PHOENIX LIFE HOLDINGS LIMITED

Company Registration Number: 06977344

STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2020

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Strategic report

The Directors present the Strategic report of Phoenix Life Holdings Limited ('the Company') for the year ended 31 December 2020.

Principal activities
The principal activity of the Company is that of an investment company, and this will continue to be its principal activity for the foreseeable future.

Corporate activity

Result and dividends
The results of the Company for the year are shown in the statement of comprehensive income on page 10. The profit before tax was £13.0m (2019: loss before tax of £80.5m).

No dividends were paid during the current or prior year.

Position as at 31 December 2020
The net assets of the Company at 31 December 2020 were £2,713.1m (2019: £2,702.6m). The increase in the period reflects the profit after taxation arising in the year of £10.5m (2019: loss after tax of £66.0m).

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

The principal risks and uncertainties facing the Company are:

- interest rate risk, since the movement in interest rates will impact the value of interest payable by the Company;
- liquidity risk, as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements; and
- credit risk, arising from the default of the counterparty to a particular financial asset, with the carrying value of the asset representing the Company's maximum exposure to credit risk.

The Company's exposure to all these risks is monitored by the Directors, who agree policies for managing each of these risks on an ongoing basis.

Covid-19
Covid-19 has resulted in an unprecedented global crisis which has challenged each and every one of us as we undertake our day-to-day lives. The measures taken to reinforce the Company's resilience have ensured we have continued to provide services to policyholders and generate cash throughout these uncertain times whilst safeguarding its financial strength. The Company's key priorities throughout the pandemic have been to support and ensure the safety of our colleagues, customers and of the communities in which we operate while protecting the long-term value of the Company.

The Board does not consider that the COVID-19 pandemic has impacted the Company's ability to continue as a going concern from either a financial or operational point of view.

The Company's exposure to these risks is monitored by the Board, which agrees policies for managing the risk on an ongoing basis.

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.

Section 172 Statement
Section 172 of the Companies Act 2006 requires each director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing so, each director must have regard, amongst other matters, to the:

- likely consequences of any decisions in the long term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and the environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the company.

Strategic report (continued)

Section 172 Statement (continued)
During the year, the directors of Phoenix Life Holdings Limited have applied section 172 of the Companies Act 2006 in a manner consistent with the overall purpose, values and strategic priorities of the Phoenix Group. When considering issues of strategic importance, and making key decisions about the company (or those that impact the wider Group), the directors have acted in a way which they consider, in good faith, is most likely to promote the success of the Company for the benefit of its members as a whole.

Examples of how the Board considered relevant matters set out in section 172 are outlined in the table below, demonstrating how the directors of Phoenix Life Holdings Limited have carried out their duties under section 172 of the Companies Act 2006 during the year ended 31 December 2020.

KEY BOARD DECISION	**Approval of YE19 Annual Accounts**
Strategic Importance Managing our capital position	CONSIDERATION OF S172 MATTERS • The Board considered whether the expectation that the Company would continue in operational existence for the foreseeable future was appropriate. As part of such considerations, the Board assessed the ability for the Company to fulfil its obligations regarding payment of collateral and margins. This enabled the Board to reach a decision to approve the YE19 accounts, within which a going concern statement was included (relied upon by others assessing the business as part of due diligence checks or otherwise). The long-term impact of the decision to approve the YE19 accounts therefore included the potential reliance of others on the going concern statement, which the Board considered to be relevant and accurate. • A paper accompanying the accounts under consideration provided the Board with guidance in relation to the impact of its decision on customer; impact on the Group's sustainability and ESG agenda and other stakeholders (including, the community). The decision to approve the YE19 accounts was not considered to impact the Group's customers, wider stakeholders (including its Outsource Service Providers, suppliers and the wider community) nor the Group's ESG/sustainability agenda.
Outcome	Following due consideration of the matters set out in section 172, the Board approved the YE19 accounts.
KEY BOARD DECISION	**Approval of commencement of legal proceedings**
Strategic Importance Managing our capital position	CONSIDERATION OF S172 MATTERS • The Board considered the likelihood of legal proceedings being necessary to reach settlement in relation to recovery of PPI losses by an indirect subsidiary of the Company. When considering the likelihood, the Board assessed the best and worst case scenario in financial terms; this enabled the Board to understand the possible long term impact on the business. • When deciding whether or not to approve the commencement of legal proceedings, the Board considered the ability to use the Company's governance arrangements to ensure that the likelihood of the best and worst case scenarios could be monitored. This enabled the Board to provide appropriate oversight of the matter and thus maintain its reputation for high standards of business conduct.
Outcome	After due consideration of the matters set out in section 172, the Board approved the commencement of legal proceedings against a third party insurance entity in the event that settlement discussions were not possible.

In order to support the board's consideration of the matters set out in section 172 (1) (a)-(f) each proposal submitted to the board must include detail about directors' duties including those set out above.

On behalf of the Board

DocuSigned by:
Rakesh Thakrar
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R Thakrar
Director
21 September 2021

Directors' report

The Directors present their report and the financial statements of the Company for the year ended 31 December 2019.

The Company is incorporated in the United Kingdom as a private limited company. Its registration number is 06977344 and its Registered Office is 1 Wythall Green Way, Wythall, Birmingham, B47 6WG.

Going concern

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

The Directors have followed the UK Financial Reporting Council's 'Guidance on Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks' (issued April 2016) when performing their going concern assessment. As part of their comprehensive assessment of whether the Company is a going concern, the Directors have prepared cash flow and solvency forecasts for the Company for twelve months from the signing date to 30 September 2022.

Furthermore, the Company's subsidiaries, as listed in note 17, perform their own going concern assessment. In order to ensure those entities have adequate resources to continue in operational existence, the Company has agreed to provide letters of support to two of its subsidiaries, Impala Holdings Limited and Pearl Group Holdings (No. 2) Limited for £85.0m and £118.0m respectively. The Company will provide the financial support from the date of authorisation of the financial statements to 31 December 2022. The provision of such support has been included within the Company's own going concern assessment.

As a result of this review, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for twelve months from the signing date to 30 September 2022. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

The Company has an agreement in place with Phoenix Group Holdings Public Limited Company ('PGH plc') under which the Company can demand, and PGH plc will be required to make, advances to the Company up to the amount available on the PGH plc's revolving credit facility. At 31 December 2020, the amount available on the revolving credit facility was £1.25bn.

Directors and their interests

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:

R K Thakrar	
A Briggs	Appointed 10 March 2020
C Bannister	Resigned 10 March 2020
J McConville	Resigned 15 May 2020

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 auditors

So far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware, and each of the Directors has taken all the steps that 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 auditors are aware of that information.

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

Directors' report (continued)

Statement on Business Relationships

Business relationships with customers
Customer matters are key for the Company and play a significant part of the rationale for decision-making that takes place. Specifically, Board papers presented to the directors of Phoenix Life Holdings Limited require authors to consider and provide detail relating to the potential impact of any proposals on customers, ensuring that the Board is able to pay due regard to such matters.

Business relationships with Partners/Suppliers
The "Service Companies" within Phoenix Group Holdings plc are the principal leads on maintaining relationships with suppliers.

Energy and carbon reporting
Energy and Carbon usage information is disclosed in the Group's annual report and accounts and accordingly the Company has not reported on this in these individual financial statements.

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

Section 172 requirements
The information required by section 172 of the Companies Act 2006 is provided in the Strategic report.

On behalf of the Board

DocuSigned by:
Rakesh Thakrar
F6607621210E455...
R Thakrar
Director

21 September 2021

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic report, the Directors' report and the Company's 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 accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements the directors are required 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 international accounting standards in conformity with the requirements of the Companies Act 2006, 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 Phoenix Life Holdings Limited

Opinion

We have audited the financial statements of Phoenix Life Holdings Limited (the 'company') for the year ended 31 December 2020 which comprise 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 26, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period until 30 September 2022.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (International Accounting Standards and the Companies Act 2006) and the relevant direct tax regulation in the United Kingdom.

- We understood how the Company is complying with those frameworks by making inquiries with those charged with governance, internal audit and management to understand how the Company maintains and communicates its policies and procedures in these areas and corroborated this by reviewing supporting documentation. We also reviewed correspondence with relevant authorities.

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address the risks identified by the entity and to prevent or detect fraud, including in a remote-working environment; and how management monitors these controls. We identified the risk of material fraud related to management override of controls. We evaluated the appropriateness of journal entries recorded in the general ledger and evaluated the business rationale for significant and/or unusual transactions.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making inquiry of senior management and internal audit for their awareness of any non-compliance of laws and regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers, inquiring about the Company's method of enforcing and monitoring compliance with such policies and inspecting significant correspondences with the regulators.

Explanation as to what extent the audit was considered capable of detecting irregularities, including (continued)

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

DocuSigned by:

Ernst & Young LLP.

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Robin Enstone (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol

September 22, 2021 | 3:42:48 BST

Statement of comprehensive income
for the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Revenue			
Investment income	3	94.4	14.5
Other income	4	3.8	1.6
Total income		98.2	16.1
Expenses			
Impairment of investments in subsidiaries	17	-	(4.0)
Other operating expenses	5	-	(2.2)
Total operating expenses		-	(6.2)
Profit before finance costs and tax		98.2	9.9
Finance costs	9	(85.2)	(90.4)
Profit/(loss) for the year before tax		13.0	(80.5)
Tax (charge)/credit	10	(2.5)	14.5
Total comprehensive income/(loss) for the year attributable to owners		10.5	(66.0)

Statement of financial position
as at 31 December 2020

	Notes	2020 £m	2019 £m
Equity attributable to owners			
Share capital	11	806.0	806.0
Capital contribution	12	876.8	876.8
Retained earnings		1,030.3	1,019.8
Total equity		2,713.1	2,702.6
Non-current liabilities			
Long-term borrowings	13	1,239.6	1,249.4
Total non-current liabilities		1,239.6	1,249.4
Current liabilities			
Short-term borrowings	13	434.7	434.7
Derivative liabilities	14	-	71.7
Amounts due to Group entities		184.1	184.0
Obligation for repayment of collateral received		-	54.7
Other payables	15	1.1	1.1
Accruals	16	19.9	53.8
Total current liabilities		639.8	800.0
Total liabilities		1,879.4	2,049.4
Total equity and liabilities		4,592.5	4,752.0
Non-current assets			
Investments in subsidiaries	17	3,871.9	3,871.9
Loans and receivables	18	385.7	238.0
Total non-current assets		4,257.6	4,109.9
Current assets			
Loans and receivables	18	-	142.3
Amounts due from Group entities		239.9	326.4
Accrued income	19	-	34.0
Financial assets at fair value through profit or loss	20	95.0	7.1
Derivative assets	14	-	53.9
Other receivables	21	-	78.4
Total current assets		334.9	642.1
Total assets		4,592.5	4,752.0

On behalf of the Board

DocuSigned by:
Rakesh Thakrar
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R Thakrar
Director

21 September 2021

Statement of cash flows
for the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Cash flows from operating activities			
Cash generated/(absorbed) by operations	22	146.0	(109.2)
Net cash flows from/(to) operating activities		146.0	(109.2)
Cash flows from investing activities			
Realisation of financial assets	20	(87.9)	133.7
Settlement of derivatives		59.3	11.1
Net cash flows (used in)/from investing activities		(28.6)	144.8
Cash flows from financing activities			
Interest paid on borrowings	13	(117.4)	(110.6)
Net cash flows used in financing activities		(117.4)	(110.6)
Net increase/(decrease) in cash and cash equivalents		-	(75.0)
Cash and cash equivalents at the beginning of the year		-	75.0
Cash and cash equivalents at the end of the year		-	-

Supplementary disclosures on cash flow from operating activities

Interest received		36.4	30.8

Statement of changes in equity
for the year ended 31 December 2020

	Share capital (note 11) £m	Capital contribution *reserve* (note 12) £m	*Retained* earnings £m	Total £m
At 1 January 2020	806.0	876.8	1,019.8	2,702.6
Total comprehensive income for the year	-	-	10.5	10.5
At 31 December 2020	806.0	876.8	1,030.3	2,713.1

	Share capital (note 11) £m	Capital contribution reserve (note 12) £m	Retained earnings £m	Total £m
At 1 January 2019	806.0	876.8	1,085.8	2,768.6
Total comprehensive loss for the year	-	-	(66.0)	(66.0)
At 31 December 2019	806.0	876.8	1,019.8	2,702.6

Included in retained earnings are reserves of £399.8m (2019: £399.8m) which are considered to be non-distributable. The capital contribution reserve is considered to be a distributable reserve. Total distributable reserves are £1,507.3m (2019: £1,507.3m).

Notes to the financial statements

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

Furthermore, the Company's subsidiaries, as listed in note 17, perform their own going concern assessment. In order to ensure those entities have adequate resources to continue in operational existence, the Company has agreed to provide letters of support to two of its subsidiaries, Impala Holdings Limited and Pearl Group Holdings (No. 2) Limited for £85.0m and £118.0m respectively. The Company will provide the financial support from the date of authorisation of the financial statements to 31 December 2022. The provision of such support has been included within the Company's own going concern assessment.

Having assessed the principal risks and the other matters, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements. The potential impact of Covid-19 has been considered in the strategic report.

The results of the Company are consolidated into the accounts of the Company's ultimate parent Phoenix Group Holdings Public Limited Company ('PGH plc'), a company incorporated in the United Kingdom. The registered address of PGH plc is Juxon House, 100 St Paul's Churchyard, London, EC4M 8BU.

Statement of compliance

The financial statements for the year ended 31 December 2020 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006..

The financial statements are presented in sterling (£) rounded to the nearest £0.1 million except where otherwise stated.

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

(b) Critical accounting estimates and judgements

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

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the Company's business that typically require such estimates are the determination of the fair value of financial assets and liabilities and impairment tests for investment in subsidiaries and loans and receivables.

Impairment of investments in subsidiaries and loans to Group entities

Investments in subsidiaries and loans to Group entities are subject to regular impairment reviews when management are aware of objective evidence of impairment. Impairments of investments in subsidiaries are measured at the difference between the carrying value of a particular asset and its estimated value in use. Impairments of investments in loans to Group entities are measured at the difference between the carrying value and the present value of the estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the loans original effective interest rate. Impairments are recognised in the statement of comprehensive income in the period in which they occur. The Company's policies in relation to impairment testing of investments in subsidiaries and loans to Group entities are detailed in accounting policies (e) and (f) respectively.

Fair value of financial instruments

The fair values of financial instruments are classified and accounted for as set out in accounting policy (h). Where possible, financial instruments are valued on the basis of listed market prices by reference to quoted market bid prices 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

1. Accounting policies (continued)

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.

Impairment of financial assets
The impairment provisions for financial assets disclosed in accounting policy (h) are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history and existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see accounting policy (h).

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

(d) Income tax
Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in the statement of comprehensive income or the statement of changes in equity, in which case it is recognised in these statements.

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, except to the extent that it relates to items recognised in the statement of changes in equity, in which case it is recognised in that statement.

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

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

(e) Investment in subsidiaries
Investments in shares in subsidiaries held for strategic purposes are carried in the statement of financial position at cost less impairment.

The Company assesses at each reporting date whether an investment in a subsidiary or group of investments in subsidiaries held at cost is impaired. The Company first assesses whether objective evidence of impairment exists. If objective evidence of impairment exists the Company calculates the amount of impairment as the difference between the recoverable amount of the subsidiary and its carrying value and recognises the amount as an expense in the statement of comprehensive income. The impact of any impairments recognised in respect of investments in subsidiaries is set out in note 17.

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

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.

1. Accounting policies (continued)

(g) Derivatives

Derivative financial instruments are classified as held for trading. They are recognised initially at fair value and subsequently are re-measured to fair value. The gain or loss on re-measurement to fair value is recognised in the statement of comprehensive income.

Fair value estimation

The fair value of financial instruments traded in active markets such as 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.

(h) Financial assets

Classification of Financial assets

Financial assets are measured at amortised cost where they have:

- contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- are held within a business model whose objective is achieved by holding to collect contractual cash flows.

These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the financial asset. All transaction costs directly attributable to the acquisition are also included in the cost of the financial asset. Subsequent to initial recognition, these financial assets are carried at amortised cost, using the effective interest method.

Financial assets measured at amortised cost are included in note 18 Loans and receivables.

There has been no change in the classification of debt securities and collective investment schemes which continue to be designated at fair value through profit or loss and accordingly are stated in the statement of financial position at fair value.

Impairment of financial assets carried at amortised cost

The Company assesses the expected credit losses associated with its loans and receivables and other receivables carried at amortised cost. The impairment methodology depends upon whether there has been a significant increase in credit risk.

The Company measures loss allowances which have low credit risk using the 12-month Expected Credit Loss ('ECL'). Interest revenue is recognised on a gross basis. A simplified approach is used to determine the loss allowances for other receivables as these are always measured at an amount equal to lifetime ECLs. See note 23 for detail of how the Company assesses whether the credit risk of a financial asset has increased since initial recognition and when estimating ECLs.

The loss allowance reduces the carrying value of the financial asset and is reassessed at each reporting date. ECLs are recognised using a provision for doubtful debts account in profit and loss. For other receivables, the ECL rate is recalculated each reporting period taking into account which counter parties are included in the reporting period.

ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- 12-month ECLs - Total expected credit losses that result from default events that are possible within 12 months after the reporting date.
- Lifetime ECLs - Expected credit losses that result from all possible default events over the expected life of the financial asset.

No significant changes to estimation techniques or assumptions were made during the reporting period.

Fair value estimation

For units in unit trusts and shares in open-ended investment companies, fair value is determined by reference to published bid-values.

(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.

1. Accounting policies (continued)

(j) Share capital and capital contributions

Ordinary share capital
The Company has issued ordinary shares which are classified as equity. Incremental external costs that are directly attributable to the issue of these shares are recognised in the statement of changes in equity, net of tax.

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.

(k) Subordinated loans treated as equity
Certain subordinated loans meet the definition of equity for accounting purposes. Accordingly, they are shown at the proceeds of issue and interest payments are recognised on the date of payment and charged directly to the statement of changes in equity, net of tax relief.

(l) Income recognition

Investment income
Investment income comprises interest, dividends and fair value gains and losses on financial assets.

Interest income is recognised in the income statement as it accrues using the effective interest method. Dividend income and interest income on perpetual subordinated loans and receivables are recognised in the income statement 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 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.

(m) Finance costs
Interest paid is recognised in the income statement as it accrues and is calculated by using the effective interest method.

(n) 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.

Declared dividends are those that are appropriately authorised and are no longer at the discretion of the entity.

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

2. Financial information

The financial statements for the year ended 31 December 2020, set out on pages 10 to 29 were authorised by the Board of Directors for issue on 21 September 2021.

Adoption of New Accounting Pronouncements in 2020
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'):

- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7): The amendments have arisen following the phasing out of interest-rate benchmarks such as interbank offered rates ('IBOR'). S These amendments have no impact on the Company; and

- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Amendments clarify the definition of material and how it should be applied.

2. Financial information (continued)

New Accounting Pronouncements Not Yet Effective
The IASB has issued the following new or amended standards and interpretations which apply from the dates shown. The Company has decided not to early adopt any of these standards, interpretations or amendments where this is permitted.

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (1 January 2021). The changes introduced in Phase 2 of the Interest Rate Benchmark Reform project relate to the modification of financial assets, financial liabilities and lease liabilities (introducing a practical expedient for modifications required by the IBOR reform), specific hedge accounting requirements to ensure hedge accounting is not discontinued solely because of the IBOR reform, and disclosure requirements applying IFRS 7 to accompany the amendments regarding modifications and hedge accounting. There is not expected to be an impact for the Company from implementing these amendments but a review will be undertaken in 2021 to confirm this.

Other new or amended accounting standards issued by the IASB are not considered to have a significant impact on the Company's financial statements or accounting policies.

Effect of Brexit
On 31 January 2020, the UK left the European Union ('EU') and consequently EFRAG will no longer endorse IFRSs for use in the UK. Legislation is in place to onshore and freeze EU-adopted IFRSs and from 1 January 2021 the Company will apply UK-adopted International Accounting Standards. The powers to endorse and adopt IFRSs will be delegated by the Secretary of State to the UK Endorsement Board once the draft statutory instrument, which was laid before Parliament on 1 February 2020 is approved. The following amendments to standards listed above have been endorsed for use in the UK by the Secretary of State:

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16); and
- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9 Financial Instruments

3. Investment income

	2020 £m	2019 £m
Investment income		
Interest income on cash and cash equivalents	0.5	0.8
Interest income on loans and receivables	5.7	13.1
	6.2	13.9
Fair value gains/(losses)		
Gain on matured derivatives	77.1	11.1
Unrealised loss on derivatives	-	(25.2)
Unrealised foreign exchange gain	11.1	14.7
Investment income	94.4	14.5

Interest income on loans and receivables includes interest of £5.7m (2019: £13.1m) on loans to Group entities.

4. Other income

	2020 £m	2019 £m
Release of deferred income (see note 16)	3.8	0.5
Compensation receipt	-	1.1
Other income	3.8	1.6

5. Other operating expenses

	2020 £m	2019 £m
Recharged service costs	-	0.1
Compensation payment	-	2.1
Other operating expenses	-	2.2

Recharged service costs include £nil (2019: £0.1m) for management services and project costs charged by Pearl Group Management Services Limited and Pearl Group Services Limited.

6. Employee information

The Company has no employees. Services are provided by Pearl Group Management Services Limited and Pearl Group Services Limited.

7. Directors' remuneration

The Directors received the following for their services as Directors of the Company.

	2020 £000	2019 £000
Salaries and other short-term benefits	252	165
Remuneration (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	252	165
Share-based payments	261	122
Contributions to money purchase pension schemes	1	1
Highest paid Directors' remuneration:		
Remuneration (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	142	99
Share-based payments	205	77
Contributions to money purchase pension schemes	-	-
Number of Directors who are members of a money purchase pension scheme	1	1
Number of Directors who exercised share options during the year	1	3

The Directors are employed by either Pearl Group Management Services Limited or Pearl Group Services Limited.

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.

During the year to 31 December 2020 key management personnel and their close family members contributed £602 to pensions and savings products sold by the Group. At 31 December 2020, the total value of key management personnel's investments in Group pensions and savings products was £1,018.

8. Auditor's remuneration

The remuneration of the auditor of the Company, including their associates in respect of the audit of the financial statements was £0.1m (2019: £0.1m).

9. Finance costs

	2020 £m	2019 £m
Interest expense on borrowings at amortised cost	83.8	87.2
Debt utilisation and commitment fees	-	1.9
Amortisation of debt issue costs (see note 13)	1.4	1.3
	85.2	90.4

Interest expense on borrowings relates to interest of £83.5m (2019: £85.1m) on loans with Group entities.

10. Tax charge/(credit)

The standard rate of UK corporation tax for the accounting period is 19%.

Following the cancellation of the planned tax rate reduction from 19% to 17% announced in the March 2020 Budget, UK deferred tax assets and liabilities, where provided, are reflected at a rate of 19%.

An increase from the current 19% UK corporation tax rate to 25%, effective from 1 April 2023, was announced in the Budget on 3 March 2021.

Current year tax charge/(credit)

	2020 £m	2019 £m
Current tax:		
UK Corporation tax	2.5	(14.5)
Total current tax for the year	2.5	(14.5)

Reconciliation of tax charge/(credit)

	2020 £m	2019 £m
Profit/(loss) before tax	13.0	(80.5)
Tax at standard UK rate of 19.00% (2019: 19.00%)	2.5	(15.3)
Non-taxable impairment of investments in subsidiaries	-	0.8
Total tax charge/(credit) for the year	2.5	(14.5)

11. Share capital

	2020 £m	2019 £m
Issued and fully paid: 806,000,022 (2019: 806,000,022) ordinary shares of £1 each	806.0	806.0

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

12. Capital contribution

	2020 £m	2019 £m
At 1 January and 31 December	876.8	876.8

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

13. Borrowings

	Carrying value 2020 £m	Carrying value 2019 £m	Fair value 2020 £m	Fair value 2019 £m
Loans from Group companies at amortised cost:				
a) £428.1m subordinated loan	426.5	426.2	516.4	503.8
b) £450.0m subordinated loan	448.7	447.8	470.6	472.4
c) £435.0m loan facility	434.7	434.7	434.7	434.7
d) $500.0m subordinated loan	364.4	375.4	416.1	386.9
Total borrowings	1,674.3	1,684.1	1,797.8	1,797.8
Amounts due for settlement within 12 months	434.7	434.7		
Amounts due for settlement after 12 months	1,239.6	1,249.4		

a) On 23 January 2016 the Company entered into a £428.1m loan (as borrower) from PGH Capital plc ('PGHC') (as lender). The loan accrues interest at 6.675% and has a maturity date of 18 December 2025. The loan is subordinate to the senior creditors of the Company, and all payments under the loan are conditional upon the Company being solvent both at the time of payment and immediately thereafter. On 20 March 2017, PGHC was substituted as lender under this loan by Phoenix Group Holdings ('PGH').

On 12 December 2018, PGH was substituted as lender under this loan by Phoenix Group Holdings Plc ('PGHP'), the Company's ultimate parent entity.

Debt issue costs incurred were offset against the value of the loan and these are being amortised over the life of the loan. During the year £0.3m debt issue costs were amortised (2019: £0.3m), and interest of £28.6m was incurred (2019: £28.6m).

b) On 20 January 2017, the Company entered into a £300.0m loan (as borrower) from PGHC (as lender). The loan accrues interest at 4.175% and has a maturity date of 20 July 2022. The loan is subordinate to the senior creditors of the Company, and all payments under the loan are conditional upon the Company being solvent both at the time of payment and immediately thereafter. On 20 March 2017, PGHC was substituted as lender under this loan by PGH.

On 5 May 2017, the Company and PGH entered into a restated loan agreement in respect of this loan. Under the terms of the restated agreement, PGH advanced the Company a further £150.0m, increasing the loan to £450.0m. The interest rate on the restated loan was amended to 4.158%. The other terms of the restated loan, including the maturity date and subordination conditions, remained unchanged.

On 12 December 2018, PGH was substituted as lender under this loan by PGHP.

Debt issue costs of £4.7m were offset against the value of the loan and these are amortised over the life of the loan. During the year, £0.9m (2019: £0.9m) of debt issue costs were amortised and interest of £18.7m (2019: £18.7m) was incurred.

c) On 28 May 2015 the Company was advanced a loan from Pearl Group Holdings (No. 2) Limited. The loan accrues interest six month LIBOR plus a margin of 2.9%. During the year, the maturity date of the loan facility was extended from 28 May 2020 to 31 December 2022. The margin on the loan was amended to 0.76%.

Interest of £15.2m was incurred under this loan during the year (2019: £16.7m).

13. Borrowings (continued)

d) On 6 July 2017, the Company entered into a US $500.0m loan (as borrower) from PGH (as lender), receiving £385.0m. The loan accrues interest at 5.375% and has a maturity date of 6 July 2027. The loan is subordinate to the senior creditors of the Company, and all payments under the loan are conditional upon the Company being solvent both at the time of payment and immediately thereafter.

On 12 December 2018, PGH was substituted as lender under this loan by PGHP.

Debt issue costs of £2.3m were offset against the value of the loan and these are amortised over the life of the loan. During the year, £0.2m of debt issue costs were amortised (2019: £0.1m) and interest of £21.0m (2019: £20.3m) was incurred.

Reconciliation of borrowings

The table below details the changes in the Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Company's statement of cash flows as cash flows from financing activities.

		Cash flow items	Non cash flow items			
2020	1 Jan 2020	Loans repaid	Foreign exchange gain	Interest capitalised	Issue costs amortised	31 Dec 2020
	£m	£m	£m	£m	£m	£m
£428.1m subordinated loan	426.2	-	-	-	0.3	426.5
£450.0m subordinated loan	447.8	-	-	-	0.9	448.7
£435.0m loan facility	434.7	-	-	-	-	434.7
$500m subordinated loan	375.4	-	(11.2)	-	0.2	364.4
Total borrowings	1,684.1	-	(11.2)	-	1.4	1,674.3

		Cash flow items	Non cash flow items			
2019	1 Jan 2019	Loans repaid	Foreign exchange loss	Interest capitalised	Issue costs amortised	31 Dec 2019
	£m	£m	£m	£m	£m	£m
£428.1m subordinated loan	425.9	-	-	-	0.3	426.2
£450.0m subordinated loan	447.0	-	-	-	0.8	447.8
£435.0m loan facility	434.7	-	-	-	-	434.7
$500m subordinated loan	389.9	-	(14.7)	-	0.2	375.4
Total borrowings	1,697.5	-	(14.7)	-	1.3	1,684.1

Nature of borrowings

	2020	2019
	£m	£m
Fixed rate borrowings	1,239.6	1,249.4
Floating rate borrowings	434.7	434.7
	1,674.3	1,684.1

13. Borrowings (continued)

Determination of fair value and fair value hierarchy of borrowings

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

There were no level 1 or level 2 borrowings in 2020 or 2019.

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

14. Derivatives

The fair values of derivative financial instruments are as follows:

	Assets 2020 £m	Liabilities 2020 £m	Assets 2019 £m	Liabilities 2019 £m
OTC derivatives				
Foreign currency swaps	-	-	10.6	-
Cross currency interest rate swaps	-	-	-	37.0
Equity forward/options	-	-	12.3	31.0
Group derivatives				
Cross currency interest rate swaps	-	-	31.0	-
Foreign currency swaps	-	-	-	3.7
Total derivatives	-	-	53.9	71.7

Determination of fair value and fair value hierarchy of derivatives

The OTC and Group derivatives are both categorised as Level 2 financial instruments. Derivatives 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 over the counter and group derivatives are estimated using pricing models. Where pricing models are used, inputs are based on market related data at the year end.

There were no level 1 or level 3 derivative liabilities in 2020 or 2019.

15. Other payables

	2020 £m	2019 £m
Reimbursement liability payable to a Group entity (see note 21)	1.1	1.1
Other payables	1.1	1.1

16. Accruals and deferred income

	2020 £m	2019 £m
Accrued interest on borrowings	19.3	19.5
Interest payable on cross currency interest rate swaps	-	32.1
Deferred income	0.6	2.2
Accruals and deferred income	19.9	53.8

17. Investment in subsidiaries

	2020 £m	2019 £m
Cost		
At 1 January	4,862.6	4,862.6
At 31 December	4,862.6	4,862.6
Impairment		
At 1 January	(990.7)	(986.7)
Impairment charge	-	(4.0)
At 31 December	(990.7)	(990.7)
At 31 December	3,871.9	3,871.9

The subsidiaries of the Company at 31 December 2020 were as follows:

	Country of incorporation and principal place of operation	Class of shares held (wholly-owned unless otherwise indicated)
Pearl Group Holdings (No. 2) Limited ('PGH2L')	UK	Ordinary shares of 5p A Ordinary shares of £1 B Ordinary shares of £1 C Ordinary shares of £1
Impala Holdings Limited ('IHL')	UK	D Ordinary shares of £1
Abbey Life Assurance Company Limited	UK	Ordinary shares of £1
Abbey Life Trustee Services Limited	UK	Ordinary shares of £1

The financial statements of PGH2L and IHL contain listings of all material subsidiaries of those companies.

Where indicators of impairment have been identified the carrying value of the Company's investments in its subsidiaries has been tested for impairment at the period end. Following an assessment of the Company's investments in its subsidiaries, no provision for impairment has been made in the year (2019: £4.0m).

The value in use has been used as the recoverable amount. The value in use for subsidiaries which are regulated entities has been determined using Solvency II own funds. For all other subsidiaries, value in use is determined using net assets.

18. Loans and receivables

	Carrying value		Fair value	
	2020 £m	2019 £m	2020 £m	2019 £m
Loans to Group companies at amortised cost:				
a) £205.0m loan facility	144.1	142.3	144.1	142.3
b) £198.8m loan facility	208.1	205.0	208.1	205.0
c) £32.0m loan facility	33.5	33.0	33.5	33.0
Total loans and receivables	385.7	380.3	385.7	380.3
Amounts due for settlement within 12 months	-	142.3		
Amounts due for settlement after 12 months	385.7	238.0		

18. Loans and receivables (continued)

a) On 27 December 2017, the Company entered into a £205.0m loan facility with Pearl Group Holdings (No. 2) Limited ('PGH2L'). Under this facility, PGH2L may draw down up to £205.0m at an interest rate of LIBOR plus a margin of 0.6%. The loan facility has a maturity date of 28 May 2020. During the year, the maturity date of the loan facility was extended from 28 May 2020 to 31 December 2022. The margin on the loan was amended to 0.76%.

Interest of £1.8m was capitalised during the year (2019: £2.1m).

a) On 17 April 2018, the Company provided a £198.8m loan to PGH2L. Interest on the loan is at six month LIBOR plus a margin of 0.92%. The loan has a maturity date of 31 December 2022.

During 2020, interest of £3.1m was capitalised (2019: £3.8m).

b) On 23 March 2018, the Company provided a £32m loan to Pearl Life Holdings Limited. Interest on the loan is at six month LIBOR plus a margin of 0.92%. The loan has a maturity date of 31 December 2022.

During 2020, interest of £0.5m was capitalised (2019: £0.6m).

No loans are considered to be past due or impaired.

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

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

There were no level 1 or level 2 loans and receivables in 2020 or 2019.

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

19. Accrued income

	2020 £m	2019 £m
Interest receivable on cross currency interest rate swaps	-	34.0

20. Financial assets at fair value through profit or loss

	2020 £m	2019 £m
Financial assets at fair value through profit or loss		
Designated upon initial recognition		
Open ended investment companies	95.0	7.1

Determination of fair value and fair value hierarchy of financial assets

The open ended investment companies are categorised as Level 1 financial instruments. The fair value of Level 1 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.

There were no level 2 or level 3 financial assets in 2020 or 2019.

21. Other receivables

	2020 £m	2019 £m
Collateral lodged against derivative liabilities	-	78.4
Total other receivables	-	78.4

On 3 March 2016, the FCA published a thematic review report on the fair treatment of long-standing customers in the life insurance sector. Following completion of the review, Abbey Life Assurance Company Limited ('ALACL') was subject to additional investigations. Specifically, the FCA explored whether remedial and/or disciplinary action was necessary or appropriate in respect of exit or paid-up charges being applied. Additionally, ALACL was investigated for potential contravention of regulatory requirements across a number of other areas assessed in the thematic review. In addition, on 14 October 2016, the FCA published its thematic review of non-advised annuity sales. Following completion of the review, ALACL was subject to additional investigations.

On 14 December 2018, the ALACL was informed by the FCA that it had closed its investigation into ALACL following completion of the thematic review into the fair treatment of long-standing customers in the life insurance sector, having found that the conduct of ALACL did not warrant enforcement action.

Under the terms of the acquisition of ALACL, Deutsche Bank ('DB') has provided the Company with an indemnity, with a duration of up to eight years, in respect of exposures that may arise in ALACL as a result of the FCA's final thematic review findings. The maximum amount that can be claimed under the indemnity is £175.0m and it applies to all regulatory fines and to 80% to 90% of the costs of customer remediation.

A reimbursement asset of £23.1m (2019: £23.1m) has been recognised under this indemnity, of which £24.2m has been recovered in total from DB (2019: total recoveries from DB of £24.2m). The benefit of the indemnity is held by the Company on behalf of a fellow subsidiary – see note 15 and note 24.

22. Cash flows from operating activities

	2020 £m	2019 £m
Profit/(loss) for the year before tax	13.0	(80.5)
Adjustments to reconcile profit for the year to net cash inflow from operating activities in respect of:		
Interest expense on borrowings	85.2	90.4
Deferred income	(3.8)	(0.5)
Interest income on loans and receivables	30.2	16.9
Fair value losses on derivatives	(87.8)	(0.6)
Foreign exchange gains	(0.6)	-
Impairments of investments in subsidiaries	-	4.0
Change in operating assets and liabilities	109.8	(138.9)
Cash generated/(absorbed) by operations	146.0	(109.2)

23. Capital and risk management

The Company's capital comprises share capital and all reserves. The total capital of the Company at 31 December 2020 was £2,713.1m (2019: £2,702.6m). The movement in the period reflects the profit after taxation arising in the year of £10.5m (2019: loss after tax of £66.0m).

There are no externally imposed capital requirements on the Company. The Company's capital is monitored by the Directors and managed on an on-going basis via a monthly close process to ensure that it remains positive at all times.

The principal risks and uncertainties facing the Company are:

- Interest rate risk
  The movement in interest rates will impact the value of interest payable and receivable by the Company.

  An increase of 1% in interest rates, with all other variables held constant, would result in an increase in profit after tax in respect of a full financial year and in equity of £0.4m (2019: £24.2m). A decrease of 1% in interest rates, with all other variables held constant, would result in a decrease in profit after tax in respect of a full financial year and in equity of £0.4m (2019: £25.0m).

- Liquidity risk
  Exposure to liquidity risk arises as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements. The following table provides a maturity analysis showing the remaining contractual maturities of the Company's undiscounted financial liabilities and associated interest.

		1 year or less or on demand £m	1-5 years £m	Greater than 5 years £m	Total £m
2020	Borrowings	67.0	1,520.6	397.0	1,984.6
	Amounts owed to Group entities	184.1	-	-	184.1
	Other payables	1.1	-	-	1.1
2019	Borrowings	509.1	675.0	886.3	2,070.4
	Amounts owed to Group entities	326.4	-	-	326.4
	Obligation for repayment of collateral received	54.7	-	-	54.7
	Other payables	1.1			1.1
	Derivatives	3.7	-	68.0	71.7

- Credit risk
  Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. These obligations can relate to both recognised and unrecognised assets and liabilities.

  Credit risk management practices

  The Company's current credit risk grading framework comprises the following categories:

Category	**Description**	**Basis for recognising an expected credit loss ('ECL')**
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12m ECL
Doubtful	There has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit impaired
In default	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

23. Capital and risk management (continued)

The table below details the credit quality of the Company's financial assets, as well as the Company's maximum exposure to credit risk by credit risk rating grades:

2020	Note	External credit rating	Internal credit rating	12m or lifetime ECL?	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Loans and receivables	18	N/A	Performing	12m ECL	385.7	-	385.7
Financial assets	20	AAA	Performing	12m ECL	95.0	-	95.0
Amounts owed by Group entities	-	N/A	Performing	12m ECL	239.9	-	239.9

2019	Note	External credit rating	Internal credit rating	12m or lifetime ECL?	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Loans and receivables	18	N/A	Performing	12m ECL	380.3	-	380.3
Financial assets	20	AAA	Performing	12m ECL	7.1	-	7.1
Derivatives	14	A	Performing	12m ECL	22.9	-	22.9
Derivatives	14	A-	Performing	12m ECL	31.0	-	31.0
Amounts owed by Group entities	-	N/A	Performing	12m ECL	326.4	-	326.4
Other receivables	21	N/A	Performing	12m ECL	78.4	-	78.4

The Company considers reasonable and supportable information that is relevant and available without undue cost or effort to assess whether there has been a significant increase in risk since initial recognition. This includes quantitative and qualitative information and also, forward-looking analysis.

Loans and receivables, and Amounts owed by Group entities – the Company is exposed to credit risk relating to loans and receivables advanced to other Group Companies, and other amounts owed by Group entities, both of which are considered low risk. The Company assesses whether there has been a significant increase in credit risk since initial recognition by assessing whether there has been any historic defaults, by reviewing the going concern assessment of the borrower, the long term stability of the Phoenix Group and the ability of the parent company to prevent a default by providing a capital or cash injection.

Financial assets – The Company's financial assets are held in open-ended investment companies have investment grade ratings. The Company considers that its financial assets have a low credit risk based on the credit ratings, and there being no history of default.

Other receivables - The Company's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty including historic loss experiences and current market conditions. The Company also reviews external ratings, if they are available, and financial statements.

Cash and cash equivalents – The Company's cash and cash equivalents are held with bank and financial institution counterparties, all of which have an investment grade credit rating. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties and there being no history of default.

The Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

The Company's exposure to all these risks is monitored by the Directors, who agree policies for managing each of these risks on an ongoing basis.

24. 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.

In 2020, the Company received interest income from its ultimate parent of £nil (2019: £2.3m) .The Company paid interest to its ultimate parent undertaking of £68.3m (2019: £68.5m), its fellow subsidiaries of £nil (2019: £nil) and its subsidiaries of £15.2m (2019: £16.7m).

In 2020, the Company paid debt utilisation and commitment fees of £nil to its parent undertakings (2019: £1.9m).

Amounts due to related parties

	2020 £m	2019 £m
Loans due to ultimate parent	1,239.6	1,249.4
Loans due to subsidiary	434.7	434.7
Amounts due to subsidiaries	161.0	160.9
Amounts due to fellow subsidiaries	23.1	23.1

Amounts due from related parties

	2020 £m	2019 £m
Loans due from subsidiaries	352.2	347.3
Loans due from fellow subsidiaries	33.5	33.0
Amounts due from ultimate parent	209.3	305.7
Amounts due from fellow subsidiaries	30.6	20.7

Key management compensation
The total compensation payable to employees classified as key management, which comprises the Directors, is disclosed in note 7.

Parent and ultimate parent entity
Information on the Company's parent and ultimate parent is given in note 26.

25. Contingent liabilities

The Company has agreed and undertakes to Pearl Group Holdings (No. 2) Limited ('PGH2L') that on written request from PGH2L, and to the extent that funds are not otherwise available to PGH2L to meet its liabilities, the Company shall either directly pay any debt or claim outstanding from PGH2L to any of its creditors or shall fund PGH2L in such manner as may be agreed to enable PGH2L to meet its obligations up to a maximum value of £205.0m. During the year, the Company provided £nil (2019: £nil) to PGH2 under the above support arrangement, leaving the remaining support available to PGH2L at a maximum value of £66.6m.

Subsequent to the year-end, the Company has agreed to provide further letters of support to PGH2L and Impala Holdings Limited ('IHL') for £118.0m and £85.0m respectively. These letters of support terminate on the earlier of 31 December 2022 or the date on which the financial statements for the year beginning 1 January 2021 are approved by the Boards of PGH2L and IHL. This support is dependent on PGH2L and IHL remaining as subsidiaries of the Company. The Company has not provided any support under either of these arrangements.

26. Other information

The Company is a private company limited by shares. The Company's principal place of business is the United Kingdom. The Company's immediate parent company and its ultimate parent company is Phoenix Group Holdings Public Limited Company ('PGH plc'), a company incorporated in the United Kingdom. A copy of the financial statements of PGH plc can be obtained from the Company Secretary, The Phoenix Group, 20 Old Bailey, London, England, EC4M 7AN