

PA (GI) LIMITED

Company Registration Number: 71805

STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS for the year ended 31 December 2018



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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 2018.

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 activity is 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.

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. Further details are provided in note 11 to the financial statements.

Corporate activity

There has not been any changes to the Company's operations during the period under review.

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 £17,388,000 (2017: £39,789,000) 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 creditor insurance complaints or lose their right to have them assessed by firms or by the Financial Ombudsman Service. This rule came into force on 29 August 2017, with the deadline falling on 29 August 2019. The deadline will be preceded by FCA-led communications campaigns, and the first of these campaigns was launched in 2017. There were further campaigns in 2018, and the campaigns planned for 2019 may lead to increases in the number of future complaints that the Company may receive prior to the deadline.

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

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 2018 the Company's estimated and unaudited Solvency II Own funds and SCR were £66,524,000 (2017: £64,075,000 audited) and £5,534,000 (2017: £15,808,000 audited) respectively.

Profits after taxation and distributable reserves

For the year ended 31 December 2018, the Company reported a profit after taxation of £2,449,000 (2017: £18,217,000). As at 31 December 2018, the Company had distributable reserves amounting to £63,524,000 (2017: £61,075,000).

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

8 April 2019

Directors' report

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 12. The profit before tax was £2,535,000 (2017: £18,254,000).

No dividends were paid during the year (2017: £nil).

Future developments

It is intended that in due course the Company will apply to the PRA and FCA 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 16 and 17 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 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:

A Moss	
R K Thakrar	
D N Woollett	Appointed 4 July 2018
Q J Zentner	
S D McInnes	Resigned 11 March 2018

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

8 April 2019

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**Opinion**

We have audited the financial statements of PA (GI) Limited for the year ended 31 December 2018 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 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs 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 mis-selling 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 mis-selling provision. As disclosed in note 11, 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 significant uncertainties and therefore the ultimate estimate of the future expense may differ materially from the estimate that is currently provided in the financial statements.

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 below. 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 as applied to public interest entities, 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Creditor Insurance Provision
Materiality	• Overall materiality of £1.3m which represents 2% of net assets as at 31 December 2018.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Board
Creditor Insurance Provision (£17.4m, 2017: £39.8m) <i>There has been no change in our identification of this risk from the prior year.</i> <i>Refer to the Strategic Report (page 2); Accounting policies (page 16); and Note 11 of the Financial Statements (page 22)</i> PA (GI) holds a provision relating to past sales of creditor insurance policies. We have deemed this to be a key audit matter due to a number of assumptions being used to determine the value of the provision held, all of which are subject to a high degree of uncertainty. In FY17, third parties agreed to reimburse the Company for a portion of the redress paid to date and in the future. While these agreements reduce the cost incurred by the Company, there still remains the uncertainty of the gross provision assumptions (number of complaints and scale of redress payments to be incurred), as such the Company still has an exposure to the risks they present.	To obtain sufficient audit evidence to conclude on the appropriateness of the provision and related recoverable, we: - Reviewed management's assumptions and methodology in calculating the provision, and compared the assumptions used against industry data; - Performed a sensitivity analysis to assess the impact of assumption uncertainty on the quantification of the provision; - Validated the inputs and confirmed the integrity of the calculation.	We determined the calculation of the provision was reasonable based on the information available. 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, as such we have included an emphasis of matter on the quantification of the creditor insurance mis-selling provision. Note 11 of the Financial Statements discloses the key sensitivities of the assumptions, and the resulting impact on the value of the provision, to quantify the underlying uncertainty of the provision.

In the prior year, our auditor's report included a key audit matter in relation to the Creditor Insurance Provision. In the current year, we consider the key audit matter to still be applicable.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £1.3 million (2017: £1.3 million), which is 2% (2017: 2%) of net assets. Whilst profit before tax or operating profit are common bases used across the insurance industry, we believe that the use of net assets as the basis for assessing materiality is more appropriate given that the Company's principal activity is now the handling and payment of redress as a result of creditor insurance complaints, and the continuing regulatory solvency requirements. The basis of materiality has remained consistent with previous years.

During the course of our audit, we reassessed initial materiality using net assets as at 31 December 2018 to provide a more appropriate materiality for use during audit procedures.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2017: 75%) of our planning materiality, namely £1.0m (2017: £1.0m). We have set performance materiality at this percentage due to there being no expectation of misstatements greater than the reporting threshold based on experience in prior years.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We have reported to the directors all uncorrected audit differences in excess of £67,000 (2017: £64,000), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

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.

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.

In connection with our audit of the financial statements, 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 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 or a material misstatement of the other information. 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 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, 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

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the relevant laws and regulations related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- We understood how PA (GI) Limited is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and UK regulatory bodies; reviewed minutes of the Board and Executive Risk Committee; and gained an understanding of the Company's approach to governance, demonstrated by the Board's approval of the Company's governance framework and the Board's review of the Group's risk management framework ('RMF') and internal control processes.
- 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 risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, economic or external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the company's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and PRA.
- The Company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

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.

Other matters we are required to address

- We were appointed by the Company in 2004 to audit the financial statements for the year ending 31 December 2004 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is 14 years, covering the years ending 31 December 2004 to 31 December 2018.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

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.



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

12 April 2019

PA (GI) LIMITED

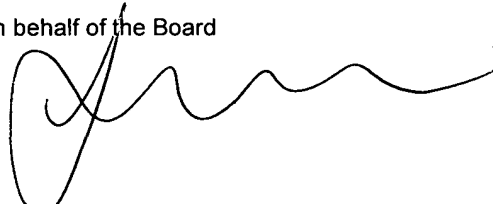
Statement of comprehensive income
for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Investment income	3	452	194
Net income		<u>452</u>	<u>194</u>
Administrative expenses	4	2,083	18,060
Total operating expenses		<u>2,083</u>	<u>18,060</u>
Profit for the year before tax attributable to owners		<u>2,535</u>	<u>18,254</u>
Tax charge	8	(86)	(37)
Profit for the year attributable to owners		<u>2,449</u>	<u>18,217</u>
Other comprehensive income		-	-
Total comprehensive income for the year		<u><u>2,449</u></u>	<u><u>18,217</u></u>

Statement of financial position
as at 31 December 2018

		As at 31 December 2018 £000	As at 31 December 2017 £000
EQUITY AND LIABILITIES	Notes		
Equity attributable to owners			
Share capital	9	3,000	3,000
Capital contribution reserve	10	81,000	81,000
Retained earnings		(17,476)	(19,925)
Total equity		<u>66,524</u>	<u>64,075</u>
Liabilities			
Provisions	11	17,388	39,789
Other payables	12	940	1,854
Bank overdraft		33	81
Total liabilities		<u>18,361</u>	<u>41,724</u>
Total equity and liabilities		<u>84,885</u>	<u>105,799</u>
ASSETS			
Financial assets			
Collective investment schemes	13	76,445	73,425
Other receivables	11	8,386	32,351
		<u>84,831</u>	<u>105,776</u>
Accrued income	14	54	23
Total assets		<u>84,885</u>	<u>105,799</u>

On behalf of the Board


R K Thakrar
Director

8 April 2019

Statement of cash flows
for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Cash flows from operating activities			
Cash generated/(used) in operations	15	48	(4,082)
Net cash flows from operating activities		<u>48</u>	<u>(4,082)</u>
Cash flows from financing activities			
Capital contribution received	10	-	4,000
Net cash flows from financing activities		<u>-</u>	<u>4,000</u>
Net increase/(decrease) in cash and cash equivalents		48	(82)
Cash and cash equivalents at the beginning of the year		(81)	1
Cash and cash equivalents at the end of the year		<u>(33)</u>	<u>(81)</u>
Supplementary disclosures on cash flows from operating activities			
Interest received		<u>421</u>	<u>187</u>

PA (GI) LIMITED

Statement of changes in equity
for the year ended 31 December 2018

	Share capital (note 9) £000	Capital contribution reserve (note 10) £000	Retained earnings £000	Total £000
At 1 January 2018	3,000	81,000	(19,925)	64,075
Total comprehensive income for the year	-	-	2,449	2,449
At 31 December 2018	<u>3,000</u>	<u>81,000</u>	<u>(17,476)</u>	<u>66,524</u>

Of the above, £63,524,000 (2017: £61,075,000) is considered distributable.

	Share capital (note 9) £000	Capital contribution reserve (note 10) £000	Retained earnings £000	Total £000
At 1 January 2017	3,000	77,000	(38,142)	41,858
Total comprehensive profit for the year	-	-	18,217	18,217
Capital contribution received	-	4,000	-	4,000
At 31 December 2017	<u>3,000</u>	<u>81,000</u>	<u>(19,925)</u>	<u>64,075</u>

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 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 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 2018, 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.

For the purposes of the Statement of cash flows, cash and cash equivalents includes any bank overdrafts.

(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

Investment income

Investment income comprises distributions received on the Company's holdings in financial assets, and is recognised in the statement of comprehensive income on the date the right to the receive the payment is established.

(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 2018, set out on pages 12 to 25, were authorised by the Board of Directors for issue on 8 April 2019.

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 standards or amendments will have a material effect on the results of the Company.

- IFRS 15 Revenue from Contracts with Customers. IFRS 15 establishes a single comprehensive framework for determining whether, how and when revenue is recognised. The standard does not apply to insurance contracts or financial instruments within the scope of IAS 39 Financial Instruments: Recognition and Measurement.
- IFRS 9 Financial Instruments (2018). Under IFRS 9, which replaces IAS 39 Financial Instruments: Recognition and Measurement, 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. There have been no changes to the Company's classification, measurement or carrying values of financial assets arising from the introduction of IFRS 9.
- Annual Improvements Cycle 2014-2016: Amendments to IFRS 1 First-time adoption of IFRSs and Amendments to IAS 28 Investments in Associates and Joint Ventures. These are not applicable to the Company.

2. Financial information (continued)

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, amendments or interpretations where this is permitted. None of the following statements or amendments will have a material effect on the results of the Company.

- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation (2019). The proposed amendments would allow for a narrow exception to IFRS 9 that would permit particular financial instruments with prepayment features with negative compensation to be eligible for measurement at amortised cost or at fair value through other comprehensive income.
- IFRIC 23 Uncertainty over Income Tax Treatments (2019). This interpretation clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.
- Amendments to References to the Conceptual Framework in IFRS Standards (2020).
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (2020). The amendments clarify the definition of material and how it should be applied and ensures that the definition of material is consistent across all IFRS Standards.
- Amendments to IFRS 3 Business Combinations (2020). The amendments have revised the definition of a business and aim to assist companies to determine whether an acquisition made is of a business or a group of assets. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others.

Changes excluded from above list as potentially not applicable:

- IFRS 16 Leases (2019).
- Annual Improvements Cycle 2015-2017: Amendments to IAS 12 Income Taxes, IAS 23 Borrowing Costs and IFRS 3 Business combinations/IFRS 11 Joint Arrangements (2019).
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement (2019).
- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term interests in Associates and Joint Ventures (2019).
- IFRS 17 Insurance contracts (2021).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) (Effective date deferred).

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3. Investment income

	2018 £000	2017 £000
Investment income		
Dividend income on financial assets designated at fair value through profit or loss on initial recognition	452	194

4. Administrative expenses

	2018 £000	2017 £000
(Decrease)/increase in provision (see note 11)	(8,188)	21,439
Recoveries (see note 11)	6,105	(39,499)
	<u>(2,083)</u>	<u>(18,060)</u>

The Company has no employees. Services are provided by Pearl Group Services Limited and Pearl Group Management Services Limited, fellow subsidiaries of the Company.

5. Directors' remuneration

	2018 £000	2017 £000
Remuneration (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	181	76
Other long-term benefits	111	41
Contributions to money purchase pension schemes	2	6
Number of Directors accruing retirement benefits under: - a money purchase pension scheme	3	2
Number of Directors who had exercised share options during the year	4	4
Highest paid Director's remuneration	82	44

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 £10,000 (2017: £13,000).

	2018 £000	2017 £000
Audit of the Company's financial statements	10	10
Audit related assurance services	-	3
	<u>10</u>	<u>13</u>

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	
	2018 £000	2017 £000
Collective investment schemes		
Short term liquidity	76,445	73,425

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.

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8. Tax charge

Current year tax charge

	2018 £000	2017 £000
Current tax:		
UK Corporation tax	86	37
Total tax charge	<u>86</u>	<u>37</u>

Reconciliation of tax charge

	2018 £000	2017 £000
Profit before tax	<u>2,535</u>	<u>18,254</u>
Tax at standard UK rate of 19% (2017: 19.25%)	482	3,514
Income covered by unrecognised brought forward expenses	(396)	(3,477)
Total tax charge for the year	<u>86</u>	<u>37</u>

9. Share capital

	2018 £000	2017 £000
Issued and fully paid: 60,000,000 (2017: 60,000,000) ordinary shares of 1p each	600	600
Issued and fully paid: 9,600,000 (2017: 9,600,000) deferred shares of 25p each	<u>2,400</u>	<u>2,400</u>
	<u>3,000</u>	<u>3,000</u>

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

	2018 £000	2017 £000
At 1 January	81,000	77,000
Additions in the year	-	4,000
At 31 December	<u>81,000</u>	<u>81,000</u>

During 2017, the Company's immediate parent undertaking, Pearl Life Holdings Limited, injected capital contributions of £4,000,000 in order to provide the Company with additional working capital.

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

11. Provisions

	2018 £000	2017 £000
At 1 January	39,789	32,800
(Release)/additions in the year	(8,188)	21,439
Utilised during the year	(14,213)	(14,450)
At 31 December	17,388	39,789
Amount due for settlement after 12 months	-	12,993

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. A provision for future complaint and litigation costs has been established to recognise the Company's obligations.

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 in the level of the provision are as follows:

- 10% increase in the expected number of complaints received would increase the provision by £1,613,000 (2017: £3,051,000);
- 5% increase in the uphold rate would increase the provision by £627,000 (2017: £1,526,000);
- £1,000 increase in the average redress per complaint upheld would increase the provision by £4,488,000 (2017: £10,831,000).

In January 2019, the Financial Conduct Authority issued PS19/2 Previously rejected PPI complaints and further mailing requirements – Feedback on CP18/33 and final rules and guidance. PS19/2 requires firms to write to specific regular and single premium creditor insurance misselling complainants whom they previously rejected as out of jurisdiction. These letters will inform these complainants that they can make a new complaint about non-disclosure of commission in light of recurring non-disclosures, and remind them of the deadline. The provision at 31 December 2018 contains an estimate of the likely impact of PS19/2 on the Company.

At 31 December 2018, a reimbursement asset of £8,386,000 (2017: £32,351,000) has been recognised in other receivables. This represents recoveries due from third parties under contractual arrangements.

	2018 £000	2017 £000
At 1 January	32,351	-
Recoveries (de-recognised)/recognised during the year	(6,105)	39,499
Received during the year	(18,060)	(7,148)
Included within Other payables (see note 12)	200	-
At 31 December	8,386	32,351
Amount of reimbursement asset due for settlement after 12 months	-	10,564

12. Other payables

	2018 £000	2017 £000
Amounts due to Group entities	546	1,637
Other payables	394	217
Total other payables	940	1,854
Amount due for settlement after 12 months	-	-

12. Other payables (continued)

Included in Other payables is an amount of £200,000 (2017: £nil) due to third parties in respect of the recoveries recognised.

13. Financial assets and financial instrument fair value hierarchy

	2018 £000	2017 £000
Financial assets at fair value through profit or loss		
Designated upon initial recognition		
Collective investment schemes	76,445	73,425
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. Accrued income

	2018 £000	2017 £000
Accrued investment income	54	23
Amount recoverable after 12 months	-	-

The carrying amount of accrued income approximates to its fair value.

15. Cash flows from operating activities

	2018 £000	2017 £000
Profit for the year before tax	2,535	18,254
Changes in operating assets and liabilities		
Change in financial assets	(3,020)	1,723
Change in prepayments and accrued income	(31)	(7)
Change in other receivables	23,965	(32,351)
Change in provision	(22,401)	6,989
Change in other payables	(1,000)	1,310
Cash generated/(used) in operations	48	(4,082)

The Company classifies the cash flows from the acquisition and disposal of financial assets as operating cash flows, as the purchases are funded from the net cash flows associated with the recoveries received administering complaints relating to creditor insurance policies and the payment of redress relating to these complaints, which are respectively treated under operating activities.

16. 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 liquid 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 due to the investment policy and diversified nature of the underlying investments held by the CIS.

Liquidity risk

Exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements. The Company's policy is to maintain sufficient liquid assets of suitable credit quality to cover its capital requirements under the Solvency II Directive. The Company assesses its capital requirements on a regular basis to ensure that it retains sufficient liquidity to meet its obligations.

All of the Company's financial assets have maturity dates of less than 12 months.

Interest rate risk

Movements in interest rates will impact the value of interest receivable. An increase of 1% in interest rates, all other variables held constant, would result in an increase of £619,000 (2017: £585,000) in the profit after tax in respect of a full financial year with a corresponding change in equity. A decrease of 1% in interest rates, all other variables held constant, would result in a decrease of £366,000 (2017: £157,000) in the profit after tax in respect of a full financial year with a corresponding change in equity.

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.

17. 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 Company met its capital requirements throughout the year.

18. 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 2018 amounted to £4,525,000 (2017: £5,834,000) and at the end of the year £546,000 (2017: £1,637,000) remained outstanding.

The Company received capital contributions of £nil (£4.0m) from its immediate parent, Pearl Life Holdings Limited.

Amounts due to related parties

	2018 £000	2017 £000
Other amounts due to fellow subsidiaries	546	1,637

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 2018, 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 19.

19. 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 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, Juxon House, 100 St Paul's Churchyard, London EC4M 8BU.