NATIONAL PROVIDENT LIFE LIMITED

Company Registration Number: 3641947

DIRECTORS' REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2016

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Directors' report

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.

Corporate activity
Following the Part VII transfer of the Company's long term insurance business ("the Scheme") approved by the High Court on 1 May 2015, 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.

On 30 June 2015 all of the long-term business and the majority of the shareholder fund of the Company transferred to Phoenix Life Assurance Limited ("PLAL"), a fellow Group Company, for £nil consideration in accordance with the terms of the scheme. The Company recognised a loss on the transfer of business of £250m.

Following deauthorisation, on 2 February 2016 the remaining assets of £4m were transferred by the Company in accordance with the Scheme to 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 implementation of 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.

Result and dividends
The results of the Company for the year are shown in the statement of comprehensive income on page 10. The loss before owners' tax was £4m (2015: £252m).

No dividends were paid during the year (2015: £nil).

Going concern
Having reviewed the position in light of the Financial Reporting Council Guidance issued in April 2016, 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 and who held office at the date of signature of this report are as follows:

S Mohammed
A Moss

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 is aware, and each of the Directors has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information (as defined) and to establish that the Company's auditor is 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

20 September 2017

Statement of Directors' responsibilities

The Directors are responsible for preparing 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 IFRS, 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 will 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 irregularities.

Independent auditor's report to the members of National Provident Life Limited

We have audited the financial statements of National Provident Life Limited for the year ended 31 December 2016 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 21. 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 4, 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 Directors' Report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 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 matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

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

22 September 2017

Accounting policies

(a) Basis of preparation

The financial statements have been prepared on a historical cost basis except for investment property and 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. The results of the Company are consolidated into the accounts of the Company's ultimate parent Phoenix Group Holdings, a company incorporated in the Cayman Islands and resident in Jersey.

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 2016, 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.

Insurance and investment contract liabilities

Insurance and investment contract liability accounting is discussed in more detail in accounting policies (e) and (f).

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. Forecasts of future profitability are made which by their nature involve management's judgement. The UK taxation regime applies separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a capital or trading nature may affect the recognition of deferred tax assets.

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

(c) Classification of contracts

Contracts under which the Company accepts significant insurance risk are classified as insurance contracts.

Contracts under which the transfer of insurance risk to the Company from the policyholder is not significant are classified as investment contracts.

Some insurance and investment contracts contain a discretionary participation feature ("DPF"). This feature entitles the policyholder to additional discretionary benefits as a supplement to guaranteed benefits. Investment contracts with a DPF are recognised, measured and presented as insurance contracts.

(d) Income tax

Income tax comprises current and deferred tax. Income tax is recognised as income or an expense in the statement of comprehensive income except to the extent that it relates to items recognised as other comprehensive income in the statement of comprehensive income, in which case it is recognised as other comprehensive income in that statement.

Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantively enacted at the date of the statement of financial position together with adjustments to tax payable in respect of previous years.

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

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

The tax charge is analysed between tax that is payable in respect of policyholders' returns and tax that is payable on owners' returns. This allocation is calculated based on an assessment of the effective rate of tax that is applicable to owners for the year. Deferred tax assets and liabilities taxed at policyholder rates are not offset against deferred tax assets or liabilities taxed at shareholder rates due to restrictions in place in life tax legislation.

(e) Investment property

Investment property is stated at fair value. Fair value is the price that would be received to sell a property in an orderly transaction between market participants at the measurement date. Gains and losses arising from the change in fair value are recognised as income or an expense in the statement of comprehensive income.

(f) Investment in subsidiaries

Investments in shares in subsidiaries held for strategic purposes are carried in the statement of financial position at cost less impairment. Investments in shares in subsidiaries held for investment purposes are carried at fair value.

At each reporting date, the Company assesses whether there are any indications of impairment or reversal of impairment. When such indications exist, an impairment test is carried out by comparing the carrying value of the investment against the estimate of the recoverable amount, which represents the higher of value in use or fair value less costs of disposal. For investments in life insurance companies, the value in use will be calculated with reference to the underlying embedded value and for other entities, IFRS net asset value. Impairments and reversal of impairments are recognised as income or an expense in the statement of comprehensive income in the period in which they occur.

(g) 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 an 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.

Collateral
The Company receives and pledges collateral in the form of cash or non-cash assets in respect of derivative contracts in order to reduce the credit risk of these transactions. The amount and type of collateral required where the Company receives collateral depends on an assessment of the credit risk of the counterparty.

Collateral received in the form of cash, where the Company has contractual rights to receive the cash flows generated, is recognised as an asset in the statement of financial position with a corresponding liability for its repayment. Non-cash collateral received is not recognised in the statement of financial position, unless the counterparty defaults on its obligations under the relevant agreement.

Cash and non-cash collateral pledged where the Company retains the contractual rights to receive the cash flows generated is not derecognised from the statement of financial position, unless the Company defaults on its obligations under the relevant agreement. Cash and non-cash collateral pledged, where the counterparty has contractual rights to receive the cash flows generated, is derecognised from the statement of financial position and a corresponding receivable is recognised for its return.

(h) 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.

Gains or losses on purchasing reinsurance are recognised as income or an 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.

(i) Cash and cash equivalents
Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity term of three months or less at the date of placement. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are deducted from cash and cash equivalents for the purpose of the statement of cash flows.

(j) 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.

Reinsurance premiums include amounts receivable as refunds of premiums in cases where the Company cancels arrangements for the reinsurance of risk to another insurer.

Fee and commission income
Fee and commission income relates to 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.

Net investment income
Net investment income comprises interest, dividends, rents receivable, fair value gains and losses on financial assets and investment property 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.

Rental income from investment property is recognised as income in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

Fair value gains and losses on financial assets designated at fair value through profit or loss are recognised as income or 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.

(k) 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.

(l) 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.

(m) Share capital and capital contributions
Ordinary share capital
The Company has issued ordinary shares which are classified as equity.

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

Statement of comprehensive income
for the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Gross premiums written		-	13
Less: premiums ceded to reinsurers		-	(9)
Net premiums written		-	4
Fees and commissions	3	-	9
Net investment expense	4	-	(15)
Total revenue, net of reinsurance payable		-	(2)
Loss on transfer of business	2	(4)	(250)
Net income		(4)	(252)
Policyholder claims		-	(76)
Less: reinsurance recoveries		-	6
Change in insurance contract liabilities		-	115
Change in reinsurers' share of insurance contract liabilities		-	(45)
Change in investment contract liabilities		-	(7)
Change in reinsurers' share of investment contract liabilities		-	30
Change in present value of future profits	13	-	(4)
Administrative expenses	5	-	(13)
Total operating expenses		-	6
Loss before finance costs and tax		(4)	(246)
Finance costs	8	-	(6)
Loss for the year before tax		(4)	(252)
Tax attributable to policyholders' returns		-	-
Loss before tax attributable to owners		(4)	(252)
Tax charge	9	-	(4)
Less: tax attributable to policyholders' returns		-	-
Tax attributable to owners	9	-	(4)
Loss for the year attributable to owners		(4)	(256)
Other comprehensive income		-	-
Total comprehensive income for the year attributable to owners		(4)	(256)

Statement of financial position – equity and liabilities
as at 31 December 2016

	Notes	As at 31 December 2016 £m	As at 31 December 2015 £m
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	10	10	10
Capital contribution reserve	11	1,323	1,323
Retained earnings		(1,333)	(1,329)
Total equity		-	4

Statement of financial position - assets
as at 31 December 2016

	Notes	As at 31 December 2016 £m	As at 31 December 2015 £m
ASSETS			
Financial assets			
Collective investment schemes		-	4
	15	-	4
Total assets		-	4

On behalf of the Board

Shamira Mohammed

S Mohammed
Director
20 September 2017

Statement of cash flows
for the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Cash flows from operating activities			
Cash (absorbed) / generated from operations	17	-	(25)
Taxation paid		-	(4)
Net cash flows from operating activities		-	(29)
Cash flows from investing activities			
Part VII transfer	2	-	(52)
Net cash flows from investing activities		-	(52)
Cash flows from financing activities			
Proceeds of capital contribution	11	-	20
Net cash flows from financing activities		-	20
Net decrease in cash and cash equivalents		-	(61)
Cash and cash equivalents at the beginning of the year		-	61

Supplementary disclosures on cash flow from operating activities

Interest received	-	46

Statement of changes in equity
for the year ended 31 December 2016

	Share capital (note 10) £m	Capital con-tribution reserve (note 11) £m	Retained earnings £m	Total £m
At 1 January 2016	10	1,323	(1,329)	4
Loss for the year	-	-	(4)	(4)
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	(4)	(4)
Receipt of capital contribution	-	-	-	-
At 31 December 2016	10	1,323	(1,333)	-

Of the above, £nil (2015: £nil) is considered distributable.

	Share capital (note 10) £m	Capital con-tribution reserve (note 11) £m	Retained earnings £m	Total £m
At 1 January 2015	10	1,303	(1,073)	240
Loss for the year	-	-	(256)	(256)
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	(256)	(256)
Receipt of capital contribution	-	20	-	20
At 31 December 2015	10	1,323	(1,329)	4

Notes to the financial statements

1. Financial information

The financial statements for the year ended 31 December 2016, set out on pages 10 to 24, were authorised by the Board of Directors for issue on 20 September 2017.

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

- Annual Improvements 2012 – 2014 cycle;
- Disclosure initiative (Amendments to IAS 1); and
- Clarification of acceptable methods of depreciation and amortisation (Amendments to IAS 16 and IAS 38)

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

2. Transfer of business

With effect from 30 June 2015, all of the long term business and the majority of the shareholder fund of the Company transferred to Phoenix Life Assurance Limited ("PLAL") for a £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 1 May 2015.

Following the de-authorisation of the Company to carry out long term business on 2 February 2016, the remaining shareholders' funds were transferred to PLAL for £nil consideration in accordance with the scheme.

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

	2016 £m	2015 £m
Liabilities		
Insurance contract liabilities		
Liabilities under insurance contracts	-	2,947
Financial liabilities		
Investment contracts	-	1,664
Borrowings	-	142
Derivatives	-	36
Provisions	-	1
Deferred tax	-	7
Payables related to direct insurance contracts	-	16
Accruals and deferred income	-	11
Other payables	-	112
Total liabilities	-	4,936
Assets		
Intangible assets		
Present value future profits	-	19
Investment property	-	64
Financial assets		
Loans & deposits	-	1
Derivatives	-	7
Equities	-	1
Fixed and variable rate income securities	-	2,529
Collective investment schemes	4	606
Reinsurers' share of investment contract liabilities	-	1,681
Insurance Assets		
Reinsurers' share of insurance contract liabilities	-	160
Prepayments and accrued income	-	27
Other receivables	-	39
Cash and cash equivalents	-	52
Total assets	4	5,186
Net assets transferred	4	250
Loss on transfer of net assets	4	250

3. Fees and commissions

	2016 £m	2015 £m
Investment contract income	-	9

4. Net investment income

	2016 £m	2015 £m
Investment income		
Interest income on financial assets designated at fair value through profit or loss on initial recognition	-	45
Dividend income	-	2
	-	47
Fair value gains/(losses)		
Financial assets and liabilities at fair value through profit or loss		
Held for trading – derivatives	-	(5)
Designated upon initial recognition	-	(62)
Investment property (note 14)	-	5
	-	(62)
Net investment expense	-	(15)

5. Administrative expenses

	2016 £m	2015 £m
Outsourcing expenses	-	11
Investment management expenses and transaction costs	-	2
	-	13

The Company has no employees. Administrative services are provided by Pearl Group Services Limited ("PGS"), a fellow group company.

6. Directors' remuneration

	2016 £000	2015 £000
Remuneration (executive and non-executive Directors remuneration excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	-	404
Other long-term benefits	-	178
Contributions to money purchase pension schemes	-	17

Number of Directors accruing retirement benefits under:		
- a money purchase pension scheme	-	3
Number of directors who had exercised share options during the year	-	3

	2016 £000	2015 £000
Highest paid Director's remuneration	-	156

The Executive Directors are employed by either Pearl Group Management Services Limited ("PGMS") or PGS. The Non-Executive Directors are not employed but provide their services via a letter of appointment.

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 (2015: £80,000). No services were provided to associated pension schemes.

Fees paid to Ernst & Young LLP for non-audit services to the Company and its associates are not disclosed in these financial statements as the consolidated financial statements of the ultimate parent, Phoenix Group Holdings, disclose such fees on a consolidated basis.

	2016 £000	2015 £000
Audit of the Company's financial statements	2	66
Audit related assurance services	-	14
	2	80

8. Finance costs

	2016 £m	2015 £m
Interest expense		
On financial liabilities at amortised cost	-	6

	2016 £m	2015 £m
Attributable to:		
- policyholders	-	1
- owners	-	5
	-	6

9. Tax charge

Current year tax charge

	2016 £m	2015 £m
Current tax:		
UK Corporation tax	-	5
Total Current tax	-	5
Deferred tax:		
Origination and reversal of temporary differences	-	(1)
Total Deferred tax	-	(1)
Total tax charge	-	4
Attributable to:		
- policyholders tax charge	-	-
- owners	-	4
Total tax charge	-	4

Reconciliation of tax charge

	2016 £m	2015 £m
Loss before tax	(4)	(252)
Loss before the tax attributable to owners	(4)	(252)
Tax at standard UK rate of 20% (2015: 20.25%)	(1)	(51)
Non-taxable loss on transfer of business	1	55
Owners' tax charge	-	4
Total tax charge for the year	-	4

10. Share capital

	2016 £m	2015 £m
Issued and fully paid: 10,000,000 (2015: 10,000,000) ordinary shares of £1 each	10	10

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

11. Capital contribution reserve

	2016 £m	2015 £m
At 1 January	1,323	1,303
Contributions received	-	20
At 31 December	1,323	1,323

The capital contribution has been treated as capital as there is no agreement for repayment. The reserve is considered distributable.

12. Liabilities under insurance contracts

	Gross liabilities 2016 £m	Re-insurers' share 2016 £m	Gross liabilities 2015 £m	Re-insurers' share 2015 £m
At 1 January	-	-	3,061	205
Premiums	-	-	13	9
Claims	-	-	(76)	(6)
Part VII transfer scheme (note 2)	-	-	(2,947)	(160)
Other changes in liabilities	-	-	(52)	(48)
At 31 December	-	-	-	-

As permitted by IFRS 7, the Company has not disclosed fair values for Investment contracts with a DPF as fair value ranges for the DPF cannot be reliably estimated. There is no active market for these instruments which will be settled with policyholders in the normal course of business.

Other changes in liabilities principally comprise changes in economic and non-economic assumptions and experience.

The maximum exposure to credit risk in respect of reinsurance assets is £nil (2015: £nil).

13. Intangible assets - PVFP

	2016 £m	2015 £m
Carrying amount		
At 1 January	-	23
Revaluation	-	(4)
Part VII Transfer (note 2)	-	(19)
At 31 December	-	-
Amount recoverable after 12 months	-	-

The value of the PVFP is determined using a basis consistent with the realistic measurement of liabilities. During 2015 a revaluation loss of £4m was recognised in the statement of comprehensive income. The PVFP was then transferred to PLAL at a value of £19m as part of the transfer of long-term business on 30 June 2015.

14. Investment property

	2016 £m	2015 £m
At 1 January	-	65
Part VII transfer (note 2)	-	(64)
Disposals	-	(6)
Fair value gains	-	5
At 31 December	-	-
Unrealised gains in the period on assets held at end of year	-	-

The property portfolio consisted of residential property reversions arising from sales of the "NPI Extra Income Plan". These were transferred to PLAL as part of the Part VII Scheme in 2015.

15. Financial instruments

The Company held no financial assets or liabilities at 31 December 2016 (2015: £nil)

The table below sets out a comparison of the carrying amounts and fair values of financial instruments as at 31 December 2015:

	Total £m	Amounts recoverable after 12 months £m	Fair value £m
Financial assets at 31 December 2015			
Financial assets at fair value through profit or loss			
Designated upon initial recognition			
Collective investment schemes	4	-	4

Collective investment schemes have no expected settlement date.

Determination of fair value and fair value hierarchy of financial instruments

Level 1 financial instruments. The fair value of financial instruments traded in active markets (such as exchange traded securities and derivatives) is based on quoted market prices at the period end provided by recognised pricing services. Market depth and bid ask spreads are used to corroborate whether an active market exists for an instrument. Greater depth and narrower bid-ask spread indicates higher liquidity in the instrument and are classed as Level 1 inputs. For collective investment schemes, fair value is by reference to published bid prices.

Level 2 financial instruments. The fair values of financial instruments traded in active markets with less depth or wider bid-ask spreads which do not meet the classification as Level 1 inputs are classified as Level 2. The fair values of financial instruments not traded in active markets are determined using broker quotes or valuation techniques with observable market inputs. Financial instruments valued using broker quotes are classified at Level 2, only where there is a sufficient range of available quotes. The fair value of unquoted equities, over the counter derivatives, loans and deposits and collective investment schemes where published bid prices are not available are estimated using 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 flows are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument.

Level 3 financial instruments. The Company's financial instruments determined by valuation techniques using non market observable inputs are based on a combination of independent third party evidence and internally developed models. In relation to investments in hedge funds and private equity investments, third party evidence in the form of net asset valuation statements are used as the basis for the valuation. Adjustments may be made to the net asset valuation where other evidence, for example recent sales of the underlying investments in the fund, indicates this is required. Securities that are valued using broker quotes which could not be corroborated across a sufficient range of quotes are considered as Level 3. For a small number of investment vehicles and debt securities, standard valuation models are used, as due to their nature and complexity they have no external market. Inputs into such models are based on market observable data where applicable. The fair value of loans and some borrowings with no external market is determined by internally-developed discounted cash flow models using a risk adjusted discount rate corroborated with external market data where possible.

For financial instruments that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the start of each reporting period.

Fair value hierarchy of financial instruments measured at fair value

There were no financial instruments measured at fair value for the year ending 31 December 2016.

The Company held no financial liabilities at 31 December 2016 (2015: £nil).

The tables below separately identify financial instruments carried at fair value from those measured on another basis but for which fair value is disclosed:

At 31 December 2015	Level 1	Level 2	Level 3	Total fair value
	£m	£m	£m	£m
Financial assets measured at fair value				
Financial assets designated at fair value through profit or loss upon initial recognition				
Collective investment schemes	4	-	-	4

Movement in level 3 financial instruments measured at fair value

	At 1 January 2015	Total gains/(losses) recognised in the income statement	Purchases	Sales	Part VII Transfer to PLAL	At 31 December 2015	Unrealised gains on assets held at end of year
	£m	£m	£m	£m	£m	£m	£m
Financial assets designated at fair value through profit or loss upon initial recognition							
Fixed and variable rate income securities	9	-	-	-	(9)	-	-
Collective investment schemes	5	-	-	-	(5)	-	-
	14	-	-	-	(14)	-	-

	At 1 January 2015	Total gains in statement of comprehensive income	Settlements	Part VII Transfer to PLAL	At 31 December 2015	Unrealised gains in the period on liabilities held at end of year
	£m	£m	£m	£m	£m	£m
Financial liabilities designated at fair value through profit or loss upon initial recognition						
Borrowings	152	5	(4)	(153)	-	-

All level 3 assets and liabilities were transferred to PLAL in the year as part of The Scheme.

Gains and losses on Level 3 financial instruments are included as income or an expense in net investment income in the statement of comprehensive income. There were no gains or losses recognised in other comprehensive income.

Offsetting financial assets and financial liabilities

The Company has no financial assets and financial liabilities that have been offset in the statement of financial position as at 31 December 2016 (2015: £nil).

16. Structured Entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities; (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors; (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Company has determined that all of its investments in collective investment schemes are structured entities except, where the Company has 100% of the investment in a fund other than an OEIC or unit trust. The Company has assessed that it has interests in structured entities as shown below:

- Unit trusts
- OEICs
- Liquidity funds

The Company's holdings in the above investments are subject to the terms and conditions of the respective fund's prospectus and are susceptible to market price risk arising from uncertainties about future values. The Company holds redeemable shares and units in each of the funds. The funds are managed by asset managers who apply various investment strategies to accomplish their respective investment objectives. All of the funds are managed by asset managers who are compensated by the respective funds for their services. Such compensation generally consists of an asset-based fee and a performance-based incentive fee and is reflected in the valuation of each fund.

Interests in structured entities
The Company does not provide financial or other support in relation to structured entities.

The Company's interests in structured entities are held as financial assets in the Company's statement of financial position and held at fair value through profit or loss. Any change in fair value is included in the income statement in 'net investment income'.

A summary of the Company's interests in structured entities is included below. These are shown according to the financial asset categorisation in the statement of financial position and further analysed by type of fund in which the entity is invested.

	Carrying value of financial assets	Carrying value of financial assets
	2016	2015
	£m	£m
Collective investment schemes		
Short term liquidity	-	4
	-	4

Collective investments schemes have been analysed by reference to the predominant asset class the structure is investing in.

The Company's maximum exposure to loss to the interests presented above is the carrying amount of the Company's investments. Once the Company has disposed of its shares or units in a fund, it ceases to be exposed to any risk from that fund.

17. Cash flows

Cash flows from operating activities

	2016 £m	2015 £m
Loss for the year before tax	(4)	(252)
Non-cash movements in profit for the year before tax		
Fair value (gains)/losses on:		
Investment property	-	(5)
Financial assets - other	-	67
Impairment of intangible assets	-	4
Loss on Part VII Transfer	4	250
Interest expense on borrowings	-	6
Changes in operating assets and liabilities		
Change in investment assets	-	6
Change in net derivative assets	-	4
Change in obligation for repayment of collateral received	-	(12)
Change in reinsurance assets	-	74
Change in insurance contract and investment contract liabilities	-	(167)
Change in other assets	-	(2)
Change in other liabilities	-	2
Cash (absorbed) / generated from operations	-	(25)

18. 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 de-authorisation of the Company to carry out long-term business led to the release of the requirement to hold levels of capital.

19. Related party transactions

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

Pearl Group Services Limited ("PGS") provides management services to the Company, in the form of staff and other services, under a management services agreement. The charge made to the Company for the year ended 31 December 2016 amounted to £nil (2015: £10m) and at the end of the year £nil was due to PGS (2015: £nil).

On 15 April 2015, the Company's shareholder's fund received £20m of capital contribution from the Company's immediate parent undertaking, NPLH.

With effect from 30 June 2015, all of the long term business and the majority of the shareholder fund of the Company transferred to Phoenix Life Assurance Limited ("PLAL") for a £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 1 May 2015. Assets of £5,186m and liabilities of £4,936m were transferred (see note 2).

As a result of the Scheme, loans from PLAL to the Company of £50m and £39m were eliminated. At 31 December 2015, the outstanding balance on the loans from PLAL was £nil. In 2015 the Company recognised a loss on transfer of business of £250m. In 2016, the Company recognised a loss of £4m following the transfer of the remaining shareholders' funds to PLAL.

Reinsurance transactions

	2016 £m	2015 £m
Reinsurance ceded to fellow subsidiaries:		
Premiums written	-	9
Claims	-	6
Annual management charges receivable from group companies	-	9

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 2016, 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 21.

20. Investment in subsidiary

The wholly owned subsidiary of the Company, National Provident Institution, is dormant and has no carrying value (2015: £nil). It is incorporated in the UK as an unlimited company without shares.

21. Other information

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