

## **FSA Remuneration Disclosures at 31 December 2010**

This report has been prepared to supplement the Directors' Remuneration Report contained in the 2010 Annual Report and complies with the FSA's Handbook for banks, building societies and investment firms ("BIPRU").

The FSA Remuneration Code does not extend to insurance companies, however the remuneration Committee has identified Ignis Asset Management Ltd ("Ignis") (a wholly owned subsidiary of Phoenix Group Holdings) as a Code firm and by virtue of its influence over Ignis, Phoenix Group Holdings ("Phoenix") is itself a Code firm. The Remuneration Committee has, under advice, identified those firms as Tier 4 Code firms and this report has been prepared on that basis. The Remuneration Committee has determined that 20 Ignis employees met the criteria for Code Staff during the year together with 10 Group roles and the 12 non-executive directors of Phoenix who, in each case, have sufficient supervisory responsibility over Ignis.

The Remuneration Committee anticipates that equivalent provisions to those set out in the FSA Remuneration Code will apply, in due course, to the broader business as a consequence of Solvency II. The Remuneration Committee considers the FSA Remuneration Code to represent best practice and, therefore, has due regard for it across the Group.

### **Role of the Remuneration Committee**

A Phoenix Remuneration Committee was established on 18 February 2010 in anticipation of its Admission to the London Stock Exchange; an event which occurred on 5 July 2010. The Remuneration Committee's remit extends not only to the reward of the most senior executives of the Group and of Code Staff but also to the design of short and long term incentive arrangements and approval of costs relating to those plans. This oversight and responsibility ensures that the Group's total reward arrangements are set in a coherent manner having due regard for market practice and competitiveness, internal relativities and the performance of the individual, the businesses that comprise the Group and the Group as a whole.

The Remuneration Committee in exercising its discretion considers a report from the Group's Chief Risk Officer and may make such adjustments as it considers appropriate having regard to responsible and effective risk management.

No individual is included in decisions regarding his or her own remuneration.

During the year the Committee's terms of reference (details of which can be found on the Group's website) were amended to refer to the FSA Remuneration Code (further details of which can be found at [www.fsa.gov.uk](http://www.fsa.gov.uk)).

### **Members and meetings of the Remuneration Committee**

The Remuneration Committee is comprised solely of non-executive directors. The current members, each of who were appointed upon the establishment of the Remuneration Committee, are:

- Ian Cormack (Chairman)
- David Barnes
- Isabel Hudson

The Remuneration Committee met four times in 2010. Ian Cormack and David Barnes attended all four meetings and Isabel Hudson attended three of the four meetings.

## **Independent Advice**

The Remuneration Committee appointed as its own independent adviser John Lee of Hewitt New Bridge Street. Following the year end, Mr Lee advised the Remuneration Committee that he would be establishing a new independent consultancy (FIT Remuneration Consultants LLP) and the Remuneration Committee has decided that it will continue to be advised by Mr Lee from his new firm.

## **Process for determining remuneration policy**

The Remuneration Committee undertakes a regular review of the remuneration policy to ensure that it remains aligned to, and supportive of the Group's strategy and long term objectives. In addition to independent advice, the Remuneration Committee receives and considers a number of reports, for example, on risk and financial performance across the Group to assist with its oversight of remuneration policy. The Remuneration Committee will also consider regular updates on regulatory developments and general remuneration/employment issues, as well as market and benchmarking data in support of its decisions.

## **Stakeholders**

In setting its remuneration policy, the Remuneration Committee takes account of its duties to shareholders and seeks to ensure that those interests are enhanced by supporting the recruitment, retention and motivation of the talent the Group requires; this includes:

- incentivising high performance in the context of appropriate risk management; and
- paying all of its employees fairly having regard for their contribution and the markets within which the Group operates and/or competes for talent.

In this context, the Remuneration Committee considers the pay of:

- Control functions – Risk, Compliance and Internal Audit;
- Oversight functions – Finance and Human resources;
- Code Staff.

It also considers pay decisions as they affect employees at different levels within the Group.

The Remuneration Committee, consistent with its approach of operating within the highest standards of corporate governance, takes account of guidelines issued by shareholder bodies and other interested parties including, for example, the Association of British Insurers and the National Association of Pension Funds, when setting the remuneration policy of the Group. The Remuneration Committee also seeks to maintain an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance generally and any changes to the Group's executive pay arrangements in particular.

## **Code Firms and Code Staff criteria**

The Remuneration Committee has, under advice, identified Ignis Asset Management Ltd (and its subsidiary businesses) and, as a consequence of that decision, Phoenix Group Holdings as Code firms. The Remuneration Committee has identified the following groups of employees as meeting the FSA's criteria for Code Staff:

- Members of the Group Board, Group Executive and Group Management Committee;
- Staff performing a Significant Influence Function within the Group;
- Members of the Ignis Board; and
- Key Control Function roles.

These groups include those responsible for the oversight and day to day management of the Code firms as well as Control Function heads. As explained earlier, 42 individuals have been identified as Code Staff.

### **Link between pay and performance**

Remuneration comprises fixed pay, performance related bonus and long term incentives. The Group operates a single bonus plan and long term incentive plan across the Group and life business with separate but complementary arrangements within Ignis. The corporate objective in each case is to incentivise and motivate employees to deliver against individual business and Group objectives and to do so in a way that is sustainable and supportive of the Group's vision and value.

Both short and long term variable reward is designed to reflect the success or failure of the employee and the business against a range of agreed targets whilst taking into account the context, including the management of risk, in which the results were achieved. Individual objectives are quantitative and qualitative, reinforcing messages about what the employee is being asked to achieve as well as the behaviours adopted in achieving those goals.

Individual performance assessment is supported by a structured performance management framework where targets are specific, measureable, set at the beginning of the year, regularly reviewed throughout the year to maintain their purpose and communicated to employees.

The Remuneration Committee exercises strong central governance and oversight through:

- the Group Key Performance Indicators which are set out in the Group Report and Accounts and are common to all Group executive directors;
- the management of the overall incentive spend having regard for financial and non financial performance (embracing such indicators as risk, treating customers fairly and employee engagement);
- the determination of senior executive and Code Staff reward: and
- The exercise of claw-back in the case of financial mis-statement or fraud.

Bonus deferral arrangements exist across the Group for its more senior employees. Under these arrangements a significant proportion of any annual bonus is deferred for three years. Consistent with the FSA's Remuneration Code the purpose of the deferral is to support a culture where employees recognise the importance of sustained business performance and improvement.

The Group provides long term incentives which are designed to link reward with the long term success of the Group or business and recognise the responsibility participants have in driving its future success and creating shareholder value.

### **Design and structure of remuneration for Code Staff**

#### Salary and fees

All Code Staff receive either a salary (for employees including executive directors) or fees (for non-executive directors). These payments reflect the individuals' skills, experience, competencies and contribution relative to the market for comparable roles. The Remuneration Committee has determined that fixed remuneration should be sufficient to allow for the possibility that, where performance warrants such action an employee may receive no variable reward, while generally seeking to pay around the market median.

### Benefits

The Group provides a range of financial and non financial benefits appropriate to the markets in which it competes for talent. Employees may customise their benefits having regard to their personal needs within the constraints of the Group's flexible benefits plans. Code Staff who are employees participate in these arrangements on a similar basis to other employees. NEDs do not receive any benefits beyond their fees.

### Annual Incentives

Code Staff who are non-executive directors of the Group are not eligible to receive annual incentives. All Code Staff who are employees are eligible to receive an annual incentive.

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

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

For all Code Staff in control functions (Internal Audit, Regulatory Compliance and Risk) reward will, from 2011, be linked to individual achievement against personal objectives and excludes any direct link to financial performance.

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

### Deferred Annual Incentive

The Remuneration Committee requires that a significant proportion of annual incentive is deferred into Phoenix shares, for relevant Group and life company employees, or Ignis phantom shares, for relevant Ignis employees. For the Group and life company, this arrangement currently extends to the leadership team but will, from 2012, extend to all Code Staff. All Code Staff employed by Ignis are covered by its deferral arrangements.

The proportion of annual incentive being deferred varies depending on the business, the seniority of the employee and the level of annual incentive. For those employees within the Group and life company one third of the bonus is deferred and in Ignis the proportion deferred is between 10% and 50% of the bonus.

## Long term Incentives

### Group and life company

Selected employees (executive level and selected senior management) are eligible to receive annual awards subject to the rules of the Long Term Incentive Plan ("LTIP"). Awards take the form of conditional shares where the number of shares that vest is dependent on Phoenix's market consistent embedded value ("EV") growth as to 50% and cumulative cash generation as to the other 50% over a fixed three year period.

Notwithstanding the performance targets, if the Remuneration Committee determines that the Group's debt levels and associated interest costs have not remained within acceptable parameters over the performance period and that the Group has not made progress considered to be reasonable by it in executing any strategy agreed by the Board on debt management and capital structuring, the level of awards vesting will either be reduced or lapse in full.

For LTIP awards granted in May 2010 targets are measured over the 3 financial years commencing 1 January 2010. A summary of the targets is set out below:

EV Growth (50% of awards)	25 percent of the EV related component of the award will vest for EV growth in excess of the risk free rate by 2.5 percent per annum, rising on a pro rata basis until 100 percent vests for EV growth in excess of the risk free rate by 6 percent per annum.
Cash Generation (50% of awards)	25 percent of the cash generation component of the award will vest for cumulative cash generation of £1.375 billion rising, on a pro rata basis, until 100 percent vests for cash generation of £1.655 billion.

### Ignis

Selected employees (executive level and selected senior management) are eligible to receive awards subject to the rules of the Ignis Long Term Phantom Option Plan ("LTOP"). Awards may be made annually but are typically one-off in nature and reward the growth in the notional value of Ignis over a six year period (with one third of the award vesting on the fourth, fifth and sixth anniversaries of the grant date). Awards take the form of a cash settled option. Awards granted in 2010 reward growth over an initial value of £1.00 per notional share; the value per notional share at the end of the year was £1.15. Where it has been necessary and as a part of the recruitment process, the Remuneration Committee has provided an underpin to the value of the award to reflect the value forfeit from leaving previous employers.

### **Risk adjustment**

To manage the risk aspects of the remuneration policy the Remuneration Committee will, for 2010 and in future years, consider the performance of the Group and individual businesses against risk objectives in determining the bonus out-turn and requires the Chief Risk Officer to report to the Remuneration Committee on this.

## Quantitative Remuneration Disclosure

The Group is required to disclose numbers and aggregate quantitative remuneration information for its Code Staff having regard to level and business area.

	No.	£m
Non-executive directors	12	3.7
Senior management	9	9.9
Others	21	16.7

	No.	£m
Group	22	13.4
Ignis	20	16.9

The Remuneration Committee

1 September 2011