

# PEARL GROUP HOLDINGS (NO. 2) LIMITED

Company Registration Number: 05282342

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

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**PEARL GROUP HOLDINGS (NO. 2) LIMITED**

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## PEARL GROUP HOLDINGS (NO. 2) LIMITED

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**Strategic report**

The Directors present the Strategic report of Pearl Group Holdings (No. 2) Limited ('the Company'), for the year ended 31 December 2020.

**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.

**Result and dividends**

The results of the Company for the year are shown in the income statement on page 11. The profit before tax was £339.4m (2019: loss of £18.7m) and the total comprehensive loss for the year was £46.7m (2019: comprehensive income of £12.2m).

No dividends were paid during the current or prior year.

**Position as at 31 December 2020**

The net assets of the Company at 31 December 2020 were £1,613.8m (2019: £1,314.4m). The increase in the period reflects the total comprehensive income arising in the period of £299.4m (2019: £4.7m).

**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 and receivable 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;
- 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.
- longevity risk in the pension scheme, faster than expected improvements in life expectancy on the pensions of the members of the Scheme.

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

**Covid-19**

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

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

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

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

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

**Section 172 Statement**

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

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

## PEARL GROUP HOLDINGS (NO. 2) LIMITED

### Strategic report (continued)

During the year, the directors of Pearl Group Holdings (No.2) Limited have applied section 172 of the Companies Act 2006 in a manner consistent with the overall purpose, values and strategic priorities of the Phoenix Group. When considering issues of strategic importance, and making key decisions about the company (or those that impact the wider Group), the directors have acted in a way which they consider, in good faith, is most likely to promote the success of the Company for the benefit of its members as a whole.

Examples of how the Board considered relevant matters set out in section 172 are outlined in the table below, demonstrating how the directors of Pearl Group Holdings (No.2) Limited have carried out their duties under section 172 of the Companies Act 2006 during the year ended 31 December 2020.

<b>KEY BOARD DECISION</b>	<b>Approval of YE19 Company Accounts</b>
Strategic Importance  Creating value and delivering dependable cash generation	<b>CONSIDERATION OF S172 MATTERS</b> <ul style="list-style-type: none"> <li>• The long-term impact of providing consent for six of its subsidiaries to take an audit exemption under s479 Companies Act 2006 was considered by the Board, noting that the decision would apply for the financial year ended 31 December 2019 only and that the applicability of the exemption would be reviewed on an annual basis.</li> <li>• The Board considered the impact of its decision in relation to savings with respect to internal resource and management time, in the interest of its employees. Approval of the audit exemption would reduce resource requirements due to fewer audits taking place.</li> <li>• Whilst considering the appropriateness of the audit exemption for relevant subsidiaries of the Company, the Board considered the impact on the Group's customers. Although marginal, the proposal was expected to strengthen the Group's operational resilience, for the benefit of its customers.</li> <li>• The level of risk associated with each of the relevant subsidiaries seeking audit exemption, including their respective internal and external liabilities, was considered prior to approval for the subsidiaries to take the audit exemption (deemed to be low risk for each). This enabled the Board to ensure that the decision would support the desirability for the Company to maintain a reputation for high standards of business conduct.</li> </ul>
Outcome	Following due consideration of the matters set out in section 172, the Board approved the audit exemption for relevant subsidiaries seeking to take advantage of the exemption under s.479 Companies Act 2006.
<b>KEY BOARD DECISION</b>	<b>Approval of the terms of a Commitment Agreement, Surety Bond and Schedule of Contributions in connection with the Surety Bond between PGH plc and the Company and surety providers (and the payment of outstanding contributions as part settlement of terms under the 2012 Pension Agreement).</b>
Strategic Importance  Creating value and delivering dependable cash generation	<b>CONSIDERATION OF S172 MATTERS</b> <ul style="list-style-type: none"> <li>• Prior to approving the terms of a Commitment Agreement, Surety Bond and Schedule of Contributions in connection with the Surety Bond between PGH plc and the Company, the Board considered the long term impact of this decision, including its ability to support long term cash generation and strategic objectives of the Group. The Board also considered the potential risks associated with the decision relating to longevity risk.</li> <li>• The Board also considered the impact on customers as a result of the decision, noting the positive enhancement of security to the scheme members (and their dependents).</li> <li>• As part of the decision making process, the Board ensured that appropriate governance was in place and had been adhered to prior to approving the action referred to above. By ensuring that PGH plc had provided appropriate authority for the Company to enter into the Commitment Agreement, the Board was able to maintain its reputation for high standards of business conduct.</li> </ul>
Outcome	Following due consideration of the matters set out in section 172, the Board approved the terms of the Commitment Agreement, Surety Bond and Schedule of Contributions (and the payment of outstanding contributions as referred to above).

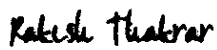
In order to support the board's consideration of the matters set out in section 172 (1) (a)-(f) each proposal submitted to the board must include detail about directors' duties including those set out above.

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PEARL GROUP HOLDINGS (NO. 2) LIMITED

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On behalf of the Board

DocuSigned by:  
  
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R Thakrar  
Director  
23 September 2021

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**PEARL GROUP HOLDINGS (NO. 2) LIMITED**


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**Directors' report**

The Directors present their report and the financial statements of the Company for the year ended 31 December 2020.

The Company is incorporated in England as a private limited company. Its registration number is 05282342 and its Registered Office is 1 Wythall Green Way, Wythall, Birmingham, B47 6WG.

**Going concern**

The Strategic report and the Directors' report summarise the Company's activities, its financial performance and its financial position together with any factors likely to affect its future development. In addition, the Strategic report discusses the principal risks and uncertainties it faces. Note 20 to the financial statements summarises the Company's capital management and risk objectives and policies together with its financial risks.

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

In 2015, the Company was provided with a letter of support ("LoS") from its immediate parent undertaking, Phoenix Life Holdings Limited ("PhLHL"), with a value of £205m. PhLHL has provided the financial support until the earlier of: the date upon which an amount of £205m is paid in liquid assets to the Company by PhLHL; the Company has notified PhLHL that it no longer requires the Financial Support; the Company ceases to be a subsidiary (as defined in section 1159 of the Companies Act 2006) of PhLHL; or a winding-up or dissolution or any analogous process has been commenced in respect of the Company. Any support that may be provided by PhLHL is limited to extent that funds are not otherwise available to PhLHL to meet its liabilities. In 2017, the Company and PhLHL entered into a £205m loan agreement for all advances made under the LoS. As at 31 December 2020, PhLHL had provided £138.4m to the Company under this support arrangement; the remaining support at 31 December 2020 was £66.6m. Further details on the loan are included in Note 12.

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:

R Thakrar	
S Perowne	Appointed 28 August 2020
W Swift	Appointed 28 August 2020
J McConville	Resigned 15 May 2020
S True	Resigned 23 July 2020

**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:

Pearl Group Secretariat Services Limited

**Disclosure of indemnity**

Qualifying third party and pension scheme indemnity arrangements (as defined in sections 234 and 235 of the Companies Act 2006) were in force for the benefit of the Directors of the Company during the year and remain in place at the date of approval of this report.

**Disclosure of information to auditors**

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

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

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**PEARL GROUP HOLDINGS (NO. 2) LIMITED**

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**Directors' report (continued)**

**Statement on Business Relationships**

*Business relationships with customers*

Customer matters are key for the Company and play a significant part of the rationale for decision-making that takes place. Although the Company provides a service mainly for the Phoenix Group, it is the sponsoring employer in respect of the Pearl Group Staff Pension Scheme (the 'Scheme') and works closely with the trustees of the Scheme to ensure that the interests of the Scheme's members are safeguarded.

*Business relationships with Partners/Suppliers*

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

**Energy and carbon reporting**

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

**Re-appointment of auditors**

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

**Section 172 requirements**

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

**On behalf of the Board**

Designated by:



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R Thakrar

Director

23 September 2021

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**PEARL GROUP HOLDINGS (NO. 2) LIMITED**

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**Statement of Directors' responsibilities**

The Directors are responsible for preparing the Strategic report, the Directors' report and the Company's financial statements ("the financial statements") in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under the law the Directors have elected to prepare those statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- state that the Company has complied with international accounting standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.



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## PEARL GROUP HOLDINGS (NO. 2) LIMITED

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### Independent Auditor's report to the members of Pearl Group Holdings (No. 2) Limited

#### Opinion

We have audited the financial statements of Pearl Group Holdings (No.2) Limited ("the company") for the year ended 31 December 2020 which comprise the Statement of comprehensive income, Statement of financial position, the Statement of cash flows, the Statements of changes in equity and the related notes 1 to 22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

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

#### Basis for opinion

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

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

#### Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

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

#### Other information

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

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

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

We have nothing to report in this regard.

#### Opinions on other matters prescribed by the Companies Act 2006

- In our opinion, based on the work undertaken in the course of the audit:
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

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## PEARL GROUP HOLDINGS (NO. 2) LIMITED

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### **Matters on which we are required to report by exception**

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

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

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

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's responsibilities for the audit of the financial statements**

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant related to elements of company law and tax legislation, and the financial reporting framework.
- We understood how the company 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 and reviewed minutes of the Board.
- 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 the impact of COVID-19 on the company's entity level controls. Our procedures over the company's control environment included assessment of the consistency of entity level controls as they transitioned to operating remotely for a significant proportion of 2020.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved: making enquiries of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, enquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees and enquiring about the company's methods of enforcing and monitoring compliance with such policies

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.

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**PEARL GROUP HOLDINGS (NO. 2) LIMITED**

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**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.

*Ernst & Young LLP*

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

27 September 2021

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**PEARL GROUP HOLDINGS (NO. 2) LIMITED**


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**Income statement**

for the year ended 31 December 2020

	Notes	2020 £m	2019 £m
<b>Revenue</b>			
Investment income	3	147.1	29.7
Reversal of Impairment of investment in subsidiaries	16	242.0	-
<b>Total income</b>		<u>389.1</u>	<u>29.7</u>
Administrative expenses	4	(25.0)	(19.1)
<b>Total operating expenses</b>		<u>(25.0)</u>	<u>(19.1)</u>
<b>Profit before finance costs and tax</b>		<u>364.1</u>	<u>10.6</u>
Finance costs	8	(24.7)	(29.3)
<b>Profit/(loss) for the year before tax</b>		<u>339.4</u>	<u>(18.7)</u>
Tax credit	9	6.7	11.2
<b>Profit/(loss) for the year attributable to owners</b>		<u><u>346.1</u></u>	<u><u>(7.5)</u></u>

**Statement of comprehensive income**

for the year ended 31 December 2020


	Notes	2020 £m	2019 £m
<b>Profit/(loss) for the year</b>		346.1	(7.5)
<b>Other comprehensive income</b>			
Actuarial (loss)/gain on pension scheme	15	(48.0)	12.1
Deferred tax credit	9	1.3	0.1
		<u>(46.7)</u>	<u>12.2</u>
<b>Total comprehensive income for the year attributable to owners</b>		<u><u>299.4</u></u>	<u><u>4.7</u></u>

## PEARL GROUP HOLDINGS (NO. 2) LIMITED

Statement of financial position  
as at 31 December 2020

	Notes	As at 31 December 2020 £m	As at 31 December 2019 £m
<b>Equity attributable to owners</b>			
Share capital	10	806.0	806.0
Capital contribution	11	9.0	9.0
Retained earnings		798.8	499.4
<b>Total equity</b>		<b>1,613.8</b>	<b>1,314.4</b>
<b>Non-current liabilities</b>			
Borrowings	12	874.5	205.0
<b>Total non-current liabilities</b>		<b>874.5</b>	<b>205.0</b>
<b>Current liabilities</b>			
Borrowings	12	352.1	1,002.5
Accruals	13	1.4	2.0
Amounts due to Group entities		125.4	101.3
Current tax	14	1.3	1.3
<b>Total current liabilities</b>		<b>480.2</b>	<b>1,107.1</b>
<b>Total liabilities</b>		<b>1,354.7</b>	<b>1,312.1</b>
<b>Total equity and liabilities</b>		<b>2,968.5</b>	<b>2,626.5</b>
<b>Non-current assets</b>			
Pension scheme surplus	15	342.3	314.4
Investments in subsidiaries	16	2,065.6	1,823.6
Deferred tax	14	-	11.7
<b>Total non-current assets</b>		<b>2,407.9</b>	<b>2,149.7</b>
<b>Current assets</b>			
Loans and receivables	17	434.7	434.7
Other receivables		0.1	0.1
Financial assets at fair value through profit or loss	18	125.8	42.0
<b>Total current assets</b>		<b>560.6</b>	<b>476.8</b>
<b>Total assets</b>		<b>2,968.5</b>	<b>2,626.5</b>

On behalf of the Board

DocuSigned by:  
  
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R Thakrar  
 Director  
 23 September 2021

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**PEARL GROUP HOLDINGS (NO. 2) LIMITED**


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**Statement of cash flows**

for the year ended 31 December 2020

	Notes	2020 £m	2019 £m
<b>Cash flows from operating activities</b>			
Cash (absorbed)/generated by operations	19	(34.8)	27.2
<b>Net cash flows from operating activities</b>		<u>(34.8)</u>	<u>27.2</u>
<b>Cash flows from investing activities</b>			
Purchase of financial assets		(83.8)	(33.5)
Dividends received	3	125.0	5.0
Capital contribution repaid by subsidiary	16	-	5.0
<b>Net cash flows from investing activities</b>		<u>41.2</u>	<u>(23.5)</u>
<b>Cash flows from financing activities</b>			
Loans received from Group entities	12	-	22.6
Repayment of borrowings from Group entities	12	-	(3.7)
Interest paid on borrowings from Group entities		(6.4)	(22.6)
<b>Net cash flows from financing activities</b>		<u>(6.4)</u>	<u>(3.7)</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>15.3</u>	<u>16.9</u>

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**PEARL GROUP HOLDINGS (NO. 2) LIMITED**


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

	Share capital (note 10) £m	Capital contribution (note 11) £m	Retained earnings £m	Total £m
<b>At 1 January 2020</b>	806.0	9.0	499.4	1,314.4
Profit for the year	-	-	346.1	346.1
Other comprehensive income	-	-	(46.7)	(46.7)
Total comprehensive income for the year	-	-	299.4	299.4
<b>At 31 December 2020</b>	806.0	9.0	798.8	1,613.8

	Share capital (note 10) £m	Capital contribution (note 11) £m	Retained earnings £m	Total £m
<b>At 1 January 2019</b>	806.0	9.0	494.7	1,309.7
Loss for the year	-	-	(7.5)	(7.5)
Other comprehensive income	-	-	12.2	12.2
Total comprehensive income for the year	-	-	4.7	4.7
<b>At 31 December 2019</b>	806.0	9.0	499.4	1,314.4

Included in retained earnings are reserves of £577.2m (2019: £202.9m) which are considered to be non-distributable.

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**PEARL GROUP HOLDINGS (NO. 2) LIMITED**


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**Notes to the financial statements****1. Accounting policies****(a) Basis of preparation**

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

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

In 2015, the Company was provided with a letter of support ("LoS") from its immediate parent undertaking, Phoenix Life Holdings Limited ("PhLHL"), with a value of £205m. PhLHL has provided the financial support until the earlier of: the date upon which an amount of £205m is paid in liquid assets to the Company by PhLHL; the Company has notified PhLHL that it no longer requires the Financial Support; the Company ceases to be a subsidiary (as defined in section 1159 of the Companies Act 2006) of PhLHL; or a winding up or dissolution or any analogous process has been commenced in respect of the Company. Any support that may be provided by PhLHL is limited to extent that funds are not otherwise available to PhLHL to meet its liabilities. In 2017, the Company and PhLHL entered into a £205m loan agreement for all advances made under the LoS. As at 31 December 2020, PhLHL had provided £138.4m to the Company under this support arrangement; the remaining support at 31 December 2020 was £66.6m. Further details on the loan are included in Note 12.

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

The Company's immediate parent is Phoenix Life Holdings 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 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The financial statements are presented in sterling (£) rounded to the nearest £0.1m 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 income statement unless required or permitted by an international financial reporting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

**(b) Critical accounting estimates and judgements**

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

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the Company's business that typically require such estimates are the determination of the fair value of financial assets, impairment tests for investments in subsidiaries and loans to Group entities, income taxes and pensions benefit assets and liabilities.

**Fair value of financial assets and liabilities**

The fair values of financial assets and liabilities are classified and accounted for as set out in accounting policy (h). Where possible, financial assets and liabilities are valued on the basis of listed market prices by reference to quoted market bid prices for assets and offer prices for liabilities, 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. Further details of the estimates are included in notes 17 and 18.



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**PEARL GROUP HOLDINGS (NO. 2) LIMITED**


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**1. Accounting policies (continued)*****Impairment of investments in subsidiaries and loans to Group entities***

Investments in subsidiaries and loans (excluding contingent loans) to Group entities are subject to regular impairment reviews when management are aware of objective evidence of impairment. Impairments of investments in subsidiaries are measured at the difference between the carrying value of a particular asset and its value in use (Life businesses) and recoverable amount (other holding entities). Impairments on loans are measured as the difference between the carrying value of the loan 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 income statement in the period in which they occur. The Company's policy in relation to impairment testing of investments in subsidiaries and loans to Group entities is detailed in accounting policies (f) and (g) respectively.

***Pension benefit assets and liabilities***

The valuation of pension benefit assets and liabilities is determined using actuarial valuations, which involves making assumptions about discount rates, expected return rates on assets, future salary increases, mortality rates and future pension increases. As defined benefit pension plans are long term in nature, such assumptions are subject to significant uncertainty. Details of the key assumptions used are shown in note 15. The Company's policy in relation to employee benefits is detailed in accounting policy (e).

**(c) 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 income statement over the period of the borrowing using the effective interest method.

**(d) Income tax**

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantively enacted at the date of the statement of financial position together with adjustments to tax payable in respect of previous years, except to the extent that it relates to items recognised in the statement of changes in equity, in which case it is recognised in that statement.

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

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

**(e) Employee benefits*****Defined contribution pension plans***

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

***Defined benefit pension schemes***

The net surplus or deficit (the economic surplus or deficit) in respect of the defined benefit pension scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value and the fair value of any scheme assets is deducted.

As required by IFRIC 14, IAS 19 –The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction to the extent that the economic surplus will be available as a refund, the economic surplus is stated after a provision for tax that would be borne by the scheme administrators when the refund is made. Additionally under IFRIC 14 pension funding contributions are considered to be a minimum funding requirement and, to the extent that the contributions payable will not be available to the Company after they are paid into the scheme, a liability is recognised when the obligation arises. The net defined benefit asset/liability represents the economic surplus net of all adjustments noted above.

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**PEARL GROUP HOLDINGS (NO. 2) LIMITED**


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**1. Accounting policies (continued)*****Defined benefit pension schemes (continued)***

The Company determines the net interest expense or income on the net defined benefit asset/liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit asset/liability. The discount rate is the yield at the period end on AA credit rated bonds that have maturity dates approximating to the terms of the Phoenix Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

The movement in the net defined benefit asset/liability is analysed between the service cost, past service cost, curtailments and settlements (all recognised within administrative expenses in the income statement), the net interest cost on the net defined benefit asset/liability, including any reimbursement assets (recognised within net investment income in the income statement), re-measurements of the net defined asset/liability (recognised in other comprehensive income) and employer contributions.

**(f) Investments in subsidiaries**

Investments in shares in subsidiaries are carried in the statement of financial position at cost less impairment.

The Company assesses at each reporting date whether an investment in a subsidiary or group of investments in subsidiaries is impaired. The Company first assesses whether objective evidence of impairment exists. Evidence of impairment needs to be significant or prolonged to determine that objective evidence of impairment exists. Evidence of impairment is obtained by comparing the carrying value of the investment in the subsidiary with the value in use (Life businesses) and recoverable amount (other holding entities) of the subsidiary.

**(g) Financial assets*****Classification of Financial assets***

Financial assets are measured at amortised cost where they have:

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

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

Financial assets measured at amortised cost are included in note 17 Loans and receivables.

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

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

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

The Company measures loss allowances which have low credit risk using the 12-month Expected Credit Loss ('ECL'). Interest revenue is recognised on a gross basis. A simplified approach is used to determine the loss allowances for other receivables as these are always measured at an amount equal to lifetime ECLs. See note 20 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.

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**PEARL GROUP HOLDINGS (NO. 2) LIMITED**


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**1. Accounting policies (continued)*****Fair value estimation***

The fair value of financial instruments traded in active markets such as publicly traded securities and derivatives are based on quoted market prices at the period end. The quoted market price used for financial assets is the current bid price on the trade date. The fair value of investments that are not traded in an active market is determined using valuation techniques such as broker quotes, pricing models or discounted cash flow techniques. Where pricing models are used, inputs are based on market related data at the period end. Where discounted cash flow techniques are used, estimated future cash flows are based on contractual cash flows using current market conditions and market calibrated discount rates and interest rate assumptions for similar instruments.

For units in unit trusts and shares in open-ended investment companies, fair value is by reference to published bid-values. The fair value of receivables and floating rate and overnight deposits with credit institutions is their carrying value. The fair value of fixed interest-bearing deposits is estimated using discounted cash flow techniques.

**(h) 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.

**(i) 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.

**(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) Income recognition**

Investment income comprises interest, dividends, net expected return on pension scheme assets and fair value gains and losses on financial assets.

Interest income is recognised in the income statement as it accrues using the effective interest method. Dividend income is recognised in the income statement on the date the right to receive payments is established, which in the case of listed securities is the ex-dividend date.

Fair value gains and losses on financial assets designated as 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.

**(l) Finance costs**

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

**(m) 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.

## PEARL GROUP HOLDINGS (NO. 2) LIMITED

### 2. Financial information

The financial statements for the year ended 31 December 2020, set out on pages 11 to 34 were authorised by the Board of Directors for issue on 23 September 2021.

#### *Adoption of New Accounting Pronouncements in 2020*

In preparing the financial statements, the Company has adopted the following standards, interpretations and amendments which have been issued by the International Accounting Standards Board ('IASB'):

- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7): The amendments have arisen following the phasing out of interest-rate benchmarks such as interbank offered rates ('IBOR'). These amendments have no impact on the Company; and
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Amendments clarify the definition of material and how it should be applied.

#### *New Accounting Pronouncements Not Yet Effective*

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

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

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

#### *Effect of Brexit*

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

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

### 3. Investment income

	2020	2019
	£m	£m
Investment income		
Interest income on loans and receivables	15.2	16.7
Dividend income	125.0	5.0
Interest income on financial assets designated at fair value through profit or loss on initial recognition	0.1	0.2
Net expected return on pension assets (see note 15)	6.8	7.8
Investment income	147.1	29.7

Interest income on loans and receivables includes interest of £15.2m (2019: £16.7m) on loans to Group entities. Dividend income includes cash dividends from subsidiaries of £125.0m (2019: cash dividends of £5.0m).

**PEARL GROUP HOLDINGS (NO. 2) LIMITED**

**4. Administrative expenses**

	2020 £m	2019 £m
Service and project costs	24.1	19.1
Pension scheme – past service cost (see note 15)	0.9	-
Administrative expenses	<u>25.0</u>	<u>19.1</u>

**5. Employee information**

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

**6. Directors' remuneration**

	2020 £	2019 £
Remuneration (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	<u>146,331</u>	<u>105,954</u>
Share-based payments	<u>106,090</u>	<u>67,050</u>
Contributions to money purchase pension schemes	<u>2,469</u>	<u>989</u>
Number of Directors who are members of a money purchase pension scheme	<u>3</u>	<u>1</u>
Number of Directors who exercised share options during the year	<u>2</u>	<u>3</u>

The Directors are employed by either Pearl Group Management Services Limited or Pearl Group Services Limited. The total compensation paid to the Directors of the Company relates to qualifying services to the Company, irrespective of which entity within the Phoenix Group has paid the compensation.

For the purposes of this note an apportionment of the total remuneration paid to the Directors of the Company by the Phoenix Group has been made based on an estimate of the services rendered to the Company.

**7. Auditor's remuneration**

The remuneration of the auditor of the Company included in the financial statements was £0.1m (2019: £0.1m).

**8. Finance costs**

	2020 £m	2019 £m
Interest expense on borrowings at amortised cost	<u>24.7</u>	<u>29.3</u>

Interest expense on borrowings includes interest of £24.7m (2019: £29.3m) on loans from Group entities.

**9. Tax credit**

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

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

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

## PEARL GROUP HOLDINGS (NO. 2) LIMITED

**9. Tax credit (continued)****9.1. Current year tax credit**

	2020 £m	2019 £m
<b>Current tax</b>		
UK Corporation tax	(19.7)	(13.6)
Adjustments in respect of prior years	-	(5.0)
<b>Total current tax</b>	<u>(19.7)</u>	<u>(18.6)</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	13.0	7.2
Effect of changes in tax rate	-	(0.8)
Adjustments in respect of prior years	-	1.0
<b>Total deferred tax</b>	<u>13.0</u>	<u>7.4</u>
<b>Total tax credit</b>	<u>(6.7)</u>	<u>(11.2)</u>

**9.2. Tax credit to other comprehensive income**

	2020 £m	2019 £m
Deferred tax on re-measurement of net defined benefit schemes	<u>(1.3)</u>	<u>(0.1)</u>

**9.3. Reconciliation of tax credit**

	2020 £m	2019 £m
Profit/(loss) before tax	<u>339.4</u>	<u>(18.7)</u>
Tax at standard UK rate of 19.00% (2019: 19.00%)	64.5	(3.6)
Non-taxable income and gains	(25.2)	(2.8)
Non-taxable impairment of investments in subsidiaries	(46.0)	-
Adjustment to shareholder tax charge in respect of prior years	-	(4.0)
Deferred tax rate change	-	(0.8)
<b>Total tax credit for the year</b>	<u>(6.7)</u>	<u>(11.2)</u>

**10. Share capital**

	2020 £m	2019 £m
Issued and fully paid: 806,000,020 (2019: 806,000,020) ordinary shares of £1 each	<u>806.0</u>	<u>806.0</u>

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

**11. Capital contribution**

	2020 £m	2019 £m
At 1 January and 31 December	<u>9.0</u>	<u>9.0</u>

The capital contribution reserve has been treated as a distributable reserve with no restrictions.

## PEARL GROUP HOLDINGS (NO. 2) LIMITED

## 12. Borrowings

	Carrying value		Fair value	
	2020 £m	2019 £m	2020 £m	2019 £m
(i) £205.0m loan facility	144.0	142.3	144.0	142.3
(ii) £1,211.0m loan facility	874.5	860.2	874.5	860.2
(iii) £198.8m loan facility	208.1	205.0	208.1	205.0
Total long-term borrowings	1,226.6	1,207.5	1,226.6	1,207.5
Amounts due for settlement within 12 months	874.5	1,002.5		
Amounts due for settlement after 12 months	352.1	205.0		

- (i) On 27 December 2017, the Company entered into a £205.0m loan facility with Phoenix Life Holdings Limited ('PhLHL'). Under this facility, the Company may draw down up to £205.0m at an interest rate of LIBOR plus a margin of 0.6%. The loan facility has a maturity date of 31 December 2022.

Interest of £1.7m was capitalised during the year (2019: £2.2m).

- (ii) The Company entered into a facility with Pearl Assurance Group Holdings Limited. Interest accrues at a rate of LIBOR plus a margin of 1.75% and is payable semi-annually on 31 May and 30 November. The facility is repayable on demand.

During the year the Company interest of £14.3m was capitalised on the facility (2019: £22.6m). Interest of £20.6m was paid during the year (2019: £23.4m).

- (iii) On 17 April 2018 the Company entered into a £198.8m facility with PhLHL. Interest on the loan accrues at a rate of LIBOR plus a margin of 0.92% which is capitalised semi-annually on 30 June and 31 December. During the year, the maturity date of the loan was extended from 28 May 2020 to 31 December 2022. The margin on the loan was amended to 0.76%.

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

**Reconciliation of borrowings**

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

2020	1 Jan 2020 £m	Cash flow items		Non cash flow items Interest capitalised £m	31 Dec 2020 £m
		New loans £m	Loans repaid £m		
£205.0m loan facility	142.3	-	-	1.7	144.0
£1,211.0m loan facility	860.2	-	-	14.3	874.5
£198.8m loan facility	205.0	-	-	3.1	208.1
Total borrowings	1,207.5	-	-	19.1	1,226.6
2019	1 Jan 2019 £m	Cash flow items		Non cash flow items Interest capitalised £m	31 Dec 2019 £m
		New loans £m	Loans repaid £m		
£205.0m loan facility	140.1	-	-	2.2	142.3
£1,211.0m loan facility	841.3	22.6	(3.7)	-	860.2
£198.8m loan facility	201.2	-	-	3.8	205.0
Total borrowings	1,182.6	22.6	(3.7)	6.0	1,207.5

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**PEARL GROUP HOLDINGS (NO. 2) LIMITED**


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**12. Borrowings (continued)*****Determination of fair value and fair value hierarchy of long-term borrowings***

Long-term borrowings are categorised as Level 3 financial instruments. The fair value of long-term 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 long-term borrowings in 2020 or 2019.

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

**13. Accruals**

	2020 £m	2019 £m
Accrued interest on borrowings	<u>1.4</u>	<u>2.0</u>

**14. Tax assets and liabilities**

	2020 £m	2019 £m
<b>Current tax</b>		
Current tax payable	<u>(1.3)</u>	<u>(1.3)</u>

**Deferred tax**

The balances at 31 December comprise:

Deferred tax assets	<u>-</u>	<u>11.7</u>
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***Deferred tax assets comprise:***

	2020 £m	2019 £m
Committed future pension contributions	-	11.7
Net deferred tax assets	<u>-</u>	<u>11.7</u>

***Movement in deferred tax assets and liabilities:***

Year ended 31 December 2020

	1 Jan	Recognised in the income statement £m	Recognised in other comprehensive income £m	31 Dec £m
Committed future pension contributions	11.7	(13.0)	1.3	-
	<u>11.7</u>	<u>(13.0)</u>	<u>1.3</u>	<u>-</u>



## PEARL GROUP HOLDINGS (NO. 2) LIMITED

### 14. Tax assets and liabilities (continued)

#### *Movement in deferred tax assets and liabilities (continued):*

Year ended 31 December 2019

	1 Jan	Recognised in the income statement £m	Recognised in other comprehensive income £m	31 Dec £m
Trading losses	1.0	(1.0)	-	-
Committed future pension contributions	18.0	(6.4)	0.1	11.7
	<u>19.0</u>	<u>(7.4)</u>	<u>0.1</u>	<u>11.7</u>

Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.

	2020 £m	2019 £m
Deferred tax assets have not been recognised in respect of:		
Tax losses carried forward	<u>25.9</u>	<u>23.3</u>

The expected CT rate rise to 25% announced in the Budget on 3 March 2021 is not expected to have an impact on the recognition of the above unrecognised tax losses as future taxable profits arising in this entity are not probable.

### 15. Pension scheme

#### *Scheme details*

The Pearl Group Staff Pension Scheme ('the Pearl Scheme') comprises a final salary section, a money purchase section and a hybrid section (a mix of final salary and money purchase). The final salary and hybrid sections of the Pearl Scheme are closed to new members, and since 1 July 2011 are also closed to future accrual by active members.

#### *Defined benefit scheme*

The Pearl Scheme is established under, and governed by, the trust deeds and rules and is funded by payment of contributions to a separately administered trust fund. The Company is the principal employer of the Pearl Scheme and meets the administration expenses of the Scheme. The Pearl Scheme is administered by a separate Trustee company, P.A.T. (Pensions) Limited, which is separate from the Company. The Trustee company is comprised of two representatives from the Phoenix Group, three member nominated representatives and one independent trustee in accordance with the Trustee company's articles of association. The Trustee is required by law to act in the interest of all relevant beneficiaries and is responsible for the investment policy with regard to the assets.

To the extent that an economic surplus will be available as a refund, the economic surplus is stated after a provision for tax that would be borne by the scheme administrators when the refund is made. Additionally, pension funding contributions are considered to be a minimum funding requirement and, to the extent that the contributions payable will not be available to the Company after they are paid into the scheme, a liability is recognised when the obligation arises.

The valuation has been based on an assessment of the liabilities of the Pearl Scheme as at 31 December 2020, undertaken by independent qualified actuaries. The present values of the defined benefit obligation and the related interest costs have been measured using the projected unit credit method.

#### *Funding*

A triennial funding valuation of the Pearl Scheme as at 30 June 2018 was completed in 2019. This showed a surplus as at 30 June 2018 of £104.0m on the agreed technical provisions basis. The cash flows utilised in the IFRS valuation as at 31 December 2018 were updated to reflect the latest data available from the 30 June 2018 funding valuation. The funding and IFRS accounting bases of valuation can give rise to different results for a number of reasons.

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**PEARL GROUP HOLDINGS (NO. 2) LIMITED**


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**15. Pension scheme (continued)*****Funding (continued)***

The funding and IFRS accounting bases of valuation can give rise to different results for a number of reasons. The funding basis of valuation is based on general principles of prudence whereas the accounting valuation is based on best estimates. Discount rates are gilt-based for the funding valuation whereas the rate used for IFRS valuation purposes is based on a yield curve for high quality AA-rated corporate bonds. In addition the values are prepared at different dates which will result in differences arising from changes in market conditions and employer contributions made in the subsequent period.

On 17 November 2020, the Pearl Scheme entered into a Commitment Agreement with the Company to complete a series of buy-ins that are scheduled to be executed by 31 December 2023. At the same time, the Pearl Scheme completed the first buy-in with Phoenix Life Limited ('PLL') covering 25% of the Scheme's pensioner in-payment and deferred member liabilities, transferring the associated risks of longevity improvement to PLL effective from 30 September 2020.

The Scheme transferred £730.7m of plan assets to PLL which constituted the payment of £734.7m of premium to PLL and was net of a £4.0m payment by PLL to the scheme in respect of benefits for October and November 2020. The economic effect of the 'buy-in' transaction in the Scheme is to replace the plan assets transferred with a single line insurance policy reimbursement asset which is subsequently eliminated on consolidation. The value of this insurance policy at 30 September 2020 was £604.0m and at 31 December 2020 was £596.0m.

The Commitment Agreement replaced the 2012 Pensions Agreement, which had previously included provisions covering contribution payments, additional contributions payable should agree funding targets not be met, share charge over certain Group entities and covenant tests. The main terms of the Commitment Agreement are outlined below.

The new agreement contains provisions under which payments by the Company to the Scheme are required in the event that the Group does not meet the minimum buy-in completion schedule. There are two different types of payments as follows:

- **Gilts Deficit Recovery Contributions:** These operate in a similar way to the security under the 2012 Pension Agreement. Contributions calculated as amounts required to reach full funding on a gilts-basis by 30 June 2027;
- **Contingent Contributions:** These represent a new form of security for the Trustee. The amount of these contributions is initially capped at £200.0m, with the cap running off in line with completion of the buy-ins.

The new agreement also introduces a new form of security provided by the Company to the Trustee which will be in place until the final buy-in is completed. The share charges over certain Group entities have been replaced by a new surety bond arrangement. The Surety Bond has been written by two external third-party insurers, each providing £100.0m of cover payable to the Scheme following any one of the following trigger events:

- Insolvency of the Company, Pearl Group Services Limited ('PGS'), Standard Life Assurance Limited, PLL, or Phoenix Life Assurance Limited; and
- Failure to pay any contributions to the Scheme due under the terms of the Commitment Agreement.

The cover provided by the surety bonds will be reduced from £200.0m to £100.0m (in aggregate) once the completed aggregate buy-in proportion exceeds 75%. The agreements between the Trustee and the surety providers are backed by a guarantee and an indemnity from the Company, Phoenix Group Holdings Public Limited Company and PGS to the surety providers to repay them in the event of a claim under the surety bond. A liability would only be recognised upon the occurrence of one of the trigger events above.

Contributions totalling £70.0m were paid into the Scheme in 2020 (2019: £40.0m). Following the signing of the new Commitment Agreement the Company paid the balance of the remaining contributions under the 2012 Pensions Agreement (£37.0m) in addition to the monthly instalments paid up to this date. No further contributions are expected to be paid to the Scheme. However, the Company will continue to meet the administrative and non-investment running expenses of the Scheme as set out in the schedule of contributions.

Following the revisions to the schedule of contributions, no additional liability has been recognised at 31 December 2020 (2019: £24.1m), to reflect a charge on any refund of the resultant IAS 19 surplus that arises after adjustment for discounted future contributions (2019: £104.0m) in accordance with the minimum funding requirement. At 31 December 2019, a deferred tax asset of £12.0m was also recognised to reflect tax relief at a rate of 17% that was expected to be available on the contributions, once paid into the Scheme.

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**PEARL GROUP HOLDINGS (NO. 2) LIMITED**


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**15. Pension scheme (continued)****Summary of amounts recognised in the financial statements**

The amounts recognised in the financial statements are as follows:

	Fair Value of Scheme Assets £m	Reimbur- sement rights £m	Defined benefit obligation £m	Provision for tax on the economic surplus available as a refund £m	Minimum funding requirement obligation £m	Total £m
<b>At 1 January 2020</b>	2,833.6	-	(2,312.8)	(182.3)	(24.1)	314.4
Interest income/(expense)	52.4	3.7	(45.2)	(3.6)	(0.5)	6.8
Past service cost	-	-	(0.9)	-	-	(0.9)
Included in profit or loss	52.4	3.7	(46.1)	(3.6)	(0.5)	5.9
<b>Re-measurements:</b>						
Return on plan assets excluding amounts included in interest income	197.8	(6.6)	-	-	-	191.2
Loss on plan assets resulting from buy-in	-	(130.4)	-	-	-	(130.4)
Gain from change in demographic assumptions	-	-	51.5	-	-	51.5
Loss from change in financial assumptions	-	-	(205.1)	-	-	(205.1)
Experience gains	-	-	18.7	-	-	18.7
Change in provision for tax on economic surplus available as a refund	-	-	-	1.5	-	1.5
Change in minimum funding requirement obligation	-	-	-	-	24.6	24.6
Included in other comprehensive income	197.8	(137.0)	(134.9)	1.5	24.6	(48.0)
Employers contributions	70.0	-	-	-	-	70.0
Benefit payments	(104.3)	(5.4)	109.7	-	-	-
Assets transferred as premium for Scheme buy-in	(734.7)	734.7	-	-	-	-
<b>At 31 December 2020</b>	2,314.8	596.0	(2,384.1)	(184.4)	-	342.3

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**15. Pension scheme (continued)**

	Fair Value of Scheme Assets £m	Defined benefit obligation £m	Provision for tax on the economic surplus available as a refund £m	Minimum funding requirement obligation £m	Total £m
<b>At 1 January 2019</b>	2,630.9	(2,182.3)	(157.0)	(37.1)	254.5
Interest income/(expense)	72.7	(59.5)	(4.4)	(1.0)	7.8
Included in profit or loss	72.7	(59.5)	(4.4)	(1.0)	7.8
<b>Re-measurements:</b>					
Return on plan assets excluding amounts included in interest income	202.1	-	-	-	202.1
Gain from change in demographic assumptions	-	12.1	-	-	12.1
Loss from change in financial assumptions	-	(206.1)	-	-	(206.1)
Experience gains	-	10.9	-	-	10.9
Change in provision for tax on economic surplus available as a refund	-	-	(20.9)	-	(20.9)
Change in minimum funding requirement obligation	-	-	-	14.0	14.0
Included in other comprehensive income	202.1	(183.1)	(20.9)	14.0	12.1
Employers contributions	40.0	-	-	-	40.0
Benefit payments	(112.1)	112.1	-	-	-
<b>At 31 December 2019</b>	<b>2,833.6</b>	<b>(2,312.8)</b>	<b>(182.3)</b>	<b>(24.1)</b>	<b>314.4</b>

## PEARL GROUP HOLDINGS (NO. 2) LIMITED

### 15. Pension scheme (continued)

#### *Scheme assets*

The distribution of the scheme assets at the end of the year was as follows:

	2020		2019	
	Total	Of which not quoted in an active market	Total	Of which not quoted in an active market
	£m	£m	£m	£m
Hedging portfolio	1,505.1	(29.6)	1,569.3	(17.8)
Obligations for repayment of stock lending collateral received	(789.2)	-	(521.9)	-
Other debt securities	1,301.2	-	1,328.8	-
Properties	140.0	140.0	265.4	265.4
Fixed interest gilts	49.9	-	55.7	-
Private equities	5.5	5.5	18.6	18.6
Hedge funds	4.6	4.6	6.4	6.4
Cash and other	97.7	-	111.3	-
	<u>2,314.8</u>	<u>120.5</u>	<u>2,833.6</u>	<u>272.6</u>
Insurance policies	596.0	596.0	-	-
<b>Total scheme assets</b>	<b>2,910.8</b>	<b>716.5</b>	<b>2,833.6</b>	<b>272.6</b>

The actual return on plan assets was a gain of £116.9m (2019: £274.8m).

The Company ensures that the investment positions are managed within an asset liability matching ('ALM') framework that has been developed to achieve long-term investments that are in line with the obligations under the Pearl Scheme. Within this framework an allocation of 25% of the scheme assets is invested in collateral for interest rate and inflation rate hedging where the intention is to hedge greater than 90% of the interest rate and inflation rate risk measured on the Technical Provisions basis.

The Pearl Scheme uses swaps, UK Government bonds and UK Government stock lending to hedge the interest rate and inflation exposure arising from the liabilities which are disclosed in the table above as 'Hedging Portfolio' assets. Under the Scheme's stock lending programme, the Scheme lends a Government bond to an approved counterparty and receives a similar value in the form of cash in return which is typically reinvested into other Government bonds. The Scheme retains economic exposure to the Government bond, hence the bonds continue to be recognised as scheme assets with a corresponding liability to repay the cash received as disclosed in the table above.

#### *Defined benefit obligation*

The calculation of the defined benefit obligation can be allocated to the scheme's members as follows:

Deferred scheme members: 40% (2019: 40%)

Retirees: 60% (2019: 60%)

The weighted average duration of the defined benefit obligation at 31 December 2020 is 16 years (2019: 16 years).

#### *Principal assumptions*

The principal financial assumptions of the Pearl Scheme are set out below.

	2020	2019
	%	%
Rate of increase for pensions in payment (5% per annum or RPI if lower)	2.85	2.90
Rate of increase for deferred pensions (CPI)	2.10	2.20
Discount rate	1.40	2.00
Inflation – RPI	2.90	3.00
Inflation – CPI	2.10	2.20

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**15. Pension scheme (continued)**

The discount rate and inflation rate assumptions have been determined by considering the shape of the appropriate yield curves and the duration of the Pearl Scheme's liabilities. This method determines an equivalent single rate for each of the discount and inflation rates, which is derived from the profile of projected benefit payments.

It has been assumed that post-retirement mortality is in line with a scheme-specific table which was derived from the actual mortality experience in recent years based on the SAPS standard tables for males and for females based on year of use. Future longevity improvements from 1 January 2017 are based on amended CMI 2019 Core Projections (2019: CMI 2018 Core Projections) and a long-term rate of improvement of 1.70% (2019: 1.60%) per annum for males and 1.20% (2019: 1.30%) per annum for females. Under these assumptions, the average life expectancy from retirement for a member currently aged 45 retiring at age 65 is 25.4 years and 26.5 years for male and female members respectively (2019: 29.8 and 32.2 years respectively, for members aged 40 when retiring at age 60).

A quantitative sensitivity analysis for significant actuarial assumptions is shown below:

Assumptions	Base	Discount rate		Retail Price Index		Life expectancy	
Sensitivity level		25bps increase	25bps decrease	25bps increase	25bps decrease	1 year increase	1 year decrease
	£m	£m	£m	£m	£m	£m	£m
Impact on the defined benefit obligation at 31 December 2020	2,384.1	(95.1)	98.0	75.7	(86.9)	85.8	(85.8)
Impact on the defined benefit obligation at 31 December 2019	2,312.8	(84.9)	93.4	71.3	(65.3)	83.9	(83.7)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the pension asset recognised within the statement of financial position.

**Guaranteed Minimum Pension ('GMP') Equalisation**

GMP is a portion of pension that was accrued by individuals who were contracted out of the State Second Pension prior to 6 April 1997. Historically, there was an inequality of benefits between male and female members who have GMP. A High Court case concluded on 26 October 2018 and confirmed that GMPs need to be equalised.

In 2018, the Company undertook an initial assessment, and included an allowance for the potential cost of equalising GMP for the impact between males and females in its IAS 19 actuarial liabilities at 31 December 2018, pending further discussions with the scheme Trustees and the issuance of guidance as to how equalisation should be achieved. During the year, following a review of the current methodology and assumptions the allowance for the potential cost of equalising GMP has been updated and the resulting reduction in the defined benefit obligation of £26.0m has been recognised in other comprehensive income as an experience gain.

On 25 November 2020, the GMP equalisation ruling covering transfers out was released and this confirmed that pension schemes are required to equalise all transfers with 17 May 1990 to 5 April 1997 GMPs even if they were taken as far back as 1990. A further exercise was undertaken to estimate the additional costs of allowing for GMP equalisation on transfers out and during the year a further cost of £0.9m was recognised as a past service cost in the consolidated income statement.

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**16. Investments in subsidiaries**

	2020 £m	2019 £m
<b>Cost</b>		
At 1 January and 31 December	2,433.3	2,438.3
Capital contributions returned by subsidiaries	-	(5.0)
	<u>2,433.3</u>	<u>2,433.3</u>
<b>Impairment</b>		
At 1 January	(609.7)	(609.7)
Reversal of impairment	242.0	-
	<u>(367.7)</u>	<u>(609.7)</u>
<b>Carrying amount</b>		
At 31 December	<u>2,065.6</u>	<u>1,823.6</u>

On 13 March 2019, Pearl Group Services Limited returned £5.0m of the capital contribution it had received from the Company.

Where indicators of impairment have been identified the carrying value of the Company's investments in its subsidiaries has been tested for impairment at the period end. A reversal of impairment of £242.0m (2019: £nil) was made to adjust certain investments to their recoverable amount. The impairment provisions were reassessed during the year, resulting reversal of previously recognised impairments.

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

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

	Country of incorporation and principal place of operation	Class of shares held (wholly-owned unless otherwise indicated)
<b>Life insurance companies</b>		
Phoenix Life Assurance Limited	UK	'A' ordinary shares of £0.05 'B' ordinary shares of £1
<b>Non-insurance companies</b>		
London Life Limited	UK	Ordinary shares of £1
Pearl Assurance Group Holdings Limited	UK	Ordinary shares of £1
Pearl Group Services Limited	UK	Ordinary shares of £1
PGS2 Limited	UK	Ordinary shares of £1
Pearl (Covent Garden) Limited	UK	Ordinary shares of £1
Pearl (Martineau Phase 1) Limited	UK	Ordinary shares of £1
Pearl (Martineau Phase 2) Limited	UK	Ordinary shares of £1
Pearl MG Birmingham Limited	UK	Ordinary shares of £1
Pearl MP Birmingham Limited	UK	Ordinary shares of £1
Pearl (Moor House) Limited	UK	Ordinary shares of £1

The Company also owns the following principal subsidiaries through the subsidiary companies listed above:

	Country of incorporation and principal place of operation	Class of shares held (wholly-owned unless otherwise indicated)
<b>Life insurance companies</b>		
National Provident Life Limited	UK	Ordinary shares of £1

All holdings represent 100% of the normal issued share capital, unless stated otherwise.

The registered address of all the subsidiary companies is 1 Wythall Green Way, Wythall, Birmingham, B47 6WG.

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**17. Loans and receivables**

	Carrying value		Fair value	
	2020	2019	2020	2019
	£m	£m	£m	£m
Amounts due by Group entities				
Loan to Phoenix Life Holdings Limited	<u>434.7</u>	<u>434.7</u>	<u>434.7</u>	<u>434.7</u>
Amounts due for settlement within 12 months	-	434.7		
Amounts due for settlement after 12 months	<u>434.7</u>	<u>-</u>		

On 28 May 2015 the Company granted a loan of £693.5m to Phoenix Life Holdings Limited ('PhLHL'). The loan accrues interest six month LIBOR plus a margin of 2.9%. During the year, the maturity date of the loan was extended from 28 May 2020 to 31 December 2022. The margin on the loan was amended to 0.76%.

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

Unless specifically noted above no loans are considered to be past due or impaired.

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

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

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

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

**18. Financial assets through profit or loss**

	2020	2019
	£m	£m
Financial assets at fair value through profit or loss		
Designated upon initial recognition		
Shares in open ended investment companies	<u>125.8</u>	<u>42.0</u>
Amount recoverable after 12 months	<u>-</u>	<u>-</u>

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

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

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

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



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**19. Cash flows from operating activities**

	2020 £m	2019 £m
Profit/(Loss) for the year before tax	339.4	(18.7)
Adjustments to reconcile profit/(loss) for the year to net cash inflow from operating activities:		
Dividends received	(125.0)	(5.0)
Net expected return on pension scheme assets	(5.9)	(7.8)
Movements in impairments of investments in subsidiaries	(242.0)	-
Interest expense on borrowings	24.9	29.3
Contributions to defined benefit pension scheme	(70.0)	(40.0)
Changes in operating assets and liabilities	43.8	69.4
Cash (absorbed)/generated by operations	<u>(34.8)</u>	<u>27.2</u>

**20. Capital and risk management**

The Company's capital comprises share capital and all reserves. At 31 December 2020 total capital was £1,613.8m (2019: £1,314.4m). The increase in the period reflects the total comprehensive income arising in the period of £299.4m (2019: £4.7m).

The Company's capital is monitored by the Directors and managed on an on-going basis via a monthly review process to ensure that it remains positive at all times.

The principal risks and uncertainties facing the Company are:

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

An increase of 1% in interest rates, with all other variables held constant, would result in a decrease in profit after tax in respect of a full financial year and in equity of £5.4m (2019: £5.9m). A decrease 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 £5.4m (2019: £5.9m).

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

		1 year or less or on demand £m	1-5 years £m	Greater than 5 years £m	Total £m
2020	Borrowings	874.5	357.4	-	1,231.9
	Amounts owed to Group entities	125.5	-	-	125.5
	Current tax	1.4	-	-	1.4
2019	Borrowings	1,003.5	216.3	-	1,219.7
	Amounts owed to Group entities	101.3	-	-	101.3
	Current tax	2.0	-	-	2.0

- **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:

## PEARL GROUP HOLDINGS (NO. 2) LIMITED

## 20. Capital and risk management (continued)

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:

2020	Note	External credit rating	Internal credit rating	12m or lifetime ECL?	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Loans and receivables	17	N/A	Performing	12m ECL	434.7	-	434.7
Financial assets	18	AAA	Performing	12m ECL	125.8	-	125.8
2019	Note	External credit rating	Internal credit rating	12m or lifetime ECL?	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Loans and receivables	17	N/A	Performing	12m ECL	434.7	-	434.7
Financial assets	18	Non-rated	Performing	12m ECL	42.0	-	42.0

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

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

Financial assets – The Company's financial assets are held in open-ended investment companies, which values are based on quoted market prices at the period end. The Company considers that its financial assets have a low credit risk based on the credit ratings.

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.

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**PEARL GROUP HOLDINGS (NO. 2) LIMITED**


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**21. 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 2020 the Company received interest on loans to its parent of £15.2m (2019: £16.7m). Interest paid by the Company on loans due to subsidiaries amounted to £20.6m (2019: £23.4m).

***Amounts due to related parties***

	2020 £m	2019 £m
Loans due to parent	352.1	347.3
Loans due to subsidiaries	874.5	860.2
Other amounts due to ultimate parent	115.8	95.8
Other amounts due to fellow subsidiaries	<u>9.7</u>	<u>5.5</u>

***Amounts due by related parties***

	2020 £m	2019 £m
Loans due by parent	<u>434.7</u>	<u>434.7</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 6.

***Parent and ultimate parent entity***

Information on the Company's parent and ultimate parent is given in note 22.

**22. Other information**

The Company is a private company limited by shares. The Company's principal place of business is the United Kingdom. The Company's immediate parent is Phoenix 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, The Phoenix Group, 20 Old Bailey, London, EC4M 7AN.