Pearl Group Holdings (No. 1) Limited

Company Registration Number: 3524909

STRATEGIC REPORT, DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2015

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Financial statements of the Company

Strategic report

The Directors present the Strategic report of Pearl Group Holdings (No. 1) Limited ('the Company') and its subsidiary (together referred to as 'the Group'), for the year ended 31 December 2015.

Principal activity
The principal activity of the Group is that of an investment group. This is expected to continue to be the principal activity for the foreseeable future.

Corporate activity

Result and dividends
The results of the Group for the year are shown in the consolidated income statement on page 8. The profit before tax was £118.9m (2014: £212.9m) and the total consolidated comprehensive income for the year was £102.3m (2014: £292.2m).

The coupon on the Perpetual Reset Capital Securities of £21.0m (2014: £25.9m) was paid during the year. Dividends of £107.9m were paid during the year (2014: £152.3m).

Financial position as at 31 December 2015
The total equity of the Group at 31 December 2015 was £3,053.6m (2014: £3,582.3m). The decrease in the year reflects total consolidated comprehensive income arising in the year of £102.3m (2014: £292.2m), coupon payments (net of tax relief), on the Perpetual Reset Capital Securities (the 'Notes') of £16.7m (2014: £20.4m), dividends paid to Impala Holdings Limited of £107.9m (2014: £152.3m), together with (i) the purchase and cancellation of £418.7m and (ii) novation of £75m in aggregate principal amount (2014: £nil) of the Notes, and the loss on such purchase of £12.7m (2014: £nil).

Principal risks and uncertainties
The principal risks and uncertainties facing the Group are:

- interest rate risk, since the movement in interest rates will impact the value of interest payable and receivable by the Group;
- 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 is significantly reduced as assets are primarily cash and short term deposits, which are placed with high credit rated banks, and inter-company receivables from other Phoenix Group entities; and
- longevity risk in the PGL Pension Scheme ('the Scheme'), arising from increased life expectancy of the members of the Scheme.

The Group'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 Group'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.

Employees
The Group is ultimately wholly owned and controlled by Phoenix Group Holdings ('Phoenix Group'). During the year, the Phoenix Group maintained a policy of informing and involving employees on matters which concern them and in the achievement of its business goals. The Phoenix Group has a comprehensive system for consultation and communication involving regular meetings between management and employees, team briefings, opinion surveys and the issue of various bulletins.

Employee development within the Phoenix Group is promoted by encouraging staff to gain appropriate professional qualifications and assisting with wider personal development. The Phoenix Group has been a member of Business in the Community since 2010 and employees engage in various Corporate Responsibility activities, from initiatives to reduce or counteract the impact the Group is making on the environment to supporting local communities through volunteering and charity fundraising.

The Phoenix Group is committed to providing equal opportunities to all employees irrespective of their sex, age, sexual orientation, marital status, religion, race or disability. It is the Phoenix Group's policy to give positive consideration to disabled persons with respect to applications for employment, training, career development and promotion, having regards to each individual's particular aptitudes and abilities.

Strategic report (continued)

Share schemes are offered to employees based on Phoenix Group shares. Details of these schemes are disclosed within the Annual Report and Accounts of Phoenix Group Holdings.

J McConville
Director

15 June 2016

Directors' report

The Directors present their report and the financial statements of the Company and the Group for the year ended 31 December 2015.

The Company is incorporated in the United Kingdom as a private limited company. Its registration number is 3524909 and its Registered Office is Juxon House, 100 St. Paul's Churchyard, London, EC4M 8BU.

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

Going concern
The Board has followed the UK Financial Reporting Council's 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' when performing its going concern assessment. As part of its comprehensive assessment of whether the Group and the Company are going concerns, the Board has undertaken a review of the valuation and liquidity of the investments as at the date of preparation of the statement of consolidated financial position and has also reviewed cash flow projections.

Having thoroughly considered the going concern assessment, the Board has concluded that there are no material uncertainties that may cast significant doubt about the Group's and the Company's abilities to continue as going concerns. The Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Corporate governance statement
As a result of the Group having had in issue 6.5864% Perpetual Reset Capital Securities ('the Notes') which were admitted to the Official List of the UK Listing Authority and are traded on the London Stock Exchange, there is a requirement to report on the corporate governance of the Group. Details of the Notes are found under Note 15 to the consolidated financial statements.

The Group is ultimately wholly owned and controlled by Phoenix Group Holdings ('Phoenix Group'), which has a Premium Listing on the London Stock Exchange and is a member of the FTSE 250 Index. As part of the Phoenix Group, the Board is committed to high standards of Corporate Governance and supports the UK Corporate Governance Code as practised by the Phoenix Group. The Phoenix Group's Corporate Governance manual is available on the Phoenix Group's website at http://www.thephoenixgroup.com.

The Phoenix Board has overall responsibility for the Phoenix Group's systems of internal controls and risk management and for reviewing their effectiveness. This review is carried out annually as part of the Phoenix Group review. The Phoenix Group's systems of internal controls are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Phoenix Group Board monitors internal controls on a continual basis and there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Phoenix Group.

The Phoenix Group's planning and financial reporting procedures include detailed operational budgets for the year ahead and a five year rolling plan. Performance is monitored and relevant action taken throughout the year through the monthly reporting of key performance indicators (primarily cash flows), updated forecasts for the year together with information on the key risk areas.

Employees
Information on employees is shown in the Strategic report on page 2.

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:

F Clutterbuck
J McConville
R Thakrar

Secretary
Pearl Group Secretariat Services Limited acted as Secretary throughout the year.

Disclosure of indemnity
Qualifying third party and pension scheme indemnity arrangements (as defined in section 234 and 235 of the Companies Act 2006) were in force for the benefit of the Directors of the Group 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 Group'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 Group's auditors are aware of that information.

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

Re-appointment of auditors
In accordance with section 487 of the Companies Act 2006, the Group'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

15 June 2016

Statement of Directors' responsibilities

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

- select suitable accounting policies and verify they are applied consistently in preparing the consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Group and 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 Group and Company's financial position and financial performance; and
- state that the Group and Company have complied with applicable IFRS, subject to any material departures disclosed and explained in the consolidated 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 Group and Company. They are also ultimately responsible for the systems of internal control maintained for safeguarding the assets of the Group and Company and for the prevention and detection of fraud and other irregularities.

Independent Auditor's report to the members of Pearl Group Holdings (No.1) Limited

We have audited the financial statements of Pearl Group Holdings (No.1) Limited for the year ended 31 December 2015 which comprise the Group and parent company income statements, the Group and parent company statements of comprehensive income, the Group and parent company statements of financial position, the Group and parent company statements of cash flow, the Group and parent company statements of changes in equity and the related notes 1 to 32 and notes A-E. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

Respective responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' responsibilities set out on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic report and the Directors' report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2015 and of the group's and the parent company's profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

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

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

Ernst & Young LLP

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

16 June 2016

Consolidated income statement
for the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Revenue			
Net investment income	4	122.1	137.9
Other operating income	5	-	78.1
Total income		122.1	216.0
Administrative expenses	6	(3.0)	(3.1)
Profit before finance costs and tax		119.1	212.9
Finance costs	10	(0.2)	-
Profit for the year before tax		118.9	212.9
Tax charge	11	(20.2)	(43.3)
Profit for the year attributable to owners		98.7	169.6

Statement of consolidated comprehensive income
for the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Profit for the year		98.7	169.6
Other comprehensive income:			
Items that will not be reclassified to profit and loss:			
Remeasurements of net defined benefit asset	19	3.5	123.0
Deferred tax credit/(charge)	11	0.1	(0.4)
		3.6	122.6
Total comprehensive income for the year attributable to owners		102.3	292.2

Statement of consolidated financial position
as at 31 December 2015

	Notes	As at 31 December 2015 £m	As at 31 December 2014 £m
Equity attributable to owners			
Share capital	13	34.7	34.7
Share premium	14	1,574.1	1,574.1
Perpetual reset capital securities	15	6.2	496.5
Retained earnings		1,438.6	1,477.0
Total equity		3,053.6	3,582.3
Non-current liabilities			
Deferred tax	16	6.5	5.0
Total non-current liabilities		6.5	5.0
Current liabilities			
Amounts due to Phoenix Group entities	18	17.3	33.7
Total current liabilities		17.3	33.7
Total liabilities		23.8	38.7
Total equity and liabilities		3,077.4	3,621.0
Non-current assets			
Pension scheme asset		400.8	369.6
Pension reimbursement assets		22.4	23.0
Pension scheme	19	423.2	392.6
Loans and receivables	20	-	989.9
Total non-current assets		423.2	1,382.5
Current assets			
Loans and receivables	21	2,596.2	2,143.8
Amounts due from Phoenix Group entities	22	3.1	0.5
Prepayments and accrued income	23	2.3	27.5
Financial assets	24	7.3	50.3
Cash and cash equivalents	25	45.3	16.4
Total current assets		2,654.2	2,238.5
Total assets		3,077.4	3,621.0

On behalf of the Board

J McConville
Director
15 June 2016

Statement of consolidated cash flows
for the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Cash flows from operating activities			
Cash generated by operations	26	47.1	100.0
Net cash flows from operating activities		47.1	100.0
Cash flows from investing activities			
Repayment of loans by parent	20, 21	574.6	141.6
Repayment of loans by other Phoenix Group entities		-	32.0
Sale/(purchase) of financial assets		43.0	(47.4)
Increase in loans to other Phoenix Group entities		(0.3)	(44.6)
Net cash flows from investing activities		617.3	81.6
Cash flows from financing activities			
Interest paid on loans from other Phoenix Group entities	15	(0.2)	-
Dividends paid	12	(107.9)	(152.3)
Coupons paid on perpetual reset securities	15	(21.0)	(25.9)
Repayment of loans from other Phoenix Group entities	15	(75.0)	-
Purchase of perpetual reset capital securities	15	(431.4)	-
Net cash flows from financing activities		(635.5)	(178.2)
Net increase in cash and cash equivalents		28.9	3.4
Cash and cash equivalents at the beginning of the year		16.4	13.0
Cash and cash equivalents at the end of the year	25	45.3	16.4

Supplementary disclosures on cash flows from operating activities

		2015 £m	2014 £m
Interest received		95.6	72.8

Statement of consolidated changes in equity
for the year ended 31 December 2015

	Share capital (note 13) £m	Share premium (note 14) £m	Perpetual reset capital securities (note 15) £m	Retained earnings £m	Total £m
At 1 January 2015	34.7	1,574.1	496.5	1,477.0	3,582.3
Profit for the year	-	-	-	98.7	98.7
Other comprehensive gain	-	-	-	3.6	3.6
Total comprehensive income for the year	-	-	-	102.3	102.3
Purchase of perpetual reset capital securities	-	-	(418.7)	-	(418.7)
Premium on purchase of perpetual reset capital securities	-	-	-	(12.7)	(12.7)
Novation of perpetual reset capital securities	-	-	(75.0)	-	(75.0)
2015 coupon on perpetual reset capital securities	-	-	-	(21.0)	(21.0)
Tax relief on 2015 coupon	-	-	-	4.3	4.3
Dividend paid – see note 12	-	-	-	(107.9)	(107.9)
Write-off of deferred issue costs on perpetual reset capital securities	-	-	3.4	(3.4)	-
At 31 December 2015	34.7	1,574.1	6.2	1,438.6	3,053.6

	Share capital (note 13) £m	Share premium (note 14) £m	Perpetual reset capital securities (note 15) £m	Retained earnings £m	Total £m
At 1 January 2014	34.7	1,574.1	496.5	1,357.5	3,462.8
Profit for the year	-	-	-	169.6	169.6
Other comprehensive loss	-	-	-	122.6	122.6
Total comprehensive loss for the year	-	-	-	292.2	292.2
2014 coupon on perpetual reset capital securities	-	-	-	(25.9)	(25.9)
Tax relief on 2014 coupon	-	-	-	5.5	5.5
Dividend paid – see note 12	-	-	-	(152.3)	(152.3)
At 31 December 2014	34.7	1,574.1	496.5	1,477.0	3,582.3

Included in retained earnings are reserves of £287.7m (2014: £341.4m) which are considered distributable.

Notes to the consolidated financial statements

1. Accounting policies

(a) Basis of preparation

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

Statement of compliance

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

The results of the Company and its subsidiary are consolidated into the accounts of the Company's ultimate parent Phoenix Group Holdings, a company incorporated in the Cayman Islands and resident in Jersey.

The consolidated 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 consolidated 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 consolidated income statement unless required or permitted by an international financial reporting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings. Subsidiary undertakings are consolidated from the date that effective control is obtained by the Group and are excluded from consolidation from the date they cease to be subsidiary undertakings. For subsidiary undertakings disposed of during the year any difference between the net proceeds, plus the fair value of any retained interest, and the carrying amount of the subsidiary undertaking including non-controlling interests, is recognised in the consolidated income statement.

The Group uses the purchase method to account for the acquisition of subsidiary undertakings. The cost of an acquisition is measured at the fair value of the consideration. Any excess of the cost of acquisition over the fair value of the net assets acquired is recognised as goodwill. Any excess of the fair value of the net assets acquired over the cost of acquisition is recognised in the consolidated income statement. Directly attributable acquisition costs are included within administrative expenses.

(b) Critical accounting estimates and judgements

The preparation of consolidated 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 Group's business that typically require such estimates are the determination of the fair value of financial assets and liabilities, impairment of loans to Phoenix Group entities, income taxes and pension benefit assets and liabilities.

Fair value of financial assets and liabilities

The fair values of derivatives and financial assets and liabilities are classified and accounted for as set out in accounting policies (g) and (h). Where possible, derivatives and 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 20, 21 and 24.

Impairment of loans to Phoenix Group entities
Loans to Group entities are subject to regular impairment reviews when management are aware of objective evidence of impairment. 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 loans to Phoenix Group entities is detailed in accounting policy (f).

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, 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 19. The Company's policy in relation to employee benefits is detailed in accounting policy (d).

(c) Income tax
Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised in the statement of consolidated comprehensive income or the statement of consolidated 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 consolidated financial position together with adjustments to tax payable in respect of previous years.

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.

(d) Employee benefits

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

Defined benefit scheme
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.

The Group 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 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 consolidated income statement), the net interest cost on the net defined benefit asset/liability, including any reimbursement assets (recognised within net investment income in the consolidated income statement), remeasurements of the net defined asset/liability (recognised in other comprehensive income) and employer contributions.

(d) Employee benefits (continued)

Defined benefit scheme (continued)
Part of the cost of changes in the longevity assumptions of the pension scheme is recoverable from certain with-profit funds of Phoenix Life Limited to the extent that cash contributions are made to the pension scheme. Recoveries are recognised when the related cash contributions are agreed with the Trustee of the pension scheme and are recognised within other operating income in the consolidated income statement.

(e) Investments in subsidiaries
Investments in shares in subsidiaries are carried in the statement of consolidated 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 recoverable amount of the subsidiary.

(f) Amounts due from Phoenix Group entities
Amounts due from Phoenix Group entities 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. Gains and losses are recognised in the consolidated income statement through the amortisation process.

The Group assesses at each reporting date whether amounts owed by Phoenix Group entities are impaired. The Group 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 amounts owed by Phoenix Group entities with the present value of the estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the investments original effective interest rate.

(g) 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 consolidated income statement.

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.

Collateral
The Group receives and pledges collateral in the form of cash in respect of derivative contracts in order to reduce the credit risk of these transactions. The amount and type of collateral required where the Group receives collateral depends on an assessment of the credit risk of the counterparty.

Collateral received in the form of cash, where the Group has contractual rights to receive the cash flows generated, is recognised as an asset in the statement of consolidated financial position with a corresponding liability for its repayment. Non-cash collateral received is not recognised in the statement of consolidated financial position, unless the counterparty defaults on its obligations under the relevant agreement.

Cash and non-cash collateral pledged where the Group retains the contractual rights to receive the cash flows generated is not derecognised from the statement of consolidated financial position, unless the Group defaults on its obligations under the relevant agreement, and therefore continues to be recognised in the statement of consolidated financial position within the appropriate asset classification.

(h) Financial assets
Purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset.

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.

(i) 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.

(j) Dividends
Final dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group'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
Net investment income comprises interest, dividends, net interest income/(expense) on the net defined asset/(liability) and fair value gains and losses on financial assets and amounts owed by Phoenix Group entities.

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

Fair value gains and losses on financial assets designated at fair value through profit or loss are recognised in the consolidated 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 consolidated income statement as it accrues and is calculated using the effective interest method.

(m) Ordinary share capital
The Group 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 consolidated changes in equity, net of tax.

(n) Perpetual Reset Capital Securities
The Perpetual Reset Capital Securities meet the definition of equity for accounting purposes. Accordingly, they are shown at the proceeds of issue and the coupons on the securities are recognised on the date of payment and are charged directly to the statement of consolidated changes in equity, net of tax relief.

(o) Events after the reporting period
The consolidated 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 consolidated 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 consolidated financial statements are disclosed.

2. Financial information

The consolidated financial statements for the year ended 31 December 2015 set out on pages 8 to 31, and the parent company financial statements for the year ended 31 December 2015 set out on pages 32 to 37, were authorised by the Board of Directors for issue on 15 June 2016.

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

- Annual Improvements 2010 – 2012 cycle; and
- Annual Improvements 2011 – 2013 cycle.

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, interpretations or amendments where this is permitted. The impact on the Group of adopting them is subject to evaluation:

- IFRS 9 Financial Instruments (2018). This standard will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 was originally issued in November 2009 and introduced new requirements for the classification and measurement of financial assets. The standard was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition and in November 2013 to include new requirements for general hedge accounting. Another revised version was issued in July 2014 to include a) an expected credit loss impairment model (to replace the incurred loss model of IAS 39) and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' option for certain simple debt instruments. 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 contractual cash flow characteristics and the business model of the financial assets. The Company currently expects that the application of IFRS 9 in the future is unlikely to have a material impact on the measurement and presentation of amounts reported in respect of the Company's financial assets and liabilities. The Company expects to continue to value the majority of its financial assets at fair value through profit or loss on initial recognition, so as to eliminate or reduce any potential accounting mismatch. The expected impact remains subject to completion of a detailed review.
- IFRS 15 Revenue from Contracts with Customers (2018). IFRS 15 establishes a single comprehensive framework for determining whether, how and when revenue is recognised. The Company anticipates that the application of IFRS 15 in the future is likely to have limited impact on the measurement and presentation of amounts reported in respect of the Company's financial statements.
- Annual Improvements to IFRS 2012-2014 cycle (2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) (2016).
- Disclosure initiative (Amendments to IAS 1)(2016).
- Disclosure initiative (Amendments to IAS 7)(2017).
- Recognition of Deferred tax assets for unrealised losses (Amendments to IAS 12)(2017).
- IFRS 16 Leases (2019). IFRS 16 will replace IAS 17 Leases. The new standard removes the classification of leases as either operating or finance leases for the lessee, thereby treating all leases as finance leases. This will result in the recognition of a right-to use asset and a lease liability for all of the Company's previously classified operating leases. The recognition of depreciation and an interest cost will result in a decreasing cost over the term of the lease compared to a straight line allocation of the lease rentals. Short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements. The Company anticipates that the application of IFRS 16 in the future is likely to have limited impact on amounts reported in respect of the Company's financial statements.

3. Segmental analysis

The Group has one reportable segment which is its activities as an investment company. Its revenue principally comprises the interest income derived from loans and receivables and financial assets held by the Group. Information relating to this segment is included in the Group's financial statements on pages 8 to 11.

Revenues from all parties are predominantly sourced in the United Kingdom.

Predominantly all assets are located in the United Kingdom.

4. Net investment income

	2015 £m	2014 £m
Investment income		
Interest income on loans and receivables	107.2	126.4
Net interest income on defined benefit scheme asset (see note 19)	14.6	11.2
Other interest received	0.3	0.3
Net investment income	122.1	137.9

Interest income on loans and receivables includes interest of £107.2m (2014: £126.4m) on loans due from other entities within the group headed by Phoenix Group Holdings.

5. Other operating income

	2015 £m	2014 £m
Receipt under pension indemnity (see note 19)	-	76.4
Release of deferred income (see note 17)	-	1.7
	-	78.1

6. Administrative expenses

	2015 £m	2014 £m
Pension scheme - administrative expenses (see note 19)	2.5	2.6
Pension scheme - past service cost (see note 19)	0.3	0.4
Other administrative expenses	0.2	0.1
	3.0	3.1

7. Employee information

Employee costs comprise:

	2015 £000	2014 £000
Wages and salaries	513	300
Social security contributions	61	48
	574	348

	2015	2014
Average number of persons employed	9	6

All employee related costs for the current and prior year were borne by a fellow subsidiary in the Phoenix Group, Pearl Group Management Services Limited.

8. Directors' remuneration

	2015 £	2014 £
Remuneration (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	79,628	55,030
Share-based payments	42,758	29,890
Contributions to money purchase pension schemes	1,143	812
Number of Directors who are members of a money purchase pension scheme	1	1
Number of Directors who exercised share options during the year	3	2

The Directors were 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 Group by the Phoenix Group has been made based on an estimate of the services rendered to the Group.

9. Auditors' remuneration

The remuneration of the auditors of the Group, including their associates, in respect of the audit of the financial statements was £0.1m (2014: £0.1m) which is borne by the Group's parent, Impala Holdings Limited.

10. Finance costs

	2015 £m	2014 £m
Interest expense on borrowings at amortised cost	0.2	-

Interest expense on borrowings at amortised cost includes interest payable on loans due to other entities within the group headed by Phoenix Group Holdings of £0.2m (2014: £nil).

11. Taxation

Current year tax charge in the consolidated income statement

	2015 £m	2014 £m
Current tax:		
UK Corporation tax	18.6	39.1
Deferred tax:		
Origination and reversal of temporary differences	2.8	4.3
Effect of changes in tax rate	(1.2)	(0.1)
	1.6	4.2
Total tax charge	20.2	43.3

Tax (credited)/charged to the statement of consolidated comprehensive income

	2015 £m	2014 £m
Deferred tax on actuarial gains of defined benefit schemes	(0.1)	0.4

Reconciliation of tax charge

The tax assessed on the profit on ordinary activities for the year in lower than the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%). The differences are reconciled below:

	2015 £m	2014 £m
Profit before tax	118.9	212.9
Tax at standard UK rate of 20.25% (2014: 21.5%)	24.1	45.8
Non-taxable income	(2.7)	(2.4)
Deferred tax rate change	(1.2)	(0.1)
Total tax charge for the year	20.2	43.3

12. Dividends on ordinary shares

	2015 £m	2014 £m
Interim dividends paid	107.9	152.3

13. Share capital

	2015 £m	2014 £m
Issued and fully paid:		
694,108,418 (2014: 694,108,418) ordinary shares of £0.05 each	34.7	34.7

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

14. Share premium

	2015 £m	2014 £m
At 1 January and 31 December	1,574.1	1,574.1

15. Perpetual reset capital securities

	Principal outstanding		Carrying value	
	2015 £m	2014 £m	2015 £m	2014 £m
Perpetual reset capital securities	6.3	500.0	6.2	496.5

At 31 December 2015, the Company had in issue Perpetual Reset Capital Securities ('the Notes'), which were admitted to the Official List of the UK Listing Authority and traded on the London Stock Exchange. Following amendments made to the Notes in 2010, the principal amount to be paid upon their redemption was reduced from £500.0m to £425.0m. In connection with such reduction the Company issued a balancing instrument with a principal amount to be paid upon its redemption of £75.0m (the 'Balancing Instrument') to Phoenix Group Holdings ('PGH'). The balancing instrument was subordinate to the Notes, with the remainder of its terms being substantially similar to the corresponding terms of the Notes.

The Notes were unsecured obligations of the Company and were subordinate to the claims of the Company's senior creditors. Payments in respect of the Notes were conditional upon the Company being solvent at the time of payment and immediately following such payment.

The Notes had no fixed maturity date and interest payments may have been deferred at the option of the Company; accordingly the Notes met the definition of equity for financial reporting purposes. The Notes also met the conditions for Innovative Tier 1 capital treatment in the calculation of the Group Capital Resources under the rules of the Prudential Regulation Authority ('PRA').

Coupons were payable annually in arrears on 25 April, at the rate of 6.5864% per annum, until the first reset date of 25 April 2016. Thereafter coupons were payable semi-annually at 2.73% per annum over the then prevailing offered rate for six-month sterling deposits.

On 23 January 2015, the Company purchased £418.7m of the Notes outstanding at 1 January 2015 from PGH Capital Limited immediately following a market purchase by PGH Capital Limited ('PGHC') of such Notes at the same price, at a premium of 103% to their principal outstanding, paying £431.4m to purchase the Notes from PGHC.

On 27 May 2015, the Company's obligations under the Balancing Instrument were novated to a fellow subsidiary, Phoenix Life Holdings Limited ('PLHL') in exchange for a promissory note of £75.0m due to PLHL with effect from 1 June 2015. This promissory note bore interest at a rate of LIBOR plus 2.90% per annum, and had a maturity date of 27 May 2020. During the year, the Company settled interest of £0.2m on this promissory note. The Company redeemed the promissory note for £75.0m on 31 July 2015.

15. Perpetual reset capital securities (continued)

On 23 January 2015, the Company settled the accrued 2015 coupon to 23 January 2015 of £20.6m on the Notes that were purchased. On 25 April 2015, the Company settled in full the remaining 2015 coupon due of £0.4m on the outstanding Notes. The coupon due on the Notes for 2014 was settled on 25 April 2014.

On 25 April 2016, the Company redeemed the remaining outstanding perpetual reset capital securities and settled the 2016 coupon due of £0.4m on the outstanding Notes.

16. Tax assets and liabilities

	2015 £m	2014 £m
Deferred tax		
The balances at 31 December comprise:		
Deferred tax assets	0.2	0.2
Deferred tax liabilities	(6.7)	(5.2)
Net deferred tax liabilities	(6.5)	(5.0)

Movement in deferred tax assets and liabilities:

Year ended 31 December 2015

	1 Jan £m	Recognised in the consolidated income statement £m	Recognised in other comprehensive income £m	31 Dec £m
Accelerated capital allowances	0.2	-	-	0.2
Pension scheme surplus	(5.2)	(1.6)	0.1	(6.7)
	(5.0)	(1.6)	0.1	(6.5)

Year ended 31 December 2014

	1 Jan £m	Recognised in the consolidated income statement £m	Recognised in other comprehensive income £m	31 Dec £m
Accelerated capital allowances	0.2	-	-	0.2
Pension scheme surplus	(1.0)	(3.8)	(0.4)	(5.2)
Provisions and other temporary differences	0.4	(0.4)	-	-
	(0.4)	(4.2)	(0.4)	(5.0)

The Finance Act 2014 set the rate of Corporation Tax at 20% from 1 April 2015. Finance (No. 2) Act 2015 reduces the rate of corporation tax to 19% in April 2017 and 18% from April 2020. Consequently, a blended rate of tax has been used for the purposes of providing for deferred tax in these consolidated financial statements. A further 1% reduction to 17% effective from April 2020 has been announced in the 2016 Budget and will be introduced by further legislation.

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

17. Deferred income

	2015 £m	2014 £m
Deferred income on pension scheme		
As at 1 January	-	1.7
Amounts credited to consolidated income statement	-	(1.7)
As at 31 December	-	-

The deferred income provision was established to cover the service costs, net interest costs and actuarial gains and losses of the PGL Pension Scheme which were not recoverable by the Company from the life funds of other Phoenix Group entities via per policy charges. The provision is being released in line with the terms of the related Management Services Agreement between Pearl Group Management Services Limited and Phoenix Life Limited.

18. Amounts due to Phoenix Group entities

	2015 £m	2014 £m
Group relief payable	14.3	33.7
Short-term intra-group borrowings	3.0	-
Total amounts owed to Phoenix Group entities	17.3	33.7

All amounts are due to be settled within 12 months.

19. Pension scheme

Scheme details

The PGL Pension Scheme ('the Scheme') comprises a final salary section and a defined contribution section.

Defined contribution scheme

Contributions in the year amounted to £6.0m (2014: £5.9m).

Defined benefit scheme

The defined benefit section of the Scheme is a final salary arrangement which is closed to new entrants and has been closed to future accrual by active members since 1 July 2011.

The Scheme is administered by a separate trustee company, PGL Pension Trustee Ltd, which is legally separate from the Company. The board of 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 plus the day to day administration of the benefits.

The valuation has been based on an assessment of the liabilities of the Scheme as at 31 December 2015, undertaken by independent qualified actuaries.

19. Pension scheme (continued)

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 Group after they are paid into the scheme, a liability is recognised when the obligation arises.

Funding

A triennial funding valuation of the Scheme as at 30 June 2012 was completed in September 2013. This showed a deficit as at 30 June 2012 of £38.6m. Following discussions, with the Trustee of the Scheme, it was agreed that the existing schedule of cash contributions to the Scheme totalling £58.8m would continue to be paid over the period from October 2014 to August 2017. Contributions totalling £15.3m were paid into the Scheme in 2015 (2014: £20.4m), and contributions of £15.0m are expected to be paid into the Scheme in 2016. At 31 December 2015, total future scheduled contributions amount to £25.0m (2014: £40.0m).

The triennial valuation of the scheme as at 30 June 2015 commenced during the year and is expected to be completed by September 2016.

In accordance with an agreement dated November 2005 between the Company and a fellow subsidiary of the Phoenix Group, Phoenix Life Limited ('PLL'), certain of PLL's with-profit funds indemnified the Company in respect of contribution calls equal to their share of the costs of changes in longevity assumptions. The Company received £8.0m under this agreement in January 2014. On 4 June 2014, the Company and PLL entered into an agreement whereby in exchange for a payment by PLL to the Company of £68.4m, the Company released PLL from all future obligations to indemnify the Company. The Company made an additional one-off contribution of £5.0m to the Scheme in connection with this arrangement.

An additional liability has been recognised of £8.5m (2014: £13.3m) reflecting a charge on any refund of the resultant IAS 19 surplus of £24.2m (2014: £38.1m) in accordance with the minimum funding requirement. A deferred tax asset of £4.4m (2014: £7.6m asset) has also been recognised to reflect tax relief at a rate of 18.0% (2014: 20.0%) that is expected to be available on the contributions once paid into the Scheme.

19. 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
At 1 January 2015	2,024.0	23.0	(1,457.1)	(184.0)	(13.3)	392.6
Interest income/(expense)	73.0	0.8	(52.0)	(6.7)	(0.5)	14.6
Past service cost	-	-	(0.3)	-	-	(0.3)
Administrative expenses	(2.5)	-	-	-	-	(2.5)
Included in consolidated income statement	70.5	0.8	(52.3)	(6.7)	(0.5)	11.8
Remeasurements:						
Return on plan assets excluding amounts included in interest income	(40.6)	(1.4)	-	-	-	(42.0)
Gain from change in financial assumptions	-	-	35.3	-	-	35.3
Experience gains	-	-	13.4	-	-	13.4
Change in provision for tax on economic surplus available as a refund	-	-	-	(8.5)	-	(8.5)
Change in minimum funding requirement obligation	-	-	-	-	5.3	5.3
Included in other comprehensive income	(40.6)	(1.4)	48.7	(8.5)	5.3	3.5
Employers contributions	15.3	-	-	-	-	15.3
Benefit payments	(63.4)	-	63.4	-	-	-
At 31 December 2015	2,005.8	22.4	(1,397.3)	(199.2)	(8.5)	423.2

The fair value of scheme assets includes non-qualifying insurance policies (reimbursement assets) held with PLL. The value of these reimbursement assets at 31 December 2015 was £22.4m (2014: £23.0m) and they are shown separately from other scheme assets. The net defined benefit asset excluding the reimbursement assets is £400.8m (2014: £369.6m).

19. Pension scheme (continued)

	Fair value of scheme assets £m	Reimbur-sement rights	Defined benefit obligation £m	Provision for tax on the economic surplus available as a refund £m	Minimum funding requirement obligation £m	Total £m
At 1 January 2014	1,639.1	95.4	(1,366.6)	(109.5)	(17.4)	241.0
Interest income/(expense)	72.9	4.3	(60.3)	(4.9)	(0.8)	11.2
Past service cost	-	-	(0.4)	-	-	(0.4)
Administrative expenses	(2.6)	-	-	-	-	(2.6)
Included in consolidated income statement - restated	70.3	4.3	(60.7)	(4.9)	(0.8)	8.2
Remeasurements:						
Return on plan assets excluding amounts included in interest income	279.7	(4.4)	-	-	-	275.3
Gain from change in demographic assumptions	-	-	53.7	-	-	53.7
Loss from change in financial assumptions	-	-	(141.9)	-	-	(141.9)
Experience gains	-	-	0.6	-	-	0.6
Change in provision for tax on economic surplus available as a refund	-	-	-	(69.6)	-	(69.6)
Change in minimum funding requirement obligation	-	-	-	-	4.9	4.9
Sale of assets representing reimbursement rights	72.3	(72.3)	-	-	-	-
Included in other comprehensive income	352.0	(76.7)	(87.6)	(69.6)	4.9	123.0
Employers contributions	20.4	-	-	-	-	20.4
Benefit payments	(57.8)	-	57.8	-	-	-
At 31 December 2014	2,024.0	23.0	(1,457.1)	(184.0)	(13.3)	392.6

19. Pension scheme (continued)

Scheme assets

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

	Total £m 2015	Of which not quoted in an active market £m 2015	Total £m 2014	Of which not quoted in an active market £m 2014
Fixed interest gilts	929.9	-	1,569.9	-
Index-linked bonds	984.2	-	373.1	-
Swaps	2.9	2.9	(23.6)	(23.6)
Hedge funds	83.2	83.2	80.2	80.2
Properties	98.0	98.0	88.0	88.0
Insured pensions	22.4	22.4	23.0	23.0
Cash and other	20.6	-	353.0	-
Obligations for repayment of stock lending collateral received	(113.0)	-	(416.6)	-
Total scheme assets	2,028.2	206.5	2,047.0	167.6

The actual return on plan assets was £32.4m (2014: £352.6m).

The Group 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 pension scheme. Within this framework an allocation of 85% of the scheme assets is invested in a combination of supranational debt and a liability hedging portfolio. The Liability Driven Investment ('LDI') portfolio is actively managed against a liability benchmark in order to hedge the duration and inflation risks.

The Scheme uses swaps, UK Government bonds and UK Government stock lending to hedge the interest rate and inflation exposure arising from the liabilities. Under the Scheme's stock lending programme, the Scheme lends a Government bond to an approved counterparty and receives a similar value of cash in return which it typically reinvested into other gilts. The Scheme retains economic exposure to the Government bonds hence the value of the gilts continues to be recognised as a scheme asset 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: 39% (2014: 39%)

Retirees: 61% (2014: 61%)

The weighted average duration of the defined benefit obligation at 31 December 2015 is 17 years (2014: 17 years).

19. Pension scheme (continued)

Principal assumptions

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

	2015 %	2014 %
Rate of increase in pensions in payment (7.5% per annum or RPI if lower)	3.10	3.00
Rate of increase for deferred pensions ('CPI')	2.05	2.00
Discount rate	3.85	3.65
Inflation – RPI	3.05	3.00
Inflation – CPI	2.05	2.00

The discount rate and inflation assumptions have been determined by considering the shape of the appropriate yield curves and the duration of the Scheme 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 86%/94% of S1PXA base tables with future longevity improvements in line with CMI 2014 Core Projections and a long term rate of improvement of 2.0% p.a. up to and including age 75 then decreasing linearly to 0% at age 110. Under these assumptions, the average life expectancy from retirement for a member currently aged 40 retiring at age 62 is 28.4 years and 30.4 years for male and female members respectively.

A quantitative sensitivity analysis for significant actuarial assumptions as at 31 December 2015 is shown below:

2015 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	1,397.3	(54.0)	57.0	36.2	(39.2)	46.4	(46.1)

2014 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	1,457.1	(60.4)	62.9	39.7	(38.6)	45.8	(44.6)

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 liability recognised within the statement of consolidated financial position.

The UK Government currently intends to equalise benefits between males and females arising from the accrual of Guaranteed Minimum Pension requirements. Legislation will be implemented following completion of the current consultation on this matter. Once this consultation process has reached a conclusion, the Group will be able to quantify the impact of this change.

20. Long-term loans and receivables

		Carrying value		Fair value	
		2015	2014	2015	2014
		£m	£m	£m	£m
(i)	Impala Holdings Limited	-	862.7	-	868.5
(ii)	Pearl Life Holdings Limited	-	70.4	-	70.9
(iii)	Pearl Life Holdings Limited	-	56.8	-	55.9
	Total long-term loans and receivables	-	989.9	-	995.3

(i) The Group provided a loan to Impala Holdings Limited. The loan has a maturity date of 31 December 2016 and is now shown in Short-term loans and receivables (see note 21).
(ii) The Group provided a loan to Pearl Life Holdings Limited ('PLHL'). The loan has a maturity date of 31 December 2016 and is now shown in Short-term loans and receivables (see note 21).
(iii) The Group provided a loan to PLHL. The loan has a maturity date of 31 December 2016 and is now shown in Short-term loans and receivables (see note 21).

Determination of fair value and fair value hierarchy of long-term loans and receivables

Loans and receivables are categorised as Level 3 financial instruments. The fair value of loans to Phoenix Group entities 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 to Phoenix Group entities in 2015 or 2014.

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

21. Short-term loans and receivables

		Carrying value		Fair value	
		2015	2014	2015	2014
		£m	£m	£m	£m
(i)	Impala Holdings Limited	1,550.3	2,006.2	1,550.3	2,006.2
(ii)	Impala Holdings Limited	-	40.4	-	40.4
(iii)	Pearl Life Holdings Limited	36.0	34.5	36.5	34.5
(iv)	Pearl Life Holdings Limited	6.7	6.7	6.7	6.7
(v)	Pearl Group Management Services Limited	56.0	56.0	56.0	56.0
(vi)	Impala Holdings Limited	815.8	-	826.5	-
(vii)	Pearl Life Holdings Limited	72.9	-	74.0	-
(viii)	Pearl Life Holdings Limited	58.5	-	55.9	-
	Total short-term loans and receivables	2,596.2	2,143.8	2,605.9	2,143.8

(i) The Group provided a loan to Impala Holdings Limited ('Impala'). The loan accrues interest at 6 month LIBOR plus a margin of 3.42% and any unsettled interest is capitalised semi-annually on 30 June and 31 December. The loan is repayable on demand and has a final maturity date of 31 December 2016. During the year, £455.9m was repaid by Impala (2014: £43.0m), interest of £nil (2014: £40.9m) was capitalised and interest of £65.0m was received (2014: £39.0m).
(ii) The Group entered into an agreement with Impala and Pearl Life Holdings Limited ('PLHL') whereby any of those parties could lend to or borrow from each other as agreed. Interest on these loans accrues at six month LIBOR plus 2.94% which is capitalised. During the year, £nil was advanced to Impala (2014: £44.6m) and £40.4m was repaid by Impala (2014: £42.1m). Interest of £0.7m (2014: £nil) was received during the year, and interest of £nil was capitalised during the year (2014: £1.1m).

21. Short-term loans and receivables (continued)

(iii) The Group entered into an agreement with Impala and PLHL whereby any of those parties could lend to or borrow from each other as agreed. Interest on these loans accrues at six month LIBOR plus 2.94% which is capitalised semi-annually on 30 April and 31 October. The loan is repayable on demand. During the year, advances of £0.3m were made to PLHL (2014: £nil) and interest of £1.2m was capitalised (2014: £1.0m).

(iv) The Group entered into a loan facility with PLHL. The loan accrues interest at twelve month LIBOR plus a margin of 1.00% which is paid yearly on 31 March. The loan is repayable on demand. Interest of £0.2m was received during the year (2014: £0.2m).

(v) The Group granted a revolving credit facility of £110.0m to Pearl Group Management Services Limited. During the year, there were no further drawn downs (2014: £nil). Interest is accrued at six month LIBOR plus a margin of 2.00%. Repayment of the loan is subject to one month's written notice and a number of detailed provisions.

(vi) The Group provided a loan to Impala Holdings Limited. The loan accrues interest at twelve month LIBOR plus a margin of 2.94%. The loan has a maturity date of 31 December 2016. During the year, interest of £29.4 was received (2014: £nil), interest of £31.4m (2014: £31.4m) was capitalised and £78.3m of the loan was repaid (2014: £56.5m).

(vii) The Group provided a loan to Pearl Life Holdings Limited ('PLHL'). The loan accrues interest at six month LIBOR plus a margin of 2.94% which is capitalised semi-annually on 5 June and 4 December. The loan has a maturity date of 31 December 2016. Interest of £2.5m (2014: £2.5m) was capitalised during the year.

(viii) The Group provided a loan to PLHL. The loan accrues interest at twelve month LIBOR plus a margin of 2.00% which is capitalised annually in December. The loan has a maturity date of December 2016. Interest of £1.7m (2014: £1.6m) was capitalised during the year.

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

Loans and receivables are categorised as Level 3 financial instruments. The fair value of loans to Phoenix Group entities 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 to Phoenix Group entities in 2015 or 2014.

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

22. Amounts due from Phoenix Group entities

	2015 £m	2014 £m
Short-term intra-group borrowings	3.1	0.5

All amounts are recoverable within 12 months.

23. Prepayments and accrued income

	2015 £m	2014 £m
Accrued interest	2.3	27.5

24. Financial assets

	2015 £m	2014 £m
Financial assets at fair value through profit or loss		
Open ended investment companies	7.3	0.3
Term deposits	-	50.0
	7.3	50.3

All amounts are recoverable within 12 months.

24. Financial assets (continued)

Determination of fair value and fair value hierarchy of financial assets

The open ended investment companies and term deposits 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 2015 or 2014.

25. Cash and cash equivalents

	2015 £m	2014 £m
Bank and cash balances	45.3	16.4

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

26. Cash flows from operating activities

	2015 £m	2014 £m
Profit for the year before tax	118.9	212.9
Adjustments to reconcile profit for the year to net cash inflow from operating activities in respect of:		
Net investment income	(11.9)	(78.5)
Finance costs	0.2	-
Other operating income	-	(1.7)
Net interest income, administrative costs and service costs on defined benefit pension asset	(11.8)	(8.2)
Changes in operating assets and liabilities	(48.3)	(24.5)
Cash generated by operations	47.1	100.0

27. Capital and risk management

The Group's capital comprises share capital, perpetual reset capital securities and all reserves. The total equity of the Group at 31 December 2015 was £3,053.6m (2014: £3,582.3m). The decrease in the year reflects total consolidated comprehensive income arising in the year of £102.3m (2014: £292.2m), coupon payments (net of tax relief), on the Perpetual Reset Capital Securities (the 'Notes') of £16.7m (2014: £20.4m), dividends paid to Impala Holdings Limited of £107.9m (2014: £152.3m), together with (i) the purchase and cancellation of £418.7m and (ii) novation of £75m in aggregate principal amount (2014: £nil) of the Notes, and the loss on such purchase of £12.7m (2014: £nil).

There are no externally imposed capital requirements on the Group. The Group'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.

27. Capital and risk management (continued)

The principal risks and uncertainties facing the Group are:

- interest rate risk, since the movement in interest rates will impact the value of interest payable and receivable by the Group. An increase of 1% in interest rates, all other variables held constant, would result in an increase in the profit after tax in respect of a full financial year and in equity of £21.6m (2014: £24.9m). A decrease of 1% in interest rates with all other variables held constant would result in an additional loss after tax in respect of a full financial year and in equity of £21.6m (2014: £24.7m).
- 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 and is significantly reduced as assets are primarily inter-company receivables from other Phoenix Group entities; and
- longevity risk in the PGL Pension Scheme ('the Scheme'), arising from increased life expectancy the members of the Scheme.

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

28. Related party transactions

The Group enters into transactions with related parties in its normal course of business. These are at arm's length on normal commercial terms. The Group has also guaranteed the performance of guarantees issued by fellow members of the Phoenix Group – see note 29.

In the year ended 31 December 2015, the Group received interest on loans to its parent of £95.1m (2014: £51.4m) and interest of £0.2m (2014: £21.0m) on loans to fellow Phoenix Group entities. The Group paid interest of £0.2m to a fellow subsidiary (2014: £nil). Dividends of £107.9m were paid to the Company's parent in the year (2014: £152.3m).

In the year ended 31 December 2015, the Group received £nil (2014: £8.0m) from a fellow Phoenix Group entity, Phoenix Life Limited ('PLL') under a pension indemnity agreement. The Group received a further £nil (2014: £68.4m) from PLL to release them from all future obligations under the pension indemnity agreement.

Amounts due to related parties

	2015 £m	2014 £m
Other amounts due to Phoenix Group entities	17.3	33.7

Amounts due from related parties

	2015 £m	2014 £m
Loans due from parent	2,366.1	2,909.3
Loans due from other Phoenix Group entities	230.1	224.4
Other amounts due from Phoenix Group entities	3.1	0.5

Key management compensation
The total compensation allocated to the Group and payable to employees classified as key management, which comprises the Directors, is disclosed in note 8.

Parent and ultimate parent entity
Information on the Group's parent and ultimate parent is given in note 32.

29. Guarantees

The Company has guaranteed the performance of a guarantee given by Pearl Life Holdings Limited, a fellow subsidiary of the Phoenix Group, to the trustees of the PGL Pension Scheme ('the Scheme') in respect of the obligations and liabilities of the participating employers to make payments to the Scheme. The principal obligations that are subject to the guarantee are cash contributions totalling £25.0m (2014: £40.0m), which are payable in instalments over the period to August 2017.

The Group has guaranteed the obligations of Pearl Group Management Services Limited, a fellow subsidiary of the Phoenix Group, in respect of its performance to certain life companies in the Phoenix Group under a master services agreement, dated 21 December 2005.

30. Events after the reporting date

On 25 April 2016, the Company redeemed the remaining outstanding perpetual reset capital securities, and settled the coupon due.

31. Subsidiaries

The principal subsidiary of the Group is PGH1 (Jersey) Limited, a company incorporated and with its principal place of operation in Jersey.

32. Other information

The Company's principal place of business is the United Kingdom. The Company's immediate parent is Impala Holdings Limited and its ultimate parent is Phoenix Group Holdings, a company incorporated in the Cayman Islands and resident in Jersey. A copy of the financial statements of Phoenix Group Holdings can be obtained from the Company Secretary, 1st Floor, 32 Commercial Street, St Helier, Jersey, JE2 3RU.

Income statement
for the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Revenue			
Net investment income	4	122.1	137.9
Other operating income	5	-	78.1
Total income		122.1	216.0
Administrative expenses	6	(3.0)	(3.1)
Profit before finance costs and tax		119.1	212.9
Finance costs	10	(0.2)	-
Profit for the year before tax		118.9	212.9
Tax charge	11	(20.2)	(43.3)
Profit for the year attributable to owners		98.7	169.6

Statement of comprehensive income
for the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Profit for the year		98.7	169.6
Other comprehensive income:			
Items that will not be reclassified to profit of loss			
Remeasurements of net defined benefit	19	3.5	123.0
Deferred tax charge	11	0.1	(0.4)
		3.6	122.6
Total comprehensive income for the year attributable to owners		102.3	292.2

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 12 to 15. The notes identified alphabetically on page 37 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 12 to 31.

Statement of financial position
as at 31 December 2015

	Notes	As at 31 December 2015 £m	As at 31 December 2014 £m
Equity attributable to owners			
Share capital	13	34.7	34.7
Share premium	14	1,574.1	1,574.1
Perpetual reset capital securities	15	6.2	496.5
Retained earnings		1,438.6	1,477.0
Total equity		3,053.6	3,582.3
Non-current liabilities			
Deferred tax	16	6.5	5.0
Total non-current liabilities		6.5	5.0
Current liabilities			
Amounts due to Phoenix Group entities	A	14.9	33.7
Total current liabilities		14.9	33.7
Total liabilities		21.4	38.7
Total equity and liabilities		3,075.0	3,621.0

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 12 to 15. The notes identified alphabetically on page 37 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 12 to 31.

Statement of financial position (continued)
as at 31 December 2015

	Notes	As at 31 December 2015 £m	As at 31 December 2014 £m
Assets			
Non-current assets			
Investments in subsidiaries	B	-	-
Pension scheme asset		400.8	369.6
Pension reimbursement assets		22.4	23.0
Pension scheme	19	423.2	392.6
Long-term loans and receivables	20	-	989.9
Total non-current assets		423.2	1,382.5
Current assets			
Short-term loans and receivables	21	2,596.2	2,143.8
Amounts due from Phoenix Group entities	C	3.9	0.5
Prepayments and accrued income	23	2.3	27.5
Financial assets	24	7.3	50.3
Cash and cash equivalents	D	42.1	16.4
Total current assets		2,651.8	2,238.5
Total assets		3,075.0	3,621.0

On behalf of the Board

J McConville
Director

15 June 2016

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 12 to 15. The notes identified alphabetically on page 37 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 12 to 31.

Statement of cash flows
for the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Cash flows from operating activities			
Cash generated by operations	E	43.9	100.0
Net cash flows from operating activities		43.9	100.0
Cash flows from investing activities			
Repayment of borrowings by parent		574.6	141.6
Repayment of borrowings by other Phoenix Group entities		-	32.0
Sale/(purchase) of financial assets		43.0	(47.4)
Increase in loans to other Phoenix Group entities		(0.3)	(44.7)
Net cash flows from investing activities		617.3	81.6
Cash flows from financing activities			
Interest paid on loan from other Phoenix Group entities		(0.2)	-
Coupons paid on perpetual reset securities		(21.0)	(25.9)
Dividends paid		(107.9)	(152.3)
Repayment of loan from other Phoenix group entities		(75.0)	-
Purchase of perpetual reset capital securities		(431.4)	-
Net cash flows from financing activities		(635.5)	(178.2)
Net increase in cash and cash equivalents		25.7	3.4
Cash and cash equivalents at the beginning of the year		16.4	13.0
Cash and cash equivalents at the end of the year	D	42.1	16.4

<u>Supplementary disclosures on cash flows from operating activities</u>

		2015 £m	2014 £m
Interest received		95.6	72.8

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 12 to 15. The notes identified alphabetically on page 37 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 12 to 31.

Statement of changes in equity
for the year ended 31 December 2015

	Share capital (note 13) £m	Share premium (note 14) £m	Perpetual reset capital securities (note 15) £m	Retained earnings £m	Total £m
At 1 January 2015	34.7	1,574.1	496.5	1,477.0	3,582.3
Profit for the year	-	-	-	98.7	98.7
Other comprehensive gain	-	-	-	3.6	3.6
Total comprehensive income for the year	-	-	-	102.3	102.3
Purchase of perpetual reset capital securities	-	-	(418.7)	-	(418.7)
Premium on purchase of perpetual reset capital securities	-	-	-	(12.7)	(12.7)
Novation of perpetual reset capital securities	-	-	(75.0)	-	(75.0)
2015 coupon on perpetual reset capital securities	-	-	-	(21.0)	(21.0)
Tax relief on 2015 coupon	-	-	-	4.3	4.3
Dividend paid – see note 12	-	-	-	(107.9)	(107.9)
Write-off of deferred issue costs on perpetual reset capital securities	-	-	3.4	(3.4)	-
At 31 December 2015	34.7	1,574.1	6.2	1,438.6	3,053.6

	Share capital (note 13) £m	Share premium (note 14) £m	Perpetual reset capital securities (note 15) £m	Retained earnings £m	Total £m
At 1 January 2014	34.7	1,574.1	496.5	1,357.5	3,462.8
Profit for the year	-	-	-	169.6	169.6
Other comprehensive loss	-	-	-	122.6	122.6
Total comprehensive loss for the year	-	-	-	292.2	292.2
2014 coupon on perpetual reset capital securities	-	-	-	(25.9)	(25.9)
Tax relief on 2014 coupon	-	-	-	5.5	5.5
Dividend paid – see note 12	-	-	-	(152.3)	(152.3)
At 31 December 2014	34.7	1,574.1	496.5	1,477.0	3,582.3

Included in retained earnings are reserves of £287.7m (2014: £341.4m) which are considered distributable.

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 12 to 15. The notes identified alphabetically on page 37 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 12 to 31.

Notes to the financial statements

A. Amounts due to Phoenix Group entities

	2015 £m	2014 £m
Group relief payable	14.9	33.7

All amounts are due to be settled within 12 months.

B. Investments in subsidiaries

The Company owns the entire issued share capital of PGH1 (Jersey) Limited, a company incorporated and with its principal place of operation in Jersey, for consideration of £1. No impairment of the investment is required at 31 December 2015 (2014: £nil).

C. Amounts due from Phoenix Group entities

	2015 £m	2014 £m
Short-term intra-group receivables	3.9	0.5

All amounts are recoverable within 12 months.

D. Cash and cash equivalents

	2015 £m	2014 £m
Bank and cash balances	42.1	16.4

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

E. Cash flows from operating activities

	2015 £m	2014 £m
Profit for the year before tax	118.9	212.9
Adjustments to reconcile profit for the year to net cash inflow from operating activities in respect of:		
Net investment income	(11.9)	(78.5)
Finance costs	0.2	-
Other operating income	-	(1.7)
Net interest income, administrative costs and service costs on defined benefit pension asset	(11.8)	(8.2)
Changes in operating assets and liabilities	(51.5)	(24.5)
Cash generated by operations	43.9	100.0