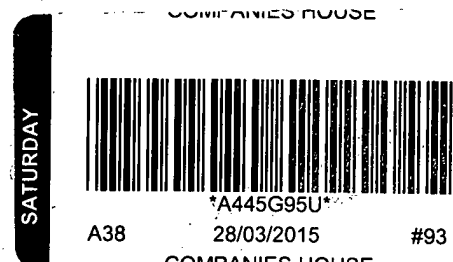


PEARL GROUP MANAGEMENT SERVICES LIMITED

Company Registration Number: 3588063

STRATEGIC REPORT, DIRECTORS' REPORT AND
FINANCIAL STATEMENTS
for the year ended 31 December 2014



PEARL GROUP MANAGEMENT SERVICES LIMITED

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Strategic report

The Directors present the Strategic report, the Directors' Report and the Financial Statements of Pearl Group Management Services Limited ('the Company') for the year ended 31 December 2014.

The Company is incorporated in the United Kingdom as a private limited company. Its registration number is 3588063 and its registered office is 1, Wythall Green Way, Wythall, Birmingham B47 6WG.

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS').

Business review

Principal activities

The principal activity of the Company is the provision of management services, including governance and policy administration services, to the life assurance companies that are within the Phoenix Group. This will continue to be the principal activity for the foreseeable future.

The Company carries out the management services under arm's length, per policy based, Management Services Agreements ('MSA'). The Company has outsourced some of the services it provides to third parties.

The Company has employees based in Wythall and London.

Principal risks and uncertainties

The Phoenix Group applies a consistent methodology for the identification, assessment, management and reporting of risk that includes a high level framework for the management of key risks within each business unit.

The key financial risks the Company is exposed to are expense risk, liquidity risk, legislative and regulatory risk, credit risk and the risk of outsourcer failure. Capital and financial risk management are discussed within notes 23 and 24 of the financial statements.

Key Performance Indicators ('KPIs')

The Company's performance is measured and monitored by the Board with particular regard paid to the following KPIs:

Cash flows

Cash flows are monitored closely by the business to ensure that all liabilities can be met as they fall due. Any shortfall would be covered by a funding request to the parent, Impala Holdings Limited ('IHL'), as and when required. In 2014, operations generated cash of £7,136,000 (2013: absorbed £1,110,000) and cash and cash equivalents decreased by £7,864,000 (2013: £1,110,000).

Regulatory Capital

As the Company is regulated by the Financial Conduct Authority ('FCA'), it regularly reviews and forecasts its adjusted net asset position as determined by Chapter 13 of IPRU (INV). At 31 December 2014, it had an excess over its regulatory capital requirements of £132,362,000 (2013: £126,966,000).

Profit before tax, profit after tax and total comprehensive income

As at 31 December 2014, the Company reported a profit before tax of £20,061,000 (2013: £14,601,000), a profit after tax of £18,659,000 (2013: £15,159,000) and a total comprehensive income of £20,396,000 (2013: £17,047,000).

Employees

During the year, the Company maintained a policy of informing and involving employees on matters which concern them and in the achievement of its business goals. The Company has a comprehensive system for consultation and communication involving regular meetings between management and employees, team briefings, opinion surveys and the issue of various bulletins.

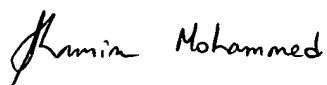
Employee development within the Company is promoted by encouraging staff to gain appropriate professional qualifications and assisting with wider personal development. The Phoenix Group has been a member of Business in the Community since 2010 and employees engage in various Corporate Responsibility activities, from initiatives to reduce or counteract the impact the Group is making on the environment to supporting local communities through volunteering and charity fundraising. Further information can be found in the Corporate Responsibility Statement included in the Phoenix Group Holdings Annual Return and Accounts.

PEARL GROUP MANAGEMENT SERVICES LIMITED

The Company is committed to providing equal opportunities to all employees irrespective of their sex, age, sexual orientation, marital status, religion, race or disability. It is the Company's policy to give positive consideration to disabled persons with respect to applications for employment, training, career development and promotion, having regards to each individual's particular aptitudes and abilities.

Share schemes are offered to employees based on Group shares. The ultimate parent of the Company is Phoenix Group Holdings. Details of these schemes are disclosed within note 25 of the financial statements.

On behalf of the Board



S Mohammed
Director

12 March 2015

Directors' report

Going concern

The Strategic report and the Directors' report summarise the Company's activities, its financial performance and its financial position together with any factors likely to affect its future development. In addition, the Strategic report discusses the principal risks and uncertainties it faces. Notes 23 and 24 to the financial statements summarise the Company's capital management and risk objectives and policies together with its financial risks.

The Directors have followed the UK Financial Reporting Council's "*Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009*" when performing their going concern assessment. As part of their comprehensive assessment of whether the Company is a going concern, the Directors have prepared cash flow and solvency forecasts for the Company for the foreseeable future.

As a result of this review, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Result and dividends

The results of the Company for the year are shown in the statement of comprehensive income on page 8. The profit before tax was £20,061,000 (2013: £14,601,000).

No dividends were paid during the year (2013: £nil). On 15 October 2014, the Company returned a capital contribution of £15,000,000 (2013: £nil).

Employees

Information on employees is shown in the Strategic report on page 3.

Directors

The names of those individuals who served as Directors of the Company during the year or who held office as at the date of signature of this report are as follows:

S Fawcett (appointed on 23 July 2014)
A Kassimiotis
S Mohammed (appointed on 19 November 2014)
A Moss (resigned on 19 June 2014)
A G Roffey-Jones (resigned on 30 June 2014)
R K Thakrar

Secretary

Pearl Group Secretariat Services Limited

Disclosure of indemnity

Qualifying third party indemnity arrangements (as defined in section 234 of the Companies Act 2006) were in force for the benefit of the Directors of the Company during the year and remain in place at the date of approval of this report.

Disclosure of information to auditors

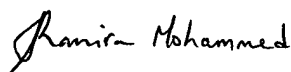
So far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware, and each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act 2006.

Re-appointment of auditors

In accordance with section 487 of the Companies Act 2006, the Company's auditors, Ernst & Young LLP, will be deemed to have been re-appointed at the end of the period of 28 days following circulation of copies of these financial statements as no notice has been received from members pursuant to section 488 of the Companies Act 2006 prior to the end of the accounting reference period to which these financial statements relate.

On behalf of the Board



S Mohammed
Director
12 March 2015

Statement of Directors' responsibilities

The Directors are required to prepare financial statements for each accounting period that comply with the relevant provisions of the Companies Act 2006 and International Financial Reporting Standards as adopted by the European Union ('IFRS'), and which present fairly the financial performance, financial position, cash flows of the Company for the accounting period. A fair presentation of the financial statements in accordance with IFRS requires the Directors to:

- select suitable accounting policies and verify they are applied consistently in preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- state that the Company has complied with applicable IFRSs, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for maintaining proper accounting records which are intended to disclose with reasonable accuracy at any time the financial position of the Company. They are also ultimately responsible for the systems of internal control maintained for safeguarding the assets of the Company and for the prevention and detection of fraud and other irregularities.

Independent Auditor's report to the members of Pearl Group Management Services Limited

We have audited the financial statements of Pearl Group Management Services Limited for the year ended 31 December 2014 which comprise the statement of financial position, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report, Directors' report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

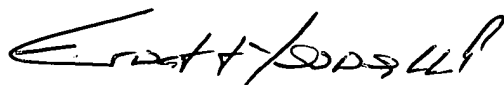
Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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.



Benjamin Gregory (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

18 March 2015

PEARL GROUP MANAGEMENT SERVICES LIMITED

Statement of comprehensive income
for the year ended 31 December 2014

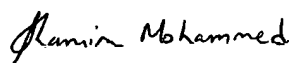
	Notes	2014 £000	2013 £000
Revenue			
Fees and commissions	3	172,080	183,632
Net investment income	4	5,086	3,200
Total revenue		<u>177,166</u>	<u>186,832</u>
Total income		<u>177,166</u>	<u>186,832</u>
Administrative expenses	5	(155,476)	(170,514)
Total operating expenses		<u>(155,476)</u>	<u>(170,514)</u>
Profit before finance costs and tax		21,690	16,318
Finance costs	8	(1,629)	(1,717)
Profit for the year before tax		<u>20,061</u>	<u>14,601</u>
Tax (charge)/credit	9	(1,402)	558
Profit for the year attributable to owners		<u>18,659</u>	<u>15,159</u>
Other comprehensive income:			
Deferred tax credit on share schemes	9	343	1,648
Current tax credit on share schemes	9	1,394	-
Fair value gains on revaluation	18	-	240
Total comprehensive income for the year attributable to owners		<u>20,396</u>	<u>17,047</u>

PEARL GROUP MANAGEMENT SERVICES LIMITED

Statement of financial position
as at 31 December 2014

	Notes	As at 31 December 2014 £000	As at 31 December 2013 £000
Equity attributable to owners			
Share capital	10	38,613	38,613
Capital contribution reserve	11	60,263	75,263
Revaluation reserve	18	192	200
Retained earnings		(22,696)	(43,100)
Total equity		76,372	70,976
Non-current liabilities			
Long-term borrowings	12	62,800	64,800
Long-term provisions	13	3,415	3,415
Accruals and deferred income	15	48,297	47,000
Total non-current liabilities		114,512	115,215
Current liabilities			
Borrowings due for settlement within twelve months	12	2,111	2,133
Short-term provisions	13	-	3,704
Accruals and deferred income	15	20,561	26,250
Other payables	16	13,168	20,108
Total current liabilities		35,840	52,195
Total liabilities		150,352	167,410
Total equity and liabilities		226,724	238,386
Non-current assets			
Investments in subsidiaries	17	6,289	8,118
Property, plant and equipment	18	14,901	15,276
Loans and receivables	19	116,219	113,381
Deferred tax	14	18,499	17,851
Total non-current assets		155,908	154,626
Current assets			
Other receivables	20	22,768	27,848
Cash and cash equivalents	21	48,048	55,912
Total current assets		70,816	83,760
Total assets		226,724	238,386

On behalf of the Board



S Mohammed
Director

12 March 2015

PEARL GROUP MANAGEMENT SERVICES LIMITED

Statement of cash flows
for the year ended 31 December 2014

	Notes	2014 £000	2013 £000
Cash flows from operating activities			
Cash generated/(absorbed) by operations	22	7,136	(1,110)
Net cash flows from operating activities		<u>7,136</u>	<u>(1,110)</u>
Cash flows from investing activities			
Dividends received from subsidiaries		2,000	-
Net cash flows from investing activities		<u>2,000</u>	<u>-</u>
Cash flows from financing activities			
Repayment of borrowings		(2,000)	-
Return of capital contribution		(15,000)	-
Net cash flows from financing activities		<u>(17,000)</u>	<u>-</u>
Net (decrease) in cash and cash equivalents		<u>(7,864)</u>	<u>(1,110)</u>
Cash and cash equivalents at the beginning of the year		55,912	57,022
Cash and cash equivalents at the end of the year	21	<u>48,048</u>	<u>55,912</u>
Supplementary disclosures on cash flow from operating activities			
		2014 £000	2013 £000
Interest received		249	257
Interest paid		<u>-</u>	<u>-</u>

The repayment of borrowings has been included in Cash flows from operating activities in previous years (note 22).

PEARL GROUP MANAGEMENT SERVICES LIMITED

Statement of changes in equity
for the year ended 31 December 2014

	Share capital (note 10) £000	Capital contribution reserve (note 11) £000	Revaluation reserve £000	Retained earnings £000	Total £000
At 1 January 2014	38,613	75,263	200	(43,100)	70,976
Profit for the year	-	-	-	18,659	18,659
Other comprehensive income for the year	-	-	-	1,737	1,737
Total comprehensive income for the year	-	-	-	20,396	20,396
Amortisation of revaluation reserve (note 18)	-	-	(8)	8	-
Return of capital contribution	-	(15,000)	-	-	(15,000)
At 31 December 2014	38,613	60,263	192	(22,696)	76,372

	Share capital (note 10) £000	Capital contribution reserve (note 11) £000	Revaluation reserve £000	Retained earnings £000	Total £000
At 1 January 2013	38,613	75,263	200	(60,147)	53,929
Profit for the year	-	-	-	15,159	15,159
Other comprehensive income for the year	-	-	-	1,888	1,888
Total comprehensive income for the year	-	-	-	17,047	17,047
At 31 December 2013	38,613	75,263	200	(43,100)	70,976

Notes to the financial statements

1. Accounting policies

(a) Basis of preparation

The financial statements have been prepared on a historical cost basis.

The financial statements are separate financial statements and the exemptions in paragraph 4 of IFRS 10 *Consolidated Financial Statements* and section 401 of the Companies Act 2006, have been used not to present consolidated financial statements.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS').

The financial statements are presented in sterling (£) rounded to the nearest £000 except where otherwise stated.

Assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the statement of comprehensive income unless required or permitted by an international financial reporting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

(b) Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the Company's business that typically require such estimates are the impairment tests for investments in subsidiaries, income taxes and provisions.

Impairment of investments in subsidiaries

Investments in subsidiaries are subject to regular impairment reviews. Impairments of investments in subsidiaries are measured at the difference between the carrying value of a particular asset and its estimated recoverable amount. Impairments are recognised in the statement of comprehensive income in the period in which they occur. The Company's policy in relation to impairment testing of investments in subsidiaries is detailed in accounting policy (g).

Income taxes

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which the losses can be relieved. The UK taxation regime applies separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a capital or trading nature may affect the recognition of deferred tax assets.

The accounting policy for income taxes (both current and deferred taxes) is discussed in more detail in accounting policy (d).

Provisions

The accounting policy for provisions is discussed in accounting policy (k).

Fair value of financial assets

The accounting policy for fair value of financial assets is discussed in accounting policy (h).

(c) Borrowings

Interest-bearing borrowings are recognised initially at fair value less any attributable transaction costs. The difference between initial cost and the redemption value is amortised through the statement of comprehensive income over the period of the borrowing using the effective interest method.

(d) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised in the statement of changes in equity, in which case it is recognised in this statement.

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 financial position together with adjustments to tax payable in respect of previous years.

Deferred tax is provided for on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided in respect of temporary differences arising from the initial recognition of goodwill and the initial recognition of assets or liabilities in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and laws enacted or substantively enacted at the period end.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(e) Employee benefits

The Company is a participating employer in the PGL pension scheme which has a defined contribution section and a dormant defined benefit section.

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income as incurred.

Defined benefit plans

No net defined benefit cost or cash contributions of the PGL scheme are borne by the Company as it is the policy of the Phoenix Group for these to be borne by the sponsoring employer for the PGL scheme, Phoenix Group Holdings (No.1) Limited, a Group entity.

(f) Property, plant and equipment

Owner-occupied property is stated at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment. The property is revalued every three years.

Owner-occupied property is depreciated over its estimated useful life, which is taken as 50 years, except where the residual value is greater than its carrying value in which case no depreciation is charged to profit or loss. Land is not depreciated.

A revaluation surplus is recorded in Other Comprehensive Income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Plant and equipment is stated at cost less accumulated depreciation. Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of the assets. The useful lives of the fixtures, fittings and equipment have been estimated as 5-10 years.

(g) Investment in subsidiaries

Investments in shares in subsidiaries are carried in the statement of financial position at cost less impairment.

At each reporting date, the Company assesses whether there are any indications of impairment or reversal of impairment. When such indications exist, an impairment test is carried out by comparing the carrying value of the investment against the estimate of the recoverable amount, which represents the higher of value in use or fair value less costs of disposal. Impairments and reversal of impairments are recognised as income or an expense in the statement of comprehensive income in the period in which they occur.

(h) Financial assets

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method.

Impairment of financial assets

The Company assesses at each period end whether a financial asset or group of financial assets held at amortised cost is impaired. The Company first assesses whether objective evidence of impairment exists for financial assets. 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.

(i) 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 Company's cash management are deducted from cash and cash equivalents for the purpose of the statement of cash flows.

(j) Leases

Where a significant element of the risks and rewards of title to the asset is retained by the lessor, such leases are classified as operating leases.

(k) Provisions and contingent liabilities

A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where the Company has a present legal or constructive obligation as a result of a past event 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.

(l) Dividends

Final dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's owners. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the reporting period are dealt with as an event after the reporting period.

(m) Income recognition**Fee and commission income**

Fee and commission income relates to the following:

- policy administration fees, which are recognised as the services are provided; and
- other fees, which are recognised as the services are provided.

Fee income received for the indemnity of future risks is treated as deferred income in the period in which it is received and recognised as revenue either in line with actual costs incurred (as these costs are considered to best reflect the rendering of services) or as a result of a reduction in the assumed level of future risks.

Net investment income

Net investment income comprises interest, dividends and impairment reversals and losses on loans and receivables.

Interest income is recognised in the statement of comprehensive income as it accrues using the effective interest method. Dividend income is recognised in the statement of comprehensive income on the date the right to receive payments is established.

(n) Expense recognition**Share-based payments**

Equity-settled share-based payments to employees and others providing services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 25.

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 Phoenix Group Holdings ('PGH'), the Company's ultimate parent company estimate of equity instruments that will eventually vest. At each period end, the Company 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 statement of comprehensive income.

Finance costs

Interest payable is recognised in the statement of comprehensive income as it accrues and is calculated by using the effective interest method.

(o) Share capital and capital contributions**Ordinary share capital**

The Company has issued ordinary shares which are classified as equity.

Capital contributions

Capital contributions received by the Company and which contain no agreement for their repayment are recognised directly in the statement of changes in equity as a distributable reserve.

(p) Events after the reporting period

The financial statements are adjusted to reflect significant events that have a material effect on the financial results and that have occurred between the period end and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the period end. Events that are indicative of conditions that arise after the period end that do not result in an adjustment to the financial statements are disclosed.

2. Financial information

The financial statements for the year ended 31 December 2014, set out on pages 8 to 28 were authorised by the Board of Directors for issue on 12 March 2015.

In preparing the financial statements the Company has adopted the following standards, interpretations and amendments which have been issued by the International Accounting Standards Board ('IASB') and have been adopted for use by the EU. None of the following have a material effect on the results of the Company.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) (2014). The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities, specifically the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'. The application has had no impact on the disclosures or amounts recognised in the consolidated financial statements.
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36 Impairment of Assets) (2014). Modifications to the disclosures required by IAS 36 have been made as a result of the requirements of IFRS 13. These amendments require disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the period. The adoption of these amendments has not required any additional disclosures in the financial statements.
- IAS 27 *Separate Financial Statements* (Revised) (2013). IAS 27 now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 *Consolidated and Separate Financial Statements*. Requirements for consolidated financial statements are now contained in IFRS 10 *Consolidated Financial Statements*.
- IFRIC 21 *Levies* (2014). IFRIC 21 clarifies when to recognise a liability for a levy imposed by government in accordance with legislation (other than taxes and fines or other penalties). The adoption of this interpretation has had no impact on the financial statements.

When IFRS 10, IFRS 11, IFRS 12, IAS 27 (Revised), IAS 28 (Revised) and the consequential amendments to these were issued by the IASB the effective date of these standards was 1 January 2013. However, the EU endorsed these standards to be effective from 1 January 2014, with early adoption permitted. The Company has adopted these standards, where applicable, effective for the period commencing on 1 January 2014.

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The IASB has issued the following new or amended standards and interpretations which apply from the dates shown. The Company has decided not to early adopt any of these standards, interpretations or amendments where this is permitted. The impact on the Company of adopting them is subject to evaluation:

- IFRS 9 *Financial Instruments* (2018). This standard will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 was originally issued in November 2009 and introduced new requirements for the classification and measurement of financial assets. The standard was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition and in November 2013 to include new requirements for general hedge accounting. Another revised version was issued in July 2014 to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' option for certain simple debt instruments. The Group anticipates that the application of IFRS 9 in the future is likely to impact amounts reported in respect of the Group's financial assets and liabilities although this remains subject to completion of a detailed review.
- IFRS 15 *Revenue from Contracts with Customers* (2017). IFRS 15 establishes a single comprehensive framework for determining whether, how and when revenue is recognised. The Company currently anticipates that the application of IFRS 15 in the future is likely to have a limited impact on amounts reported in the Company's financial statements.
- Annual Improvements to IFRS 2010-2012 cycle (1 July 2014). This makes a number of minor improvements to existing standards and interpretations.
- Annual Improvements to IFRS 2011-2013 cycle (1 July 2014).
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) (2016).

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

- IFRS 10 *Consolidated Financial Statements* (2013) provides a single consolidation model that identifies control as the basis for consolidation for all types of entities.
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*) (2014).
- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) (1 July 2014).
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) (2016).
- IFRS 14 *Regulatory Deferral Accounts* (2016).
- Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41) (2016).
- IFRS 12 *Disclosure of Interests in Other Entities* (2013).
- IFRS 11 *Joint Arrangements* (2013).
- IAS 28 *Investments in Associates and Joint Ventures* (Revised) (2013).

3. Fees and commissions

	2014 £000	2013 £000
Policy administration fees	107,347	117,474
Release of deferred income (note 15)	3,703	-
Other fees	61,030	66,158
	<u>172,080</u>	<u>183,632</u>

Other fees include charges to group entities for pass-through costs, project work and head office costs.

4. Net investment income

	2014 £000	2013 £000
Investment income		
Interest income	3,086	3,200
Dividend income	2,000	-
Net investment income	<u>5,086</u>	<u>3,200</u>

Interest income includes interest of £2,838,000 (2013: £2,943,000) on loans to Group entities. Dividend income includes dividends from the Company's subsidiary, PGMS (Glasgow) Limited, of £2,000,000 (2013: £nil).

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5. Administrative expenses

	2014	2013
	£000	£000
Employee costs	75,442	72,465
Outsourcing expenses	63,078	72,869
Depreciation of property, plant and equipment (note 18)	375	375
Impairment of subsidiary (note 17)	1,829	-
Operating lease rentals (note 26)	6,413	6,359
Other	8,339	18,446
	<u>155,476</u>	<u>170,514</u>

Other administrative expenses include contractor and professional fees incurred predominately for project work. Expenses principally relating to staff costs and overheads are allocated between the Company and Pearl Group Services Limited, a fellow subsidiary.

Employee costs comprise:

	2014	2013
	£000	£000
Wages and salaries (including termination benefits)	61,009	58,579
Social security contributions	8,636	7,953
Other pension costs	5,797	5,933
	<u>75,442</u>	<u>72,465</u>

	2014	2013
	Number	Number
Average number of persons employed	<u>700</u>	<u>749</u>

6. Directors' remuneration

	2014	2013
	£000	£000
Salaries and short term benefits	304	316
Remuneration (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	<u>304</u>	<u>316</u>

Contributions to money purchase pension schemes	<u>12</u>	<u>14</u>
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	2014	2013
	Number	Number
Number of Directors who:		
- are members of a money purchase pension scheme	4	4
- have exercised share options during the year	1	3

	2014	2013
	£000	£000
Highest paid Director's remuneration:	<u>256</u>	<u>262</u>

The Directors are employed by the Company or Pearl Group Services Limited, a fellow group entity. The total compensation paid to the Directors of the Company relates to services to the Company, irrespective of which entity within the Phoenix Group has paid the compensation.

7. Auditors' remuneration

The remuneration of the auditors of the Company in respect of the audit of the financial statements was £96,000 (2013: £86,000). In addition, audit related assurance services of £3,000 were incurred during the year (2013: £3,000).

8. Finance costs

	2014 £000	2013 £000
Interest expense		
On borrowings at amortised cost	<u>1,629</u>	<u>1,717</u>

Interest expense includes interest of £1,629,000 (2013: £1,717,000) on loans from Group entities.

9. Tax charge/(credit)

Current year tax charge/(credit)

	2014 £000	2013 £000
Current tax:		
UK Corporation tax	1,707	345
Adjustment in respect of prior years	-	-
Total current tax	<u>1,707</u>	<u>345</u>

Deferred tax:

Origination and reversal of temporary differences	(583)	(3,319)
Change in the rate of UK corporation tax	278	2,416
Total deferred tax	<u>(305)</u>	<u>(903)</u>

Total tax charge/(credit)	<u>1,402</u>	<u>(558)</u>
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Tax credited to other comprehensive income

	2014 £000	2013 £000
Deferred tax credit on share schemes	(343)	(1,648)
Current tax credit on share schemes	<u>(1,394)</u>	-
	<u>(1,737)</u>	<u>(1,648)</u>

Reconciliation of tax charge/(credit)

	2014 £000	2013 £000
Profit before tax	<u>20,061</u>	<u>14,601</u>
Tax at standard UK rate of 21.5% (2013: 23.25%)	4,313	3,395
Non-taxable income	(430)	-
Disallowable expenses	85	93
Non-taxable impairment of subsidiaries	393	-
Deferred tax rate change	278	2,416
Share based remuneration	225	-
Temporary differences not valued	<u>(3,462)</u>	<u>(6,462)</u>
Total tax charge/(credit) for the year	<u>1,402</u>	<u>(558)</u>

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10. Share capital

The Company's Articles of Association contain a restriction on the number of shares that may be allotted.

	2014 £000	2013 £000
Authorised:		
100,000,000 (2013: 100,000,000) ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid equity shares:		
38,613,037 (2013: 38,613,037) ordinary shares of £1 each	<u>38,613</u>	<u>38,613</u>

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.

11. Capital contribution reserve

	2014 £000	2013 £000
As at 1 January	75,263	75,263
Return of capital contribution	<u>15,000</u>	<u>-</u>
As at 31 December	<u>60,263</u>	<u>75,263</u>

On 15 October 2014, the company made a return of capital contribution for £15,000,000 (2013: £nil).

12. Borrowings

	2014 £000 Carrying value	2013 £000 Carrying value	2014 £000 Fair value	2013 £000 Fair value
Amounts owed to Group entities at amortised cost:				
Subordinated loan from fellow subsidiary, Pearl Group Holdings (No.1) Limited (PGH1)	56,000	56,000	56,000	56,000
Loan from fellow subsidiary, Phoenix Life Limited (PLL)	<u>8,911</u>	<u>10,933</u>	<u>8,773</u>	<u>10,933</u>
	<u>64,911</u>	<u>66,933</u>	<u>64,773</u>	<u>66,933</u>
Amount due for settlement after 12 months	<u>62,800</u>	<u>64,800</u>		

On 21 September 2007, the Company entered into a £110,000,000 credit facility agreement with fellow subsidiary, PGH1. Cash can be drawn down by the Company after giving five days written notice and is not repayable to PGH1 within two years of drawdown. Repayments are not allowed at any time without the express written consent of the FCA. In total £56,000,000 has been drawn down and remains outstanding at the year end (2013: £56,000,000). Interest of £1,493,000 (2013: £1,475,000) on the loan was charged by PGH1 to the Company in accordance with the agreement.

On 1 May 2012, the Company entered into a £12,800,000 loan agreement with PLL, a fellow subsidiary. The loan is repayable in annual instalments of £2,000,000 plus accrued interest. Interest is payable at a rate of LIBOR plus 1.25%.

Determination of fair value and fair value hierarchy of borrowings

Borrowings are categorised as Level 3 financial instruments. The fair value of borrowings with no external market is determined by internally developed discounted cash flow models using a risk adjusted discount rate corroborated with external market data where possible.

There were no level 1 or level 2 borrowings in 2014 or 2013.

There were no fair value gains or losses recognised in other comprehensive income.

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13. Provisions

	Re- structuring £000	Leasehold properties £000	Staff related £000	Total £000
At 1 January 2014	2,252	3,415	1,452	7,119
Additions in the year	245	-	-	245
Utilised during the year	(2,497)	-	(1,452)	(3,949)
Released during the year	-	-	-	-
At 31 December 2014	<u>-</u>	<u>3,415</u>	<u>-</u>	<u>3,415</u>
Amount due for settlement within 12 months	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amount due for settlement after 12 months	<u>-</u>	<u>3,415</u>	<u>-</u>	<u>3,415</u>

The restructuring provision covered the severance costs following restructuring of management and staffing.

The leasehold property provision includes a dilapidations provision resulting from obligations under operating leases. It is expected that the dilapidations provision will be due for settlement after 12 months.

The staff related provision covered the projected shortfall for paying supplementary pension commitments to ex-employees.

14. Tax assets and liabilities

	2014 £000	2013 £000
Deferred Tax		
The balances at 31 December comprise:		
Deferred tax assets	<u>18,499</u>	<u>17,851</u>

Movements in deferred tax assets

Year ended 31 December 2014

	1 January £000	Recognised in the Income Statement £000	Recognised in other comprehensive income £000	31 December £000
Trading losses	11,994	3,338	-	15,332
Provisions and other temporary differences	3,568	(713)	343	3,198
Accelerated capital allowances	2,289	(2,320)	-	(31)
	<u>17,851</u>	<u>305</u>	<u>343</u>	<u>18,499</u>

Year ended 31 December 2013

	1 January £000	Recognised in the Income Statement £000	Recognised in other comprehensive income £000	31 December £000
Trading losses	15,300	(3,306)	-	11,994
Provisions and other temporary differences	-	1,920	1,648	3,568
Accelerated capital allowances	-	2,289	-	2,289
	<u>15,300</u>	<u>903</u>	<u>1,648</u>	<u>17,851</u>

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The Finance Act 2012 set the rate of corporation tax at 23% from 1 April 2013 and further reductions, to 21% from 1 April 2014 and 20% from 1 April 2015, were set in Finance Act 2013. Consequently, a blended rate of tax has been used for the purposes of providing for deferred tax in these financial statements.

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

	2014 £000	2013 £000
Deferred tax assets have not been recognised in respect of:		
Tax losses carried forward	5,274	10,824
Excess expenses carried forward		
Provisions and other temporary differences	<u>3,678</u>	<u>1,348</u>

15. Accruals and deferred income

	2014 £000	2013 £000
Deferred income	48,297	47,000
Accruals	<u>20,561</u>	<u>26,250</u>
	<u>68,858</u>	<u>73,250</u>
Amount due for settlement after 12 months	<u>48,297</u>	<u>47,000</u>

In 2010, the Company agreed to indemnify PLL against the risk of certain future outsourcer costs, in return for which it received a fee of £47,000,000. In May 2014, under a similar agreement, a further fee of £5,000,000 was received.

In both cases, recognition of the fee income has been deferred and will be released as and when relevant outsourcer costs have been incurred. £3,703,000 has been recognised in income during the year (2013: £nil).

16. Other payables

	2014 £000	2013 £000
Amounts owed to fellow group entities (note 27)	9,618	17,555
Other payables	<u>3,550</u>	<u>2,553</u>
	<u>13,168</u>	<u>20,108</u>

17. Investment in subsidiaries

	2014 £000	2013 £000
Cost		
At 1 January	8,118	8,426
Disposals	-	(308)
At 31 December	8,118	8,118
Impairment		
Impairment of subsidiary (note 5)	<u>(1,829)</u>	-
Carrying amount		
At 1 January	<u>8,118</u>	<u>8,426</u>
At 31 December	<u>6,289</u>	<u>8,118</u>

During 2014, the value of the investment in PGMS (Glasgow) Limited, was impaired by £1,829,000, as a result of a reduction in net assets because of the payment of a dividend of £2,000,000 during the year (2013: £nil). During 2013, subsidiaries Dom James Limited and Phoenix Life Insurance Services 2 Limited were liquidated. The cost of investment in subsidiaries relating to these companies has been treated as a disposal in the table above. There were no disposals in the current year.

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The subsidiaries of the Company are as follows:

	Country of incorporation and principal place of operation	Class of shares held (wholly-owned unless otherwise indicated)
Pearl Life Services Limited	UK	Ordinary shares of £1
PGMS (Ireland) Holdings	IRL	Ordinary shares of £1
PGMS (Glasgow) Limited	UK	Ordinary shares of £1
Alba Life Trustees Limited	UK	Ordinary shares of £1
Phoenix Life Insurance Services Limited	UK	Ordinary shares of £1
Phoenix SCP Pensions Trustees Limited	UK	Ordinary shares of £1
Phoenix SCP Trustees Limited	UK	Ordinary shares of £1
Phoenix Life Pension Trust Limited	UK	Ordinary shares of £1
Phoenix Pension Scheme (Trustees) Limited	UK	Ordinary shares of £1
Phoenix Pensions Trustee Services Limited	UK	Ordinary shares of £1
PGMS (Ireland) Limited (subsidiary of PGMS (Ireland) Holdings)	IRL	Ordinary shares of £1

18. Property, plant and equipment

	Owner occupied property £000	Plant and equipment £000	Total £000
Cost or valuation			
At 1 January 2014	15,000	1,333	16,333
At 31 December 2014	15,000	1,333	16,333
Depreciation			
At 1 January 2014	-	(1,057)	(1,057)
Depreciation (note 5)	(240)	(135)	(375)
Fair value gains on revaluation	-	-	-
At 31 December 2014	(240)	(1,192)	(1,432)
Carrying amount			
At 31 December 2014	14,760	141	14,901
	Owner occupied property £000	Plant and equipment £000	Total £000
Cost or valuation			
At 1 January 2013	15,000	1,333	16,333
At 31 December 2013	15,000	1,333	16,333
Depreciation			
At 1 January 2013	-	(922)	(922)
Depreciation	(240)	(135)	(375)
Fair value gains on revaluation	240	-	240
At 31 December 2013	-	(1,057)	(1,057)
Carrying amount			
At 31 December 2013	15,000	276	15,276

The useful lives of plant and equipment have been taken as 5-10 years for furniture and office equipment. Owner-occupied property has an estimated useful life of 50 years. Land is not depreciated. Keppie Massie, an accredited independent valuer completed a valuation of the owner occupied property at 31 December 2013 on an open market basis in accordance with the Royal Institution of Chartered Surveyors' requirements, which is deemed to equate to fair value. The fair value measurement for the land and buildings of £15,000,000 has been categorised as a level 3 fair value based on the non-observable inputs to the valuation technique used.

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The following table shows a reconciliation from the opening to the closing fair values for the level 3 land and buildings at valuation:

	£000
At 1 January 2014	15,000
Depreciation recognised in profit or loss	(240)
Remeasurement recognised in other comprehensive income	-
At 31 December 2014	14,760

The fair value of the land and buildings at valuation was derived using the investment method supported by comparable evidence. The significant non-observable inputs used in the valuation are expected rental value per square foot and capitalisation rate. The fair value of the land and buildings valuation would increase/(decrease) if the expected rental value per square foot were higher/(lower) and the capitalisation rate were to be lower/(higher).

If the owner occupied property was recognised at historical cost less accumulated depreciation, its carrying amount would have been approximately £14,328,000 at 31 December 2014 (2013: 14,563,000).

Unrealised gains of £192,000 (2013: £200,000) are held in the Revaluation Reserve within the Statement of Changes in Equity. This reserve is not distributable. The movement in the revaluation reserve of £8,000 has been transferred to retained earnings, being that part of the depreciation charge in respect of the revaluation uplift on the asset. The additional depreciation is systematically treated as realised over the estimated remaining life of the asset.

19. Loans and receivables

	2014 £000 Carrying value	2013 £000 Carrying value	2014 £000 Fair value	2013 £000 Fair value
Loans to Group companies at amortised cost:				
Pearl Life Holdings Limited	<u>116,219</u>	<u>113,381</u>	<u>110,969</u>	<u>113,381</u>

Loans totalling £68,338,000 (2013: £67,167,000) to fellow subsidiary Pearl Life Holdings Limited ("PLHL") are repayable on 2 September 2019 and incur interest at a rate of 12 month LIBOR plus 1.25%.

The remaining loan balance was novated by IHL to PLHL on 5 December 2012. It is repayable on 31 December 2016 and incurs interest at a rate of 6 month LIBOR plus 2.94%.

Determination of fair value and fair value hierarchy of loans and receivables

Loans and receivables are categorised as Level 3 financial instruments. The fair value of loans and receivables with no external market is determined by internally developed discounted cash flow models using a risk adjusted discount rate corroborated with external market data where possible.

There were no level 1 or level 2 loans and receivables in 2014 or 2013.

There were no fair value gains or losses recognised in other comprehensive income.

20. Other receivables

	2014 £000	2013 £000
Prepayments	4,248	4,956
Amounts owed by fellow Group entities	15,462	19,549
Other receivables	<u>3,058</u>	<u>3,343</u>
	<u>22,768</u>	<u>27,848</u>

The carrying amounts of other receivables are not materially different from their fair values.

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21. Cash and cash equivalents

	2014	2013
	£000	£000
Bank and cash balances	(42)	17
Short-term deposits (including demand and time deposits)	48,090	55,895
	<u>48,048</u>	<u>55,912</u>

The carrying amounts of cash and cash equivalents are not materially different from their fair values at the year end.

22. Cash flows

Cash flows from operating activities

	2014	2013
	£000	£000
Profit for the year before tax	20,061	14,601
Dividends received from subsidiaries	(2,000)	-
Non-cash movements in profit for the year before tax		
Depreciation of property, plant and equipment	375	375
Revaluation of property	-	240
Impairment of subsidiaries	1,829	-
Interest expense on borrowings	1,629	1,717
Interest income on loans to Group entities	(2,837)	(2,943)
Changes in operating assets and liabilities		
Decrease in other assets	5,079	10,721
Decrease in other liabilities	(17,000)	(25,821)
Cash generated/(absorbed) by operations	<u>7,136</u>	<u>(1,110)</u>

23. Capital management

The Company's capital comprises share capital and reserves. At 31 December 2014, total capital was £76,372,000 (2013: £70,976,000). The movement in capital in the year comprises total comprehensive income of £20,396,000 less the return of capital contribution of £15,000,000.

The Company is subject to regulation by the FCA and must maintain an own funds requirement of £10,000. The Company's capital is monitored by the Directors and managed on an on-going basis. The Directors are responsible for ensuring that the Company maintains an appropriate level of capital to enable it to meet liabilities arising from reasonably foreseeable extreme events. The Company has implemented a system of regular reviews to monitor the level of capital in the short to medium term taking account of the anticipated future developments of the Company.

The Directors have prepared cash flow forecasts for the Company for the foreseeable future. The cash flow forecasts indicate that the Company is able to meet its obligations as and when they fall due.

24. Risk management

The principal risks and uncertainties facing the Company are:

Expense risk

The Company carries the expense risk of reducing its expenses in line with fee income from per policy based management services agreements. To generate ongoing profitability, the Company has to deliver efficiencies to at least match policy run-off. One strategy to mitigate this risk has been to outsource administration services the cost of which runs down in line with policy run off.

The Company manages this risk through a focus on cost reduction initiatives across the business with robust business plans, monitored by detailed reporting and regular re-forecasting. The Company monitors the level of risk in its ongoing expense base every month and the Phoenix Group holds appropriate levels of risk capital to encompass this.

Liquidity risk

The Company has exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements and this is monitored on an ongoing basis.

Key components of the monitoring framework include daily monitoring of cash flow and regular reviews with the parent company, IHL, to identify cash flow requirements.

Legislative and regulatory risk

The Company is subject to regulation by the FCA. The FCA has broad regulatory powers dealing with all aspects of financial services including, amongst other things, the authority to grant and, in specific circumstances, to vary or cancel permissions to carry out particular activities. Phoenix Group has processes in place to keep up to date with latest FCA guidelines and regulation. Phoenix Group is also responsible for treating its customers fairly and adheres to FCA guidelines in respect of this.

The European Union is considering making VAT payable on Outsourcer fees. It is likely that this would give rise to additional expenses to the business. The Company has various agreements in place to mitigate some or all of this risk.

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 recognised and unrecognised assets and liabilities.

During the year, the Company's cash and cash equivalents have been held in authorised collective investment schemes which in turn invest only in money market instruments. The only material credit risk to which the Company is exposed is the possible default of the Company's invested assets, which is considered to be extremely low risk.

The credit risk from activities undertaken in the normal course of business is also considered to be extremely low risk, as the majority of amounts owed to the Company at the year-end are due from Group companies (note 20).

Risk of outsourcer failure

The Company carries the risk that the outsourcers are no longer able to commit to providing the agreed services at the agreed costs. The risk of outsourcers becoming insolvent is continually monitored closely by the Operational Governance Team and considered to be minimal.

25. Share-based payment

Share-based payment expense

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

	2014 £000	2013 £000
Expense arising from equity-settled share-based payment transactions	4,506	4,208

Whilst the expense arising from equity-settled transactions is recorded in the statement of comprehensive income, in accordance with IFRS 2 the corresponding credit entry is classified as a capital contribution received from PGH within equity. However this capital contribution is immediately offset by a corresponding management recharge of equivalent value.

Share-based payment schemes in issue

Long-term incentive plan ('LTIP')

In 2009, the Group implemented a long-term incentive plan to retain and motivate its senior management group. The awards under this plan are in the form of nil-cost options to acquire an allocated number of ordinary shares. Assuming no good leavers or other events which would trigger early vesting rights, these awards will be subject to performance conditions tied to the Company's financial performance in respect of growth in embedded value, cumulative cash generation over a three year period and, with respect to the 2012, 2013 and 2014 LTIPs only, total shareholder return ('TSR'). There are no cash settlement alternatives. The 2011 award vested during the year. The 2012 award will vest on 2 April 2015, the 2013 award will vest on 15 November 2016 and the 2014 award will vest on 26 March 2017. The 2010, 2011 and 2012 LTIP awards were increased during 2013 as a result of the equity raising on 21 February 2013.

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.

Save As You Earn ('SAYE')

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

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Under the SAYE arrangement, participants remaining in the Group's employment at the end of the 3 or 5 year saving period are entitled to use their savings to purchase shares at an exercise price at a discount to the share price on the date of grant. Employees leaving the Group for certain reasons are able to use their savings to purchase shares if they leave less than six months before the end of their 3 or 5 year periods.

The fair value of the awards has been determined using a Black-Scholes valuation model. Key assumptions within this valuation model included expected share price volatility and expected dividend yield. The 2010, 2011 and 2012 SAYE awards were increased during the year as a result of the equity raising on 21 February 2013. The 2014 SAYE awards were granted on 24 April 2014.

The following information was relevant in the determination of the fair value of the 2010 SAYE, 2011 SAYE, 2012 SAYE, 2013 SAYE and 2014 SAYE awards in the year:

	2014 SAYE	2013 SAYE	2012 SAYE	2011 SAYE	2010 SAYE
Share price (£)	6.74	6.30	5.25	6.70	6.50
Exercise price (£)	6.04	5.60	4.66	5.58	5.49
Expected life (years)	3.25 and 3.25	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25
Risk-free rate (%) based on UK Government Gilts commensurate with the expected term of the award	1.3 (for 3.25 year Scheme) and 1.9 (for 5.25 year Scheme)	0.4 (for 3.25 year scheme) and 0.8 (for 5.25 year scheme)	0.6 (for 3.25 year scheme) and 1.1 (for 5.25 year scheme)	1.8 (for 3.25 year scheme) and 2.6 (for 5.25 year scheme)	2.0 (for 3.25 year scheme) and 2.8 (for 5.25 year scheme)
Expected volatility (%) based on the share price volatility to date	30.0	30.0	30.0	30.0	30.0
Dividend yield (%)	7.9	8.5	8.0	6.3	-

Deferred bonus share plan ('Deferred BSP')

With effect from 31 December 2010, part of the annual incentive for certain executives, for any year, is deferred into Phoenix Group Holdings' shares. This grant of shares is conditional on the employee remaining in employment with the Group for a period of 3 years. The 2011 Deferred BSP shares were vested during the year. The 2012 Deferred BSP shares are expected to vest on 2 April 2015, the 2013 Deferred BSP shares are expected to vest on 27 March 2016 and the 2014 awards are expected to vest on 28 March 2017. The 2011 and 2012 deferred BSP awards were increased during the year as a result of the equity raising on 21 February 2013.

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.

Movements in the year

The following tables illustrate the number of, and movements in, share options during the year:

	LTIP Schemes	SAYE Schemes	Deferred BSP
Outstanding at 1 January 2013	2,886,144	581,889	147,943
Granted during the year	911,273	193,614	153,701
Cancelled during the year	-	(19,725)	-
Forfeited during the year	(340,835)	(20,534)	-
Exercised during the year	(474,357)	(131,794)	(31,106)
Outstanding at 31 December 2013	2,982,225	603,450	270,538
Outstanding at 1 January 2014	2,982,225	603,450	270,538
Granted during the year	923,901	345,497	181,554
Cancelled during the year	-	(32,938)	-
Forfeited during the year	(249,974)	(39,134)	-
Sale	-	(53,264)	-
Exercised during the year	(598,488)	(15,032)	(49,010)
Outstanding at 31 December 2014	3,057,664	808,579	403,082

The weighted average fair value of options granted during the year was £5.65 (2013: £5.93).

The weighted average share price at the date of exercise for the rewards exercised is £6.90 (2013: £6.88).

The weighted average remaining contractual life for the rewards outstanding as at 31 December 2014 is 1.43 years (2013: 1.50 years).

26. Operating leases

Operating lease rentals charged within administrative expenses amounted to £6,413,000 (2013: £6,359,000).

The Company has commitments under non-cancellable operating leases as set out below:

	2014 £000	2013 £000
Not later than one year	6,284	5,480
Later than one year and no later than five years	27,006	23,012
Later than five years	6,578	12,092

The operating lease commitments relate to St. Vincent Street, Glasgow and Juxon House, London. St. Vincent Street is currently occupied by Capita and Royal London. The lease expires in December 2020. There are no exit clauses in the lease. The lease is based on current market value and is reviewed twice yearly in each year of the term. The current rental figure was revised in June 2014.

Juxon House is currently occupied by Phoenix Group. The lease for Juxon House was renewed on 26 January 2015. The lease expires in July 2025 but the company has an option to break on 30 July 2020. The lease is based on current market value and is subject to review in July 2020.

27. Related party transactions

The Company enters into transactions with related parties in its normal course of business. These are at arm's length on normal commercial terms.

The Company provides management services to fellow subsidiaries within the Phoenix Group, in the form of staff and other services, under management services agreements. The income received by the Company for the year ended 31 December 2014 amounted to £164,851,000 (2013: £181,695,000). In addition to this the Company has deferred £48,297,000 (2013: £47,000,000) of income from a fellow subsidiary, for the acceptance of costs associated with certain future outsourcer costs from 1 September 2012, see note 15.

The Company incurred interest on loans from fellow subsidiaries of £1,629,000 (2013: £1,717,000) and charged interest on loans to fellow subsidiaries of £2,838,000 (2013: £2,943,000). During the year, the company received a dividend of £2,000,000 (2013: £nil) from a subsidiary. The company made a return of capital contribution for £15,000,000 to Impala Holdings Limited (2013: £nil).

Amounts due to related parties

	2014 £000	2013 £000
Loans due to fellow subsidiaries (note 12)	64,911	66,933
Other amounts due to fellow subsidiaries (note 16)	9,618	17,555

Amounts due from related parties

	2014 £000	2013 £000
Loans due from fellow subsidiaries (note 19)	116,219	113,381
Other amounts due from parent	249	564
Other amounts due from fellow subsidiaries	15,213	18,985

Key management compensation

The total compensation payable to employees classified as key management, which comprises the Directors, is disclosed in note 6.

Payments made to Directors of the Company's parent companies amounted to £5,341,434 (2013: £5,309,000) principally comprising remuneration and other benefits.

Dividends paid by the ultimate parent company to key management during the year amounted to £19,974 (2013: £104,000).

Parent and ultimate parent entity

Information on the Company's parent and ultimate parent is given in note 28.

28. Other information

The Company's principal place of business is the United Kingdom. The Company's immediate parent is Impala Holdings Limited and its ultimate parent is Phoenix Group Holdings, a company incorporated in the Cayman Islands and resident in Jersey. A copy of the financial statements of Phoenix Group Holdings can be obtained from the Company Secretary, 1st Floor, 32 Commercial Street, St. Helier, Jersey, JE2 3RU.