PHOENIX LIFE HOLDINGS LIMITED

Company Registration Number: 06977344

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

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Strategic report

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

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

Result and dividends
The results of the Company for the year are shown in the statement of comprehensive income on page 8. The profit before tax was £151.8m (2017: £64.7m).

Dividends of £443.0m were paid during the year (2017: £1,161.1m).

Position as at 31 December 2018
The net assets of the Company at 31 December 2018 were £2,768.6m (2017: £3,016.0m). The decrease in the period reflects profit after taxation arising in the year of £195.6m (2017: £83.4m), and dividends paid of £443.0m (2017: £1,161.1m).

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

The principal risks and uncertainties facing the Company are:

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

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

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

On behalf of the Board

J McConville
Director
25 June 2019

Directors' report

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

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

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

Going concern

The Strategic report and the Directors' report summarise the Company's activities, its financial performance and its financial position together with any factors likely to affect its future development. In addition, the Strategic report discusses the principle risks and uncertainties it faces. Note 25 to the financial statements summarises the Company's capital management and risk objectives and policies together with its financial risks.

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

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

Directors and their interests

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

C Bannister		
A Barbour		Resigned 31 January 2018
W M Mayall		Resigned 31 January 2018
J McConville		
J B Pollock		Resigned 31 January 2018
R K Thakrar	Appointed 31 January 2018	

Secretary

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

G Watson		Resigned 27 February 2019
Pearl Group Secretariat Services Limited	Appointed 27 February 2019	

Disclosure of indemnity

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

Disclosure of information to auditors

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

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

Directors' report (continued)

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

On behalf of the Board

J McConville
Director
25 June 2019

Statement of Directors' responsibilities

The Directors are required to prepare financial statements for each accounting period that comply with the relevant provisions of the Companies Act 2006 and International Financial Reporting Standards as adopted by the European Union ('IFRS'), and which present fairly the financial position, financial performance and cash flows of the Company for the accounting period. A fair presentation of the financial statements in accordance with IFRS requires the Directors to:

- select suitable accounting policies and verify they are applied consistently in preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- state that the Company has complied with applicable IFRSs, subject to any material departures disclosed and explained in the financial statements.

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

Independent auditor's report to the members of Phoenix Life Holdings Limited

Opinion

We have audited the financial statements of Phoenix Life Holdings Limited for the year ended 31 December 2018 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of cash flows, the Statement of changes in equity and the related notes 1 to 28 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Ernst & Young LLP

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

26 June 2019

Statement of comprehensive income
for the year ended 31 December 2018

	Notes	2018 £m	2017 £m
Revenue			
Investment income	3	390.3	858.8
Other income	4	0.6	0.3
Total income		390.9	859.1
Expenses			
Impairment of investments in subsidiaries	18	(149.6)	(706.7)
Other operating expenses	5	(1.2)	(15.3)
Total operating expenses		(150.8)	(722.0)
Profit before finance costs and tax		240.1	137.1
Finance costs	9	(88.3)	(72.4)
Profit for the year before tax		151.8	64.7
Tax credit	10	43.8	18.7
Total comprehensive income for the year attributable to owners		195.6	83.4

Statement of financial position
as at 31 December 2018

	Notes	2018 £m	2017 £m
Equity attributable to owners			
Share capital	12	806.0	806.0
Capital contribution	13	876.8	1,277.8
Retained earnings		1,085.8	932.2
Total equity		2,768.6	3,016.0
Non-current liabilities			
Long-term borrowings	14	1,697.5	1,683.5
Total non-current liabilities		1,697.5	1,683.5
Current liabilities			
Derivative liabilities	15	3.2	31.6
Amounts due to group entities		44.8	50.4
Obligation for repayment of collateral received		7.8	-
Provisions	16	-	4.1
Accruals	17	37.6	30.9
Total current liabilities		93.4	117.0
Total liabilities		1,790.9	1,800.5
Total equity and liabilities		4,559.5	4,816.5
Non-current assets			
Investments in subsidiaries	18	3,875.9	4,025.5
Loans and receivables	19	373.8	388.4
Total non-current assets		4,249.7	4,413.9
Current assets			
Amounts due from group entities		44.9	18.7
Accrued income	20	17.3	9.7
Financial assets at fair value through profit or loss	21	147.9	175.6
Derivative assets	15	3.6	-
Other receivables	22	21.1	48.6
Cash and cash equivalents	23	75.0	150.0
Total current assets		309.8	402.6
Total assets		4,559.5	4,816.5

On behalf of the Board

James McConville

J McConville
Director
25 June 2019

Statement of cash flows
for the year ended 31 December 2018

	Notes	2018 £m	2017 £m
Cash flows from operating activities			
Cash generated by operations	24	52.1	221.7
Net cash flows from operating activities		52.1	221.7
Cash flows from investing activities			
Capital contribution to group entity	18	-	(155.0)
Realisation of financial assets		27.7	72.0
Dividends received from subsidiaries	3	530.0	508.0
Settlement of derivative liabilities		(171.5)	(14.9)
Loans repaid by group entities		250.0	-
Loans advanced to group entities		(625.1)	(1,145.1)
Net cash flows from investing activities		11.1	(735.0)
Cash flows from financing activities			
Interest paid on borrowings		(86.8)	(50.9)
Loans received from group entities	14	-	1,009.0
Debt issue costs paid	14	-	(8.4)
Loans repaid to group entities	14	(9.4)	(150.0)
Dividends paid	11	(42.0)	(140.0)
Fees received		-	3.6
Net cash flows from financing activities		(138.2)	663.3
Net (decrease)/increase in cash and cash equivalents		(75.0)	150.0
Cash and cash equivalents at the beginning of the year		150.0	-
Cash and cash equivalents at the end of the year		75.0	150.0

Supplementary disclosures on cash flow from operating activities

		2018 £m	2017 £m
Interest received		7.5	10.5

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

	Share capital (note 12) £m	Capital contribution reserve (note 13) £m	Retained earnings £m	Total £m
At 1 January 2018	806.0	1,277.8	932.2	3,016.0
Total comprehensive income for the year	-	-	195.6	195.6
Dividend paid (see note 11)	-	(401.0)	(42.0)	(443.0)
At 31 December 2018	806.0	876.8	1,085.8	2,768.6

	Share capital (note 12) £m	Capital contribution reserve (note 13) £m	Retained earnings £m	Total £m
At 1 January 2017	806.0	2,438.9	848.8	4,093.7
Total comprehensive income for the year	-	-	83.4	83.4
Dividend paid (see note 11)	-	(1,161.1)	-	(1,161.1)
At 31 December 2017	806.0	1,277.8	932.2	3,016.0

Included in Retained earnings are reserves of £399.8m (2017: £399.8m) which are considered to be non-distributable.

Notes to the financial statements

1. Accounting policies

(a) Basis of preparation

The financial statements have been prepared on a historical cost basis except 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.

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 Financial Reporting Standards as adopted by the European Union ('IFRS').

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

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

(b) Changes to accounting policies

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

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

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

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

(c) Critical accounting estimates and judgements

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

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

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

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

Impairment of financial assets

Effective from 1 January 2018
The impairment provisions for financial assets disclosed in accounting policy (i) are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history and existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see accounting policy (i).

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

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

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

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

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

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

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

1. Accounting policies (continued)

(g) Loans and receivables

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

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

(h) Derivatives

Derivative financial instruments are classified as held for trading. They are recognised initially at fair value and subsequently are re-measured to fair value. Exchange-traded derivatives are valued at the published bid price, or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. The gain or loss on re-measurement to fair value is recognised in the statement of comprehensive income.

Fair value estimation

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

(i) Financial assets

Classification of Financial assets

<u>Policy applicable before 1 January 2018</u>

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

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

<u>Policy applicable from 1 January 2018</u>

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 19 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.

1. Accounting policies (continued)

(i) Financial assets (continued)

Impairment of financial assets carried at amortised cost

Policy applicable before 1 January 2018
The Company assesses at each period end whether a financial asset or group of financial assets held at amortised cost is impaired. The Company first assesses whether objective evidence of impairment exists for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

Policy applicable from 1 January 2018
The Company assesses the expected credit losses associated with its loans and receivables and other receivables carried at amortised cost. The impairment methodology depends upon whether there has been a significant increase in credit risk.

The Company measures loss allowances which have low credit risk using the 12-month Expected Credit Loss ('ECL'). Interest revenue is recognised on a gross basis. A simplified approach is used to determine the loss allowances for other receivables as these are always measured at an amount equal to lifetime ECLs. See Note 25 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.

(j) Cash and cash equivalents
Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity term of three months or less at the date of placement. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are deducted from cash and cash equivalents for the purpose of the statement of cash flows.

(k) Share capital and capital contributions

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

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

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

(m) Income recognition

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

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

1. Accounting policies (continued)

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

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

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

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

(p) Segmental reporting
The Company has one reportable segment. It is exempt from providing an analysis of operating segments as required by IFRS 8 *Operating Segments.*

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

2. Financial information

The financial statements for the year ended 31 December 2018, set out on pages 8 to 29, were authorised by the Board of Directors for issue on 25 June 2019.

In preparing the financial statements the Company has adopted the following standards, interpretations and amendments which have been issued by the International Accounting Standards Board ('IASB') and have been adopted for use by the EU. Apart from IFRS 9, none of the following have a material effect on the results of the Company.

- IFRS 15 Revenue from Contracts with Customers. IFRS 15 establishes a single comprehensive framework for determining whether, how and when revenue is recognised. The standard does not apply to insurance contracts or financial instruments within the scope of IAS 39 Financial Instruments: Recognition and Measurement.

- IFRS 9 Financial Instruments (2018). Under IFRS 9, all financial assets will be measured either at amortised cost or fair value and the basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. In relation to the impairment of financial assets, IFRS 9 requires the use of an expected credit loss model, as opposed to the incurred credit loss model required under IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. Details of impacts of applying the new standard can be *found in accounting policy 1(b). Additional disclosures are required by the standard and have been* included in accounting policy 1(c) & (i) and note 25 to the financial statements.

- Annual Improvements Cycle 2014-2016: Amendments to IFRS 1 First-time adoption of IFRSs and Amendments to IAS 28 Investments in Associates and Joint Ventures. These are not applicable to the Company.

2. Financial information (continued)

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

- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation (2019). The proposed amendments would allow for a narrow exception to IFRS 9 that would permit particular financial instruments with prepayment features with negative compensation to be eligible for measurement at amortised cost or at fair value through other comprehensive income.

- IFRIC 23 Uncertainty over Income Tax Treatments (2019). This interpretation clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.

- Amendments to References to the Conceptual Framework in IFRS Standards (2020).

- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (2020). The amendments clarify the definition of material and how it should be applied and ensures that the definition of material is consistent across all IFRS Standards.

- Amendments to IFRS 3 Business Combinations (2020). The amendments have revised the definition of a business and aim to assist companies to determine whether an acquisition made is of a business or a group of assets. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others.

Changes excluded from above list as potentially not applicable:

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

3. Investment income

	2018 £m	2017 £m
Investment income		
Interest income on cash and cash equivalents	1.1	0.5
Interest income on loans and receivables	17.0	16.8
Dividends received	530.0	867.6
Net interest on cross currency interest rate swaps	3.5	2.1
	551.6	887.0
Fair value gains/(losses)		
Losses on matured derivatives	(171.5)	(11.6)
Unrealised gain/(loss) on derivatives	32.0	(31.6)
Unrealised foreign exchange (loss)/gain	(21.8)	15.0
Investment income	390.3	858.8

Interest income on loans and receivables includes interest of £17.0m (2017: £16.8m) on loans to Group entities. Net interest on cross currency interest rate swaps ('CCIRS') includes net interest of £1.7m (2017: £nil) on a CCIRS with its ultimate parent.

Dividend income includes cash dividends received from subsidiaries of £530.0m (2017: £508.0m), and in specie dividends of £nil (2017: £359.6m) were also received.

4. Other income

	2018 £m	2017 £m
Release of deferred income (see note 17)	0.6	0.3

5. Other operating expenses

	2018 £m	2017 £m
Recharged service costs	5.3	11.2
(Decrease)/increase in integration provision (see note 16)	(0.2)	12.2
Utilisation of integration provision (see note 16)	(3.9)	(8.1)
	1.2	15.3

Recharged service costs include £5.3m (2017: £11.2m) for management services and project costs charged by Pearl Group Management Services Limited and Pearl Group Services Limited.

6. Employee information

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

7. Directors' remuneration

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

	2018 £000	2017 £000
Salaries and other short-term benefits	149	199
Remuneration (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	149	199
Share-based payments	108	96
Contributions to money purchase pension schemes	-	-
Highest paid Directors' remuneration:		
Remuneration (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	87	87
Contributions to money purchase pension schemes	-	-
Number of Directors who are members of a money purchase pension scheme	-	-
Number of Directors who exercised share options during the year	3	2

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

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

8. Auditor's remuneration

The remuneration of the auditor of the Company, including their associates in respect of the audit of the financial statements was £0.1m (2017: £0.1m).

9. Finance costs

	2018 £m	2017 £m
Interest expense on borrowings at amortised cost	83.3	69.8
Debt utilisation and commitment fees	3.6	1.3
Amortisation of debt issue costs (see note 14)	1.4	1.3
	88.3	72.4

Interest expense on borrowings relates to interest of £83.3m (2017: £69.8) on loans with Group entities.

10. Tax credit

Current year tax credit

	2018 £m	2017 £m
Current tax:		
UK Corporation tax	(43.5)	(19.0)
Adjustments in respect of prior years	(0.3)	0.3
Total current tax for the year	(43.8)	(18.7)

Reconciliation of tax credit

	2018 £m	2017 £m
Profit before tax	151.8	64.7
Tax at standard UK rate of 19.00% (2017: 19.25%)	28.8	12.4
Non-taxable income and gains	(100.7)	(167.6)
Disallowable expenses	-	0.2
Adjustment to shareholder tax in respect of prior years	(0.3)	0.3
Non-taxable impairment of investments in subsidiaries	28.4	136.0
Total tax credit for the year	(43.8)	(18.7)

11. Dividends

	2018 £m	2017 £m
Dividends declared	443.0	1,161.1

On 20 December 2018, the Board declared an interim cash dividend of £42.0m (2017:£140.0m). In addition, an in specie interim dividend of £401.0m (2017: £1,021.1m) was also declared, representing the amounts due by PGH (LCA) Limited and PGH (LCB) Limited to the Company.

12. Share capital

	2018 £m	2017 £m
Issued and fully paid: 806,000,022 (2017: 806,000,022) ordinary shares of £1 each	806.0	806.0

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

13. Capital contribution

	2018 £m	2017 £m
At 1 January	1,277.8	2,438.9
Distributions	(401.0)	(1,161.1)
At 31 December	876.8	1,277.8

The Company distributed £401.0m (2017: £1,161.1m) to PGH (LCA) Limited and PGH (LCB) Limited.

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

14. Borrowings

	Carrying value		Fair value	
	2018 £m	2017 £m	2018 £m	2017 £m
Loans from Group companies at amortised cost:				
a) £428.1m subordinated loan	425.9	425.6	441.9	514.9
b) £450.0m subordinated loan	446.9	455.3	447.4	483.0
c) £435.0m loan facility	434.7	434.7	434.7	434.7
d) $500.0m subordinated loan	390.0	367.9	341.6	389.1
Total borrowings	1,697.5	1,683.5	1,665.6	1,821.7
Amounts due for settlement within 12 months	-	-		
Amounts due for settlement after 12 months	1,697.5	1,683.5		

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

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

Debt issue costs incurred were offset against the value of the loan and these are being amortised over the life of the loan. During the year £0.3m debt issue costs were amortised (2017: £0.3m), and interest of £28.6m was incurred (2017: £28.6m).

14. Borrowings (continued)

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

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

On 5 May 2017, the Company agreed with PGH to defer the settlement of the interest payable under the terms of the loan on 20 July 2017 of £9.2m to 31 July 2018.

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

Debt issue costs of £4.7m were offset against the value of the loan and these are amortised over the life of the loan. During the year, £0.9m (2017: £0.8m) of debt issue costs were amortised and interest of £18.9m (2017: £16.1m) was incurred.

The interest deferred in 2017 of £9.2m was repaid by the Company during the year, along with the interest capitalised on the deferred element of £0.2m.

c) On 28 May 2015 the Company was advanced a loan from Pearl Group Holdings (No. 2) Limited. The loan accrues interest six month LIBOR plus a margin of 2.9% and has a maturity date of 28 May 2020.

During the year, the Company was advanced £nil (2017: £24.0m) under the terms of the loan. Interest of £15.7m was incurred under this loan during the year (2017: £14.8m).

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

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

Debt issue costs of £2.3m were offset against the value of the loan and these are amortised over the life of the loan. During the year, £0.2m of debt issue costs were amortised (2017: £0.1m), and interest of £20.1m (2017: £10.1m) was incurred.

Reconciliation of borrowings

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

		Cash flow items		Non cash flow items				
2018	1 Jan 2018	New loans, net of issue costs	Loans repaid	Foreign exchange loss	Interest capital-ised	Issue costs amort-ised	Distrib-ution	31 Dec 2018
	£m	£m	£m	£m	£m	£m	£m	£m
£428.1m subordinated loan	425.6	-	-	-	-	0.3	-	425.9
£450.0m subordinated loan	455.3	-	(9.4)	-	0.2	0.9	-	447.0
£435.0m loan facility	434.7	-	-	-	-	-	-	434.7
$500m subordinated loan	367.9	-	-	21.8	-	0.2	-	389.9
Total borrowings	1,683.5	-	(9.4)	21.8	0.2	1.4	-	1,697.5

14. Borrowings (continued)

		Cash flow items		Non cash flow items				
2017	1 Jan 2017	New loans, net of issue costs	Loans repaid	Foreign exchange gain	Interest deferral	Issue costs amort-ised	Distrib-ution	31 Dec 2017
	£m	£m	£m	£m	£m	£m	£m	£m
£250.0m loan facility	150.0	-	(150.0)	-	-	-	-	-
£428.1m subordinated loan	425.3	-	-	-	-	0.3	-	425.6
£450.0m subordinated loan	-	445.3	-	-	9.2	0.8	-	455.3
£435.0m loan facility	410.7	24.0	-	-	-	-	-	434.7
$500m subordinated loan	-	382.7	-	(15.0)	-	0.2	-	367.9
£150.0m loan facility	-	150.0	-	-	-	-	(150.0)	-
Total borrowings	986.0	1,002.0	(150.0)	(15.0)	9.2	1.3	(150.0)	1,683.5

Nature of borrowings

	2018	2017
	£m	£m
Fixed rate borrowings	1,262.8	1,248.8
Floating rate borrowings	434.7	434.7
	1,697.5	1,683.5

Determination of fair value and fair value hierarchy of borrowings

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

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

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

15. Derivatives

The fair values of derivative financial instruments are as follows:

	Assets 2018 £m	Liabilities 2018 £m	Assets 2017 £m	Liabilities 2017 £m
OTC derivatives				
Foreign currency swaps	-	2.6	-	-
Cross currency interest rate swaps	3.0	0.6	-	31.6
Group derivatives				
Cross currency interest rate swaps	0.6	-	-	-
	3.6	3.2	-	31.6

Determination of fair value and fair value hierarchy of derivatives

The OTC and group derivatives are both categorised as Level 2 financial instruments. Derivatives traded in active markets with less depth or wider bid-ask spreads which do not meet the classification as Level 1 inputs are classified as Level 2. The fair values of over the counter and group derivatives are estimated using pricing models. Where pricing models are used, inputs are based on market related data at the year end.

There were no level 1 or level 3 derivative liabilities in 2018 or 2017.

16. Provisions

	2018 £m	2017 £m
Restructuring provision		
At 1 January	4.1	-
(Decrease)/increase in provision	(0.2)	12.2
Utilised during the year	(3.9)	(8.1)
At 31 December	-	4.1
Amount due for settlement within 12 months	-	4.1
Amount due for settlement after 12 months	-	-

Following the acquisition of Abbey Life Assurance Company Limited ('ALACL') in 2016, the Phoenix Group committed to the restructuring of the business to the alignment of their operating model with that of the other Group companies. These activities included the separation and integration activities associated with the exiting of interim services agreements entered into with ALACL. A provision adjustment of £0.2m was recognised in 2018 (2017: £12.2m), and £3.9m was utilised in the year (2017: £8.1m).

17. Accruals and deferred income

	2018 £m	2017 £m
Accrued interest on borrowings	19.8	19.5
Interest payable on cross currency interest rate swaps	15.1	8.1
Deferred income	2.7	3.3
	37.6	30.9

18. Investment in subsidiaries

	2018 £m	2017 £m
Cost		
At 1 January	4,862.6	4,707.6
Capital contributions made to subsidiary	-	155.0
At 31 December	4,862.6	4,862.6
Impairment		
At 1 January	(837.1)	(130.4)
Impairment charge	(149.6)	(706.7)
At 31 December	(986.7)	(837.1)
At 31 December	3,875.9	4,025.5

On 29 December 2017, the Company made a cash capital contribution of £155.0m to Impala Holdings Limited ('IHL').

18. Investment in subsidiaries (continued)

The subsidiaries of the Company at 31 December 2018 were as follows:

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

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

Where indicators of impairment have been identified the carrying value of the Company's investments in its subsidiaries has been tested for impairment at the period end. Following an assessment of the Company's investments in its subsidiaries, a provision for impairment of £149.6m was made (2017: £706.7m).

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.

19. Loans and receivables

	Carrying value		Fair value	
	2018 £m	2017 £m	2018 £m	2017 £m
Loans to Group companies at amortised cost:				
a) £250.0m loan facility	-	250.0	-	250.0
b) £205.0m loan facility	140.2	138.4	139.4	138.2
c) £2,000.0m loan facility	-	-	-	-
d) £198.8m loan facility	201.2	-	197.0	-
e) £32.0m loan facility	32.4	-	31.7	-
Total loans and receivables	373.8	388.4	368.1	388.2
Amounts due for settlement within 12 months	-	-		
Amounts due for settlement after 12 months	373.8	388.4		

a) The Company provided a £250.0m subordinated loan to Phoenix Life Assurance Limited ('PLAL'). Interest on the loan was at LIBOR plus a margin of 3.5%. The loan was repayable on 2 September 2019.

   On 17 April 2018, PLAL repaid the full amount due under the facility to the Company, together with the accrued interest.

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

   During 2018, the Company advanced £nil (2017: £138.4m) under the terms of this facility. Interest of £1.8m was capitalised during the year (£0.2m).

c) The company made a £2,000.0m loan facility available to PGH (LCA) Limited and PGH (LCB) Limited (together the 'Borrowers'). Under the terms of this facility, the Borrowers may draw down up to £2,000.0m at an interest rate of LIBOR plus a margin of 4.3%. The loan facility had a maturity date of 31 December 2018.

   During 2018, the Company advanced £394.3m under the terms of this facility to the Borrowers (2017: £1,006.7m). During the course of the year, the Company declared as dividends in specie to the Borrowers, the amounts due by the Borrowers to the Company under this facility, including interest accrued (see note 11).

19. *Loans and receivables (continued)*

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

During 2018, interest of £2.4m was capitalised (2017: £nil).

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

During 2018, interest of £0.4m was capitalised (2017: £nil).

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 2018 or 2017.

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

20. Accrued income

	2018 £m	2017 £m
Interest receivable on cross currency interest rate swaps	17.3	9.7

21. Financial assets at fair value through profit or loss

	2018 £m	2017 £m
Financial assets at fair value through profit or loss		
Designated upon initial recognition		
Open ended investment companies	147.9	175.6

Determination of fair value and fair value hierarchy of financial assets

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

There were no level 2 or level 3 financial assets in 2018 or 2017.

22. Other receivables

	2018 £m	2017 £m
Collateral lodged against derivative liabilities	7.0	26.4
Reimbursement assets	14.1	22.2
Total other receivables	21.1	48.6

22. Other receivables (continued)

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

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

Under the terms of the acquisition of ALACL, Deutsche Bank ('DB') has provided the Company with an indemnity, with a duration of up to eight years, in respect of exposures that may arise in ALACL as a result of the FCA's final thematic review findings. The maximum amount that can be claimed under the indemnity is £175.0m and it applies to all regulatory fines and to 80% to 90% of the costs of customer remediation. A reimbursement asset of £23.0m was recognised under this indemnity, of which £8.1m has been recovered from DB (2017: £0.8m). The benefit of the indemnity is held by the Company on behalf of a fellow subsidiary.

23. Cash and cash equivalents

	2018 £m	2017 £m
Bank and cash balances	75.0	150.0

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

24. Cash flows from operating activities

	2018 £m	2017 £m
Profit for the year before tax	151.8	64.7
Adjustments to reconcile profit for the year to net cash inflow from operating activities in respect of:		
Interest expense on borrowings	88.3	72.4
Dividends received	(530.0)	(867.6)
Deferred income	(0.6)	(0.3)
Interest income on loans and receivables	(13.5)	-
Fair value losses on derivatives	139.5	43.2
Foreign exchange losses/(gains)	21.8	(15.0)
Impairments of investments in subsidiaries	149.6	706.7
(Decrease)/increase in provision	(0.2)	4.1
Change in operating assets and liabilities	45.4	213.5
Cash generated by operations	52.1	221.7

25. Capital and risk management

The Company's capital comprises share capital and all reserves. The total capital of the Company at 31 December 2018 was £2,768.6m (2017: £3,016.0m). The movement in the period reflects profit after taxation arising in the year of £195.6m (2017: £83.4m), and dividends paid of £443.0m (2017: £1,161.1m),

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

25. Capital and risk management (continued)

The principal risks and uncertainties facing the Company are:

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

  An increase of 1% in interest rates, with all other variables held constant, would result in an increase in profit after tax in respect of a full financial year and in equity of £29.7m (2017: £38.1m). A decrease of 1% in interest rates, with all other variables held constant, would result in a decrease in profit after tax in respect of a full financial year and in equity of £28.1m (2017: £35.9m).

- 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
2018	Borrowings	68.4	1,156.0	952.8	2,177.2
	Amounts owed to Group entities	44.8	-	-	44.8
	Obligation for repayment of collateral received	7.8	-	-	7.8
	Derivatives	2.6	-	0.6	3.2
2017	Borrowings	67.2	1,190.9	975.1	2,233.2
	Amounts owed to Group entities	50.4	-	-	50.4
	Derivatives	-	-	31.6	31.6
	Provisions	4.1	-	-	4.1

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

  Credit risk management practices

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

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

25. Capital and risk management (continued)

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

2018	Note	External credit rating	Internal credit rating	12m or lifetime ECL?	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Loans and receivables	19	N/A	Performing	12m ECL	373.8	-	373.8
Financial assets	21	AAA	Performing	12m ECL	147.9	-	147.9
Derivatives	15	A	Performing	12m ECL	3.0	-	3.0
Derivatives	15	A-	Performing	12m ECL	0.6	-	0.6
Amounts owed by Group entities	-	N/A	Performing	12m ECL	44.9	-	44.9
Other receivables	22	N/A	Performing	12m ECL	21.1	-	21.1
Cash and cash equivalents	23	A	Performing	12m ECL	50.0	-	50.0
Cash and cash equivalents	23	A	Performing	12m ECL	25.0	-	25.0

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 have investment grade ratings. The Company considers that its financial assets have a low credit risk based on the credit ratings, and there being no history of default.

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

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

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

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

26. 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 2018, the Company received interest income from its fellow subsidiaries of £3.0m (2017: £10.0m) and paid interest to its ultimate parent undertaking of £28.6m (2017: £36.0m), its parent undertakings of £nil (2017: £0.2m), its fellow subsidiaries of £38.9m (2017: £nil) and its subsidiaries of £15.7m (2017: £14.7m).

26. Related party transactions (continued)

In 2018, the Company paid debt utilisation and commitment fees of £3.6m to its parent undertakings (2017: £1.3m).

Amounts due to related parties

	2018 £m	2017 £m
Loans due to ultimate parent	1,262.8	1,248.8
Loans due to subsidiary	434.7	434.7
Loans due to fellow subsidiaries	-	-
Amounts due to parents	-	1.4
Amounts due to subsidiaries	21.7	24.7
Amounts due to fellow subsidiaries	23.1	24.3

Amounts due from related parties

	2018 £m	2017 £m
Loans due from subsidiaries	341.4	138.4
Loans due from fellow subsidiaries	32.4	250.0
Amounts due from ultimate parent	0.8	-
Amounts due from fellow subsidiaries	44.1	18.7

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

Parent and ultimate parent entity
Information on the Company's parent and ultimate parent is given in note 28.

27. Contingent liability

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

During the year, the Company provided £nil (2017: £98.4m) to PGH2 under the above support arrangement, leaving the support available to PGH2L at a maximum value of £66.6m.

28. Other information

The Company's principal place of business is the United Kingdom.

The Company's immediate parent companies are PGH (LCA) Limited and PGH (LCB) Limited who jointly control the Company. The Company's 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, Juxon House, 100 St Paul's Churchyard, London, EC4M 8BU.