	(7.7)
Surplus[3]	**3.2**	2.5

£3.2bn

PGH SOLVENCY II SURPLUS (ESTIMATED)

167%

PGH SHAREHOLDER CAPITAL COVERAGE RATIO (ESTIMATED)

APM

Notes:
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 plc is exposed.
3 The surplus equates to a regulatory coverage ratio of 146% as at 31 December 2018 (2017: 132% pro forma for the Enlarged Group).
4 The pro forma position assumes the acquisition of the Standard Life Assurance businesses took place on 31 December 2017.

Management actions undertaken, including further investment in illiquid assets within annuity portfolios, reductions in investment expenses and anticipated cost savings associated with a move to a single outsourcer and continued investment in digitalisation increased the surplus by £0.6 billion.

Delivery of capital synergies associated with the acquisition of the Standard Life Assurance businesses increased the surplus by £0.5 billion, primarily as a result of implementing Phoenix's equity and currency hedging strategy in order to protect the economic value of the acquired businesses.

The pro forma surplus for the Enlarged Group included an assumed £0.6 billion of capital qualifying debt issued in relation to the acquisition of the Standard Life Assurance businesses. Following the issuances of the £500 million Tier 1 Notes in April 2018 and €500 million of Tier 2 bonds in September 2018, actual debt raised in the year was £0.9 billion, resulting in a £0.3 billion increase to the surplus compared to the pro forma position.

The impact of new business written during the year reduced the surplus by £0.2 billion. This primarily reflects the capital strain associated with the three BPA transactions executed in the year and the vesting annuities in the Heritage business segment.

Assumption, experience and modelling changes decreased the Solvency II surplus by £0.1 billion, reflecting the impact of strengthening lapse risk capital for the Standard Life businesses, together with expense impacts arising from separation of those businesses prior to the acquisition, customer proposition development and other project costs. These items have been offset by the positive impacts of changes to longevity assumptions.

The adverse impact of economic and other variances reduced the surplus by £0.2 billion. This includes a provision in respect of a commitment to reduce ongoing and exit charges for unitised non-workplace pensions. As detailed above, extending the Group's hedging strategy to Standard Life Assurance has ensured the Group remains resilient to equity market movements.

Financing costs, pension contributions and dividend payments (including accrual for the 2018 final dividend) amount to £0.5 billion and reduced the surplus in the period.

Standard Life Assurance Limited obtained regulatory approval to recalculate the benefits associated with Transitional Measures on Technical Provisions ('TMTP') as at 31 December 2018 and the impact of this recalculation is included within the PGH Solvency II surplus as at that date. The Phoenix Life entities will not undertake a mandatory recalculation of TMTP until 31 December 2019. Had a dynamic recalculation been assumed as at 31 December 2018 for Phoenix Life entities, the PGH plc Solvency II surplus would have been £0.1 billion higher.

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.

The Group targets a shareholder capital coverage ratio in the range of 140% to 180%.

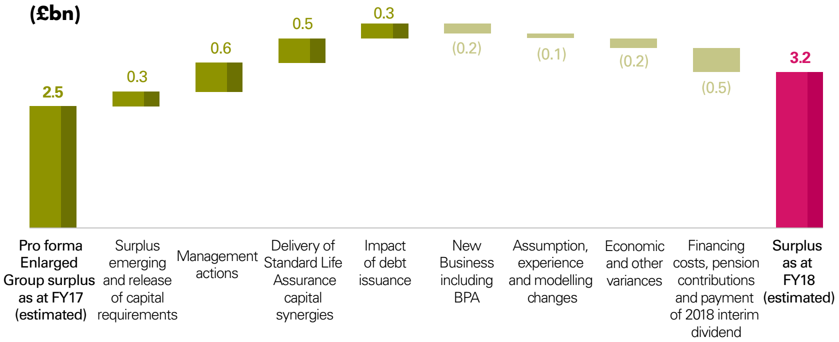
Please see the Alternative Performance Measures section on page 230 or further details of this measure.

Unsupported with-profit funds and the PGL Pension Scheme consist of £4.4 billion of Own Funds and £2.3 billion of SCR. The related Own Funds are only recognised in the PGH plc Solvency II surplus up to the value of the SCR in respect of these funds. Of the £4.4 billion of Own Funds, £3.9 billion consists of estate within the unsupported with- profit funds and £0.5 billion of Own Funds within the PGL Pension Scheme.

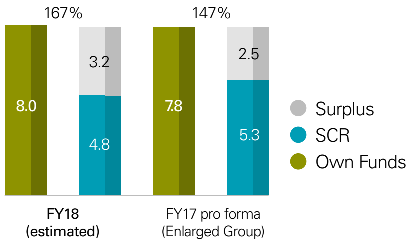
Surpluses in these funds do not contribute to the PGH plc Solvency II surplus.

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 167% as at 31 December 2018 (2017: 147% on a pro forma basis for the Enlarged Group).

CHANGE IN PGH SOLVENCY II SURPLUS[1] (£bn)



SHAREHOLDER CAPITAL COVERAGE RATIO (£bn)



LIFE COMPANY FREE SURPLUS (ESTIMATED)

Life Company 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 2018, the Life Company Free Surplus is £1.0 billion (2017: £0.7 billion). The table opposite analyses the movement during the period.

	Estimated position as at 31 December 2018 £bn
Opening Free Surplus (pro forma)[1]	**0.8**
Surplus generation and expected run-off of capital requirements	0.4
Management actions	0.6
Capital synergies associated with acquisition	0.1
New business	(0.1)
Economic, financing and other	(0.1)
Free Surplus before cash remittances	**1.7**
Cash remittances to holding companies	(0.7)
Closing Free Surplus	**1.0**

SENSITIVITY AND SCENARIO ANALYSIS

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

Illustrative stress testing[2]	Estimated PGH Solvency II surplus £bn
Base: 1 January 2019	**3.2**
Following a 20% fall in equity markets	**3.2**
Following a 15% fall in property values	**3.1**
Following a 60bps interest rates rise[3]	**3.2**
Following a 80bps interest rates fall[3]	**3.2**
Following credit spread widening[4]	**3.0**
Following 6% decrease in annuitant mortality rates[5]	**2.7**
Following 10% increase in assurance mortality rates	**3.1**
Following a 10% change in lapse rates[6]	**2.8**

Notes:
1 Assumes the acquisition of the Standard Life Assurance businesses and the implementation of the Group's equity and currency hedging strategy by those acquired businesses took place on 31 December 2017.
2 Assumes stress occurs on 1 January 2019.
3 Assumes recalculation of transitionals (subject to PRA approval).
4 Credit stress equivalent to an average 120bps spread widening across ratings, and includes an allowance for defaults/downgrades.
5 Equivalent of six months increase in longevity applied to the annuity portfolio.
6 Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups.

IFRS RESULTS

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 section on page 230 for further details of this measure.

The Group has generated an operating profit of £708 million (2017: £368 million). The increase compared to the prior year is primarily driven by the inclusion of the Standard Life Assurance businesses for the four month period post completion of the acquisition together with net positive impacts of management actions, experience and actuarial assumption changes during 2018.

IFRS PROFIT AFTER TAX

The IFRS profit after tax attributable to owners is £410 million (2017: £(27) million). The increase primarily reflects the improved operating profit together with net positive economic variances arising on hedging positions held by the life companies to protect the Group's Solvency II surplus position and a gain recognised on acquisition of the Standard Life Assurance businesses of £141 million.

The positive items have been partly offset by the recognition of certain one-off cost provisions including a commitment to reduce charges on non-workplace pension policies and expenses associated with the acquisition.

Operating profit for the life companies 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. Life company operating profit is net of policyholder finance charges and policyholder tax.

Profit/(loss) after tax	**Year ended 31 December 2018 £m**	Year ended 31 December 2017 £m
UK Heritage	**640**	372
UK Open	**41**	(5)
Europe	**22**	–
Management Services companies	**25**	21
Group costs	**(20)**	(20)
Operating profit	**708**	368
Investment return variances and economic assumption changes on long term business	**283**	(6)
Variance on owners' funds	**(193)**	(87)
Amortisation of acquired in-force business, customer relationships and other intangibles	**(207)**	(119)
Other non-operating items	**(38)**	(80)
Profit before finance costs and tax attributable to owners	**553**	76
Finance costs attributable to owners	**(114)**	(104)
Profit/(loss) before the tax attributable to owners of the parent	**439**	(28)
Profit before tax attributable to non-controlling interests	**31**	–
Profit/(loss) before tax attributable to owners	**470**	(28)
Tax (charge)/credit attributable to owners	**(60)**	1
Profit/(loss) after tax attributable to owners	**410**	(27)

£708m

OPERATING PROFIT

APM

£410m

IFRS PROFIT AFTER TAX

UK HERITAGE OPERATING PROFIT

The Group's UK Heritage business segment does not actively sell new life or pension policies and runs-off gradually over time.

The with-profits operating profit of £101 million (2017: £84 million) represents the shareholders' one-ninth share of the policyholder bonuses. The increase on prior year primarily reflects the contribution from the Standard Life Assurance businesses.

The with-profits funds where internal capital support has been provided generated an operating profit of £20 million (2017: £108 million loss). The profit is principally driven by the positive impact of updating actuarial assumptions related to longevity and expenses. The loss in the prior year was due to the adverse impact of updating actuarial assumptions related to persistency of products with valuable guarantees.

The non-profit and unit-linked funds operating profit increased to £524 million (2017: £386 million), which includes a contribution of £42 million from the Standard Life Assurance businesses, excluding actuarial assumption changes. Updating actuarial assumptions had a net positive impact of £205 million on the result for the year (2017: £166 million) and included the impact of updating longevity base and improvement assumptions to reflect latest experience analyses and the most recent Continuous Mortality Investigation 2017 core projection tables.

The long-term return on owners' funds of £(5) million (2017: £5 million) reflects the asset mix of owners' funds, primarily cash-based assets and fixed interest securities. The loss in the period reflects certain one-off project costs which have been borne by the shareholder.

UK Heritage operating profit	**Year ended 31 December 2018 £m**	Year ended 31 December 2017 £m
With-profits	**101**	84
With-profits where internal capital support provided	**20**	(108)
Non-profit and unit-linked	**524**	386
Long-term return on owners' funds	**(5)**	5
UK Heritage operating profit before tax	**640**	368

UK OPEN OPERATING PROFIT

The Group's UK Open business segment delivered an operating profit of £41 million, including a £31 million contribution from the Standard Life Assurance businesses. This includes operating profits generated across the Workplace, Retail and SIPP product lines, including new business distributed through our Strategic Partnership with Standard Life Aberdeen plc.

The Group's SunLife business generated an operating profit of £10 million during the year.

EUROPE OPERATING PROFIT

The European business which comprises business written in Ireland, Germany and Austria and a mix of Heritage and Open products, generated an operating profit of £22 million during the year.

MANAGEMENT SERVICES COMPANIES OPERATING PROFIT

The operating profit for management services of £25 million (2017: £21 million) comprises income from the life and holding companies in accordance with the respective management services companies agreements less fees related to the outsourcing of services and other operating costs.

GROUP COSTS

Group costs in the period were £20 million (2017: £20 million) in line with prior year. They mainly comprise project recharges from the service companies offset by returns on the scheme surplus of the Group staff pension schemes.

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

The net positive investment return variances and economic assumption changes on long-term business of £283 million (2017: £6 million negative) primarily arise due to the positive impact of strategic asset allocation activities, including investment in higher yielding illiquid assets, together with the impact of gains on hedging positions held by the life funds as a result of declining equity markets in 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.

VARIANCE ON OWNERS' FUNDS

The adverse variance on owners' funds of £193 million (2017: £87 million negative) is principally driven by realised losses on derivative instruments entered into by the holding companies to hedge exposure to equity risk arising from the Group's acquisition of the Standard Life Assurance businesses. Losses of £143 million were incurred on these instruments, together with option premiums of £22 million.

AMORTISATION OF ACQUIRED IN-FORCE BUSINESS AND OTHER INTANGIBLES

The carrying amount of the Group's acquired in-force business and other intangibles was £4.3 billion at the end of the year (gross of deferred tax), of which £2.8 billion relates to the Standard Life Assurance businesses.

The acquired in-force business is being amortised in line with the expected run-off profile of the profits to which it relates. Amortisation of acquired in-force business during the year totalled £189 million (2017: £102 million) with the increase from the prior year driven by the additional acquired-in-force business for the Standard Life Assurance businesses noted above. Amortisation of other intangible assets totalled £18 million in the year (2017: £17 million).

OTHER NON-OPERATING ITEMS

Other non-operating items of £38 million negative (2017: £80 million negative) includes a gain on acquisition of £141 million reflecting the excess of the fair value of the net assets acquired over the consideration paid for the acquisition of the Standard Life Assurance businesses and a net benefit of £45 million reflecting anticipated costs savings associated with the move to a single, digitally enhanced outsourcer platform. These amounts have been more than offset by a provision for £68 million in respect of a commitment to reduce ongoing and exit charges for non-workplace pension products, costs of £59 million associated with the equalisation of accrued Guaranteed Minimum Pension benefits within the Group's pension schemes, costs of £43 million associated with the acquisition of the Standard Life Assurance businesses and £7 million incurred under the ongoing transition programme. It also includes net other one-off items totalling £47 million, including other corporate project costs.

The prior period result included 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.

FINANCE COSTS

Finance costs have increased by £10 million, comprising a £5 million decrease in bank finance costs driven by the repayment of bank debt and a £15 million increase in other finance costs reflecting debt issuances during the year.

Finance costs attributable to owners	**Year ended 31 December 2018 £m**	Year ended 31 December 2017 £m
Bank finance costs	**3**	8
Other finance costs	**111**	96
Finance costs attributable to owners	**114**	104

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 2018, the Tax Strategy was refreshed and published in accordance with the relevant statutory requirements.

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.

The Group's insurance operations are primarily based in the UK and are liable to tax in accordance with applicable UK legislation. Following the acquisition of the Standard Life Assurance businesses, the Group's overseas operations have increased, in Ireland and Germany in particular. The Group complies with the local tax obligations in the jurisdictions in which it operates. Phoenix Group Holdings was a Jersey resident holding company until 31 January 2018 when it became tax resident in the UK.

The Group tax charge for the period attributable to owners is £60 million (2017: £1 million tax credit) based on a profit (after policyholder tax) of £470 million (2017: loss of £(28) million). The significant tax adjustments to the Owners' profit before tax are primarily due to the impact of non-taxable income which reduces the tax charge by £(31) million, the impact of non-tax deductible costs of £21 million, a prior year credit for shareholders £(5) million and profits taxed at a rate other than the statutory rate of £(14) million. See note C6 to the IFRS consolidated financial statements for further analysis.

FINANCIAL LEVERAGE

The Group seeks to manage the level of debt on its balance sheet by monitoring its financial leverage ratio. This is to ensure the Group maintains its investment grade credit rating as issued by Fitch Ratings and optimises its funding costs and financial flexibility for future acquisitions. The financial leverage ratio as at 31 December 2018 (as calculated by the Group in accordance with Fitch Ratings' stated methodology) is 22% (2017: 27%). This is below the target range management considers to be associated with maintaining an investment grade rating of 25% to 30%.

Financial leverage is calculated as debt as a percentage of the sum of debt and equity. Debt is defined as the IFRS carrying value of shareholder borrowings. Equity is defined as the sum of equity attributable to the owners of the parent (excluding goodwill), the unallocated surplus and the Tier 1 Notes.

RISK MANAGEMENT

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.

Further detail on the ten components of our RMF and the principal risks facing the Group are provided below. This includes consideration of how the Enterprise Risk Management (ERM) Framework operated by the acquired Standard Life Assurance businesses aligns with the Phoenix RMF.

Work is well advanced to finalise implementation plans for the harmonised RMF for the Enlarged Group which combines the best of both from the respective frameworks.

BUSINESS AND RISK ENVIRONMENT

The acquisition of Standard Life was completed on 31 August and is transformational for the Group. Whilst significant progress has been made with the transition activity the Group must continue to ensure that it operates a robust risk and control environment in the delivery of all objectives across the Heritage, Open and European businesses.

After announcing its intention to enter the bulk annuity market, the Group successfully executed three deals over 2018 totalling £0.8 billion. The Group generates value through the use of reinsurance and its illiquid asset sourcing capabilities.

There remains great uncertainty about the timing and terms of the UK's withdrawal from the EU. The Group continues to closely monitor developments to understand any potential financial or operational implications. The Group identified contingency actions to ensure it could service EU-based customers in the event of a 'Hard Brexit' and has continued to progress these.

Announcement of Diligenta as the Group's preferred outsource partner will involve a major system and data migration to transfer c. 2 million of legacy Phoenix Life policies to a digitally enhanced customer platform.

The regulatory actions in respect of the acquired Abbey Life business were addressed through the implementation of Phoenix's robust control environment, product governance and oversight model to improve customer outcomes.

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:

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 our 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.

Risk culture has been one of the five elements of the ERM framework for Standard Life Assurance.

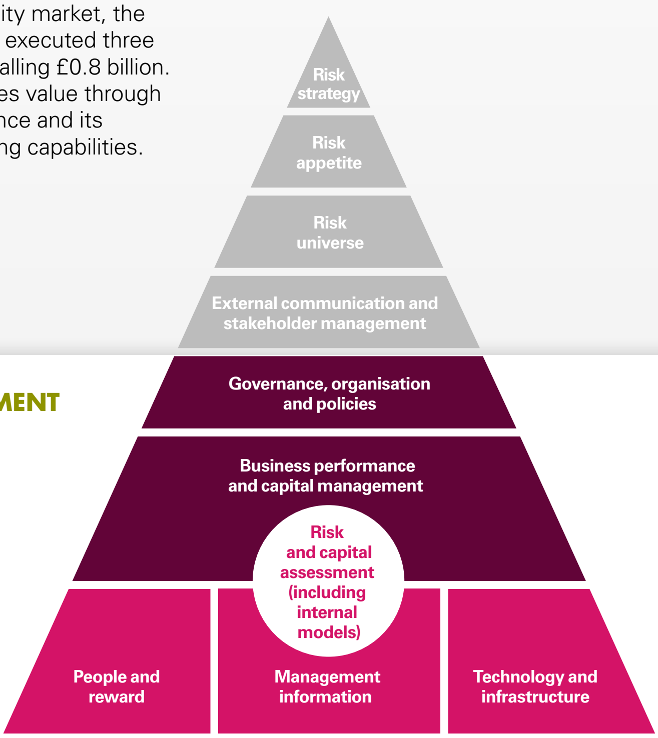
During 2018, Group Risk conducted its annual Risk Culture survey. The results of this survey enable us to assess and measure the Group's Risk Culture over time as well as being able to tailor training programmes to ensure the continued engagement and development of our employees.

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 MANAGEMENT FRAMEWORK



"THE GROUP HAS A BALANCED RISK CULTURE, SUPPORTIVE OF COMMERCIAL RISK-TAKING COUPLED WITH STRONG EXECUTION IN LINE WITH ITS RISK APPETITE."

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.

Strategic risk management is one of the five components of the ERM framework in Standard Life Assurance.

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 no appetite for deliberate acts of misconduct or omissions that result in poor customer outcomes, reputational damage and/or pose a risk to the Financial Conduct Authority ('FCA') statutory objectives.

The risk appetite and control framework supports the Group in operating within the boundaries of these statements by 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.

Standard Life Assurance has operated its own framework of quantitative and qualitative risk appetite metrics supported by stress and scenario testing. Work is underway to align these to the Group statements.

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 categories. 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.

"

THE GROUP'S RISK MANAGEMENT FRAMEWORK HAS SUPPORTED THE ACQUISITION OF STANDARD LIFE AND WILL EVOLVE TO MANAGE THE RISKS THAT THE ENLARGED GROUP WILL FACE."

JONATHAN PEARS
GROUP CHIEF RISK OFFICER

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 on across the organisation to ensure that conduct risk receives appropriate emphasis and oversight.

The risk universe operated within Standard Life Assurance is very closely aligned to this which enables an efficient adoption of the Group's risk universe.

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 2018. During 2018, the Risk Committee of the Phoenix Life Board met five times and provided additional Board Committee focus on risk matters at Phoenix Life. The existing Standard Life Assurance Risk Committee has been brought alongside that of Phoenix Life to enable consideration of common matters.

Third line: Independent Assurance

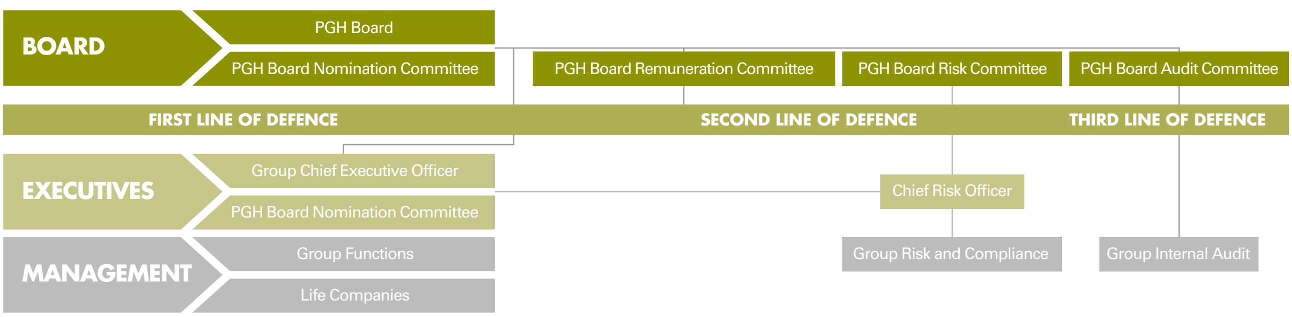
Independent verification of the adequacy and effectiveness of the internal controls and risk management is provided by the Group Internal Audit function, which is supported by the Board Audit Committee.

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

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.

GOVERNANCE FRAMEWORK



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.

Standard Life Assurance has operated a set of risk policies and the scope of these is very closely aligned to Phoenix's. Activity is underway to finalise and implement a harmonised set of policies across the combined Group.

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 and the Group Board via regular risk reporting.

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

PEOPLE AND REWARD

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

TECHNOLOGY AND INFRASTRUCTURE

The Group employs a number of 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 Risk Management.

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

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The Group's 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.

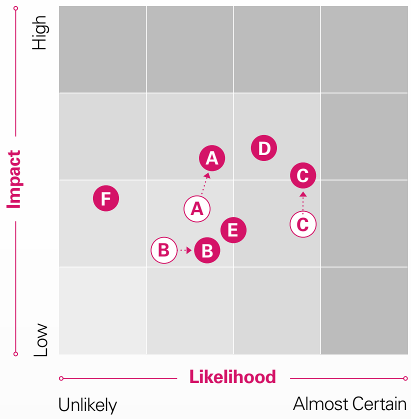
The number of principal risks has increased from six to ten as a result of the transformational Standard Life acquisition which introduces new strategic risks given our substantial new business capabilities. As economic changes occur and the industry and regulatory environment evolves, the Group will continue to monitor their potential impact. During the year we have reviewed our principal risks and consolidated the 'Concentration in the policy administration outsource industry' risk into a broader operational resilience risk. 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.

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

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

PRINCIPAL RISKS

Risk
A Strategic
B Customer
C Operational
D Market
E Insurance
F Credit
Movement since HY 2018



KEY

Strategic objectives icons	Change in risk from last year
1 Improve Customer outcomes	Risk Improving
2 Drive Value	No Change
3 Manage Capital	Risk Heightened
4 Engage Colleagues	N New Principal Risk

Risk	Impact	Mitigation	Strategic priorities	Change from last year
Strategic risk				
The Group fails to make further value adding acquisitions or effectively transition acquired businesses	We are exposed to the risk of failing to deliver against our primary strategic focus of continuing to achieve inorganic growth through acquisitions. Transition of acquired businesses into the Group could introduce structural or operational challenges that result in Phoenix failing to deliver the expected outcomes for policyholders or value for shareholders.	The Group applies a clear set of assessment criteria to assess opportunities. Acquisition strategy supported by the Group's financial strength and flexibility, its strong regulatory relationships and its track record of managing conduct issues and generating value. The financial and operational risks of target businesses are assessed in the acquisition phase. Integration plans are developed and resourced with appropriately skilled staff to ensure target operating models are delivered in line with expectations.	1 2 3	Heightened The heightened trend reflects the transformational nature of the acquisition of Standard Life Assurance. Significant progress has been made with the transition and £500 million of capital synergies delivered. The integration of Standard Life Assurance into Phoenix will include a consolidation of two Solvency II internal models which is amongst the first in the industry.
The Group's Strategic Partnership with Standard Life Aberdeen fails to deliver the expected benefits	The ongoing Strategic Partnership with Standard Life Assurance plc (SLA plc) will provide additional growth opportunities and is an enabler for delivery of the Group's strategy. There is a risk that the partnership does not deliver expected benefits. Key areas include implementation and oversight of the Client Service and Proposition Agreement and Transitional Service Agreements.	The Joint Operating Forum between SLA plc and Phoenix will develop the partnership in existing areas, and identify areas for future growth and partnership, for the benefit of customers and shareholders of each Group. Through the Client Service and Proposition Agreement Phoenix and SLA plc will actively collaborate across a number of areas, including proposition development and distribution.	1 2	N New Principal Risk
The Group fails to ensure that its propositions continue to meet the evolving needs of customers and clients	If our propositions fail to meet the needs of customers and clients it could adversely impact the Group's ability to deliver growth assumed in our business plans. The risk could materialise through increased outflows or reduced new business levels.	Our propositions are designed with our customers and clients at the heart. We regularly seek customer feedback on our propositions; this helps prioritise future developments. We actively review and invest in our propositions to ensure they remain competitive and meet expectations.	1 2	N New Principal Risk

KEY

Strategic objectives icons	Change in risk from last year
1 **Improve Customer outcomes**	**Risk Improving**
2 **Drive Value**	**No Change**
3 **Manage Capital**	**Risk Heightened**
4 **Engage Colleagues**	N **New Principal Risk**

Risk	Impact	Mitigation	Strategic priorities	Change from last year
Customer risk				
The Group fails to deliver fair outcomes for its customers	Phoenix is exposed to the risk that it fails to deliver fair outcomes for its customers, leading to adverse customer experience and/or potential detriment. This could also lead to reputational damage for the group and/or financial losses.	Our Customer policies help to ensure that the standards and outcomes we set are implemented consistently across the business. We maintain a strong and open relationship with the FCA and other regulators.	1	N New Principal Risk
Operational risk				
The Group is impacted by significant changes in the regulatory, legislative or political environment	The conduct-focused regulator has a greater focus on customer outcomes. This may continue to challenge existing approaches and/or may result in remediation exercises where the life companies 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 operations or financial position. Political uncertainty or changes in the government could see changes in policy that could impact the industry in which we operate.	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. The Group has contingency plans in place to ensure we can continue to service our non-UK policyholders after the UK leaves the EU.	1 3	Heightened The FCA closed its enforcement investigation into the acquired Abbey Life business. Investigations are ongoing in Standard Life following the thematic review of non-advised annuity sales. Contingency plans continue to be progressed to enable EU policyholders to be serviced in the event of a 'Hard Brexit'. PRA issued a consultation on potential changes to the valuation and capital treatment of equity release mortgages. Implementation was subsequently deferred until YE19 or later.
The Group or its outsourcers are not sufficiently operationally resilient	We are exposed to the risk of being unable to maintain provision of services in the event of major operational disruption, either within our own organisation or those of our outsourcers. Our Enlarged Group now relies on a wide range of IT systems and also greater use of online functionality to meet customer preferences. This exposes us to the risk of failure of key systems and cyber-attacks. The Group also now provides IT services to SLA plc through the terms of the sale of Standard Life Assurance. Regulators expectations of the speed and effectiveness of firms' responses to business resilience incidents are increasing.	The Group has a set of risk policies that map to its risk universe and set out an appetite level for each risk and minimum controls standards. We work with specialist external cyber risk experts to identify new risks and develop our responses. The Group has a business continuity management framework that is subject to annual refresh and regular testing. The Group operates an oversight framework to ensure that our outsource partners and critical suppliers adhere to the same business continuity principles.	1 2 3	N New Principal Risk
The Group fails to retain or attract a diverse workforce with the skills needed to deliver its strategy	The Group places great reliance on its people to help deliver its strategy. Delivery of our strategy could be impacted by the uncertainty caused by the integration of Phoenix and Standard Life, which could result in loss of critical corporate knowledge or unplanned departures of key individuals.	Timely communications to our people aim to provide clarity around any uncertainty brought by the purchase of Standard Life, along with key milestones required to deliver the transition. We regularly benchmark terms and conditions against the market. We maintain and review succession plans for key individuals.	1 2 3 4	N New Principal Risk

Risk	Impact	Mitigation	Strategic priorities	Change from last year
Market risk				
In times of severe market volatility, the Group may not have sufficient capital or liquid assets to meet its cash flow targets or may suffer a loss in value	The emerging cash flows of the Group may be impacted during periods of severe market turbulence by the need to maintain appropriate levels of regulatory capital. The impact of market turbulence may also result in a material adverse impact on the Group's capital position, on fees earned on assets held and on customers and client sentiment.	The Group undertakes regular monitoring activities in relation to market risk exposure, including limits in each asset class, cash flow forecasting and stress and scenario testing. In response to this, the Group has implemented de-risking strategies to mitigate against unwanted customer and shareholder outcomes 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	No change The majority of equity markets fell over 2018 after a volatile year. A further increase in the UK base rate was deferred in Q1 but happened in Q3 after economic data returned to expected levels. The Group hedged the majority of market risk exposures associated with the Standard Life acquisition and benefited from capital synergies from these after completion. The Group continues to monitor and review existing market risk exposures in light of political developments, particularly those that may arise from the terms and timing of the UK's exit from the EU.
Insurance risk				
The Group may be exposed to adverse demographic experience which is out of line with expectations	The Group has guaranteed liabilities, 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 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. The Group actively monitors persistency risk metrics and exposures across the open and heritage businesses.	2	No change The continuing trend of reductions in future mortality improvements again saw the Group amending assumptions accordingly in 2018. Policyholder mortality assumptions were strengthened slightly where indicated by recent experience. The Group completed its first three bulk annuity transactions (totalling £0.8bn) in 2018 and reinsured the vast majority of the longevity risk.
Credit risk				
The Group is exposed to the failure of a significant counterparty	The life companies are exposed to deterioration in the actual or perceived creditworthiness or default of counterparties we hold money, bonds or commercial real estate loans with. This can cause immediate financial loss or a reduction in future profits. An increase in credit spreads (particularly if 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, such as reinsurers or service providers failing to meet all or part of their obligations.	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.	3	No change Counterparty exposures continue to be managed and monitored across the Group. Phoenix continues to increase exposure to illiquid credit assets, such as equity release mortgages, commercial real estate and fund financing. This is accompanied by corresponding enhancements to our control framework and is in line with industry trends.

EMERGING RISKS

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 opposite.

Risk Title	Description	Risk Universe Category
Market Disruptors	The impact of alternative providers in the market or those with more comprehensive digital propositions.	Strategic
Solvency II Changes	Changes to the solvency regime as a result of government review and the UK's exit from the EU.	Financial Soundness
Climate Change Transition	Although the physical risks are not currently seen as a principal risk for the Group, there are a range of financial and operational risks associated with the transition to a low carbon economy, e.g. the impacts of climate risks on the prospects of current and future investment holdings. (This is considered further in 'Our Environment' on page 56).	All

VIABILITY STATEMENT

In accordance with the provision of section C.2.2 of the 2014 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 2023.

ASSESSMENT PROCESS & KEY ASSUMPTIONS

The Group's prospects are assessed primarily through its strategic and financial planning process, which included a detailed annual review of the Group's strategy following the acquisition of the Standard Life Assurance businesses. This strategy is outlined within the Strategic Report of this Annual Report and Accounts. The Board fully participates in the annual strategic planning process by means of a Board meeting to review and approve the annual operating plan ('AOP').

The output of the AOP is a set of Group objectives, detailed financial forecasts, and risks and contingent actions to be considered when agreeing the plan. The latest AOP was approved by the Board in November 2018. This considered the Group's current position and its prospects over a medium-term horizon, reflecting the Group's stated strategy.

Progress against the financial plan is reviewed monthly by both the Group's executive committee and the Board.

The Board has determined that the five-year period to December 2023 is an appropriate period for the assessment, this being the period over which the Directors have reasonable confidence and set internal and external targets, and the period covered by the Group's Board-approved AOP.

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

- no change in stated dividend policy;
- that corporate acquisitions are not relevant, as any acquisition would only be progressed on the basis it meets the Group's stated criteria;
- 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. These management actions are reflected in the AOP; and
- the stresses calculated occur on 1 January 2019 with no allowance for any recovery or contingent actions available, but do take into account the impact of any appropriate Solvency II transitionals recalculation.

ASSESSMENT OF VIABILITY

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 as outlined above;
- It defined that viability is maintaining the capability to satisfy mandatory liabilities and meet external targets and confirmed this was still appropriate following the acquisition of the Standard Life Assurance businesses;
- 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 2018 and reaffirmed the Group's strategy;
- It completed stress testing to assess viability under severe but plausible scenarios, including two adverse stresses, with no recovery or contingent actions, which are deemed to be representative of the key financial risks to the Group as follows:
  1. Market stress – a combined market stress broadly equivalent to a 1 in 10-year event, calibrated to the Phoenix internal model, incorporating a fall in equity, property values and yields, with a widening of credit spreads.
  2. Longevity stress – longevity and yield stress broadly equivalent to a 1 in 10-year event, which implies a 1.2 year increase in life expectancy for a 65 year old male and 1.0 year increase for a 65 year old female, alongside a fall in yields.
- It completed reverse stress testing for the pre-acquisition Group and the Standard Life Assurance businesses by reference to the Group's current and expected levels of solvency and liquidity;
- It performed Brexit stress testing including additional analysis under a no deal Brexit and considered the implications of a range of Brexit outcomes as regularly monitored and presented to the Board and risk committees;
- 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; and
- 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.

The results of the stress testing, including a combination of individual scenarios, as disclosed in the Business Review Section, demonstrated that due to the significant excess capital in the life companies, the Group's high cash generation and access to additional funding, the Group is able to withstand the impact in each case with regards to meeting all mandatory liabilities as they fall due, and continue to track towards meeting external targets assuming a partial recovery from the stress.

STATEMENT OF VIABILITY

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 OUTCOMES FOR CUSTOMERS, WHILST DELIVERING VALUE FOR SHAREHOLDERS. THE GROUP HAS RESPONSIBILITIES TO A NUMBER OF OTHER STAKEHOLDERS INCLUDING ITS SUPPLIERS, COLLEAGUES, COMMUNITY PARTNERS AND THE ENVIRONMENT. THE MANAGEMENT OF STAKEHOLDER ENGAGEMENT IS THEREFORE CONSIDERED KEY TO LONG-TERM SUCCESS.

OVERVIEW

The Group has four areas of strategic focus which support the fulfilment of our mission, including improving customer outcomes, driving value, managing capital and engaging our people. Further detail can be viewed within 'Our Strategy and Key Performance Indicators' from page 18.

By continuing to engage with our key stakeholders on a regular basis, the Group is able to balance the needs of all, taking into account different perspectives, whilst delivering against the Group's strategic priorities. Policies are in place to provide a clear risk and governance framework, as outlined in more detail for each stakeholder group.

Positive stakeholder engagement remains of paramount importance to the Group's Corporate Responsibility agenda.

OUR CUSTOMERS

10 million policies with £226 billion of assets under administration. Key products and services include with-profits, unit-linked, non-profit (annuities), non-profit (protection) and workplace pensions.

Read more on
P48

OUR SUPPLIERS

Following the acquisition of Standard Life Assurance Limited, the Group now has c. 1,000 suppliers of which c. 70 are considered Material Service Providers.

Read more on
P50

OUR COLLEAGUES

Over 4,000 colleagues based across Europe supporting Phoenix Group, Phoenix Life, Standard Life Assurance and SunLife, and within its operational sites: Wythall, London, Basingstoke, Bristol, Edinburgh, Glasgow, Dublin and Frankfurt.

Read more on
P51

OUR COMMUNITY PARTNERS

A range of community partners including charities, schools, hospices and local community groups have benefited from the Group's support during the year.

Read more on
P54

OUR ENVIRONMENT

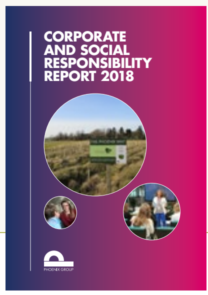
The Group is committed to managing and reducing its environmental impact and considers the ongoing effects of climate change on its operations.

Read more on
P56

OUR INVESTORS

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

Read more on
P58



Go online for the full Corporate and Social Responsibility Report
www.thephoenixgroup.com/CRreport2018

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, and we aim 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 **P18 and 20**

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.

LISTENING TO CUSTOMERS

Listening to the needs and wants of customers is helpful in delivering good customer outcomes. 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.

Within Phoenix Life improvements included an online facility for some customers within the retirement process, the launch of secure e-mail as an alternative communication channel, and improvements to the presentation of annual statements and communications.

Within Standard Life Assurance improvements for workplace members and clients included extended opening hours, implementation of a new voice recognition system, a new online registration process and amendments to the investment switching journey online for trust schemes. Face-to-face retirement roadshows were held nationwide, reaching c. 2,000 individuals in 19 locations. Following the roadshow success, retirement webinars were launched.

DIGITAL PROPOSITION

During the year the Group has continued to develop its digital offering for customers. The Phoenix Life website allows visitors 24/7 access to policy information, whilst reducing the volume of paperwork routinely issued. Selected customers can access a secure website where they can review and update their personal information, view policy details and contact Phoenix.

Operationally, Phoenix has selected Diligenta, the FCA regulated subsidiary of Tata Consultancy Services, as its preferred outsource partner to deliver a single, digitally enhanced outsourcer platform that will improve customer outcomes and deliver cost savings for legacy-Phoenix Life policies (c. 5.5 million customers).

Within Standard Life Assurance over 11,000 customers moved into drawdown in the year. Digital was the channel of choice for the majority of these customers, followed by telephony service. Over 3 million logins were recorded across 2018, with the 24/7 mobile app being the easiest way for customers to interact. For customers in non-advised Active Money Pension Plan drawdowns, the Group developed an online retirement review to help customers assess their investment choices based on objectives.

CUSTOMER COMPLAINTS

The Group acknowledges that mistakes can happen, but where they do it aims to put things right as soon as it can. A robust oversight model is in place to continually monitor complaint activity including those complaints that are referred to the independent services of the Financial Ombudsman Service or the Pensions Ombudsman Service. Best practice is shared with colleagues across the industry to improve complaint-handling services. Work is carried out with internal teams to ensure that causes of complaints are addressed in a timely manner. A significant proportion of complaints are resolved across the Group, in less than three days, which is a key performance indicator for the complaints team and results in a better experience for customers.

POLICYHOLDERS HAVE DILIGENTLY SAVED FOR MANY YEARS IN THEIR POLICIES, AND IT IS UNFORTUNATE THAT THE BENEFITS MAY HAVE BEEN LEFT UNCLAIMED. WE ARE DELIGHTED TO HAVE BEEN ABLE TO REPATRIATE SO MANY OF THESE LOST POLICIES WITH THEIR RIGHTFUL OWNERS."

DAVID WOOLLETT
CUSTOMER DIRECTOR, PHOENIX LIFE

2,380

UNCLAIMED POLICIES REUNITED WITH RIGHTFUL OWNERS FOLLOWING EXTENSIVE TRACING EXERCISES

£12.7m

REUNITED POLICIES VALUE

Over 80% of cases referred to the Financial Ombudsman Service from Phoenix Life were found to be in agreement with the decision made, giving the Group useful insight and assurance into how well complaints are being handled.

PROTECTING CUSTOMERS FROM PENSION SCAMS

The Group is dedicated to protecting its customers from financial crime, including 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. The Group continues to raise awareness of scams and warns its policyholders to remain vigilant of the evolving methods of fraudsters.

REUNITING CUSTOMERS WITH LOST POLICIES

Phoenix Life reunited 2,380 unclaimed policies with their rightful owner or next of kin following an extensive tracing exercise. The work commenced in September 2016 and to date has reunited policies amounting £12.7 million.

The Group introduced a proactive campaign to ensure the customer or their estate benefited. They enlisted the help of external tracing companies and obtained copies of death certificates, probate and wills in the process. Phoenix Life has also recently implemented an enhanced 'gone-away' process across its outsource partners to allow the Group to re-engage and communicate with more Phoenix Life customers.

LONG-TERM SAVINGS COMMITTEE APPOINTMENT

The Association of British Insurers ('ABI') has appointed Susan McInnes, CEO of Standard Life Assurance Limited and Director of Open Business as chair to its Long-term Savings Committee. In addition she has taken a seat on the ABI Board and previously held the role of chair to the Long-Standing Customers Committee. The Long-term Savings Committee oversees the direction of all the ABI policy work in relation to pension savings and retirement. Current priorities include the delivery of the pension dashboard and supporting customers to make the most of their new choices at retirement.

CUSTOMERS IN VULNERABLE CIRCUMSTANCES

Phoenix's vulnerable customer strategy aims to address vulnerability to the extent that the right outcomes for customers are achieved regardless of whether they are living in vulnerable circumstances.

The Group's key objective is to be able to recognise vulnerability and then be equipped to take the appropriate action to address it. This is being achieved by having frameworks and practical guidance in place to support the strategy, whilst ensuring there is an appropriate awareness and positive culture instilled throughout the Group in respect of vulnerability.

Within Phoenix Group/Phoenix Life an online training module on customer vulnerability was designed and delivered by Money Advice Trust. Alongside this, colleagues have become dementia friends, with awareness sessions delivered by Phoenix's inhouse dementia champions, helping the Group work towards becoming a dementia-friendly business. The digital team is currently working on a proposal which will look to enhance online accessibility catering for varying customer needs.

Within Standard Life Assurance the Customer Operations team has been working in partnership with Age Scotland and Alzheimer Scotland to deliver training to help colleagues better understand how to handle calls with vulnerable customers. An extensive training programme took place across 2018 which involved face-to-face and e-learning modules. This training programme won 'Excellence in Skills in Learning and Development' at the 2018 Contact Centre Association Awards.

OUR SUPPLIERS

The Group has c. 1,000 suppliers of which c. 70 are considered Material Service Providers[1].

Following the acquisition of Standard Life Assurance Limited in August 2018, Aberdeen Standard Investments has become one of the Group's key strategic partners.

The Group's Modern Slavery and Human Trafficking Statement is available at **www.thephoenixgroup.com/mss**

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

SUPPLY CHAIN MANAGEMENT

Phoenix relies heavily on its 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 key stakeholders is implemented and managed. The Group works closely with its partners in order to closely monitor the operational and financial performance from Material Service Providers for any indications of instability and steps are taken where necessary and appropriate to mitigate risks to Phoenix or its stakeholders.

For Material 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 manages 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 and from January 2018 has been submitting relevant statements under the Small Business, Enterprise and Employment Act 2015 for the duty to report payment practices. The Group is committed to supply chain sustainability and supports the culture of prompt payment in the business community.

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 2018 a statement was published on the Group website pursuant to Section 54, Part 6 of the Modern Slavery and Human Trafficking Act 2015. 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.

FINANCIAL CRIME PREVENTION

In order to ensure that any financial crime 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.

Colleagues are required to complete annual computer-based training around both financial crime prevention and adherence with the Code of Business Ethics and Ethical Conduct. Colleagues 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.

c. 1,000
SUPPLIERS

Note:
1 A Material Service Provider has been identified by the Group as a key supplier due to the nature of the services they provide.

OUR COLLEAGUES

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

Read more about key employee engagement activities undertaken during the year on
P26

Read more about diversity and inclusion on our website at
www.thephoenixgroup.com/diversity

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 colleagues, whilst ensuring compliance with any legislation and external regulatory requirements.

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

This section details the actions taken and outcomes achieved across the year.

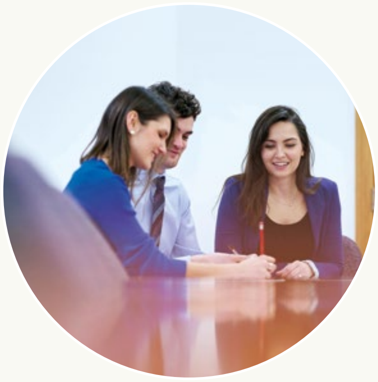
EMPLOYEE CONSULTATION

The Big Conversation was a significant listening exercise that was undertaken within Phoenix Group and Phoenix Life at the start of the year to raise the level of dialogue around the Group's values, and provided greater clarity around associated behaviours. Through a series of facilitated workshops and online channels, colleagues were given the opportunity to voice their opinions on what they perceived as positive or negative behaviours, with a view to developing a common understanding across all levels of the business.

The outcomes were shared with colleagues and provided a clear framework for how individuals are recognised, developed and recruited. The values were continually reinforced throughout the year and culminated in an employee-led recognition awards process, whereby colleagues were asked to nominate individuals who they believed displayed particular values across the year.

The Group operates a Whistleblowing policy, prompting colleagues to disclose information where they believe wrongdoing, malpractice or risk exists across any of Phoenix's operations. Colleagues are encouraged to speak up about matters that concern them, with the understanding that confidentiality will be maintained.

Colleagues within Standard Life Assurance have access to Vivo, an employee consultation group based onsite. Championing the employee voice, it provides support and advice when employees need it most, and is actively engaged in any decisions affecting working life.



LEARNING AND DEVELOPMENT

The Talent and Development team designs and delivers a varied programme of learning and development activities including leadership development, talent programmes, skills training, online learning, coaching and mentoring.

As part of the Group's HR processes, there is an established succession plan which tracks internal succession across all material roles and enables appropriate assessment of skills gaps.

The plan identifies talent across the broader organisation. Growing talent continues to deliver the Group's most senior appointments and talent programmes in Accounting, Actuarial and Change help to identify future leaders.

The Group also selects key partners to provide a wide range of learning and continual professional development opportunities including the Chartered Management Institute, Corndell, Moving Ahead and the ACCA. Relationships continue with business schools and executive coaches to develop the Group's most senior talent pipeline.

The Professional Women's Network launched a mentoring scheme with Moving Ahead which is available to colleagues across the Group and at any level. Over 100 mentoring pairs are currently working together, breaking down silos and developing a culture of mentoring, learning and knowledge sharing.

In addition, the Group participated for a second year in the Actuarial Mentoring Programme, providing support and guidance to newly qualified female actuaries.

As part of the Early Careers proposition, Standard Life Assurance currently has 24 graduates who form part of the Graduate Development Programme based in Edinburgh, in cohorts from 2017 and 2018. In addition 10 mentors are actively engaged in providing monthly mentoring sessions to young people across the Edinburgh area, through the Career Ready development programme.

The Group has fully utilised the Apprenticeship levy funding working in partnership with Corndell and has over 100 programmes underway including Project Management, Leadership, Data analytics and Accountancy enabling skill development across the Phoenix management population.

CULTURAL SURVEY

In the absence of an engagement survey for 2018, the Group issued a cultural survey to colleagues across the Enlarged Group. A series of questions were asked concerning what individuals would like to see in the future. This insight will help the Group shape its values and understand more about what is required to create a high-performing organisation.

DIVERSITY AND INCLUSION

Phoenix was one of the first companies to sign HM Treasury's Women in Finance Charter. The Charter is a commitment for signatory firms to work together to build a more balanced and fair industry. Targets for gender diversity are published annually on the Group's website. Targets set for completion by end of 2018 were not met, as they were largely impacted by changes in senior management through acquisition, structural changes, resignation and retirement. From 2019, the Group will report progress based on the combined entities, with a commitment to achieve targets by end of 2021. The Group remains committed to creating an inclusive and positive environment for all employees.

EMPLOYEE NETWORKS

The Group values the power of its employee voice. Various networks are in operation across the Enlarged Group, with a common goal of collaboration. Work has commenced to merge and replicate some of the networks, creating a common focus and support network across sites.

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 the management team on a quarterly basis to share views and shape future engagement activity. A similar network called Ignite operates within Standard Life Assurance, encouraging colleagues to be involved and positively influences everyday engagement activity.

Various other employee-driven networks exist which have a common aim of creating a more supportive and inclusive working environment.

Balance – which incorporates the former 'Professional Women's Network' aims to raise awareness of gender diversity, promoting an inclusive environment where everyone can thrive.

The 'Young Person's Development Network' aims to connect individuals across the organisation, providing a platform for individuals to learn, share and develop as they start out in their career journey.

The Group has a 'Lesbian, Gay, Bi-sexual and Transgender Network' – Affinity in operation, encouraging connections and a safe place to share common experiences, issues or challenges.

A Black, Asian and Minority Ethnic ('BAME') Network – Mosaic exists to identify and address any barriers to development and career progression. The network enhances cultural awareness and creates a more inclusive and diverse workforce.

The 'Armed Forces Network' supports the recruitment of Armed Forces personnel into the business. In October 2018, the Armed Forces Covenant was signed by the Group.

'Carers Network' and 'Working Parents' Network' are two groups providing education and support to colleagues with varying caring responsibilities outside of the workplace.

A new mental health network, Mind Matters was launched initially within Standard Life Assurance. Its purpose is to generate healthy conversation in the workplace around mental health issues. This network will be rolled out to other colleagues in 2019.

REWARD

The Group continues to attract, develop and retain talented individuals 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.

95% of colleagues within Phoenix Group and Phoenix Life participate in the flexible benefits scheme, which allows benefits to be selected that meet personal circumstances. Examples include cycle to work schemes, home technology and smart phones, critical illness cover through to health assessments and enhanced life cover. For 2018 buying and selling annual leave remained the most utilised, followed by childcare vouchers and insurance-related products.

Private medical insurance cover is available to all colleagues across the Group regardless of their status within the organisation.

95%

OF PHOENIX GROUP/PHOENIX LIFE COLLEAGUES PARTICIPATE IN THE FLEXIBLE BENEFITS SCHEME

"OVER HALF OF THE PHOENIX GROUP AND PHOENIX LIFE POPULATION ARE VOLUNTARILY PARTICIPATING IN ONE OR MORE OF THE SHARE-SAVE OR SHARE INCENTIVE PLANS, BENEFITING IN THE GROUP'S INCREASED SHARE PERFORMANCE."

STEPHEN JEFFORD
GROUP HR DIRECTOR

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

EMPLOYEE WELLBEING

The Group's wellbeing programme covers physical, mental and financial matters, offering colleagues and their dependants information, tools and resources covering a range of topics. A programme of wellbeing activity took place during the year which included onsite health-checks, flu vaccinations, self-care workshops and awareness of musculoskeletal issues. A programme of Mental Health First Aid training and bespoke mentally healthy workplace workshops were offered across the year.

Four dementia champions have been trained by Alzheimer's Society to deliver awareness sessions to colleagues onsite. During 2018, 278 dementia friends were created. In addition colleagues can benefit from subsidised onsite massage, discounted gym membership and fitness classes at the larger sites.

Building on the success of the previous year's wellbeing partnership with Living Streets charity, the Group joined forces to offer additional cultural led-walks for colleagues in London and Basingstoke. The Group's efforts were featured in the City of London's Active Travel – Best Practice Guide for 2018. Launched in National Walking Month 2018, Wythall colleagues were trained to deliver weekly walks targeted at individuals aged over 65.

'Wythall Walking Friends' was a six-month pilot which improved the physical and mental wellbeing of colleagues and members of the local community. This wellbeing initiative will be replicated in 2019 and expanded to reach additional beneficiaries.

Colleagues across the Group have access to an Employee Assistance Programme which provides free, independent and confidential advice on all matters affecting an individual's wellbeing.

The Group was named as National and Regional Winner in the Chamber Business Awards 2018 for 'Workplace Wellbeing' and finalists in Herefordshire and Worcestershire Chamber of Commerce annual awards.

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 colleagues 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 HR department via assessments of the minimum control standards, which ensure effective resolution of employee disputes.

In addition all colleagues 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.

The Group had three reportable accidents during 2018 which were reported to the Health and Safety Executive under the Reporting of Incidents, Disease and Dangerous Occurrence Regulations ('RIDDOR').

All colleagues are required to complete annual computer-based Health and Safety training.

Arrangements are in place to manage onsite facilities across all sites, ensuring the working environment is kept clean and secure.

WELLBEING ACCOLADE

PHOENIX GROUP WINS NATIONAL WORKPLACE WELLBEING AWARD

(Image source: 2018 Chamber Business Awards)

STRATEGIC REPORT | CORPORATE GOVERNANCE | FINANCIALS | ADDITIONAL INFORMATION

OUR COMMUNITY PARTNERS

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

PHOENIX GROUP'S CHARITY PARTNERS OF THE YEAR

It is recognised that the true value of a corporate charity partnership allows the Company and employees to explore opportunities beyond just monetary value, often leaving a lasting legacy with those involved. Now into its fifth year of the six-year partnership with Midlands Air Ambulance Charity and London's Air Ambulance Charity, the Group is continuing to use this collaboration to engage colleagues in fundraising, skills-based volunteering and events.

The Group has donated in excess of £770,000 between these two air ambulance charities since 2014. A festive fundraising 'Reindeer Run' through the streets of London, raised over £21,000 (including matching) for the combined charities.

For 2019, the Group will enter into two further corporate charity partnerships, helping to unite the Enlarged Group with fundraising for a common cause. Colleagues in Scotland will be supporting Scotland's Charity Air Ambulance and colleagues in Basingstoke will support Hampshire and Isle of Wight Air Ambulance. A donation of over £31,000 was presented to Scotland's Charity Air Ambulance in recognition for colleague participation in onsite lottery, Give as you Earn and a raffle for the period September to December 2018.

SunLife commenced a two-year partnership at the start of the year with Alive Activities Limited, enriching the lives of older people in care and providing training resources for carers. Colleagues at the Bristol office exceeded their fundraising target for the year by raising over £6,000 for the charity.

Further afield the German charity partner for 2018 was Hilfe für krebskranke Kinder Frankfurt e.V who received a donation of €13,486.30 to aid children with cancer and the Austrian charity partner was Oesterreichische Krebshilfe Wien who received €6,000, to support individuals living with cancer.

Colleagues in Ireland have reviewed partnership opportunities and from February 2019 will be partnering with Irish charity, ALONE, which helps older individuals in the community.

OTHER CHARITABLE DONATIONS

Colleagues based in the UK can fundraise for any UK-registered charity through the 'Our Community, Your Choice' programme and apply for matching. All applications must meet the Group's charity criteria, and not be deemed political or religious.

Over £17,000 was donated across the year through onsite fundraising, primarily benefiting causes in the local area. Beneficiaries included: Macmillan Cancer Support, Alzheimer's Society, Street Support Network Limited, St Michael's Hospice in Basingstoke and the City's Lord Mayor's Appeal.

To welcome Standard Life Assurance colleagues to the Phoenix family, a charity vote was held onsite in September 2018. St Columba's Hospice in Edinburgh received the most votes and was awarded a community donation of £10,000, and runner-up donations of £6,000 and £4,000 was awarded to Scotland's Charity Air Ambulance and Streetwork in Edinburgh. In addition, for Dublin colleagues €4,000 were donated to The Peter McVerry Trust, to help reduce homelessness and the harm caused by substance misuse and social disadvantage.

Through the staff-matched fundraising scheme, individuals are able to participate in charitable activity in their own time, and request matching of the amount raised. This also includes an element of 'payment in lieu of volunteering' whereby colleagues may regularly support UK-registered charities outside of business hours. Over £52,000 was donated across the year.

COMMUNITY WELLBEING

The Group extended its focus on wellbeing to members of the Wythall community, where Phoenix is considered one of the largest employers in the area. A unique initiative named 'Wythall Walking Friends' was launched in conjunction with Living Streets charity to help tackle social isolation in individuals aged over 65, through the delivery of regular community led-walks. Volunteers were trained to lead the walks, helping to reduce loneliness, encourage new friendship groups and increase the exercise potential within the group, thus helping to reduce the risk of depression and dementia.

The Group has been assisting Alzheimer's Society with raising awareness of dementia onsite and in the community. Four colleagues are trained as dementia champions and have run awareness sessions to over 160 members of the community, reaching NHS dieticians at Moseley Hall Hospital and pupils within Ark Kings Academy. In addition colleagues attended the Bromsgrove Pensioners Advice and Information Fair, showcasing Phoenix engagement activity that directly improves community wellbeing, for example Age UK's Men in Sheds project.

COMMUNITY INVESTMENT

The Group has worked closely with various community partners over the year, offering support in both financial and non-financial ways.

Phoenix was 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.

Standard Life Assurance sponsored a team for the annual Social Bite sleep in the park, which 22 colleagues participated, helping to raise awareness of homelessness in Scotland.

Meeting room facilities at the Wythall site were freely available to Acorns Children's Charity and Coppice School who provided times-table training to 39 school representatives, benefiting the education of over 11,000 pupils within the Midlands area. In addition the grounds have been loaned to Wythall Transport Museum and Kings Norton Marching Band.

The Group signed the Literacy Pledge for 2018, helping to raise literacy levels and increase social mobility within the UK. Volunteers currently support Ark Kings Academy in Birmingham and St Joseph's Primary School in London with reading programmes. In Dublin, a volunteering in schools programme, arranged in conjunction with Junior Achievement Ireland, works to keep children in education, therefore improving employment and life outcomes. Whilst this programme commenced before the Standard Life Assurance acquisition, the year's achievements included motivating 412 students across 15 schools. Four Career Ready interns were offered a paid placement, enabling valuable work experience and the Nigel Monaghan Apprenticeship for school leavers was launched, providing a six-month paid work experience placement.

Within the Edinburgh office, 10 young people are engaged with the Career Ready programme, receiving regular mentoring sessions with colleagues, helping to expand their educational opportunities.

The Group has supported Citizens Advice Solihull Borough with the creation of a new charity shop in Chelmsley Wood, Birmingham. The premises were equipped with furniture donations and wares from the Group.

VOLUNTEERING

Employees regularly volunteer on either an individual basis or with their team to make a difference in their local community.

Employees within Phoenix Group and Phoenix Life are permitted 14 hours per year during working hours to support a variety of causes. 58% of colleagues participated in this year's volunteering programme contributing 3,547 hours. There has been a shift in more colleagues 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 87% of colleagues contributing 700 hours across the year to causes within their local community.

Within Standard Life Assurance colleagues are permitted up to three days community volunteering lieu time for activities they are engaged with inside and outside of working hours. In the period since September 2018, 1,533 hours were donated to community causes. The Armed Forces Network organised a day for volunteers to help collect donations for Poppy Scotland in Edinburgh.

Phoenix Group was a finalist in the Chartered Institute of Personnel and Development ('CIPD') annual awards, for Best Skills-based Volunteering Initiative. This accolade recognised the contribution that volunteers made in supporting Midlands Air Ambulance Charity with its Practical Quality Assurance System for Small Organisations ('PQASSO') Level 2 accreditation.

SCHOOL PARTNERSHIPS

The Group continues its partnership with Ark Kings Academy in Kings Norton, working on a variety of mutually-beneficial initiatives across the year. The Group part-funded the 2018 – 2019 academic year Place2Be mental health service onsite, assisting pupils, their families and teaching staff with wellbeing and enrichment support.

Volunteers provide weekly financial literacy and reading skills support to pupils. The music department was the focus for this year, inspiring the youth in creative arts. Donations from the Group included staging and lighting towers, branded t-shirts and end-of-year concert support. The school was awarded a Gold Standard by the Incorporated Society of Musicians, recognising the high level of uptake and attainment in GCSE music, and commitment to the subject. The school's choir 'Phoenix Singers' performed to colleagues onsite at Wythall during their festive lunch celebrations.

In London our colleagues have supported St Joseph's Primary School, where pupils are visited on a weekly basis, helping to develop reading skills. In addition, the Group's CEO and management team visited Draper's Academy in Harold Hill, to share their experiences of working life and routes into the profession. They also took time to read with pupils with Special Educational Needs.

"THE SUPPORT OF PHOENIX GROUP HAS VERY MUCH HELPED WITH THE DEVELOPMENT OF MUSIC ONSITE."

ROGER PUNTON
PRINCIPAL AT ARK KINGS ACADEMY

OUR ENVIRONMENT

Our Corporate Responsibility programme supports our commitment to monitoring and reducing our environmental footprint. Having awareness of the potential impacts of climate change is of global importance, however is not considered a material risk to the working practices of the Group.

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 employee-led initiatives continue to take place each year, focusing largely on internal resource-use, and the 3 Rs – reduce, re-use and recycle. From an energy contract point, the Group now uses only 100% renewable resources in its owned properties.

The Corporate Responsibility Steering Committee reviews environmental progress and agrees activity for future implementation such as the installation of electric vehicle charging facilities, scheduled for April 2019 at the Wythall site.

INTERNAL PRINT RESOURCE

Reducing print and paper consumption onsite remained one of the Group's primary environmental focuses across 2018. Phoenix Group and Phoenix Life colleagues now receive quarterly personalised dashboards detailing print usage and ratio of colour print, so they can directly manage what impact their print habits have on the wider environment.

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

WASTE MANAGEMENT

All core sites continue to divert 100% of their waste from landfill with a detailed monthly report outlining the volume of waste and method of disposal or recycle. The London office, which is shared tenancy, achieved an accolade for its achievements in waste management, waste minimisation and re-use in the form of the Clean City Awards Scheme. Donations of old furniture, carpet tiles and electrical equipment were distributed to various community partners in the Wythall area, reducing the requirement for waste removal, but adding value by creating a new lease of life for the items being donated. In addition, LED lighting has been installed in three core staircases and other common areas within the Wythall site. The aim was to make the building more energy-efficient, whilst reducing ongoing energy usage.

Colleagues across the Enlarged Group were given a re-usable cup to mark the start of a new chapter in Phoenix Group's journey with Standard Life Assurance. At the Wythall site, colleagues have reduced one-use paper-cup consumption by an estimated 30% since go live. Plans are underway to move to a more sustainable biodegradable cup in 2019, with a view to eliminating other forms of one-use plastic onsite.

RESPONSIBLE INVESTMENT

The Group has completed several green investment deals across the year, signifying the importance it places on the wider environment. This signified a new area of investment for the Group, helping to diversify the overall investment portfolio.

The first was a £27 million investment in renewable energy at the Walney Extension Project, assisting with the construction and operation of the enlarged offshore wind farm, situated 45 miles north of Liverpool. This project now provides clean energy to a large number of UK homes. Phoenix participated in providing debt-financing for the acquisition of a 50% share in the project.

A further investment was £50 million in Anglian Water's green projects. The proceeds are to be used to help finance projects that will mitigate climate change impacts and the conservation of water resources.

CLIMATE CHANGE

Phoenix's vision is to be Europe's leading life consolidator and although it continues to be a predominantly Heritage business, it now also has a substantial Open business element. As the Group is a consolidator of life insurance funds, rather than general insurance, it does not currently consider climate risk as a principal risk.
Climate change is one of the risks considered in the Group's horizon scanning activity and the Group continues to focus on the potential impacts of this risk, for example:

- The Group uses external managers for the vast majority of its assets who consider a broad range of environmental, social and governance ('ESG') factors in their selection and management of our investments. With the view that ESG and social impact investing can deliver better risk adjusted returns, Phoenix is developing its own ESG policy in support

CONSERVATION

Working with Bromsgrove District and Redditch Borough Councils, colleagues have donated 750 volunteering hours to improving the various parklands within the Midlands area. Their efforts have assisted with creating a bark path, building dead hedging and a wildlife hibernaculum, thinning woodland, painting benches, planting floral displays and removing the invasive Himalayan balsam from the waterways.

The Group continues to partner with the Heart of England Forest, planting in excess of 6,000 broadleaf trees since 2013. Pupils from partner school Ark Kings Academy were invited to the education centre at the Forest, to spend a day exploring the greater outdoors. The SunLife operation in Bristol is also a member of the Woodland Trust.

There has been a shift in 2018, with colleagues wishing to support more outdoor environmental-based volunteering projects. The Group has also supported the Canal and River Trust, Warwickshire Wildlife Trust and National Trust across the year.

This volunteering encouraged healthy exercise whilst taking part in environmentally-focused activities which will benefit future generations. At one of the Edinburgh sites the roof space is home to a colony of bees. Colleagues are able to meet the beekeeper and attend awareness sessions.

of this. Over 2018, Phoenix has invested in a number of ESG-related opportunities, including renewable energy and green initiatives.

- Expanding the Group's programme of qualitative and quantitative scenario analysis to take account of the potential impact of climate change scenarios; and to ensure this is appropriately reflected in the Group's risk management framework.
- Continuing to engage with our regulators on the impact on the Group of near term physical and transition risks associated with climate change.
- Continue to consider the requirements of consultations associated with the risks of climate change and engage with industry bodies on the Group's response where appropriate.

ENVIRONMENTAL REPORTING

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

As of September 2018, the vast majority of Standard Life business (part of Standard Life Aberdeen Plc) was sold to Phoenix Group. As a result, two operational properties were acquired – Standard Life House and Standard Life Data Centre. These two properties have therefore been included in the Group's carbon footprint (absolute GHG emissions) for the 2018 calendar year. However, as these two 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 2018

GREENHOUSE GAS EMISSIONS

Absolute GHG emissions data in tonnes of CO_2e

Emissions, tonnes of CO_2e from:	2018 (location-based)	2018 (market-based)	2017 (location-based)
Combustion of fuel and operation of facilities (Scope 1)	**1,402**	**1,402**	1,203
Electricity, heat, steam and cooling purchased for own use (Scope 2)	**2,990**	**3,042**	2,754
Total Carbon Footprint (Scopes 1+2)	**4,392**	**4,444**	3,957

Phoenix Group's chosen intensity measurement[1]

	2018 (location-based)	2017 (location-based)
Emissions reported above on a per floor area intensity	**63 kg CO_2e/m^2**	64 kg CO_2e/m^2
Emissions reported above on a per full-time equivalent employee (FTE) intensity	**3.8 tonnes CO_2e/FTE**	3.5 tonnes CO_2e/FTE

Note:
1 Our intensity measurement calculations exclude former Standard Life Assurance Limited properties to avoid skewed intensity results over the two-year period.

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 2018 absolute emissions have increased by 11% due to the inclusion of the two ex-Standard Life acquired properties. This increase has outweighed the reduction in the emission factor for consumption of purchased electricity (Scope 2) and the reduced consumption of energy at a number of properties throughout 2018.

Approximately 14% of 2018 emissions are estimated as full-year data is 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 in previous years and were determined to be non-material to the overall footprint, so have not been included.

The Group's chosen intensity metrics detail carbon emissions per floor area and per full-time equivalent employees (FTE). The intensity by floor area has decreased slightly as a larger number of properties have been included within the analysis this year and these properties have largely reduced their energy use in 2018 compared to 2017. The intensity by FTE shows a slight increase from 2017 to 2018 as the number of people employed has reduced.

+

The Group's full Corporate and Social Responsibility Report is available at **www.thephoenixgroup.com/CRreport2018**

The Group's complete Economic, Social and Governance measures are available to download at **www.thephoenixgroup.com/esg**

£27m

INVESTMENT IN RENEWABLE ENERGY AT THE WALNEY EXTENSION PROJECT

£50m

INVESTMENT IN ANGLIAN WATER'S GREEN PROJECTS

"THESE INVESTMENTS MARK AN IMPORTANT FIRST STEP FOR THE GROUP IN RENEWABLE ENERGY AND IS PARTICULARLY SUITED TO OUR AMBITIONS. WE HOPE TO SEE FURTHER PROJECTS OF THIS NATURE IN THE FUTURE."

SCOTT ROBERTSON
HEAD OF FINANCIAL MANAGEMENT GROUP, PHOENIX GROUP

OUR INVESTORS

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.

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 20 shareholder roadshow days and a total of 246 meetings with existing and prospective equity investors.

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 CAPITAL MARKETS 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 a Capital Markets Day on 29 November 2018 in London which was attended by 120 investors and analysts and provided an update on the Standard Life Assurance acquisition. The event also provided attendees with the opportunity to meet with management.

Investor presentations are generally filmed and the videos 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 nine conferences in the UK, including conferences organised by ABN AMRO, Bank of America Merrill Lynch, Deutsche Bank, J.P. Morgan Cazenove, Investec, Lloyds, Morgan Stanley and Natixis.

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 Capital Markets Day. The Executive Directors also held nine presentations to the sales teams at major investment banks to promote the Phoenix investment case.

DEBT INVESTORS

The Debt Investor Relations programme is managed by the Group Treasury department and supported by the Investor Relations department.

Senior management conducted 13 deal and non-deal related debt investor roadshow days in the UK, Continental Europe and Asia, meeting 168 debt investors overall.

CREDIT RATINGS AGENCIES AND BANKS

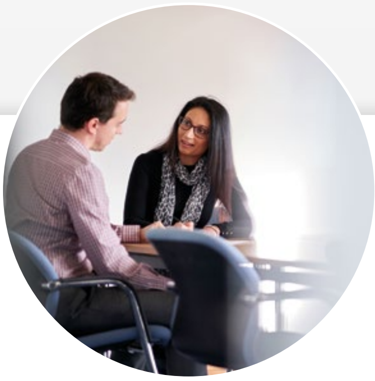
Phoenix's life companies and outstanding bonds have credit ratings by Fitch Ratings. The Group meets with the rating agency at least once per year for the annual ratings review. The Group Treasury Team and management last provided Fitch with an update in June 2018. The Group Treasury department and senior 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.



414

TOTAL NUMBER OF DEBT AND EQUITY INVESTORS MET IN 2018

33

TOTAL NUMBER OF DEBT AND EQUITY INVESTOR ROADSHOWS

CORPORATE GOVERNANCE

IN THIS SECTION

CHAIRMAN'S INTRODUCTION

SHAREHOLDERS

I would like to start my introduction to this Governance section by expressing my pleasure and gratitude for the tremendous support from our shareholders in 2018, both through the 96% take-up in July 2018 of our £1bn rights issue to finance the acquisition of Standard Life Assurance and through their strong support of all proposals at the three shareholder meetings we held in 2018 as follows:

- May 2018 Annual General Meeting – All 21 resolutions passed with a majority of at least 93% of votes cast.
- June 2018 General Meeting to approve the acquisition of Standard Life Assurance businesses, the associated £1bn rights issue and the issue of shares to Standard Life Aberdeen plc ('SLA') as part consideration for the acquisition – All 7 resolutions passed with a majority of at least 91% of votes cast (including 99% for the resolution approving the acquisition).
- November 2018 General Meeting to approve the Scheme of Arrangement and associated capital reduction in connection with the establishment of the Group's new UK-registered and listed holding company, Phoenix Group Holdings plc – All 8 resolutions passed with a majority of at least 99% of votes cast.

Our three general meetings in 2018 were held in London. Following the acquisition of Standard Life Assurance, our 2019 Annual General Meeting will be held on 2 May 2019 in Edinburgh, which is now our largest operational centre.

The UK listing of Phoenix Group Holdings plc as a UK-registered company in place of our former Cayman Islands registration was the final stage of regularising our legacy residency and incorporation status and followed the movement of central management and control for Phoenix Group Holdings from Jersey to the UK in January 2018.

BOARD OF DIRECTORS

Our Board has been through a period of renewal over the past three years and our Board Evaluation Review, undertaken in November 2018, concluded that we should now aim for a period of Board stability, following the appointment of eight new non-executive directors out of a total of ten since September 2016.

The relatively high amount of recent Board recruitment has enabled us to focus on the skills required for a growing business and the Group's M&A agenda, which in 2018 delivered the successful acquisition of Standard Life Assurance. Apart from my own appointment in 2018, the new appointees to the Board in 2018 were nominees from SLA, our strategic partner, exercising their rights in line with their c20% shareholding to appoint two directors to our Board. The November 2018 Board evaluation concluded that the Board had a strong and appropriate skillset which had been enhanced by our two new appointees from SLA, Campbell Fleming, who brings asset management skills and expertise, and Barry O'Dwyer, who brings experience as a CEO of a large open life assurance business and the associated customer-focused skills.

I am pleased that several members of our Board have current or recent FTSE 100 financial services Board experience – Alastair Barbour (our Senior Independent Director and Audit Committee Chair), John Pollock (our Risk Committee Chair), Barry O'Dwyer, Karen Green and Belinda Richards as well as myself.

I am also pleased that our Board complies with the target of the Hampton-Alexander Review for the Board to be at least 33% female.

UK CORPORATE GOVERNANCE CODE

As detailed in the Corporate Governance Report on pages 65 to 75, we complied in 2018 with all the principles and provisions of the UK Corporate Governance Code ('the Code'), such that in the last six years we have had only one matter of non-compliance with the Code.

We have been considering the new requirements of the Code effective from 2019. We have been taking steps to comply with the new provisions and will, as required, report on our compliance with those provisions in our 2019 Annual Report.

However, I am very pleased to report now that, in respect of the provision to enhance the Board's engagement with the workforce, the Board has appointed Karen Green as our nominated non-executive director who will liaise with the workforce through a Workers' Advisory Council.

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
- Directors' Report.

"SINCE JOINING THE PHOENIX BOARD AS CHAIRMAN, I HAVE BEEN IMPRESSED BY THE ATTENTION FROM THE BOARD AND MANAGEMENT ON ROBUST GOVERNANCE, WITH THE AIMS OF BOTH PROTECTING OUR SHAREHOLDERS AND CUSTOMERS AND ENHANCING OUR PERFORMANCE."

NICHOLAS LYONS
CHAIRMAN

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

AUDIT COMMITTEE	RISK COMMITTEE	PHOENIX GROUP HOLDINGS BOARD	NOMINATION COMMITTEE	REMUNERATION COMMITTEE
Alastair Barbour (Chair)	**John Pollock (Chair)**	**Nicholas Lyons (Chair)**	**Nicholas Lyons (Chair)**	**Kory Sorenson (Chair)**
Karen Green	Alastair Barbour	Alastair Barbour – SID	Alastair Barbour	Karen Green
John Pollock	Wendy Mayall	Clive Bannister	Nicholas Shott	Nicholas Shott
Belinda Richards	Belinda Richards	James McConville	Kory Sorenson	
		Campbell Fleming		
		Karen Green		
		Wendy Mayall		
		Barry O'Dwyer		
		John Pollock		
		Belinda Richards		
		Nicholas Shott		
		Kory Sorenson		

Audit Committee	Risk Committee	Board	Nomination Committee	Remuneration Committee
Financial Reporting	Risk Appetite and high-level Risk Matters	Group Strategy	Board Appointments	Group Remuneration Framework
Internal Controls	The Group's Risk Management Framework	Major Transactions	Senior Executive Appointments	Executive Director Remuneration
External Audit		Group Budget	Diversity and Inclusion	Employee Share Schemes
Internal Audit		Group Risk Appetite	Board and Senior Executive Succession Planning	
		Performance Monitoring		
		External/Shareholder Reporting		
		External Debt		

Further details regarding the Board are contained on P62-63

BOARD OF DIRECTORS

THE GROUP IS GOVERNED BY OUR BOARD OF DIRECTORS. BIOGRAPHICAL DETAILS ARE SHOWN BELOW.

NICHOLAS LYONS
CHAIRMAN

COMMITTEE MEMBERSHIP
Nomination Committee (Chairman)

APPOINTED TO THE BOARD
31 October 2018

EXPERIENCE
Nicholas Lyons was appointed Chairman of the board of directors of Phoenix Group Holdings and Chairman of the Nomination Committee of Phoenix Group Holdings with effect from 31 October 2018. Nicholas Lyons joined JP Morgan in 1982, where he worked for 12 years in debt and equity capital markets and mergers and acquisitions. He spent eight years at Lehman Brothers, as a Managing Director in their European financial institutions group, ending his executive career in 2003 as Global Co-Head of Recruitment. Mr Lyons has held a number of positions on the boards of other financial institutions including the Pension Insurance Corporation, where he was the Senior Independent Director from 2016 until July 2018. He also held positions on the boards of the Temple Bar Investment Trust, Catlin Group Limited, Friends Life Group Limited and Friends Life Holdings plc. Mr Lyons has recently joined the Board of the British United Provident Association Limited (BUPA) and is also Chairman of Clipstone Industrial REIT plc. He is an Alderman in the City of London Corporation.

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 AND GROUP DIRECTOR, SCOTLAND

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
SENIOR INDEPENDENT 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 Specialist Funds Segment of 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. Mr Barbour was appointed Senior Non-Executive Independent Director on 2 May 2018.

CAMPBELL FLEMING
NON-EXECUTIVE DIRECTOR

APPOINTED TO THE BOARD
31 August 2018

EXPERIENCE
Campbell Fleming is the Global Head of Distribution at Aberdeen Standard Investments, the asset management business of Standard Life Aberdeen. He joined Aberdeen Asset Management in August 2016 from Columbia Threadneedle Investments where he was the Chief Executive – EMEA and Global COO for four years. Mr Fleming is the Chair of the Investment Association Trade Committee and previously held senior positions at JP Morgan Asset Management.

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. 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 Non-Executive Director of Admiral Group plc and is a Council Member of Lloyd's of London. She is Deputy Chair and Acting Chair of Aspen Managing Agency Limited and 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, Ms 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. Ms Mayall is a Non-Executive Director of 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.

BARRY O'DWYER
NON-EXECUTIVE DIRECTOR

APPOINTED TO THE BOARD
31 August 2018

EXPERIENCE
Barry O'Dwyer is the Head of UK for Standard Life Aberdeen. Prior to the sale of Standard Life Assurance to Phoenix, he was the CEO of Standard Life Aberdeen's Pensions & Savings businesses. Mr O'Dwyer initially worked at Standard Life between 1988 and 2008 and held several senior roles at Standard Life after re-joining the company in 2013. A Fellow of the Institute of Actuaries, Mr O'Dwyer has 30 years of experience in the insurance industry, in a career which has also included senior roles at Prudential and HBOS.

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,
Audit 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, Avast 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),
Nomination 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, a Non-Executive Director of Pernod Ricard SA, a Non-Executive Director of Prometic Life Sciences Inc and a member of the Supervisory Board of the privately-owned Bank Gutmann AG. Ms Sorenson is currently on the Supervisory Board of Uniqa Insurance Group AG, although will not be seeking renewal of her mandate in May 2019. She has been nominated to join the Board of SGS SA in March 2019. 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 a Non-Executive Director of Aviva Insurance Limited, Managing Director, Head of Insurance Capital Markets of Barclays Capital and also 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; and
- Manages the Group's key external stakeholders.

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; and
- Delivers HR services to the Group.

TONY KASSIMIOTIS
GROUP CHIEF OPERATING OFFICER

ROLES AND RESPONSIBILITIES
- Leads development and delivery of the Group's operating platforms in line with regulatory requirements, the Risk Universe and strategy;
- Ensures the delivery of the Group's information technology strategy;
- Leads the management of the Group's long-term outsourcing arrangements; and
- Ensures that the Group's procurement activities and shared services are efficient and effective.

JAMES MCCONVILLE
GROUP FINANCE DIRECTOR AND GROUP DIRECTOR, SCOTLAND

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; and
- Enhances shareholder value through clear, rigorous assessment of business opportunities.

SUSAN MCINNES
CHIEF EXECUTIVE, STANDARD LIFE ASSURANCE LIMITED, AND GROUP DIRECTOR, OPEN BUSINESS

ROLES AND RESPONSIBILITIES
- Leads development and delivery of the Standard Life business strategy including ensuring customer proposition is evolved to ensure it continues to meet the market need;
- Focuses on a business model which ensures good outcomes for customers, shareholders and all other stakeholders; and
- Ensures that Standard Life deploys capital efficiently and effectively, with due regard to regulatory requirements, the Risk Universe and strategy.

JOHN MCGUIGAN
GROUP HEAD OF CUSTOMER

ROLES AND RESPONSIBILITIES
- Leads the Group's Customer Function to drive operational and experience delivery for the Group's customer base;
- Sets standards and policies for customer management and interaction; and
- Provides customer oversight, complaint handling and remediation activity.

ANDY MOSS
CHIEF EXECUTIVE, PHOENIX LIFE AND GROUP DIRECTOR, HERITAGE BUSINESS

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; and
- Ensures Phoenix Life deploys capital efficiently and effectively, with due regard to regulatory requirements, the Risk Universe and strategy.

JONATHAN PEARS
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; and
- Supports the Group Board Risk Committee in the oversight of the Group's risk framework, in line with risk strategy and appetite.

RAKESH THAKRAR
DEPUTY GROUP FINANCE DIRECTOR

ROLES AND RESPONSIBILITIES
- Leads on the Group's Annual Report and Accounts, ORSA and Pillar 3 reporting;
- Manages the Group's financial plans and management information in line with strategy;
- Contributes to the effective management of the Group's balance sheet and financial plan (including M&A); and
- Leads on all financial aspects of any M&A.

SIMON TRUE
GROUP CORPORATE DEVELOPMENT DIRECTOR AND GROUP CHIEF ACTUARY

ROLES AND RESPONSIBILITIES
- Supports the Group Chief Executive Officer in the formulation of the strategy for the Group;
- Leads implementation of the Group's strategy as regards any potential acquisition or disposal;
- Ensures capital is managed efficiently across the Group;
- Manages the Group's solvency position;
- Leads the development of the Group's investment strategy; and
- 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; and
- Designs and implements a whistleblowing framework within the Group.

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 2018 WITH THE PRINCIPLES AND PROVISIONS SET DOWN IN THE CODE.

THE BOARD

The Board comprises the Non-Executive Chairman, the Group Chief Executive Officer, the Group Finance Director, two SLA nominated Directors and seven independent Non-Executive Directors. Biographical details of all Directors are provided on pages 62 to 63.

The Board considers that the following Directors are independent: Alastair Barbour, 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

Nicholas Lyons is Chairman of the Board of Directors of the Company, having joined the Board as Chairman on 31 October 2018. 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 62. The Chairman was appointed on the basis of committing two days per week to Phoenix.

The Senior Independent Director, appointed by the Board, is Alastair Barbour. 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.

BOARD SUCCESSION PLANNING

The Board undertakes regular reviews of executive and non-executive succession planning, as it did in 2018, 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. The Board concluded in its November 2018 Board Evaluation Review that a period of Board stability would now be desirable, following the successful succession planning programme resulting in regular changes in the Board's composition over the last three years, during which eight non-executive directors were appointed.

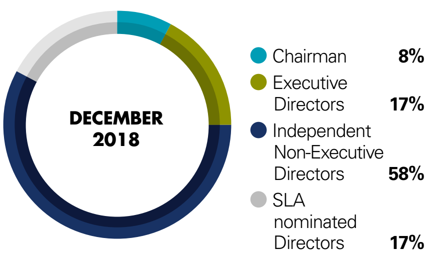
BOARD EFFECTIVENESS

In accordance with the Code, an evaluation of the performance of the Board and that of its Committees and individual Directors was undertaken in the latter part of 2018. The process was led by the Chairman and internally facilitated by the Company Secretary. The process involved completion by Directors of a questionnaire covering various aspects of Board, Committee and Director effectiveness followed by individual meetings between the Chairman and each Director, concluding in a Board report which was discussed by the Board in November 2018.

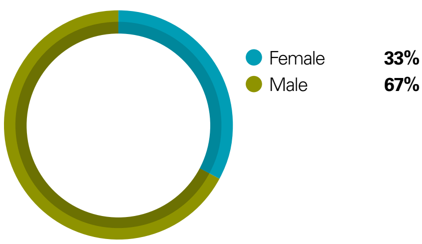
A strong theme from the review was the desire to continue to focus on strategy and the Group's future as a heritage and open business. Various process-focused recommendations to support the Board in successfully driving forward the Group's strategy are being actioned.

BOARD COMPOSITION

GROUP BOARD (%)



BOARD GENDER DIVERSITY (%)



KEY STATISTICS

	December 2018	December 2017
Market Cap	**£4.45bn**	£3.18bn
FTSE position	**97**	137
AGM votes in favour of all resolutions	**May 2018 93%**	May 2017 95%
UK Corporate Governance Code	**Fully compliant in 2018**	Fully compliant in 2017

To ensure that the Directors maintain up-to-date skills and knowledge of the Group, all Directors receive regular presentations on different aspects of the Group'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. In 2018 the new Chairman, Nicholas Lyons and SLA nominated Directors, Campbell Fleming and Barry O'Dwyer, undertook a comprehensive induction, including detailed strategic and operational briefings and information, before and following their appointments. Comments on their induction process are shown below.

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 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 and to devote appropriate preparation time ahead of each meeting. In February 2019, the Nomination Committee reviewed the time spent by Directors and concluded that the time required of (and given by) the 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 Nomination Committee has confirmed its absolute satisfaction with the time and overall commitment given to Phoenix by all Directors. During 2018, several unscheduled meetings called at short notice impacted directors' attendance.

INDUCTION INSIGHTS

Two new Directors, who joined the Board in 2018, share their insights on their induction.

CAMPBELL FLEMING
NON-EXECUTIVE DIRECTOR

BARRY O'DWYER
NON-EXECUTIVE DIRECTOR

	CAMPBELL FLEMING	BARRY O'DWYER
WHAT DID YOUR INDUCTION INVOLVE?	I spent several days with senior executives in London and Edinburgh on a full and very detailed programme covering all aspects of the businesses from Solvency models to client service. The sessions all involved excellent presentations and full, as well as open, discussions with the team. I also spent some time with the client service teams and learned about the strategy to better serve clients in future. I am yet to visit the life company operations in Wythall but hope to do so as soon as possible.	Prior to the acquisition of Standard Life Assurance, I was the CEO of that company and so I am very familiar with the newest part of the Phoenix Group. My induction hence focused on helping me to understand the wider Group and the Phoenix Life company in Wythall. My meetings involved discussing the Group's strategy and its risk management framework, as well as seeing how the business operates day-to-day.
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 was very impressed by the way in which the Group approached the induction process – it was extremely well organised and everyone I met was very open and helpful in answering questions. As a Director, it felt very well-designed to get me up to speed quickly with ongoing events, allowing me to contribute immediately to Board discussions.

This included Alastair Barbour and Belinda Richards, who each missed three of twelve Board meetings in 2018. All three meetings missed by Mr Barbour were ad-hoc meetings called at short notice. His Board attendance record in the prior year (2017) was 100%. Two of the three meetings missed by Belinda Richards in 2018 were ad-hoc meetings called at short notice.

Since her appointment in 2017, she has attended all other Board meetings, so has attended twelve out of fifteen to date.

The remuneration of the Directors is shown in the Directors' Remuneration Report on pages 88 to 105. The terms and conditions of appointment of Non-Executive Directors are on the Group's website. In accordance with the provisions of the Articles and the Code, all Directors will submit themselves for election at the Company's AGM on 2 May 2019.

The Board met twelve times during 2018 and is scheduled to meet seven times in 2019 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 2018.

BOARD AND COMMITTEE ATTENDANCE 2018

	Board meetings		Audit		Risk		Nomination		Remuneration	
	Max	Actual	Max	Actual	Max	Actual	Max	Actual	Max	Actual
Chairman										
Henry Staunton[1]	9	9					4	4		
Nicholas Lyons[2]	3	3					1	1		
Executive Directors										
Clive Bannister (Group CEO)	12	12								
James McConville (Group FD)	12	12								
Non-Executive Directors										
Alastair Barbour[6]	12	9	7	7	7	7	5	5		
Ian Cormack[3]	5	5					3	2		
Campbell Fleming[4]	3	3								
Karen Green[5]	12	12	7	7			–	–	6	6
Wendy Mayall[5]	12	12			7	7	–	–		
Barry O'Dwyer[4]	3	3								
John Pollock[5]	12	11	7	7	7	7	–	–		
Belinda Richards[5, 6]	12	9	3	2	7	5	–	–		
Nicholas Shott	12	12					5	5	6	6
Kory Sorenson[5]	12	11	4	4			2	2	6	6

Notes:
1 Henry Staunton resigned from the Board on 31 October 2018.
2 Nicholas Lyons was appointed to the Board on 31 October 2018.
3 Ian Cormack resigned from the Board on 2 May 2018.
4 Campbell Fleming and Barry O'Dwyer were appointed to the Board on 31 August 2018.
5 In addition, the following attended meetings of the specially constituted Chair Selection Committee: Kory Sorenson (Chair) – 3 meetings; Karen Green – 3 meetings; Wendy Mayall – 3 meetings; John Pollock – 2 meetings; Belinda Richards – 2 meetings.
6 All three Board meetings missed by Alastair Barbour were ad-hoc meetings called at short notice. His Board attendance record in the prior year (2017) was 100%. Two of the three Board meetings missed by Belinda Richards were ad-hoc meetings called at short notice. Since her appointment in 2017, she has attended all other Board meetings, so has attended twelve out of fifteen to date.

BOARD ALLOCATION OF AGENDA TIME (%)

- CEO report — 30%
  Strategy, performance, governance and regulatory review
- Strategy and planning — 30%
  Strategic and operational planning, consideration of corporate transactions
- CFO/MI report — 15%
  Monitoring performance against objectives
- Financial reporting — 10%
  External reporting
- Reports from Chairs of Committees — 5%
  Audit, Nomination, Remuneration and Risk Committee activity
- Board changes and performance — 5%
  Appointments, succession and performance
- Other matters — 5%

BOARD COMMITTEES

THE BOARD HAS DELEGATED SPECIFIC RESPONSIBILITIES TO FOUR STANDING COMMITTEES OF THE BOARD. THE TERMS OF REFERENCE OF THE COMMITTEES CAN BE FOUND ON THE COMPANY'S WEBSITE.

AUDIT COMMITTEE

The composition of the Audit Committee is in accordance with the requirements of the Code and also with DTR 7.1.1AR in that all four members are 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 2018. Its meetings are attended by the Chair 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 Board Chair 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, without management present.

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.
- 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 Chairs of the Audit Committee and subsidiary audit committees, and the Audit Committee Chair'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 (and from 1 September 2018, the Standard Life Audit Committee papers). This oversight has been enhanced further through the attendance at the Audit Committee, on at least an annual basis, by the Chair of the Phoenix Life and Standard Life Audit Committee.

Members:
Chair: Alastair Barbour
Karen Green
John Pollock
Kory Sorenson (until 2 May 2018)
Belinda Richards (from 2 May 2018)

AUDIT COMMITTEE'S PRINCIPAL ACTIVITIES DURING 2018

External reporting and controls

- Reviewed the Company's 2017 Annual Report and Accounts and 2018 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 2017 (annual), 2018 (interim) and 2018 (annual) as summarised in the table on page 71. 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 112 to 120.
- 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 Line 2 internal control assessment from Group Risk, and the annual Line 3 internal control environment opinion 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.
- Considered various financial disclosures included within the transaction documents pertaining to the acquisition of Standard Life Assurance.
- 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.

External audit

- Undertook a review of the effectiveness, engagement and remuneration of the current external auditors. This culminated in the re-appointment of Ernst & Young LLP ('EY'), which was approved by the Board and subsequently approved by shareholders at the May 2018 AGM – see 'Assessment of the effectiveness of the external audit process' and 'Auditor's Appointment' on page 70.
- Reviewed and monitored the independence of the external auditors including their provision of non-audit services and fees and their appointment as external auditors to the Standard Life Assurance entities – see Auditor's Independence and External Auditor Policy on page 70.

Internal audit

- Assessed the effectiveness of Internal Audit, noting the positive responses received from Management.
- Approved the annual update of the Group Internal Audit Charter and the Group Internal Audit Plan (including its link to the Risk Management Framework), receiving regular reports to monitor progress against the plan.
- Reviewed the internal audit 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 by the Board in November 2018 as part of its overall Board Evaluation Review.

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 Chair 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.

THE ACQUISITION OF STANDARD LIFE IN 2018 WAS SIGNIFICANT FOR THE GROUP, AND FOR THE AUDIT COMMITTEE THERE WILL BE ADDITIONAL FOCUS ON ENSURING THAT ROBUST CONTROLS ARE IN PLACE AND ARE APPLIED ACROSS THE WHOLE ENLARGED GROUP."

ALASTAIR BARBOUR
CHAIR OF AUDIT COMMITTEE

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 2018 statutory audit.

The Committee also reviewed the appointment of EY as auditor to Standard Life Assurance Limited and its subsidiaries in 2018 following the acquisition of those entities by the Group.

Following completion of the onshoring of the Group, a new UK-registered holding company, PGH plc was put in place in December 2018. Effective from December 2018, EY has been appointed as auditor of the Group by the Directors of PGH plc.

EY has been appointed as auditor of the Group by the Directors of PGH plc. EY has indicated its willingness to continue in office and shareholders' approval will be sought at the AGM on 2 May 2019.

The current audit partner is Ed Jervis, who has held that role from the 2014 statutory audit and will rotate off after completion of the 2018 statutory audit responsibilities.

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 2017 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 2018, total fees of £12.2 million were paid to EY. Of this amount £7.2 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 £4.1 million are classified as non-audit services under the EU Directive and Regulations, and give rise to a non-audit to audit fee ratio of 66% in 2018 within the limits prescribed in the Group's policy.

The engagement of EY to perform any non-audit service is subject to a process of pre-approval by the Audit Committee. £1.6 million of the non-audit fees related to actuarial and finance due diligence procedures conducted in relation to the acquisition of Standard Life Assurance. The Audit Committee considers that the engagement of the external auditors in the performance of such diligence procedures provides synergies with audit work post-completion of the transaction and enhanced insight as to the quality of the control environment operated in the target company by comparison to Group standards. Of the remaining balance, a further £2.0 million relates to the provision of assurance services to the Board and the sponsoring banks in support of disclosures made in the public transaction documents relating to the acquisition and debt issuances undertaken in the year. The engagement of the Group's independent external auditor for the provision of such services is consistent with market practice in transactions of this nature.

In relation to their appointment as auditors of the Standard Life Assurance entities, the Committee reviewed the independence of EY in accordance with the requirements of the Financial Reporting Committee's Ethical Standards on independence ("the Ethical Standards"). This included ensuring that any material business relationships between EY and the acquired entities and any prohibited professional services provided by EY to those entities, were terminated within a period of three months from completion of the acquisition as permitted under the Ethical Standards.

The Audit Committee is satisfied that the non-audit services performed during 2018 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 139.

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

Significant matters in relation to the 2018 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 Life Company Audit Committees 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 Life Company Audit Committees, 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 Life Company Audit Committees' conclusions were reported to the Audit Committee through minutes of its meeting and a discussion between the Chairmen of the committees. The Audit Committee discussed, and questioned management and EY on, the content of the summary papers and the Life Company 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 Life Company Audit Committees. 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 Life Company 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 acquisition of the Standard Life Assurance entities on the Group consolidated IFRS financial statements. This has included consideration of the adoption of Group accounting policies and methodologies by the acquired entities. • Management presented papers detailing the basis of fair value adjustments made to the acquisition balance sheets including the valuation of tangible net assets, the valuation of intangibles including the Acquired Value of In-Force business and the gain on bargain purchase. The key methodologies and assumptions applied in determining such adjustments were reviewed and approved by the Audit Committee. • The Audit Committee considered and confirmed the appropriateness of the results of annual impairment testing carried out in respect of goodwill balances and reviews for indicators of impairment performed in respect of finite 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. As part of the year-end procedures, the Audit Committee discussed with management and EY 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 2018 year-end and 2018 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.

Note:
Please note that references in this table to Life Company Audit Committees include Audit Committees for the acquired Standard Life Assurance entities in respect of post-acquisition activity.

RISK COMMITTEE

The role of the Risk Committee is to advise 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.

The performance of the Committee during 2018 was assessed as part of both an overall internal annual Board effectiveness review and a Committee-specific effectiveness review. The conclusions demonstrate that the Committee continues to operate effectively.

Details of the Risk Management Framework, for which the Risk Committee has oversight, are provided in the Risk Management section on pages 39 to 46.

Members:

Chair: John Pollock	
Alastair Barbour	
Wendy Mayall	
Belinda Richards	

RISK COMMITTEE'S ROLE

- The Committee is comprised of four Independent Non-Executive Directors.
- A set of 'Operating Principles' are in place to define the responsibilities and accountabilities of the Risk Committees of Phoenix Group Holdings and its subsidiary company boards to avoid any overlap of focus or assurance activity.
- The Committee's meetings are attended by the Chair of the Audit Committee, Alastair Barbour, which allows the review of internal control effectiveness to be managed through collaborative working and oversight.
- The Chairman of the Phoenix Life and Standard Life Risk Committees and Model Governance Committee, John Lister, is a regular attendee to the Committee and provides members with a regular update on the risk matters pertinent to these key subsidiaries and the matters being dealt with at the Model Governance Committee (which is a Board Committee of the Group's Life Companies).
- Other regular attendees to the Committee include the Group Chief Actuary, Deputy Group Finance Director, the Chief Executives of the subsidiary company boards, the Group General Counsel and the Group Head of Internal Audit.
- The Committee met a total of seven times in 2018 to including two out of cycle meetings by telephone.
- A joint briefing session was held between the Phoenix Group and Phoenix Life Risk Committee members to review Emerging Risks and Forward Looking Scenarios, the Counterparty Concentration Exposures Process and a deep dive into Credit and Illiquid Assets.
- The Chief Risk Officer, Jonathan Pears, who joined from Standard Life Assurance on 31 August 2018, has full access to the Chair and the Committee and attends all meetings.
- The Committee receives frequent reporting from the Chief Risk Officer and the Group Risk function on consolidated risk matters affecting the Group to including risk profile assessments and emerging risks.

Significant matters discussed in 2018

Standard Life Assurance acquisition

- To ensure the safe delivery of the Group's acquisition strategy in line with risk appetite, the Committee evaluated the acquisition and provided a recommendation to the Board based on the risk profile, execution risks and overall risk appetite. In doing so, the Committee considered the financing and capital structure of the acquisition, reverse stress testing, acquiring risk infrastructure and regulatory engagement.
- Throughout the acquisition, the Risk Committee continued to be informed on any risk matters including review of the Risk Factors included in the acquisition prospectus, the capital policy framework in operation at Standard Life and the execution risks presented at the time of transfer.

Consequences/Implications of a 'Hard Brexit'

- Due to the ongoing uncertainty of the UK's exit from the European Union, the Committee reviewed and considered the preparations in place for a 'Hard Brexit' and the potential financial and operational impacts on the Group. This continued to be reflected within the top risk reporting to the Committee during the course of 2018 and 2019 to date.

Implementation of a single, digitally enhanced outsourcer platform

- The Committee considered the estimated impact that delivery of this platform would have on the risk profile of Phoenix Life.

Building the UK Financial Sector's Operational Resilience

- Following the issue of a tripartite discussion paper from the Bank of England, PRA and FCA, the Committee discussed the drive to move the industry toward a more comprehensive risk-based view of operational resilience which is more visible to boards. The Committee considered and supported the prepared response by the Risk function on behalf of the Company.

RISK COMMITTEE'S PRINCIPAL ACTIVITIES DURING 2018

In addition to the significant matters discussed in 2018, the Committee also:

- Reviewed adherence to the Group Risk Management Framework and approved its harmonisation following the acquisition of Standard Life Assurance Limited, to include consideration of the appropriateness of the Group's overall Risk Appetite Statements.
- Monitored progress against the 2018 Group Risk function plan.
- Approved the Group Market Risk Appetite Targets.
- Considered the refresh of the Group's capital risk appetite.
- Monitored compliance with the Group's principal risk policies, satisfying itself that action plans to address significant breaches of those policies were sufficient.
- Reviewed the Group's risk profile, monitoring it against the risk categories of Market, Insurance, Credit, Financial Soundness, Customer and Operational with particular attention to risk appetite, risk trends, risk concentrations, provisions, experience against budget and key performance indicators for risk as well as contingency planning.
- Received regular updates on Cyber Security.
- Reviewed Reverse Stress Testing analysis, completed and provided oversight of, and challenge to, the design and execution of the Group's stress and scenario testing, including any changes of assumptions.
- Informed the Remuneration Committee regarding the management of the Group's material risks to support their consideration of executive's Annual Incentive Plan rewards.
- Considered a Line 2 review of the 2019 Annual Operating Plan.

REVIEW OF SYSTEM OF INTERNAL CONTROLS

The Board has overall responsibility for the Group's risk management and internal control systems and for reviewing their effectiveness in accordance with the Code. 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 (and its subsidiary company boards) monitor internal controls on a continual basis, in particular through the Audit and Risk Committees, which draw upon input from all three lines of defence. 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 2018, in accordance with the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' published by the Financial Reporting Council. The assessment for 2018 was presented to the Board, following review by both Audit and Risk Committees, on 4 March 2019. Where any significant weaknesses were identified, corrective actions have been taken, or are being taken and monitored by both the business and the Committees accordingly.

"DURING 2018, IN ADDITION TO ITS EXISTING PRINCIPAL ACTIVITIES, THE COMMITTEE HAS REVIEWED AND CHALLENGED MATTERS RELATING TO THE STANDARD LIFE ACQUISITION AND THE IMPACT OF EXTERNAL POLITICAL AND ECONOMIC UNCERTAINTIES IN ORDER TO ENSURE THE COMPANY IS IN A STRONG POSITION TO DRIVE ITS STRATEGIC OBJECTIVES FORWARD."

JOHN POLLOCK
CHAIR OF RISK COMMITTEE

NOMINATION COMMITTEE

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

The Nomination Committee met five times in 2018.

The Nomination Committee also met three times in 2018 as the Chair Selection Committee, chaired by Kory Sorenson, with other members being Karen Green, Wendy Mayall, John Pollock and Belinda Richards.

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 appointment of the new Chairman, Nicholas Lyons, in 2018. The search consultancy used in 2018 for Director appointments was Russell Reynolds which has no other connection with the Company.

NOMINATION COMMITTEE'S PRINCIPAL ACTIVITIES DURING 2018

- As the Chair Selection Committee, delivered a recommendation to the Board for the appointment of Nicholas Lyons as Chairman following a comprehensive search process led by the Chair Selection Committee with Russell Reynolds search consultancy.
- Delivered a recommendation to the Board for Alastair Barbour to succeed Ian Cormack as Senior Independent Director.
- Taking account of the Board Evaluation Review, reviewed the balance of skills, diversity, experience, independence and knowledge on the Board.
- 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 plans for Executive and Non-Executive Directors and recommended their 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.

"THE NOMINATION COMMITTEE HAS PERFORMED ITS ROLE SUCCESSFULLY OVER THE LAST THREE YEARS OF BOARD RENEWAL, WITH EIGHT NEW NON-EXECUTIVE DIRECTORS APPOINTED OVER 2016, 2017 AND 2018, REFLECTING THE SKILLS AND EXPERIENCE REQUIRED TO DRIVE THE GROUP FORWARD."

NICHOLAS LYONS
CHAIRMAN

Members:

Chair: Nicholas Lyons
Alastair Barbour
Nicholas Shott
Ian Cormack (until 2 May 2018)
Kory Sorenson (from 2 May 2018)

Note:
Henry Staunton (Chair until 31 October 2018, when he was succeeded by Nicholas Lyons).

REMUNERATION COMMITTEE

The composition of the Remuneration Committee accords with the requirements of the Code that the Remuneration Committee should consist of at least three independent Non-Executive Directors. The Remuneration Committee met seven times during 2018.

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, Executive Committee members (and other Solvency II identified staff) and the Chairman. Other than in relation to the Chairman, these include pension rights and executive incentive schemes to encourage superior performance. Details of the remuneration structure and the Remuneration Committee's activities in 2018 are provided in the Directors' Remuneration Report on pages 76 to 105.

Our Remuneration Committee terms of reference were updated during the course of this year to reflect the expectations of the new Corporate Governance Code, of which we are fully supportive.

FIT Remuneration Consultants provided advice to the Remuneration Committee until March 2018. PwC provided advice from May 2018 onwards. Both organisations are independent of the Group.

THE COMMITTEE BELIEVES THAT PHOENIX GROUP HOLDINGS' APPROACH TO REMUNERATION PLAYS A KEY PART IN SUPPORTING THE GROUP'S STRATEGIC PRIORITIES AND ALIGNMENT WITH SHAREHOLDERS' AND CUSTOMERS' INTERESTS."

KORY SORENSON
REMUNERATION COMMITTEE CHAIR

Members:

Chair: Kory Sorenson	
Karen Green	
Nicholas Shott	

Note:
There were no changes to the composition of the Committee during 2018.

REMUNERATION COMMITTEE CHAIR'S LETTER

DEAR SHAREHOLDER

On behalf of the Board and its Remuneration Committee ('Committee'), I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2018. This report covers remuneration for Executive Directors and Non-Executive Directors of the Company, operated in line with the Remuneration Policy approved by shareholders at the 2017 AGM.

2018 was a transformational year for Phoenix with the acquisition of the Standard Life Assurance businesses, as set out in the Group Chief Executive Officer's report at the beginning of this Annual Report and Accounts. This and other achievements, in line with our strategic objectives, reflect the strong performance, commitment and leadership shown by the Group's management team.

Particular operational and financial highlights for the year included:

Highlights

- Cash generation of £664 million in 2018 taking the total cash generation in 2017 and 2018 to £1.3 billion and exceeding the upper end of the target range for this period of £1.0 billion to £1.2 billion.
- Completion of the acquisition of the Standard Life Assurance businesses financed in part by a £950 million rights issue and a £945 million debt issuance.
- Strategic Partnership with Standard Life Aberdeen plc.
- Completion of AXA Wealth and Abbey Life integrations.
- Completion of three Bulk Purchase Annuity ('BPA') transactions.
- Successful on-shoring of the Group.
- Strong Customer Satisfaction scores of 93%.

INCENTIVE OUTCOMES FOR 2018

The Committee believes that Phoenix's approach to remuneration plays a key part in supporting the Group's strategic priorities and alignment with shareholders' and customers' interests. As indicated in last year's report, following the acquisition of the Standard Life Assurance businesses, the Committee reviewed the business targets within our variable pay plans and made the necessary adjustments to ensure that the plans operated as originally intended and properly reflected our aim to reward long-term value generation.

Specifically:

- 2018 Annual Incentive Plan ('AIP'):
  - Solvency II Management Action targets have been increased by £260 million to reflect the equity hedging action announced to the market.
  - Solvency II Own Funds targets have been increased by £1,837 million to reflect equity raised as part of the acquisition.
  - No changes were made to other AIP metrics.
- 2016 Long Term Incentive Plan ('LTIP'):
  - No changes were made to the targets, recognising that no net cash is expected from the Standard Life Assurance businesses over the performance period ending December 2018.

For completeness, the targets relating to the 2017 and 2018 LTIP awards were also reviewed and the adjustments are described on page 94.

The Committee evaluated the performance of each Executive Director against both business objectives and individual personal objectives and decided the overall outturns of the AIP and LTIP are appropriate, specifically:

- 2018 AIP: Clive Bannister and James McConville should receive 85.5% and 88.0% of their maximum bonus opportunity, respectively.
- 2016 LTIP: Awards will vest at 49.5% of maximum opportunity for both Clive Bannister and James McConville.

Further details of the performance assessment are provided in this report.

REMUNERATION POLICY APPROVAL FOR 2019

The current Directors' Remuneration Policy was approved by shareholders at the 2017 AGM, with a 99% vote in favour. While this policy was put in place for three years, the recent establishment of Phoenix Group Holdings plc as the ultimate parent company of the Group means that the Directors' Remuneration Policy will need to be submitted for a formal binding shareholder approval at this year's AGM before an updated Remuneration Policy is put to shareholders at the 2020 AGM.

This will largely be a roll forward of the previously approved Phoenix Group Holdings policy. However, in recognition of the 2018 update to the UK Corporate Governance Code, we propose the following two changes to our current Policy:

- Alignment of pension contributions for new Executive Directors with those provided to the wider workforce, with a review of the policy for current Executive Directors as part of the full policy review later this year.
- Introduction of post-cessation shareholding requirements for both new and current Executive Directors.

AIP AND LTIP FOR 2019

The Committee reviewed the AIP and LTIP metrics in light of the acquisition of the Standard Life Assurance businesses and concluded that they continue to reflect the Group's evolving business focus and are aligned to the success of the Enlarged Group. Therefore, we propose no changes for the 2019 performance measures.

AIP 2019 (metrics unchanged from 2018)

Metric	2019 Weightings
Cash Generation	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% (25% of Corporate component)
Personal Objectives	20%

LTIP 2019 (metrics unchanged from 2018)

Metric	2019 Weightings
Cumulative Cash Generation	40%
Return on Adjusted Shareholder Solvency II Own Funds	35%
TSR	25%

BOARD CHANGES

During the year, Henry Staunton announced his retirement from the Phoenix Group Holdings Board. Following an intensive search process, Henry was succeeded by Nicholas Lyons from 31 October 2018. Nicholas brings a wealth of experience in life insurance as well as the broader financial services sector. The Board is delighted to welcome Nicholas and looks forward to working with him in the future. The new Chairman's annual fee is the same as that paid to his predecessor.

LOOKING FORWARD

During 2019 the Committee will conduct a full review of the Remuneration Policy to ensure that it continues to align with the Group's strategy, motivates and incentivises management, and promotes alignment with shareholders' and customers' interests. This review will incorporate the new requirements of the UK Corporate Governance Code, which we have already started to embrace through the early adoption of certain aspects of the Code and expanded remit of the Committee as set out in the Terms of Reference. An updated Remuneration Policy will be put to shareholders at the 2020 AGM.

As part of the review process, I will be formally reaching out to engage with and seek the views of the Group's major shareholders. As ever, I welcome the views of all stakeholders, look forward to these meetings, and am very grateful for your time taken and valuable feedback.

KORY SORENSON
REMUNERATION COMMITTEE CHAIR

4 March 2019

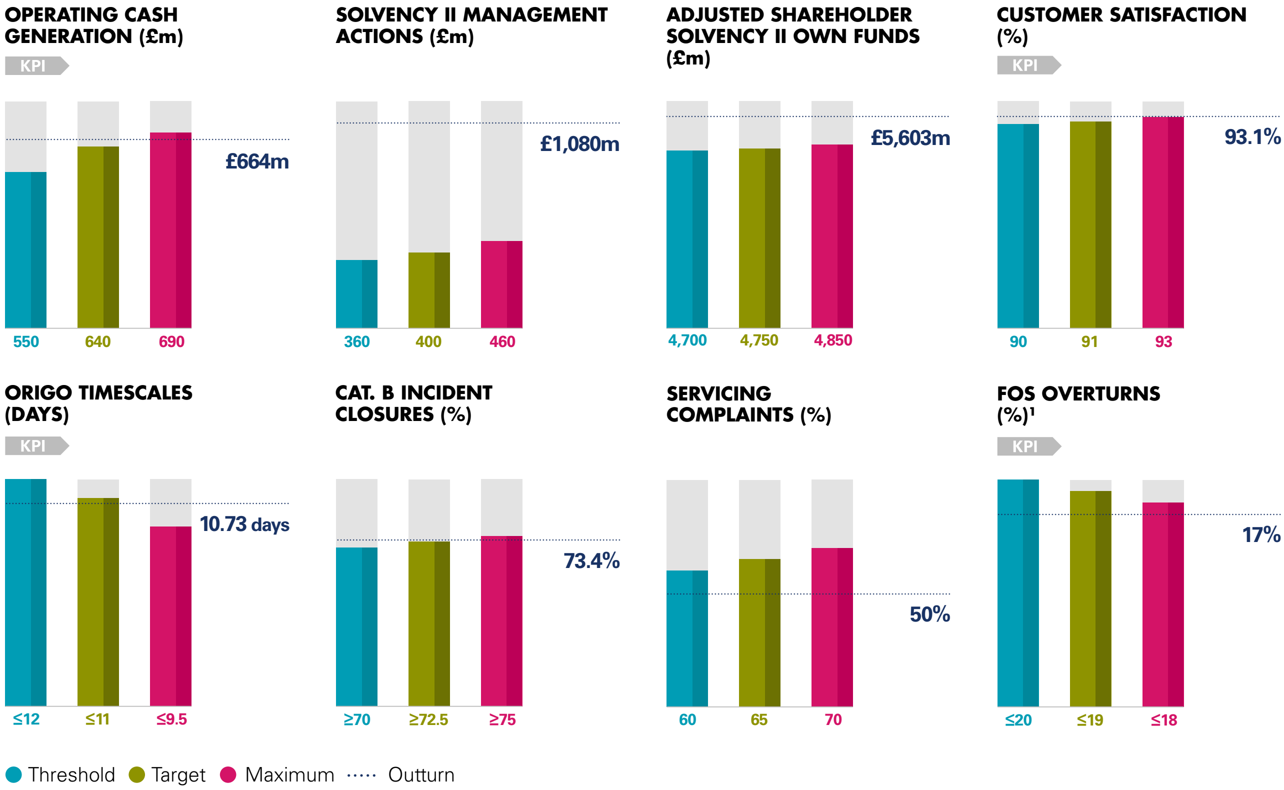
DIRECTORS' REMUNERATION REPORT
AT A GLANCE

HOW WE PERFORMED IN 2018

Group performance measures

Annual Incentive Plan ('AIP'):

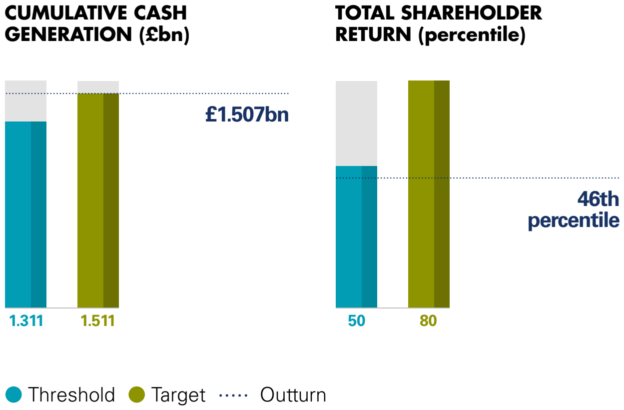
Below we show the target ranges and outturn against the metrics within the 2018 AIP. More details of the 2018 AIP can be found on page 89. AIP metrics that are stated Group KPIs are flagged below and evidences the direct link between Company strategy and remuneration outcomes.



1 See note 5 on page 89 for detail of the FOS Overturn Rate used in the AIP.

Long Term Incentive Plan ('LTIP'):

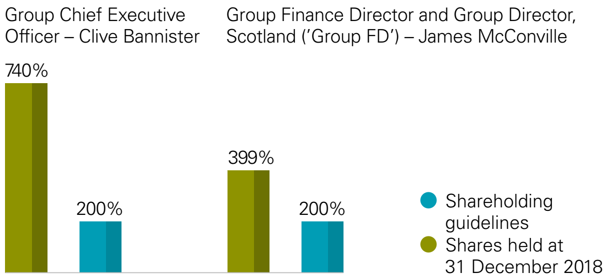
Below we show outturn against the measures which applied for the 2016 LTIP awards which are reflected in the Single Figure Table on page 88. Cumulative cash generation and TSR performance are shown over the three-year performance period (financial years 2016, 2017 and 2018). TSR is measured against the constituents of the FTSE 250 (excluding Investment Trusts), with median being the 50th percentile and upper quintile being the 80th percentile. Cash generation continues to be one of our key corporate strategic objectives, while TSR provides a direct linkage to shareholder interests.



SHAREHOLDING GUIDELINES ('SOGs')

The charts below show the shares and vested LTIP awards held by the Executive Directors as a percentage of salary as at 31 December 2018. The figures are based on a share price of £5.63 as at 31 December 2018. LTIPs which have vested but are subject to a holding period have counted towards the SOGs figure. The LTIP vested figure reflects performance outturn, dividend accrual, and the expected impact of income tax and National Insurance that will be payable on exercise. Further details on shareholding requirements are included in the Remuneration Policy under the Shareholding Guidelines section on page 84.

SHAREHOLDING GUIDELINES (% OF SALARY)



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').

Phoenix Group Holdings previously voluntarily complied with the DRR regulations as a matter of good practice although it was not strictly required to do so as a non-UK incorporated quoted company. Subsequent to the completion of Phoenix Group Holdings' re-domicile to the UK and following the completion of a Scheme of Arrangement on 12 December 2018, Phoenix Group Holdings plc was inserted as the new ultimate parent company of the Group in place of Phoenix Group Holdings. Accordingly, the Company, as a UK-registered quoted company, must now comply with the DRR regulations as a matter of UK company law.

The appointment of the Directors of Phoenix Group Holdings plc, as shown on page 102, became effective from the date of admission of Phoenix Group Holdings plc to the London Stock Exchange on 13 December 2018.

The tables shown on pages 88 and 92 show the total remuneration received by Directors over the full year to 31 December 2018. The DRR regulations require the disclosure of the remuneration paid to the Directors of the Company in respect of services provided to Phoenix Group Holdings plc or its subsidiaries and this is shown on page 104 with services considered to have been provided effective from 13 December 2018.

DIRECTORS' REMUNERATION POLICY

The 2019 AGM is the Company's first AGM as a UK-registered quoted company, and so the Company is seeking approval from its shareholders for its Directors' Remuneration Policy ('Remuneration Policy').

The Remuneration Policy which is being put forward for approval by shareholders of Phoenix Group Holdings plc at the 2019 AGM is in all material respects the same as the policy approved by the shareholders of Phoenix Group Holdings at that company's AGM on 11 May 2017. From the date of listing of Phoenix Group Holdings plc on 13 December 2018 the Remuneration Committee has voluntarily applied the policy previously established by Phoenix Group Holdings. This Policy will be reviewed in 2019 in light of changes to the UK Corporate Governance Code and other investor body guidelines and a new revised Policy will be presented to shareholders for approval at the AGM of Phoenix Group Holdings plc in 2020.

Ahead of this full review however, the Group has taken the opportunity to make two immediate updates to the Policy:

- The alignment of pension entitlement for newly appointed Executive Directors to that of the majority of the workforce.
- The introduction of a shareholding requirement post cessation of employment.

The Remuneration Policy is set out in section A of this report overleaf.

SECTION A: THIS SECTION CONTAINS THE DIRECTORS' REMUNERATION POLICY AS PROPOSED FOR APPROVAL BY THE COMPANY'S SHAREHOLDERS AT THE COMPANY'S 2019 AGM ON 2 MAY 2019.

GENERAL POLICY

The Remuneration Policy for Executive Directors is summarised in the table below along with the policy on the Chairman's and the Non-Executive Directors' fees.

Summary of changes from previous policy:

As explained in the Remuneration Committee Chairman's letter at the beginning of this Directors' Remuneration Report, the Remuneration Policy proposed for adoption by the Company's shareholders at the 2019 AGM is largely unchanged from the Remuneration Policy approved by the shareholders of Phoenix Group Holdings at its 2017 AGM with the exception of the specific details outlined on page 79 and the addition of the 2019 LTIP metrics. In line with legislative requirements, a revised Remuneration Policy will be presented to shareholders in 2020 being three years following the 2017 AGM.

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 benchmark will be reviewed in 2019 in accordance with Phoenix's position within the FTSE market.

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

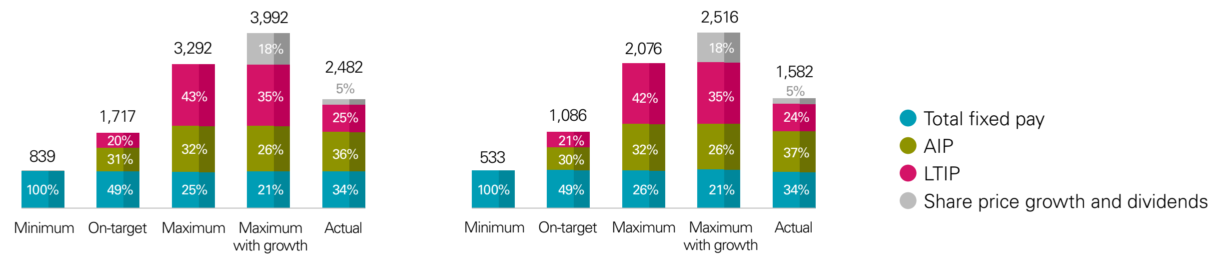
HOW MUCH THE EXECUTIVE DIRECTORS EARNED IN 2018/POTENTIAL REWARDS UNDER VARIOUS SCENARIOS (£000)

The charts below compare the maximum levels of Total Remuneration payable under the Directors' Remuneration Policy (see page 81) and the actual payments for 2018 detailed in the Single Figure Table (see page 88).

TOTAL REMUNERATION OPPORTUNITY (£000)

Group Chief Executive Officer – Clive Bannister

Group Finance Director – James McConville



- Minimum, on-target and maximum represent the scenario charts required under the Directors' Remuneration Policy – see the data assumptions below.
- 'Maximum with growth' is the maximum scenario, but with the LTIP element increased to reflect a 50% share price growth assumption over the three-year period 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 2018 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 2019 (unchanged from 2018). – Benefits measured as benefits paid in 2018 as set out in the Single Figure Table. – Pension measured as the full entitlement of approximately 17.6% of base salary receivable (after 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.

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 above 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 when the prior policy was adopted in 2017), provided that this figure may be increased in line with UK RPI inflation from the adoption of the prior policy in May 2017.

Performance measures
– N/A

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 the 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

Element and purpose
Pension
To provide retirement benefits and remain competitive within the marketplace

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 the 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
– Pension contributions for new Executive Directors will be aligned with the wider workforce. The exact contribution rate will be disclosed next year following a review of overall Company pension provision.
– Pension contributions for current Executive Directors are limited to 20% of base salary per annum (reduced to 17.6% when taken as cash in lieu of contribution), with the intention to review this against the wider workforce as part of the full policy review later this year.

Performance measures
– N/A

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 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. 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.

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 measures for the 2019 LTIP are as set out below (unchanged from 2018):

Measure	Weighting
Cumulative Cash Generation	40%
Return on Adjusted Shareholder Solvency II Own Funds	35%
Total Shareholder Return	25%

- The Remuneration Committee retains discretion to adjust the weightings/substitute metrics but 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 will be no more than 25% of that part of the LTIP award.
- 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.

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.

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.
– Post cessation of employment, Executive Directors are expected to retain their full level of employment shareholding requirement in the first year and half the level of their employment shareholding requirement in the second year.

Maximum

– N/A

Performance measures

– N/A

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

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 Phoenix employees, including Executive Directors, although remuneration packages differ to take into account appropriate factors in different areas of the business:

- AIP – all Phoenix 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, 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 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), and equivalent arrangements in foreign jurisdictions (including on a tax advantaged basis permitted under local laws). 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. 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) 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). Any exercise of discretion will be disclosed in the Implementation Report for the year.

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.
- 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 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 to 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.

Copies of Executive Director service contracts and Non-Executive Director letters of appointment are available for inspection at the Company's registered office.

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 their continued retirement before any payments are released to them 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 previous practice, the Remuneration Committee did not consult with employees in preparing the 2017 Remuneration Policy although will be establishing further employee engagement in 2019 in accordance with the requirement under the Corporate Governance Code. Further details are shown on page 101.

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 extensively with shareholders prior to the approval of the prior policy which was approved with 99.7% support in 2017. As this new policy is largely a rollover of the previous shareholder approved policy subject to the amendments described on page 79, it was not considered necessary to re-consult.

SECTION B: THIS SECTION CONTAINS THE ANNUAL REPORT ON REMUNERATION WHICH FORMS PART OF THE DIRECTORS' REMUNERATION REPORT TO BE PROPOSED FOR APPROVAL BY THE COMPANY'S SHAREHOLDERS AT THE COMPANY'S 2019 AGM ON 2 MAY 2019.

As explained on page 79 Phoenix Group Holdings plc became the ultimate parent company of the Group and was listed on the London Stock Exchange on 13 December 2018. For ease of comparison to 2017, 2018 full year data is shown below. Details of remuneration paid by each of the two entities Phoenix Group Holdings and Phoenix Group Holdings plc is shown in the Appendix to this report on page 104.

IMPLEMENTATION REPORT – AUDITED INFORMATION
SINGLE FIGURE TABLE

	Salary/fees[1]		Benefits[2]		Annual Incentive[3]		Long-term incentives		Pension[6]		Total	
£000	**2018**	2017	**2018**	2017	**2018**	2017	**2018**[4]	2017[5] (restated)	**2018**	2017	**2018**	2017[5] (restated)
Clive Bannister	**700**	700	**16**	16	**898**	902	**745**	1,147	**123**	123	**2,482**	2,888
James McConville	**440**	440	**16**	16	**581**	567	**468**	724	**77**	77	**1,582**	1,824

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 £16,290. Benefits for James McConville comprise car allowance and private medical insurance totalling £16,032.

3 Annual incentive amounts are presented inclusive of any amounts which must be deferred into shares for three years (ie 40% of the AIP award for 2018). In 2018 and 2017, £359,100 and £360,835 respectively of Clive Bannister's incentive payment is subject to three-year deferral delivered in shares, and £232,320 and £226,810 of James McConville's incentive payment is subject to a similar deferral. Deferred amounts are subject to continued employment.

4 In accordance with the requirements of the DRR regulations, the 2018 value for long-term incentives is an estimate of the vesting outcomes for LTIP awards granted in 2016 and which are due to vest on 2 June 2019 for Clive Bannister and James McConville. These vesting levels are at 49.5% reflecting outcomes against the Cumulative cash generation and TSR performance measures to 31 December 2018 (see page 91) and assumptions regarding dividends for the period until vesting. This vesting outcome is then applied to the average share price between 1 October 2018 and 31 December 2018 (600.04p) to produce the estimated long-term incentives figures shown for 2018 in the above table. These assumptions will be trued up for actual share prices and dividends on vesting in the report for 2019. The disclosed LTIP figure of £745,255 for Clive Bannister reflects the proportion of the original award which ultimately vested (£619,744) plus the value of dividend roll-up on those shares (£125,511). For James McConville the equivalent values are £468,433 as the disclosed LTIP figure, comprising £389,547 for the value of the proportion of the original LTIP award which ultimately vested plus the value of dividend roll-up on those shares (£78,886). All values are calculated using the three month average share price to 31 December 2018 (600.04p).

5 For 2015's LTIP awards which are reflected in the 2017 long-term incentives column above, the performance conditions were met as to 64.28% of maximum. The 2017 long-term incentives values in the above table reflect the value of the Company's shares on the date of vesting which was 28 September 2018 (676p per share) multiplied by the number of shares vesting whereas the equivalent figure within the published 2017 Single Figure Table was an estimate which reflected the average share price between 1 October 2017 and 31 December 2017 (759.8462p 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 17.6% which is paid 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 and none have any prospective entitlement to a defined benefit pension arrangement.

PAYMENTS FOR LOSS OF OFFICE AND PAYMENTS TO PAST DIRECTORS

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

AIP OUTCOMES FOR 2018 – AUDITED INFORMATION

As explained in the Committee Chairman's statement, the business of the Group is to engage in corporate activity and the Remuneration Committee may adjust targets during the year to include such activity and ensure the targets continue to reflect performance as originally intended. 2018 was a transformational year for the Group in terms of corporate activity with respect to the acquisition of the Standard Life Assurance businesses. In light of this acquisition, the Committee approved the following adjustments to the AIP targets:

Solvency II Management Actions: Threshold, target and maximum levels increased by £260 million to reflect the equity hedging action announced to the market. The range therefore increased from £100 million (threshold), £140 million (target), £200 million (maximum) to £360 million (threshold), £400 million (target), £460 million as shown in the table below.

Solvency II Management Actions are disclosed on page 32 and 33 of the Business Review and includes capital synergies associated with the acquisition of the Standard Life Assurance businesses.

Adjusted Shareholder Solvency II Own Funds: Threshold, target and maximum levels increased by £1,837 million to reflect equity raised as part of the acquisition, net of any dividends paid or payable in the first 12 months arising from the additional equity. The range therefore increased from £2,863 million (threshold), £2,913 million (target), £3,013 million (maximum) to £4,700 million (threshold), £4,750 million (target), £4,850 million as shown below.

Adjusted Shareholder Solvency II Own Funds represents the Group's Own Funds adjusted to remove the impacts of unsupported with-profit funds, the unsupported pension scheme (PGL Pension Scheme), restricted Tier 1 notes and Tier 2 or Tier 3 subordinated liabilities.

Against the specific Corporate measures, outturns were as follows:

Performance measure	Threshold performance level for 2018 AIP	Target performance level for 2018 AIP	Maximum performance level for 2018 AIP	Performance level attained for 2018 AIP	% of incentive potential based on Performance Measure	% achieved
Operating companies' cash generation	£550m	£640m	£690m	£664m	30.0%	22.2%
Solvency II Management Actions	£360m	£400m	£460m	£1,080m	15.0%	15.0%
Adjusted Shareholder Solvency II Own Funds	£4,700m	£4,750m	£4,850m	£5,603m	30.0%	30.0%
Customer experience						
Customer satisfaction[1]	90%	91%	93%	93.1%	7.5%	7.5%
Origo timescales[2]	≤12 days	≤11 days	≤9.5 days	10.73 days	7.5%	4.4%
CAT B incident closures[3]	≥70%	≥72.5%	≥75%	73.4%	5.0%	3.4%
Servicing complaint closure[4]	60%	65%	70%	50.0%	2.5%	0.0%
FOS overturn rate[5]	≤20%	≤19%	≤18%	17.0%	2.5%	2.5%
Total					100.0%	85.0%

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). 93.1% 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. The metrics in the table represent the percentage of cases closed within nine months.
4 This measure looks at servicing (ie 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 figures exclude cases from past Abbey Life businesses that are subject to the FCA's past business review as such cases must follow an approach prescribed by the FCA and are therefore not an indicator of Phoenix customer treatment.

Before confirming these outcomes for the 2018 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 2018 AIP outcomes.

Personal objectives were agreed by the Group Board and shared with the Remuneration Committee at the start of the year. The Board regards a number of the personal objectives set 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:

Clive Bannister, Group Chief Executive Officer ('Group CEO')

Objectives	Achievements
Identify acquisition opportunities capable of individually and collectively, materially enhancing shareholder value, and execute as appropriate	The Group CEO played the critical role in securing and delivering the transformational acquisition of the Standard Life Assurance businesses leading the negotiation, transaction, and pricing of the deal and welcoming Standard Life Aberdeen plc as a strategic partner. Subsequent to the closure of the above acquisition, repositioned the Group to leverage Edinburgh as an operational headquarters alongside sites in London and Wythall, with a joint leadership team appropriately representative of the enlarged entity.
Deliver the financial results at or ahead of plan	The Group CEO has sponsored the achievement of all the financial targets including above target cash flow, reduced expense, reduced leverage.
Maintain or improve solvency	In conjunction with the Group FD, has helped deliver raising £1 billion of equity, £0.9 billion of subordinated debt, retaining a stable outlook from Fitch, delivering the highest Solvency II surplus and the lowest leverage ratio in the Group's history.
Deliver management actions and deliver on the strategic asset allocation strategy	Actively sponsored the Group's evolving strategic asset allocation and the sourcing of £1.4 billion of alternative illiquid assets and the establishment of the Group's Bulk Purchase Annuity capabilities. Drove £570 million of SII management actions and a further £510 million of capital synergies to the Standard Life Assurance businesses.
Maintain strong effective relationships with regulators	Championed another solid year of maintaining a wholly effective and transparent relationship with our regulators.
Complete on-shoring of Phoenix Group Holdings	Re-domiciled Phoenix Group Holdings to the UK and established Phoenix Group Holdings plc as the new parent company of the Group.
Finalise outstanding integration issues related to AXA and Abbey Life	Completed the outstanding matters related to the AXA and Abbey Life integrations with total cost savings of £27 million per annum, £10 million above target. £1 billion of cash generation delivered from these businesses to date, 75% of total consideration.
Deliver on Diversity targets	Diversity targets were not met as they were largely impacted by changes in senior management through acquisition, structural changes, resignation and retirement. However improved metrics, governance, and accountability have re-enforced the importance of Phoenix's broader diversity agenda.

James McConville, Group Finance Director and Group Director, Scotland ('Group FD')

Objectives	Achievements
Complete at least 1 acquisition enhancing of shareholder value	The Group FD has played a critical role in supporting the Group's transformational acquisition of the Standard Life Assurance businesses both as a transaction, with its associated successful rights issue, and in its strategic on-boarding in Q4 2018. The Group FD has taken in Q3 2018 further responsibility as Group Director Scotland, and Head of Transformation for the acquisition.
Deliver the financial results at or ahead of plan	All financial targets have been exceeded with reference to our Corporate targets: generating £664 million of cash, a reduced expense base (excluding acquisition costs), a reduced Fitch leverage ratio (22%) and an operating profit of £708 million.
Maintain or improve solvency	The Group FD has delivered the raising £1 billion of equity, £0.9 billion of subordinated debt, retaining a stable outlook from Fitch, delivering the highest Solvency II surplus and the lowest leverage ratio in the Group's history.
Deliver management actions and deliver on the strategic asset allocation strategy	Management actions have been delivered materially ahead of target, including securing of over £1.4 billion of alternative assets.
Complete on-shoring of Phoenix Group Holdings	Re-domiciled Phoenix Group Holdings plc to the UK and established Phoenix Group Holdings plc as the new parent company of the group.
Finalise outstanding integration issues related to AXA and Abbey Life	Completed the outstanding matters related to the AXA and Abbey Life integrations with total cost savings of £27 million per annum, £10 million above target. £1 billion of cash generation delivered from these businesses to date, 75% of total consideration.
Deliver on Diversity targets	The Group FD chairs the Diversity Committee. Improved metrics, governance, and accountability have re-enforced the importance of Phoenix's broader diversity agenda. Diversity targets were not met as they were largely impacted by changes in senior management through acquisition, structural changes, resignation and retirement.
Manage investor relations and the external communications function	The Group FD ran a comprehensive Investor engagement programme across debt and equity with 33 investor roadshows and met 414 debt and equity investors, plus a capital markets event attended by 120 investors and analysts. These activities supported the successful rights issue and debt issues undertaken as part of the financing for the acquisition of the Standard Life Assurance businesses.

Taking account of the attainment of personal objectives, the Group Chief Executive Officer received an 87.5% payout (£183,750) for this element and the Group Finance Director received a 100%payout (£132,000) for this element, consistent with their ratings for 2018. These Personal (individual objectives) measures applied to 20% of incentive opportunity and Corporate (financial and strategic) measures applied to 80% of incentive opportunity. Overall outturns as a percentage of maximum opportunity are 85.5% for the Group Chief Executive Officer and 88.0% for the Group Finance Director.

The table below shows the actual outturn against the annual incentive maximum.

	Corporate		Personal		Total	Maximum	Total
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	As a % of maximum opportunity
Clive Bannister	85.00	102.00	87.50	26.25	128.25	150.00	85.50
James McConville	85.00	102.00	100.00	30.00	132.00	150.00	88.00

As described in the Remuneration Policy, 40% of 2018 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 2019 have been disclosed (see Implementation of Remuneration Policy for 2019 on page 97), 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 2019's AIP retrospectively in next year's Remuneration Report on a similar basis to the disclosures made above in respect of 2018's AIP.

LTIP OUTCOMES FOR 2016 AWARDS – AUDITED INFORMATION

Performance measure and weighting	Target range	Performance achieved	Vesting outcome	% achieved
Cumulative cash generation (50%)	Target range between Cumulative cash generation of £1.311 billion and Cumulative cash generation of £1.511 billion.	£1.507bn	99%	49.5%
TSR (50%)	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.	46th	0%	0.0%
Total				**49.5%**

The above targets were all measured over the period of three financial years 1 January 2016 to 31 December 2018.

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, customer satisfaction and, in exceptional cases, personal performance (as described more fully on page 94, had been achieved in the performance period.

NON-EXECUTIVE FEES – AUDITED INFORMATION

The emoluments of the Non-Executive Directors for 2018 based on the current disclosure requirements were as follows:

Name	**Directors' salaries/fees 2018 £000**	Directors' salaries/fees 2017 £000	**Benefits[1] 2018 £000**	Benefits[1] 2017 £000	**Total 2018 £000**	Total 2017 £000
Non-Executive Chairman						
Henry Staunton[2]	**271**	325	**–**	–	**271**	325
Nicholas Lyons[3]	**55**	–	**2**	–	**57**	–
Non-Executive Directors						
Alastair Barbour	**143**	150	**12**	3	**155**	153
Ian Cormack[4]	**39**	116	**–**	–	**39**	116
Campbell Fleming[5]	**–**	–	**–**	–	**–**	–
Karen Green[6]	**105**	52	**3**	–	**108**	52
Isabel Hudson[7]	**–**	39	**–**	–	**–**	39
Wendy Mayall	**107**	118	**2**	–	**109**	118
Barry O'Dwyer[5]	**–**	–	**–**	–	**–**	–
John Pollock	**127**	136	**–**	–	**127**	136
Belinda Richards[8]	**105**	26	**1**	–	**106**	26
Nicholas Shott	**105**	105	**2**	–	**107**	105
Kory Sorenson	**125**	116	**–**	–	**125**	116
David Woods[9]	**–**	53	**–**	2	**–**	55
Total	**1,182**	1,236	**22**	5	**1,204**	1,241

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 Group Holdings and Phoenix Group Holdings plc 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 Henry Staunton retired from the Board of Phoenix Group Holdings on 31 October 2018.
3 Nicholas Lyons became Chairman designate of Phoenix Group Holdings from 1 September 2018 and was confirmed in this appointment on 31 October 2018. Figure above reflects fee paid from 31 October 2018.
4 Ian Cormack retired from the Board of Phoenix Group Holdings on 2 May 2018.
5 Campbell Fleming and Barry O'Dwyer joined the Board of Phoenix Group Holdings on 31 August 2018 and waived all current and future emoluments with regard to their Directors' fees.
6 Karen Green joined the Board of Phoenix Group Holdings on 1 July 2017.
7 Isabel Hudson retired from the Board of Phoenix Group Holdings on 11 May 2017.
8 Belinda Richards joined the Board of Phoenix Group Holdings on 1 October 2017.
9 David Woods retired from the Board of Phoenix Group Holdings on 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 £4.055 million (2017: £4.082million).

SHARE-BASED AWARDS – AUDITED INFORMATION

As at 31 December 2018, Directors' interests under long-term share-based arrangements were as follows:

LTIP

Name	Date of grant	Share price on grant	No. of shares as at 1 Jan 2018	No. of shares granted in 2018	Increase in shares following right issue	No. of dividend shares accumulating at vesting[1]	No. of shares exercised[2]	No. of shares not vested[3]	No. of shares as at 31 Dec 2018	Vesting date[4]
Clive Bannister										
LTIP	28 Sept 2015	632.8p	**198,931**	**–**	**22,286**	**42,737**	**–**	**(94,285)**	**169,669**	28 Sept 2018
LTIP	2 Jun 2016	670.9p	**187,634**		**21,020**		**–**	**–**	**208,654**	2 Jun 2019
LTIP	24 Mar 2017	708.7p	**177,627**	**–**	**19,899**	**–**	**–**	**–**	**197,526**	24 Mar 2020
LTIP	21 Mar 2018	703.6p	**–**	**178,913**	**20,043**				**198,956**	21 Mar 2021
			564,192	**178,913**	**83,248**	**42,737**	**–**	**(94,285)**	**774,805**	
James McConville										
LTIP	28 Sept 2015	632.8p	**125,041**	**–**	**14,008**	**26,860**	**–**	**(59,263)**	**106,646**	28 Sept 2018
LTIP	2 Jun 2016	670.9p	**117,940**	**–**	**13,212**	**–**	**–**	**–**	**131,152**	2 Jun 2019
LTIP	24 Mar 2017	708.7p	**111,651**	**–**	**12,508**	**–**	**–**	**–**	**124,159**	24 Mar 2020
LTIP	21 Mar 2018	703.6p	**–**	**112,460**	**12,598**				**125,058**	21 Mar 2021
			354,632	**112,460**	**52,326**	**26,860**	**–**	**(59,263)**	**487,015**	

The number of shares for outstanding LTIP awards granted between 2015 and 2016 were increased to take into account the impact of the rights issues which took place on 9 November 2016 and 27 July 2018. The number of shares for outstanding LTIP awards granted between 2017 and 2018 were increased to take into account the impact of the rights issues which took place on 27 July 2018. All adjustments were 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.

1 In addition to the shares awarded under the LTIP presented above, participants receive an additional number of shares (based on the number of LTIP awards which actually vest) to reflect the dividends paid during the vesting period (and which for awards made from 2015, will include dividends paid during any applicable holding period).
2 Gains of Directors from share options exercised and vesting shares under the LTIP in 2018 were £nil (2017: £2,533,277).
3 The 2016 LTIP award vested at 49.5% of maximum.
4 All LTIP awards are now subject to a holding period 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.

LTIP Targets

Following the acquisition of the Standard Life Assurance businesses, the Committee reviewed the business targets within the variable pay plans and made the necessary adjustments to ensure that the plans continue to operate as originally intended, properly reflect the aim to reward long-term value generation and are aligned to the market announcements directly in connection with the acquisition. This review resulted in an adjustment to the 2018 targets as follows:

Cumulative Cash Generation: target range increased from £1.474 billion (threshold) to £1.674 billion (maximum) to £1.824 billion (threshold) to £2.024 billion (maximum) as shown below reflecting the additional net cash generation expected by the end of 2020.

Return on Adjusted Solvency II Shareholders Own Funds: rebasing of the opening position to reflect the equity issued and any synergy benefits expected by the end of 2020.

The Committee were satisfied these adjustments ensured the LTIP continued to operate as originally intended with the targets no easier to satisfy as a result of the acquisition.

No changes were made to the targets for the 2016 and 2017 awards.

The performance conditions for the 2016, 2017 and 2018 awards are set out below and include these adjustments to the 2018 targets.

Performance measure	2016 award (50% Cumulative cash generation and 50% TSR)	2017 award (50% Cumulative cash generation and 50% TSR)	2018 award (40% Cumulative cash generation, 35% Return on Adjusted Shareholder Solvency II Own Funds and 25% TSR)
Return on Adjusted Shareholder Solvency II Own Funds 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.	Not applicable.	Not applicable.	Between 4% CAGR and 6% CAGR.
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 £1.311bn to £1.511bn.	Target range of £1.372bn to £1.572bn.	Target range of £1.824bn to £2.024bn.
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 2016.	Target range as for 2016.

Underpin: Notwithstanding the Return on Adjusted Shareholder Solvency II Own Funds, 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. The underpin also includes consideration of customer satisfaction and, to meet Solvency II requirements, in exceptional cases, personal performance.

DBSS

	Date of grant	Share price on grant	**No. of shares as at 1 Jan 2018**	**No. of shares granted in 2018**	**Increase in shares following rights issue**	**No. of dividend shares accumulating at vesting[1]**	**No. of shares exercised[2]**	**No. of shares lapsed/ waived**	**No. of shares as at 31 Dec 2018**	Vesting date
Clive Bannister										
DBSS	28 Sept 2015	632.8p	**33,917**	**–**		**6,479**	**(40,396)**	**–**	**–**	19 Mar 2018
DBSS	2 Jun 2016	670.9p	**38,464**	**–**	**4,309**	**–**	**–**	**–**	**42,773**	24 Mar 2019
DBSS	24 Mar 2017	708.7p	**37,363**	**–**	**4,185**	**–**	**–**	**–**	**41,548**	20 Mar 2020
DBSS	21 Mar 2018	703.6p	**–**	**46,112**	**5,165**				**51,277**	15 Mar 2021
			109,744	**46,112**	**13,659**	**6,479**	**(40,396)**	**–**	**135,598**	
James McConville										
DBSS	28 Sept 2015	632.8p	**22,491**	**–**		**4,296**	**(26,787)**	**–**	**–**	19 Mar 2018
DBSS	2 Jun 2016	670.9p	**25,283**	**–**	**2,832**	**–**	**–**	**–**	**28,115**	24 Mar 2019
DBSS	24 Mar 2017	708.7p	**23,485**	**–**	**2,631**	**–**	**–**	**–**	**26,116**	20 Mar 2020
DBSS	21 Mar 2018	703.6p	**–**	**28,985**	**3,247**	**–**	**–**		**32,232**	15 Mar 2021
			71,259	**28,985**	**8,710**	**4,296**	**(26,787)**	**–**	**86,463**	

The number of shares for outstanding DBSS awards granted between 2015 and 2016 were increased to take into account the impact of the rights issues which took place on 9 November 2016 and 27 July 2018. The number of shares for outstanding DBSS awards granted between 2017 and 2018 were increased to take into account the impact of the rights issues which took place on 27 July 2018. All adjustments were 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.

1 In addition to the shares awarded under the DBSS presented above, participants receive an additional number of shares (based on the number of DBSS awards which actually vest) to reflect the dividends paid during the vesting period.
2 Gains of Directors from share options exercised and vesting shares under the DBSS in 2018 were £525,707 (2017: £595,978). Clive Bannister's gain was £316,099 arising from an award exercised on 20 March 2018 at a share price of £7.825. James McConville's gain was £209,608 arising from an award exercised on 20 March 2018 at a share price of £7.825.

The DBSS is the share scheme used for the deferral of AIP. No performance conditions apply therefore, other than being subject to continued employment.

SCHEME INTERESTS AWARDED IN THE YEAR – AUDITED INFORMATION

Recipient	**Date of award**	**Type of award**	**Basis on which award made**	**Face value of award**	**Percentage vesting at threshold performance[1]**	**Vesting date**	**Performance measures**
Clive Bannister	21 March 2018	LTIP	Nil cost option	£1,399,854	25%	21 March 2021	See page 94
Clive Bannister	21 March 2018	DBSS[1]	Nil cost option	£360,785	–	15 March 2021	None
James McConville	21 March 2018	LTIP	Nil cost option	£879,908	25%	21 March 2021	See page 94
James McConville	21 March 2018	DBSS[1]	Nil cost option	£226,784	–	15 March 2021	None

1 The DBSS awards have no threshold performance level.

The face value 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 the average of the closing middle market prices of Phoenix shares for the three dealing days preceding the award date.

SHARESAVE – AUDITED INFORMATION

Name	As at 1 Jan 2018	Increase in shares following rights issue	Shares exercised	Shares lapsed	As at 31 Dec 2018	Exercise price	Exercisable from	Date of expiry
Clive Bannister	–	–	–	–	–	–	–	–
James McConville	**2,852**	**319**	–	–	**3,171**	£5.674	1 Jun 2020	1 Dec 2020

The number of options were increased to take into account the impact of the rights issues which took place on 27 June 2018. This adjustment was based on the Theoretical Ex-Rights Price ('TERP') and approved by the Remuneration Committee and HMRC. The share price on grant shown has also been adjusted to reflect the impact of the rights issue on the share price.

Gains of Directors from share options exercised under Sharesave during 2018 were nil (2017: nil). 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 2018 were £525,707 (2017: £3,129,255).

During the year ended 31 December 2018, the highest mid-market price of the Company's shares was 733p and the lowest mid-market price was 544p. At 31 December 2018, the Company's share price was 563.4p.

DIRECTORS' INTERESTS – AUDITED INFORMATION

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

Name	As at 1 January 2018 or date of appointment if later	As at 31 December 2018 or retirement if earlier	Total share plan interests as at 31 December 2018 – Subject to performance measures	Total share plan interests as at 31 December 2018 – Not subject to performance measures	Total share plan interests as at 31 December 2018 – Vested but unexercised scheme interest
Clive Bannister	727,329	827,178	605,136	135,598	169,669
James McConville	187,493	253,227	380,369	89,634	106,646
Alastair Barbour	6,625	9,716	–	–	–
Ian Cormack	5,779	5,779	–	–	–
Campbell Fleming	–	–	–	–	–
Karen Green	–	–	–	–	–
Nicholas Lyons	20,000	20,000	–	–	–
Wendy Mayall	25,000	30,000	–	–	–
Barry O'Dwyer	–	–	–	–	–
John Pollock	10,000	14,666	–	–	–
Belinda Richards	–	–	–	–	–
Nicholas Shott	5,000	7,333	–	–	–
Kory Sorenson	2,185	15,704	–	–	–
Henry Staunton	70,000	102,666	–	–	–

There have been no changes in the Directors' share interests between 31 December 2018 and 22 February 2019 (being one month prior to the date of the notice of the AGM).

SHAREHOLDING REQUIREMENTS – AUDITED INFORMATION

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 2018 (using the share price of 563.4p as at 31 December 2018) can be summarised as follows:

Name	Shareholding Guideline (minimum % of salary)	Value of shares held at 31 December 2018 (% of salary)
Clive Bannister	**200%**	**740%**
James McConville	**200%**	**399%**

The Executive Directors are required to sign a declaration that they have not and will not at any time during their employment with Phoenix, 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.

IMPLEMENTATION OF REMUNERATION POLICY IN 2019 – NON-AUDITABLE

Element of Remuneration Policy	Detail of Implementation of Policy for 2019
Base Salary	Base salaries are set by reference to appropriate market comparables. Salaries in 2019 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 eight and five years respectively.
Benefits	There are no proposed changes to the benefits offered to Executive Directors in 2019.
Pension	There are no proposed changes to the pension benefits offered to current Executive Directors in 2019. Pension benefits for newly appointed Executive Directors will be aligned to that of the wider workforce.
Annual Incentive Plan ('AIP')	The AIP for 2019 will operate on a basis that is consistent with how the AIP operated in 2018.

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 2019 are:

– Corporate (financial and strategic) performance measures – 80% (2018: 80%).

– Personal (individual objectives) – 20% (2018: 20%).

The weightings of the AIP performance measures for 2019 remain unchanged from 2018 and 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%
Solvency II Management Actions	(15% of Corporate component) 12%
Customer Experience	(25% of Corporate component) 20%
Personal	
Individual Objectives	20%
Total	**100%**

Outcomes from performance measures for 2019'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 2019 AIP outcomes are confirmed.

The targets for the specific performance measures for AIP in 2019 are regarded as commercially sensitive by the Company but will be disclosed retrospectively in the Remuneration Report for 2019.

40% of AIP outcomes for 2019 will be delivered as an award of deferred shares under the Deferred Bonus Share Scheme which will vest after a three-year deferral period.

Element of Remuneration Policy	Detail of Implementation of Policy for 2019
Deferred Bonus Share Scheme ('DBSS')	DBSS awards made in 2019 (in respect of 2018's AIP outcome) will be made automatically on the fourth dealing day following the announcement of the Company's 2018 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 2018 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 2019 are unchanged at 200% of base salary. The weightings of the LTIP performance measures for 2019 remain unchanged from 2018 and 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%**

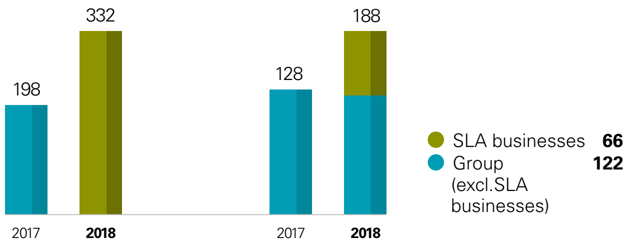
	The performance measures are measured over a period of three financial years, commencing with financial year 2019. All 2019 LTIP awards are subject to a further underpin measure relating to debt and risk management within the Group, consideration of customer satisfaction and, to meet Solvency II requirements, in exceptional cases, personal performance. These measures and the relative weightings are considered to be appropriate for 2019'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 £2,097 million (where 25% of this part of the award vests) and £2,397 million (full vesting of this part of the award). The performance targets for the return on Adjusted Shareholder Solvency II Own Funds measure are 4.5% in excess of the risk-free rate (where 25% of this part of the award vests) and 6.5% in excess of the risk-free rate (full vesting of this part of the award). The rules of the Company's LTIP reserves discretion for the Committee to adjust the outturn for any LTIP performance measures (from zero to any cap) should it consider that to be appropriate. The Committee may operate this discretion having regard to such factors as it considers relevant, including the performance of the Company, any individual or business.
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 97. Post cessation of employment, Executive Directors are expected to retain their full shareholding requirement in Year 1 and 50% of the requirement in Year 2.
Chairman and Non-Executive Directors' fees	The fee levels for 2019 remain the same as for 2018 and are £325,000 for the Chairman, £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 (£m)



Profit distributed by way of dividend has been taken as the dividend paid and proposed in respect of the relevant financial year. For 2018 this is the interim dividend paid (£163 million) and the recommended final dividend of 23.4p 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 47%, and decreased by 5% on a like for like basis excluding the impact of the acquisition of the Standard Life Assurance businesses.

The decrease was primarily driven by the reduction in the number of AXA Wealth employees during the year, a significant portion of whom transferred to the Group's outsource provider. This was partly offset by small increases in share-based payment costs (see note I2) and AIP costs, increased salaries for new activities such as Bulk Purchase Annuities and also the impact of the salary increase for staff during the year.

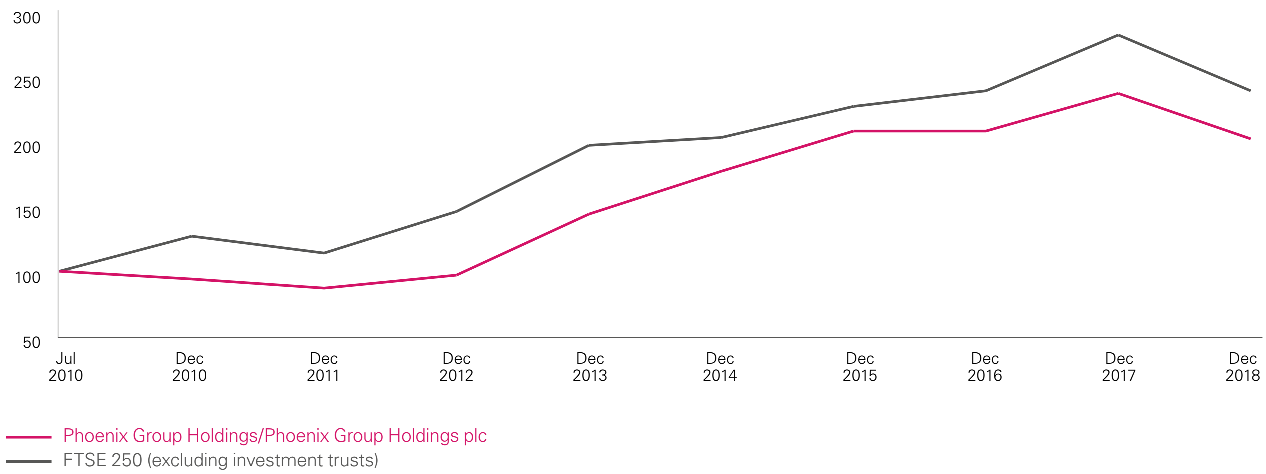
PERFORMANCE GRAPH AND TABLE

The graph below shows the value to 31 December 2018 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

Value of a 100 unit investment made on 5 July 2010



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')
2018	Clive Bannister	2,482	86%	49.5%
2017	Clive Bannister	2,888[1]	86%	64%
2016	Clive Bannister	2,878	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

1 The single figure of total remuneration for 2017 has been restated and now reflects the actual price of shares on the day the 2015 LTIP vested (28 September 2018: 676p per share) rather than the three-month average share price to 31 December 2017 (759.8642p 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 2017 TO 2018

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 2017 and 2018 and the equivalent percentage changes in the average of all staff (representing all permanent staff during 2017 and 2018 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%	0.82%	-0.48%	-0.26%
Staff	3.97%	7.80%	1.20%	3.56%

There has been minimal movement overall in the level of remuneration for the Group Chief Executive Officer; the small increase in taxable benefits is due to a rise in the cost of funding for Private Medical Insurance. There was a slight reduction in AIP which was a result of a lower outcome under the Corporate element of the 2018 AIP.

Staff more generally have seen a slight overall increase, the primary reason for this is due to an increase in taxable benefits as a result of the implementation of Private Medical Insurance to all employees, extending the benefit to c.150 employees within the Company. The median salary increase for staff was 2.5%; this is lower than the figures above which are based on averages. There has been a small increase in average AIP for employees, which is linked in part to increases in employee salary levels.

VOTING OUTCOMES ON REMUNERATION MATTERS

The table below shows the votes cast to approve the Directors' Remuneration Report for the year ended 31 December 2017 at the 2018 AGM held on 2 May 2018 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 2017 (2018 AGM)	294,152,705	99.15	2,528,520	0.85	1,291,938
To approve the Directors' Remuneration Policy (2017 AGM)	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 all-employee Sharesave scheme only, new shares are issued. Therefore the usage of shares compared to the 10% dilution limits (in any rolling 10-year period) set by the Investment Association in respect of all share plans as at 31 December 2018 is 0.23%, and no shares count towards the dilution limit for executive plans only (5% in any rolling ten-year period).

CONSIDERATION OF EMPLOYEE PAY

As explained in the Notes to the Remuneration Policy table:

- when determining Executive Directors' remuneration, the Committee takes into account pay throughout the Group to ensure that the arrangements in place remain appropriate, and
- the Group has one consistent reward policy for all levels of employees, and 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.

The Remuneration Committee intends to publish the ratios comparing CEO to employee pay as prescribed by the DRR regulations for financial year 2019. Following the acquisition of the Standard Life Assurance businesses on 31 August 2018, we have been integrating our employee pay systems and are not in the position to adopt this disclosure requirement early. Accordingly, Phoenix has come to the conclusion that it would not be appropriate to publish on a voluntary basis a CEO to employee pay ratio disclosure for 2018.

GENDER PAY GAP

The reporting entity for Gender Pay Gap reporting remains as Pearl Group Management Services; details of the 2018 Gender Pay Gap are shown on page 27 of the Annual Report and Accounts within the People Section. Employees who transferred from Standard Life Aberdeen are included in the Gender Pay Gap reporting for Standard Life Aberdeen as they were employees of that entity on the relevant date.

ADDITIONAL UNAUDITED INFORMATION

The information provided below relates to the Directors' membership of both the Phoenix Group Holdings and Phoenix Group Holdings plc boards and committees throughout 2018.

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 2018, Clive Bannister received £45,000 from Punter Southall Group and CHF 50,000 from UniGestion in respect of two external directorships. He is also Chairman of the Museum of London for which he receives no payment. James McConville received £112,000 from Tesco Personal Finance plc.

Non-Executive Directors' contracts

Name	Date of letter of appointment	Date of joining the Phoenix Group Holdings Board[1]	Appointment end date	Unexpired term (months)
Alastair Barbour	1 November 2018	1 October 2013	2 May 2019	2
Campbell Fleming	1 November 2018	31 August 2018	31 August 2021	30
Karen Green	1 November 2018	1 July 2017	1 July 2020	16
Nicholas Lyons	1 November 2018	31 October 2018	31 October 2021	32
Wendy Mayall	1 November 2018	1 September 2016	1 September 2019	6
Barry O'Dwyer	1 November 2018	31 August 2018	31 August 2021	30
John Pollock	1 November 2018	1 September 2016	1 September 2019	6
Nicholas Shott	1 November 2018	1 September 2016	1 September 2019	6
Belinda Richards	1 November 2018	1 October 2017	1 October 2020	19
Kory Sorenson	1 November 2018	1 July 2014	2 May 2019	2

1 All Directors above joined the Phoenix Group Holdings plc Board on 15 October 2018 and services are considered to have commenced with effect from 13 December 2018.

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 originally established a Remuneration Committee in 2010. On 13 December 2018 the Phoenix Group Holdings plc Remuneration Committee was formally constituted following admission of the new entity to the London Stock Exchange. The terms of reference of the Committee are available at www.thephoenixgroup.com. The main determinations of the Committee in 2018 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 2018 and their date of appointment:

Member	From	To
Kory Sorenson (Committee Chair from 11 May 2017)	3 July 2014	To date
Karen Green	1 July 2017	To date
Nicholas Shott	20 October 2016	To date

Under the Committee's Terms of Reference, the Committee meets at least twice a year but more frequently if required. During 2018, seven Committee meetings were held and details of attendance at meetings are set out in the Corporate Governance Report on page 67.

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

During the year, the Committee received independent remuneration advice from its appointed advisers, FIT Remuneration Consultants LLP ('FIT') and PwC (who were appointed by the Committee as their adviser from May 2018 following a competitive tender). Both firms are members of the Remuneration Consultants Group (the professional body for remuneration consultants) and adhere to its code of conduct.

The Committee was satisfied that the advice provided by both firms was objective and independent. FIT's fees in respect of 2018 were £45,250, all of which were attributed to work relating to the Committee and were charged on the basis of the firm's standard terms of business for advice provided. PwC's fees in respect of 2018 were £160,850 all of which were attributed to work relating to the Committee and were charged on the basis of the firm's standard terms of business for advice provided. PwC have not provided any other services to Phoenix Group Holdings plc in relation to remuneration.

FIT have provided some technical specialist advice to management since stepping down as the Committee's adviser. PwC also provided general consultancy services to management during the year. Separate teams within PwC provided unrelated services in respect of tax, assurance, risk consulting and transaction support during the year. The Committee is satisfied that these activities do not compromise the independence or objectivity of the advice it has received from PwC.

The Committee assesses the performance of its advisers annually, the associated level of fees and reviews the quality of advice provided to ensure that it is independent of any support provided to management.

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 2018.

APPENDIX – STATUTORY SINGLE FIGURE TABLES – AUDITED INFORMATION

Following the completion of a Scheme of Arrangement on 12 December 2018, Phoenix Group Holdings plc was inserted into the Group as the new ultimate parent company of the Group in place of Phoenix Group Holdings (further details are included in note A1 to the consolidated financial statements). The appointment of the Directors of Phoenix Group Holdings plc, as shown on page 102, became effective from the date of admission of Phoenix Group Holdings plc to the London Stock Exchange on 13 December 2018.

The tables shown on pages 88 and 92 show the total remuneration received by Directors over the full year to 31 December 2018. The DRR regulations require the disclosure of the remuneration paid to the Directors of the Company in respect of services provided to Phoenix Group Holdings plc or its subsidiaries. Services are considered to have been provided effective from 13 December 2018. As there was no change to the remuneration arrangements this simply reflects the annual data pro-rated from 13 December 2018 to 31 December 2018 and therefore the separate footnotes shown under the Single Figure Table on page 88 have not been repeated.

For comparison purposes, the remuneration paid for the period up to 13 December in respect of services to Phoenix Group Holdings has also been included.

Phoenix Group Holdings plc – Single Figure Table from 13 December 2018 to 31 December 2018

	Salary/fees		Benefits		Annual Incentive		Long-term incentives		Pension		Total	
£000	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Clive Bannister	**36**	–	**1**	–	**47**	–	**39**	–	**6**	–	**129**	–
James McConville	**23**	–	**1**	–	**30**	–	**24**	–	**4**	–	**82**	–

Phoenix Group Holdings – Single Figure Table from 1 January 2018 to 12 December 2018

	Salary/fees		Benefits		Annual Incentive		Long-term incentives		Pension		Total	
£000	**2018**	2017[1]	**2018**	2017[1]	**2018**	2017[1]	**2018**	2017[1] (restated)	**2018**	2017[1]	**2018**	2017[1] (restated)
Clive Bannister	**664**	700	**15**	16	**851**	902	**706**	1,147	**117**	123	**2,353**	2,888
James McConville	**417**	440	**15**	16	**551**	567	**444**	724	**73**	77	**1,503**	1,824

1 The comparative 2017 data represents a full year.

Phoenix Group Holdings plc – NED fees from 13 December 2018 to 31 December 2018

Name	**Directors' salaries/fees 2018 £000**	Directors' salaries/fees 2017 £000	**Benefits 2018 £000**	Benefits 2017 £000	**Total 2018 £000**	Total 2017 £000
Non-Executive Chairman						
Henry Staunton	**–**	–	**–**	–	**–**	–
Nicholas Lyons	**17**	–	**–**	–	**17**	–
Non-Executive Directors						
Alastair Barbour	**7**	–	**–**	–	**7**	–
Ian Cormack	**–**	–	**–**	–	**–**	–
Campbell Fleming	**–**	–	**–**	–	**–**	–
Karen Green	**5**	–	**–**	–	**5**	–
Isabel Hudson	**–**	–	**–**	–	**–**	–
Wendy Mayall	**5**	–	**–**	–	**5**	–
Barry O'Dwyer	**–**	–	**–**	–	**–**	–
John Pollock	**6**	–	**–**	–	**6**	–
Belinda Richards	**5**	–	**–**	–	**5**	–
Nicholas Shott	**5**	–	**–**	–	**5**	–
Kory Sorenson	**6**	–	**–**	–	**6**	–
David Woods	**–**	–	**–**	–	**–**	–
Total	**56**	–	**–**	–	**56**	–

Phoenix Group Holdings – NED fees from 1 January 2018 to 12 December 2018

Name	**Directors' salaries/fees 2018 £000**	Directors' salaries/fees 2017[1] £000	**Benefits 2018 £000**	Benefits 2017[1] £000	**Total 2018 £000**	Total 2017[1] £000
Non-Executive Chairman						
Henry Staunton	**271**	325	**–**	–	**271**	325
Nicholas Lyons	**38**	–	**2**	–	**40**	–
Non-Executive Directors						
Alastair Barbour	**136**	150	**12**	3	**148**	153
Ian Cormack	**39**	116	**–**	–	**39**	116
Campbell Fleming	**–**	–	**–**	–	**–**	
Karen Green	**100**	52	**3**	–	**103**	52
Isabel Hudson	**–**	39	**–**	–	**–**	39
Wendy Mayall	**102**	118	**2**	–	**104**	118
Barry O'Dwyer	**–**	–	**–**	–	**–**	–
John Pollock	**121**	136	**–**	–	**121**	136
Belinda Richards	**100**	26	**1**	–	**101**	26
Nicholas Shott	**100**	105	**2**	–	**102**	105
Kory Sorenson	**119**	116	**–**	–	**119**	116
David Woods	**–**	53	**–**	2	**–**	55
Total	**1,126**	1,236	**22**	5	**1,148**	1,241

1 The comparative 2017 data represents a full year.

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

4 March 2019

DIRECTORS' REPORT

The Directors present their report for the year ended 31 December 2018.

Phoenix Group Holdings plc is incorporated in the United Kingdom (registered no. 11606773) and has a Premium Listing on the London Stock Exchange.

SHAREHOLDERS

Dividends

Dividends for the year are as follows:

Ordinary shares	
Paid interim dividend	22.6p per share (2017: 22.6p[1] per share)
Recommended final dividend	23.4p per share (2017: 22.6p[1] per share)
Total ordinary dividend	46p per share (2017: 45.2p[1] per share)

1 2017 dividends per share figures have been rebased to take into account the bonus element of the rights issue completed in July 2018.

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 327,966,570 during 2018 which related to:

- shares issued in relation to the acquisition of Standard Life Assurance Limited (SLAL);
- shares issued to Standard Life Aberdeen plc (SLA plc) in relation to the acquisition of SLAL;
- 144,114,450 shares were issued to SLA plc on 31 August 2018; and
- shares issued under the Company's Sharesave Scheme.

At 31 December 2018, the issued ordinary share capital totalled 721,199,214. Subsequently, 3,531 ordinary shares have been issued in 2019 in connection with the Group's Sharesave Scheme to bring the total in issue to 721,202,745 at the date of this report.

Full details of the issued and fully paid share capital as at 31 December 2018 and movements in share capital during the period are presented in note D1 to the IFRS consolidated financial statements.

At the General Meeting of Phoenix Group Holdings plc held in October 2018, shareholders granted the Company authority to purchase up to 10% of its issued ordinary shares. Any ordinary shares purchased under this authority would, subject to the Companies Act 2006 either be cancelled by operation of law or held in treasury.

* Any references to the Company refer to both Phoenix Group Holdings (the Group's former Cayman Islands registered holding company) and Phoenix Group Holdings plc (the Group's new UK registered holding company).

Subject to obtaining shareholder approval for the renewal of this authority at the forthcoming AGM on 2 May 2019, the Company is authorised to make purchases of its own shares and make payment for the redemption or purchase of its own shares in any manner permitted by the Companies Act 2006 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. 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 4 March 2019, 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	194,275,410	26.93%
BlackRock Inc.	37,167,390	5.15%

Annual General Meeting ('AGM')

The AGM of the Company will be held at Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH on Thursday 2 May 2019 at 9.00am.

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

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

The Company's Investor Relations department is dedicated to facilitating communication with investors and analysts and maintains an active investor relations programme. Please see page 58 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, 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 2018 meeting, the Code provisions were complied with. Shareholders were invited to ask questions during the meeting. It is intended that the same processes will be followed at the 2019 AGM.

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 2018 is given within the Corporate Governance Report on pages 65 and 67, 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 2018 and up to the date of this report, the following changes to the Board took place:

- Ian Cormack resigned from the Board on 2 May 2018.
- Campbell Fleming and Barry O'Dwyer were appointed to the Board on 31 August 2018.
- Henry Staunton resigned from the Board on 31 October 2018.
- Nicholas Lyons was appointed to the Board on 31 October 2018.

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 I5 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 election/re-election annually. The Board of Directors will be unanimously recommending that all of the Directors should be put forward for election at the forthcoming AGM to be held on 2 May 2019.

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 the Companies Act 2006, the provisions of the Company's 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 the Company's Articles.

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

The Company has entered into deeds of indemnity with each of 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 when prohibited by any applicable law.

The deeds 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 the Companies Act 2006 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 colleague 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 colleagues 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.

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 Engagement Survey and more regular interim surveys and employee communication and engagement forums. While no survey was undertaken in 2018 as a result of the Standard Life acquisition, all employees of the Enlarged Group took part in a Culture survey in December 2018. Phoenix undertakes meaningful consultation with staff representatives on all major organisational changes and other matters affecting employee engagement. An Engagement survey of the Enlarged Group is planned for Q3 2019.

Employee shareholding

The Group also provides the opportunity for employees to participate in the Company's all-employee share schemes, which includes 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 43 to 45. 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 47) 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 2018.

Viability statement

The Viability Statement, as required by section C.2.2 of the Code, has been undertaken for a period of five years to align to the Group's business planning and is contained in the Risk Management section on page 46.

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 60 to 75 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 51. 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 pages 56 and 57.

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. The Risk Management section also describes how the Enterprise Risk Management (ERM) framework operated by the acquired Standard Life Assurance businesses aligns with the Phoenix RMF.

Articles of Association

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

The 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 shareholders' approval will be sought at the AGM on 2 May 2019.

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 2018 for audit and non-audit work are disclosed in note C4 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 2018 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 and £600million acquisition facility have provisions which would enable the lending banks to require repayment of all amounts borrowed following a change of control.

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	Directors' Remuneration Report
6	Waiver of any future emoluments by a Director	Directors' Remuneration Report
7	Non pre-emptive issue of equity for cash	Not applicable
8	As per 7, but for major subsidiary undertakings	Not applicable
9	Parent participation in any placing of a subsidiary	Not applicable
10	Contracts of significance	Not applicable
11	Controlling shareholder provision of services	Not applicable
12	Shareholder dividend waiver	Not applicable
13	Shareholder dividend waiver – future periods	Not applicable
14	Controlling shareholder agreements	Not applicable

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation of the Annual Report and Accounts, the Strategic Report, the Directors' Report, the Directors' remuneration report, the 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 2018, covers the future developments in the business of Phoenix Group Holdings plc 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 consolidated financial statements and the Company financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU'). 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 EU, have been followed, subject to any material departures disclosed and explained in the Group and the Company financial statements.
- 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 Group and the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulations. 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 are responsible for making, and continuing to make, the Company's Annual Report and Accounts available on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors as at the date of this report, whose names and functions are listed in the Board of Directors section on pages 62 and 63, 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 adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the Company.
- The Strategic Report and the Corporate Governance and Directors' 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 Strategic Report and the Directors' Report were approved by the Board of Directors on 4 March 2019.

By order of the Board

CLIVE BANNISTER
GROUP CHIEF EXECUTIVE OFFICER

JAMES MCCONVILLE
GROUP FINANCE DIRECTOR AND GROUP DIRECTOR, SCOTLAND

4 March 2019

FINANCIALS

IN THIS SECTION

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PHOENIX GROUP HOLDINGS PLC

OPINION

In our opinion:

- Phoenix Group Holdings plc's 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 2018 and of the Group's profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU');
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

We have audited the consolidated financial statements of Phoenix Group Holdings plc and it's subsidiaries (collectively 'the Group') and the parent company financial statements which comprise:

Group	Parent company
The statement of consolidated financial position as at 31 December 2018	The statement of changes in equity for the period then ended
The consolidated income statement for the year then ended	The statement of financial position as at 31 December 2018
The consolidated statement of comprehensive income for the year then ended	The statement of cash flows for the period 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 (except for note I3 which is marked as unaudited), including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

INDEPENDENCE

Further to our confirmation that 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, we have specifically considered the impact of the acquisition of Standard Life Assurance Limited ('SLAL') and other associated entities during the period on our independence. Material business relationships and prescribed non-audit services with the acquired entities at the time of the acquisition were terminated within the provisions of the Ethical Standard and appropriate safeguards were put in place. These safeguards included the migration of our workplace pension scheme arrangement to a different provider.

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 (UK) 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 pages 43 to 45 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 110 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 108 in the 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 twelve 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 46 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

Key audit matters	– Valuation of insurance contract liabilities, comprising the following risk areas: – actuarial assumptions; – actuarial modelling; and – data. – Valuation of certain complex and illiquid financial investments. – Accounting for the acquisition of SLAL and other associated entities.
Audit scope	– We performed an audit of the complete financial information of the Group Function, Phoenix Life Division and SLAL and audit procedures on specific balances for Other Companies. Our scope is explained further on pages 117 to 118.
	– The components where we performed full or specific audit procedures accounted for more than 99% of the equity and profit before tax of the Group.
Materiality	– Overall Group materiality of £100 million (2017: £63 million) which represents 1.9% (2017: 2%) of total equity attributable to owners of the parent ('Group equity').

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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.

Risk

Valuation of insurance contract liabilities (£92.6bn; 2017: £45.4bn)

Refer to the Audit Committee Report (pages 68 to 71); Critical accounting estimates (page 129); Accounting policies and note F1 of the consolidated financial statements (pages 166 to 168).

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.

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 identification of this risk from the prior year. Whilst we consider the risks to be similar in nature, due to the increased account balances following the acquisition of Standard Life Assurance Limited and other associated entities in the year, we believe the identified risk to have a higher magnitude of potential misstatement.* 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 the Group's 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 engaged our actuaries as part of our audit team and performed the following procedures: – obtained an understanding and tested the design and operating effectiveness of key controls over management's process for setting and updating actuarial assumptions; – challenged and assessed whether the assumptions applied were appropriate based on our knowledge of the Group, industry standards and regulatory and financial reporting requirements; – reviewed the results of management's experience analysis to assess whether these justified the adopted assumptions, and checked that the assumptions used are consistent with this experience analysis; – in respect of longevity improvements we have evaluated the use of the chosen industry standard Continuous Mortality Investigation ('CMI') model and the parameters used to validate that it was appropriate relative to the industry; – benchmarked the demographic and economic assumptions against those of other comparable industry participants; and – reviewed and assessed whether the disclosures in the financial statements, relating to insurance contract liabilities, complied with the applicable financial reporting standards. We performed full scope audit procedures over this risk area in two components and specific scope audit procedures in one component, 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. In addition, we are satisfied that the disclosures made in the financial statements are in compliance with the applicable financial reporting standards.
Actuarial modelling *There has been no change in our identification of this risk from the prior year. Whilst we consider the risks to be similar in nature, due to the increased account balances following the acquisition of Standard Life Assurance Limited and other associated entities in the year, we believe the identified risk to have a higher magnitude of potential misstatement.* We consider the integrity and appropriateness of models to be critical to the overall valuation of insurance contract liabilities. Over £88.0bn of the £92.6bn insurance contract liabilities are modelled using the core actuarial modelling systems with the residual balance modelled outside these systems to cater for any additional required liabilities not reflected in the model. 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 core actuarial modelling systems, including balances calculated outside these systems, we engaged our actuaries and performed the following procedures: – obtained an understanding of the process and tested the design, implementation and operating effectiveness of key controls over management's process for testing and approval of model changes and key adjustments outside of the actuarial model during the year; – we challenged and evaluated the methodology, inputs and assumptions applied for model changes and out of model adjustments, on a sample basis, 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; and – assessed the results of the analysis of movements in insurance contract liabilities in order to corroborate the completeness of model changes. We performed full scope audit procedures over this risk area in two components and specific scope audit procedures in one component, 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 our identification of this risk from the prior year. Whilst we consider the risks to be similar in nature, due to the increased account balances following the acquisition of Standard Life Assurance Limited and other associated entities in the year, we believe the identified risk to have a higher magnitude of potential misstatement.* The policyholder 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 policyholder data we performed the following procedures: – obtained an understanding of the process and tested the design and operating effectiveness of key controls, including information technology general controls, over management's data collection, extraction and validation process; – for Outsourced Service Providers ('OSP') where we have placed reliance on the Service Organisation Controls ('SOC1') report, we have reviewed the SOC1 report and concluded on the design effectiveness of the relevant controls; – for OSPs where we do not receive a SOC1 we have obtained an understanding of the process and performed direct testing of the operating effectiveness of the key controls; – where we have not relied on controls at the OSP, or for policies administered internally, we have performed additional procedures including agreeing policyholder documentation to the policyholder data used in the actuarial model on a sample basis; – 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; – confirmed that the actuarial model data extracts provided by the OSPs were those used as an input to the actuarial model; – assessed the appropriateness of management's grouping of data for input into the actuarial model; and – tested the reconciliations of premiums and claims information extracted from the policy administration systems to the general ledger, where applicable. We performed full scope audit procedures over this risk area in two components and specific scope audit procedures in one component, 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 certain complex and illiquid financial investments (£2.5bn; 2017: £1.4bn) *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 addition, following the acquisition of SLAL and other associated entities, we have identified heightened risk on the Standard Life modelled corporate bonds due to a combination of size of these financial investments and level of judgement involved in valuation.* *Refer to the Audit Committee Report (pages 68 to 71); Critical accounting estimates (page 129); Accounting policies and notes E1 and E2 of the consolidated financial statements (pages 143 to 151).* 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 financial investments and the Standard Life modelled corporate bonds, such as private placements, 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.	We engaged our valuation specialists and actuaries to test valuation of ERMs and modelled corporate bonds. To obtain sufficient audit evidence to conclude on the valuation of ERMs, we: – tested the design and operating effectiveness of key controls over management's process in respect of the valuation of ERMs; – tested the completeness and accuracy of the mortgage data used in the valuation model by agreeing a sample of new loans to supporting evidence and validating any movements on static data over the period; – evaluated the methodology, inputs and assumptions used (such as house price inflation, residential house price volatility, longevity improvement and base mortality, as well as economic assumptions such as discount rate); – we have validated the key assumptions by comparing them to published market benchmarks and 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 instrument type; – assessed the reasonableness of the fair value of the mortgages at the reporting date including an assessment of the valuation approach to the no-negative equity guarantee; and – reviewed that disclosures have been made in the financial statements regarding the sensitivity of the valuation of the ERMs to changes in the key assumptions and audited the figures in the sensitivity disclosures. To obtain sufficient audit evidence to conclude on the valuation of modelled corporate bonds, we: – tested the design and operating effectiveness of key controls over management's process in respect of the valuation of modelled corporate bonds; – tested inputs in the models including coupons and maturity and assessed reasonableness of assumptions and judgements in particular related to spread at the acquisition date; – performed independent valuation of a sample of modelled corporate bonds and benchmarked management's valuation approach against market best practice; and – reviewed that disclosures have been made in the financial statements regarding the sensitivity of the valuation of the modelled corporate bonds to changes in the key assumptions and audited the figures in the sensitivity disclosures. We performed full scope audit procedures over this risk area in two components, which covered 100% of the risk amount.	Based on our procedures performed on the ERM and modelled corporate bonds, we are satisfied that the valuation of these complex and illiquid assets is reasonable. In addition, we are satisfied that the disclosures made in the financial statements are in compliance with the applicable financial reporting standards.

Risk area	Our response to the risk	Key observations communicated to the Audit Committee
Accounting for the acquisition of Standard Life Assurance Limited and other associated entities *This is a new significant risk for the current year.* *Refer to the Audit Committee Report (pages 68 to 71); Critical accounting estimates (page 130); Accounting policies and notes G7 and H2 of the consolidated financial statements (pages 190 to 192 and pages 195 to 197).* On 31 August 2018, the Group acquired SLAL, Standard Life International Designated Activity Company, Standard Life Assets and Employee Services Limited and other related entities (collectively 'the Standard Life Assurance businesses') from Standard Life Aberdeen plc ('SLA plc') for total consideration of £2,994 million. We consider the identification and valuation of identifiable intangible assets, such as acquired in-force business ('AVIF') and other intangibles, arising from the acquisition of the Standard Life Assurance businesses to be a significant risk due to the nature of judgements and estimates involved. Under the Group's accounting policy, acquired value of in-force insurance contracts is measured as the difference between the Generally Accepted Accounting Practice ('GAAP') value of the insurance contract liabilities and the determined fair value. As a result, we focused on significant judgements in respect of the identification of the intangible assets acquired, GAAP valuation of the SLAL insurance contract liabilities as at the date of acquisition, the fair value adjustments required in the insurance contract liabilities and their impact on the calculation of goodwill and AVIF and the valuation of an intangible asset relating to the Client Service and Proposition Agreement ('CSPA') entered into between the Group and SLA plc. The primary elements of the valuation exercise assessed the fair value of the identifiable intangible assets in the form of AVIF (£2,931 million) and a separately identifiable intangible asset of £36 million relating to the CSPA, both gross of tax. This resulted in a gain on acquisition of £141 million that was recognised in the consolidated income statement for the year ended 31 December 2018, reflecting the excess of the fair value of the net assets acquired over the consideration paid for the acquisition of the Standard Life Assurance businesses.	To obtain sufficient audit evidence to assess the impact of the acquisition of the Standard Life Assurance businesses, we: – being the first year of our appointment as auditors of the Standard Life Assurance businesses, performed review of the predecessor auditor working papers and discussed the significant risk and judgemental areas with them; – agreed the key product features on a sample of products to underlying policy terms/documentations and reviewed the output of management's own model reviews in order to gain assurance that the actuarial models appropriately capture the product features and that the calculations reflect the approved business and reporting requirements; – assessed the integrity of data used in the valuation process through a combination of re-performance of key reconciliations and the use of analytic techniques to compare, on a sample basis, policy level data between data in the actuarial models and that contained within the policy administration systems; – audited the SLAL statement of financial position as at the date of acquisition; – Ensured appropriate recognition of all identifiable intangible assets by understanding the transaction and comparing it to other acquisitions of similar businesses; – assessed the methodology and assumptions adopted by management for calculating the fair values of intangible assets arising on acquisition and considered how market participants would value identifiable assets and liabilities in an orderly transaction; – considered whether any fair value adjustments are required in the insurance contract liabilities recognised on a best estimate basis within the acquired business, and assess any impact on the calculation of goodwill and AVIF; – ensured that the acquisition accounting and disclosure of the acquisition are in compliance with IFRS 3 Business Combinations; and – read relevant agreements and board minutes which supported the final conclusions in respect of the acquisition accounting.	Based on our procedures performed on the acquisition of the Standard Life assurance businesses, we are satisfied that, on an overall basis, the fair value of the assets and liabilities acquired lies within a reasonable range of what a market participant in an orderly transaction would pay for the identifiable assets and liabilities and there is a justification for the gain on acquisition. In addition, we are satisfied that the acquisition accounting and disclosures are in compliance with the applicable accounting framework.

AN OVERVIEW OF 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 ('reporting 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 reporting component.

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 financial statements, we identified four reporting components of the Group. The Group reporting components consist of Phoenix Life Division, SLAL, the 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. SLAL is a newly acquired subsidiary of the Group. 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 Phoenix Life service companies and Standard Life International Designated Activity Company ('SL Intl').

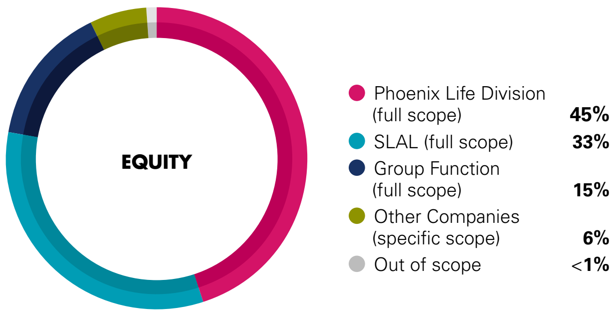
Details of the four reporting components which were audited by component teams are set out below:

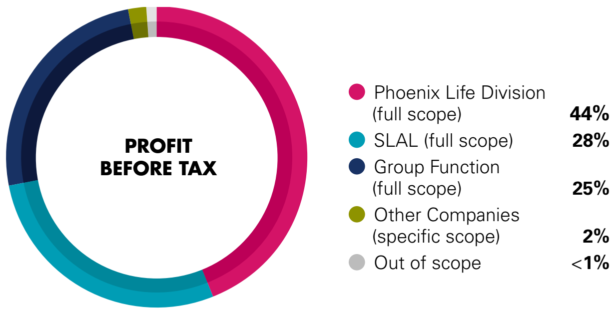
Component	Scope	Auditor
Phoenix Life Division	Full	EY
Standard Life Assurance Limited ('SLAL')	Full	EY
Group Function	Full	EY
Other Companies	Specific	EY

Of the four components selected, we performed an audit of the complete financial information of three components ('full scope components') which were selected based on their size or risk characteristics. For the remaining Other Companies ('specific scope components'), we performed audit procedures on specific accounts of Phoenix Life service companies (provisions, accruals and deferred income, wages and salaries and administrative expenses) and of SL Intl (cash and cash equivalents and insurance contract liabilities).

The reporting components where we performed audit procedures accounted for more than 99% (2017: 99%) of the Group's equity and the Group's profit before tax. For the current year, the full scope components contributed 93% (2017: 98%) of the Group's equity and 97% (2017: 99%) of the Group's profit before tax. The specific scope component contributed 6% (2017: 2%) of the Group's equity and 2% (2017: 1%) of the Group's profit 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

In prior year, we identified Abbey Life Assurance Company Limited ('ALAC') as a separate component of the Group. In the 2018 financial year, management completed the Part VII transfer of the ongoing insurance business of ALAC into Phoenix Life Division and at 31 December 2018 ALAC is no longer a separate identifiable component of the Group.

SLAL is a new component of the Group in 2018 following the acquisition completed on 31 August 2018. Due to the size and risk inherent in the component, we have designated it as a full scope component. SL Intl, acquired as part of the Standard Life Assurance businesses, is within the 'Other Companies' component and is designated as a specific scope component.

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 component auditors from other EY global network firms operating under our instruction.

The primary 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 primary audit team.

Of the three full scope components, audit procedures were performed on one of these directly by the primary audit team whilst the remaining two components were audited by the component audit teams. For Other Companies, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The primary audit team followed a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visited each of the components 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 scope components, in addition to the component visits, the primary audit team reviewed key working papers and participated in the component teams' planning, including the component teams' discussion of fraud and error. The primary audit team attended the closing meetings with the management of the Phoenix Life Division and SLAL and attended key Audit Committee meetings at the components.

For the specific scope component, the primary audit 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 £100 million (2017: £63 million), which is 1.9% (2017: 2%) of Group equity. In the current year we considered profit-based measures for materiality given that the Standard Life Assurance business changed the business mix of the Group to include a greater proportion of open business. Whilst profit before tax or operating profit are common bases used across the life insurance industry and might be an appropriate measure for an open business, we believe that the use of equity as the basis for assessing materiality remains more appropriate given that the Group remains primarily 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.

The parent company was incorporated in 2018 under the UK Companies Act 2006 and is domiciled in England and Wales. The financial statements for the period ended 31 December 2018 are the first set of financial statements prepared by the parent company. Accordingly, there is no comparative information to disclose in the individual financial statements of the parent company. We determined materiality for the parent company to be £82 million, which is 2% of the parent company equity attributable to owners. 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% (2017: 50%) of our planning materiality, namely £50 million (2017: £31 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 £10 million to £28 million (2017: £6 million to £24 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 to them all uncorrected audit differences in excess of £5 million (2017: £3 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.

OTHER INFORMATION

The other information comprises the information included in the Annual Report set out on pages 1 to 110, 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.

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 110 – 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 68 to 71 – 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 109 – 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.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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 110, 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 Group and parent 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 Group or the parent 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit:

- in respect to 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 an 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.
- We assessed the susceptibility of the consolidated 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.

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

- Following the completion of the on-shoring exercise and the incorporation of Phoenix Group Holdings plc, we were appointed by the Company Directors on 13 December 2018 and signed an engagement letter on 20 February 2019 to audit the financial statements for the period ending 31 December 2018 and subsequent financial periods.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

USE OF OUR REPORT

This report is made solely to the Company's members, as a body, in accordance 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.

Ernst + Young LLP

ED JERVIS (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF ERNST & YOUNG LLP,
STATUTORY AUDITOR
London

4 March 2019

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £m	2017 restated (Note A1) £m
Gross premiums written		**2,645**	1,297
Less: premiums ceded to reinsurers	F3	**(481)**	(356)
Net premiums written		**2,164**	941
Fees and commissions	C1	**385**	173
Total revenue, net of reinsurance payable		**2,549**	1,114
Net investment income	C2	**(9,600)**	4,986
Other operating income		**37**	5
Gain on acquisition	H2.1	**141**	–
Net income		**(6,873)**	6,105
Policyholder claims		**(5,295)**	(4,064)
Less: reinsurance recoveries		**866**	594
Change in insurance contract liabilities		**4,768**	1,392
Change in reinsurers' share of insurance contract liabilities		**(20)**	(423)
Transfer from/(to) unallocated surplus	F2	**88**	(46)
Net policyholder claims and benefits incurred		**407**	(2,547)
Change in investment contract liabilities		**7,975**	(2,673)
Change in present value of future profits	G7	**1**	5
Amortisation of acquired in-force business	G7	**(196)**	(109)
Amortisation of other intangibles	G7	**(18)**	(17)
Administrative expenses	C3	**(1,056)**	(596)
Net income under arrangements with reinsurers	F3.3	**2**	–
Net expense/(income) attributable to unitholders		**159**	(43)
Total operating expenses		**7,274**	(5,980)
Profit before finance costs and tax		**401**	125
Finance costs	C5	**(142)**	(132)
Profit/(loss) for the year before tax		**259**	(7)
Tax credit/(charge) attributable to policyholders' returns	C6	**211**	(21)
Profit/(loss) before the tax attributable to owners		**470**	(28)
Tax credit/(charge)	C6	**151**	(20)
Add: tax attributable to policyholders' returns	C6	**(211)**	21
Tax (charge)/credit attributable to owners	C6	**(60)**	1
Profit/(loss) for the year attributable to owners		**410**	(27)
Attributable to:			
Owners of the parent		**379**	(27)
Non-controlling interests	D4	**31**	–
		410	(27)
Earnings per ordinary share			
Basic (pence per share)	B3.1	**66.8p**	(6.3)p*
Diluted (pence per share)	B3.2	**66.7p**	(6.3)p*

* Restated following rights issue

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018 £m**	2017 £m
Profit/(loss) for the year		**410**	(27)
Other comprehensive income/(expense):			
Items that are or may be reclassified to profit or loss:			
Cash flow hedges:			
Fair value gains/(losses) arising during the year		**31**	(13)
Reclassification adjustments for amounts recognised in profit or loss		**(28)**	2
Exchange differences on translating foreign operations		**2**	–
Items that will not be reclassified to profit or loss:			
Remeasurement of owner-occupied property	G8	**–**	1
Remeasurements of net defined benefit asset/liability	G6	**(54)**	43
Tax (charge)/credit relating to other comprehensive income items	C6	**(10)**	3
Total other comprehensive (expense)/income for the year		**(59)**	36
Total comprehensive income for the year		**351**	9
Attributable to:			
Owners of the parent		**320**	9
Non-controlling interests	D4	**31**	–
		351	9

STATEMENT OF CONSOLIDATED FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Notes	2018 £m	2017 restated (Note A1) £m
EQUITY AND LIABILITIES			
Equity attributable to ordinary shareholders of the parent			
Share capital	D1	**72**	39
Share premium		**3,077**	1,413
Shares held by the employee benefit trust	D2	**(6)**	(2)
Foreign currency translation reserve		**98**	96
Owner-occupied property revaluation reserve		**5**	5
Cash flow hedging reserve		**(8)**	(11)
Retained earnings		**1,923**	1,615
Total equity attributable to ordinary shareholders of the parent		**5,161**	3,155
Tier 1 Notes	D3	**494**	–
Non-controlling interests	D4	**294**	–
Total equity		**5,949**	3,155
Liabilities			
Pension scheme liability	G6	**596**	633
Insurance contract liabilities			
Liabilities under insurance contracts	F1	**91,211**	44,435
Unallocated surplus	F2	**1,358**	925
		92,569	45,360
Financial liabilities			
Investment contracts		**114,463**	26,733
Borrowings	E5	**2,186**	1,778
Deposits received from reinsurers		**4,438**	368
Derivatives	E3	**1,093**	1,242
Net asset value attributable to unitholders		**2,659**	840
Obligations for repayment of collateral received		**2,645**	1,961
	E1	**127,484**	32,922
Provisions	G1	**377**	134
Deferred tax	G2	**843**	366
Reinsurance payables		**30**	23
Payables related to direct insurance contracts	G3	**902**	522
Current tax	G2	**20**	5
Accruals and deferred income	G4	**337**	179
Other payables	G5	**873**	144
Total liabilities		**224,031**	80,288
Total equity and liabilities		**229,980**	83,443

	Notes	2018 £m	2017 £m
ASSETS			
Pension scheme asset	G6	**255**	322
Intangible assets			
Goodwill		**57**	57
Acquired in-force business		**4,033**	1,298
Other intangibles		**221**	202
	G7	**4,311**	1,557
Property, plant and equipment	G8	**48**	26
Investment property	G9	**6,520**	612
Financial assets			
Loans and deposits		**3,612**	1,812
Derivatives	E3	**3,798**	2,760
Equities		**52,716**	17,234
Investment in associate		**496**	550
Fixed and variable rate income securities		**67,932**	26,998
Collective investment schemes		**70,606**	18,901
Reinsurers' share of investment contract liabilities		**5,417**	6,085
	E1	**204,577**	74,340
Insurance assets			
Reinsurers' share of insurance contract liabilities	F1	**7,564**	3,320
Reinsurance receivables		**42**	32
Insurance contract receivables		**67**	7
		7,673	3,359
Current tax	G2	**145**	47
Prepayments and accrued income		**478**	355
Other receivables	G10	**1,047**	580
Cash and cash equivalents	G11	**4,926**	2,245
Total assets		**229,980**	83,443

STATEMENT OF CONSOLIDATED CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £m	2017 £m
Cash flows from operating activities			
Cash (utilised)/generated by operations	I2	**(324)**	1,156
Taxation paid		**(29)**	(35)
Net cash flows from operating activities		**(353)**	1,121
Cash flows from investing activities			
Acquisition of Standard Life Assurance subsidiaries, net of cash acquired	H2.1	**1,607**	–
Net cash flows from investing activities		**1,607**	–
Cash flows from financing activities			
Proceeds from issuing ordinary shares, net of associated commission and expenses	D1	**936**	2
Ordinary share dividends paid	B4	**(262)**	(193)
Dividends paid to non-controlling interests		**(2)**	–
Repayment of policyholder borrowings		**(69)**	(77)
Repayment of shareholder borrowings		**(295)**	(1,053)
Proceeds from new shareholder borrowings, net of associated expenses		**733**	830
Proceeds from issuance of Tier 1 Notes, net of associated expenses	D3	**494**	–
Proceeds from sale of internal holding in £428 million subordinated notes		**–**	32
Coupon paid on Tier 1 Notes		**(14)**	–
Interest paid on policyholder borrowings		**(5)**	(8)
Interest paid on shareholder borrowings		**(89)**	(75)
Net cash flows from financing activities		**1,427**	(542)
Net increase in cash and cash equivalents		**2,681**	579
Cash and cash equivalents at the beginning of the year		**2,245**	1,666
Cash and cash equivalents at the end of the year	G11	**4,926**	2,245

STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	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 equity attributable to ordinary shareholders of the parent £m	Tier 1 Notes (note D3) £m	Non-controlling interests (note D4) £m	Total equity £m
At 1 January 2018	**39**	**1,413**	**(2)**	**96**	**5**	**(11)**	**1,615**	**3,155**	**–**	**–**	**3,155**
Profit for the year	–	–	–	–	–	–	379	379	–	31	410
Other comprehensive income/(expense) for the year	–	–	–	2	–	3	(64)	(59)	–	–	(59)
Total comprehensive income for the year	**–**	**–**	**–**	**2**	**–**	**3**	**315**	**320**	**–**	**31**	**351**
Issue of ordinary share capital, net of associated commissions and expenses (note D1)	33	1,926	–	–	–	–		1,959	–	–	1,959
Dividends paid on ordinary shares	–	(262)	–	–	–	–		(262)	–	–	(262)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	–	9	9	–	–	9
Shares distributed by the employee benefit trust	–	–	4	–	–	–	(4)	–	–	–	–
Shares acquired by the employee benefit trust	–	–	(8)	–	–	–	–	(8)	–	–	(8)
Non-controlling interests recognised on acquisition	–	–	–	–	–	–	–	–	–	265	265
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(2)	(2)
Issue of Tier 1 Notes	–	–	–	–	–	–	–	–	494	–	494
Coupon paid on Tier 1 Notes, net of tax relief	–	–	–	–	–	–	(12)	(12)	–	–	(12)
At 31 December 2018	**72**	**3,077**	**(6)**	**98**	**5**	**(8)**	**1,923**	**5,161**	**494**	**294**	**5,949**

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 – restated (note A1)	39	1,604	(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 (note D1)	–	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 – restated (note A1)	39	1,413	(2)	96	5	(11)	1,615	3,155

Phoenix Group Holdings ('Old PGH'), the former holding company of the Group was 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.

In accordance with Cayman Islands Companies Law, dividends shown in the table above were charged within equity against the share premium account. Upon creation of the new UK-registered holding company (as detailed in note A1), future dividends will be charged to retained earnings in accordance with the UK Companies Act 2006.

The comparative equity structure has been restated to reflect the difference between the par value of shares issued by Phoenix Group Holdings plc (the 'Company') and the shares issued by Old PGH prior to the share for share exchange with a corresponding adjustment to share premium. Further details are provided in note A1.

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 2018 set out on pages 121 to 213 comprise the financial statements of Phoenix Group Holdings plc ('the Company') and its subsidiaries (together referred to as 'the Group'), and were authorised by the Board of Directors for issue on 4 March 2019.

Under a scheme of arrangement in accordance with section 86 of the Cayman Islands Companies Law between Phoenix Group Holdings ('Old PGH'), the former ultimate parent company of the Group, and its shareholders, all of the issued shares in Old PGH were cancelled and an equivalent number of new shares in Old PGH were issued to the Company in consideration for the allotment to Old PGH shareholders of one ordinary share in the Company for each ordinary share in Old PGH that they held on the scheme record date, 12 December 2018.

The scheme of arrangement had the effect of the Company being inserted above Old PGH in the Group legal entity organisational structure and constitutes a group reconstruction. It has been accounted for in accordance with the principles of a reverse acquisition under IFRS 3 *Business Combinations*.

In applying the principles of reverse acquisition accounting, the consolidated financial statements have been presented as a continuation of the Old PGH business and the Group is presented as if the Company had always been the ultimate parent company. The comparative equity structure has been restated to reflect the difference between the par value of shares issued by the Company (£39 million) and the shares issued by Old PGH (£nil) prior to the share for share exchange, with a corresponding adjustment to share premium. In addition, the presentation within the consolidated statement of changes in equity of the impact of shares issued during the year by Old PGH up to the date of the share for share exchange reflects the par value of the shares issued by the Company.

No other adjustments have been reflected in equity, and as a consequence, the carrying values of the components of equity recognised in the consolidated financial statements are different to the corresponding balances in the financial statements of the Company.

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 and financial liabilities (including derivative instruments) that have been measured at fair value.

The consolidated 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 International Financial Reporting Standard ('IFRS') or interpretation, as specifically disclosed in the accounting policies of the Group.

Statement of compliance

Following the creation of the new UK-registered holding company, the consolidated financial statements have been prepared in accordance with IFRSs as adopted by the European Union ('EU'). The consolidated financial statements were previously prepared in accordance with IFRSs as issued by the International Accounting Standards Board ('IASB'). As at 31 December 2018 there were no differences between IFRSs adopted by the EU and those issued by the IASB in terms of their application to the Group, and therefore there is no impact on the consolidated financial statements in the current or prior period as a result of this change.

Restatement of prior period information

Following the acquisition of the Standard Life Assurance businesses (see note H2), the Group has chosen to revise the presentation of its 2018 consolidated income statement to aid understanding of the Enlarged Group's results. Where necessary, 2017 comparative amounts and accompanying notes have been restated to reflect line item reclassifications.

The Group has reassessed its operating segments to reflect the way in which the business is now being managed following the acquisition of the Standard Life Assurance businesses. Comparative segmental performance information has been restated in line with the revised segments and further details are provided in note B1.

As noted above the equity structure disclosed for the 2017 comparative period has been restated to reflect the difference between the par value of shares issued by the Company and the shares issued by Old PGH prior to the share for share exchange. This impacts the statement of consolidated financial position and the statement of consolidated changes in equity.

In addition, the presentation of gross premiums written, premiums ceded to reinsurers, policyholder claims and reinsurance recoveries in respect of certain corporate pension de-risking transactions has been updated in the 2017 comparative amounts to better reflect the underlying structure of the transactions.

None of the restatements of prior period information have impacted the profit or loss or total equity attributable to the owners of the parent.

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 reassesses 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 consolidated 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, valuation of pension scheme assets and liabilities and the valuation of intangibles on initial recognition.

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, identification of intangible assets arising on acquisitions, the recognition of an investment as an associate and determination of control with regards to underlying entities. 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 169 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.

A. SIGNIFICANT ACCOUNTING POLICIES continued

A3.3 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.

A3.4 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. Management has determined that the scheme administrator would be subject to a 35% tax charge on a refund and therefore any surplus is reduced by this amount. Further details of the Group's pension schemes are provided in note G6.

A3.5 Operating profit

Operating profit is the Group's non-GAAP measure of performance and gives stakeholders a better understanding of the underlying performance of the Group. 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.

A3.6 Acquisition of the Standard Life Assurance businesses

The identification and valuation of identifiable intangible assets, such as acquired in-force business or brand intangibles, arising from the Group's acquisition of the Standard Life Assurance businesses requires the Group to make a number of judgements and estimates. Further details are included in notes G7 'Intangible assets' and H2 'Acquisitions'.

A3.7 Control and consolidation

The Group has invested in a number of collective investment schemes and other types of investment where judgement is applied in determining whether the Group controls the activities of these entities. These entities are typically structured in such a way that owning the majority of the voting rights is not the conclusive factor in the determination of control in line with the requirements of IFRS 10 Consolidated Financial Statements. The control assessment therefore involves a number of further considerations such as whether the Group has a unilateral power of veto in general meetings and whether the existence of other agreements restrict the Group from being able to influence the activities. Further details of these judgements are detailed in note H1.

A4. Adoption of new accounting pronouncements in 2018

In preparing the consolidated financial statements, the Group has adopted the following amendments, standards, and interpretations effective from 1 January 2018:

IFRS 15 Revenue from Contracts with Customers

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.* The Group adopted IFRS 15 using the full retrospective method of adoption however the effect of adopting IFRS 15 has been minimal and has not resulted in any adjustment in either the current or prior period. There has been no change to the Group's accounting policies or to the basis of revenue recognition. As required by the standard, 'Disaggregation of Revenue' disclosures have been included in note C1 to the consolidated financial statements. The practical expedient under IFRS 15 has been applied and remaining performance obligations are not disclosed as the Group has the right to consideration from customers in amounts that correspond with the performance completed to date.

Amendments to IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The Group has taken advantage of the temporary exemption granted to insurers in IFRS 4 from applying IFRS 9 until 1 January 2021 as a result of meeting the exemption criteria as at 31 December 2015. As required by IFRS 4, a number of disclosures have been included in note E1 to the consolidated financial statements to provide information to allow comparison with entities adopting the standard in 2018. The IASB has recommended that the deferral period is extended to 1 January 2022.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group has reviewed its current share-based payment schemes and has determined that it does not have any cash-settled share based payment schemes and that the narrow scope amendment regarding 'net settlement features' does not apply. As a consequence, these amendments do not currently have any impact on the Group.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A change in management's intentions for the use of a property in and of itself does not provide evidence of a change in use. These amendments do not currently have any impact on the Group.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group.

Annual Improvements Cycle 2014-2016: Amendments to IFRS 1 First-time adoption of IFRSs and Amendments to IAS 28 Investments in Associates and Joint Ventures.

The first amendment deletes short-term exemptions for first time adopters as they have now served their intended purpose. The second amendment clarifies that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss ('FVTPL'). The Group currently applies the election to measure its investments in associates at FVTPL. There are no further impacts as a result of the amendments.

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, amendments or interpretations where this is permitted.

- IFRS 9 *Financial Instruments* (2018). 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 (recommended deferral period extended by the IASB to 2022) 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 connected with insurance relative to the total carrying amount of all its liabilities was greater than 90%. Following the acquisition of the Standard Life Assurance businesses on 31 August 2018, this assessment was reperformed and the Group's activities were still considered to be predominately connected with insurance. IFRS 9 will instead be implemented at the same time as the new insurance contracts standard (IFRS 17 *Insurance Contracts*) effective from 1 January 2021 (IASB recommended extending the implementation date to 2022). The Group expects to continue to value the majority of its financial assets as at FVTPL on initial recognition, as these financial assets are managed on a fair value basis. As detailed in note A4, a number of disclosures have been made in note E1 to the consolidated financial statements to provide information to allow comparison with entities adopting the standard in 2018.
- 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 has commenced an assessment of the impact of the new standard and has concluded that it will bring its property leases currently classified as operating leases (see note I5) onto the statement of consolidated financial position. A depreciation charge on the right-of-use assets and an interest expense on the lease liabilities will be recognised. The overall impact on financial performance and net equity will be immaterial due to the limited number of these contracts and their relative value.

A. SIGNIFICANT ACCOUNTING POLICIES continued

A5. New accounting pronouncements not yet effective continued

- Annual Improvements Cycle 2015-2017: Amendments to IAS 12 *Income Taxes,* IAS 23 *Borrowing Costs* and IFRS 3 *Business combinations*/IFRS 11 *Joint Arrangements* (2019). These amendments do not currently have any impact on the Group.
- Amendments to IAS 19 *Employee Benefits: Plan Amendment, Curtailment or Settlement* (2019). The amendments address the accounting when a defined benefit plan amendment, curtailment or settlement occurs during a reporting period. The entity is required to update the assumptions about its obligation and fair value of its plan assets to calculate costs related to these changes. The proposed amendments to IAS 19 *Employee Benefits* specify that the entity is required to use the updated information to determine current service cost and net interest for the period followed by these changes. The Group will apply these changes to any plan amendments, curtailments or settlements occurring on or after 1 January 2019.
- Amendments to IAS 28 *Investments in Associates and Joint Ventures: Long-term interests in Associates and Joint Ventures* (2019). The amendments to IAS 28 clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendments are deferred as a result of the extension of the implementation date of IFRS 9 to 2021.
- Amendments to IFRS 9 *Financial Instruments*: Prepayment Features with Negative Compensation (2018 – recommended implementation date extended by the IASB to 2022 for those companies applying the IFRS 4 deferral option). The proposed amendments would allow for a narrow exception to IFRS 9 that would permit particular financial instruments with prepayment features with negative compensation to be eligible for measurement at amortised cost or at fair value through other comprehensive income.
- 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.
- Amendments to *References to the Conceptual Framework in IFRS Standards* (2020).
- Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (2020). The amendments clarify the definition of material and how it should be applied and ensures that the definition of material is consistent across all IFRS Standards.
- Amendments to IFRS 3 *Business Combinations* (2020). The amendments have revised the definition of a business and aim to assist companies to determine whether an acquisition made is of a business or a group of assets. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others.
- IFRS 17 *Insurance Contracts* (2021 – IASB recommended extension of implementation date to 2022). Once effective IFRS 17 will replace IFRS 4 the current insurance contracts standard and it is expected to significantly change the way the Group measures and reports its insurance contracts. The overall objective of the new standard is to provide an accounting model for insurance contracts that is more useful and consistent for users. 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 Discretionary Participation Features ('DPF'). These changes will impact profit emergence patterns and add complexity to valuation processes, data requirements and assumption setting. During 2017, the Group commenced a project to perform an initial impact assessment of the standard on the Group and to produce a detailed implementation plan. Implementation activities during 2018 have included the development of detailed methodologies and policies and the identification of specific data and systems requirements. These activities will continue into 2019.
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) (effective date deferred). The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

All of the above have been endorsed by the EU with exception of the following amendments:

- Annual Improvements Cycle 2015-2017: Amendments to IAS 12 *Income Taxes,* IAS 23 *Borrowing Costs* and IFRS 3 *Business combinations*/IFRS 11 *Joint Arrangements* (2019);
- IAS 19 *Employee Benefits: Plan Amendment, Curtailment or Settlement;*
- IAS 28 *Investments in Associates and Joint Ventures* References to the Conceptual Framework in IFRS Standards;
- IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies;*
- IFRS 3 *Business Combinations;* and
- IFRS 17 *Insurance Contracts*.

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 in accordance with IFRS 8 *'Operating Segments'* which requires such segments to be 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.

Following the acquisition of the Standard Life Assurance businesses, the Group has reassessed its operating segments to reflect the way the business is now being managed. The Group now has four reportable segments comprising UK Heritage, UK Open, Europe and Management Services, as set out in note B1.1. In the prior year, the Group had one operating segment being Phoenix Life which provided a range of whole life, term assurance and pension products. Comparative segmental information for prior periods has been presented on a basis consistent with the current year.

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. No such aggregation has been required in the current year. Prior to the acquisition of the Standard Life Assurance businesses, Phoenix Life was considered to be the Group's only reportable segment, which included the Group's operating insurance entities and the Management Services entities in the Group.

The UK Heritage segment contains UK businesses which no longer actively sell products to policyholders and which therefore run-off gradually over time. These businesses will accept incremental premiums on in-force policies, and will provide annuities to existing policyholders with vesting products. Bulk Purchase Annuity contracts are included in this segment.

The UK Open segment includes new and in-force life insurance and investment policies in respect of products that the Group continues to actively market to new and existing policyholders. This includes products such as workplace pensions and Self-Invested Personal Pensions ('SIPPs') distributed through the Group's Strategic Partnership with Standard Life Aberdeen plc ('SLA plc'), and also products sold under the SunLife brand.

The Europe segment includes business written in Ireland and Germany. This will include products that are actively being marketed to new policyholders, and legacy in-force products that are no longer being sold to new customers.

The Management Services segment 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.

Unallocated Group includes consolidation adjustments and Group financing (including finance costs) which 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.

Segmental measure of performance: Operating Profit

The Company uses a non-GAAP measure of performance, being operating profit, to evaluate segment performance. 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 movement 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 acquisition or disposal of subsidiaries (net of related costs);
- the financial impacts of mandatory regulatory change;
- the profit or loss attributable to non-controlling interests;
- 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 segments on an ongoing basis. 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 capital 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.

B. EARNINGS PERFORMANCE continued

B1.1 Segmental result

	2018 £m	2017 – restated £m
Operating profit		
UK Heritage	**640**	372
UK Open	**41**	(5)
Europe	**22**	–
Management Services	**25**	21
Unallocated Group	**(20)**	(20)
Total segmental operating profit	**708**	368
Investment return variances and economic assumption changes on long-term business	**283**	(6)
Variance on owners' funds	**(193)**	(87)
Amortisation of acquired in-force business	**(189)**	(102)
Amortisation of other intangibles	**(18)**	(17)
Other non-operating items	**(38)**	(80)
Finance costs attributable to owners	**(114)**	(104)
Profit/(loss) before the tax attributable to owners of the parent	**439**	(28)
Profit before tax attributable to non-controlling interests	**31**	–
Profit/(loss) before the tax attributable to owners	**470**	(28)

Other non-operating items in respect of 2018 include:

- a provision for £68 million in respect of a commitment to reduce ongoing and exit charges for non-workplace pension products;
- costs of £43 million associated with the acquisition of the Standard Life Assurance businesses, and £7 million incurred under the on-going transition programme;
- costs of £59 million associated with the equalisation of accrued Guaranteed Minimum Pension ('GMP') benefits within the Group's pension schemes (see note G6 for further details);
- a net benefit of £45 million reflecting anticipated costs savings associated with process improvements and continued investment in the digitalisation of the customer journey;
- a gain on acquisition of £141 million reflecting the excess of the fair value of the net assets acquired over the consideration paid for the acquisition of the Standard Life Assurance businesses (see note H2 for further details); and
- net other one-off items totalling a cost of £47 million, including other corporate project costs of £42 million.

Other non-operating items in respect of 2017 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 business;
- costs of £20 million in respect of short-term expense overruns arising from the AXA Wealth business 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.

B1.2 Segmental revenue

2018	UK Heritage £m	UK Open £m	Europe £m	Management Services £m	Unallocated Group £m	Total £m
Revenue from external customers:						
Gross premiums written	**1,959**	**200**	**486**	**–**	**–**	**2,645**
Less: premiums ceded to reinsurers	**(478)**	**(1)**	**(2)**	**–**	**–**	**(481)**
Net premiums written	**1,481**	**199**	**484**	**–**	**–**	**2,164**
Fees and commissions	**272**	**91**	**22**	**–**	**–**	**385**
Income from other segments	**–**	**–**	**–**	**505**	**(505)**	**–**
Total segmental revenue	**1,753**	**290**	**506**	**505**	**(505)**	**2,549**

Of the revenue from external customers presented in the table above, £2,199 million is attributable to customers in the United Kingdom ('UK') and £350 million to the rest of the world. The Europe operating segment comprises business written in Ireland and Germany to customers in both Europe and the UK. No revenue transaction with a single customer external to the Group amounts to greater than 10% of the Group's revenue.

The Group has total non-current assets (other than financial assets, deferred tax assets, pension schemes and rights arising under insurance contracts) of £6,479 million located in the UK and £367 million located in the rest of the world.

2017	UK Heritage £m	UK Open £m	Europe £m	Management Services £m	Unallocated Group £m	Total £m
Revenue from external customers:						
Gross premiums written	1,132	165	–	–	–	1,297
Less: premiums ceded to reinsurers	(356)	–	–	–	–	(356)
Net premiums written	776	165	–	–	–	941
Fees and commissions	171	2	–	–	–	173
Income from other segments	–	–	–	338	(338)	–
Total segmental revenue	947	167	–	338	(338)	1,114

Predominantly all external revenue presented for 2017 is attributable to customers in the UK. Additionally, predominantly all non-current assets (other than financial assets, deferred tax assets, pension schemes and rights arising under insurance contracts) for 2017 were located in the UK.

B. EARNINGS PERFORMANCE continued

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. 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.

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 (2017: 350bps), 250bps for properties (2017: 250bps), 150bps for other fixed interest assets (2017: 150bps) and 50bps for gilts (2017: 50bps).

The principal assumptions underlying the calculation of the long-term investment return are:

	2018 %	2017 %
Equities	**5.2**	5.0
Properties	**4.2**	4.0
Gilts	**2.2**	2.0
Other fixed interest	**3.2**	3.0

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:

	2018 £m	2017 £m
Investment return variances and economic assumption changes on long-term business	**283**	(6)

The net investment return variances and economic assumption changes on long term business of £283 million (2017: £6 million adverse) primarily arise due to the positive impact of strategic asset allocation activities, including investment in higher yielding illiquid assets, together with the impact of gains on hedging positions held by the life funds as a result of declining equity markets in 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.

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:

	2018 £m	2017 £m
Variances on owners' funds of subsidiary undertakings	**(193)**	(87)

The adverse variance on owners' funds of £193 million (2017: £87 million negative) is principally driven by realised losses on derivative instruments entered into by the holding companies to hedge the Group's exposure to equity risk arising from the Group's acquisition of Standard Life Assurance. Losses of £143 million were incurred on these instruments, together with option premiums of £22 million.

The adverse variance on owners' funds for the year ended 31 December 2017 of £87 million was principally driven by interest rate swaption positions held in the life companies' shareholder funds. Such positions were held to hedge the impact of interest rate risk on the Group's regulatory capital position. With swap yields remaining relatively stable during 2017, option value associated with these contracts fell due to expected option expiry and reduced volatility.

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.

Following the completion of the rights issue in July 2018 the earnings per share calculations, for all periods up to the date the rights issue shares were issued, have been adjusted for the bonus element of the rights issue. The bonus factor used was 1.11. Further details of the rights issue are included in note D1.

B3.1 Basic earnings per share

The result attributable to ordinary equity holders of the parent for the purposes of determining earnings per share has been calculated as set out below:

	2018 £m	2017 £m
Profit/(loss) for the period attributable to owners	410	(27)
Share of result attributable to non-controlling interests	(31)	–
Coupon payable in respect of Tier 1 Notes, net of tax relief	(12)	–
Profit/(loss) attributable to ordinary equity holders of the parent	**367**	(27)

The weighted average number of ordinary shares outstanding during the period is calculated as detailed below:

	2018 Number million	2017 Number million
Issued ordinary shares at beginning of the period (restated for bonus element of rights issue)	437	436
Effect of ordinary shares issued	115	–
Own shares held by the employee benefit trust	(1)	–
Weighted average number of ordinary shares	**551**	436

Basic earnings per share is as follows:

	2018 pence	2017 pence
Basic earnings per share (restated for bonus element of rights issue)	66.8	(6.3)

B3.2 Diluted earnings per share

The result attributable to ordinary equity holders 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 551 million (2017 restated: 436 million). The Group's deferred bonus share scheme and sharesave share-based schemes increased the weighted average number of shares on a diluted basis by 375,020 shares for the year ended 31 December 2018. As losses have an anti-dilutive effect, none of the share-based awards had a dilutive effect for the year ended 31 December 2017.

Diluted earnings per share is as follows:

	2018 pence	2017 pence
Diluted earnings per share (restated for bonus element of rights issue)	66.7	(6.3)

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.

Prior to the creation of the new UK-registered holding company (see note A1), dividends were charged within equity against the share premium account, as permitted by Cayman Islands Companies Law. From the date of the scheme of arrangement, dividends will be charged to retained earnings in accordance with the UK Companies Act 2006.

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.

	2018 £m	2017 £m
Dividends declared and paid in 2018	262	193

On 14 March 2018, the Board recommended a final dividend of 25.1p per share in respect of the year ended 31 December 2017. The dividend was approved at the Group's Annual General Meeting, which was held on 2 May 2018. The dividend amounted to £99 million and was paid on 4 May 2018.

On 22 August 2018, the Board declared an interim dividend of 22.6p per share for the half year ended 30 June 2018. The dividend amounted to £163 million and was paid on 1 October 2018.

C. OTHER INCOME STATEMENT NOTES

C1. Fees and commissions

Fees related to the provision of investment management services and administration services are recognised as services are provided. Front end fees, which are charged at the inception of service contracts, are deferred as a liability and recognised over the life of the contract.

The table below details the 'Disaggregation of Revenue' disclosures required by IFRS15 *Revenue from contracts with customers.*

2018	UK Heritage £m	UK Open £m	Europe £m	Total £m
Fee income from investment contracts without DPF	**271**	**84**	**25**	**380**
Initial fees deferred during the year	**–**	**–**	**(3)**	**(3)**
Revenue from investment contracts without DPF	**271**	**84**	**22**	**377**
Other revenue from contracts with customers	**1**	**7**	**–**	**8**
Fees and commissions	**272**	**91**	**22**	**385**

2017	UK Heritage £m	UK Open £m	Europe £m	Total £m
Fee income from investment contracts without DPF	171	–	–	171
Revenue from investment contracts without DPF	171	–	–	171
Other revenue from contracts with customers	–	2	–	2
Fees and commissions	171	2	–	173

Remaining performance obligations

The practical expedient under IFRS 15 has been applied and remaining performance obligations are not disclosed as the Group has the right to consideration from customers in amounts that correspond with the performance completed to date. Specifically management charges become due over time in proportion to the Group's provision of investment management services.

Significant judgements in determining costs to obtain or fulfil investment contracts

No significant judgements are required in determining the costs incurred to obtain or fulfil contracts with customers, and no amortisation is required, as income directly matches costs with management charges being applied on an ongoing (or pro-rata) basis.

In the period no amortisation or impairment losses were recognised in the statement of comprehensive Income.

C2. 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.

	2018 £m	2017 £m
Investment income		
Interest income on loans and deposits at amortised cost	**10**	1
Interest income on financial assets designated at FVTPL on initial recognition	**1,260**	972
Dividend income	**1,936**	1,073
Rental income	**108**	23
Net interest (expense)/income on Group defined benefit pension scheme liability/asset	**(6)**	(11)
	3,308	2,058
Fair value gains		
Financial assets and financial liabilities at FVTPL:		
Designated upon initial recognition	**(13,016)**	2,754
Held for trading – derivatives	**126**	165
Investment property	**(18)**	9
	(12,908)	2,928
Net investment income	**(9,600)**	4,986

C3. Administrative expenses

Administrative expenses

Administrative expenses are recognised in the consolidated income statement as incurred.

Deferred acquisition costs

For insurance and investment contracts with DPF, acquisition costs which include both incremental acquisition costs and other direct costs of acquiring and processing new business, are deferred.

For investment contracts without DPF, incremental costs directly attributable to securing rights to receive fees for asset management services sold with unit-linked investment contracts are deferred.

Trail or renewal commission on investment contracts without DPF where the Group does not have an unconditional legal right to avoid payment is deferred at inception of the contract and an offsetting liability for contingent commission is established.

Deferred acquisition costs are amortised over the life of the contracts as the related revenue is recognised. After initial recognition, deferred acquisition costs are reviewed by category of business and are written off to the extent that they are no longer considered to be recoverable.

	2018 £m	2017 – restated (see note A1) £m
Employee costs	188	128
Outsourcer expenses	202	129
Professional fees	97	39
Commission expenses	63	12
Office and IT costs	74	34
Investment management expenses and transaction costs	263	160
Direct costs of life companies	2	2
Direct costs of collective investment schemes	14	7
Pension service costs	57	1
Pension administrative expenses	6	4
Advertising and sponsorship	59	43
Movement in PA(GI) provision, net of reimbursement (see note G1)	(2)	(18)
Movement in restructuring and integration costs provision (see note G1)	–	21
Premium paid on part redemption of the £300 million senior bond	–	25
Stamp duty payable on acquisition of Standard Life Assurance businesses	15	–
Other	32	15
	1,070	602
Acquisition costs deferred during the year	(15)	(6)
Amortisation of deferred acquisition costs	1	–
Total administrative expenses	1,056	596

Employee costs comprise:

	2018 £m	2017 £m
Wages and salaries	170	115
Social security contributions	18	13
	188	128

	2018 Number	2017 Number
Average number of persons employed	2,034	1,304

C4. Auditor's remuneration

During the year the Group obtained the following services from its auditor at costs as detailed in the table below.

	2018 £m	2017 £m
Audit of the consolidated financial statements	2.0	0.7
Audit of the Company's subsidiaries	5.2	3.5
	7.2	4.2
Audit related assurance services	0.7	0.5
Reporting accountant assurance services	0.2	0.1
Total fee for assurance services	8.1	4.8
Corporate finance services	3.7	0.7
Tax services fees	0.1	–
Other non-audit services	0.3	0.5
Total fees for other services	4.1	1.2
Total auditor's remuneration	12.2	6.0

No services were provided by the Company's auditors to the Group's pension schemes in either 2018 or 2017.

Audit of the consolidated financial statements includes certain amounts in respect of the audit of the acquisition balance sheet of the acquired Standard Life Assurance businesses together with amounts in respect of reporting to the auditor of SLA plc given their status as a significant investor.

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 services relate to assurance reporting on historical information included within investment circulars. In 2018, this includes public reporting associated with the issuance of equity as part of the acquisition of the Standard Life Assurance businesses and issuance of the Group's Tier 1 Notes. In 2017, this included assurance reporting on historical information included within investment circulars.

C. OTHER INCOME STATEMENT NOTES continued

C4. Auditor's remuneration continued

Corporate finance services fees were £3.7 million (2017: £0.7 million). These fees principally relate to services provided in connection with the acquisition of the Standard Life Assurance businesses and the Premium Listing of the Company undertaken as part of the Group's on-shoring activities. £1.6 million of the fees relates 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 £2.0 million relates to the provision of assurance to the Board and the sponsoring banks in support of disclosures made in the public transaction documentation relating to the acquisition and the Premium Listing. The 2017 balance reflects fees in respect of 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 year.

Tax services fees of £0.1 million (2017: £nil) principally relates to services provided to Standard Life Assurance for which the Group's external auditor was engaged prior to the completion of the acquisition and their appointment as auditors of those entities. All such services were terminated within a period of three months following completion of the acquisition, as permitted under the Financial Reporting Committee's Ethical Standards.

Other non-audit services of £0.3 million (2017: £0.5 million) also relate to services provided to Standard Life Assurance where the engagement occurred prior to completion of the acquisition and which were terminated within the three month grace period. The 2017 fees for other non-audit services were primarily in respect of assurance provided over the review of Abbey Life past business practices undertaken at the request of the regulator.

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 pages 68 to 71.

C5. 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.

	2018 £m	2017 £m
Interest expense		
On financial liabilities at amortised cost	120	118
On financial liabilities at FVTPL	22	14
	142	132
Attributable to:		
– policyholders	28	28
– owners	114	104
	142	132

C6. 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.

C6.1 Current year tax (credit)/charge

	2018 £m	2017 £m
Current tax:		
UK corporation tax	83	13
Overseas tax	20	21
	103	34
Adjustment in respect of prior years	(54)	(9)
Total current tax charge	49	25
Deferred tax:		
Origination and reversal of temporary differences	(195)	(1)
Change in the rate of UK corporation tax	(4)	4
Write-up of deferred tax assets	(1)	(8)
Total deferred tax credit	(200)	(5)
Total tax (credit)/charge	(151)	20
Attributable to:		
– policyholders	(211)	21
– owners	60	(1)
Total tax (credit)/charge	(151)	20

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 credit attributable to policyholder earnings was £211 million (2017: £21 million charge).

C6.2 Tax charged/(credited) to other comprehensive income

	2018 £m	2017 £m
Current tax credit on share schemes	–	(1)
Deferred tax charge/(credit) on defined benefit schemes	8	(2)
Deferred tax charge on share schemes	2	–
	10	(3)

C6. Tax charge continued

C6.3 Reconciliation of tax (credit)/charge

	2018 £m	2017 £m
Profit/(loss) before tax	**259**	(7)
Policyholder tax credit/(charge)	**211**	(21)
Profit/(loss) before the tax attributable to owners	**470**	(28)
Tax charge/(credit) at standard UK rate of 19.0% (2017: 19.25%)[1]	**89**	(5)
Non-taxable income and gains and losses[2]	**(31)**	(16)
Disallowable expenses[3]	**21**	1
Prior year tax credit for shareholders[4]	**(5)**	(7)
Movement on acquired in-force amortisation at less than 19.0% (2017: 19.25%)	**–**	3
Profits taxed at rates other than 19.0% (2017: 19.25%)[5]	**(14)**	2
Recognition of previously unrecognised deferred tax assets[6]	**–**	(2)
Deferred tax rate change[7]	**(4)**	4
Current year losses not valued	**–**	15
Other	**4**	4
Owners' tax charge/(credit)	**60**	(1)
Policyholder tax (credit)/charge	**(211)**	21
Total tax (credit)/charge for the period	**(151)**	20

1 Old PGH became tax resident in the UK on 31 January 2018. As the majority of the Group's business operated predominately in the UK prior to this date, the reconciliation of the tax (credit)/charge in the comparative period was completed by reference to the standard rate of UK tax rather than by reference to the Jersey income tax rate of 0% previously applicable to Old PGH.
2 Includes non-taxable dividends and gains, non-taxable pension scheme items, and non-taxable gain on the acquisition of the Standard Life Assurance businesses.
3 Included within disallowable deductions is a consolidation adjustment on the PGL Pension scheme 'buy-in' agreement of £6 million and costs in relation to projects of £14 million.
4 The prior year credit relates to the impact of reaching agreement with HMRC in respect of the Group's prior year tax returns.
5 This predominately relates to IFRS transitional adjustments which are being recognised at the full shareholder rate rather than marginal policyholder tax rates.
6 Represents tax losses recognised in 2017 which have now reversed.
7 Represents the utilisation of brought forward tax losses from 2017 in 2018 at the current tax rate of 19% rather than the longer term rate of 17%.

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.

	2018 £m	2017 Restated[1] £m
Issued and fully paid:		
721.2 million ordinary shares of £0.10 each (2017: 393.2 million ordinary shares of £0.10 each – restated)	**72**	39

1 Comparative figures have been restated for the scheme of arrangement as detailed in note A1.

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:

2018	**Number**	**£**
Shares in issue at 1 January	**393,232,644**	**39,323,264**
Ordinary shares issued under the rights issue	**183,581,978**	**18,358,198**
Ordinary shares issued to SLA plc	**144,114,450**	**14,411,445**
Other ordinary shares issued in the period	**270,142**	**27,014**
Shares in issue at 31 December	**721,199,214**	**72,119,921**

On 10 July 2018, the Group issued 183,581,978 shares following a rights issue undertaken in association with the acquisition of the Standard Life Assurance businesses where 7 rights issue shares were issued at 518 pence per new share for every 15 existing Old PGH shares held. The rights issue raised £951 million and proceeds, net of deduction of commission and expenses, were £934 million.

On 31 August 2018, the Group issued 144,114,450 shares to SLA plc, giving them a 19.99% equity stake in the Group valued at £1,023 million, based on the share price at that date.

During the year, 270,142 shares were issued at a premium of £2 million in order to satisfy obligations to employees under the Group's sharesave schemes (see note I1).

2017 – restated[1]	Number	£
Shares in issue at 1 January	392,849,817	39,284,982
Other ordinary shares issued in the period	382,827	38,282
Shares in issue at 31 December	393,232,644	39,323,264

1 Comparative figures have been restated for the scheme of arrangement as detailed in note A1.

During 2017, 382,827 shares were issued at a premium of £2 million in order to satisfy obligations to employees under the Group's sharesave schemes (see note I1).

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.

D. EQUITY continued

D2. Shares held by the Employee Benefit Trust continued

The EBT holds shares to satisfy awards granted to employees under the Group's share-based payment schemes.

	2018 £m	2017 £m
At 1 January	**2**	7
Shares acquired by the EBT in year	**8**	4
Shares awarded to employees by the EBT in year	**(4)**	(9)
At 31 December	**6**	2

During the year 518,322 (2017: 1,217,505) shares were awarded to employees by the EBT and 1,188,435 (2017: 445,560) shares were purchased. The number of shares held by the EBT at 31 December 2018 was 990,802 (2017: 320,689).

Old PGH provided the EBT with an interest-free facility arrangement to enable it to purchase the shares.

D3. Tier 1 Notes

The Fixed Rate Reset Perpetual Restricted Tier 1 Write-Down Notes ('Tier 1 Notes') meet the definition of equity and accordingly are shown as a separate category within equity at the proceeds of issue. The coupons on the instruments are recognised as distributions on the date of payment and are charged directly to the statement of consolidated changes in equity.

	Tier 1 Notes £m
At 1 January 2018	–
Issue of notes in the period	**494**
At 31 December 2018	**494**

On 26 April 2018, Old PGH issued £500 million of Tier 1 Notes, the proceeds of which were used to fund a portion of the cash consideration for the acquisition of the Standard Life Assurance businesses. The Tier 1 Notes bear interest on their principal amount at a fixed rate of 5.75% per annum up to the 'First Call Date' of 26 April 2028. Thereafter the fixed rate of interest will be reset on the First Call Date and on each fifth anniversary of this date by reference to a 5 year gilt yield plus a margin of 4.169%. Interest is payable on the Tier 1 Notes semi-annually in arrears on 26 October and 26 April.

At the issue date, the Tier 1 Notes were unsecured and subordinated obligations of Old PGH. On 12 December 2018, the Company was substituted in place of Old PGH as issuer.

The Tier 1 Notes have no fixed maturity date and interest is payable only at the sole and absolute discretion of the Company; accordingly the Tier 1 Notes meet the definition of equity for financial reporting purposes and are disclosed as such in the consolidated financial statements. If an interest payment is not made it is cancelled and it shall not accumulate or be payable at any time thereafter.

The Tier 1 Notes may be redeemed at par on the First Call Date or on any interest payment date thereafter at the option of the Company and also in other limited circumstances. If such redemption occurs prior to the fifth anniversary of the Issue Date such redemption must be funded out of the proceeds of a new issuance of, or exchanged into, Tier 1 Own Funds of the same or a higher quality than the Tier 1 Notes. In respect of any redemption or purchase of the Tier 1 Notes, such redemption or purchase is subject to the receipt of permission to do so from the PRA. Furthermore, on occurrence of a trigger event, linked to the Solvency II capital position and as documented in the terms of the Tier 1 Notes, the Tier 1 Notes will be subject to a permanent write-down in value to zero.

D4. 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.

	Standard Life Private Equity Trust plc £m
At 1 January 2018	–
Non-controlling interests recognised on acquisition of the Standard Life Assurance business (see note H2)	**265**
Profit for the year	**31**
Dividends paid	**(2)**
At 31 December 2018	**294**

The non-controlling interests of £265 million recognised on acquisition of the Standard Life Assurance businesses reflects third party ownership of Standard Life Private Equity Trust ('SLPET') determined at the fair value of the third party interest in the underlying assets and liabilities. SLPET is a UK Investment Trust listed and traded on the London Stock Exchange. As at 31 December 2018, the Group held 55.2% of the issued share capital of SLPET.

The Group's interest in SLPET is held in the with-profit and unit-linked funds of the Group's life companies. Therefore the shareholder exposure to the results of SLPET is limited to the impact of those results on the shareholder share of distributed profits of the relevant fund.

Summary financial information showing the interest that non-controlling interests have in the Group's activities and cash flows is shown below:

SLPET	**2018 £m**
Statement of financial position:	
Investments	**271**
Other assets	**23**
Total liabilities	–
Income statement:	
Revenue	**33**
Profit after tax	**31**
Comprehensive income	**31**
Cash flows:	
Net decrease in cash equivalents	**3**

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 holds a portfolio of loans that are designated at FVTPL.

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 FVTPL and accordingly are stated in the statement of consolidated financial position at fair value. They are designated at FVTPL 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 contracts liabilities without DPF are valued on a basis consistent with investment contracts liabilities without DPF as detailed under the 'Financial liabilities' section 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 are 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 is no investment in associates which are of a strategic nature.

Derecognition of financial assets

A financial asset (or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the assets, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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 FVTPL 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 FVTPL) are measured at amortised cost using the effective interest method.

Financial liabilities are designated upon initial recognition at FVTPL 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 FVTPL 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.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Offsetting financial assets and financial liabilities

Financial 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 asset and settle the liability simultaneously. When financial assets and liabilities are offset any related interest income and expense is offset in the income statement.

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.

E1. Fair values continued

The table below sets out a comparison of the carrying amounts and fair values of financial instruments as at 31 December 2018:

2018	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	3,798	3,608	3,798
Designated upon initial recognition:			
Loans and deposits	3,189	3,119	3,189
Equities[1]	52,716	–	52,716
Investment in associate[1] (see note H3)	496	–	496
Fixed and variable rate income securities	67,932	62,128	67,932
Collective investment schemes[1]	70,606	–	70,606
Reinsurers' share of investment contract liabilities[1]	5,417	–	5,417
Financial assets measured at amortised cost:			
Loans and deposits at amortised cost	423	77	423
Total financial assets[2]	204,577		204,577

Following application of the temporary exemption granted to insurers in IFRS 4 *Insurance Contracts* from applying IFRS 9 Financial Instruments (see note A4) the table below separately identifies financial assets with contractual cash flows that are solely payments of principal and interest ('SPPI') (excluding those held for trading or managed on a fair value basis) and all other financial assets, measured at fair value through profit or loss.

	2018 £m
Financial assets with contractual cash flows that are SPPI excluding those held for trading or managed on a fair value basis[3]	423
All other financial assets that are measured at fair value through profit or loss[4]	204,154
Total financial assets	204,577

2018	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	1,093	936	1,093
Designated upon initial recognition:			
Borrowings	127	113	127
Net asset value attributable to unitholders[1]	2,659	–	2,659
Investment contract liabilities[1]	114,463	–	114,463
Financial liabilities measured at amortised cost:			
Borrowings	2,059	2,048	2,011
Deposits received from reinsurers	4,438	4,077	4,438
Obligations for repayment of collateral received[5]	2,645	–	–
Total financial liabilities	127,484		124,791

1 These assets and liabilities have no expected settlement date.
2 Total financial assets includes £1,063 million (2017: £1,115 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 Financial assets that are SPPI are all short-term deposits with highly rated external institutions.
4 The change in fair value during 2018 of all other financial assets that are fair value through profit or loss is a £12,962 million loss.
5 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.

E. FINANCIAL ASSETS & LIABILITIES continued

E1. Fair values continued

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]	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

	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 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 over the counter derivatives is estimated using pricing models or discounted cash flow techniques. Collective investment schemes where the underlying assets are not priced using active market prices are determined to be Level 2 instruments. 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.

2018	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value				
Derivatives	348	3,288	162	3,798
Financial assets designated at FVTPL upon initial recognition:				
Loans and deposits	–	–	3,189	3,189
Equities	51,347	–	1,369	52,716
Investment in associate	496	–	–	496
Fixed and variable rate income securities	39,540	27,175	1,217	67,932
Collective investment schemes	68,594	1,219	793	70,606
Reinsurers' share of investment contract liabilities	–	5,417	–	5,417
	159,977	33,811	6,568	200,356
Total financial assets measured at fair value	160,325	37,099	6,730	204,154
Financial assets for which fair values are disclosed				
Loans and deposits at amortised cost	–	423	–	423
	160,325	37,522	6,730	204,577

2018	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value				
Derivatives	73	911	109	1,093
Financial liabilities designated at FVTPL upon initial recognition:				
Borrowings	–	–	127	127
Net asset value attributable to unit-holders	2,659	–	–	2,659
Investment contract liabilities	–	114,463	–	114,463
	2,659	114,463	127	117,249
Total financial liabilities measured at fair value	2,732	115,374	236	118,342
Financial liabilities for which fair values are disclosed				
Borrowings at amortised cost	–	1,752	259	2,011
Deposits received from reinsurers	–	4,438	–	4,438
Total financial liabilities for which fair values are disclosed	–	6,190	259	6,449
	2,732	121,564	495	124,791

E. FINANCIAL ASSETS & LIABILITIES continued

E2. Fair value hierarchy continued

E2.2 Fair value hierarchy of financial instruments continued

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 FVTPL 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 receivables 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 FVTPL 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

E2.3 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 predominately valued using broker quotes with the exception of unquoted corporate bonds. 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. These assets are typically held to back investment contract liabilities and participating investments contracts and therefore fair value movements in such financial assets will typically be offset by corresponding movements in liabilities.

Fixed and variable rate income securities

The Group holds unquoted corporate bonds comprising investments in local authority loans, private placements and infrastructure loans with a total value of £1,167 million (2017: £301 million). These unquoted corporate bonds are secured on various assets and 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 this spread. An increase of 35bps would decrease the value by £50 million (2017: an increase of 25bps would decrease the value by £8 million) and a decrease of 35bps would increase the value by £52 million (2017: a decrease of 25bps would increase the value by £9 million).

Loans and deposits

Included within loans and deposits are investments in equity release mortgages with a value of £2,020 million (2017: £1,255 million). The loans are valued using a discounted cash flow model and a Black-Scholes model for valuation of the No-Negative Equity Guarantee ('NNEG'). The NNEG 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 future cash flows are estimated based on assumed levels of mortality derived from published mortality tables; entry into long-term care rates and voluntary redemption rates. Cash flows include an allowance for the expected cost of providing a NNEG assessed under a real world approach using a closed form model including an assumed level of property value volatility. For the NNEG assessment, property values are indexed from the latest property valuation point and then assumed to grow in line with Office for Budget Responsibility forecasts in the short term and according to an RPI based assumption thereafter.

Cash flows are discounted using a risk free curve plus a spread determined at inception based on the purchase price. This is monitored against prevailing market conditions to determine whether updates are required. To date, no updates to the spread have been necessary.

E2. Fair value hierarchy continued

E2.3 Level 3 financial instrument sensitivities continued

Considering the fair valuation uses certain inputs that are not market observable, the fair value measurement of these loans has been categorised as a Level 3 fair value. The key non-market observable input is the voluntary redemption rate, for which the assumption varies by the origin, age and loan to value ratio of each portfolio. Experience analysis is used to inform this assumption, however where experience is limited for more recently originated loans, significant expert judgement is required.

In order to benefit from the matching adjustment, the equity release mortgage loans are securitised into tranches of fixed rate and junior loan notes via special purpose vehicles in the Group.

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 £183 million (2017: £108 million) and a decrease of 100bps would increase the value by £205 million (2017: £118 million). An increase of 1% in the inflation rate would increase the value by £11 million (2017: £7 million) and a decrease of 1% would decrease the value by £21 million (2017: £14 million).

An increase of 10% in house prices would increase the value by £6 million (2017: £3 million) and a decrease of 10% would decrease the value by £14 million (2017: £9 million).

Also included within loans and deposits are investments in commercial real estate loans of £449 million (2017: £77 million). 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 basket of comparable securities. The valuation is sensitive to changes in the discount rate. An increase of 35bps in the discount rate would decrease the value by £7 million (2017: an increase of 100bps would decrease the value by £5 million) and a decrease of 35bps would increase the value by £8 million (2017: a decrease of 100bps would increase the value by £5 million).

Also included within loans and deposits are income strips with a value of £654 million (2017: nil). Income strips are transactions where an owner-occupier of a property has sold a freehold or long leasehold interest to the Group, and has signed a long lease (typically 30-45 years) or a ground lease (typically 45-175 years) and retains the right to repurchase the property at the end of the lease for a nominal sum (usually £1). The income strips are valued using an income capitalisation approach, where the annual rental income is capitalised using an appropriate yield. The yield is determined by considering recent transactions involving similar income strips.
The valuation is sensitive to movements in yield. An increase of 35bps would decrease the value by £70 million and a decrease of 35bps would increase the value by £79 million.

Borrowings

Included within borrowings measured at fair value and categorised as Level 3 financial liabilities are property reversion loans with a value of £114 million (2017: £131 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 £2 million (2017: £3 million) and a decrease of 1% would decrease the value by £2 million (2017: £3 million). An increase of 1% in the house price inflation rate would decrease the value by £2 million (2017: £3 million) and a decrease of 1% would increase the value by £1 million (2017: £3 million).

Corporate transactions

Included within financial assets and liabilities are related loans and deposits of £66 million (2017: £112 million), borrowings of £13 million (2017: £51 million) and derivative liabilities of £13 million (2017: £21 million) pertaining to a reinsurance and retrocession arrangement (see note E3.2 for further information on these arrangements). 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 2018, the net of these balances was an asset of £40 million (2017: asset of £40 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 £2 million (2017: £3 million) and a decrease of 100bps would increase the aggregate value by £2 million (2017: £3 million).

Also included within derivative assets and derivative liabilities are longevity swap contracts with corporate pension schemes with a fair value of £162 million (2017: £144 million) and £96 million (2017: £77 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 net value by £16 million (2017: £13 million) and a decrease of 100bps would increase the net value by £22 million (2017: £17 million). An increase of 1% in the RPI and CPI inflation rates would increase the value by £13 million (2017: £10 million) and a decrease of 1% would decrease the value by £15 million (2017: £10 million).

Derivatives

Included within derivative liabilities are forward local authority loans and forward private placements with a value of £nil. These investments include a commitment to acquire or provide funding for fixed rate debt instruments at specified future dates. These investments are valued using a discounted cash flow model that takes a comparable UK Treasury stock and applies a credit spread to reflect reduced liquidity. The credit spreads are derived from a basket of comparable securities. The valuations are sensitive to movements in this spread. An increase of 35bps would decrease the value by £16 million and a decrease of 35bps would increase the value by £17million.

E. FINANCIAL ASSETS & LIABILITIES continued

E2. Fair value hierarchy continued

E2.4 Transfers of financial instruments between Level 1 and Level 2

2018	From Level 1 to Level 2 £m	From Level 2 to Level 1 £m
Financial assets measured at fair value		
Financial assets designated at FVTPL upon initial recognition:		
Fixed and variable rate income securities	**86**	**162**

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 FVTPL 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 FVTPL upon initial recognition:		
Derivatives	–	3

Consistent with the prior year, all the Group's Level 1 and Level 2 assets have been valued using standard market pricing sources.

The application of the Group's fair value hierarchy classification methodology at an individual security level, in particular observations with regard to measures of market depth and bid-ask spreads, resulted in an overall net movement of financial assets from Level 2 to Level 1 in both the current and comparative period.

E2.5 Movement in Level 3 financial instruments measured at fair value

2018	At 1 January 2018 £m	Net gains/ (losses) in income statement £m	Effect of acquisitions/ purchases £m	Sales £m	Transfers to Level 1 and Level 2 £m	At 31 December 2018 £m	Unrealised gains/ (losses) on assets held at end of period £m
Financial assets							
Derivatives	**144**	**18**	**–**	**–**	**–**	**162**	**18**
Financial assets designated at FVTPL upon initial recognition:							
Loans and deposits	**1,444**	**56**	**1,833**	**(144)**	**–**	**3,189**	**66**
Equities	**607**	**205**	**839**	**(282)**	**–**	**1,369**	**147**
Fixed and variable rate income securities	**411**	**(40)**	**884**	**(30)**	**(8)**	**1,217**	**(31)**
Collective investment schemes	**49**	**(51)**	**802**	**(7)**	**–**	**793**	**(47)**
	2,511	**170**	**4,358**	**(463)**	**(8)**	**6,568**	**135**
	2,655	**188**	**4,358**	**(463)**	**(8)**	**6,730**	**153**

E2. Fair value hierarchy continued

2018	**At 1 January 2018 £m**	**Net losses in income statement £m**	**Effect of acquisitions/ purchases £m**	**Sales £m**	**Transfers to Level 1 and Level 2 £m**	**At 31 December 2018 £m**	**Unrealised losses on liabilities held at end of period £m**
Financial liabilities							
Derivatives	**100**	**11**	**–**	**–**	**(2)**	**109**	**11**
Financial liabilities designated at FVTPL upon initial recognition:							
Borrowings	**182**	**2**	**–**	**(57)**	**–**	**127**	**2**
	282	**13**	**–**	**(57)**	**(2)**	**236**	**13**

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 FVTPL upon initial recognition:								
Loans and deposits	812	(223)	937	(82)	–	–	1,444	(223)
Equities	671	55	53	(171)	–	(1)	607	50
Investment in joint venture								
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 FVTPL upon initial recognition:								
Borrowings	270	(23)	–	(65)	–	–	182	(23)
	542	(195)	–	(65)	–	–	282	(195)

During 2017, 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 period.

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 2018 £m	**Liabilities 2018 £m**	Assets 2017 £m	Liabilities 2017 £m
Forward currency	**60**	**79**	58	21
Credit default options	**13**	**17**	–	1
Contract for differences	**1**	**2**	1	–
Interest rate swaps	**1,959**	**695**	2,212	1,032
Total return bond swaps	**10**	**4**	21	1
Swaptions	**912**	**3**	278	–
Inflation swaps	**34**	**46**	17	16
Equity options	**553**	**59**	4	–
Stock index futures	**45**	**23**	8	33
Fixed income futures	**47**	**50**	16	6
Retrocession contracts	**–**	**13**	–	21
Longevity swap contracts	**162**	**96**	144	77
Currency futures	**–**	**3**	1	2
Foreign exchange options	**2**	**–**	–	–
Total return equity swaps	**–**	**3**	–	32
	3,798	**1,093**	2,760	1,242

E3.2 Corporate transactions

The Group 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 £162 million and derivative liabilities of £96 million have been recognised as at 31 December 2018 (2017: £144 million and £77 million respectively).

In addition, the Group 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 £13 million at 31 December 2018 (2017: £21 million). A loan liability has been recognised in respect of financing obtained for the initial reinsurance premium (see note E5).

E3.3 Warrants over shares

On 2 September 2009, Old PGH 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 related to ordinary shares rather than 'B' ordinary shares.

On 23 August 2018, the Group redeemed and cancelled all outstanding warrants for £56,000. The carrying value of the warrants as at 31 December 2017 was £56,000.

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 2018 (2017: 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.

2018

		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	**3,435**	**2,804**	**455**	**176**
Exchange traded derivatives	**363**	**34**	**–**	**329**
Stock lending	**2,417**	**2,417**	**–**	**–**
Total	**6,215**	**5,255**	**455**	**505**

		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	**1,009**	**554**	**455**	**–**
Exchange traded derivatives	**84**	**8**	**–**	**76**
Total	**1,093**	**562**	**455**	**76**

E. FINANCIAL ASSETS & LIABILITIES continued

E4. Collateral arrangements continued

2017 **Financial assets**	Gross and net amounts of recognised financial assets £m	Related amounts not offset 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

Financial liabilities	Gross and net amounts of recognised financial liabilities £m	Related amounts not offset 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

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 £374 million (2017: £466 million).

The amounts recognised as financial assets and liabilities from cash collateral received at 31 December 2018 are set out below.

	OTC derivatives **2018 £m**	2017 £m
Financial assets	**2,619**	1,961
Financial liabilities	**(2,619)**	(1,961)

The maximum exposure to credit risk in respect of OTC derivative assets is £3,435 million (2017: £2,731 million) of which credit risk of £3,259 million (2017: £2,651 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 £363 million (2017: £29 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 2018 in respect of OTC derivative liabilities of £1,009 million (2017: £1,193 million) amounted to £554 million (2017: £631 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 £2,746 million (2017: £623 million).

The maximum exposure to credit risk in respect of stock lending transactions is £2,417 million (2017: £578 million) of which credit risk of £2,417 million (2017: £578 million) is mitigated through the use of collateral arrangements.

E4.4 Other collateral arrangements

Details of collateral received to mitigate the counterparty risk arising from the Group's reinsurance transactions is detailed in note F3.

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.

E5.1 Analysis of borrowings

	Carrying value		Fair value	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Limited recourse bonds 2022 7.59% (note a)	**45**	56	**50**	66
Property Reversions loan (note b)	**114**	131	**114**	131
Retrocession contracts (note c)	**13**	51	**13**	51
Total policyholder borrowings	**172**	238	**177**	248
£200 million 7.25% unsecured subordinated loan (note d)	**186**	177	**209**	225
£300 million senior unsecured bond (note e)	**121**	121	**132**	137
£428 million subordinated notes (note h)	**426**	426	**441**	513
£450 million Tier 3 subordinated notes (note i)	**448**	448	**447**	481
US $500 million Tier 2 bonds (note j)	**390**	368	**342**	390
€500 million Tier 2 bonds (note k)	**443**	–	**390**	–
Total shareholder borrowings	**2,014**	1,540	**1,961**	1,746
Total borrowings	**2,186**	1,778	**2,138**	1,994
Amount due for settlement after 12 months	**2,174**	1,727		

E. FINANCIAL ASSETS & LIABILITIES continued

E5. Borrowings continued

E5.1 Analysis of borrowings continued

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 £48 million (2017: £60 million) have an average remaining life of 1 year and mature in 2022. Phoenix Life Assurance Limited ('PLAL') has provided collateral of £21 million (2017: £26 million) to provide security to the holders of the recourse bonds in issue. During 2018, repayments totalling £12 million were made (2017: £12 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 2018, repayments totalling £25 million were made (2017: £24 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. On 31 December 2018, the retrocession contracts were transferred from Abbey Life to Phoenix Life Limited ('PLL'), another Group company, under the terms of a scheme Part VII of the Financial Services and Markets Act 2000.

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 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, Old PGH was substituted in place of PGHC as issuer of the £300 million senior bond. On 5 May 2017, Old PGH 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. The Group has in place an unsecured revolving credit facility ('the facility'), maturing in June 2022. Old PGH drew down £295 million under the facility on 31 August 2018. Following the issuance of €500 million Tier 2 bond on 24 September 2018, the facility was fully repaid. The facility is undrawn as at 31 December 2018 (2017: undrawn). There are no mandatory or target amortisation payments associated with the facility but prepayments are permissible. The facility currently accrues interest at LIBOR plus 1.1%, a utilisation fee of between 0.1% and 0.4% is applicable dependent on the amount drawn. On 12 December 2018, the Company became an additional borrower and guarantor under the facility.

g. On 23 February 2018, Old PGH entered into an acquisition facility with an aggregate principal amount of £600 million. The acquisition facility has a termination date of 31 August 2019. The Group is entitled to request two six month extensions to the term of the facility (which would together extend the termination date to 31 August 2020). 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 12 December 2018, the Company became an additional borrower and guarantor under the acquisition facility.

E5. Borrowings continued

E5.1 Analysis of borrowings continued

h. 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, Old PGH was substituted in place of PGHC as issuer of the £428 million subordinated notes and then on 12 December 2018 the Company was substituted in place of Old PGH as issuer.

i. On 20 January 2017, PGHC issued £300 million Tier 3 subordinated notes due 2022 at a coupon of 4.125%. On 20 March 2017, Old PGH was substituted in place of PGHC as issuer of the £300 million Tier 3 subordinated notes. On 5 May 2017, Old 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. On 12 December 2018 the Company was substituted in place of Old PGH as issuer.

j. On 6 July 2017, Old 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. On 12 December 2018 the Company was substituted in place of Old PGH as issuer.

k. On 24 September 2018, Old PGH issued €500 million Tier 2 notes due 2029 with a coupon of 4.375%. Fees associated with these notes of £7 million were deferred and are being amortised over the life of the notes. On 12 December 2018 the Company was substituted in place of Old PGH as issuer.

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.

	At Jan 2018	New borrowings, net of costs	Repayments	Changes in fair value	Movement in foreign exchange	Other movements[1]	At 31 Dec 2018
		Cash movements		Non-cash movements			
	£m	£m	£m	£m	£m	£m	£m
Limited recourse bonds 2022 7.59%	56	–	(12)	–	–	1	45
Property Reversions loan	131	–	(25)	8	–	–	114
Retrocession contracts	51	–	(32)	(6)	–	–	13
£200 million 7.25% unsecured subordinated loan	177	–	–	–	–	9	186
£300 million senior unsecured bond	121	–	–	–	–	–	121
£900 million unsecured revolving credit facility	–	295	(295)	–	–	–	–
£428 million subordinated notes	426	–	–	–	–	–	426
£450 million Tier 3 subordinated notes	448	–	–	–	–	–	448
US $500 million Tier 2 bonds	368	–	–	–	22	–	390
€500 million Tier 2 notes	–	438	–	–	5	–	443
	1,778	733	(364)	2	27	10	2,186

1 Comprises amortisation under the effective interest method applied to borrowings held at amortised cost.

E. FINANCIAL ASSETS & LIABILITIES continued

E5. Borrowings continued

E5.2 Reconciliation of liabilities arising from financing continued

	At Jan 2017	Cash movements: New borrowings, net of costs	Cash movements: Repayments[1]	Non-cash movements: Changes in fair value	Non-cash movements: Movement in foreign exchange	Non-cash movements: Other movements[2]	At 31 Dec 2017
	£m	£m	£m	£m	£m	£m	£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.

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 Chief Actuary 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 Life business. 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. Risk Management – financial risk continued

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 the risk, along with sensitivity analysis where appropriate. The sensitivity analysis does not take into account second order impacts of market movements, for example, where a market movement may give rise to potential indicators of impairment for the Group's intangible balances.

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 counterparties, 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 consolidated 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 (where risks and rewards fall wholly to shareholders), non-profit funds and shareholders' funds.

The Group holds £9,917 million (2017: £5,640 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 £496 million (2017: £225 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 £108 million (2017: £55 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 £100 million (2017: £53 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. Credit risk on derivatives and securities lending is mitigated through the use of collateral. 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.

E. FINANCIAL ASSETS & LIABILITIES continued

E6. Risk Management – financial risk continued

E6.2 Financial risk analysis continued

Quality of credit assets

An indication of the Group's exposure to credit risk is the quality of the investments and counterparties with which it transacts. The following table provides information regarding the aggregate credit exposure split by credit rating.

For financial assets that do not have credit ratings assigned by external rating agencies but where the Group has assigned an internal rating for use in managing and monitoring credit risk, the assets are classified as 'internally rated'. If a financial asset is neither rated by an external agency nor 'internally rated', it is classified as 'not rated':

2018	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Non-rated[3] £m	Unit-linked £m	Total £m
Loans and deposits[1]	–	341	457	31	–	2,783	–	3,612
Derivatives	–	5	2,092	1,032	–	659	10	3,798
Fixed and variable rate income securities[2]	9,709	31,043	13,242	10,793	1,992	954	199	67,932
Reinsurers' share of insurance contract liabilities	–	6,227	1,292	–	–	45	–	7,564
Reinsurers' share of investment contract liabilities	–	–	–	–	–	–	5,417	5,417
Cash and cash equivalents	327	947	1,836	1,265	–	450	101	4,926
	10,036	38,563	18,919	13,121	1,992	4,891	5,727	93,249

1 For financial assets that do not have credit ratings assigned by external ratings the Group assigns internal ratings for use in management and monitoring credit risk. £280 million of AA, £198 million of A, and £65 million of BBB loans and deposits are internally rated.
2 £39 million of AAA, £146 million of AA, £418 million of A, and £123 million of BBB fixed and variable rate income securities are internally rated.
3 Non-rated loans and deposits of £2,783 million (2017: £1,271 million) Includes equity release mortgages with a value of £2,020 million (2017: £1,255 million). Further details are set out in note E2.3.

2017	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Non-rated £m	Unit-linked £m	Total £m
Loans and deposits[1]	–	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	360	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	360	2,192	6,349	43,220

1 As noted above for financial assets that do not have credit ratings assigned by external ratings the Group assigns internal ratings for use in management and monitoring credit risk. £33 million of AAA, £218 million of AA, £103 million of A, £5 million of BBB and £1 million of BB and below of fixed and variable rate income securities are internally rated.

Credit ratings have not been disclosed in the above tables for holdings in unconsolidated collective investment schemes and investments in associates. The credit quality of the underlying debt securities within these vehicles is managed by the safeguards built into the investment mandates for these vehicles.

The Group maintains accurate and consistent risk ratings across its asset portfolio. This enables management to focus on the applicable risks and to compare credit exposures across all lines of business, geographical regions and products. The rating system is supported by a variety of financial analytics combined with market information to provide the main inputs for the measurement of counterparty risk. All risk ratings are tailored to the various categories of assets and are assessed and updated regularly.

The Group operates an Internal Credit Rating Committee to perform oversight and monitoring of internal credit ratings for internally rated assets. Internally rated assets are those that do not have a public rating from an external credit assessment institution. The internal credit ratings used by the Group are provided by fund managers or for certain assets (in particular, equity release mortgages) determined by the Life Companies. A variety of methods are used to validate the appropriateness of the internal credit ratings. The Internal Credit Rating 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 (eg equity release mortgages and commercial real estate loans) with the aim of achieving greater diversification and investment returns.

E6. Risk Management – financial risk continued

E6.2 Financial risk analysis continued

A further indicator of the quality of the Group's financial assets is the extent to which they are neither past due nor impaired. All of the amounts in the table above for the current and prior year are neither past due nor impaired.

Please refer to page 222 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 Potential Future Exposure ('PFE') value 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 to provide security against the daily mark to model value of derivative financial instruments and as part of securities lending activity. 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 E4.1 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.

E. FINANCIAL ASSETS & LIABILITIES continued

E6. Risk Management – financial risk continued

E6.2 Financial risk analysis continued

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 £141 million (2017: £110 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 £211 million (2017: £196 million).

Equity, property and inflation risk

The Group has exposure to financial assets and liabilities whose values will fluctuate as a result of changes in market prices other than from interest rate and currency fluctuations. This is due to factors specific to individual instruments, their issuers or factors affecting all instruments traded in the market. Accordingly, the Group limits its exposure to any one counterparty in its investment portfolios and to any one foreign market.

The portfolio of marketable equity securities and property investments which is carried in the statement of consolidated financial position at fair value, has exposure to price risk. The Group's objective in holding these assets is to earn higher long-term returns by investing in a diverse portfolio of equities and properties. Portfolio characteristics are analysed regularly and price risks are actively managed in line with investment mandates. The Group's holdings are diversified across industries and concentrations in any one company or industry are limited.

Equity and property price risk is primarily borne in respect of assets held in with-profit funds, unit-linked funds or equity release mortgages in the non-profit 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. For the non-profit fund property price risk from equity release mortgages is borne by the Group with the aim of achieving greater diversification and investment returns, consistent with the Strategic Asset Allocation approved by the Board.

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 £202 million (2017: £73 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 £197 million (2017: £71 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 £15 million (2017: £11 million).

E6. Risk Management – financial risk continued

E6.2 Financial risk analysis continued

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 £7 million (2017: £5 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

With the exception of Standard Life business sold in Germany and the Republic of Ireland, and some historic business written in the latter, the Group's principal transactions are carried out in sterling. The assets for these books of business 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.

Some of the Group's 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.

The Group has hedged the currency risk on its foreign currency hybrid debt ($500 million Tier 2 bonds and €500 million Tier 2 bonds as set out in note E5) through cross currency interest rate swaps.

Sensitivity of profit after tax and equity to fluctuations in currency exchange rates is not considered significant at 31 December 2018, since unhedged exposure to foreign currency was relatively low (2017: 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 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.

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 plc 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.

E. FINANCIAL ASSETS & LIABILITIES continued

E6. Risk Management – financial risk continued

E6.2 Financial risk analysis continued

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 and 2018, 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.

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*:

2018	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	15,511	22,049	53,651	–	91,211
Investment contracts	114,463	–	–	–	114,463
Borrowings[1]	105	1,189	1,500	114	2,908
Deposits received from reinsurers[1]	361	1,371	2,767	–	4,499
Derivatives[1]	156	147	1,092	–	1,395
Net asset value attributable to unitholders	2,659	–	–	–	2,659
Obligations for repayment of collateral received	2,645	–	–	–	2,645
Reinsurance payables	30	–	–	–	30
Payables related to direct insurance contracts	902	–	–	–	902
Accruals and deferred income	329	5	3	–	337
Other payables	777	22	74	–	873

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

1 These financial liabilities are disclosed at their undiscounted value and therefore differ to amounts included in the statement of consolidated financial position which discloses the discounted value.

E6. Risk Management – financial risk continued

E6.2 Financial risk analysis continued

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 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 Benefit Reserve ('WPBR') 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 WPBR 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').

Standard Life Assurance Limited ('SLAL'), a wholly-owned subsidiary of the Group, includes the Heritage With Profits Fund ('HWPF'). In 2006, the Standard Life Assurance Company demutualised. The demutualisation was governed by its Scheme of Demutualisation ('the Scheme'). Under the Scheme substantially all of the assets and liabilities of the Standard Life Assurance Company were transferred to SLAL.

The Scheme of Demutualisation ('the Scheme') provides that certain defined cash flows (recourse cash flows) arising in the HWPF on specified blocks of UK and Ireland business, both participating and non-participating, may be transferred out of that fund when they emerge, being transferred to the Shareholder Fund ('SHF') or the Proprietary Business Fund ('PBF') of SLAL, and thus accrue to the ultimate benefit of equity holders of the Company. Under the Scheme, such transfers are subject to certain constraints in order to protect policyholders. The Scheme also provides for additional expenses to be charged by the PBF to the HWPF in respect of German branch business in SLAL.

Under the realistic valuation, the discounted value of expected future cash flows on participating contracts not reflected in the WPBR is included in the cost of future policy-related liabilities (as a reduction where future cash flows are expected to be positive). The discounted value of expected future cash flows on non-participating contracts not reflected in the measure on non-participating liabilities is recognised as a separate asset (where future cash flows are expected to be positive). The Scheme requirement to transfer future recourse cash flows out of the HWPF is recognised as an addition to the cost of future policy-related liabilities. The discounted value of expected future cash flows on non-participating contracts can be apportioned between those included in the recourse cash flows and those retained in the HWPF for the benefit of policyholders.

Applying the policy noted above for the HWPF:

- The value of participating investment contract liabilities on the consolidated statement of financial position is reduced by future expected (net positive) cash flows arising on participating contracts.
- Future expected cash flows on non-participating contracts are not recognised as an asset of the HWPF on the consolidated statement of financial position. However, future expected cash flows on non-participating contracts that are not recourse cash flows under the Scheme are used to reduce the value of participating insurance and participating investment contract liabilities on the consolidated statement of financial position.

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.

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.

F. INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DPF AND REINSURANCE continued

F1. Liabilities under insurance contracts continued

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 2018 £m	**Reinsurers' share 2018 £m**	Gross liabilities 2017 £m	Reinsurers' share 2017 £m
Life assurance business:				
Insurance contracts	**66,872**	**7,564**	33,481	3,319
Investment contracts with DPF	**24,339**	**–**	10,954	1
	91,211	**7,564**	44,435	3,320
Amounts due for settlement after 12 months	**75,700**	**6,801**	39,697	2,996

	Gross liabilities 2018 £m	**Reinsurers' share 2018 £m**	Gross liabilities 2017 restated (note A1) £m	Reinsurers' share 2017 restated (note A1) £m
At 1 January	**44,435**	**3,320**	45,807	3,744
Premiums	**2,645**	**481**	1,297	356
Claims	**(5,295)**	**(866)**	(4,064)	(594)
Foreign exchange adjustments	**35**	**–**	20	(1)
Acquisition of Standard Life Assurance businesses (see note H2)	**51,487**	**4,264**	–	–
Other changes in liabilities[1]	**(2,096)**	**365**	1,375	(185)
At 31 December	**91,211**	**7,564**	44,435	3,320

1 Other changes in liabilities principally comprise of changes in economic and non-economic assumptions and experience. Other changes in liabilities also includes the recognition of an additional £22 million (2017: £nil) of policyholder liabilities on the crystallisation of obligations initially included within the FCA thematic reviews provision – SLAL.

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.

In relation to the HWPF, amounts are considered to be allocated to shareholders when they emerge as recourse cash flows within the HWPF.

The unallocated surplus of the HWPF comprises the value of future recourse cash flows in participating contracts (but not the value of future cash flows on non-participating contracts), the value of future additional expenses to be charged on German branch business and the effect of any measurement differences between the realistic value and the IFRS accounting policy value of all assets and liabilities other than participating contract liabilities recognised in the HWPF.

The recourse cash flows are recognised as they emerge as an addition to shareholders' profits if positive or as a deduction if negative. As the additional expenses are charged in respect of the German branch business they are recognised as an addition to equity holders' profits.

	2018 £m	2017 £m
At 1 January	**925**	879
Transfer (to)/from consolidated income statement	**(88)**	46
Acquisition of Standard Life Assurance (see note H2)	**525**	–
Foreign exchange movements	**(4)**	–
At 31 December	**1,358**	925

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 £481 million (2017: £356 million).

F3. Reinsurance continued

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 £3,253 million (2017: £3,640 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'. Where there is interest payable on such collateral, it is recognised within 'Net income under arrangements with reinsurers' (see F3.3). The amounts recognised as financial assets and liabilities from cash collateral received at 31 December 2018 are set out below.

	Reinsurance transactions	
	2018 £m	2017 £m
Financial assets	**373**	368
Financial liabilities	**373**	368

F3.3 Net income under arrangements with reinsurers

The Group has reinsured the longevity and investment risk related to a portfolio of annuity contracts held within the HWPF. At inception of the reinsurance contract the reinsurer was required to deposit an amount equal to the reinsurance premium with the Group. Interest is payable to the reinsurer on the deposit at a floating rate. The Group maintains a ring fenced pool of assets to back this deposit liability. Annuity payments under the reinsured contracts are made by the Group from the ring fenced assets and the deposit liability is reduced by the amount of these payments. Periodically the Group is required to pay to the reinsurer or receive from the reinsurer Premium Adjustments defined as the difference between the fair value of the ring fenced assets and the deposit amount, such that the deposit amount equals the fair value of the ring fenced assets. This has the effect of ensuring that the investment risk on the ring fenced pool of assets falls on the reinsurer. The investment return on the ring fenced assets included in investment return in the consolidated income statement is equal to an equivalent amount recognised in expenses under arrangements with reinsurers.

	2018 £m	2017 £m
Interest payable on deposits from reinsurers	**(11)**	–
Premium adjustments	**13**	–
Net income under arrangements with reinsurers	**2**	–

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 contracts for the Life businesses 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.

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. In addition to this, mortality, longevity and morbidity risks may in certain circumstances be mitigated by the use of reinsurance.

The profitability of the run-off of the closed long-term insurance businesses within the Group depends, to a significant extent, on the values of claims paid in the future relative to the assets accumulated to the date of claim. Typically, over the lifetime of a contract, premiums and investment returns exceed claim costs in the early years and it is necessary to set aside these amounts to meet future obligations. The amount of such future obligations is assessed on actuarial principles by reference to assumptions about the development of financial and insurance risks.

It is therefore necessary for the Directors of each life company to make decisions, based on actuarial advice, which ensure an appropriate accumulation of assets relative to liabilities. These decisions include investment policy, bonus policy and, where discretion exists, the level of payments on early termination.

The Group's longevity risk exposures have increased as a result of the Bulk Purchase Annuity deals it has successfully acquired, however the vast majority of these exposures are reinsured to third parties.

F. INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DPF AND REINSURANCE continued

F4. Risk Management – Insurance risk continued

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 £54 million (2017: £34 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 £54 million (2017: £34 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 £265 million (2017: £137 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 £273 million (2017: £138 million).

A decrease of 10% 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 £27 million (2017: £40 million[1]).

An increase of 10% 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 £26 million (2017: £31 million[1]).

1 The 2017 comparative has been restated as the Group now applies a 10% sensitivity for calculating lapse rate sensitivities for consistency with the stress and scenario testing monitored by the Group on an ongoing basis (2017: 25%).

F4.1 Assumptions

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 involved placing a value on liabilities similar to the market value of assets with similar cash flow patterns.

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

The assumptions used to determine the liabilities, under these valuation methods are updated at each reporting date to reflect recent experience. Material judgement is required in calculating these liabilities and, in particular, in the choice of assumptions about which there is uncertainty over future experience. The principal assumptions are as follows:

Discount rates

The Group discounts participating and non-participating insurance contract liabilities at a risk-free rate derived from the swap yield curve, plus an illiquidity premium of 10bps.

For certain non-participating insurance contract liabilities (eg annuities), the Group makes a further explicit adjustment to the risk-free rate to reflect illiquidity in respect of the assets backing those liabilities.

Expense inflation

Expenses for the Phoenix Life companies 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.

For the Standard Life Assurance businesses, the assumptions for future policy expense levels are determined from the most recent expense analyses. No allowance is made for potential future expense improvement. The assumed expense level incorporates an annual inflation allowance determined by reference to RPI.

Mortality and longevity rates

Mortality rates are based on company experience and 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.

F4. Risk Management – Insurance risk continued

F4.1 Assumptions continued

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 £1,865 million (2017: £1,965 million) and £93 million (2017: £131 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 £298 million (2017: £334 million) and £7 million (2017: £48 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.

Demographic prudence margin

For non-participating insurance contract liabilities, the Group 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 represent 'best estimates'.

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 2018 £m	(Decrease)/ increase in insurance liabilities 2017 £m
Change in longevity assumptions	**(168)**	(148)
Change in persistency assumptions	**(12)**	120
Change in mortality assumptions	**(16)**	15
Change in expenses assumptions	**(28)**	(79)

2018:
The £168 million positive impact of changes in longevity assumptions reflects updates to base and improvement assumptions to reflect latest experience analyses and where applicable the most recent Continuous Mortality Investigation 2017 projection tables.

The £12 million and £16 million positive impact of changes in persistency and mortality assumptions respectively reflects the results of the latest experience investigations.

The £28 million positive impact of changes in expense assumptions principally reflects updated investment expenses in light of updates made to the asset mix and to reflect changes to agreements with the Group's external funds managers.

2017:
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 variable guarantees.

The £79m 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 management services 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 and the ways in which the Group manages those risks.

2018	Gross[1] Insurance contracts £m	Gross[1] Investment contracts with DPF £m	Reinsurance Insurance contracts £m	Reinsurance Investment contracts with DPF £m
With-profit funds:				
Pensions:				
Deferred annuities – with guarantees	8,329	69	807	–
Deferred annuities – without guarantees	1,111	–	–	–
Immediate annuities	7,583	–	4,808	–
Unitised with-profit	11,717	22,449	(3)	–
Total pensions	28,740	22,518	5,612	–
Life:				
Immediate annuities	171	–	4	–
Unitised with-profit	6,145	791	(79)	–
Life with-profit	2,391	–	3	–
Total life	8,707	791	(72)	–
Other	1,237	–	208	–
Non-profit funds:				
Deferred annuities – without guarantees	844	–	–	–
Immediate annuities	17,600	–	1,776	–
Protection	488	–	80	–
Unit-linked	9,440	1,021	44	–
Other	(184)	9	(84)	–
	66,872	24,339	7,564	–

1 £4,605 million (2017: £3,770 million) of liabilities are subject to longevity swap arrangements.

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

F4. Risk Management – Insurance risk continued

F4.2 Managing product risk continued

With-profit fund (unitised and traditional)

The Group operates a number of with-profit funds 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. For the HWPF, under the Scheme, shareholders are entitled to receive certain defined cash flows arising on specified blocks of UK and Irish business.

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. In addition, certain unit prices in the HWPF are guaranteed not to decrease.

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.

F. INSURANCE CONTRACTS, INVESTMENT CONTRACTS WITH DPF AND REINSURANCE continued

F4. Risk Management – Insurance risk continued

F4.2 Managing product risk continued

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.

2018	Leasehold properties £m	Staff related £m	Known incidents £m	PA(GI) provision £m	FCA thematic reviews provision £m	Restructuring provision £m	Transfer of policy administration provision £m	Other £m	Total £m
At 1 January	**5**	**10**	**1**	**40**	**54**	**17**	**–**	**7**	**134**
Additions in the year	1	–	2	–	–	–	76	25	104
Acquisition of Standard Life Assurance during the year (see note H2.1)	–	7	37	–	225	–	–	–	269
Utilised during the year	–	(1)	(5)	(15)	(54)	(13)	(3)	(7)	(98)
Released during the year	(1)	(1)	(2)	(8)	(17)	–	–	(3)	(32)
At 31 December	**5**	**15**	**33**	**17**	**208**	**4**	**73**	**22**	**377**

Leasehold properties

The leasehold properties provision includes a £3 million (2017: £3 million) dilapidations provision in respect of obligations under operating leases. In addition, a provision has been made for £2 million (2017: £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 include provisions for unfunded pensions of £5 million (2017: £6 million), private medical and other insurance costs for former employees of £9 million (2017: £2 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.

On acquisition of the Standard Life Assurance businesses on 31 August 2018, obligations arising as a result of the areas described above were recognised at £37 million on a fair value basis. £5 million of this balance has been utilised since the acquisition date, with the remainder expected to be utilised in 2019.

PA(GI) provision

In 2015, PA(GI) Limited, 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 £17 million (2017: £40 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 2018, a reimbursement asset of £8 million (2017: £32 million) 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 £18 million (2017: £7 million) have been received during the year.

FCA thematic reviews provision – Abbey Life

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 was subject to additional investigations. Specifically, the FCA explored whether remedial and/or disciplinary action was necessary or appropriate in respect of exit or paid-up charges being applied. Additionally, Abbey Life was investigated for potential contravention of regulatory requirements across a number of other areas assessed in the thematic review.

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 provisions in respect of its best estimate of the likely costs associated with its obligations in this regard.

On 14 December 2018, the Group was informed by the FCA that it had closed its investigation into Abbey Life following completion of the thematic review into the fair treatment of long-standing customers in the life insurance sector, having found that the conduct of Abbey Life did not warrant enforcement action. Accordingly, £10 million of the provision remaining at 1 January 2018 has been released during the year.

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G1. Provisions continued

In respect of the non-advised annuity sales, £10 million of the provision was utilised and £7 million was released during the year.

Under the terms of the Abbey Life acquisition, Deutsche Bank provided Phoenix Life Holding Limited ('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 2018, a reimbursement asset of £14 million (2017: £23 million) has been recognised in other receivables under this indemnity. Recoveries of £9 million have been received during the year.

FCA thematic reviews provision – SLAL

Standard Life Assurance was also a participant in the thematic review of non-advised annuity sales issued by the FCA on 14 October 2016.

On acquisition of the Standard Life Assurance businesses on 31 August 2018, obligations arising as a result of past practices in the area described above were assessed. As a result, it was determined appropriate to recognise a provision of £225 million in respect of SLAL on a fair value basis in this regard. 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 SLAL to carry out remediation activities or impose financial penalties.

Under the terms of the Standard Life Assurance acquisition, SLA plc provided the Company with a deed of indemnity, with a duration of up to four years from the date of the acquisition, in respect of certain liabilities arising out of the FCA-mandated, and SLA plc's voluntary, review and redress programme in respect of SLAL's historical non-advised sales of pension annuities, and the FCA's ongoing investigation of historical non-advised annuity sales practices. To the extent that total costs post 31 August 2018 exceed £225 million, such amounts will be recoverable under the deed of indemnity and related caps up to a maximum of £155 million. To the extent that total costs are less than £225 million, Old PGH is required to pay the balance to SLA plc, together with any interest that may have accrued on such sum.

Of the £225 million recognised upon acquisition, £44 million has been utilised since the acquisition date, and £181 million remains as at 31 December 2018.

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 involved 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, and a further £8 million during 2018.

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 £5 million utilised during 2018.

Transfer of policy administration

A large majority of the Group's policy administration is outsourced to Diligenta Limited ('Diligenta'), a UK-based subsidiary of Tata Consultancy Services ('TCS'). Diligenta provide life and pension business process services to a large number of the Group's policyholders. During 2018, the Group announced its intention to move to a single outsourcer platform and as a result a further 2 million of the Group's policies will be transferred to Diligenta by 31 December 2021.

A provision of £76 million has been recognised for the expected cost of the platform migration. During 2018, £3 million of this provision was utilised, with the remaining £73 million expected to be utilised within three years.

Other provisions

Other provisions include litigation and onerous contract provisions, obligations arising under a gift voucher scheme operated by the SunLife business and a commission clawback provision which represents the expected future clawback of commission income earned by the SunLife business as a result of assumed lapses of policies or associated benefits.

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.

	2018 £m	2017 £m
Current tax:		
Current tax receivable	**145**	47
Current tax payable	**(20)**	(5)
Deferred tax:		
Deferred tax liabilities	**(843)**	(366)

G2. Tax assets and liabilities continued

Movement in deferred tax assets/(liabilities)

2018	1 January £m	Recognised in consolidated income statement £m	Recognised in other comprehensive income £m	Acquisition of Standard Life Assurance businesses £m	31 December £m
Trading losses	**48**	**(36)**	**–**	**1**	**13**
Expenses and deferred acquisition costs carried forward	**24**	**20**	**–**	**6**	**50**
Provisions and other temporary differences	**8**	**3**	**(2)**	**–**	**9**
Non-refundable pension scheme surplus	**(13)**	**3**	**(3)**	**–**	**(13)**
Committed future pension contributions	**25**	**(2)**	**(5)**	**–**	**18**
Pension scheme deficit	**12**	**1**	**–**	**–**	**13**
Accelerated capital allowances	**9**	**(2)**	**–**	**–**	**7**
Unpaid interest	**16**	**(16)**	**–**	**–**	**–**
Acquired in-force business	**(341)**	**33**	**–**	**(502)**	**(810)**
Customer relationships	**(33)**	**3**	**–**	**(7)**	**(37)**
Unrealised gains	**(81)**	**188**	**–**	**(167)**	**(60)**
IFRS transitional adjustments	**(40)**	**8**	**–**	**–**	**(32)**
Other	**–**	**(3)**	**–**	**2**	**(1)**
	(366)	**200**	**(10)**	**(667)**	**(843)**

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)

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 consolidated 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.

	2018 £m	2017 £m
Deferred tax assets have not been recognised in respect of:		
Tax losses carried forward	**53**	37
Deferred tax assets not recognised on capital losses[1]	**21**	16

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 two-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 consolidated financial statements but this will be monitored and reassessed at each reporting period as negotiations continue.

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

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.

	2018 £m	2017 £m
Payables related to direct insurance contracts	**902**	522
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.

	2018 £m	2017 £m
Accruals and deferred income	**337**	179
Amount due for settlement after 12 months	**9**	–

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.

	2018 £m	2017 £m
Investment broker balances	**199**	76
Property related payables	**117**	–
Investment management fees	**39**	1
Other payables	**518**	67
	873	144
Amount due for settlement after 12 months	**97**	–

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 (prior to the elimination of the insurance policies issued by Group entities) 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 Pearl Scheme'), the PGL Pension Scheme, and the Abbey Life Staff Pension Scheme ('Abbey Life Scheme') and explains how the pension asset/liability is calculated.

G6. Pension schemes continued

An analysis of the defined benefit asset/(liability) for each pension scheme is set out below:

	2018 £m	2017 £m
Pearl Group Staff Pension Scheme		
Economic surplus	**449**	572
Minimum funding requirement obligation	**(37)**	(50)
Provision for tax on that part of the economic surplus available as a refund on a winding-up of the Scheme	**(157)**	(200)
Net defined benefit asset	**255**	322
PGL Pension Scheme		
Economic surplus (including £432 million (2017: £420 million) available as a refund on a winding-up of the Scheme)	**506**	500
Adjustment for insurance policies eliminated on consolidation	**(877)**	(916)
Net economic deficit	**(371)**	(416)
Provision for tax on that part of the economic surplus available as a refund on a winding-up of the Scheme	**(151)**	(147)
Net defined benefit liability	**(522)**	(563)
Abbey Life Staff Pension Scheme		
Net defined benefit liability	**(74)**	(70)

Risks

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 liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The majority of the assets are held within a liability driven investment strategy which is linked to the funding basis of the schemes (set with reference to government bond yields). As such, to the extent that movements in corporate bond yields are out of line with movements in government bond yields, volatility will arise.

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). The majority of the assets are held with a liability driven investment strategy which allows for movements in inflation, meaning that changes in inflation should not materially affect the surplus.

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. For the PGL scheme, this is partially offset by the buy in policies that move in line with the liabilities. These buy in policies are eliminated on consolidation (see section G6.2 for further details)

Information on each of these schemes is set out below.

Guaranteed Minimum Pension ('GMP') Equalisation

GMP is a portion of pension that was accrued by individuals who were contracted out of the State Second Pension prior to 6 April 1997. Historically, there was an inequality of benefits between male and female members who have GMP. A High Court case concluded on 26 October 2018 and confirmed that GMPs need to be equalised. The Group has undertaken an initial assessment, and has included an allowance for the potential cost of equalising GMP for the impact between males and females in its IAS 19 actuarial liabilities as at 31 December 2018, pending further discussions with the scheme Trustees and the issuance of guidance as to how equalisation should be achieved. The cost of GMP equalisation across all schemes of £59 million (Pearl Scheme: £32 million; PGL Scheme: £23 million; and Abbey Scheme £4 million) has been recognised as a past service cost in the consolidated income statement. Any future changes to this estimate will be recognised in Other Comprehensive Income.

G6.1 Pearl Group Staff Pension Scheme

Scheme details

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 Pearl 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.

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G6. Pension schemes continued

G6.1 Pearl Group Staff Pension Scheme continued

The valuation has been based on an assessment of the liabilities of the Pearl Scheme as at 31 December 2018, 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 triennial funding valuation of the Scheme as at 30 June 2018 commenced during the year and is expected to be completed by September 2019. The cash flows utilised in the IFRS valuation as at 31 December 2018 have been updated to reflect the latest data available from the 30 June 2018 funding valuation and together with the impact of modelling enhancements implemented during the year, this has resulted in the recognition of an experience loss of £145 million in the year (2017: £15 million loss).

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 were not altered following finalisation of 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 £37 million (2017: £50 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 £106 million (2017: £143 million) in accordance with the minimum funding requirement. A deferred tax asset of £18 million (2017: £24 million) has also been recognised to reflect tax relief at a rate of 17% (2017: 17%) that is expected to be available on the contributions, once paid into the Scheme.

Contributions totalling £40 million were paid into the Pearl Scheme in 2018 (2017: £50 million) reflecting the monthly instalments. The contributions paid into the Scheme for 2017 reflect £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 2019.

Liability management exercise

In June 2018, the Group commenced a pension increase exchange ('PIE') exercise in respect of the Pearl 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 period has been recognised in the consolidated financial statements as a reduction in scheme liabilities of £2 million shown as past service credit in the consolidated income statement.

G6. Pension schemes continued

G6.1 Pearl Group Staff Pension Scheme continued

Summary of amounts recognised in the consolidated financial statements

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

2018	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	2,722	(2,150)	(200)	(50)	322
Interest income/(expense)	67	(52)	(5)	(1)	9
Past service cost	–	(30)	–	–	(30)
Included in profit or loss	67	(82)	(5)	(1)	(21)
Remeasurements:					
Return on plan assets excluding amounts included in interest income	(81)	–	–	–	(81)
Gain from changes in demographic assumptions	–	8	–	–	8
Gain from changes in financial assumptions	–	70	–	–	70
Experience loss	–	(145)	–	–	(145)
Change in provision for tax on economic surplus available as a refund	–	–	48	–	48
Change in minimum funding requirement obligation	–	–	–	14	14
Included in other comprehensive income	(81)	(67)	48	14	(86)
Employer's contributions	40	–	–	–	40
Benefit payments	(117)	117	–	–	–
At 31 December	2,631	(2,182)	(157)	(37)	255

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G6. Pension schemes continued

G6.1 Pearl Group Staff Pension Scheme continued

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

Scheme assets

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

	2018		2017	
	Total £m	**Of which not quoted in an active market £m**	Total £m	Of which not quoted in an active market £m
Hedging portfolio	**2,012**	**(4)**	1,823	(35)
Equities	**–**	**–**	165	–
Fixed interest gilts	**54**	**–**	88	–
Other debt securities	**1,251**	**–**	1,090	–
Properties	**294**	**294**	270	270
Private equities	**28**	**28**	35	35
Hedge funds	**15**	**15**	18	18
Cash and other	**92**	**–**	120	–
Obligations for repayment of stock lending collateral received	**(1,115)**	**–**	(887)	–
	2,631	**333**	2,722	288

G6. Pension schemes continued

G6.1 Pearl Group Staff Pension Scheme continued

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: 40% (2017: 37%); and
- Pensioners: 60% (2017: 63%)

The weighted average duration of the defined benefit obligation at 31 December 2018 is 16 years (2017: 17 years).

Principal assumptions

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

	2018 %	2017 %
Rate of increase for pensions in payment (5% per annum or RPI if lower)	**3.10**	3.05
Rate of increase for deferred pensions ('CPI')	**2.40**	2.20
Discount rate	**2.80**	2.50
Inflation – RPI	**3.20**	3.20
Inflation – CPI	**2.40**	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 from 1 January 2017 are based on CMI 2017 Core Projections (2017: CMI 2016 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 (unchanged from 2017). Under these assumptions, the average life expectancy from retirement for a member currently aged 40 retiring at age 60 is 29.9 years and 32.2 years for male and female members respectively (2017: 30.0 and 32.0 respectively).

A quantitative sensitivity analysis for significant actuarial assumptions is shown below:

2018

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)	**2,182**	**(82)**	**85**	**65**	**(76)**	**79**	**(79)**

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)

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.

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 £7 million (2017: £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 2018, 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. The triennial funding valuation of the Scheme as at 30 June 2018 commenced during the year and is expected to be completed by September 2019. The IFRS valuation cash flows have been updated to reflect the latest valuation data.

No contributions were paid in 2018 (2017: £10 million). Contributions amounting to £59 million in total were paid into the Scheme over the period from October 2013 to August 2017. There are no further committed contributions to pay in respect of the defined benefit section of the Scheme.

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 (see note E1). 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 2018 was £856 million (2017: £895 million).

Included within insurance policies with Group entities of £877 million (2017: £916 million) is a further insurance policy reimbursement asset of £21 million (2017: £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 Pension Scheme. Pension increases are now 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.

G6. Pension schemes continued

G6.2 PGL Pension Scheme continued

Summary of amounts recognised in the consolidated financial statements

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

2018	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	**1,206**	**(1,622)**	**(147)**	**–**	**(563)**
Interest income/(expense)	**30**	**(40)**	**(3)**	**–**	**(13)**
Administrative expenses	**(4)**	**–**	**–**	**–**	**(4)**
Past service cost	**–**	**(23)**	**–**	**–**	**(23)**
Included in profit or loss	**26**	**(63)**	**(3)**	**–**	**(40)**
Remeasurements:					
Return on plan assets excluding amounts included in interest income	**(41)**	**–**	**–**	**–**	**(41)**
Experience gain	**–**	**17**	**–**	**–**	**17**
Gain from changes in financial assumptions	**–**	**62**	**–**	**–**	**62**
Loss from changes in demographic assumptions	**–**	**(3)**	**–**	**–**	**(3)**
Change in provision for tax on economic surplus available as a refund	**–**	**–**	**(1)**	**–**	**(1)**
Included in other comprehensive income	**(41)**	**76**	**(1)**	**–**	**34**
Benefit payments	**(81)**	**81**	**–**	**–**	**–**
Income received from insurance policies	**47**	**–**	**–**	**–**	**47**
At 31 December	**1,157**	**(1,528)**	**(151)**	**–**	**(522)**

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)

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:

	2018 Total £m	2018 Of which not quoted in an active market £m	2017 Total £m	2017 Of which not quoted in an active market £m
Fixed interest gilts	**291**	**–**	357	–
Index-linked bonds	**848**	**–**	866	–
Swaps	**5**	**5**	7	7
Properties	**–**	**–**	111	111
Hedge funds	**–**	**–**	90	90
Corporate Bonds	**16**	**–**	17	–
Cash and other	**12**	**–**	12	–
Obligations for repayment of stock lending collateral received	**(24)**	**–**	(254)	–
European Investment Bank Bonds	**9**	**–**	–	–
Reported scheme assets	**1,157**	**5**	1,206	208
Add back:				
Insurance policies eliminated on consolidation	**877**	**877**	916	916
Economic value of assets	**2,034**	**882**	2,122	1,124

The Group ensures that the investment positions are managed within an 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 Pension 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 PGL Pension 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: 36% (2017: 39%); and
- Pensioners: 64% (2017: 61%)

The weighted average duration of the defined benefit obligation at 31 December 2018 is 16 years (2017: 18 years). The prior year value has been restated following refinements made to the modelling used in the calculation.

Principal assumptions

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

	2018 %	2017 %
Rate of increase for pensions in payment (7.5% per annum or RPI if lower)	**3.20**	3.20
Rate of increase for deferred pensions ('CPI')	**2.40**	2.20
Discount rate	**2.80**	2.50
Inflation – RPI	**3.20**	3.20
Inflation – CPI	**2.40**	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 Pension 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 from 1 January 2017 in line with CMI 2017 Core Projections (2017: CMI 2016 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% at age 110 (unchanged from 2017). Under these assumptions, the average life expectancy from retirement for a member currently aged 40 retiring at age 62 is 28.3 years (2017: 28.3 years) and 29.6 years (2017: 29.6 years) for male and female members respectively.

G6. Pension schemes continued

G6.2 PGL Pension Scheme continued

A quantitative sensitivity analysis for significant actuarial assumptions is shown below:

2018

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)	**1,528**	**(59)**	**60**	**48**	**(51)**	**57**	**(57)**

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)

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 consolidated financial position.

G6.3 Abbey Life Staff Pension Scheme

Scheme details

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 Abbey Life 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 Abbey Life Scheme is closed to new entrants. The last active member ceased employment with the Group during the year and consequently the Abbey Life Scheme no longer recognises a current service cost.

The valuation has been based on an assessment of the liabilities of the Abbey Life Scheme as at 31 December 2018 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 Abbey Life Scheme was carried out by a qualified actuary as at 31 March 2018 and showed a deficit of £74 million.

Prior to 19 November 2018, the following schedule of contribution was applicable from 1 July 2017 and PeLHL was required to pay 39.5% of gross pensionable 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.

Following the completion of the triennial funding valuation a revised schedule of contributions was agreed effective from 19 November 2018, for PeLHL to pay the following amounts in respect of deficit contributions:

- fixed monthly contributions of £400,000 payable up to 30 June 2026;
- monthly contributions in respect of administration expenses of £85,640 payable up to 31 March 2019, then £100,000 payable up to 30 June 2028 increasing 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 next payment being made by 31 July 2019, 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 Abbey Life Scheme assets.

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G6. Pension schemes continued

G6.3 Abbey Life Staff Pension Scheme continued

Under the terms of the 2013 Funding Agreement dated 28 June 2013, the funding position of the Abbey Life Scheme will be assessed as at 31 March 2021. A payment will be made from the 2013 Charged Account to the Abbey Life 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 Abbey Life 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.

Summary of amounts recognised in the consolidated financial statements

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

2018	Fair value of scheme assets £m	Defined benefit obligation £m	Total £m
At 1 January	**251**	**(321)**	**(70)**
Past service cost	**–**	**(4)**	**(4)**
Interest income/(expense)	**6**	**(8)**	**(2)**
Administrative expenses	**(2)**	**–**	**(2)**
Included in profit or loss	**4**	**(12)**	**(8)**
Remeasurements:			
Return on plan assets excluding amounts included in interest income	**(13)**	**–**	**(13)**
Experience loss	**–**	**(5)**	**(5)**
Gain from changes in financial assumptions	**–**	**12**	**12**
Gain from changes in demographic assumptions	**–**	**4**	**4**
Included in other comprehensive income	**(13)**	**11**	**(2)**
Employer's contributions	**6**	**–**	**6**
Benefit payments	**(15)**	**15**	**–**
At 31 December	**233**	**(307)**	**(74)**

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)

Scheme assets

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

2018	Total £m	Of which not quoted in an active market £m
Equities – UK	**24**	**–**
Fixed interest government bonds	**84**	**–**
Corporate bonds	**148**	**–**
Derivatives	**(40)**	**(40)**
Cash and cash equivalents	**17**	**–**
Pension scheme assets	**233**	**(40)**

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)

G6. Pension schemes continued

G6.3 Abbey Life Staff Pension Scheme continued

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 Abbey Life Scheme's members as follows:

- Active scheme members: nil% (2017: 5%)
- Deferred scheme members: 49% (2017: 55%); and
- Pensioners: 51% (2017: 40%)

The weighted average duration of the defined benefit obligation at 31 December 2018 is 17 years (2017: 18 years).

Principal assumptions

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

	2018 %	2017 %
Rate of increase for pensions in payment	**3.10**	3.05
Rate of increase for deferred pensions ('CPI' subject to caps)	**2.40**	2.20
Discount rate	**2.80**	2.50
Inflation – RPI	**3.20**	3.20
Inflation – CPI	**2.40**	2.20
Rate of salary increases	**N/A**	4.20
Commutation of benefits to lump sums on retirement	**20.00**	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 2017 Core Projections (2017: CMI 2016 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 (unchanged from 2017). Under these assumptions the average life expectancy from retirement for a member currently aged 45 retiring at age 65 is 25.7 years and 27.2 years for male and female members respectively (2017: 25.8 years and 27.2 years respectively).

A quantitative sensitivity analysis for significant actuarial assumptions is shown below:

2018

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)	**307**	**(12)**	**13**	**9**	**(9)**	**12**	**(11)**

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)

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.

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G7. Intangible assets

Goodwill

Business combinations are accounted for by applying the acquisition 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.

In certain acquisitions, an excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities, contingent liabilities and non-controlling interests over cost may arise. Where this occurs, the surplus of the fair value of net assets acquired over the fair value of the consideration is recognised in the consolidated income statement.

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 assets acquired in a business combination is their 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 whenever 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 and other contractual arrangements

Brands and other contractual arrangements 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 and other contractual arrangements over their estimated useful lives. They are tested for impairment whenever there is evidence of possible impairment. For impairment testing, they are allocated to the relevant cash-generating unit. Brands and other contractual arrangements are impaired when the recoverable amount is less than the carrying value.

			Other intangibles				
2018	Goodwill £m	Acquired in-force business £m	Customer relationships £m	Present value of future profits £m	Brands and other £m	Total other intangibles	Total £m
Cost or valuation							
At 1 January	57	2,266	297	11	20	328	2,651
On acquisition of Standard Life Assurance businesses (see note H2.1)	–	2,931	–	–	36	36	2,967
Revaluation	–	–	–	1	–	1	1
At 31 December	57	5,197	297	12	56	365	5,619
Amortisation and impairment							
At 1 January	–	(968)	(124)	–	(2)	(126)	(1,094)
Amortisation charge for the year	–	(196)	(15)	–	(3)	(18)	(214)
At 31 December	–	(1,164)	(139)	–	(5)	(144)	(1,308)
Carrying amount at 31 December	57	4,033	158	12	51	221	4,311
Amount recoverable after 12 months	57	3,651	143	12	47	202	3,910

G7. Intangible assets continued

2017	Goodwill £m	Acquired in-force business £m	Other intangibles: Customer relationships £m	Present value of future profits £m	Brands and other £m	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

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 goodwill is attributable to the Management Services segment including £8 million that arose 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 8.9% (2017: 7.1%) 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.

The remaining £10 million relates to the goodwill recognised on the acquisition of AXA Wealth during 2016 and has been allocated to the UK Open segment. This represents the value of the workforce assumed and the potential for future value creation, which relates to the ability to invest in and grow the SunLife brand. Value in use has been determined as the present value of certain future cashflows 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 cashflows have been valued at a risk-adjusted discount rate of 11% that makes prudent allowance for the risk that future cash flows 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 amortised in line with emergence of economic benefits.

Acquired in-force business of £2,931 million was recognised during 2018 upon acquisition of the Standard Life Assurance businesses (see note H2).

G7.3 Customer relationships
The customer relationships intangible at 31 December 2018 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 UK Heritage segment. This intangible is being amortised over a 20-year period.

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G7. Intangible assets continued

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.

G7.5 Other intangibles

Other intangibles include £20 million which was recognised at cost on acquisition of the AXA Wealth businesses and £36 million recognised at cost on acquisition of the Standard Life Assurance businesses.

The amount recognised in respect of AXA Wealth 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.

This brand intangible is being amortised over a 10 year period.

The amount recognised in respect of the Standard Life Assurance businesses represents the value attributable to the Client Services and Proposition Agreement ('CSPA') with SLA plc and the Group's contractual rights to use the Standard Life brand. The CSPA formalises the Strategic Partnership between the two companies and establishes the contractual terms by which SLA plc will continue to market and distribute certain products that will be manufactured by Group companies.

This intangible was valued on a 'multi-period excess earnings' basis and is being amortised over a period of 15 years. Further details are set out in note H2.

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 20 – 50 years. Land is not depreciated. Gains and losses on owner-occupied property are recognised in the statement of consolidated comprehensive income.

Equipment consists primarily of computer equipment and equipment and fittings. Equipment is stated at historical cost less deprecation. Where acquired in a business combination, historical cost equates to the fair value at the acquisition date. Depreciation on equipment is charged to the consolidated income statement over its estimated useful life of between 2 and 15 years.

	2018 £m	2017 £m
Equipment	**17**	–
Owner-occupied properties	**31**	26
	48	26

Equipment includes £14 million which was recognised on acquisition of the Standard Life Assurance businesses. Additions in the year were £5 million and depreciation charged was £2 million.

Owner-occupied properties have been valued by accredited independent valuers at 31 December 2018 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 £31 million (2017: £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:

	2018 £m	2017 £m
At 1 January	**26**	25
On acquisition of Standard Life Assurance businesses (see note H2.1)	**5**	–
Remeasurement recognised in other comprehensive income	**–**	1
At 31 December	**31**	26
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.

	2018 £m	2017 £m
At 1 January	**612**	646
On acquisition of the Standard Life Assurance businesses (see note H2.1)	**5,878**	–
Additions	**119**	–
Improvements	**3**	10
Disposals	**(74)**	(53)
(Losses)/gains on adjustments to fair value (recognised in consolidated income statement)	**(18)**	9
At 31 December	**6,520**	612
Unrealised (losses)/gains on properties held at end of period	**(28)**	5

G9. Investment property continued

As at 31 December 2018, a property portfolio of £6,401 million (2017: £474 million) is held by the life companies in a mix of commercial sectors, spread geographically throughout the UK and Europe.

Investment properties also include £119 million (2017: £138 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 derived from published mortality tables. The open market value is measured by independent local property surveyors having appropriate recognised professional qualifications with reference to the assumed condition of the property and local market conditions. The individual properties are valued triennially and indexed using regional house price indices to the year end date.

The discount rate is a risk-free rate appropriate for the duration of the asset, adjusted for the deferred possession rate of 3.6%. Assumptions are also made in the valuation for future movements in property prices, based on a risk free rate. 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) 2018	Range (weighted average) 2017
Commercial Investment Property	RICS valuation	Expected income per sq. ft.	£3.71 – £132.72 (£36.66)	£5.39 – £100.40 (£23.85)
		Estimated rental value per hotel room	£4,789 – £13,800 (£8,948)	–
		Capitalisation rate	3.30% – 9.50% (5.10%)	4.72% – 10.48% (5.83%)

G. OTHER STATEMENT OF CONSOLIDATED FINANCIAL POSITION NOTES continued

G9. Investment property continued

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 £5 million;
- a decrease of 1% in the deferred possession rate would increase the market value by £5 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 £11 million (2017: £1 million). The direct operating expenses arising from investment property that did not generate rental income during the year amounted to £2 million (2017: £4 million).

Future minimum lease rental receivables in respect of non-cancellable operating leases on investment properties were as follows:

	2018 £m	2017 £m
Not later than 1 year	**262**	22
Later than 1 year and not later than 5 years	**884**	61
Later than 5 years	**2,815**	62

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.

	2018 £m	2017 £m
Investment broker balances	**176**	55
Cash collateral pledged	**339**	338
Reimbursement assets (note G1)	**22**	55
Property related receivables	**110**	–
Deferred acquisition costs	**21**	6
Other debtors	**379**	126
	1,047	580
Amount recoverable after 12 months	**8**	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.

	2018 £m	2017 £m
Bank and cash balances	**2,124**	1,181
Short-term deposits (including demand and time deposits)	**2,802**	1,064
	4,926	2,245

Deposits are subject to a combination of fixed and variable 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 £4,572 million (2017: £1,878 million) are primarily held for the benefit of policyholders and so are not generally available for use by the owners.

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. In certain acquisitions an excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities, contingent liabilities and non-controlling interests, over cost may arise. Where this occurs, the surplus of the fair value of net assets acquired over the fair value of the consideration 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'), investment trusts 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.

When assessing control over collective investment schemes, the Group considers those factors described under the 'Basis of consolidation' in note A1. In particular, the Group considers the scope of its decision-making authority, including the existence of substantive rights (such as power of veto, liquidation rights and the right to remove the fund manager) that give it the ability to direct the relevant activities of the investee. The assessment of whether rights are substantive rights, and the circumstances under which the Group has the practical ability to exercise them, requires the exercise of judgement. This assessment includes a qualitative consideration of the rights held by the Group that are attached to its holdings in the collective investment schemes, rights that arise from contractual arrangements between the Group and the entity or fund manager and the rights held by third parties. In addition, consideration is made of whether the Group has de facto power, for example, where third party investments in the collective investment schemes are widely dispersed.

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.
- Pearl Life Holdings Limited ('PeLHL') is required to make payments of contributions into charged accounts on behalf of the Abbey Life Scheme. These amounts do not form part of the pension scheme assets and at 31 December 2018, PeLHL held £46 million (2017: £40 million) within fixed and variable rate income securities and £1 million (2017: £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

H2.1 Acquisition of Standard Life Assurance businesses

On 31 August 2018, the Group acquired 100% of the issued share capital of Standard Life Assurance Limited, Standard Life Pensions Fund Limited, Standard Life International Designated Activity Company, Vebnet (Holdings) Limited, Vebnet Limited, Standard Life Lifetime Mortgages Limited, Standard Life Assets and Employee Services Limited and Standard Life Investment Funds Limited (together known as 'the Standard Life Assurance businesses') from SLA plc for total consideration of £2,994 million. The consideration consisted of £1,971 million of cash funded by a fully underwritten rights issue of £950 million, with the remaining balance of £1,021 million funded by a mix of new debt and Phoenix's own resources. In addition, SLA plc took a 19.99% equity stake in the Enlarged Group on completion valued at £1,023 million, based on the share price at 31 August 2018.

H. INTERESTS IN SUBSIDIARIES AND ASSOCIATES continued

H2. Acquisitions continued

The table below summarises the fair value of identifiable assets acquired and liabilities assumed as at the date of acquisition.

	Notes	Fair value £m
Assets		
Intangible assets:		
Acquired in-force business	G7	**2,931**
Other intangibles	G7	**36**
Property, plant and equipment	G8	**19**
Investment property	G9	**5,878**
Financial assets		**150,709**
Reinsurers' share of insurance contract liabilities	F1	**4,264**
Other insurance assets		**64**
Current tax		**195**
Prepayments and accrued income		**353**
Other receivables		**613**
Cash and cash equivalents		**3,643**
Total assets		**168,705**
Liabilities		
Liabilities under insurance contracts	F1	**51,487**
Investment contract liabilities		**102,206**
Unallocated surplus	F2	**525**
Other financial liabilities		**8,859**
Provisions	G1	**269**
Deferred tax	G2	**667**
Reinsurance payables		**6**
Payables related to direct insurance contracts		**342**
Current tax		**66**
Accruals and deferred income		**32**
Other payables		**820**
Bank overdraft		**26**
Total liabilities		**165,305**
Non-controlling interest	D4	**(265)**
Fair value of net assets acquired		**3,135**
Gain arising on acquisition		**(141)**
Purchase consideration transferred		**2,994**
Analysis of cashflows on acquisition:		
Net cash acquired with the subsidiaries (included in cash flow from investing activities)		**3,617**
Cash paid including transaction costs		**(2,010)**
Net cash flow on acquisition		**1,607**

Acquired Value in-Force ('AVIF') and other intangibles

An asset of £2,931 million arises reflecting the present value of future profits associated with the acquired in-force business.

Under the Group's accounting policy (see note G7), AVIF arising on acquired insurance contracts and investment contracts with DPF is measured as the difference between the fair value of contractual rights acquired and obligations assumed and the liability measured in accordance with the Group's accounting policies for such contracts. AVIF relating to investment contracts without DPF, is recognised at its fair value.

H2. Acquisitions continued

Acquired Value in-Force ('AVIF') and other intangibles continued

The valuation of the AVIF has been determined by reference to the assumptions expected to be applied by a market participant in an orderly transaction. The valuation approach uses present value techniques applied to the best estimate cash flows expected to arise from policies that were in-force at the acquisition date, adjusted to reflect the price of bearing the uncertainty inherent in those cash flows. This approach incorporates a number of judgments and assumptions which have impacted on the resultant valuation, the most significant of which include mortality rates, expected policy lapses and surrender costs, and the expenses associated with servicing the policies, together with economic assumptions such as future investment returns and the discount rate allowing for an appropriate illiquidity premium based on the assets existing at the balance sheet date. The determination of the majority of these assumptions is carried out on a consistent basis with that described in note F4.1 with appropriate adjustments to reflect a market participant view. The risk adjustment for the uncertainty in the cashflows has been determined using a cost of capital approach.

Deferred acquisition costs of £584 million and deferred front end fees of £(139) million, recognised by the Standard Life Assurance businesses have been derecognised on acquisition and replaced with the AVIF.

A separately identifiable intangible asset of £36 million relating to the Client Service and Proposition Agreement ('CSPA') entered into between Phoenix and SLA plc has been recognised in the acquisition balance sheet. This reflects the value associated with the receipt of marketing, distribution and customer relationship services from SLA plc at a nil or below market rate cost and the rights acquired for the usage of the Standard Life brand for the marketing of certain specified products. Further details are set out in note G7. The asset has been valued using a multi-period excess earnings method. The useful economic life of the intangible has been assessed as 15 years.

Other receivables

The financial assets acquired include other receivables with a fair value of £613 million. The gross amount due under the contracts is £613 million, of which no balances are expected to be uncollectible.

Tax

The tax impact of the fair value adjustments recognised on acquisition has been reflected in the acquisition balance sheet.

Goodwill

A gain on acquisition of £141 million has been recognised in the consolidated income statement for the year ended 31 December 2018, reflecting the excess of the fair value of the net assets acquired over the consideration paid for the acquisition of the Standard Life Assurance businesses.

The cash consideration for the acquisition was fixed and determined using a 'locked box' pricing mechanism based on the position as at 31 December 2017, and recalibrated to reflect market conditions upon announcement of the transaction in February 2018. The net assets acquired were recognised in the consolidated financial statements at their fair values on 31 August 2018. Market movements and the impact of business written during 2018 increased the value of the in-force business as at the acquisition date compared to that assumed in the pricing basis, most notably equity market gains in the period from February to August 2018. Accordingly, a gain on acquisition has arisen on the transaction.

At the time of the announcement, the Group entered into arrangements to hedge the shareholder exposure to equity and currency risk in the Standard Life Assurance businesses in the period prior to completion of the transaction. Losses of £143 million were recognised on these hedges within net investment income during this period. These losses offset the gain arising on acquisition.

Transaction costs

Transaction costs of £43 million have been expensed and are included in administrative expenses in the consolidated income statement. £39 million of these costs were paid during the period.

Impact of the acquisition on results

From the date of acquisition, the Standard Life Assurance businesses contributed £775 million of total revenue, net of reinsurance payable, and £208 million of the profit after the tax attributable to owners of the parent. If the acquisition of the Standard Life Assurance businesses had taken place at the beginning of the year, total revenue net of reinsurance payable, would have been £4,186 million and the profit after the tax attributable to owners of the parent would have been £439 million.

H3. Associates: 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.

The Group's interest in UKCPT is 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 is limited to the impact of those movements on the shareholder share of distributed profits of the relevant fund.

As at 31 December 2018, the Group held 44.7% (2017: 47.9%) of the issued share capital of UKCPT and the value of this investment, measured at fair value, was £496 million (2017: £550 million). Management has concluded that the Group did not control UKCPT in either the current or comparative periods. 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.

Summary financial information (at 100%) for UKCPT is shown below:

	2018 £m	2017 £m
Non-current assets	**1,431**	1,336
Current assets	**67**	143
Non-current liabilities	**(249)**	(250)
Current liabilities	**(36)**	(24)
	1,213	1,205
Revenue	**85**	161
Profit before tax	**59**	135
Taxation	**(6)**	(4)
Profit for the year after tax	**53**	131

H. INTERESTS IN SUBSIDIARIES AND ASSOCIATES continued

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 and private equity funds 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 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.

During the year, the Group granted further loans to the EBT of £8 million (2017: £4 million). Further loans are expected to be granted in 2019.

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. Directly held collective investment schemes are further analysed by the predominant asset class in which the entity is invested.

	2018 Carrying value of financial assets £m	2017 Carrying value of financial assets £m
Equities	**463**	344
Collective investment schemes:		
Directly held collective investment schemes[1]:		
Equities	**17,693**	4,166
Bonds	**7,519**	3,175
Property	**1,963**	472
Diversified	**19,185**	1,359
Short-term liquidity	**12,464**	8,465
Indirectly held collective investment schemes[2]	**11,782**	1,264
Fixed and variable rate income securities:		
Asset backed securities	**2,843**	607
	73,912	19,852

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.

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), 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 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 Limited (life assurance company)	Wythall[1]		Ordinary Shares	100.00%
Phoenix Life Assurance Limited (life assurance company)	Wythall[1]		Ordinary Shares	100.00%
Abbey Life Assurance Company Limited (life assurance company)	Wythall[1]		Ordinary Shares	100.00%
Standard Life Assurance Limited (life assurance company)	Edinburgh[27]		Ordinary Shares	100.00%
Standard Life International Designated Activity Company (life assurance company)	Dublin[5]		Ordinary Shares	100.00%
Standard Life Pension Funds Limited (life assurance company)	Edinburgh[27]		Limited by Guarantee	100.00%
Britannic Finance Limited (finance and insurance services company)	Wythall[1]		Ordinary Shares	100.00%
Pearl Customer Care Limited (financial services company)	Wythall[1]		Ordinary Shares	100.00%
Pearl Group Holdings (No. 1) Limited (finance company)	London[2]		Ordinary Shares	100.00%
Pearl Group Management Services Limited (management services company)	Wythall[1]		Ordinary Shares	100.00%
Phoenix Customer Care Limited (financial services company)	Wythall[1]		Ordinary Shares	100.00%
Phoenix ER1 Limited (finance company)	Wythall[1]		Ordinary Shares	100.00%
Pearl Group Services Limited (management services company)	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 (LCA) Limited (finance company)	Wythall[1]		Ordinary Shares	100.00%
PGH (LCB) 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 Capital plc (finance company)	Dublin[7]		Ordinary Shares	100.00%
PGMS (Ireland) Limited (management services company)	Dublin[6]		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 SL Direct Limited (management services company)	Wythall[1]		Ordinary Shares	100.00%
Phoenix Unit Trust Managers Limited (unit trust manager)	Wythall[1]		Ordinary Shares	100.00%
Phoenix Wealth Services Limited (management services company)	Wythall[1]		Ordinary Shares	100.00%
Phoenix Wealth Trustee Services Limited (management services company)	Wythall[1]		Ordinary Shares	100.00%
SLACOM (No. 8) Limited (loan provider company)	Edinburgh[27]		Ordinary Shares	100.00%
Standard Life Assets and Employee Services Limited (service company)	Edinburgh[27]		Ordinary Shares	100.00%
Standard Life Lifetime Mortgages Limited (mortgage provider company)	Edinburgh[27]		Ordinary Shares	100.00%
The Standard Life Assurance Company of Europe B.V. (financial holding company)	Amsterdam[9]		Ordinary Shares	100.00%
Vebnet Limited (management service company)	Wythall[1]		Ordinary Shares	100.00%
Mutual Securitisation plc (finance company)	Dublin[28]		N/A	100.00%
Britannic Money Investment Services Limited (investment advice company)	Wythall[1]		Ordinary Shares	100.00%
Century Group Limited (investment company)	Wythall[1]		Ordinary Shares	100.00%
Inesia SA (investment company)	Luxembourg[21]		Ordinary Shares	100.00%
Alcobendas Entrust Limited (investment company)	Wythall[1]		Ordinary Shares	100.00%
Axial Fundamental Strategies (US Investments) LLC	Wilmington[19]		N/A	100.00%
IH (Jersey) Limited (investment company)	Jersey[16]		Ordinary Shares	100.00%
Pearl (WP) Investments LLC (investment company)	Wilmington[19]		Limited Liability Company	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
Pearl Assurance Group Holdings Limited (investment company)	Wythall[1]		Ordinary Shares	100.00%
PGMS (Glasgow) Limited (investment company)	Edinburgh[27]		Ordinary Shares	100.00%
PGS 2 Limited (investment company)	Wythall[1]		Ordinary Shares	100.00%
Phoenix SCP Limited (investment company)	Wythall[1]		Ordinary Shares	100.00%
Phoenix SPV1 Limited (investment company)	Wythall[1]		Ordinary Shares	100.00%
Phoenix SPV2 Limited (investment company)	Wythall[1]		Ordinary Shares	100.00%
Phoenix SPV3 Limited (investment company)	Wythall[1]		Ordinary Shares	100.00%
Phoenix SPV4 Limited (investment company)	Wythall[1]		Ordinary Shares	100.00%
SPL (Holdings) Limited (investment holding company)	Glasgow[12]		Ordinary Shares	100.00%
Standard Life Private Equity Trust plc (investment company)	Edinburgh[26]		Ordinary Shares	55.20%
CH Management Limited (investment company)	Delaware[20]		Ordinary Shares	100.00%
3 St Andrew Square Apartments Limited (property management company)	Edinburgh[26]		Ordinary Shares	100.00%
Abbey Life Trust Securities Limited (pension trustee company)	Wythall[1]		Ordinary Shares	100.00%
G Park Management Company Limited (property management company)	London[18]		Ordinary Shares	100.00%
Hundred S.à r.l. (property management company)	Luxembourg[25]		Ordinary Shares	100.00%
Lake Meadows Management Company Limited (property management company)	London[18]		Ordinary Shares	100.00%
Pearl Life Services Limited (property management company)	Wythall[1]		Ordinary Shares	100.00%
Phoenix SCP Pensions Trustees Limited (trustee company)	Wythall[1]		Ordinary Shares	100.00%
Phoenix SCP Trustees Limited (trustee company)	Edinburgh[27]		Ordinary Shares	100.00%
SLA Belgium No.1 SA (property company)	Belgium[3]		Société Anonyme	100.00%
330 Avenida de Aragon SL (property management company)	Madrid[40]		Ordinary Shares	100.00%
SLIF Property Investment GP Limited (General Partner to SLIF Property Investment)	Edinburgh[26]		Ordinary Shares	100.00%
SLIF Property Investment LP Limited (General Partner to SLIF Property Investment)	Edinburgh[26]		Limited partnership	100.00%
SPL (Holdings 1) Limited (non-trading company)	Glasgow[12]		Ordinary Shares	100.00%
Impala Holdings Limited (holding company)	Wythall[1]		Ordinary Shares	100.00%
Pearl Group Holdings (No. 2) Limited (holding company)	Wythall[1]		Ordinary Shares	100.00%
NP Life Holdings Limited (holding company)	Wythall[1]		Ordinary Shares	100.00%
London Life Limited (non-trading company)	Wythall[1]		Ordinary Shares	100.00%
Alba Life Trustees Limited (non-trading company)	Edinburgh[27]		Ordinary Shares	100.00%
National Provident Life Limited (non-trading company)	Wythall[1]		Ordinary Shares	100.00%
Phoenix AW Limited (non-trading company)	Wythall[1]		Ordinary Shares	100.00%
PA (GI) Limited (non-trading company)	Wythall[1]		Ordinary Shares	100.00%
Phoenix Group Holdings (holding company – directly owned by the Company)	Cayman Islands[4]		Private Company	100.00%
Phoenix Life Holdings Limited (holding company)	Wythall[1]		Ordinary Shares	100.00%
Pearl RLH Limited (investment holding company)	Glasgow[12]		Ordinary Shares	100.00%
PGMS (Ireland) Holdings Unlimited Company (holding company)	Dublin[6]		Unlimited with Shares	100.00%
Scottish Mutual Pension Funds Investment Limited (trustee company)	Edinburgh[27]		Ordinary Shares	100.00%
SLA Netherlands No.1 B.V. (financial holding company)	Amsterdam[9]		Ordinary Shares	100.00%
Standard Life Trustee Company Limited (trustee company)	Edinburgh[27]		Ordinary Shares	100.00%
SunLife Limited (financial services distribution company)	Wythall[1]		Ordinary Shares	100.00%
Phoenix Wealth Holdings Limited (holding company)	Wythall[1]		Ordinary Shares	100.00%
Pearl Life Holdings Limited (holding company)	Wythall[1]		Ordinary Shares	100.00%
PGH (TC1) Limited (holding company)	Wythall[1]		Ordinary Shares	100.00%
PGH (TC2) Limited (holding company)	Wythall[1]		Ordinary Shares	100.00%
Vebnet (Holdings) Limited (holding company)	Wythall[1]		Ordinary Shares	100.00%
Abbey Life Trustee Services Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
Alba LAS Pensions Management Limited (dormant company)	Glasgow[10]		Ordinary Shares	100.00%

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
BA (FURBS) Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
Britannic Group Services Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
Century Trustee Services Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
Cityfourinc (dormant company)	Wythall[1]		Unlimited with Shares	100.00%
Clearfol Investment Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
Corunna Limited (dormant company)	Glasgow[11]		Ordinary Shares	100.00%
Evergreen Trustee Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
Gallions Reach Shopping Park (Nominee) Limited (dormant company)	London[18]		Ordinary Shares	100.00%
Iceni Nominees (No. 2) Limited (dormant company)	London[18]		Ordinary Shares	100.00%
Impala Loan Company 1 Limited (dormant company)	Edinburgh[27]		Ordinary Shares	100.00%
Inhoco 3107 Limited (dormant company)	London[18]		Ordinary Shares	100.00%
London Life Trustees Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
National Provident Institution (dormant company)	Wythall[1]		Unlimited without Shares	100.00%
NPI (Printworks) Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
NPI (Westgate) Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
NPI 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 (Covent Garden) Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
Pearl (Martineau Phase 1) Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
Pearl (Martineau Phase 2) Limited (dormant company)	Wythall[1]		Ordinary Shares	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%
Pearl (Printworks) Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
Pearl (Stockley Park) Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
Pearl AL Limited (dormant company)	Glasgow[10]		Ordinary Shares	100.00%
Pearl Group Secretariat Services Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
Pearl MG Birmingham Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
Pearl MP Birmingham Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
Pearl RLG Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
Pearl Trustees Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
Pearl ULA Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
PG Dormant (No 3) Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
PG Dormant (No 4) Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
PG Dormant (No 5) Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
PG Dormant (No 6) Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
PG Dormant (No. 7) Limited (dormant company)	London[2]		Ordinary Shares	100.00%
Phoenix & London Assurance Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
Phoenix ER2 Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
Phoenix ER5 Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
Phoenix Life Insurance Services Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
Phoenix Life Pension Trust Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
Phoenix Pension Scheme (Trustees) Limited	Wythall[1]		Ordinary Shares	100.00%
Phoenix Pensions Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
Phoenix Pensions Trustee Services Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
Scottish Mutual Assurance Limited (dormant company)	Edinburgh[27]		Ordinary Shares	100.00%
Scottish Mutual Customer Care Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
Scottish Mutual Nominees Limited (dormant company)	Edinburgh[27]		Ordinary Shares	100.00%
SL (NEWCO) Limited (dormant company)	Edinburgh[27]		Ordinary Shares	100.00%
SL Liverpool plc (dormant company)	Wythall[1]		Public Limited Company	100.00%
SLACOM (No. 10) Limited (dormant company)	Edinburgh[27]		Ordinary Shares	100.00%
SLACOM (No. 9) Limited (dormant company)	Edinburgh[27]		Ordinary Shares	100.00%
Standard Life Agency Services Limited (dormant)	Edinburgh[27]		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
Standard Life Investment Funds Limited (dormant company)	Edinburgh[27]		Ordinary Shares	100.00%
Standard Life Master Trust Co. Ltd (dormant company)	Wythall[1]		Ordinary Shares	100.00%
Standard Life Property Company Limited (dormant)	Edinburgh[27]		Ordinary Shares	100.00%
The Heritable Securities and Mortgage Investment Association Ltd (dormant company)	Edinburgh[27]		Ordinary Shares	100.00%
The London Life Association Limited (dormant company)	Wythall[1]		Limited by Guarantee	100.00%
The Pearl Martineau Galleries Limited Partnership (dormant company)	Wythall[1]		Limited Partnership	100.00%
The Pearl Martineau Limited Partnership (dormant company)	Lynch Wood[22]		Limited Partnership	100.00%
The Phoenix Life SCP Institution (dormant company)	Edinburgh[27]		Limited by Guarantee	100.00%
The Scottish Mutual Assurance Society (dormant company)	Glasgow[10]		Limited by Guarantee	100.00%
Welbrent Property Investment Company Limited (dormant company)	London[18]		Ordinary Shares	100.00%
Zilmer Limited (dormant company)	Wythall[1]		Ordinary Shares	100.00%
28 Ribera del Loira SA (dormant company)	Madrid[40]		Ordinary Shares	100.00%
Phoenix Group Employee Benefit Trust	Jersey[17]		Trust	100.00%
Standard Life Assurance (HWPF) Luxembourg SARL	Luxembourg[25]		Ordinary Shares	100.00%
SLA Germany No.1 S.A.R.L	Luxembourg[25]		Ordinary Shares	100.00%
SLA Germany No.2 S.A.R.L	Luxembourg[25]		Ordinary Shares	100.00%
SLA Germany No.3 S.A.R.L	Luxembourg[25]		Ordinary Shares	100.00%
SLA Ireland No.1 S.A.R.L	Luxembourg[25]		Ordinary Shares	100.00%
Pilangen Logistik AB	Stockholm[23]		Ordinary Shares	100.00%
Pilangen Logistik I AB	Stockholm[23]		Ordinary Shares	100.00%
Pearl Private Equity LP	Edinburgh[26]		Limited Partnership	100.00%
Pearl Strategic Credit LP	Edinburgh[26]		Limited Partnership	100.00%
PUTM Bothwell Asia Pacific (Excluding Japan) Fund		Wythall[1]	Authorised Unit Trust	99.49%
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	99.91%
PUTM Bothwell Euro Sovereign Fund		Wythall[1]	Authorised Unit Trust	87.78%
PUTM Bothwell Europe Fund		Wythall[1]	Authorised Unit Trust	98.63%
PUTM Bothwell European Credit Fund		Wythall[1]	Authorised Unit Trust	82.78%
PUTM Bothwell Floating Rate ABS Fund		Wythall[1]	Authorised Unit Trust	100.00%
PUTM Bothwell Global Bond Fund		Wythall[1]	Authorised Unit Trust	99.90%
PUTM Bothwell Global Credit Fund		Wythall[1]	Authorised Unit Trust	99.99%
PUTM Bothwell Index-Linked Sterling Hedged Fund		Wythall[1]	Authorised Unit Trust	100.00%
PUTM Bothwell Japan Tracker Fund		Wythall[1]	Authorised Unit Trust	99.58%
PUTM Bothwell Long Gilt Sterling Hedged Fund		Wythall[1]	Authorised Unit Trust	99.91%
PUTM Bothwell North America Fund		Wythall[1]	Authorised Unit Trust	99.40%
PUTM Bothwell Sterling Credit Fund		Wythall[1]	Authorised Unit Trust	99.82%
PUTM Bothwell Sterling Government Bond Fund		Wythall[1]	Authorised Unit Trust	99.02%
PUTM Bothwell Tactical Asset Allocation Fund		Wythall[1]	Authorised Unit Trust	100.00%
PUTM Cautious Unit Trust		Wythall[1]	Authorised Unit Trust	99.33%
PUTM European Unit Trust		Wythall[1]	Authorised Unit Trust	99.42%
PUTM Far Eastern Unit Trust		Wythall[1]	Authorised Unit Trust	99.69%
PUTM Growth Unit Trust		Wythall[1]	Authorised Unit Trust	100.00%
PUTM International Growth Unit Trust		Wythall[1]	Authorised Unit Trust	99.62%
PUTM Opportunity Unit Trust		Wythall[1]	Authorised Unit Trust	99.99%
PUTM UK All-Share Index Unit Trust		Wythall[1]	Authorised Unit Trust	99.96%
PUTM UK Equity Unit Trust		Wythall[1]	Authorised Unit Trust	99.84%
PUTM UK Stock Market Fund		Wythall[1]	Authorised Unit Trust	100.00%
PUTM UK Stock Market Fund (Series 3)		Wythall[1]	Authorised Unit Trust	100.00%
Seabury Assets Fund – Standard Life Investments The Euro VNAV Liquidity Fund		Dublin[29]	UCITS, sub fund	100.00%

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
Seabury Assets Fund – Standard Life Investments The Sterling VNAV Liquidity Fund		Dublin[29]	UCITS, sub fund	99.57%
Janus Henderson Diversified Growth Fund		London[30]	OEIC, sub fund	83.18%
Janus Henderson Institutional Mainstream UK Equity Trust		London[30]	Authorised Unit Trust	100.00%
Janus Henderson Institutional UK Gilt Fund		London[30]	OEIC, sub fund	75.29%
Janus Henderson Institutional Short Duration Bond Fund		London[30]	Authorised unit trust	99.00%
PUTM Bothwell UK All Share Listed Equity Fund		Wythall[1]	Authorised Unit Trust	99.43%
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 Bothwell Institutional Credit Fund		Wythall[1]	Authorised Unit Trust	100.00%
Janus Henderson Institutional UK Equity Tracker Trust		London[30]	Authorised Unit Trust	100.00%
Janus Henderson Global Funds – Janus Henderson Institutional Overseas Bond Fund		London[30]	OEIC, sub fund	99.07%
Janus Henderson Institutional UK Index Opportunities Fund		London[30]	OEIC, sub fund	75.53%
Janus Henderson Strategic Investment Funds – Janus Henderson Institutional North American Index Opportunities Fund		London[30]	OEIC, sub fund	87.82%
Janus Henderson Strategic Investment Funds – Janus Henderson Institutional European Index Opportunities Fund		London[30]	OEIC, sub fund	80.03%
Janus Henderson Strategic Investment Funds – Janus Henderson Institutional Asia Pacific ex Japan Index Opportunities Fund		London[30]	OEIC, sub fund	76.25%
Janus Henderson Strategic Investment Funds – Janus Henderson Institutional Japan Index Opportunities Fund		London[30]	OEIC, sub fund	69.32%
Standard Life Investment Company – Japanese Equity Growth Trust		Edinburgh[26]	OEIC, sub fund	73.02%
Standard Life Investment Company II – Euro Ethical Equity Fund		Edinburgh[26]	OEIC, sub fund	87.01%
Standard Life Investment Company II – Corporate Debt Fund		Edinburgh[26]	OEIC, sub fund	100.00%
Standard Life Trust Management – European Trust		Edinburgh[26]	Unit Trust	92.69%
Standard Life Trust Management – Japanese Trust		Edinburgh[26]	Unit Trust	81.74%
Standard Life Trust Management – North American Trust		Edinburgh[26]	Unit Trust	81.00%
Standard Life Trust Management – Pacific Trust		Edinburgh[26]	Unit Trust	92.68%
Standard Life Trust Management – Standard Life Global Equity Trust II		Edinburgh[26]	Unit Trust	100.00%
Standard Life Trust Management – UK Corporate Bond trust		Edinburgh[26]	Unit Trust	100.00%
Standard Life Trust Management – Standard Life Active Plus Bond Trust		Edinburgh[26]	Unit Trust	99.99%
Standard Life Trust Management – Standard Life International Trust		Edinburgh[26]	Unit Trust	100.00%
Standard Life Trust Management – Pan European Trust		Edinburgh[26]	Unit Trust	99.97%
Standard Life Trust Management – UK Equity General Trust		Edinburgh[26]	Unit Trust	99.76%
Standard Life Investment Company III – MyFolio Managed III Fund		Edinburgh[26]	OEIC, sub fund	74.20%
Standard Life Investment Company III – Enhanced-Diversification Growth Fund		Edinburgh[26]	OEIC, sub fund	98.04%
Standard Life Multi Asset Trust		Edinburgh[26]	Unit Trust	99.99%
Standard Life European Trust II		Edinburgh[26]	Unit Trust	100.00%
Standard Life Investment Company – Global Emerging Markets Equity		Edinburgh[26]	OEIC, sub fund	77.82%
Standard Life Investment Company – Emerging Market Debt Fund		Edinburgh[26]	OEIC, sub fund	89.09%
Standard Life Trust Management – Standard Life Short Dated UK Government Bond Trust		Edinburgh[26]	Unit Trust	99.96%
Standard Life Trust Management – UK Government Bond Trust		Edinburgh[26]	Unit Trust	100.00%
Standard Life Investments Global SICAV II – Global Short Duration Corporate Bond Fund		Luxembourg[31]	SICAV, sub fund	76.05%
Standard Life Investments Global SICAV – Global Equities		Luxembourg[31]	SICAV, sub fund	88.84%

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
Standard Life Investments Global SICAV – European Government All Stocks		Luxembourg[31]	SICAV, sub fund	100.00%
Standard Life Investments Global SICAV – Japanese Equities		Luxembourg[31]	SICAV, sub fund	75.74%
Standard Life Investments Global SICAV – Global Bond		Luxembourg[31]	SICAV, sub fund	76.59%
Standard Life Investments Global SICAV – Global High Yield Bond		Luxembourg[31]	SICAV, sub fund	68.18%
Standard Life Investments Global SICAV – Global REIT Focus		Luxembourg[31]	SICAV, sub fund	91.43%
Standard Life Investments Global SICAV – China Equities		Luxembourg[31]	SICAV, sub fund	75.33%
Standard Life Investments Global SICAV – Global Emerging Markets Unconstrained		Luxembourg[31]	SICAV, sub fund	86.83%
Standard Life Investments Global SICAV – Global Emerging Markets Local CCY Debt		Luxembourg[31]	SICAV, sub fund	71.98%
Standard Life Investments Global SICAV – Emerging Market Debt Unconstrained		Luxembourg[31]	SICAV, sub fund	84.25%
Aberdeen Capital Trust Inc		London[18]	Authorised Unit Trust	99.26%
ASI Phoenix Fund Financing SCSp (PLFF)		Luxembourg[36]	Special Limited Partnership	100.00%
AB SICAV I – Global Factor Portfolio		Luxembourg[31]	SICAV, sub fund	53.14%
Ignis Private Equity Fund LP		Cayman Islands[4]	Limited Partnership	100.00%
Ignis Strategic Credit Fund LP		Cayman Islands[4]	Limited Partnership	100.00%
Crawley Unit Trust		Jersey[13]	Unit Trust	100.00%
North American Strategic Partners 2008 L.P.		Wilmington[19]	Limited Partnership	80.00%
North American Strategic Partners (Feeder) 2008 L.P.		Wilmington[19]	Limited Partnership	100.00%
Ignis Strategic Solutions Funds plc – Systematic Strategies Fund		Dublin[8]	OEIC, sub fund	100.00%
Ignis Strategic Solutions Funds plc – Fundamental Strategies Fund		Dublin[8]	OEIC, sub fund	100.00%
Associates:				
The Moor House Limited Partnership	London[15]		Limited Partnership	33.27%
Moor House General Partner Limited	London[15]		Limited Partnership	33.30%
UK Commercial Property Estates Limited (property investment company)	Guernsey[14]		Ordinary Shares	44.73%
UK Commercial Property GP Limited	Guernsey[14]		Ordinary Shares	44.73%
UK Commercial Property Holdings Limited (property investment company)	Guernsey[14]		Ordinary Shares	44.73%
UK Commercial Property Nominee Limited (property investment company)	Guernsey[14]		Ordinary Shares	44.73%
UK Commercial Property REIT Limited	Guernsey[14]		Ordinary Shares	44.73%
UK Commercial Property Estates Holdings Limited (property investment company)	Guernsey[14]		Ordinary Shares	44.73%
UKCPT Limited Partnership	Guernsey[14]		Ordinary Shares	44.73%
UK Commercial Property Finance Holdings Limited	Guernsey[14]		Ordinary Shares	44.73%
UK Commercial Property Estates (Reading) Limited	London[18]		Ordinary Shares	44.73%
Brixton Radlett Property Limited	London[18]		Ordinary Shares	44.73%
Significant holdings:				
Brent Cross Partnership		London[15]	Limited Partnership	24.00%
Castlepoint LP		Birmingham[42]	Ordinary Shares	35.00%
Gallions Reach Shopping Park Unit Trust		Jersey[13]	Unit Trust	50.00%
Janus Henderson Institutional Global Responsible Managed Fund		London[30]	OEIC, sub fund	57.49%
Standard Life Capital Infrastructure I L.P.		Edinburgh[26]	Limited Partnership	26.30%
Standard Life Investments Global Absolute Return Strategies Retail Acc		Edinburgh[26]	Unit Trust	75.52%
Standard Life Investments UK Retail Park Trust		Jersey[41]	Unit Trust	56.60%
Standard Life Investments UK Shopping Centre Trust		Jersey[41]	Unit Trust	40.66%
Standard Life Investment Company – UK Equity Recovery Fund		Edinburgh[26]	OEIC, sub fund	34.46%

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
Standard Life Investment Company – UK Equity Growth Fund		Edinburgh[26]	OEIC, sub fund	24.29%
Standard Life Investment Company – UK Equity High Income Fund		Edinburgh[26]	OEIC, sub fund	29.90%
Standard Life Investment Company – American Equity Unconstrained Fund		Edinburgh[26]	OEIC, sub fund	21.93%
Standard Life Investment Company – UK Equity High Alpha Fund		Edinburgh[26]	OEIC, sub fund	22.09%
Standard Life Investment Company – Global Equity Unconstrained		Edinburgh[26]	OEIC, sub fund	46.26%
Standard Life Investment Company – UK Opportunities Fund		Edinburgh[26]	OEIC, sub fund	63.93%
Standard Life Investment Company – Short Duration Credit Fund		Edinburgh[26]	OEIC, sub fund	20.70%
Standard Life Investment Company – Smaller Companies Fund		Edinburgh[26]	OEIC, sub fund	28.63%
Standard Life Investment Company – European Equity Growth Fund		Edinburgh[26]	OEIC, sub fund	24.11%
Standard Life Investment Company II – UK Equity Unconstrained Fund		Edinburgh[26]	OEIC, sub fund	36.62%
Standard Life Investment Company II – Ethical Corporate Bond Fund		Edinburgh[26]	OEIC, sub fund	37.13%
Standard Life Investment Company III – MyFolio Market I Fund		Edinburgh[26]	OEIC, sub fund	46.84%
Standard Life Investment Company III – MyFolio Market II Fund		Edinburgh[26]	OEIC, sub fund	41.52%
Standard Life Investment Company III – MyFolio Market III Fund		Edinburgh[26]	OEIC, sub fund	59.21%
Standard Life Investment Company III – MyFolio Market IV Fund		Edinburgh[26]	OEIC, sub fund	57.92%
Standard Life Investment Company III – MyFolio Market V Fund		Edinburgh[26]	OEIC, sub fund	65.25%
Standard Life Investment Company III – MyFolio Multi-Manager I Fund		Edinburgh[26]	OEIC, sub fund	56.21%
Standard Life Investment Company III – MyFolio Multi-Manager II Fund		Edinburgh[26]	OEIC, sub fund	54.62%
Standard Life Investment Company III – MyFolio Multi-Manager III Fund		Edinburgh[26]	OEIC, sub fund	60.23%
Standard Life Investment Company III – MyFolio Multi-Manager IV Fund		Edinburgh[26]	OEIC, sub fund	53.24%
Standard Life Investment Company III – MyFolio Multi-Manager V Fund		Edinburgh[26]	OEIC, sub fund	52.18%
Standard Life Investment Company III – MyFolio Managed I Fund		Edinburgh[26]	OEIC, sub fund	65.10%
Standard Life Investment Company III – MyFolio Managed II Fund		Edinburgh[26]	OEIC, sub fund	65.48%
Standard Life Investment Company III – MyFolio Managed IV Fund		Edinburgh[26]	OEIC, sub fund	61.11%
Standard Life Investment Company III – MyFolio Managed V Fund		Edinburgh[26]	OEIC, sub fund	66.78%
Standard Life Investment Company III – MyFolio Managed Income II Fund		Edinburgh[26]	OEIC, sub fund	43.84%
Standard Life Investment Company III – MyFolio Managed Income III Fund		Edinburgh[26]	OEIC, sub fund	50.75%
Standard Life Investments Strategic Bond Fund		Edinburgh[26]	Unit Trust	53.29%
Standard Life Investments Dynamic Distribution Fund		Edinburgh[26]	Unit Trust	49.15%
Standard Life Investments UK Real Estate Accumulation Feeder Fund		Edinburgh[26]	Unit Trust	46.09%
Standard Life Investment Company – Global Emerging Market Equity Income Fund		Edinburgh[26]	OEIC, sub fund	69.75%
Standard Life Managed Trust – American Equity Unconstrained		Edinburgh[26]	Unit Trust	48.27%

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
Standard Life Managed Trust – Standard Life Japan Fund		Edinburgh[26]	Unit Trust	45.28%
Standard Life Investments Global Real Estate Fund		Edinburgh[26]	Unit Trust	51.85%
Standard Life Investments Global SICAV – Euro Smaller Companies		Luxembourg[31]	SICAV, sub fund	33.00%
Standard Life Investments Global SICAV – European Corporate Bond		Luxembourg[31]	SICAV, sub fund	31.95%
Standard Life Investments Global SICAV – Global Absolute Return Strategies		Luxembourg[31]	SICAV, sub fund	37.43%
Standard Life Investments Global SICAV – Absolute Return Global Bond Strategies		Luxembourg[31]	SICAV, sub fund	45.99%
Standard Life Investments Global SICAV – Global Corporate Bond		Luxembourg[31]	SICAV, sub fund	56.47%
Standard Life Investments Global SICAV – Global Focused Strategies		Luxembourg[31]	SICAV, sub fund	46.02%
Standard Life Investments Real Estate Income Feeder Fund		London[18]	Unit Trust	30.19%
Scottish Widows Tracker and Specialist Investment Funds – International Bond Fund		Edinburgh[32]	OEIC, sub fund	60.73%
AXA Fixed Interest Investment ICVC – Sterling Strategic Bond Fund		London[33]	UCITS, sub fund	61.92%
AB SICAV I – Diversified Yield Plus Portfolio		Luxembourg[31]	SICAV, sub fund	42.34%
MI Somerset Global Emerging Markets		Essex[34]	OEIC, sub fund	34.49%
Aberdeen Liquidity Fund (Lux) – Euro Fund		Luxembourg[39]	SICAV, sub fund	36.62%
Aberdeen Liquidity Fund (Lux) – Sterling Fund		Luxembourg[39]	SICAV, sub fund	22.21%
Aberdeen Liquid (Lux) Ultra Short Duration Sterling Fund		Luxembourg[39]	SICAV, sub fund	34.60%
AXA Sterling Index Linked Bond Fund		London[33]	OEIC, sub fund	22.71%
BMO Barclays 1-3 Year Global Corporate Bond (GBP Hedged) UCITS ETF		London[37]	UCITS, sub fund	49.17%
iShares MSCI Taiwan UCITS ETF		Dublin[38]	UCITS, sub fund	24.46%
Scottish Widow UK and Income – Scottish Widows Ethical Fund		Edinburgh[35]	OEIC, sub fund	20.39%
AXA Global High Income Fund		London[33]	OEIC, sub fund	25.68%
AQR UCITS Funds – AQR Global Risk Parity C4 UCITS Fund		USA[24]	UCITS, sub fund	48.37%
Aberdeen Global Emerging Markets Quantitative Equity Fund		London[18]	OEIC, sub fund	27.08%

1 1 Wythall Green Way, Wythall, Birmingham, West Midlands, B47 6WG, United Kingdom
2 Juxon House, 100 St. Paul's Churchyard, London, EC4M 8BU, United Kingdom
3 Avenue Louise 326, bte 33 1050 Brussels, Belgium
4 Ugland House, Grand Cayman, KY1-1104, Cayman Islands
5 90 St. Stephen's Green, Dublin, D2, Ireland
6 Goodbody Secretarial Limited, International Financial Services Centre, 25/28 North Wall Quay, Dublin 1, Ireland
7 Arthur Cox Building, 10 Earlsfort Terrace, Dublin 2, Dublin, Ireland
8 25/28 North Wall Quay, Dublin 1, Dublin, Ireland
9 Telestone 8, Teleport, Naritaweg 165, 1043 BW, Amsterdam, Netherlands
10 301 St Vincent Street, Glasgow, G2 5HN, United Kingdom
11 50 Bothwell Street, Glasgow, G2 6HR, United Kingdom
12 110 Queen Street, Glasgow, G1 3BX, United Kingdom
13 Ogier House, The Esplanade, St Helier, JE4 9WG, Jersey
14 Trafalgar Court, Les Banques, St Peter Port, GY1 3QL, Guernsey
15 Kings Place, 90 York Way, London, N1 9GE, United Kingdom
16 22-24 New Street, St Pauls Gate, 4th Floor, JE1 4TR, Jersey
17 32 Commercial Street, St Helier, Jersey, Channel Islands, JE2 3RU, Jersey
18 Bow Bells House, 1 Bread Street, London, EC4M 9HH, United Kingdom
19 Corporation Service Company, 2711 Centerville Rd Suite 400, Wilmington, DE 19808, United States
20 Suite 202, 103 Foulk Road, Wilmington, Delaware, 19803, USA
21 8 Boulevard Royal, L-2449, Luxembourg, Luxembourg
22 The Pearl Centre, Lynch Wood, Peterborough, PE2 6FY, England
23 Citco (Sweden) Ab Stureplan 4c 4 Tr 114 35 Stockholm
24 Aqr Capital Management LLC, Greenwich, 06830, United States
25 6B, rue Gabriel Lippmann, Parc d'Activité Syrdall 2, L-5365 Münsbach, Luxembourg
26 1 George Street, Edinburgh, EH2 2LL, United Kingdom
27 Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH, United Kingdom
28 4th Floor, 25-28 Adelaide Road, Dublin 2, D02RY98, Ireland
29 70 Sir Rogerson's Quay, Dublin 2, Republic of Ireland
30 201 Bishopsgate, London, EC2M 3AE, United Kingdom
31 88 2-4, Rue Eugène Ruppert, L-2453 Luxembourg, Luxembourg
32 15 Dalkeith Road, Edinburgh, EH16 5BU, United Kingdom
33 7 Newgate Street, London EC1A 7NX, United Kingdom
34 Springfield Lodge, Colchester Road, Chelmsford, Essex CM2 5PW, United Kingdom
35 PO Box 28015, Edinburgh, EH16 5WL, United Kingdom
36 49, Avenue J.F. Kennedy, L-1855 Luxembourg
37 BMO Global Asset Management, Exchange House, Primrose Street, London EC2A 2NY, United Kingdom
38 J.P. Morgan House, International Financial Services Centre, Dublin 1, Ireland
39 35a Avenue J.F. Kennedy, L-1855, Luxembourg
40 Avenida de Aragon 330 – Building 5, 3rd Floor, Parque Empresarial Las Mercedes, 28022 – Madrid, Spain
41 Elizabeth House, 9 Castle Street, St Helier, JE4 2QP, Jersey
42 2 Snowhill, Birmingham, B4 6WR, United Kingdom

H5. Group entities continued

The following subsidiaries were dissolved during the period. The subsidiaries were deconsolidated from the date of dissolution:

- SMA (Jersey) Limited;
- ILC1 (Jersey) Limited;
- PGH1 (Jersey) Limited; and
- PG Dormant No 2 Holdings.

The following subsidiaries were fully disposed of during the period. The subsidiaries were deconsolidated from the date of disposal:

- PUTM Bothwell Fixed ABS Sterling Hedged Fund;
- PUTM Bothwell Credit Financial Sterling Hedged Fund;
- PUTM Bothwell Global Equity Fund;
- PUTM Bothwell Credit Non Financial Sterling Hedged Fund;
- PUTM Bothwell UK Equity Smaller Companies Fund;
- BlackRock LBG DC 'A' Fund; and
- AB SICAV I – ESG Responsible Global Factor Portfolio AB.

The Group no longer has significant holdings in the following undertakings:

- BlackRock Market Advantage X GBP Acc;
- Aberdeen UK Smaller Companies Equity Fund;
- Architas MA Active Dynamic Fund Class R Net Accumulation.
- American Century SICAV – Concentrated Global Growth Equity;
- Standard Life Investments – Sterling Liquidity Fund; and
- Achitas Diversified Real Assets 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 out 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:

	2018 £m	2017 £m
Expense arising from equity-settled share-based payment transactions	**9**	8

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. Following the scheme of arrangement on 12 December 2018 (see note A1), participants in the Old PGH LTIP plan had their outstanding awards automatically exchanged for equivalent awards over PGH plc ordinary shares.

Assuming no good leavers or other events which would trigger early vesting rights, the 2016 and 2017 LTIP awards are subject to performance conditions tied to the Company's performance in respect of cumulative cash generation and Total Shareholder Return ('TSR'). The 2018 LTIP award is subject to performance conditions tied to the Company's performance in respect of cumulative cash generation, return on Adjusted Shareholder Solvency II Own Funds and TSR.

For all LTIP awards, 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.

2018 LTIP awards were granted on 21 March 2018. The number of shares for all outstanding LTIP awards as at 10 July 2018 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 2015 LTIP awards vested during the year. The 2016 awards will vest on 30 March 2019 and 2 June 2019, the 2017 awards will vest on 24 March 2020 and the 2018 awards will vest on 21 March 2021.

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 of the 2016, 2017 and 2018 LTIP awards is adjusted in respect of the TSR performance condition which is deemed to be a 'market condition'. The fair value of the 2016, 2017 and 2018 TSR elements of the LTIP awards has been calculated using a Monte Carlo model. The inputs to this model are shown below:

	2018 TSR performance condition	2017 TSR performance condition	2016 TSR performance condition – March grant	2016 TSR performance condition – June grant
Share price (p)	**709.5**	787.5	943.5	871.0
Expected term (years)	**3.0**	2.8	3.0	3.0
Expected volatility (%)	**20**	24	26	26
Risk-free interest rate (%)	**0.96**	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			

On 21 December 2018, LTIP awards were granted to certain employees under the terms of the new PGH plc scheme rules. There are three discreet vesting periods for these awards ending on 24 March 2019, 27 March 2020 and 28 March 2021. These grants of shares are conditional on the employees remaining in employment with the Group for the vesting period.

Each year, the Group issues a Chairman's share award under the terms of the LTIP which is granted to a small number of employees in recognition of their outstanding contribution in the previous year. On 21 March 2018, awards were granted and are expected to vest on 21 March 2021. The 2017 awards are expected to vest on 24 March 2020. These grants of shares are conditional on the employees remaining in employment with the Group for the vesting period and achieving a 'CC' performance grading or above.

Deferred Bonus Share Scheme ('DBSS')

Each year, part of the annual incentive for certain executives is deferred into shares of the parent company. As noted for the LTIP, following the Scheme of Arrangement, participants in the Old PGH DBSS plan had their outstanding awards automatically exchanged for equivalent awards over PGH plc ordinary shares. The grant of these shares is conditional on the employee remaining in employment with the Group for a period of three years with the three-year deferral period running 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 2018 DBSS was granted on 21 March 2018 and is expected to vest on 15 March 2021. The number of shares for all outstanding DBSS awards as at 10 July 2018 were 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 2015 DBSS awards vested during the year. The 2016 awards are expected to vest on 24 March 2019 and the 2017 awards are expected to vest on 20 March 2020.

I1. Share-based payment continued

I1.2 Share-based payment expense continued

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 £500 each month over a period of either three or five years.

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.

Following the scheme of arrangement, participants in the Old PGH sharesave plan exchanged their options over Old PGH shares for equivalent options over PGH plc ordinary shares. All sharesave options were increased in November 2016 and again in July 2018 following the Group's rights issues (see note D1) and the exercise price of these awards was also amended as a result of these issues. The 2018 sharesave options were granted on 10 April 2018.

The fair value of the options 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 following information was relevant in the determination of the fair value of the 2014 to 2018 sharesave options:

	2018 sharesave	2017 sharesave	2016 sharesave	2015 sharesave	2014 sharesave
Share price (p)	**768.5**	747.0	889.0	843.0	674.0
Exercise price (£) (Revised)	**5.629**	5.674	5.746	5.654	4.618
Expected life (years)	**3.25 and 5.25**	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25
Risk-free rate (%) – based on UK government gilts commensurate with the expected term of the award	**1.0 (for 3.25 year scheme) and 1.1 (for 5.25 year scheme)**	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)
Expected volatility (%) based on the Company's share price volatility to date	**30.0**	30.0	30.0	30.0	30.0
Dividend yield (%)	**6.5**	6.3	6.0	6.3	7.9

Share Incentive Plan

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 2018, 49,854 matching shares were conditionally awarded to employees (2017: 33,705).

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 2018		
	LTIP	**Sharesave**	**DBSS**
Outstanding at the beginning of the year	**2,992,327**	**1,264,992**	**630,489**
Granted during the year	**1,215,824**	**453,167**	**289,625**
Corporate action	**416,937**	**164,896**	**77,642**
Forfeited during the year	**(576,218)**	**(237,293)**	**(26,141)**
Exercised during the year	**(254,809)**	**(270,142)**	**(200,575)**
Outstanding at the end of the year	**3,794,061**	**1,375,620**	**771,040**

	Number of share options 2017		
	LTIP[1]	Sharesave	DBSS
Outstanding at the beginning of the year	3,469,421	1,037,156	633,118
Granted during the year	1,056,987	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	2,992,327	1,264,992	630,489

1 Updated to incorporate number of Chairman's awards within the table.

I. OTHER NOTES continued

I1. Share-based payment continued

I1.3 Movements in the year continued

The weighted average fair value of options granted during the year was £5.75 (2017: £4.75).

The weighted average share price at the date of exercise for the rewards exercised is £6.82 (2017: £7.72).

The weighted average remaining contractual life for the rewards outstanding as at 31 December 2018 is six years (2017: six 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.

	2018 £m	2017 £m
Profit/(loss) for the period before tax	260	(7)
Non-cash movements in profit for the year before tax:		
Gain on acquisition	(141)	–
Fair value losses/(gains) on:		
Investment property	18	(9)
Financial assets and derivative liabilities	12,861	(2,896)
Borrowings	29	(23)
Amortisation of intangible assets	214	126
Change in present value of future profits	(1)	(5)
Change in unallocated surplus	(88)	46
Share-based payment charge	9	8
Interest expense on borrowings	142	132
Premium paid on partial redemption of £300 million unsecured bond	–	25
Net interest expense on Group defined benefit pension scheme asset/liability	6	11
Pension past service costs	57	–
Other costs of pension schemes	6	5
Decrease in investment assets	5,230	4,411
Decrease in reinsurance assets	681	1,154
Decrease in insurance contract and investment contract liabilities	(19,186)	(1,933)
Decrease in deposits received from reinsurers	(178)	(24)
(Decrease)/increase in obligation for repayment of collateral received	(568)	338
Net decrease/(increase) in working capital	328	(113)
Other Items		
Contributions to defined benefit pension schemes	(46)	(90)
Acquisition related expenses to be included within cash flows from investing activities	43	–
Cash (utilised)/generated by operations	**(324)**	1,156

I3. Capital management

The Group's capital management is based on the 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 39 to 46 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 Ratings financial leverage to maintain an investment grade credit rating; and
- to maintain a stable and sustainable dividend policy.

I3. Capital management continued

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 comprises 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.

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 and Abbey Life businesses within the scope of the Group's Internal Model in March 2017 and March 2018 respectively. 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 was based partially on the Group's Internal Model and partially on Standard Formula.

The acquired Standard Life Assurance businesses also determine their capital requirements in accordance with an approved partial Internal Model. In accordance with the approvals received from the PRA, the Enlarged Group operates a partial Internal Model to calculate Group SCR, aggregating outputs from both the existing Phoenix Internal Model and the Standard Life Internal Model with no diversification between the two. A harmonisation programme to combine the two models into a single Internal Model has commenced. The Irish life entity, Standard Life International Designated Activity Company, determines its capital requirements in accordance with the Standard Formula.

Group capital resources – unaudited

The Group capital resources are based on the Group's Eligible Own Funds adjusted to remove amounts pertaining to unsupported with-profit funds and Group pension schemes:

Unaudited	2018 £bn	2017 £bn
PGH plc Eligible Own Funds	**10.3**	6.6
Remove Own Funds pertaining to unsupported with-profit funds and the PGL pension scheme	**(2.3)**	(2.0)
Group capital resources	**8.0**	4.6

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 permitted Group supervision to take place at the level of the ultimate parent, Old 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 plc level only.

An analysis of the PGH plc Solvency II surplus as at 31 December 2018 is provided in the business review section on page 28. The Group has complied with all externally imposed capital requirements during the year.

Additional information on the PGH plc Own Funds, SCR and MCR is included in the additional capital disclosures on pages 228 to 229.

I. OTHER NOTES continued

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 Related party transactions

During the year, the Group entered into the following transactions with related parties. As set out in note H2, SLA plc took a 19.99% equity stake in the Enlarged Group, and as a result became a related party of the Group. SLA plc is considered to have a significant influence over the Group due to their equity stake and representation on the Board of Directors.

	Transactions 2018 £m	Balances outstanding 2018 £m	Transactions 2017 £m	Balances outstanding 2017 £m
Pearl Group Staff Pension Scheme				
Payment of administrative expenses	**(3)**	**–**	(3)	–
UK Commercial Property Trust Limited				
Dividend income	**22**	**–**	23	–
Reduction in investment	**(35)**	**–**	–	–
SLA plc				
Investment management fees	**(87)**	**(55)**	–	–
Fees under Transitional Services Arrangement	**(2)**	**(2)**	–	–
Receipts under Transitional Services Arrangement	**26**	**15**	–	–
Receipts under Client Service Proposition Agreement	**5**	**2**	–	–
Dividend paid	**(33)**	**–**	–	–

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:

	2018 £m	2017 £m
Salary and other short-term benefits	**5**	4
Equity compensation plans	**2**	2

Details of the shareholdings and emoluments of individual Directors are provided in the Remuneration report on pages 76 to 105.

During the year to 31 December 2018 key management personnel and their close family members contributed £28,000 (2017: nil) to Pensions and Savings products sold by the Group. At 31 December 2018, the total value of key management personnel's investments in Group Pensions and Savings products was £1,639,000 (2017: nil).

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 £10 million (2017: £6 million).

The Group has commitments under non-cancellable operating leases as set out below:

	2018 £m	2017 £m
Not later than 1 year	**17**	5
Later than 1 year and not later than 5 years	**35**	11
Later than five years	**39**	–

The principal operating lease commitments for 2018 concern office space located at St Vincent Street, Glasgow, Juxon House, London, Redcliff Street, Bristol, Lyoner Straße, Frankfurt, and Arche Noah, Graz (2017: St Vincent Street, Glasgow and Juxon House, London and Redcliff Street, Bristol).

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.

	2018 £m	2017 £m
To subscribe to private equity funds and other unlisted assets	**655**	543
To purchase, construct or develop investment property and income strips	**125**	–
For repairs, maintenance or enhancements of investment property	**15**	1

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.

I7.1 Annuity sales

As set out in note G1, at the request of the Financial Conduct Authority ('FCA'), SLAL are conducting a past business review of non-advised annuity sales. The purpose of the review is to identify whether relevant customers received sufficient information about enhanced annuities to make the right decisions about their purchase, and where appropriate provide redress to customers who have suffered loss as a result of not having received sufficient information. The Group has recognised provisions with regard to its obligations identified as a result of this activity to date. In relation to this review, the FCA is carrying out an investigation and it is possible that the FCA may impose a financial penalty on the Group. At this stage it is not possible to determine a reliable estimate of the financial impact of this contingent liability and the determination of any liability arising remains dependent on the occurrence of uncertain future events, including finalisation of the FCA's review. Any financial impact on the Group would be expected to be mitigated by the indemnity agreement that exists with SLA plc, subject to the liability caps that exist within the agreement. Further details are provided in note G1.

I7.2 Legal proceedings

In the normal course of business the Group is exposed to certain legal issues, which involve litigation and arbitration. At the period end, the Group has a number of contingent liabilities in this regard, none of which are considered by the Directors to be material.

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.

On 4 March 2019, the Board recommended a final dividend of 23.4p per share (2017: 25.1p per share) for the year ended 31 December 2018. 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 2018 and will be charged to the statement of changes in equity in 2019.

N LYONS
C BANNISTER
J MCCONVILLE
A BARBOUR
C FLEMING
K GREEN
W MAYALL
B O'DWYER
J POLLOCK
B RICHARDS
N SHOTT
K SORENSON

4 March 2019

PARENT COMPANY ACCOUNTS STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Notes	2018 £m
EQUITY AND LIABILITIES		
Equity attributable to ordinary shareholders		
Share capital	3	**72**
Share premium	3	**–**
Other reserve		**(4)**
Retained earnings		**4,075**
Total equity attributable to ordinary shareholders		**4,143**
Tier 1 Notes	4	**411**
Total equity		**4,554**
Liabilities		
Financial liabilities		
Borrowings	5	**1,634**
Derivatives	6	**1**
Other amounts due to Group entities	15	**1**
Accruals and deferred income	7	**33**
Total liabilities		**1,669**
Total equity and liabilities		**6,223**

	Notes	2018 £m
ASSETS		
Investments in Group entities	8	**4,146**
Financial assets		
Loans and receivables	9	**2,056**
Other amounts due from Group entities	15	**20**
Cash and cash equivalents	10	**1**
Total assets		**6,223**

The notes identified numerically on pages 216 to 221 are an integral part of these separate financial statements. Where items also appear in the consolidated financial statements, reference is made to the notes (identified alphanumerically) on pages 128 to 213.

STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM 5 OCTOBER 2018 TO 31 DECEMBER 2018

	Notes	2018 £m
Cash flows from operating activities		
Cash generated by operations	11	–
Net cash flows from operating activities		–
Cash flows from investing activities		
Interest received from Group entities		29
Net cash flows from investing activities		29
Cash flows from financing activities		
Interest paid		(28)
Net cash flows from financing activities		(28)
Net increase in cash and cash equivalents		1
Cash and cash equivalents at the beginning of the period		–
Cash and cash equivalents at the end of the period		1

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD FROM 5 OCTOBER 2018 TO 31 DECEMBER 2018

	Share capital (note 3) £m	Share premium (note 3) £m	Other reserve (note 8) £m	Retained earnings £m	Total equity attributable to ordinary shareholders £m	Tier 1 Notes (note 4) £m	Total equity £m
On incorporation at 5 October 2018	–	–	–	–	–	–	–
Total comprehensive expense for the period attributable to owners	–	–	–	(3)	(3)	–	(3)
Issue of shares under scheme of arrangement	72	4,078	(4)	–	4,146	–	4,146
Capital reduction	–	(4,078)	–	4,078	–	–	–
Issue of Tier 1 Notes via substitution	–	–	–	–	–	411	411
At 31 December 2018	72	–	(4)	4,075	4,143	411	4,554

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

(a) Basis of preparation

Phoenix Group Holdings plc (the 'Company') was incorporated on 5 October 2018 under the UK Companies Act 2006 and is domiciled in England and Wales. The financial statements for the period ended 31 December 2018 are the first set of financial statements prepared by the Company. Accordingly, there is no comparative information to disclose in the individual financial statements.

The financial statements have been prepared on a going concern and on an historical cost basis except for those financial assets and financial liabilities that have been measured at fair value.

The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its own income statement in these financial statements.

Statement of Compliance

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') and in accordance with the provisions of the UK Companies Act 2006.

The financial statements are presented in sterling (£) rounded to the nearest million except where otherwise stated.

Assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

(b) Accounting policies

Where applicable, the accounting policies in the separate financial statements are the same as those presented in the consolidated financial statements on pages 121 to 213, with the exception of the two policies detailed below.

The Company's accounting policy for financial assets is in accordance with the requirements of IFRS 9 *Financial Instruments.* As the Group has applied the temporary exemption from IFRS 9 available for entities whose activities are predominantly connected with insurance contracts, a different accounting policy has been adopted in the preparation of the consolidated financial statements. In addition, the Company has not adopted 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 income statement.

The recoverable amount is determined based on the cash flow projections of the underlying entities.

Financial assets

Classification of Financial assets

Financial assets are measured at amortised cost where they have:

- contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- are held within a business model whose objective is achieved by holding to collect contractual cash flows.

These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the financial asset. All transaction costs directly attributable to the acquisition are also included in the cost of the financial asset. Subsequent to initial recognition, these financials asset are carried at amortised cost, using the effective interest method.

Financial assets measured at amortised cost are included in note 9.

Impairment of financial assets

The Company assesses the expected credit losses associated with its loans and receivables, other amounts due from Group entities and cash carried at amortised cost. The measurement of credit impairment is based on an Expected Credit Loss ('ECL') model and depends upon whether there has been a significant increase in credit risk.

For those credit exposures for which credit risk has not increased significantly since initial recognition, the Company measures loss allowances at an amount equal to the total expected credit losses resulting from default events that are possible within 12 months after the reporting date ('12-month ECL'). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, the Company measures and recognises an allowance at an amount equal to the expected credit losses over the remaining life of the exposure, irrespective of the timing of the default ('Lifetime ECL'). If the financial asset becomes 'credit-impaired' (following significant financial difficulty of issuer/borrower, or a default/breach of a covenant), the Company will recognise a Lifetime ECL. ECLs are derived from unbiased and probability-weighted estimates of expected loss.

See note 12 for detail of how the Company assesses whether the credit risk of a financial asset has increased since initial recognition and the approach to estimating ECLs.

The loss allowance reduces the carrying value of the financial asset and is reassessed at each reporting date. ECLs and subsequent remeasurements of the ECL, are recognised in the income statement. For other receivables, the ECL rate is recalculated each reporting period with reference to the counterparties of each balance.

2. FINANCIAL INFORMATION

New accounting pronouncements not yet effective

Details of the standards, interpretations and amendments to be adopted in future periods are detailed in note A5 to the consolidated financial statements, none of which are expected to have a significant impact on the Company's financial statements.

Note A5 outlines that 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 detailed above, such an exemption is not applicable to the Company given it is not an insurer. Therefore, IFRS 9 has been adopted by the Company and the relevant disclosures are included in these financial statements.

3. SHARE CAPITAL AND SHARE PREMIUM

The Company was incorporated on 5 October 2018 with an issued share capital comprising 2 ordinary shares of £0.10 each and 50,000 redeemable preference shares of £1.00 each.

On 31 October 2018, all issued redeemable preference shares were cancelled.

Under a scheme of arrangement in accordance with section 86 of the Cayman Islands Companies Law between Phoenix Group Holdings ('Old PGH'), the former ultimate parent company of the Group, and its shareholders, all of the issued shares in Old PGH were cancelled and an equivalent number of new shares in Old PGH were issued to the Company in consideration for the allotment to the Old PGH shareholders of one ordinary share in the Company for each ordinary share in Old PGH that they held on the scheme record date, 12 December 2018.

The shares of the Company are listed on the London Stock Exchange and trading in these shares commenced on 13 December 2018.

Following court approval on 18 December 2018, the entire issued share premium of the Company as at 18 December 2018 was cancelled. The sum of £4,078 million arising on the share premium cancellation has been credited to the Company's retained earnings.

	2018 £m
Issued and fully paid:	
721 million ordinary shares of £0.10 each	**72,119,921**

	Number	£
At incorporation on 5 October 2018	**2**	**–**
Issue of shares under scheme of arrangement	**721,199,212**	**72,119,921**
Ordinary shares in issue at 31 December	**721,199,214**	**72,119,921**

4. TIER 1 NOTES

The accounting policy for the Tier 1 Notes is included in note D3 to the consolidated financial statements.

	Tier 1 Notes £m
At 5 October 2018	**–**
Issued via substitution	**411**
At 31 December 2018	**411**

On 12 December 2018 the Company was substituted in place of Old PGH as issuer of the Tier 1 Notes and these were recognised at the £411 million fair value of an intragroup loan that was received as consideration. Details of the terms of the Tier 1 Notes can be found in note D3 to the consolidated financial statements.

5. BORROWINGS

The accounting policy for borrowings is included in note E5 to the consolidated financial statements.

	Carrying value	Fair value
	2018 £m	2018 £m
£428 million subordinated loans (note a)	**439**	**441**
£450 million Tier 3 subordinated notes (note b)	**447**	**447**
US $500 million Tier 2 bonds (note c)	**343**	**342**
€500 million Tier 2 notes (note d)	**405**	**390**
Total borrowings	**1,634**	**1,620**
Amount due for settlement after 12 months	**1,634**	

a. On 12 December 2018, the Company was substituted in place of Old PGH as issuer of the £428 million subordinated notes due 2025 at a coupon of 6.625%, which were initially recognised at fair value of £439 million.

b. On 12 December 2018, the Company was substituted in place of Old PGH as issuer of the £450 million Tier 3 subordinated notes due 2022 at a coupon of 4.125%, which were initially recognised at fair value of £447 million.

c. On 12 December 2018, the Company was substituted in place of Old PGH as issuer of the US$500 million Tier 2 bonds due 2027 with a coupon of 5.375%, which were initially recognised at fair value of £349 million.

d. On 12 December 2018, the Company was substituted in place of Old PGH as issuer of the €500 million Tier 2 notes due 2029 with a coupon of 4.375%, which were initially recognised at fair value of £407 million.

e. On 12 December 2018, the Company became an additional borrower on an unsecured revolving credit facility, maturing in June 2022. The facility is undrawn as at 31 December 2018 and accrues interest at LIBOR plus 1.1%. A utilisation fee of between 0.1% and 0.4% is applicable dependent on the amount drawn.

5. BORROWINGS continued

f. On 12 December 2018, the Company became an additional borrower and guarantor to an acquisition facility with an aggregate principal amount of £600 million. The acquisition facility is undrawn as at 31 December 2018 and has a final maturity date of 31 August 2019. The Group is entitled to request two six-month extensions to the term of the facility (which would together extend the maturity date to 31 August 2020). 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%.

Borrowings initially recognised at fair value are being amortised to par value over the life of the borrowings. As part of the substitutions, accrued interest was also transferred to the Company and was settled prior to 31 December 2018.

For the purposes of the additional fair value disclosure for liabilities recognised at amortised cost, all borrowings have been categorised as Level 2 financial instruments.

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-cash flow		
	At 5 Oct 2018 £m	Loans issued via subsitution[1] £m	Movement in foreign exchange £m	At 31 Dec 2018 £m
£428 million subordinated notes	–	439	–	439
£450 million Tier 3 subordinated notes	–	447	–	447
US $500 million Tier 2 bonds	–	349	(6)	343
€500 million Tier 2 notes	–	407	(2)	405
	–	1,642	(8)	1,634

1 Loans issued via substitution are a non-cashflow item as consideration was the transfer of loans and receivables (refer to note 9).

6. DERIVATIVES

The accounting policy for derivatives is included in note E3 to the consolidated financial statements.

The Company has entered into a cross currency swap to hedge against adverse currency movements in respect of the €500 million Tier 2 notes.

The fair value of the derivative liability is as follows:

	2018 £m
Cross currency interest rate swap	1

7. ACCRUALS AND DEFERRED INCOME

The accounting policy for accruals and deferred income is included in note G4 to the consolidated financial statements.

	2018 £m
Accruals and deferred income	33
Amount due for settlement after 12 months	–

8. INVESTMENTS IN GROUP ENTITIES

	2018 £m
Cost	
At 5 October	–
Additions	4,146
At 31 December	**4,146**

8. INVESTMENTS IN GROUP ENTITIES continued

On 12 December 2018, the Company became the ultimate parent undertaking of the Group by acquiring the entire share capital of Old PGH via a share for share exchange. The cost of investment in old PGH, reflected in the table above, was determined as the carrying amount of the Company's share of the equity of Old PGH on the date of the transaction. The difference between the cost of investment and the market capitalisation of Old PGH immediately before the share for share exchange of £4 million has been recognised as an Other reserve, and is shown as a separate component of equity.

For a list of principal Group entities, refer to note H5 of the consolidated financial statements. The entity directly held by the Company is separately identified.

9. LOANS AND RECEIVABLES

	Carrying value	Fair value
	2018 £m	2018 £m
Loans due from PLHL (note a)	1,231	1,231
Loans due from Old PGH (note b)	825	808
Total loans and receivables	**2,056**	**2,039**
Amounts due after 12 months	**2,056**	

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 12 December 2018, the Company was assigned a £428 million subordinated loan by Phoenix Life Holdings Limited ('PLHL'). The loan accrues interest at a rate of 6.675% and matures on 18 December 2025. This loan was initially recognised at fair value of £440 million and is accreted to par over the period to 2025. At 31 December 2018, the carrying value of the loan was £440 million.

   On 12 December 2018, the Company was assigned a £450 million subordinated loan by PLHL. The loan accrues interest at a rate of 4.175% and matures on 20 July 2022. This loan was initially recognised at fair value of £448 million and is accreted to par over the period to 2022. At 31 December 2018, the carrying value of the loan was £448 million.

   On 12 December 2018, the Company was assigned a US $500 million loan by PLHL due 2027 with a coupon of 5.375%. This loan was initially recognised at fair value of £349 million and is accreted to par over the period to 2027. Movement in foreign exchange during the period reduced the carrying value by £6 million. At 31 December 2018, the carrying value of the loan was £343 million.

b. On 12 December 2018, the Company entered into a new £825 million loan agreement with Old PGH as consideration for the substitution of the Company as issuer of the Tier 1 Notes and €500 million Tier 2 notes. The loan accrues interest at a rate of 6 month LIBOR plus 1.22% and matures on 31 December 2023.

None of the 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.

10. CASH AND CASH EQUIVALENTS

The accounting policy for cash and cash equivalents is included in note G11 to the consolidated financial statements.

	2018 £m
Bank and cash balances	1

11. CASH FLOWS FROM OPERATING ACTIVITIES

	2018 £m
Loss for the year before tax	(2)
Adjustments to reconcile profit for the year to cash flows from operating activities:	
Investment income from other Group entities	(5)
Finance costs	5
Fair value losses	(2)
Foreign exchange movement on borrowings at amortised cost	(2)
Net decrease in working capital	6
Cash generated by operations	**–**

12. CAPITAL AND RISK MANAGEMENT

The Company's capital comprises share capital, the Tier 1 Notes and all reserves as calculated in accordance with IFRSs, as set out in the statement of changes in equity. Under English company law, dividends must be paid from distributable profits. As the ultimate parent undertaking of the Group, the Company manages its capital to ensure that it has sufficient distributable profits to pay dividends in accordance with its dividend policy.

At 31 December 2018, total capital was £4,554 million. The movement in capital in the period comprises the total comprehensive expense for the period attributable to owners of £3 million, proceeds from the issue of shares under the scheme of arrangement of £4,146 million and the substituted Tier 1 Notes of £411 million.

In addition, the Group also manages its capital on a regulatory basis as described in note I3 to the consolidated financial statements.

The principal risks and uncertainties facing the Company are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Company has hedged the currency risk on its foreign currency hybrid debt (US $500 million and €500 million) through a US $500 million internal loan and a €500 million internal cross currency interest rate swap.

Details of the Group's financial risk management policies are outlined in note E6 to the consolidated financial statements.

12. CAPITAL AND RISK MANAGEMENT continued

Credit risk management practices

The Company's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12 month ECL
Doubtful	There has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit impaired
In default	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the counterparty is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

The table below details the credit quality of the Company's financial assets, as well as the Company's maximum exposure to credit risk by credit risk rating grades:

	External credit rating	Internal credit rating	12 month or lifetime ECL	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Loans and receivables (note 9)	**N/A**	**Performing**	**12 month ECL**	**2,056**	**–**	**2,056**
Other amounts due from Group entities (note 15)	**N/A**	**Performing**	**12 month ECL**	**20**	**–**	**20**
Cash and cash equivalents (note 10)	**AAA**	**N/A**	**12 month ECL**	**1**	**–**	**1**

The Company considers reasonable and supportable information that is relevant and available without undue cost or effort to assess whether there has been a significant increase in risk since initial recognition. This includes quantitative and qualitative information and also, forward-looking analysis.

Loans and receivables – The Company is exposed to credit risk relating to loans and receivables from other Group Companies, which are considered low risk. Given their low risk and the short time period since inception of the loan, the loss allowance has been set at less than £1 million. The Company assesses whether there has been a significant increase in credit risk since initial recognition by assessing whether there have been any historic defaults, by reviewing the going concern assessment of the borrower and the ability of the Group to prevent a default by providing a capital or cash injection.

Amounts due from other Group entities – The credit risk from activities undertaken in the normal course of business is considered to be extremely low risk. Given their low risk and the short time period since inception of the loan, the loss allowance has been set at less than £1 million. The Company assesses whether there has been a significant increase in credit risk since initial recognition by assessing past credit impairments, history of defaults and the long-term stability of the Group.

Cash and cash equivalents – The Company's cash and cash equivalents are held with bank and financial institution counterparties, which have AAA investment grade ratings. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties and there being no history of default, and therefore the impact to the net carrying amount shown in the table above is not material.

The Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed into liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

13. SHARE-BASED PAYMENTS

Following the scheme of arrangement on 12 December 2018 (see note 3), participants in the Old PGH share plans had their outstanding awards automatically exchanged for equivalent awards over PGH plc ordinary shares. On 21 December 2018, LTIP awards were granted to certain employees under the terms of the new PGH plc scheme rules. As the new grant of LTIP awards and replacement of all existing awards occurred near the end of the reporting period, no share-based payment entries have been recognised in the Company accounts.

Further detailed information on the Group's share-based plans is included in note I1 in the consolidated financial statements.

14. DIRECTORS' REMUNERATION

Details of the remuneration of the Directors of Phoenix Group Holdings plc is included in the appendix to the Directors' Remuneration Report on pages 76 to 105 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 period ended 31 December 2018, the Company entered into the following transactions with Group entities:

	2018 £m
Interest income from other Group entities	5

Amounts due from related parties at the end of the year:

	2018 £m
Loans due from Group entities	2,056
Other amounts due from Group entities	20
	2,076
Amount due for settlement after 12 months	2,056

Amounts due to related parties at the end of the year:

	2018 £m
Other amounts due to Group entities	1
Cross currency interest rate swap	1
Amount due for settlement after 12 months	–

16. AUDITOR'S REMUNERATION

Details of auditor's remuneration, for Phoenix Group Holdings plc and its subsidiaries, is included in note C4 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.

On 22 February 2019, the Company acquired Standard Life International Designated Activity Company from another Group entity. The consideration was £162 million and this was in the form of an intra-group loan liability assumed.

N LYONS
C BANNISTER
J MCCONVILLE
A BARBOUR
C FLEMING
K GREEN
W MAYALL
B O'DWYER
J POLLOCK
B RICHARDS
N SHOTT
K SORENSON

4 March 2019

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 management 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 2018 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	2,522	2,304	5,046	7,026	16,898
Debt securities – gilts	3,046	375	15,813	5,887	25,121
Debt securities – bonds	12,801	1,632	22,384	30,410	67,227
Equity securities	129	45	13,910	67,154	81,238
Property investments	101	44	2,046	6,074	8,265
Other investments[4]	2,948	192	2,844	6,279	12,263
At 31 December 2018	**21,547**	**4,592**	**62,043**	**122,830**	**211,012**
Cash and cash equivalents in Group holding companies					346
Cash and financial assets in other Group companies					582
Financial assets held by the non-controlling interest in consolidated collective investment schemes					2,990
Total Group consolidated assets					**214,930**
Comprised of:					
Investment property					6,520
Financial assets					204,577
Cash and cash equivalents					4,926
Derivative liabilities					(1,093)
					214,930

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 £2,020 million, commercial real estate loans of £449 million, income strips of £654 million, policy loans of £9 million, other loans of £170 million, net derivative assets of £2,832 million, reinsurers' share of investment contracts of £5,417 million and other investments of £712 million.

The following table provides a reconciliation of the total life company assets to the Assets under Administration ('AUA') as at 31 December 2018 detailed in the Business Review on page 31:

	£bn
Total Life Company assets	**211.0**
Off-balance sheet AUA[1]	31.1
Less: Standard Life Trustee Investment Plan assets[2]	(15.8)
Assets under Administration	**226.3**

1 Off-balance sheet AUA represents assets held in respect of certain Group Self-Invested Personal Pension products where the beneficial ownership interest resides with the customer (and which are therefore not recognised in the consolidated statement of financial position) but on which the Group earns fee revenue.
2 Assets held within the Standard Life Trustee Investment Plan product are excluded from AUA as materially all profits accrue to third party investment managers.

31 December 2017 Carrying value	Shareholder and non-profit funds £m	Participating supported £m	Participating non-supported £m	Unit-linked £m	Total £m
Cash and cash equivalents	1,906	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[1]	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 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.

The following table analyses by type the debt securities of the life companies:

31 December 2018 **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	**3,046**	**375**	**15,813**	**5,887**	**25,121**
Other government and supranational[2]	**1,460**	**309**	**9,334**	**10,005**	**21,108**
Corporate – financial institutions	**5,151**	**649**	**7,631**	**10,806**	**24,237**
Corporate – other	**5,625**	**168**	**4,838**	**9,435**	**20,066**
Asset backed securities ('ABS')	**565**	**506**	**581**	**164**	**1,816**
At 31 December 2018	**15,847**	**2,007**	**38,197**	**36,297**	**92,348**

2 Includes debt issued by governments; public and statutory bodies; government backed institutions and supranationals.

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	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

The life companies' debt portfolio was £92.3 billion at 31 December 2018. Shareholders had direct exposure to £17.9 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 29% of the debt portfolio in respect of shareholder exposure, or £5.2 billion, at 31 December 2018. 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 2018 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	**3,428**	**415**	**16,023**	**5,925**	**25,791**
Supranationals	**573**	**84**	**335**	**52**	**1,044**
USA	**6**	**3**	**125**	**3,551**	**3,685**
Germany	**69**	**62**	**3,437**	**388**	**3,956**
France	**71**	**39**	**2,455**	**343**	**2,908**
Netherlands	**28**	**19**	**345**	**106**	**498**
Italy	**45**	**–**	**–**	**342**	**387**
Greece	**–**	**–**	**12**	**49**	**61**
Spain	**–**	**–**	**–**	**145**	**145**
Belgium	**5**	**1**	**710**	**36**	**752**
Other – non-Eurozone	**245**	**51**	**1,045**	**4,769**	**6,110**
Other – Eurozone	**36**	**10**	**659**	**79**	**784**
Indirectly held debt securities	**–**	**–**	**1**	**107**	**108**
At 31 December 2018	**4,506**	**684**	**25,147**	**15,892**	**46,229**

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

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 2018 **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	**2,670**	**162**	**3,017**	**1,964**	**7,813**
USA	**750**	**46**	**934**	**1,188**	**2,918**
Germany	**125**	**13**	**410**	**591**	**1,139**
France	**172**	**52**	**734**	**1,468**	**2,426**
Netherlands	**409**	**42**	**377**	**780**	**1,608**
Italy	**29**	**–**	**44**	**45**	**118**
Ireland	**–**	**–**	**31**	**43**	**74**
Spain	**58**	**–**	**91**	**218**	**367**
Luxembourg	**1**	**–**	**18**	**12**	**31**
Belgium	**6**	**20**	**84**	**85**	**195**
Other – non-Eurozone	**878**	**299**	**1,723**	**4,287**	**7,187**
Other – Eurozone	**53**	**15**	**168**	**125**	**361**
At 31 December 2018	**5,151**	**649**	**7,631**	**10,806**	**24,237**

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

The life companies had £87 million (2017: £10 million) shareholder exposure to financial institution corporate debt of the Peripheral Eurozone, defined as Portugal, Italy, Ireland, Greece, and Spain, at 31 December 2018. The £5,800 million (2017: £3,255 million) total shareholder exposure to financial institution corporate debt comprised £3,080 million (2017: £2,648 million) senior debt, £2,230 million (2017: £2 million) Tier 1 debt and £490 million (2017: £605 million) Tier 2 debt.

The £5,800 million shareholder exposure to financial institution corporate debt comprised £3,505 million (2017: £2,037 million) bank debt and £2,295 million (2017: £1,218 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 2018 **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	**2,484**	**55**	**2,200**	**2,559**	**7,298**
USA	**872**	**32**	**681**	**2,170**	**3,755**
Germany	**506**	**64**	**437**	**729**	**1,736**
France	**544**	**5**	**472**	**490**	**1,511**
Netherlands	**112**	**–**	**79**	**129**	**320**
Italy	**119**	**1**	**73**	**114**	**307**
Ireland	**11**	**–**	**23**	**47**	**81**
Spain	**94**	**1**	**62**	**98**	**255**
Luxembourg	**–**	**–**	**4**	**53**	**57**
Belgium	**122**	**1**	**97**	**120**	**340**
Other – non-Eurozone	**751**	**9**	**626**	**1,296**	**2,682**
Other – Eurozone	**10**	**–**	**2**	**68**	**80**
Indirectly held debt securities	**–**	**–**	**82**	**1,562**	**1,644**
At 31 December 2018	**5,625**	**168**	**4,838**	**9,435**	**20,066**

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
Belgium	82	–	32	2	116
Other – non-Eurozone	345	3	185	1,041	1,574
Other – Eurozone	11	–	2	38	51
At 31 December 2017	2,810	161	1,550	1,962	6,483

The following table sets out a breakdown of the life companies' ABS holdings by country:

31 December 2018 **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**	**317**	**433**	**115**	**1,372**
USA	**–**	**–**	**2**	**1**	**3**
Germany	**–**	**29**	**–**	**–**	**29**
France	**–**	**33**	**8**	**1**	**42**
Netherlands	**8**	**64**	**35**	**12**	**119**
Italy	**–**	**–**	**5**	**–**	**5**
Ireland	**27**	**1**	**32**	**2**	**62**
Spain	**–**	**17**	**–**	**–**	**17**
Luxembourg	**–**	**34**	**17**	**5**	**56**
Other – non-Eurozone	**23**	**11**	**49**	**22**	**105**
Indirectly held debt securities	**–**	**–**	**–**	**6**	**6**
At 31 December 2018	**565**	**506**	**581**	**164**	**1,816**

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
Luxembourg	–	32	18	–	50
Other – non-Eurozone	10	5	5	–	20
Other – Eurozone	–	–	–	–	–
At 31 December 2017	577	690	605	29	1,901

The following table sets out the credit rating analysis of the debt portfolio:

31 December 2018 **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	**1,485**	**775**	**5,576**	**4,855**	**12,691**
AA	**5,246**	**775**	**21,929**	**8,611**	**36,561**
A	**5,866**	**363**	**5,446**	**7,347**	**19,022**
BBB	**2,868**	**38**	**3,998**	**4,932**	**11,836**
BB	**10**	**3**	**180**	**58**	**251**
B and below	**71**	**–**	**387**	**3,959**	**4,417**
Non-rated	**301**	**53**	**597**	**1,410**	**2,361**
Indirectly held debt securities	**–**	**–**	**84**	**5,125**	**5,209**
At 31 December 2018	**15,847**	**2,007**	**38,197**	**36,297**	**92,348**

94% of rated securities were investment grade at 31 December 2018 (2017: 99%). The percentage of rated securities that were investment grade in relation to the shareholder and policyholders' funds were 99% and 93% respectively (2017: 99% and 98% respectively).

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

ADDITIONAL CAPITAL DISCLOSURES

PGH PLC SOLVENCY II SURPLUS

The PGH plc surplus at 31 December 2018 is £3.2 billion (2017: £1.8 billion).

	31 December 2018 Estimated £bn	31 December 2017 £bn
Own Funds	**10.3**	6.6
SCR	**(7.1)**	(4.8)
Surplus	**3.2**	1.8

The surplus has increased during the period largely due to the acquisition of the Standard Life Assurance businesses financed through an equity raise and the issuance of capital qualifying debt, capital synergies achieved associated with the acquisition and the delivery of management actions partly offset by the impact of dividends paid (including accrual for the 2018 final dividend), financing costs and net adverse economic and other variances.

CALCULATION OF GROUP SOLVENCY

The Solvency II regulations set out two methods for calculating Group solvency, 'Method 1' (being the default accounting based consolidation method) and 'Method 2' (the deduction and aggregation method). Under Method 2, the solo Own Funds are aggregated rather than consolidated on a line by line basis. The SCR is also aggregated, with no allowance for diversification. Method 2 is used for all entities within the Standard Life Assurance businesses acquired and Method 1 is used for all other entities of the Group. The Group has approval to use a combination of Methods 1 and 2 for consolidating its Group solvency results.

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'); and
- in the case of winding-up, the total amount that is available to absorb losses before repayment to the holder until all obligations to policyholders and other beneficiaries have been met ('subordination').

PGH plc's total Own Funds are analysed by Tier as follows:

	31 December 2018 Estimated £bn	31 December 2017 £bn
Tier 1 – Unrestricted	**7.8**	5.0
Tier 1 – Restricted	**0.5**	–
Tier 2	**1.5**	1.0
Tier 3	**0.5**	0.6
Total Own Funds	**10.3**	6.6

PGH plc's unrestricted Tier 1 capital accounts for 76% (2017: 76%) 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.

Restricted Tier 1 capital comprises the Tier 1 Notes issued in April 2018, the terms of which enable it to qualify as restricted Tier 1 capital for regulatory reporting purposes.

Tier 2 capital is comprised 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 £0.4 billion (31 December 2017: £0.5 billion) and the deferred tax asset of £0.1 billion (2017: £0.1 billion).

BREAKDOWN OF SCR

Following the acquisition, the Group now operates two PRA approved Internal Models, a Phoenix Internal Model covering all the pre-acquisition Phoenix entities and a Standard Life Internal Model which covers the acquired Standard Life Assurance entities, with the exception of the Irish entity, Standard Life International Designated Activity Company. Standard Life International Designated Activity Company calculates its capital requirements in accordance with Standard Formula. An analysis of the undiversified SCR of PGH plc is presented below:

	31 December 2018		
	Phoenix Internal Model %	**Standard Life Internal Model %**	31 December 2017 %
Longevity	**26**	**15**	30
Credit	**18**	**13**	15
Persistency	**10**	**26**	14
Interest rates	**11**	**10**	7
Operational	**7**	**8**	9
Swap spreads	**2**	**1**	3
Other market risks	**16**	**16**	15
Other non-market risks	**10**	**11**	7
Total pre-diversified SCR	**100**	**100**	100

The principal risks of the Group are described in detail in note E6 and F4 in the IFRS consolidated financial statements.

BREAKDOWN OF SHAREHOLDER CAPITAL POSITION

The shareholder capital position is an adjusted PGH plc position which excludes Own Funds and the associated SCR relating to the unsupported with-profit funds and the PGL Pension Scheme of £2.3 billion as at 31 December 2018 (2017: £2.0 billion).

The shareholder capital position is further analysed between the contributions of the life companies and holding companies as follows:

	31 December 2018 Estimated £bn	31 December 2017 £bn
Own Funds	**8.0**	4.6
Life Companies	7.5	4.0
Holding Company	0.5	0.6
SCR	**(4.8)**	(2.8)
Life Companies	(4.4)	(2.4)
Holding Company	(0.4)	(0.4)
Surplus	**3.2**	1.8
Life Companies	3.1	1.6
Holding Company	0.1	0.2

Own Funds within the Life Companies of £7.5 billion (2017: £4.0 billion) comprise £4.5 billion (2017: £0.8 billion) in the shareholders' funds, £2.0 billion (2017: £2.1 billion) in the non-profit funds, £0.5 billion (2017: £0.5 billion) in the supported with-profit funds and future shareholder transfers of £0.5 billion (2017: £0.6 billion).

Own Funds within the holding companies of £0.5 billion (2017: £0.6 billion) 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. For Groups this is referred to as the Minimum Consolidated Group SCR ('MGSCR').

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 €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.

The MGSCR represents the sum of the underlying insurance companies' MCRs in respect of the Method 1 part of the Group.

The Eligible Own Funds to cover the MGSCR is subject to quantitative limits as shown below:

- the Eligible amounts of Tier 1 items should be at least 80% of the MGSCR; and
- the Eligible amounts of Tier 2 items shall not exceed 20% of the MGSCR.

PGH plc's MGSCR at 31 December 2018 is £1.0 billion (2017: £1.2 billion).

PGH plc's Method 1 Eligible Own Funds to cover MGSCR is £4.2 billion (2017: £5.3 billion) leaving an excess of Eligible Own Funds over MGSCR of £3.2 billion (2017: £4.1 billion), which translates to an MGSCR coverage ratio of 408% (2017: 448%).

The MCR for the Method 2 part of the Group is £1.1 billion, with Eligible Own Funds of £4.2 billion, leaving an excess of Eligible Own Funds over MCR of £3.1 billion, which translates to an MCR coverage ratio of 377%.

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 28 and the definitions of all APMs are included in the glossary on page 234.

APM	Definition	Why is this measure used	Reconciliation to financial statements
Assets under Administration	The Group's Assets under Administration ('AUA') represents assets administered by or on behalf of the Group, covering both policyholder fund and shareholder assets. It includes assets recognised in the Group's IFRS consolidated statement of financial position together with certain assets administered by the Group for which beneficial ownership resides with customers.	AUA indicates the potential earnings capability of the Group arising from its insurance and investment business. AUA flows provide a measure of the Group's ability to deliver new business growth.	A reconciliation from the Group's IFRS consolidated statement of financial position to the Group's AUA is provided on page 222.
Financial leverage ratio	Financial leverage is calculated by Phoenix (using Fitch Ratings' stated methodology) as debt as a percentage of the sum of debt and equity. Debt is defined as the IFRS carrying value of shareholder borrowings. Equity is defined as the sum of equity attributable to the owners of the parent (excluding goodwill), the unallocated surplus and the Tier 1 Notes.	The Group seeks to manage the level of debt on its balance sheet by monitoring its financial leverage ratio. This is to ensure the Group maintains its investment grade credit rating as issued by Fitch Ratings and optimises its funding costs and financial flexibility for future acquisitions.	The debt and equity figures are directly sourced from the Group's IFRS consolidated statement of financial position on pages 123 and 124 and the analysis of borrowings note on page 155 .
New business contribution	Represents the increase in Solvency II shareholder Own funds arising from new business written in the year, adjusted to exclude the associated risk margin and any restrictions in respect of contract boundaries and stated on a net of tax basis.	This measure is considered a prudent proxy for the future cash generation that is expected to emerge over the life of contracts written in the period.	New business contribution is not directly reconcilable to the Group's Solvency II metrics as it represents an in-year movement. Further analysis is provided on page 31.
Operating companies' cash generation	Cash remitted by the Group's operating companies to the Group's holding companies.	The statement of consolidated 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 statement of consolidated 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 28 and a breakdown of the Group's cash position by type of entity is provided in the additional life company asset disclosures section on page 222.
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 consolidated 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 28 and in the primary financial statements on page 121.
Life Company 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 28 for further analysis of the solvency positions of the life companies.
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 28 and the additional capital disclosures section on page 228.

ADDITIONAL INFORMATION

IN THIS SECTION

SHAREHOLDER INFORMATION

ANNUAL GENERAL MEETING

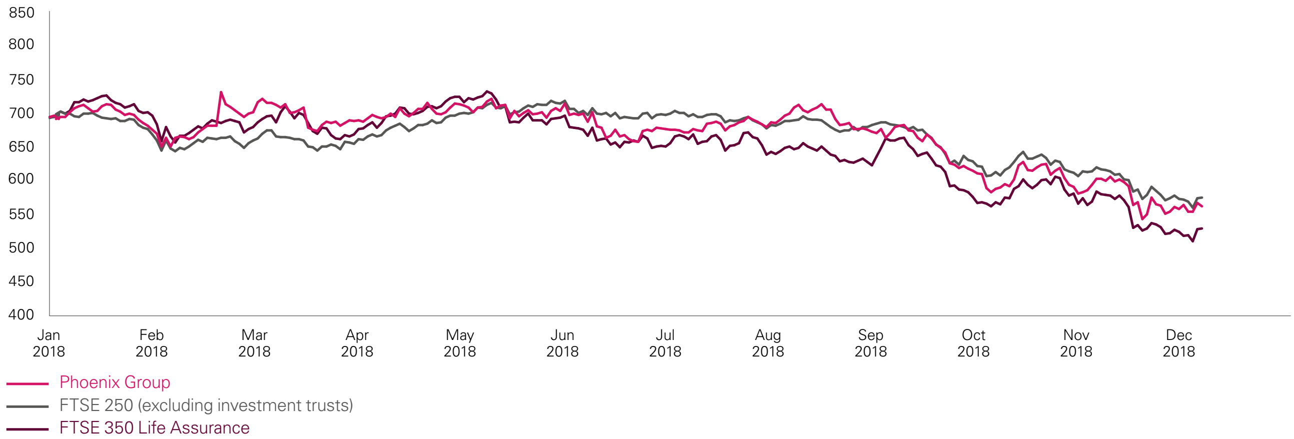
Our Annual General Meeting ('AGM') will be held on 2 May 2019 at 9:00am.

The voting results for our 2019 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 plc share price performance

Price pence per share (rebased to Phoenix)



SHAREHOLDER PROFILE AS AT 31 DECEMBER 2018

Range of shareholdings	No. of shareholders	%	No. of shares	%
1–1,000	**507**	**25.95**	**245,988**	**0.03**
1,001–5,000	**686**	**35.11**	**1,657,308**	**0.23**
5,001–10,000	**152**	**7.78**	**1,049,923**	**0.14**
10,001–250,000	**382**	**19.55**	**26,959,020**	**3.74**
250,001–500,000	**80**	**4.09**	**29,115,610**	**4.04**
500,001 and above	**147**	**7.52**	**662,171,365**	**91.82**
Total	**1,954**		**721,199,214**	

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 PLC
The Pavilions, Bridgwater Road, Bristol, BS99 6ZZ

Shareholder helpline number +44 (0) 370 707 0181
Fax number +44 (0) 370 703 6116
www.investorcentre.co.uk/contactus

Dividend mandates

Shareholders may find it convenient to have their dividends paid directly to their bank or building society account.

Access Computershare's web-based enquiry service www.investorcentre.co.uk to download forms such as a dividend mandate form or submit dividend mandate details online; view details of your Phoenix Group shareholding and recent dividend payments; update your address details and register for shareholder electronic communications to receive notification Phoenix Group shareholder mailings by email.

Alternatively, contact Computershare using the details above.

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/report-scam-unauthorised-firm.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 plc 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 – 2018 FINAL DIVIDEND

Ex-dividend date	**21 March 2019**
Record date	**22 March 2019**
Payment date for the recommended final dividend	**7 May 2019**

GROUP FINANCIAL CALENDAR FOR 2019

Annual General Meeting	**2 May 2019**
Announcement of unaudited six months' Interim Results	**7 August 2019**

FORWARD-LOOKING STATEMENTS

The 2018 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 2018 Annual Report and Accounts.

The Group undertakes no obligation to update any of the forward-looking statements contained within the 2018 Annual Report and Accounts or any other forward-looking statements it may make or publish.

The 2018 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 2018 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 the APM section on page 230
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)
ACQUISITION	The acquisition by Phoenix of the Standard Life Assurance businesses from Standard Life Aberdeen, which completed on 31 August 2018
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 ADMINISTRATION	Assets administered by or on behalf of the Group, covering both policyholder funds and shareholder assets. This includes assets recognised in the Group's IFRS consolidated statement of financial position together with certain assets administered by the Group but for which beneficial ownership resides with customers.
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 plc 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
ENLARGED GROUP	The Phoenix Group including the acquired Standard Life Assurance businesses
EXPERIENCE VARIANCES	Current period differences between the actual experience incurred and the assumptions used in the calculation of IFRS insurance liabilities
FINANCIAL LEVERAGE	Calculated by Phoenix using Fitch Ratings stated methodology as debt as a percentage of the sum of debt and equity. Debt is defined as the IFRS carrying value of shareholder borrowings. Equity is defined as the sum of equity attributable to the owners of the parent adjusted to exclude goodwill, the unallocated surplus and the Tier 1 Notes
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 plc, 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 (LCA) Limited, PGH (LCB) Limited and Pearl Life Holdings Limited
IASB	International Accounting Standards Board
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
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
NEW BUSINESS CONTRIBUTION	Represents the increase in Solvency II shareholder Own Funds arising from new business written in the year (net of associated tax), adjusted to exclude the associated risk margin and any restrictions recognised in respect of contract boundaries. It is stated net of 'Day 1' acquisition costs and is calculated as the value of expected cash flows from new business sold, discounted at the risk free rate
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
PARTIAL INTERNAL MODEL	The model used to calculate the Group Solvency Capital Requirement pursuant to Solvency II. It aggregates outputs from both the existing Phoenix Internal Model and the Standard Life Internal Model with no diversification between the two
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
RIGHTS ISSUE	The rights issue announced by Phoenix on 30 May 2018 and completed on 10 July 2018 in connection with the part financing of the acquisition of the Standard Life Assurance businesses
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
STANDARD LIFE ASSURANCE BUSINESSES	Standard Life Assurance Limited, Standard Life Pensions Fund Limited, Standard Life International Designated Activity Company, Vebnet (Holdings) Limited, Vebnet Limited, Standard Life Lifetime Mortgages Limited, Standard Life Assets and Employee Services Limited and Standard Life Investment Funds Limited (together known as the Standard Life Assurance businesses) acquired by the Group on 31 August 2018
SUNLIFE	SunLife Limited. The Company which distributes SunLife branded products on behalf of its immediate parent company, Phoenix Life Limited and certain third parties
TIER 1 NOTES	The £500 million fixed rate reset perpetual restricted Tier 1 write down Notes issued by Phoenix
TRANSITIONAL MEASURES ON TECHNICAL PROVISIONS	Transitional Measures on 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
UK HERITAGE	The Group's business segment where products are no longer marketed to customers, for example with-profits, annuities and many legacy unit linked life and pension products
UK OPEN	The Group's business segment where products are actively marketed to new and existing customers
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

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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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