

Directors

Chair



Karin Forseke
Chair

Appointment to the Board
2012

Committee membership
Nomination (Chair)

Key skills and experience
Financial services sector and regulatory environment
Broad geographic, economic and political knowledge

- External appointments**
- Non-Executive Director of Wallenius Lines
 - Member of the European Council on Foreign Relations (ECFR)

- Previous experience**
- Non-Executive Director/ Deputy Chair of the Financial Services Authority (FSA)
 - Chief Executive Officer of D Carnegie & Co AB
 - Chief Operating Officer of London International Financial Futures Exchange, (LIFFE)
 - Head of Distribution for Westpac Banking Corporation's Financial Markets Group in London
 - Director of Business Development for the OMLX Exchange in London

Non-Executive Directors



John Hylands
Non-Executive Director

Appointment to the Board
2008

Committee membership
Audit (Chair)
Nomination
Risk

Key skills and experience
Financial services and actuarial sectors

- External appointments**
- Non-Executive Director of the Board of Ecclesiastical Insurance Group
 - Chairs the trustees of the Standard Life and BOC pension schemes

- Previous experience**
- Finance Director at Standard Life
 - He has also held various actuarial, finance and management positions within Standard Life



Alastair Kerr
Senior Independent Director

Appointment to the Board
2012

Committee membership
Remuneration (Chair)
Nomination
Risk

Key skills and experience
Retail and consumer experience

- External appointments**
- Non-Executive Director and Chair of Remuneration Committee of Fuller, Smith and Turner
 - Non-Executive Director and Chairman of Remuneration Committee of Havelock Europa
 - Non-Executive Director of Whitestuff
 - Chairman of Drilton
 - Chairman of Arran Aromatics
 - Trustee of the Body Shop Foundation
 - Public Member of Network Rail

- Previous experience**
- Managing Director, EMEA, of The Body Shop International
 - Managing Director of Kwik-Fit
 - Group Chief Executive of Park Group
 - Chief Executive of Virgin Retail Europe

Geographical diversity

This chart shows the regions or areas where our directors have worked or had managerial responsibilities



Executive Directors



Susan Noble
Non-Executive Director

Appointment to the Board
2012

Committee membership

Risk (Chair)
Audit
Remuneration

Key skills and experience

Asset management and
equity investment

External appointments

- Non-Executive Director of British Empire Securities and General Trust
- Member of the National Finance Committee of Mencap

Previous experience

- Head of Global Equities at Goldman Sachs Asset Management
- Senior Portfolio Manager of Fleming Continental European Investment Trust
- European Equities Manager at Robert Fleming Asset Management



Win Robbins
Non-Executive Director

Appointment to the Board
2013

Committee membership

Remuneration
Audit

Key skills and experience

Asset management and
fixed income investment

External appointments

- Non-Executive Director of City Merchants High Yield Trust
- Non-Executive member of the Investment Committee of St James's Place Partnership
- Trustee Director and Chair of the Investment Committee of NOW:Pension Trust
- Trustee of the Institute of Cancer Research Pension Scheme

Previous experience

- Head of European Fixed Income at Credit Suisse Asset Management
- Head of Non-US Fixed Income at Citigroup Asset Management
- Head of European Fixed Income at Barclays Global Investors
- Head of Derivative Trading at Smith New Court



Katherine Garrett-Cox CBE
Chief Executive and Chief Investment Officer

Appointment to the Board
2007

Key skills and experience

Asset management, equity
investment and broad
financial services

External appointments

- Member of Supervisory Board of Deutsche Bank AG

Previous experience

- Chief Investment Officer and Executive Director at Aviva Investors
- Group Chief Investment Officer and Chief Executive of Aberdeen Asset Management Limited
- Executive Director of Aberdeen Asset Management PLC
- Investment Director at Hill Samuel Asset Management



Alan Trotter
Chief Financial Officer

Appointment to the Board
2010

Key skills and experience

Finance and Accounting

External appointments

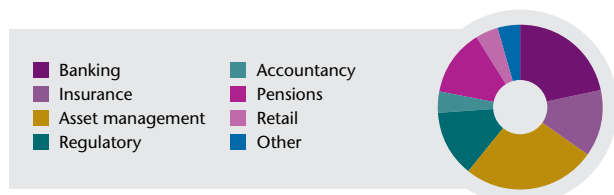
- Member of Financial Conduct Authority's Markets Practitioner Panel

Previous experience

- Chartered Accountant with Ernst & Young
- Senior finance roles with Standard Life, Standard Life Bank and Royal Bank of Scotland
- Group Corporate Development Director at Legal and General

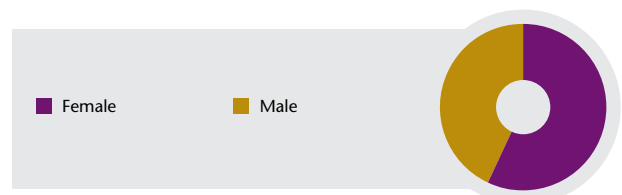
Experience diversity

This chart shows the sectors in which our directors have relevant skills and experience



Gender diversity

This chart shows the gender split of our board.



Corporate Governance



In this section of the report we describe the arrangements which are in place to ensure that Alliance Trust adopts high standards of corporate governance across all of its activities and businesses.

Good corporate governance is not about “box-ticking” – it requires every board to consider the processes, controls and limits within which their own company should operate taking account of its own specific characteristics. Boards then need to define and work within a framework which is clear and understandable to everyone involved in the management of the company.

The following pages describe the work of the Board and also of its various committees during 2013, with commentary from the Chair of each committee.

In addition, both the management team and our regulated subsidiaries, Alliance Trust Savings and Alliance Trust Investments operate within parameters set by the Board. This ensures that the Board retains control over key strategic decisions and has control of the risk profile of the business. These are regularly reviewed by the Board to ensure that they remain appropriate, giving the Chief Executive and her management team, who also act as the Boards of the regulated subsidiaries, the freedom to develop the business and respond quickly to emerging opportunities while not exposing shareholders to excessive risk.

At each Board meeting, the Board scrutinises KPI reports covering all aspects of the business, including investment and operational performance and customer outcomes. This enables the Board to satisfy itself that good progress is being made against the agreed business plan and allows it to take early corrective action where required. In addition the Board receives in-depth presentations on a twice yearly basis from the Heads of Equities, Fixed Income and SRI, and also from the Alliance Trust Savings and Alliance Trust Investments management teams. These presentations give the Board the opportunity to provide both support and challenge to management across all areas of the business.

The Non-Executive Directors hold regular private sessions. Some of these are also attended by the Chief Executive.

Board effectiveness

Boards need to regularly review both their own performance and that of their committees and individual directors to ensure that all make an effective contribution. Periodic externally-facilitated evaluations are an essential part of this process and we have used external facilitators on three previous occasions, most recently Independent Audit in 2012. Independent Audit have no other connection with the Company.

This year the Board performance evaluation was facilitated internally, with all directors and members of the Executive Committee completing questionnaires. These covered the key themes of strategy, the governance structure, information and decision-making, the relationship with committees and subsidiaries, board composition and interaction between the Board and management. Responses were then collated and discussed in individual structured interviews led by myself and the Company Secretary which focused on changes we could make for the future based on our experience in 2013.

At the same time the Audit, Nomination, Remuneration and Board Risk Committees each undertook their own, questionnaire-based review. I discussed directors' contribution with each individually, while my own performance evaluation was led by the Senior Independent Director and discussed by my non-executive colleagues. I did not attend that meeting, but the Senior Independent Director provided feedback to me following the meeting.

The conclusion of the evaluation was that the Board was operating effectively and that the current governance framework was satisfactory. In discussion of the report, the Board agreed a number of changes related to the executive succession process and enhancements to the existing KPI reports. The Board also discussed ways in which the Board programme could be adjusted to make best use of directors' time.

Compliance with UK Corporate Governance Code

I am pleased to confirm that we have complied with the UK Corporate Governance Code issued in September 2012 throughout the period covered by this report. We also comply with the principles of the AIC Code of Corporate Governance issued in February 2013.

Karin Forseke Chair

Board Committees

The four committees reporting to the Board during the year were:

- Audit Committee
- Nomination Committee
- Remuneration Committee
- Board Risk Committee

The Terms of Reference of each of these Committees have been reviewed and updated in the course of the year. Copies of the Terms of Reference of the Committees can be found on our website www.alliancetrust.co.uk.

Board Risk Committee

The members are shown on pages 40 and 41.

The work of the Committee during the year is explained on page 46 and 49.

Nomination Committee

The members are shown on page 40.

The work of the Committee during the year is explained on page 47.

Audit Committee

The members are shown on pages 40 and 41.

The work of the Committee during the year is explained on pages 48 to 50.

Remuneration Committee

The members are shown on pages 40 and 41.

The work of the Committee during the year is explained in the Directors' Remuneration section of the report on pages 52 to 67.

Management Committees

In addition there are other committees which include Executive Directors and other senior managers.

Asset Allocation

This Committee comprises the Chief Investment Officer, the Head of Global Equities and the Head of Fixed Income. The Chief Financial Officer also attends its meetings.

Executive Committee

This Committee comprises the Chief Executive and senior management and is the main executive committee providing leadership, oversight and communication across the Group.

Risk Management Committee

This Committee comprises the Chief Financial Officer, Chief Investment Officer, Director of Risk and Compliance and the senior managers who oversee and review the control, monitoring and reporting framework and related procedures for risk management. The work of the Committee is covered on pages 36 to 39.

Authorisation Committee

This Committee comprises the Executive Directors and other senior managers. It considers and approves changes to signing authorities, approval of banking arrangements, appointment of brokers and approval of other administrative arrangements.

Portfolio Oversight Committee

This Committee comprises the Chief Investment Officer, Head of Performance and Risk and other senior managers. It oversees performance and investment risk within the Group.

Investment Operations Committee

This Committee comprises the Director of Investment Operations and other senior managers. It provides oversight of investment operational processes procedures, systems and controls within the Group.

Board

Purpose of Board

The Board sets the long-term objectives of the Company and approves its business plans and strategic direction. It is responsible for ensuring that a framework of prudent controls is in place to enable risk to be managed effectively. It provides leadership and reviews business performance.

Details of the Board members can be found on pages 40 and 41.

The Board delegates certain decisions to committees comprising Non-Executive Directors, Executive Directors or a combination of these and management as explained in more detail on page 43.

The areas of decision making that the Board has reserved to itself are:

- strategy and investment policy
- new subsidiary businesses and joint ventures
- annual budget
- approval of treasury policies, banking counterparties and counterparty exposure limits
- Group borrowing limits and the maximum amounts and nature of new bank borrowing facilities
- major contracts
- asset classes in which any Group company may invest
- derivative instruments which any Group company may use
- material changes to gearing and the percentage mix of asset allocation by class and geography
- major changes in employment and remuneration structures
- political and charitable donations
- any material litigation or civil proceedings

The boards of its subsidiaries are required to seek endorsement from the parent Board for any strategic decisions including:

- business plans and annual budgets
- approval of directors and officers
- acquisition or disposal of part of any business
- launch of new or material changes to existing funds or products
- significant contracts

Through the matters reserved to the Board, the powers of individual Directors are restricted to the extent necessary to ensure good governance.

In addition to the reports submitted by the Chief Executive Officer, Chief Financial Officer and Company Secretary other regular reports include Key Performance Indicators and Risk. Other matters considered during the year include risk appetite, banking facilities, Budgets and Business Plans, Directors' and Officers' insurance, changes to Committees and terms of reference.

Key area of focus	Decision taken
Strategy	The Board held a strategy day in September at which it considered a range of options for the future development of the investment trust and the subsidiary businesses and approved the Vision 2020 strategy.
Investment performance	The Board requested regular presentations by its investment managers and the managing directors of Alliance Trust Savings and Alliance Trust Investments. These presentations included not only the reporting of performance but areas of strategic importance which are reserved to the Board of the PLC for decision. These presentations allowed the Directors to be fully engaged with the management team responsible for delivery of the strategy.
Business plans	The Board approved the business plans of the Company and also of the subsidiary companies, challenging the submissions made by management and requiring certain revisions to be made. In the course of the year decisions were taken to close two funds which were not core to Alliance Trust Investments' future strategy.
Dividend policy	We reported in our last Report and Accounts that the Board had approved an amended policy to maintain a steadily rising dividend and, under normal circumstances, to pay out all our current year's earnings either as ordinary or special dividends. We also agreed that unless there were exceptional circumstances we would not pay dividends out of our capital reserves.
Regulatory matters	<p>The Board agreed to apply to become registered as an Alternative Investment Fund Manager. This was as a result of a European Directive requiring certain investment firms to adopt specific operating requirements. Although Alliance Trust already had the basic framework in place, this has meant considerable work and contributed to an increased cost of compliance.</p> <p>The Board also approved the Internal Capital Adequacy Assessment Process and Alliance Trust Savings' Recovery and Resolution Plan and Individual Liquidity Systems Assessment.</p>
Scottish independence	The Board considered on a number of occasions the implications of the referendum on Scottish Independence and set up a working group to monitor and report on developments. The Board identified the key areas which will impact our customers and business and the actions that may be necessary.
Outsourcing	The Board decided to outsource certain of its middle and back office investment activities for both Alliance Trust PLC and Alliance Trust Investments to BNY Mellon. A decision was also made to appoint a depositary as a custodian of the assets of the company as part of the preparations for the implementation of AIFMD.
Gearing	The Board approved investigations into alternative long-term options for funding of investment activities in addition to the existing banking facilities.
Executive succession	The Board decided that Executive succession should be considered by the full Board rather than by the Nomination Committee. During the year they reviewed the current succession planning arrangements and considered them to be appropriate.
Price change	The Board considered a proposal from Alliance Trust Savings to carry out a major review of its pricing structure in preparation for the changes to the market from the Retail Distribution Review. The Board agreed to endorse the changes having satisfied itself that they were fair and would represent a clear and transparent charging structure for a number of years.

Board Risk Committee



We set out on pages 36 to 39 how the business manages the key risks that impact on the Company. In this section we provide information on the main areas of focus of the Committee over the year. The Committee plays a significant role in monitoring how effective management is in managing risk in the business and provides a layer of challenge above that provided by the senior managers who are members of the Risk Management Committee. One of the main purposes of the Committee is to support initiatives intended to embed the Company risk culture within the group. The Committee reviews and challenges the appropriateness of the Group Risk Appetite scorecards and management's assessment of the future Risk Outlook impacting the Company. The table below summarises how the Committee has tackled this in the year highlighting both the key areas of focus and the decisions taken.

Susan Noble Chair, Board Risk Committee

Key area of focus	Decision taken
Risk appetite	New measures were recommended to the Board by the Committee and a Group Risk Appetite Scorecard, which now forms part of the regular reporting across the business to complement existing business unit scorecards, was approved.
Risk monitoring	The Committee supported the development and refinement of risk reporting and the introduction of more concise management information including clearer reporting on conduct and customer treatment measures. Improved tracking of movements in risk categories that allows enhanced trend analysis to take place has also been introduced.
Risk reporting	The Committee has overseen significant improvements to the structure and content of the risk registers used by the business including the removal of duplication, improved definitions and evaluation of risks. Scores attributed to identified risks have been challenged by the Committee and management have been challenged on the quality of their controls and mitigants.
Investment risk	The Committee recognised that how the investment managers operate their portfolio is a key risk and accordingly devoted a full meeting to consideration and approval of the investment risk management process. This included a review of the controls that are in place for the use of derivative instruments within the business.
Regulatory compliance	The Committee considered and recommended to the Board a number of submissions that were provided to the regulators. These include an Internal Capital Adequacy Assessment Process (which involves analysing the risks to the business and the level of capital required to reflect those risks), Recovery and Resolution Plan (which involves approving a plan to be used should Alliance Trust Savings not be able to meet its obligations to its customers) and an Individual Liquidity Systems Assessment (which involves approving the means by which Alliance Trust Savings maintains adequate levels of liquidity).
Business continuity	The Committee requires an annual report on the effectiveness of the arrangements that are in place to ensure that the business can continue to operate when faced with a number of challenging business issues. In the course of the year call cascades, an onsite recovery test and a crisis scenario exercise have been held all of which, while identifying improvements that could be made, demonstrated that there were effective processes and procedures in place to minimise the risk of business interruption.

Nomination Committee



We set out in this section the main areas of focus of the Committee over the year. The Committee's role is to assess the skills and experience of individual directors against the skillset required to ensure that the Board can provide effective direction and oversight of the Company's strategy and operations. The Committee maintains a succession plan for future planned retirements and leads the search for replacements as and when necessary. In the table below we summarise how the Committee has tackled its role in the year highlighting both the key areas of focus and the decisions taken.

Karin Forseke Chair, Nomination Committee

Key area of focus	Decision taken
Non-Executive Director appointment	The Committee considered a number of candidates for the role of a Non-Executive Director against agreed criteria and approved the appointment of Win Robbins. The Zygos Partnership, a firm specialising in board-level appointments, was used to conduct a search for this appointment. The Zygos Partnership has no other connection with the Company.
Non-Executive retirement policy	The Committee considered and approved a change to the existing policy on the 'normal' period of office of the Company's Non-Executive Directors and, recognising that a number of Directors had recently been appointed over a short period of time, agreed that a more flexible policy was required. They Committee therefore adopted a new policy aimed at ensuring that the Board would be regularly refreshed but without a large number of changes of Board members over a short period of time.
Policy on Board diversity	The Committee acknowledged that it is responsible for ensuring that there is planned succession, so far as possible, at Board level and for ensuring that the proper composition of the Board in terms of skills, knowledge, experience and diversity is maintained. Taking that responsibility into account the Committee considered and reaffirmed the existing policy that the Board should not adopt a target for gender diversity but will continue, as it has in the past, to appoint the best qualified person for the job regardless of their gender.
Re-election of Directors	The Board decided in 2011 that each Director should stand for re-election each year. The Committee considered whether to recommend to the Annual General Meeting each of the Directors for election or re-election and concluded that, taking into account the contribution and commitment of each individual, they all be recommended to the shareholders. In the case of John Hylands, who has been a Director for six years, the recommendation for re-election was made after rigorous review under the Board's amended policy on Non-Executive Directors' retirement.
Committee composition	Following the decision to form the Risk Committee it was agreed that Susan Noble should be appointed as Chair and John Hylands and Alastair Kerr as members of the Board Risk Committee.
Non-Executive succession	The Committee considered the skillsets of the current members of the Board and their current tenure as Non-Executive Directors and what action was required to ensure that the Board continued to have the appropriate mix of experience before agreeing a succession plan for the period to 2016.

Audit Committee



In this section we provide information on the main areas of focus of the Audit Committee over the year. The Committee plays a significant role in ensuring that the Company's financial statements and those of other companies in the Group are properly prepared and that the systems of controls that are in place are effective and appropriate. We provide more detail on these matters on the next pages but the key areas of focus and the decisions taken are summarised in the table below.

This year, following changes to the UK Corporate Governance Code, we were required specifically to consider whether our Company accounts were, taken as a whole, fair, balanced and understandable. We also had to address whether they provide the information that a shareholder needs to assess the Company's performance, business model and strategy. After consideration, the Audit Committee agreed that they did and recommended their approval to the Board.

John Hylands Chair, Audit Committee

Key area of focus	Decision taken
Review of Annual and Interim Accounts	The Committee considered the content of the Report and Accounts of the Company, the Reports and Accounts of Alliance Trust Savings and Alliance Trust Investments and recommended their approval to the respective company boards.
Internal Audit, External Audit and Compliance Plans	The Committee considered and approved the planned activities of the Internal Audit and Compliance functions along with the scope of the External Audit for the year.
Use of co-sourced partner for Compliance and Internal Audit	The Committee approved the appointment, after a tender exercise, of an external firm (PricewaterhouseCoopers) to provide additional specialist resource to supplement the Internal Audit and Compliance Teams. The external resource focuses on areas of the business where benefit can be obtained from using individuals with extensive experience across the industry. In making the appointment the Committee approved additional controls to avoid any conflict of interest arising.
Use of derivatives	Following a management request to extend the use of derivative instruments the Committee undertook a review of the existing investment risk management process to satisfy itself that operational processes and controls were in place for the enhanced use of derivatives.
Effectiveness of Risk Management and Internal Control Systems	The Committee considered reports produced over the year and at the year end before arriving at the conclusions provided on page 49.
Significant accounting matters	The Committee considered the basis of valuing its subsidiary businesses and other unlisted investments and approved the methodology which is described in more detail on pages 107 to 110. The Committee also approved the accounting treatment for the acquisition of the SRI funds from Aviva which is disclosed in note 2 on page 82.
External Auditor	The Committee considered the independence and performance of the External Auditor before arriving at the conclusions provided on page 50.

Internal controls

The Group has a clear organisational structure for the control and monitoring of its business, including defined lines of responsibility and delegation of authority. The Group has a comprehensive system for reviewing, monitoring and reporting performance to the Board, including a detailed financial review against forecast.

The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives and for the Group's risk management and internal control systems. The Audit and the Board Risk Committees assist the Board in fulfilling this responsibility.

The Group's system of internal control is designed to facilitate effective and efficient operations and to ensure the assets of the Group are safeguarded, proper accounting records are maintained, and the financial information used within the business and for reporting to stakeholders is reliable.

Any system of risk management and internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable assurance and not absolute assurance against material misstatement or loss.

The Board is ultimately responsible for the Group's risk management and internal control systems but relies on both the Audit Committee and the Board Risk Committee to regularly review their effectiveness, including all material financial, operational and compliance controls. The Audit Committee has also performed an assessment for the purpose of this annual report, which considered all significant aspects of risk management and internal control arising during the period of the report, including the work of the Risk, Compliance and Internal Audit functions. The Audit Committee then reported its findings to the Board.

The Board has established an ongoing process for the identification, evaluation and management of the significant risks faced by the Group. The Board Risk Committee regularly reviews this process, which is in accordance with the "Internal Control - Revised Guidance for Directors on the Combined Code" published in October 2005.

The Board Risk Committee also reviews the effectiveness of the Group's Risk Management Framework and reviews and challenges the results of the Group's Risk and Control Self Assessment process which considers the effectiveness of internal control in managing the significant risks to which the Group is exposed.

The Audit Committee regularly receives reports from the Group's Compliance and Internal Audit functions and from the External Auditor which include details of all significant internal control issues that have been identified. The Audit Committee provides independent oversight of Internal

Audit and Compliance to ensure that they are providing the level of scrutiny expected by the Audit Committee and the Board. In arriving at their conclusions, and to allow reports to be made to them without management presence, the Audit Committee have private sessions with each of the Head of Internal Audit, Director of Compliance and the External Auditor during the year. As a result of the annual review and the ongoing processes for review, monitoring and reporting of internal control, the Board did not identify any significant weaknesses or failings and remains satisfied with the effectiveness of the Group's risk management and internal control systems.

Internal controls over financial reporting

One of the risks to the Group is Financial and Prudential Reporting – the risk of adopting inappropriate accounting policies and ineffective controls over financial and regulatory reporting. The Group has a Financial Accounting Policy and an Accounting Manual to enable the Group to comply with all relevant accounting standards to ensure that the financial statements provide a true and fair view.

This risk and the mitigating controls are assessed regularly by management. Controls over the preparation of the consolidated accounts include but are not limited to:

- A formal review and sign-off of the annual accounts by management including verification of any statements made;
- Adoption of appropriate accounting policies by the Board;
- Review and approval of accounting estimates by the Board.

This year the Audit Committee also took account of the requirement that the Annual Report should, taken as a whole, be fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's performance, business model and strategy. In arriving at their conclusion that the Annual Report satisfied the requirement the Committee took into account the process adopted in the preparation of the document which included:

- The involvement of Executive Committee members, the Company Secretary, the Head of Performance and Risk and the Head of Investor Relations in regular drafting meetings;
- All Executive Committee members provide sign-off on the draft issued to the Board for approval;
- Verification of all factual statements contained within the narrative section of the Annual Report, with evidence required from the author;

- Statements which cannot be verified – typically opinions or forward-looking statements – specifically brought to the Audit Committee’s attention.

The Audit Committee considered the steps outlined above and the content of the document. After review the Committee were satisfied, taking care to ensure that the narrative parts of the Annual Report were consistent with the numerical disclosures in the audited accounts, that the Annual Report satisfied the test and recommended approval to the Board.

Significant accounting matters

During the year the Audit Committee considered a number of significant accounting matters including:

- The valuation and ownership of listed investments;
- The basis of calculating the fair value of our subsidiary businesses (this is explained in more detail on page 109);
- The valuation of other unlisted investments;
- The allocation of costs incurred within the Group between the Trust and the subsidiary businesses;
- The accounting treatment for the former Aviva SRI assets.

Independence of Auditor

The Committee’s policy is to allow the audit firm to be instructed to undertake non-audit work only where there is no threat to independence. Any assignment must be approved on behalf of the Committee by its Chair. Such assignments are normally put out to tender. Last year £32,000 was paid to the Auditor in respect of work on regulatory services (in relation to FATCA) and the audit of termination accounts for a number of Alliance Trust Investment funds. Each year the Committee considers the independence of the Auditor. It has done so this year and confirms the Auditor’s independence.

Effectiveness of Auditor

During the course of the year the audit engagement partner and other members of the engagement team met on several occasions with the Audit Committee Chair and the Chief Financial Officer, both together and separately. These meetings provide an opportunity for matters relating to the conduct of the audit, including the performance of the External Auditor, to be raised and addressed at the time.

Following completion of the external audit of the financial statements for the period ended 31 December 2012 a formal evaluation of the External Auditor’s effectiveness was undertaken. The evaluation was facilitated by the

Head of Internal Audit and was conducted by way of a survey, completed by Audit Committee members and members of management within the businesses and the control functions. The survey assessed the External Auditor’s performance against the following criteria: independence and objectivity, audit strategy, communication with management, and how the audit was finalised.

The Audit Committee considered the results of the evaluation at its July meeting and concluded that it was satisfied both with the performance and with the independence of the External Auditor. No material issues were identified.

Tender of Auditor

During 2010 the Board carried out a tender exercise for the role of Auditor. This involved a rigorous selection process during which the Audit Committee considered submissions made and received presentations from the short-listed firms. The Committee decided that it would be appropriate to change Auditor and recommended the appointment of Deloitte LLP to the Board who in turn recommended their appointment to the members at the 2011 AGM. Deloitte LLP were subsequently reappointed at the 2012 and 2013 AGMs and are proposed for reappointment in 2014. Deloitte LLP will normally change the audit partner after they have been appointed for five years and the current partner, Calum Thomson, has been in the role for three years. The recommendation to reappoint Deloitte LLP is not automatic. In the course of the year the Chair of the Committee has met with the Auditor on a number of occasions outwith the formal structure of Committee meetings. The Committee has considered the performance of the Auditor and is satisfied with the rigour that they apply to the audit process and have recommended the reappointment of Deloitte LLP for a further year.

The Committee has decided that it will put the role of Auditor out to tender at least every 10 years.

Disclosure of information to Auditor

The Directors who held office at the date of approval of this Directors’ Report confirm that, so far as they are each aware, there is no relevant audit information of which the Auditor is unaware; and each Director has taken all steps they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Auditor is aware of that information.

Directors' responsibilities statement

The Directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial period. By law, the Directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements under IFRSs as adopted by the EU.

The financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the Company and the performance for that period; the Companies Act 2006 provides, in relation to such financial statements, that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report and a Strategic Report that complies with that law and those regulations.

Going concern

The Group's business activities are set out on pages 3 to 7 with the principal risks which could impact on performance set out on pages 38 and 39. The Group's financial position and cash flows are set out on pages 74 to 78 along with an analysis of its borrowings in Note 15 on page 95. As regards going concern the Directors have considered both liquidity and solvency risks.

Liquidity is concerned with our ability to liquidate assets or access new sources of short-term funds in the time needed to meet our liabilities as they fall due. The majority of the Group's assets are in listed securities on recognised stock exchanges which are readily realisable even in volatile markets. At 31 December 2013 we also had £70m of unused committed funding lines.

Solvency is concerned with our ability to meet our liabilities in full. This involves managing our capital by maintaining a business model which is capable of delivering over time a continuing economic return to our shareholders whilst absorbing the impact of any risks which crystallise. As at 31 December 2013 the Group's total net assets were £2.9bn. Our investment policy restricts gearing to 30% of net assets at any given time (11.6% at 31 December 2013).

Sensitivities to market, credit, liquidity and gearing risk are set out in Note 23 on pages 100 to 110. The Directors, who have reviewed the budgets, forecasts and sensitivities for the coming year, consider that the Group has adequate financial resources to enable it to continue in operational existence for the foreseeable future. Accordingly the Directors believe that it is appropriate to continue to adopt the going concern basis for preparing the financial statements.