PGH (LCB) LIMITED

Company Registration Number: 05282338

DIRECTORS' REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2016

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Strategic report

The Directors present their Strategic report of PGH (LCB) Limited ('the Company'), for the year ended 31 December 2016.

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

Result and dividends
The results of the Company for the year are shown in the statement of comprehensive income on page 6. The profit before tax was £21.9m (2015: £29.1m).

No dividends were paid during the current year or the prior year.

Position as at 31 December 2016
The net assets of the Company at 31 December 2016 were £740.6m (2015: £245.4m). The increase in the year reflects the profit after taxation arising in the year of £30.7m (2015: £62.2m) and capital contributions received of £464.5m (2015: £nil).

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

The principal risks and uncertainties facing the Company are:

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

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

Key Performance Indicators ('KPIs')
Given the straightforward nature of the business, the 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

R Shah
Director
16 June 2017

Directors' report

The Directors present their report and the financial statements of the Company for the year ended 31 December 2016.

The Company is incorporated in England as a private limited company. Its registration number is 05282338 and its Registered Office is 1 Wythall Green Way, Wythall, Birmingham, B47 6WG.

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

Going concern

The Strategic report and the Directors' report summarise the Company's activities, its financial performance and its financial position together with any factors likely to affect its future development. In addition, the Strategic report discusses the principal risks and uncertainties it faces. Note 22 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;

F Clutterbuck
R Shah

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.

Secretary

G A Watson acted as Secretary throughout the year.

Disclosure of information to auditors

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

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

Re-appointment of auditors

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

On behalf of the Board

R Shah
Director
16 June 2017

Statement of Directors' responsibilities

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

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

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

Independent Auditor's report to the members of PGH (LCB) Limited

We have audited the financial statements of PGH (LCB) Limited for the year ended 31 December 2016 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flow, the Statements of Changes in Equity and the related notes 1 to 25. 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.

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 Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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 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 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 company's affairs as at 31 December 2016 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.

Opinion 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.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

19 June 2017

Statement of comprehensive income
for the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Revenue			
Investment income	4	58.1	113.0
Other income	5	4.1	-
Reversal of impairment of investment in subsidiary	17	4.7	-
Total income		66.9	113.0
Impairment of investment in subsidiary	17	-	(38.8)
Profit before finance costs and tax		66.9	74.2
Finance costs	9	(45.0)	(45.1)
Profit for the year before tax		21.9	29.1
Tax credit	10	8.8	33.1
Total comprehensive income for the year attributable to owners		30.7	62.2

Statement of financial position
as at 31 December 2016

	Notes	As at 31 December 2016 £m	As at 31 December 2015 £m
Equity attributable to owners			
Share capital	11	-	-
Capital contribution	12	677.6	213.1
Retained earnings		63.0	32.3
Total equity		740.6	245.4
Non-current liabilities			
Long-term borrowings	13	1,227.7	1,133.4
Total non-current liabilities		1,227.7	1,133.4
Current liabilities			
Short-term borrowings	13	-	57.5
Accruals and deferred income	14	12.6	14.6
Amounts owed to Group entities		2.9	-
Total current liabilities		15.5	72.1
Total liabilities		1,243.2	1,205.5
Total equity and liabilities		1,983.8	1,450.9
Non-current assets			
Investments in jointly controlled entity	16	1,678.3	1,213.8
Investments in subsidiary	17	184.1	179.4
Loans to Group entities	20	75.0	-
Total non-current assets		1,937.4	1,393.2
Current assets			
Prepayments and accrued income	19	0.4	0.6
Loans to Group entities	20	-	0.4
Amounts owed by Group entities		46.0	56.7
Total current assets		46.4	57.7
Total assets		1,983.8	1,450.9

On behalf of the Board

R Shah
Director
16 June 2017

Statement of cash flows
for the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Cash flows from operating activities			
Cash generated/(absorbed) by operations	21	1.6	(19.0)
Net cash flows from operating activities		1.6	(19.0)
Cash flows from investing activities			
Capital contributions made to jointly controlled entity		(464.5)	-
Increase in loans to Group entities, net of fees		(189.5)	-
Repayment of loans by Group entities		117.1	-
Net cash flows from investing activities		(536.9)	-
Cash flows from financing activities			
Capital contributions received		464.5	-
Increase in loans from Group entities, net of fees		862.0	115.4
Repayment of loans to Group entities		(791.2)	(96.4)
Net cash flows from financing activities		535.3	19.0
Net decrease in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the year		-	-
Cash and cash equivalents at the end of the year		-	-

Supplementary disclosures on cash flows from operating activities

	2016 £m	2015 £m
Interest received	0.1	-
Interest paid	21.1	26.8

Statement of changes in equity
for the year ended 31 December 2016

	Share capital (note 11) £m	Capital contribution (note 12) £m	Retained earnings £m	Total £m
At 1 January 2016	-	213.1	32.3	245.4
Total comprehensive income for the year	-	-	30.7	30.7
Capital contributions received	-	464.5	-	464.5
At 31 December 2016	-	677.6	63.0	740.6

	Share capital (note 11) £m	Capital contribution (note 12) £m	Retained earnings £m	Total £m
At 1 January 2015	-	213.1	(29.9)	183.2
Total comprehensive income for the year	-	-	62.2	62.2
At 31 December 2015	-	213.1	32.3	245.4

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

All of the retained earnings are considered to be distributable.

Notes to the financial statements

1. Accounting policies

(a) Basis of preparation

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

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

The results of the Company are consolidated into the accounts of the Company's parent Phoenix Group Holdings, a company registered at Po Box 309, Ugland House, Grand Cayman Ky1-1104, Cayman Islands and resident in Jersey.

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 £0.1m except where otherwise stated.

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

(b) 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 impairment tests for investments and loans to jointly controlled entities.

Impairment of investments in jointly controlled entities and subsidiaries, and loans to Group entities

Investments in jointly controlled entities and 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 jointly controlled entities and subsidiaries are measured at the difference between the carrying value of a particular asset and its estimated recoverable amount. Impairments 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 jointly controlled entities and subsidiaries and loans to Group entities are detailed in accounting policies (e) and (f) respectively.

(c) Borrowings

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

(d) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income 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.

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.

1. Accounting policies (continued)

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

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

(e) Investment in jointly controlled entities and subsidiaries

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

The Company assesses at each reporting date whether an investment 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. 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.

(f) 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. Gains and losses are recognised in the statement of comprehensive income through the amortisation process.

The Company assesses at each reporting date whether a loan or receivable 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. If objective evidence of impairment exists the Company calculates the amount of impairment as the difference the carrying value of the loan and receivable with 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.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity term of three months or less at the date of placement.

(h) 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.

(i) Income recognition

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

Interest income is recognised in the statement of comprehensive income as it accrues using the effective interest method. Dividend income is recognised in the statement of comprehensive income on the date the right to receive payments is established.

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

(j) Finance costs

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

1. Accounting policies (continued)

(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) 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 2016, set out on pages 6 to 22 were authorised by the Board of Directors for issue on 16 June 2017.

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 2012 – 2014 cycle;
- Disclosure initiative (Amendments to IAS 1 Presentation of Financial Statements); and
- Clarification of acceptable methods of depreciation and amortisation (Amendments to IAS 16 and IAS 38).

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:

- Disclosure initiative (Amendments to IAS 7 Statement of Cash Flows)(2017);
- Recognition of Deferred tax assets for unrealised losses (Amendments to IAS 12)(2017);
- IFRS 9 Financial Instruments (2018). In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Company believes that the application of IFRS 9 will have limited impact.
- 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 standard does not apply to insurance contracts and financial instruments within the scope of IAS 39, and 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.
- 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. 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 Company has one reportable segment, comprising its investment in and loans to/from jointly controlled entities and subsidiary. Its revenue principally comprises the dividend and interest income derived from these investments and loans. Information relating to this segment is included in the Company's primary financial statements on pages 6 to 9.

Predominantly all revenues from external customers is sourced in the United Kingdom.

Predominantly all non-current assets are located in the United Kingdom.

4. Investment income

	2016 £m	2015 £m
Interest income on loans and receivables	0.5	3.7
Dividends received from subsidiary	55.8	108.3
Release of deferred income provision (see note 14)	1.8	1.0
Investment income	58.1	113.0

Interest income on loans and receivables relates to interest of £0.5m (2015: £3.7m) on loans to group entities.

5. Other income

	2016 £m	2015 £m
Recharge of debt issue costs to other Group companies	1.7	-
Waiver of loan by parent entity (see note 13)	2.4	-
Total other income	4.1	-

6. Employee information

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

7. Directors' remuneration

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

	2016 £	2015 £
Salaries and other short-term benefits	65,243	54,394
Remuneration (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	65,243	54,394
Share-based payments	26,283	24,372
Contributions to money purchase pension scheme	-	2,867
Number of Directors who are members of a money purchase pension scheme	-	1
Number of Directors who exercised share options during the year	2	2

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

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

8. Auditors' remuneration

The remuneration of the auditors of the Company, including their associates, in respect of the audit of the financial statements was £29,845 (2015: £29,845).

9. Finance costs

	2016 £m	2015 £m
Interest expense on borrowings at amortised cost	39.8	44.2
Amortisation of debt issue costs (see note 13)	2.4	1.0
Debt issue costs expensed	2.8	-
Refund of charges on bank loan facility	-	(0.1)
	45.0	45.1

Interest expense on borrowings at amortised cost relates to interest of £39.8m (2015: £44.2m) on loans from group entities.

10. Tax credit

10.1 Current year tax credit

	2016 £m	2015 £m
Current tax:		
UK Corporation tax	(8.6)	(8.5)
Adjustments in respect of prior years	(0.2)	(24.6)
Total tax credit	(8.8)	(33.1)

10.2 Reconciliation of tax credit

	2016 £m	2015 £m
Profit before tax	21.9	29.1
Tax at standard UK rate 20.00% (2015: 20.25%)	4.4	5.9
Non-taxable income	(11.5)	(21.9)
Adjustment to shareholder tax charge in respect of prior years	(0.2)	(24.6)
Non-taxable reversal of impairments of investment in subsidiary	(1.0)	-
Non-taxable impairment of investment in subsidiary	-	7.9
Temporary differences not valued	(0.5)	-
Other	-	(0.4)
Total tax credit for the year	(8.8)	(33.1)

11. Share capital

	2016 £	2015 £
Issued and fully paid: 6 (2015: 6) ordinary shares of £1 each	6	6

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

12. Capital contributions

	2016 £m	2015 £m
At 1 January	213.1	213.1
Additions	464.5	-
At 31 December	677.6	213.1

On 31 October, the Company received a cash capital contribution of £97.0m from its parent, Phoenix Group Holdings ('PGH'). On 28 December 2016, the Company received a further cash capital contribution of £367.5m from PGH.

The capital contributions have been treated as a distributable reserve with no restrictions.

13. Borrowings

	Carrying value		Fair value	
	2016 £m	2015 £m	2016 £m	2015 £m
Loans due to parent (notes a-d)	368.4	387.6	360.9	395.3
Loan due to subsidiary (notes e-f)	290.0	279.8	290.0	279.8
Loans due to group entities (notes g-k)	569.3	523.5	590.7	543.6
Loan to jointly controlled entity (notes l-m)	-	-	-	-
Total borrowings	1,227.7	1,190.9	1,241.6	1,218.7
Amounts due for settlement within 12 months	-	57.5		
Amount due for settlement after 12 months	1,227.7	1,133.4		

Notes

(a) The Company and PGH (LCA) Limited ('LCA') issued £325.0m of Eurobonds which were subscribed for by Phoenix Group Holdings ('PGH') and which are listed on The International Stock Exchange in Jersey. Interest accrues on these Eurobonds at a rate of LIBOR plus a margin of 2.5% and the final maturity date is 30 June 2025.

Interest of £5.2m was incurred and paid during the year (2015: £5.2m). At 31 December 2016, £162.5m was outstanding (2015: £162.5m).

b) The Company and LCA were party to a joint £77.1m loan agreement with PGH. The loan accrued interest at a rate of LIBOR plus a margin of 1.25% with a maturity date of 30 June 2016.

During the year, interest of £0.1m (2015: £nil) was capitalised on the loan. Prior to the loans maturity date of 30 June 2016, PGH waived its rights under the loan and the Company recognised a gain of £2.4m, representing the outstanding balance on the loan.

c) On 4 June 2015 the Company received a loan from PGH (TC2) Limited ('TC2') of £218.2m. On 17 June 2015, TC2 assigned its rights and obligations under the loan to PGH. The loan accrues interest at a rate of LIBOR plus a margin of 2.9% and the final maturity date is 4 June 2020.

Interest of £8.1m was capitalised during the year (2015: £0.3m), and on 30 December 2016, the Company repaid £25.0m of the loan balance (2015: £nil). At 31 December 2016, £205.9m was outstanding (2015: £222.8m)

d) On 9 November 2016, the Company and LCA entered into a joint loan agreement with PGH for £650.0m. The loan accrued interest at LIBOR plus a margin of 0.85% and the final maturity date was 31 March 2017.

Interest of £0.5m was incurred and paid during the year and the loan of £325.0m was fully repaid on 28 December 2016.

13. Borrowings (continued)

e) Under a sale and purchase agreement dated 27 May 2015, the Company entered into two loan agreements with PGH (LC2) Limited ('LC2') totalling £274.0m. On 3 June 2015, LC2 novated its rights and obligations under the two agreements to PGH (MC2) Limited ('MC2'). Interest accrues on these loans at LIBOR plus a margin of 2.9% and the final maturity date on them is 27 May 2020.

During the year, £10.2m of interest was capitalised (2015: £5.8m). At 31 December 2016, £290.0m was outstanding (2015: £279.8)

f) Under a sale and purchase agreement dated 27 May 2015, the Company assumed the rights and obligations of LC2 under PIK notes with MC2. At the date of transfer the loan value was £103.3m. Interest accrued at LIBOR plus a margin of 5.5% on the PIK notes. The final maturity date on the PIK notes was 10 October 2015. During 2015, PIK notes of £5.0m were issued and the balance on the facility of £108.3m was repaid via in specie dividend.

g) Under a sale and purchase agreement dated 27 May 2015, the Company assumed the rights and obligations of LC2 under a loan facility with PGH Capital Public Limited Company ('PGHC'). At the date of transfer the facility comprised a revolving credit facility ('RCF') loan and an amortising term loan. Both loans were repayable on 23 July 2019 and had an option to request an extension to the RCF loan by two years to 23 July 2021.

Further terms of the facility agreement included:

- term facility repayment instalments of £30 million were due semi-annually on 30 June and 31 December each year. Additional target repayments of £30 million may have been paid semi-annually on 30 June and 31 December each year from 30 June 2015;
- the term loan and the RCF loan both bore interest at LIBOR plus an opening margin of 3.55% p.a. After six months the margins would have changed in accordance with a margin ratchet which operated by reference to the Group's gearing ratio. Margins reduced by 0.50% on achievement of an investment grade rating by the Phoenix Group, which occurred in August 2015; and
- amongst other fees, a utilisation fee of 0.25% p.a. was payable in respect of the RCF loan for so long as the amount outstanding under the RCF exceeded 50% of the total commitments of the RCF loan.

On 22 March 2016, the Company and LCA agreed to amend this loan facility with PGHC into a £650.0m unsecured revolving credit facility, maturing on 30 June 2020. There are no mandatory or target amortisation payments associated with the amended facility and prepayments and drawdowns are permissible. Interest on the amended facility is charged at LIBOR plus a margin of 1.40% p.a. which includes the utilisation fees, with the margin being linked to the credit rating of PGHC's unsecured senior bond debt guaranteed by Phoenix Group Holdings. On 9 November 2016, the Company repaid the balance of £325.0m due under this facility.

On 20 December 2016, the Company and LCA agreed a further amendment to this facility with PGHC, whereby the unsecured revolving credit facility was increased to £900.0m, with an unchanged maturity date of 30 June 2020.

On 28 December 2016, the Company drew down £450.0m under the terms of this amended facility, and repaid £25.0m on 30 December 2016. Interest of £6.2m was incurred and paid on this facility during the year (2015: £11.8m).

Fees of £5.5m associated with this facility were also transferred as part of the novation agreement with LC2 and were deferred and amortised over the life of the loan in the statement of financial position. During the year, £1.4m of fees were deferred (2015: £nil) and £2.4m were amortised (2015: £1.5m). The deferred fees at 31 December 2016 amounted to £3.5m (2015: £4.5m). At 31 December 2016, £421.5m was outstanding, net of the deferred fess (2015: £320.5m).

h) On 27 May 2016, the Company and LCA entered into a joint £220.0m unsecured bridge facility with PGHC. Interest on this facility accrues at LIBOR plus a margin of 0.9%, with the margin increasing every six months if there are amounts are outstanding under this facility. The maturity date of the facility was one year after the date of the advance with the borrower having the option to extend the maturity date by up to one year.

On 31 October 2016, the Company drew down £91.2m and the facility was fully repaid on 20 December 2016. Interest of £0.1m was incurred and paid during the year.

i)

13. Borrowings (continued)

i) On 28 September 2016, the Company and LCA entered into a joint £250.0m unsecured bridge facility with PGHC. Interest on this facility accrues at LIBOR plus a margin of 0.9%, with the margin increasing every six months if there are amounts are outstanding under this facility. The maturity date of the facility was one year after the date of the advance with the borrower having the option to extend the maturity date by up to one year.

No advances were made under this facility, which was cancelled on 20 December 2016.

j) Under a sale and purchase agreement dated 27 May 2015, the Company assumed the rights and obligations of LC2 under a loan agreement with PGHC. At the date of transfer the loan value was £147.8m. The loan accrues interest at a fixed rate of 6.15% and the final maturity date is 7 July 2021.

Interest of £9.1m was incurred and paid on this loan during the year (2015: £9.1m). At 31 December 2016, £147.8m was outstanding (2015: £147.8).

k) The Company and LC2 were party to a £100.6m loan agreement. The loan accrued interest at a rate of LIBOR plus a margin of 3.50% and was due to mature on 24 July 2019. Under a sale and purchase agreement dated 27 May 2015, the loan was repaid and cancelled.

l) The Company and LCA entered into a £2.0bn facility agreement with Pearl Group Holdings (No. 2) Limited ('PGH2'). The facility accrues interest at a rate of LIBOR plus a margin of 4.3% and the final maturity date is 31 December 2018. On 27 May 2015, PGH2 novated its rights and obligations under the facility of £340.0m together with interest accrued of £6.7m to PLHL – see (m) below.

m) Upon novation of the of the £2.0bn facility from PGH2 to PLHL, outstanding loans of £163.3m (see note 18), accrued interest of £3.1m, and inter-company balances of £4.9m due all from PLHL were offset against the balance on the facility loan. The balance of the facility loan of £168.7m together with interest accrued of £6.8m was settled through the contribution of the Company's shareholding in Impala Holdings Limited to PLHL. During 2015 a further £72.8m was advanced by PLHL under this facility. The balance on the facility of £72.8m, together with accrued interest of £0.6m was eliminated via returns of capital contributions by PLHL. At 31 December 2016, the amount outstanding to PLHL was £nil (2015: £nil).

Nature of borrowings	2016 £m	2015 £m
Fixed rate borrowings	147.8	147.8
Floating rate borrowings	1,079.9	1,043.1
	1,227.7	1,190.9

Determination of fair value and fair value hierarchy of financial instruments

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 financial instruments in 2016 or 2015.

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

14. Accruals and deferred income

	2016 £m	2015 £m
Accrued interest on loans with Group entities	4.6	4.8
Deferred income	8.0	9.8
	12.6	14.6

Deferred income represents the excess of the fair value of a loan of £158.6m over its carrying value of £147.8m when the loan was novated from PGH (LC2) Limited on 27 May 2015. The excess is being amortised over the life of the loan.

15. Tax assets and liabilities

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

	2016 £m	2015 £m
Deferred tax assets have not been recognised in respect of:		
Other temporary differences	-	0.4

16. Investments in jointly controlled entity

	2016 £m	2015 £m
Cost and carrying value		
At 1 January	1,213.8	591.1
Capital contributions advanced	464.5	696.1
Return of capital contributions	-	(73.4)
At 31 December	1,678.3	1,213.8

The Company holds 50% of the £1 ordinary shares of Phoenix Life Holdings Limited ('PhLHL'), a company incorporated and with its principal place of operation in the UK. This investment is classified as a jointly controlled entity by the Company.

During the year the Company made capital contributions to PhLHL of £464.5m (2015: £696.1m), of which £nil (2015: £73.4m) was returned.

17. Investment in subsidiary

	2016 £m	2015 £m
Cost		
At 1 January	218.2	-
Additions	-	218.2
At 31 December	218.2	218.2
Impairment		
At 1 January	(38.8)	-
Impairment charge	-	(38.8)
Reversal of impairment charge	4.7	-
At 31 December	(34.1)	(38.8)
Carrying value	184.1	179.4

On 5 June 2015, the Company acquired 100% of the £1 ordinary shares and £1 preference shares of PGH (MC2) Limited, a company a company registered at 1 Wythall Green Way, Wythall, Birmingham, B47 6WG and with its principal place of operation in the UK.

Impairment charges are determined by reference to the underlying value of the Company's investment. There was a reversal of previous impairment charges of £4.7m in the year (2015: £38.8m impairment charge).

The Company's investment in its subsidiary is categorised as a Level 3 asset.

18. Subordinated loans

	Designated as equity		Designated as loans and receivables	
	2016 £m	2015 £m	2016 £m	2015 £m
Cost and carrying value				
At 1 January	-	99.1	-	64.2
Repayments	-	(99.1)	-	(64.2)
At 31 December	-	-	-	-

The Company held subordinated loans in its jointly controlled entity. £99.1m of the subordinated loans had no maturity date, were designated as an equity investment and accrues interest at LIBOR plus a margin of 15% per annum. £64.2m of the subordinated loans were due to mature on 2 September 2019, were designated as loans and receivables and accrued interest at LIBOR plus a margin of 11% per annum.

On 27 May 2015 the subordinated loans were offset against loans due to its jointly controlled entity and cancelled.

No loans are considered to be past due or impaired.

19. Prepayments and accrued income

	2016 £m	2015 £m
Accrued interest on loans to group entities	0.4	0.6

20. Loans to group entities

	Carrying value 2016 £m	Carrying value 2015 £m	Fair value 2016 £m	Fair value 2015 £m
Loan due from group entity (a)	-	0.4	-	0.4
Loans due from jointly controlled entity (b-c)	75.0	-	75.0	-
Total loans to Group entities	75.0	0.4	75.0	0.4
Amounts due for settlement within 12 months	-	0.4		
Amounts due for settlement after 12 months	75.0	-		

Notes

a) Under a sale and purchase agreement dated 27 May 2015, the Company and PGH (LCA) Limited ('LCB') assumed the rights and obligations of PGH LC1 Limited and PGH (LC2) Limited respectively under a joint loan agreement with PGH Capital Public Limited Company ('PGHC'). At the date of transfer the loan value was £0.4m.

The annual interest is equivalent of an amount equal to the excess, if any, of all net income, profit and gains of PGHC for PGHC's most recently completed accounting period (excluding interest payable hereunder), over £3,000. The loan is repayable on demand.

During the year interest of £0.5m (2015: £nil) was capitalised and £0.9m (2015: £nil) was repaid.

b) On 27 May 2016, the Company and LCA jointly entered into a £220.0m loan facility agreement with Phoenix Life Holdings Limited ('PLHL'). The loan accrues interest at LIBOR plus a margin ratchet which increases every six months from the date of the advance. The facility matures one year after the date of the advance.

On 31 October 2016, the Company advanced £91.2m under the facility to PLHL. On 20 December 2016, the facility of £91.2m was fully repaid by PLHL. Interest of £0.1m on this facility was received during the year.

c) On 28 September 2016, the Company and LCA entered into a joint £250.m bridge facility loan with PLHL. Interest on this facility accrues at LIBOR plus a ratchet margin which increases every six from the date of the advance. The maturity date of the facility was one year after the date of the advance with the borrower having the option to extend the maturity date by up to one year.

On 20 December 2016, the Company, LCA and PLHL entered into an amended and restated agreement. The restated agreement amended the interest to LIBOR plus a margin of 1.90% p.a. with the margin changing if there were a change in the credit rating of the guarantor, Phoenix Group Holdings. The maturity date of the facility was amended to 30 June 2020.

On 20 December 2016, £100.0m was advanced to PLHL. On 30 December 2016, PLHL repaid £25.0m of the advance. Interest of £nil was accrued during the year. The balance outstanding at 31 December 2016 was £75.0m.

No loans are considered to be past due or impaired.

Determination of fair value and fair value hierarchy of loans to Group entities

Loans and receivables are categorised as Level 3 financial instruments. The fair value of loans to 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 Group entities in 2016 or 2015.

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

21. Cash flows from operating activities

	2016 £m	2015 £m
Profit for the year before tax	21.9	29.1
Non-cash movements in loss for the year before tax in respect of:		
Dividends received	(55.8)	(108.3)
Interest income on loans and receivables	(0.5)	(3.7)
Interest expense on borrowings	18.7	17.4
Release of deferred income provision	(1.8)	(1.0)
Amortisation of debt issue costs	2.4	1.0
Waiver of loan balance	(2.4)	-
Impairment of investment in subsidiary	-	38.8
Reversal of impairment of investment in subsidiary	(4.7)	-
Changes in operating assets and liabilities	23.8	7.7
Cash generated/(absorbed) by operations	1.6	(19.0)

22. Capital and risk management

The Company's capital comprises share capital and all reserves. At 31 December 2016 total capital was £740.6m (2015: £245.4m). The movement in capital in the year comprises the retained profit for the year of £30.7m (2015: £62.2m) and capital contributions received of £464.5m (2015: £nil).

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

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

The principal risks and uncertainties facing the Company are:

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

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

23. Related party transactions

The Company enters into transactions with related parties in its normal course of business. These are at arm's length on normal commercial terms.

In the year ended 31 December 2016 the Company received interest on loans to jointly controlled entities of £0.1m (2015: £nil), paid interest on loans to its parent company of £5.7m (2015: £5.2m), and paid interest to fellow subsidiaries of £15.4m (2015: £21.5m).

Amounts due to related parties

	2016 £m	2015 £m
Loans due to parent	368.4	387.6
Loans due to subsidiary	290.0	279.8
Loans due to fellow subsidiaries	569.3	523.5
Other amounts due to jointly controlled entity	2.7	-
Other amounts due to fellow subsidiaries	0.2	-

23. Related party transactions (continued)

Amounts due from related parties

	2016 £m	2015 £m
Loans due from jointly controlled entity	75.0	-
Loans due from fellow subsidiaries	-	0.4
Other amounts due from parent	11.8	27.8
Other amounts due from subsidiary	4.5	4.5
Other amounts due from fellow subsidiaries	29.7	24.4

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 25.

24. Events after the reporting date

On 20 March 2017, PGH Capital Public Limited Company was substituted as lender under both the £900m loan facility and the £147.8m loan (see note 13) by Phoenix Group Holdings ('PGH'), the Company's parent entity.

25. Other information

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