PA (GI) LIMITED

Company Registration Number: 71805

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

Contents **Page**

Strategic report

The Directors present the Strategic Report, their Report and the financial statements of PA (GI) Limited ("the Company") for the year ended 31 December 2016.

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

Business review

Principal activities
The Company is regulated by the Prudential Regulatory Authority ("PRA") and the Financial Conduct Authority ("FCA"). The Company's principal activities are the investment of surplus funds and the administration of complaints relating to creditor insurance policies previously underwritten by the Company.

Until 1 January 2012 the Company's principal activity was transacting general insurance business which was in run off. The business was reinsured to, and administered by, Royal & Sun Alliance ("RSA").

With effect from 1 January 2012 the Company transferred its remaining general insurance liabilities to RSA in accordance with a scheme under Part VII of the Financial Services and Markets Act 2000 ("the Scheme"), approved by the High Court on 12 December 2011.

Corporate activity
Following a High Court hearing in May 2015, the Court ruled that the Company retained liability in respect of complaints relating to creditor insurance originally underwritten by the Company but subsequently transferred to third parties in accordance with Part VII of the Financial Services and Markets Act 2000. As a result of this ruling, the Company has established processes to review the complaints received, and where appropriate, provide redress to the policyholders. The Directors are considering options in respect of seeking to recover the costs incurred from the third parties involved in various business transfers and from the Company's professional indemnity insurers. Further details are provided in note 11 to the financial statements.

On 12 December 2016, the Company contracted KPMG LLP ("KPMG") to handle the administration of the complaints referred to above, on behalf of the Company, commencing February 2017.

During 2016 the Company's immediate parent undertaking, Pearl Life Holdings Limited ("PeLHL"), injected £68,000,000 by way of capital contributions to provide the Company with additional working capital.

Principal risks and uncertainties
The Phoenix Group ("the Group"), of which the Company is a member, 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 main risk facing the Company relates to the liability in respect of the complaints referred to above. The Company has recognised a provision for this liability of £32,800,000 which has been calculated on a best estimate basis after allowing for a range of possible outcomes for each of the key assumptions. The Directors will continue to review the adequacy of this provision in light of the Company's own experience and external market factors. However, the outcome of this issue remains uncertain and the ultimate quantum of the Company's liability may be significantly different to that which has been recognised.

On 2 March 2017, the FCA issued a policy statement (PS17/3) which set a deadline by which consumers will need to make their payment protection insurance complaints or lose their right to have them assessed by firms or by the Financial Ombudsman Service. This rule will come into force on 29 August 2017, with the deadline falling on 29 August 2019. The deadline will be preceded by an FCA-led communications campaign which could have a material impact on the number of future complaints that the Company may receive in the intervening period.

The auditor's report draws attention to the uncertainty that exists relating to the quantification of this provision.

The Company is also exposed to credit risk, arising from counterparty default in relation to bank deposits and collective investments held.

In addition, the Company faces operational risk in respect of the performance of its outsourced complaints administration arrangement with KPMG.

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')
The Company's performance is measured and monitored by the Board with particular regard paid to the following KPIs:

Capital resources
Since 1 January 2016, the Company has monitored its regulatory capital adequacy under the Solvency II regime. Under this regime, the Company is required to retain sufficient capital (termed "Own Funds") at all times to meet the Solvency Capital Requirement ("SCR") as determined by the Group's PRA approved Internal Model.

As at 31 December 2016 the Company's estimated Solvency II Own funds and surplus (unaudited) were £41,858,000 and £10,269,000 respectively.

Profits after taxation and distributable reserves
For the year ended 31 December 2016, the Company reported a loss after taxation of £33,804,000 (2015: £7,099,000). As at 31 December 2016, the Company had distributable reserves amounting to £38,858,000 (2015: £4,662,000).

Cash flows
Cash flows are monitored closely by the business to ensure that all liabilities can be met as they fall due.

On behalf of the Board

S J Watts
For and on behalf of Pearl Group Secretariat Services Limited
Company Secretary

29 March 2017

Directors' report

PA (GI) Limited ("the Company") is incorporated in the United Kingdom. Its registration number is 71805 and its registered office is 1 Wythall Green Way, Wythall, Birmingham B47 6WG.

Result and dividends
The results of the Company for the year are shown in the statement of comprehensive income on page 9. The loss before tax was £33,784,000 (2015: £7,091,000).

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

Future developments
It is intended that in due course the Company will apply to the PRA for cancellation of the Company's authorisation to undertake general insurance business.

Going concern
The Strategic report and Directors' report summarises the Company's activities, its financial performance and financial position together with any factors likely to affect its future development. In addition, the Strategic report discusses the principal risks and uncertainties it faces. Notes 17 and 18 to the financial statements summarise the Company's risk and capital management objectives and policies together with its financial risks.

The Board has followed the UK Financial Reporting Council's "Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks (April 2016)" when performing their going concern assessment. To this end, the Board has undertaken a review of solvency, liquidity and cash flow projections under normal and stressed conditions..

As a result of this review and following the receipt of a letter of financial support from its parent company, Pearl Life Holdings Limited, the Directors believe the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements

Directors
The names of those individuals who served as Directors of the Company during the year or who held office as at the date of signature of this report are as follows:

M Ellis	Resigned 29 January 2016
S D McInnes	
A Moss	
R Thakrar	Appointed 29 March 2016
Q Zentner	Appointed 23 March 2016

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

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

On behalf of the Board

S J Watts
For and on behalf of Pearl Group Secretariat Services Limited
Company Secretary

29 March 2017

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 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 PA (GI) Limited

We have audited the financial statements of PA (GI) 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 20. 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 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic report, Directors' report and financial statements to identify material inconsistencies with the audited financial statements 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.

Emphasis of Matter – Quantification of creditor insurance complaints provision

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 11 to the financial statements concerning the quantification of the creditor insurance complaints provision. The Directors consider that the provision is fairly stated, in all material respects, on the basis of the information currently available to them. However, the ultimate estimate of the provision is subject to significant uncertainty and may differ materially from the estimate that is currently provided in the financial statements.

Opinion 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;
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

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

31 March 2017

Statement of comprehensive income
for the year ended 31 December 2016

	Notes	2016 £000	2015 £000
Net investment income	3	100	39
Net income		100	39
Administrative expenses	4	(33,884)	(7,130)
Total operating expenses		(33,884)	(7,130)
Loss for the year before tax attributable to owners		(33,784)	(7,091)
Tax charge	8	(20)	(8)
Loss for the year attributable to owners		(33,804)	(7,099)
Other comprehensive income		-	-
Total comprehensive income for the year		(33,804)	(7,099)

Statement of financial position
as at 31 December 2016

	Notes	As at 31 December 2016 £000	As at 31 December 2015 £000
EQUITY AND LIABILITIES			
Equity attributable to owners			
Share capital	9	3,000	3,000
Capital contribution reserve	10	77,000	9,000
Retained earnings		(38,142)	(4,338)
Total equity		41,858	7,662
Liabilities			
Provisions	11	32,800	6,000
Other payables	12	507	526
Total liabilities		33,307	6,526
Total equity and liabilities		75,165	14,188
ASSETS			
Financial assets			
Collective investment schemes	13	75,148	14,183
		75,148	14,183
Prepayments and accrued income	14	16	4
Cash and cash equivalents	15	1	1
Total assets		75,165	14,188

On behalf of the Board

Susan McInnes

S D McInnes
Director

29 March 2017

Statement of cash flows
for the year ended 31 December 2016

	Notes	2016 £000	2015 £000
Cash flows from operating activities			
Cash used in operations	16	(68,000)	(7,001)
Net cash flows from operating activities		(68,000)	(7,001)
Cash flows from financing activities			
Capital contribution received	10	68,000	7,000
Net cash flows from financing activities		68,000	7,000
Net decrease in cash and cash equivalents		-	(1)
Cash and cash equivalents at the beginning of the year		1	2
Cash and cash equivalents at the end of the year	15	1	1

Supplementary disclosures on cash flows from operating activities

Interest received	88	39

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

	Share capital (note 9) £000	Capital contribution reserve (note 10) £000	Retained earnings £000	Total £000
At 1 January 2016	3,000	9,000	(4,338)	7,662
Loss for the year	-	-	(33,804)	(33,804)
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	(33,804)	(33,804)
Capital contribution received	-	68,000	-	68,000
At 31 December 2016	3,000	77,000	(38,142)	41,858

Of the above, £38,858,000 (2015: £4,662,000) is considered distributable.

	Share capital (note 9) £000	Capital contribution reserve (note 10) £000	Retained earnings £000	Total £000
At 1 January 2015	3,000	2,000	2,761	7,761
Loss for the year	-	-	(7,099)	(7,099)
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	(7,099)	(7,099)
Capital contribution received	0	7,000	0	7,000
At 31 December 2015	3,000	9,000	(4,338)	7,662

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 that have been measured at fair value.

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. The registered address of Phoenix Group Holdings is PO Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands.

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 £000 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 the determination of provisions as discussed in accounting policy (d). Further information on the key assumptions is provided in note 11.

(c) Income tax

Income tax comprises current 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.

(d) Provisions and contingent liabilities

A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where the Company has a present legal or constructive obligation as a result of a past event but it is not probable that there will be an outflow of resources to settle the obligation or the amount cannot be readily estimated, this is disclosed as a contingent liability.

Related recoveries are only recognised as and when they are virtually certain and are presented as a separate asset.

(e) Financial assets

Investments comprise shares in open-ended investment companies and 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. Fair value is determined by reference to published bid values.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity term of three months or less at the date of placement.

(g) 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.

(h) Income recognition

Net investment income

Net investment income comprises interest on financial assets.

Interest income is recognised as income in the statement of comprehensive income as it accrues using the effective interest method.

(i) Share capital and capital contributions

Ordinary share capital

The Company has issued ordinary shares and deferred 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 capital. The reserve is considered distributable.

(j) 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 2016, set out on pages 9 to 21, were authorised by the Board of Directors for issue on 29 March 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)

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.

- IFRS 9 Financial Instruments (2018). Under IFRS 9, all financial assets will be measured either at amortised cost or fair value and the basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. The Company expects that the application of IFRS 9 in the future is unlikely to have a material impact on the measurement and presentation of amounts reported in respect of the Company's financial assets and liabilities.
- Disclosure initiative (Amendments to IAS 7) (2017). The amendments require disclosures that enable users of the financial statements to evaluate changes in liabilities arising from financial activities, including both changes arising from cash flow and non-cash changes.

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

3. Net investment income

	2016	2015
	£000	£000
Investment income		
Interest income on financial assets designated at fair value through profit or loss on initial recognition	100	39

4. Administrative expenses

	2016	2015
	£000	£000
Movement in provision	26,800	5,700
Other expenses	7,084	1,430
	33,884	7,130

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

5. Directors' remuneration

	2016	2015
	£000	£000
Remuneration (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	97	82
Other long-term benefits	43	-
Contributions to money purchase pension schemes	11	1
Number of Directors accruing retirement benefits under:		
- a money purchase pension scheme	2	1
Number of Directors who had exercised share options during the year	4	1
Highest paid Director's remuneration	64	78

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

6. Auditor's remuneration

The remuneration of the auditors of the Company, including their associates, which were paid by another group company, was £13,000 (2015: £13,000).

	2016	2015
	£000	£000
Audit of the Company's financial statements	10	10
Audit related assurance services	3	3
	13	13

7. 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 in the form of liquidity funds.

The Company's holdings in these 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	
	2016	2015
	£000	£000
Collective investment schemes		
Short term liquidity	75,148	14,183
Total collective investment schemes	75,148	14,183

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

The Company's maximum exposure to loss on 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.

8. Tax charge

Current year tax charge

	2016	2015
	£000	£000
Current tax:		
UK Corporation tax	(20)	(8)
Adjustment in respect of prior years	-	-
Total tax charge	(20)	(8)

Reconciliation of tax charge

	2016	2015
	£000	£000
Loss before tax	33,784	7,091
Tax at standard UK rate of 20% (2015: 20.25%)	6,757	1,436
Disallowed expenses	(6,777)	(1,444)
Total tax charge for the year	(20)	(8)

The disallowed expenses relate to the increase in provision, redress and other costs in relation to creditor insurance complaints.

9. Share capital

	2016	2015
	£000	£000
Issued and fully paid: 60,000,000 (2015: 60,000,000) ordinary shares of 1p each	600	600
Issued and fully paid: 9,600,000 (2015: 9,600,000) deferred shares of 25p each	2,400	2,400
	3,000	3,000

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

The deferred shares do not entitle the holders to receive any dividend in respect of any accounting reference period of the Company unless, and until, there has been declared, and paid in respect of that period, a dividend of not less than £5 per ordinary share. Thereafter the holders of the deferred shares shall participate equally with the holders of such ordinary shares in the profits of the Company. The deferred shares do not entitle any holders to receive notice of, attend or vote at any general meeting of the Company.

On a return of assets on liquidation or otherwise, the assets to be returned shall be applied to the holders of deferred shares, after paying to the holders of the ordinary shares £5,000 per share. In paying to the holders of the deferred shares the amounts paid up thereon and the balance of such assets shall belong to and be distributed among the holders of the ordinary shares in proportion to the amounts paid up on the ordinary shares held by them respectively.

10. Capital contribution reserve

	2016	2015
	£000	£000
At 1 January	9,000	2,000
Additions in the year	68,000	7,000
At 31 December	77,000	9,000

During 2016, the Company's immediate parent undertaking, Pearl Life Holdings Limited (PeLHL) injected capital contributions of £68,000,000 (2015: £7,000,000) in order to provide the Company with additional working capital. These contributions are interest free and the Company is under no obligation to repay them.

11. Provisions

	Complaints and litigation costs £000
At 1 January 2016	6,000
Additions in the year	32,800
Utilised during the year	(6,000)
At 31 December 2016	32,800
Amount due for settlement after 12 months	15,000

Following a High Court hearing in May 2015, the Court ruled that the Company retained liability in respect of complaints relating to creditor insurance originally underwritten by the Company but subsequently transferred to third parties in accordance with Part VII of the Financial Services and Markets Act 2000. As a result of this ruling, the Company has established processes to review the complaints received, and where appropriate, provide redress to the policyholders.

The total amount provided represents the Company's best estimate of the likely future costs. However, this is subject to a number of risks and uncertainties including future complaint volumes, uphold rates of complaints, and average redress paid. The ultimate cost of these factors could differ materially from the Company's estimates and assumptions of the total potential liability with the result that an increase in the provision may be required in future.

Key sensitivities are as follows:

- 10% increase in the expected number of complaints received would increase the provision by £2,966,000;
- 5% increase in the uphold rate would increase the provision by £1,368,000;
- £1,000 increase in the average redress per complaint upheld would increase the provision by £6,574,000.

At 31 December 2016, no allowance has been made for any potential recovery under either the Company's professional indemnity insurance or any third party to whom the policies were transferred under a Part VII scheme or other business transfers.

12. Other payables

	2016 £000	2015 £000
Other payables	507	526
Amount due for settlement after 12 months	-	-

13. Financial assets and financial instrument fair value hierarchy

	2016 £000	2015 £000
Financial assets at fair value through profit or loss		
Designated upon initial recognition		
Collective investment schemes	75,148	14,183
Amount recoverable after 12 months	-	-

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

Level 1 financial instruments

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

All financial assets have been classified as level 1 financial instruments in the fair value hierarchy.

Offsetting financial assets and liabilities

The Company has no current legally enforceable right to offset recognised financial instruments.

14. Prepayments and accrued income

	2016 £000	2015 £000
Accrued investment income	16	4
Amount recoverable after 12 months	-	-

The carrying amount of prepayments approximate to their fair values.

15. Cash and cash equivalents

	2016 £000	2015 £000
Bank and cash balances	1	1

The carrying amounts approximate to fair value at the period end.

16. Cash flows from operating activities

	2016 £000	2015 £000
Loss for the year before tax	(33,784)	(7,091)
Changes in operating assets and liabilities		
Change in financial assets	(60,964)	(5,883)
Change in prepayments and accrued income	(12)	(1)
Change in other payables	26,760	5,974
Cash used in operations	(68,000)	(7,001)

17. Risk management

The main risk facing the Company relates to the liability in respect of the creditor insurance complaints detailed in note 11. The Directors monitor the uphold and settlement of complaints on a regular basis. Other risks facing the company include:

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.

The Company's assets are primarily invested in an authorised cash collective investment scheme ("CIS"). While the Company is exposed to some credit risk, the Directors consider this risk to be low risk due to the investment policy and diversified nature of the underlying investments held by the CIS.

Risk of outsourcer failure
The Company carries the risk that its outsourcer is no longer able to commit to providing the agreed services on agreed terms and conditions. The risk of outsourcers becoming insolvent is continually monitored closely by the Operational Governance Team and considered to be minimal.

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

18. Capital management

Following the implementation of the Solvency II Directive effective from 1 January 2016, the Company's capital is managed on a Solvency II basis.

A Solvency II capital assessment involves valuation in line with Solvency II principles of the Company's Own Funds and a risk-based assessment of the Company's Solvency Capital Requirement ("SCR"). Solvency II surplus is the excess of Eligible Own Funds over the SCR.

The Company holds an amount of Eligible Own Funds that is greater than the SCR to allow for adverse events in the future that may use capital and might otherwise cause the Company to fail the minimum level of regulatory capital, the Minimum Capital Requirement.

Basic Own Funds represent the excess of assets over liabilities from the Solvency II balance sheet adjusted to add back any relevant subordinated liabilities that meet the criteria to be treated as capital items.

The Basic Own Funds are classified into three Tiers based on permanency and loss absorbency (Tier 1 being the highest quality and Tier 3 the lowest). Limits are imposed on the amount of each tier that can be held to cover the SCR.

The Company has obtained PRA approval to calculate the SCR using the Phoenix Group's Internal Model. This model has been calibrated to ensure that the Company's liabilities could be met in one year's time with a 99.5% confidence level, or in other words to be able to withstand a one in 200 year event.

The estimated Solvency II surplus position (unaudited) at 31 December 2016 is presented in the Strategic Report.

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.

Pearl Group Services Limited and Pearl Group Management Services Limited provide management services to the Company, in the form of staff and other services. The charge made to the Company for the year ended 31 December 2016 amounted to £1,793,000 (2015: £1,336,000) and at the end of the year £266,000 (2015: £518,000) remained outstanding.

In 2016, the Company received capital contributions of £68,000,000 from PeLHL.

Amounts due to related parties

	2016	2015
	£000	£000
Other amounts due to fellow subsidiaries	286	525

Key management compensation
The compensation payable to employees classified as key management, which comprises the Directors, is disclosed in note 5.

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 20.

20. Other information

The Company is a private limited company registered in England. Its registration number is 71805 and its registered office is 1 Wythall Green Way, Wythall, Birmingham B47 6WG. Its principal place of business is the United Kingdom.

The Company's immediate parent is Pearl 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.