# LONDON LIFE LIMITED

**Company Registration Number: 1179800**

STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2013

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**Strategic report**

The Directors present the Strategic report, their report and the financial statements of London Life Limited ("the Company") for the year ended 31 December 2013.

The Company is incorporated in the United Kingdom a private limited company. Its registration number is 1179800 and its registered office is 1, Wythall Green Way, Wythall, Birmingham B47 6WG.

The financial statements of the Company for the year ended 31 December 2013 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and applied in accordance with the Companies Act 2006.

**Business review**

***Principal activities***
The principal activity of the Company was the transaction of life assurance and pension business. Following the de-authorisation and subsequent transfer described below the Company became inactive. It is anticipated that the Company will remain inactive in the foreseeable future.

***Strategy***
The strategy of the Phoenix Group, of which the Company is a member, is to manage closed life funds in an efficient and secure manner, protecting and enhancing policyholders' interests whilst maximising value for shareholders.

***Corporate activity***
Following the Part VII transfer of the Company's long term insurance business ("the Scheme") approved by the High Court on 24 September 2012, an application was successfully submitted to the Financial Conduct Authority ("FCA") and Prudential Regulation Authority (PRA) to cancel the Company's authorisation to undertake long term business.

Following deauthorisation, on 24 October 2013 the remaining assets of £4m were transferred by the Company in accordance with the Scheme to Phoenix Life Assurance Limited ("PLAL") for £nil consideration.

***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.

Following the restructuring of the Company's operations in 2012 under the Scheme, the Company is no longer exposed to any material risks. Should any liabilities arise in the future, the terms of the Scheme are such that these will transfer to PLAL.

***Key Performance Indicators ("KPIs")***
Given the straightforward nature of the business, the Company's Directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

On behalf of the Board

L Nuttall
For and on behalf of Pearl Group Secretariat Services Limited
*Company Secretary*

26 June 2014

## Directors' report

### *Results and dividends*

The results of the Company for the year are shown in the statement of comprehensive income on page 11. The loss before owners' tax was £4m (2012: £250m).

No dividends were paid during the year (2012: £nil).

### *Going concern*

Having reviewed the position in light of the Financial Reporting Council Guidance issued in October 2009, 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.

### 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:

| | |
|---|---|
| A B Davidson | Resigned 7 August 2013 |
| J P Evans | Resigned 7 August 2013 |
| M J Merrick | Resigned 2 June 2014 |
| S Mohammed | Appointed 2 June 2014 |
| A Moss | |
| J C Park | Resigned 19 June 2013 |
| D L Richardson | Resigned 31 January 2013 |
| M D Ross | Resigned 7 August 2013 |
| W R Treen | Resigned 7 August 2013 |
| M N Urmston | Resigned 7 August 2013 |

### Secretary

Pearl Group Secretariat Services Limited acted as Secretary throughout the year.

### 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 auditor

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 auditor 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 auditor 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 auditor

In accordance with section 487 of the Companies Act 2006, the Company's auditor, 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

L Nuttall
For and on behalf of Pearl Group Secretariat Services Limited
Company Secretary

26 June 2014

**Statement of Directors' responsibilities**

The Directors are responsible for preparing the Strategic report, the Directors' report and the Company financial statements ("the financial statements") in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under the law the Directors have elected to prepare those statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they present fairly the financial performance, financial position and 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 in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- 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;
- state that the Company has complied with applicable IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company with continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence taking reasonable steps for the prevention and detection of fraud and other irregularites.

**Independent auditor's report to the members of London Life Limited**

We have audited the financial statements of London Life Limited for the year ended 31 December 2013 which comprise the accounting policies, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") 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 5, 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. 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 2013 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic report and 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.

Ernst & Young LLP

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

10 June 2014

## Accounting policies

### (a) Basis of preparation

The financial statements have been prepared on a historical cost basis except for those financial assets and financial liabilities that have been measured at fair value.

The financial statements are separate financial statements and the exemption in section 401 of the Companies Act, 2006 has been used not to present consolidated financial statements.

***Statement of compliance***

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") as they apply to the financial statements of the Company for the year ended 31 December 2012, and applied in accordance with the Companies Act 2006.

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

The Company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement more than twelve months after the period end is presented in the notes.

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 income taxes.

***Fair value of financial assets and liabilities***

The fair values of financial assets are classified and accounted for as set out in accounting policy (d). Where possible, financial assets and liabilities are valued on the basis of listed market prices by reference to quoted market bid prices for assets and offer prices for liabilities, without any deduction for transaction costs. These are categorised as Level 1 financial instruments and do not involve estimates. If prices are not readily determinable, fair value is determined using valuation techniques including pricing models, discounted cash flow techniques or broker quotes. Financial instruments valued where valuation techniques are based on observable market data at the period end are categorised as Level 2 financial instruments. Financial instruments valued where valuation techniques are based on non-observable inputs are categorised as Level 3 financial instruments. Level 2 and Level 3 financial instruments therefore involve the use of estimates and note 12 provides further disclosures on fair value hierarchy and assumptions used to determine fair values.

***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.

### (c) Foreign currency transactions

Assets and liabilities denominated in foreign currencies are translated into sterling at the closing rate at the period end. Income and expenses denominated in foreign currencies are translated at the prevailing rate at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised within fair value gains and losses as income or expense in the statement of comprehensive income.

**(d) Financial assets**
Purchases and sales of financial assets are recognised on the trade date, which is the date that the Company commits to purchase or sell the asset.

Loans and deposits 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.

Derivative financial instruments are classified as held for trading. They are recognised initially at fair value and subsequently are re-measured to fair value. Exchange-traded derivatives are valued at the published bid price, or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. The gain or loss on re-measurement to fair value is recognised as income or expense in the statement of comprehensive income.

Equities, fixed and variable rate income securities and collective investment schemes are designated at fair value through profit or loss and accordingly are stated in the statement of financial position at fair value. They are designated at fair value through profit or loss because they are managed and evaluated on a fair value basis in accordance with the Company's stated risk management policies.

***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.

***Fair value estimation***
The fair value of financial instruments traded in active markets such as publicly traded securities and derivatives are based on quoted market prices at the period end. The quoted market price used for financial assets is the current bid price on the trade date. The fair value of investments that are not traded in an active market is determined using valuation techniques such as broker quotes, pricing models or discounted cash flow techniques. Where pricing models are used, inputs are based on market related data at the period end. Where discounted cash flow techniques are used, estimated future cash flows are based on contractual cash flows using current market conditions and market calibrated discount rates and interest rate assumptions for similar instruments.

For units in unit trusts and shares in open-ended investment companies, fair value is determined by reference to published bid-values. The fair value of receivables and floating rate and overnight deposits with credit institutions is their carrying value. The fair value of fixed interest-bearing deposits is estimated using discounted cash flow techniques.

**(e) Reinsurance**
The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Reinsurers' share of insurance contract liabilities are dependent on expected claims and benefits arising under the related reinsured policies.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment charge is recorded as an expense in the statement of comprehensive income. The reinsurers' share of investment contract liabilities is measured on a basis that is consistent with the valuation of the liability to policyholders to which the reinsurance applies.

Reinsurance premiums payable in respect of certain reinsured individual and group pensions annuity contracts are payable by quarterly instalments. Due to the period of time over which reinsurance premiums are payable under these arrangements, the reinsurance premiums and related payables are discounted to present values using a pre-tax risk-free rate of return. The unwinding of the discount is included as an expense within the statement of comprehensive income.

Gains or losses on purchasing reinsurance are recognised as income or as expense in the statement of comprehensive income at the date of purchase and are not amortised. They are the difference between the premiums ceded to reinsurers and the related change in the reinsurers' share of insurance contract liabilities.

**(f) 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.

**(g) 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 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.

A provision is recognised for onerous contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs reflect the least net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

**(h) 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.

**(i) Income recognition**
***Gross premiums***
In respect of insurance contracts and investment contracts with DPF, premiums are accounted for on a receivable basis and exclude any taxes or duties based on premiums. Funds at retirement under individual pension contracts converted to annuities with the Company are, for accounting purposes, included in both claims incurred and premiums within gross premiums written.

***Reinsurance premiums***
Outward reinsurance premiums are accounted for on a payable basis.

***Fee and commission income***
Fee and commission income relates to the following:

- investment contract income – investment contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over those periods. 'Front end' fees are charged on some non-participating investment contracts. Where the non-participating investment contract is measured at fair value, such fees which relate to the provision of investment management services are deferred and recognised as the services are provided; and
- other fees, which are recognised as the services are provided.

***Net investment income***
Net investment income comprises interest, dividends, fair value gains and losses on financial assets and impairment reversals and losses on loans and deposits.

Interest income is recognised as income in the statement of comprehensive income as it accrues using the effective interest method. Dividend income is recognised as income in the statement of comprehensive income on the date the right to receive payments is established, which in the case of listed securities is the ex-dividend date.

Fair value gains and losses on financial assets designated at fair value through profit or loss are recognised as income or an expense in the statement of comprehensive income. Realised gains and losses are the difference between the net sale proceeds and the original cost. Unrealised gains and losses are the difference between the valuation at the period end and their valuation at the previous period end or purchase price, if acquired during the year.

**(j) Benefits, claims and expenses recognition**
***Gross benefits and claims***
Claims on insurance contracts and investment contracts with DPF reflect the cost of all claims arising during the period, including policyholder bonuses allocated in anticipation of a bonus declaration. Claims payable on maturity are recognised when the claim becomes due for payment and claims payable on death are recognised on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be

included within insurance contract liabilities. Where claims are payable and the contract remains in force, the claim instalment is accounted for when due for payment. Claims payable include the costs of settlement.

***Reinsurance claims***
Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

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

**(k) Transfers of business**
Where the Company participates in a transfer of insurance business scheme under Part VII of the Financial Services Act 2000 and the ultimate shareholders remain the same, the transaction constitutes business combinations involving entities or businesses under common control. IFRS does not prescribe the treatment of such transfers. Accordingly, on initial recognition, the transferred assets and liabilities are measured at the carrying value in the transferring company and the resulting gain or loss is recognised as income or an expense in the statement of comprehensive income.

**(l) Share capital**
***Ordinary share capital***
The Company has issued ordinary shares which are classified as equity.

**(m) 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.

**Statement of comprehensive income**
for the year ended 31 December 2013

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| Gross premiums written | | - | 13 |
| Less: premiums ceded to reinsurers | | - | - |
| **Net premiums written** | | - | 13 |
| Fees and commissions | 3 | - | 2 |
| Net investment income | 4 | - | (11) |
| **Total revenue, net of reinsurance payable** | | - | 4 |
| Loss on transfer of business | 2 | (4) | (163) |
| **Net income** | | (4) | (159) |
| Policyholder claims | | - | (83) |
| Less: reinsurance recoveries | | - | 22 |
| *Change in insurance contract liabilities* | | - | 12 |
| Change in reinsurers' share of insurance contract liabilities | | - | (3) |
| **Net policyholder claims and benefits incurred** | | - | (52) |
| Change in investment contract liabilities | | - | (10) |
| Administrative expenses | 5 | - | (5) |
| Other operating expenses | 8 | - | (23) |
| **Total operating expenses** | | - | (90) |
| **Loss before finance costs and tax** | | (4) | (249) |
| Finance costs | 9 | - | (1) |
| **Loss for the year before tax** | | (4) | (250) |
| Tax attributable to policyholders' returns | | - | - |
| **Loss before tax attributable to owners** | | (4) | (250) |
| Tax charge | 10 | - | (26) |
| Less: tax attributable to policyholders' returns | | - | - |
| Tax attributable to owners | | - | (26) |
| **Loss for the year attributable to owners** | | (4) | (276) |
| Other comprehensive income | | - | - |
| **Total comprehensive income for the year attributable to the owners** | | (4) | (276) |

**Statement of financial position**
as at 31 December 2013

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | 11 | 89 | 89 |
| Retained earnings | | (89) | (85) |
| **Total equity** | | - | 4 |
| **Total equity and liabilities** | | - | 4 |
| **Current assets** | | | |
| Collective investment schemes | | - | 4 |
| **Total assets** | | - | 4 |

On behalf of the Board

Shamir Mohammed

S Mohammed
Director

26 June 2014

**Statement of cash flows**
for the year ended 31 December 2013

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated by operations | 13 | - | 216 |
| Taxation paid | | - | - |
| **Net cash flows from operating activities** | | - | 216 |
| **Cash flows from investing activities** | | | |
| Part VII transfer | 2 | - | (16) |
| Interest received from Group entities | | - | 1 |
| **Net cash flows from investing activities** | | - | (15) |
| **Cash flows from financing activities** | | | |
| Issue of ordinary share capital | | - | - |
| Contingent loan repayment to parent company | | - | (216) |
| **Net cash flows from financing activities** | | - | (216) |
| **Net decrease in cash and cash equivalents** | | - | (15) |
| Cash and cash equivalents at the beginning of the year | | - | 15 |
| **Cash and cash equivalents at the end of the year** | | - | - |

**Supplementary disclosures on cash flow from operating activities**

| | | |
|---|---|---|
| Interest received | - | 43 |

**Statement of changes in equity**
for the year ended 31 December 2013

| | Share capital (note 11) £m | Retained Earnings £m | Total £m |
|---|---|---|---|
| At 1 January 2013 | 89 | (85) | 4 |
| Loss for the year | - | (4) | (4) |
| Other comprehensive income for the year | - | - | - |
| Total comprehensive income for the year | - | (4) | (4) |
| At 31 December 2013 | 89 | (89) | - |

Of the above, £nil (2012: £nil) is considered distributable.

| | Share capital (note 11) £m | Retained Earnings £m | Total £m |
|---|---|---|---|
| At 1 January 2012 | 89 | 191 | 280 |
| Loss for the year | - | (276) | (276) |
| Other comprehensive income for the year | - | - | - |
| Total comprehensive income for the year | - | (276) | (276) |
| At 31 December 2012 | 89 | (85) | 4 |

**Notes to the financial statements**

## 1. Financial information

The financial statements for the year ended 31 December 2013, set out on pages 7 to 20, were authorised by the Board of Directors for issue on 26 June 2014.

The International Accounting Standards Board ("IASB") has issued the following standards, interpretations and amendments which, subject to adoption for use by the EU, 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:

- Annual improvements to IFRS 2010-2012 cycle (2014). This makes a number of minor improvements to existing standards and interpretations.
- Annual improvements to IFRS 2011-2013 cycle (2014).

Further standards, interpretations and amendments have been issued but are not currently relevant to the Company.

## 2. Transfer of business

With effect from 1 July 2012, all of the long-term business and the majority of the shareholder fund of the Company transferred to Phoenix Life Assurance Limited ("PLAL") for £nil consideration in accordance with the terms of a scheme under Part VII of the Financial Services and Markets Act 2000 ("the Scheme") approved by the High Court on 24 September 2012.

On 24 October 2013, the remaining assets of £4m were transferred to PLAL for £nil consideration in accordance with the Scheme.

The assets and liabilities transferred and the loss arising are set out below (following the transfer inter-company balances have been eliminated):

| | 2013<br>£m | 2012<br>£m |
|---|---|---|
| **Liabilities** | | |
| Insurance contract liabilities | | |
| Liabilities under insurance contracts | - | 1,432 |
| Investment contracts with DPF | - | 115 |
| Financial liabilities | | |
| Investment contracts | - | 316 |
| Unallocated surplus | - | 6 |
| Derivatives | - | 196 |
| Obligations for repayment of capital received | - | 315 |
| Deposits received from reinsurers | - | 587 |
| Payables related to direct insurance contracts | - | 8 |
| Deferred tax | - | 2 |
| Current tax | - | 35 |
| Accruals and deferred income | - | 3 |
| Other payables | - | 12 |
| | - | 3,027 |

| | £m | £m |
|---|---|---|
| **Assets** | | |
| Intangible assets | | |
| Acquired in-force business | - | 8 |
| Financial assets | | |
| Loans and deposits | - | 63 |
| Derivatives | - | 264 |
| Equities | - | 12 |
| Fixed and variable rate income securities | - | 1,449 |
| Collective investment schemes | 4 | 710 |
| Reinsurers' share of investment contract liabilities | - | 12 |
| Deferred tax assets | - | 6 |
| Insurance assets | | |

| | | |
|---|---|---|
| Reinsurers' share of insurance contract liabilities | - | 630 |
| Insurance contract receivables | - | 1 |
| Tax recoverable | - | 2 |
| Prepayments and accrued income | - | 14 |
| Other receivables | - | 3 |
| Cash and cash equivalents | - | 16 |
| | 4 | 3,190 |
| **Net assets transferred** | 4 | 163 |
| *Consideration* | - | - |
| **Loss on transfer of net assets** | 4 | 163 |

### 3. Fees and commissions

| | 2013 £m | 2012 £m |
|---|---|---|
| Investment contract income | - | 2 |

### 4. Net investment income

| | 2013 £m | 2012 £m |
|---|---|---|
| Investment income: | | |
| Interest income on loans and deposits | - | 6 |
| Interest income on financial assets designated at fair value through the profit or loss on initial recognition | - | 44 |
| | - | 50 |
| Fair value losses: | | |
| Financial assets at fair value through profit or loss | | |
| Held for trading | - | 1 |
| Designated upon initial recognition | - | (62) |
| | - | (61) |
| Net investment income | - | (11) |

*Interest income on loans and deposits includes interest receivables of £nil (2012: £1m) on loans to Group entities.*

### 5. Administrative expenses

| | 2013 £m | 2012 £m |
|---|---|---|
| Investment management expenses and transaction costs | - | 3 |
| Outsourcing expenses | - | 2 |
| | - | 5 |

The Company has no employees. Services are provided by another Group company.

## 6. Directors' remuneration

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Salaries and other short term benefits | - | 437 |
| Remuneration (executive and non-executive Director remuneration excluding pension contributions and awards under share option schemes arising from long-term incentive schemes) | - | 437 |
| Post-employment benefits | - | - |
| Other long-term benefits | - | 240 |
| | - | 240 |
| Contributions to money purchase pension schemes | - | 19 |

| | 2013 Number | 2012 Number |
|---|---|---|
| Number of Directors accruing retirement benefits under: | | |
| - a defined benefit pension scheme | - | - |
| - a money purchase pension scheme | - | 3 |

| | 2013 £000 | 2012 £000 |
|---|---|---|
| Highest paid Director's remuneration: | | |
| Remuneration (excluding pension contributions and awards under share option schemes arising from long-term incentive schemes) | - | 184 |

The Executive Directors are employed by other Group companies. The Non-Executive Directors are not employed but provide their services via a letter of appointment.

In 2013 the Directors received no remuneration in respect of their services to the Company. In 2012, for the purposes of this note an apportionment of the total remuneration paid to the Directors of the Company by the Phoenix Group has been made based on an estimate of the services rendered to the Company.

## 7. Auditor's remuneration

The remuneration of the auditor of the Company, including their associates, was £2,000 (2012: £5,000). This audit fee has been borne by another Group company. No services were provided to associated pension schemes.

## 8. Other operating expenses

| | 2013 £m | 2012 £m |
|---|---|---|
| Movement in deposits received from reinsurers | - | 23 |

## 9. Finance costs

| | 2013 £m | 2012 £m |
|---|---|---|
| Interest expense | | |
| On borrowings at amortised cost | - | 1 |
| Attributable to: | | |
| - policyholders | - | 1 |

## 10. Tax charge

***Current year tax charge***

| | 2013 £m | 2012 £m |
|---|---|---|
| Current tax: | | |
| UK Corporation tax | - | 28 |
| | - | 28 |
| Adjustment in respect of prior years | - | (1) |
| | - | 27 |
| Deferred tax: | | |
| Excess expenses and deferred acquisition costs | - | (1) |
| | - | (1) |
| Total tax charge | - | 26 |
| Attributable to: | | |
| - policyholders | - | - |
| - owners | - | 26 |
| | - | 26 |

The Company, as a proxy for policyholders in the UK, is required to pay taxes on investment income and gains each year. Accordingly, the tax benefit or expense attributable to UK life assurance policyholder earnings is included in income tax expense. The tax benefit attributable to policyholder earnings was £nil (2012: £nil).

***Reconciliation of tax charge***

| | 2013 £m | 2012 £m |
|---|---|---|
| Loss before tax | (4) | (250) |
| Policyholder tax charge | - | - |
| Loss before the tax attributable to owners | (4) | (250) |
| Tax at standard UK rate of 23.5% (2012: 24.5%) | (1) | (61) |
| Adjustment to current tax charge in respect of prior periods | - | (1) |
| Non taxable income | - | (1) |
| Tax charge on Part VII transfer | - | 26 |
| Non taxable accounting loss on repayment of contingent loan | - | 23 |
| Non taxable accounting loss on Part VII transfer | 1 | 40 |
| Owners' tax charge | - | 26 |
| Policyholder tax charge | - | - |
| Total tax charge for the year | - | 26 |

## 11. Share capital

| | 2013 £m | 2012 £m |
|---|---|---|
| Issued and fully paid: 88,800,002 (2012: 88,800,002) ordinary shares of £1 each | 89 | 89 |

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

The holders of the 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.

## 12. Financial instruments

| | 2013 £m | 2012 £m |
|---|---|---|
| Financial assets at fair value through profit or loss | | |
| Designated upon initial recognition | | |
| Collective investment schemes | - | 4 |
| Amount recoverable after 12 months | - | - |

The fair value of loans and deposits at amortised cost amounted to £nil (2012: £nil).

**Determination of fair value and fair value hierarchy of financial instruments**

Level 1 financial instruments. The fair value of financial instruments traded in active markets (such as publicly traded securities and derivatives) is based on quoted market prices at the period end. The quoted market price used for financial assets is the current bid price on the trade date. If the bid price is unavailable a 'last traded' approach is adopted. For units in unit trusts and shares in open ended investment companies, fair value is by reference to published bid values.

At 31 December 2012 all of the Company's financial assets were classified as level 1. They were transferred during 2013 as detailed in note 2.

## 13. Cash flows

***Cash flows from operating activities***

| | 2013 £m | 2012 £m |
|---|---|---|
| Loss for the year before tax | (4) | (250) |
| Non-cash movements in profit for the year before tax | | |
| Fair value (gains)/losses on: | | |
| Financial assets | - | 61 |
| Loss on business transfer | 4 | 163 |
| Change in deposits received from reinsurers | - | 1 |
| Interest income on loans | - | 6 |
| Changes in operating assets and assets and liabilities | | |
| Change in investment assets | - | 273 |
| Change in net derivative assets/(liabilities) | - | 10 |
| Change in reinsurance assets | - | 3 |
| Change in insurance contract and investment contract liabilities | - | (21) |
| Change in other assets/(liabilities) | - | (30) |
| Cash generated by operations | - | 216 |

## 14. Risk and capital management

Following the Part VII transfer of assets and liabilities to PLAL, the Company is no longer exposed to financial risk. Should any liabilities arise in future, the terms of the Scheme are such that these will transfer to PLAL. The subsequent deauthorisation of the Company to carry out long-term business led to the release of the requirement to hold levels of capital.

## 15. Related party transactions

With effect from 1 July 2012, all of the long-term business and the majority of the shareholders' funds of the Company transferred to PLAL for a £nil consideration in accordance with the terms of a scheme under Part VII of the Financial Services and Markets Act 2000, approved by the High Court on 24 September 2012. Assets of £3,190m and liabilities of £3,027m were transferred (see note 2).

Following the Company's deauthorisation, the remaining assets of £4m were transferred to PLAL on 24 October 2013 for £nil consideration (see note 2).

On 1 July 2012 the contingent loan of £216m was repaid in full to Pearl Group Holdings (No. 2) Limited ("PGH2") resulting in a loss to the Company of £96m.

***Reinsurance transactions***

| | 2013 | 2012 |
|---|---|---|
| | £m | £m |
| Reinsurance ceded to fellow subsidiaries: | | |
| Claims | - | 22 |

***Key management compensation***

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

During the year to 31 December 2013, key management and other family members had no other transactions with the Company.

***Parent and ultimate parent entity***
Information on the Company's parent and ultimate parent is given in note 16.

**16. Other information**

The Company's principal place of business is the United Kingdom. The Company's immediate parent is Pearl Group Holdings (No. 2) 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.