

# PEARL ASSURANCE GROUP HOLDINGS LIMITED

Company Registration Number: 3245996

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



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**PEARL ASSURANCE GROUP HOLDINGS LIMITED**

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## Strategic report

The Directors present the Strategic report of Pearl Assurance Group Holdings Limited ('the Company') for the year ended 31 December 2018.

### **Principal activities**

The principal activity of the Company is that of an investment company. This will continue to be the principal activity for the foreseeable future.

### **Corporate activity**

### **Result and dividends**

The results of the Company for the year are shown in the statement of comprehensive income on page 7. The profit before tax was £17.2m (2017: £16.0m).

Dividends of £13.0m were paid during the year (2017: £nil).

### **Position as at 31 December 2018**

The net assets of the Company at 31 December 2018 were £780.0m (2017: £779.1m). The increase in the period reflects the profit after taxation arising in the period of £13.9m (2017: £12.9m) offset by dividends paid of £13.0m (2017: £nil).

### **Principal risks and uncertainties**

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

The principal risks and uncertainties facing the Company are:

- interest rate risk, since the movement in interest rates will impact the value of interest payable by the Company;
- liquidity risk, 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; and
- credit risk, arising from the default of the counterparty to a particular financial asset, with the carrying value of the asset representing the Company's maximum exposure to credit risk.

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

### **Key Performance Indicators ('KPIs')**

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

On behalf of the Board



S Perowne  
Director  
25 June 2019

## Directors' report

The Directors present their report and the financial statements of the Company for the year ended 31 December 2018.

The Company is incorporated in England as a private limited company. Its registration number is 3245996 and its Registered Office is 1 Wythall Green Way, Wythall, Birmingham, B47 6WG.

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS').

### **Going concern**

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

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

As a result of this review, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

### **Directors**

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

J McConville  
S Perowne  
R Thakrar

### **Secretary**

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

G Watson  
Pearl Group Secretariat Services Limited

Resigned 27 February 2019  
Appointed 27 February 2019

### **Disclosure of indemnity**

Qualifying third party indemnity arrangements (as defined in section 234 of the Companies Act 2006) were in force for the benefit of the Directors of the Company during the year and remain in place at the date of approval of this report.

### **Disclosure of information to auditors**

So far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware, and each of the Directors have taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

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

### **Re-appointment of auditors**

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

### **On behalf of the Board**



S Perowne  
Director  
25 June 2019

Statement of Directors' responsibilities

The Directors are required to prepare financial statements for each accounting period that comply with the relevant provisions of the Companies Act 2006 and International Financial Reporting Standards as adopted by the European Union ('IFRS'), and which 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 and verify they are applied consistently in preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business;
- 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; and
- state that the Company has complied with applicable IFRSs, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for maintaining proper accounting records which are intended to disclose with reasonable accuracy at any time the financial position of the Company. They are also ultimately responsible for the systems of internal control maintained for safeguarding the assets of the Company and for the prevention and detection of fraud and other irregularities.

**Independent Auditor's report to the members of Pearl Assurance Group Holdings Limited**

**Opinion**

We have audited the financial statements of Pearl Assurance Group Holdings Limited for the year ended 31 December 2018 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flow, 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.

**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, 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.

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

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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.

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

### **Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Handwritten signature of Ed Jervis in black ink, followed by the text 'Ernst & Young LLP'.

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

26 June 2019

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**PEARL ASSURANCE GROUP HOLDINGS LIMITED**

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**Statement of comprehensive income**  
for the year ended 31 December 2018

	Notes	2018 £m	2017 £m
<b>Revenue</b>			
Investment income	3	19.6	18.3
<b>Total income</b>		<u>19.6</u>	<u>18.3</u>
Finance costs	7	(2.4)	(2.3)
<b>Profit for the year before tax</b>		<u>17.2</u>	<u>16.0</u>
Tax charge	8	(3.3)	(3.1)
<b>Total comprehensive income for the year attributable to owners</b>		<u><u>13.9</u></u>	<u><u>12.9</u></u>

**PEARL ASSURANCE GROUP HOLDINGS LIMITED**

**Statement of financial position**  
as at 31 December 2018

	Notes	2018 £m	2017 £m
<b>Equity attributable to owners</b>			
Share capital	10	313.5	313.5
Capital contribution	11	230.2	230.2
Retained earnings		236.3	235.4
<b>Total equity</b>		<u>780.0</u>	<u>779.1</u>
<b>Non-current liabilities</b>			
Borrowings	12	59.9	-
<b>Total non-current liabilities</b>		<u>59.9</u>	<u>-</u>
<b>Current liabilities</b>			
Borrowings	12	-	57.9
Amounts due to Group entities	13	3.3	3.1
<b>Total current liabilities</b>		<u>3.3</u>	<u>61.0</u>
<b>Total liabilities</b>		<u>63.2</u>	<u>61.0</u>
<b>Total equity and liabilities</b>		<u>843.2</u>	<u>840.1</u>
<b>Current assets</b>			
Loans and receivables	14	841.3	823.8
Accrued income		1.3	1.7
Financial assets at fair value through profit or loss	15	0.6	14.6
<b>Total current assets</b>		<u>843.2</u>	<u>840.1</u>
<b>Total assets</b>		<u>843.2</u>	<u>840.1</u>

On behalf of the Board



S Perowne  
Director  
25 June 2019

**PEARL ASSURANCE GROUP HOLDINGS LIMITED**

**Statement of cash flows**  
for the year ended 31 December 2018

	Notes	2018 £m	2017 £m
<b>Cash flows from operating activities</b>			
Cash generated by operations	16	16.9	14.8
<b>Net cash flows from operating activities</b>		<u>16.9</u>	<u>14.8</u>
<b>Cash flows from investing activities</b>			
Proceeds arising from the disposal of financial assets		14.0	-
Repayment of loans by Group entities	14	3.5	-
Advance of loans to Group entities	14	(21.0)	(14.3)
<b>Net cash flows from investing activities</b>		<u>(3.5)</u>	<u>(14.3)</u>
<b>Cash flows from financing activities</b>			
Repayment of borrowings from Group entities	12	(0.4)	-
Dividends paid	9	(13.0)	-
Interest paid		-	(0.5)
<b>Net cash flows from financing activities</b>		<u>(13.4)</u>	<u>(0.5)</u>
<b>Net increase in cash and cash equivalents</b>		<u>-</u>	<u>-</u>
Cash and cash equivalents at the beginning of the year		-	-
<b>Cash and cash equivalents at the end of the year</b>		<u>-</u>	<u>-</u>
<b><u>Supplementary disclosures on cash flow from operating activities</u></b>			
Interest received		<u>20.0</u>	<u>18.2</u>

**PEARL ASSURANCE GROUP HOLDINGS LIMITED**

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

	Share capital (note 10) £m	Capital contribution (note 11) £m	Retained earnings £m	Total £m
<b>At 1 January 2018</b>	313.5	230.2	235.4	779.1
Total comprehensive income for the year	-	-	13.9	13.9
Dividends paid (see note 9)	-	-	(13.0)	(13.0)
<b>At 31 December 2018</b>	<u>313.5</u>	<u>230.2</u>	<u>236.3</u>	<u>780.0</u>

	Share capital (note 10) £m	Capital contribution (note 11) £m	Retained earnings £m	Total £m
<b>At 1 January 2017</b>	313.5	230.2	222.5	766.2
Total comprehensive income for the year	-	-	12.9	12.9
<b>At 31 December 2017</b>	<u>313.5</u>	<u>230.2</u>	<u>235.4</u>	<u>779.1</u>

The capital contribution is considered a distributable reserve as there are no restrictions.

Included in retained earnings are reserves of £84.9m (2017: £84.0m) which are considered to be distributable.

## Notes to the financial statements

### 1. Accounting policies

#### (a) Basis of preparation

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

The financial statements are separate financial statements and the exemptions in paragraph 10 of IAS 27 *Consolidated and Separate Financial Statements* and section 401 of the Companies Act 2006, have been used not to present consolidated financial statements.

The Company's immediate parent is Pearl Group Holdings (No. 2) Limited whose Registered Office is 1 Wythall Green Way, Wythall, Birmingham, B47 6WG. 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 £0.1m except where otherwise stated.

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

#### (b) Changes to accounting policies

In the current year, the Company has applied IFRS 9 - Financial Instruments ('IFRS 9') which replaces IAS 39 Financial Instruments: Recognition and Measurement ('IAS39') for annual periods beginning on or after 1 January 2018. IFRS 9 introduces new requirements that are applicable to this Company for the classification, measurement and impairment of financial assets. The key change is the introduction of a new impairment model that is based on expected loss (rather than incurred loss as per IAS 39). The above changes have been incorporated in the financial assets accounting policy (see note (f) below).

In accordance with the transitional provisions in IFRS 9, the standard has been applied prospectively and comparative figures have not been restated. As a result, the comparative information continues to be accounted for in accordance with the Company's previous accounting policy under IAS 39. Any adjustments arising from the new impairment requirements are therefore not reflected in the comparative statement of financial position as at 31 December 2017, but would be recognised in opening retained earnings as at 1 January 2018.

#### **Reclassifications of financial assets on adoption of IFRS 9 and reconciliation of impairment allowance balance from IAS 39 to IFRS 9**

On the date of initial application, there have been no changes to the Company's classification, measurement and impairment of financial assets under both IAS 39 and IFRS 9. Accordingly, no adjustment is required to retained earnings at 1 January 2018.

#### (c) 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.

The areas of the Company's business that typically require such estimates are the determination of the fair value of financial assets and liabilities and impairment of loans to Group entities.

**1. Accounting policies (continued)*****Fair value of financial assets***

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

***Impairment of loans to Group entities***

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

***Impairment of financial assets******Effective from 1 January 2018***

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

**(d) Borrowings**

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

**(e) Income tax**

Income tax comprises current tax. Income tax is recognised in the profit or loss except to the extent that it relates to items recognised in the statement of other comprehensive income or statement of changes in equity, in which case it is recognised in the respective 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.

**(f) Financial assets*****Classification of Financial assets*****Policy applicable before 1 January 2018**

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

Collective investment schemes are designated at fair value through profit or loss and accordingly are stated in the statement of financial position at fair value. They are designated at fair value through profit or loss because they are managed and evaluated on a fair value basis in accordance with the Company's stated risk management policies. These instruments are recognised initially at fair value (transaction costs are expensed) and subsequently are re-measured to fair value. Fair value is by reference to published bid values. Purchases and sales of financial assets are recognised on the trade date, which is the date that the Company commits to purchase or sell the asset.

**1. Accounting policies (continued)**

Policy applicable from 1 January 2018

Financial assets are measured at amortised cost where they have:

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

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

Financial assets measured at amortised cost are included in note 14 Loans and receivables.

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

***Impairment of financial assets carried at amortised cost***

Policy applicable before 1 January 2018

The Company assesses at each period end whether a financial asset or group of financial assets held at amortised cost is impaired. The Company first assesses whether objective evidence of impairment exists for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

Policy applicable from 1 January 2018

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

The Company measures loss allowances which have low credit risk using the 12-month Expected Credit Loss ('ECL'). Interest revenue is recognised on a gross basis. A simplified approach is used to determine the loss allowances for other receivables as these are always measured at an amount equal to lifetime ECLs. See Note 17 for detail of how the Company assesses whether the credit risk of a financial asset has increased since initial recognition and when estimating ECLs.

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

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

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

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

Collective investment schemes are designated at fair value through profit or loss and accordingly are stated in the statement of financial position at fair value. They are designated at fair value through profit or loss because they are managed and evaluated on a fair value basis in accordance with the Company's stated risk management policies. These instruments are recognised initially at fair value (transaction costs are expensed) and subsequently are re-measured to fair value.

**(g) 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.

**1. Accounting policies (continued)**

**(h) Share capital and capital contributions**

**Ordinary share capital**

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

**Capital contributions**

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

**(i) Income recognition**

Investment income comprises interest, fair value gains and losses on financial assets and impairment reversals and losses on loans and receivables and amounts owed by Group entities.

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

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

**(j) Dividends**

Final dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's owners. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the reporting period are dealt with as an event after the reporting period.

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

**(k) Finance costs**

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

**(l) 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 7 to 20 were authorised by the Board of Directors for issue on 25 June 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. Apart from IFRS 9, none of the following 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, 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. In relation to the impairment of financial assets, IFRS 9 requires the use of an expected credit loss model, as opposed to the incurred credit loss model required under IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. Details of impacts of applying the new standard can be found in accounting policy 1(b). Additional disclosures are required by the standard and have been included in accounting policy 1(c) & (f) and note 14 to the financial statements.

## 2. Financial information (continued)

- 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.

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.

- 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).

## 3. Investment income

	2018 £m	2017 £m
Investment income		
Interest income on loans and receivables	<u>19.6</u>	<u>18.3</u>

Interest income on loans and receivables relates to interest of £19.6m (2017: £18.3m) on amounts due from Group entities.

## 4. Employee information

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

## 5. Directors' remuneration

The Directors receive no remuneration for their services as Directors of the Company (2017: £nil).

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**PEARL ASSURANCE GROUP HOLDINGS LIMITED**

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**6. Auditor's remuneration**

The remuneration of the auditor of the Company in respect of the audit of the financial statements was borne by the Company's parent entity, Pearl Group Holdings (No. 2) Limited.

**7. Finance costs**

	2018 £m	2017 £m
Interest expense		
On borrowings at amortised cost	<u>2.4</u>	<u>2.3</u>

Interest expense on borrowings relates to interest of £2.4m (2017: £2.3m) on loans from Group entities.

**8. Tax charge**

***Current year tax charge***

	2018 £m	2017 £m
Current tax:		
UK Corporation tax	<u>3.3</u>	<u>3.1</u>

***Reconciliation of tax charge***

	2018 £m	2017 £m
Profit before tax	<u>17.2</u>	<u>16.0</u>
Tax at standard UK rate of 19.00% (2017: 19.25%)	3.3	3.1
Total tax charge for the year	<u>3.3</u>	<u>3.1</u>

**9. Dividends paid**

	2018 £m	2017 £m
Dividends declared	<u>13.0</u>	<u>-</u>

On 21 December 2018, the Board declared and paid an interim cash dividend of £13.0m (2017: £nil).

**10. Share capital**

	2018 £m	2017 £m
Issued and fully paid:		
313,500,002 (2017: 313,500,002) ordinary shares of £1 each	<u>313.5</u>	<u>313.5</u>

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

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**11. Capital contribution**

	2018 £m	2017 £m
At 1 January and 31 December	<u>230.2</u>	<u>230.2</u>

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

**12. Borrowings**

	Carrying value		Fair value	
	2018 £m	2017 £m	2018 £m	2017 £m
Amounts due to Group entities				
Loan from PGS2 Limited	59.9	57.9	59.9	57.9
Total borrowings	<u>59.9</u>	<u>57.9</u>	<u>59.9</u>	<u>57.9</u>
Amounts due for settlement within 12 months	-	57.9		
Amounts due for settlement after 12 months	<u>59.9</u>	<u>-</u>		

The Company received a loan from PGS2 Limited. The loan accrues interest at a rate of six month LIBOR plus a margin of 3.50%. During 2018, the maturity date of the loan was amended from 31 December 2018 to 31 December 2021. During the year, interest of £2.4m (2017: £1.8m) was capitalised and £0.4m (2017: £nil) of the loan was repaid.

***Determination of fair value and fair value hierarchy of borrowings***

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

There were no level 1 or level 2 borrowings in 2018 or 2017.

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

**13. Amounts due to Group entities**

	2018 £m	2017 £m
Amounts due to fellow subsidiaries	<u>3.3</u>	<u>3.1</u>

**14. Loans and receivables**

	Carrying value		Fair value	
	2018 £m	2017 £m	2018 £m	2017 £m
Amounts due from Group entities				
Loan to Pearl Group Holdings (No. 2) Limited	841.3	823.8	841.3	823.8
Total loans and receivables	<u>841.3</u>	<u>823.8</u>	<u>841.3</u>	<u>823.8</u>
Amounts due for settlement within 12 months	<u>841.3</u>	<u>823.8</u>		
Amounts due for settlement after 12 months	<u>-</u>	<u>-</u>		

**14. Loans and receivables (continued)**

The Company entered into a £1,211.0m loan facility with Pearl Group Holdings (No. 2) Limited. This facility, which is repayable on demand, accrues interest at a rate of six month LIBOR plus a margin of 1.75%. Interest of £20.1m (2017: £18.3m) was accrued during the year. During the year, £21.0m was advanced under this facility (2017: £14.3m) and £3.5m was repaid (2017: £nil).

The loan is not considered past due or impaired.

***Determination of fair value and fair value hierarchy of short-term loans***

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

There were no level 1 or level 2 short-term loans in 2018 or 2017.

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

**15. Financial assets at fair value through profit or loss**

	2018 £m	2017 £m
Financial assets at fair value through profit or loss		
Designated upon initial recognition		
Shares in open ended investment companies	0.6	14.6

***Determination of fair value and fair value hierarchy of financial assets through profit or loss***

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

There were no level 2 or level 3 financial assets at fair value through profit or loss in 2018 or 2017.

**16. Cash flows from operating activities**

	2018 £m	2017 £m
Profit for the year before tax	17.2	16.0
Adjustments to reconcile profit for the year to net cash inflow from operating activities in respect of:		
Interest income on loans and receivables	0.4	(0.1)
Interest expense on borrowings	2.4	2.3
Changes in operating assets and liabilities	(3.1)	(3.4)
Cash generated by operations	16.9	14.8

**17. Capital and risk management**

The Company's capital comprises share capital and all reserves. At 31 December 2018 total capital was £780.0m (2017: £779.1m). The movement in capital in the year comprises the profit after taxation arising in the period of £13.9m (2017: £12.9m), offset by dividends paid of £13.0m (2017: £nil).

There are no externally imposed capital requirements on the Company. The Company's capital is monitored by the Directors and managed on an on-going basis.

## 17. Capital and risk management (continued)

The principal risks and uncertainties facing the Company are:

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

An increase of 1% in interest rates, with all other variables held constant, would result in an increase in profit after tax in respect of a full financial year and in equity of £4.8m (2017: £6.3m). A decrease of 1% in interest rates, with all other variables held constant, would result in a decrease in profit after tax in respect of a full financial year and in equity of £4.8m (2017: £6.2m).

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

		1 year or less or on demand £m	1-5 years £m	Greater than 5 years £m	Total £m
2018	Borrowings	-	67.9	-	67.9
	Amounts due to Group entities	3.3	-	-	3.3
2017	Borrowings	57.9	-	-	57.9
	Amounts due to Group entities	3.1	-	-	3.1

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

*Credit risk management practices*

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

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

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

2018	Note	External credit rating	Internal credit rating	12m or lifetime ECL?	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Loans and receivables	14	N/A	Performing	12m ECL	841.3	-	841.3
Financial assets	15	AAA	Performing	12m ECL	0.6	-	0.6

**17. Capital and risk management (continued)**

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

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

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

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

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

**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.

In the year ended 31 December 2018 the Company received interest on amounts due from its parent company of £20.0m (2017: £18.2m) and the Company paid interest on loans from Group entities of £nil (2017: £0.5m).

**Amounts due to related parties**

	2018 £m	2017 £m
Loans due to fellow subsidiaries	59.9	57.9
Other amounts due to fellow subsidiaries	<u>3.3</u>	<u>3.1</u>

**Amounts due by related parties**

	2018 £m	2018 £m
Loan due from parent entity	<u>841.3</u>	<u>823.8</u>

**Key management compensation**

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

**Parent and ultimate parent entity**

Information on the Company's parent and ultimate parent is given in note 19.

**19. Other information**

The Company's principal place of business is the United Kingdom. The Company's immediate parent is Pearl Group Holdings (No. 2) Limited resident in the United Kingdom, and its ultimate parent is Phoenix Group Holdings Public Limited Company ("PGH plc"). A copy of the financial statements of PGH plc can be obtained from the Company Secretary, The Phoenix Group, Juxon House, 100 St Paul's Churchyard, London, EC4M 8BU.