PHOENIX LIFE HOLDINGS LIMITED

Company Registration Number: 06977344

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

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Strategic report

The Directors present the Strategic report of Phoenix Life Holdings Limited ('the Company') for the year ended 31 December 2016.

Principal activities
The principal activity of the Company is that of an investment company, and it is the ultimate EEA parent undertaking of the life insurance companies within the Phoenix Group. 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 £312.3m (2015: £69.1m).

Dividends of £111.6m were paid during the year (2015: £nil).

Position as at 31 December 2016
The net assets of the Company at 31 December 2016 were £4,093.7m (2015: £3,036.2m). The increase in the period reflects profit after taxation arising in the year of £319.2m (2015: £74.4m), net capital contributions received of £928.9m (2015: £1,245.3m), offset by dividends paid of £111.6m (2015: £nil), the redemption of perpetual reset capital securities of £75.0m (2015: issue of perpetual reset securities of £75.0m), the coupon paid net of tax on the perpetual reset securities of £4.0m (2015: £nil) and the repayment of subordinated loans treated as equity of £nil (2015: £198.2m).

Corporate activity and significant events

On 30 December 2016, the Company acquired 100% of the issued share capital of Abbey Life Assurance Company Limited and Abbey Life Trustee Services Limited from Deutsche Holdings No.4 Ltd (a wholly owned subsidiary of Deutsche Bank AG) for cash consideration of £932.6m.

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

The principal risks and uncertainties facing the Company are:

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

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

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

On behalf of the Board

James McConville

J McConville
Director
10 May 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 the United Kingdom as a private limited company. Its registration number is 06977344 and its Registered Office is 1 Wythall Green Way, Wythall, Birmingham, B47 6WG.

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

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

C Bannister		
A Barbour		
I Cormack		Resigned 31 December 2016
T Cross Brown		Resigned 11 May 2016
W Mayall	Appointed 10 May 2017	
J McConville		
J B Pollock	Appointed 1 January 2017	
D Woods		

Secretary
G A Watson acted as Secretary throughout the year.

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

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

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

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

James McConville

J McConville
Director
10 May 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 position, financial performance and cash flows of the Company for the accounting period. A fair presentation of the financial statements in accordance with IFRS requires the Directors to:

- select suitable accounting policies and verify they are applied consistently in preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business;

- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and

- state that the Company has complied with applicable IFRSs, subject to any material departures disclosed and explained in the financial statements.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PHOENIX LIFE HOLDINGS LIMITED

We have audited the financial statements of Phoenix Life Holdings Limited for the year ended 31 December 2016 which comprise 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 26. 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 Director's 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

23 May 2017

Statement of comprehensive income
for the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Revenue			
Investment income	3	489.0	113.1
Other income	4	13.5	-
Total income		502.5	113.1
Expenses			
Impairment of investments in subsidiaries	17	(130.4)	-
Other operating expenses	5	(11.5)	(1.4)
Total operating expenses		(141.9)	(1.4)
Profit before finance costs and tax		360.6	111.7
Finance costs	9	(48.3)	(42.6)
Profit for the year before tax		312.3	69.1
Tax credit	10	6.9	5.3
Total comprehensive income for the year attributable to owners		319.2	74.4

Statement of financial position
as at 31 December 2016

	Notes	2016 £m	2015 £m
Equity attributable to owners			
Share capital	11	806.0	806.0
Capital contribution	12	2,438.9	1,621.6
Perpetual reset capital securities	13	-	75.0
Retained earnings		848.8	533.6
Total equity		4,093.7	3,036.2
Non-current liabilities			
Long-term borrowings	14	986.0	869.0
Total non-current liabilities		986.0	869.0
Current liabilities			
Derivative liabilities	15	3.3	-
Amounts due to group entities		2.0	0.2
Accruals	16	5.9	1.1
Total current liabilities		11.2	1.3
Total liabilities		997.2	870.3
Total equity and liabilities		5,090.9	3,906.5
Non-current assets			
Investments in subsidiaries	17	4,577.2	3,376.9
Loans and receivables	18	250.0	250.0
Total non-current assets		4,827.2	3,626.9
Current assets			
Amounts due from group entities		12.7	7.1
Financial assets at fair value through profit or loss	19	247.6	272.5
Other debtors	20	3.4	-
Total current assets		263.7	279.6
Total assets		5,090.9	3,906.5

On behalf of the Board

James McConville

J McConville
Director
10 May 2017

Statement of cash flows
for the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Cash flows from operating activities			
Cash generated by operations	21	8.5	14.8
Net cash flows from operating activities		8.5	14.8
Cash flows from investing activities			
Capital contribution to group entity		(372.8)	(428.1)
Realisation/(acquisition) of financial assets		24.9	(272.4)
Dividends received from group entities		372.3	95.6
Purchase of subsidiaries		(932.6)	-
Settlement of derivative liabilities		(28.4)	-
Loans advanced to group entities		-	(145.3)
Loans repaid by group entities		-	286.3
Net cash flows from investing activities		(936.6)	(463.9)
Cash flows from financing activities			
Interest paid on borrowings		(44.4)	(25.8)
Debt issue costs paid		(3.5)	(3.3)
Capital contributions received		928.9	-
Loans received from group entities		382.4	428.1
Repayment of perpetual reset securities		(75.0)	-
Coupons paid on perpetual reset securities, net of tax relief		(4.0)	-
Loans repaid to group entities		(256.3)	-
Net cash flows from financing activities		928.1	399.0
Net increase in cash and cash equivalents		-	(50.1)
Cash and cash equivalents at the beginning of the year		-	50.1
Cash and cash equivalents at the end of the year		-	-

Supplementary disclosures on cash flow from operating activities

		2016 £m	2015 £m
Interest received		11.5	14.0

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

	Share capital (note 11) £m	Subordin -ated loans £m	Capital contribu -tion reserve (note 12) £m	Perpetual reset capital securities (note 13) £m	Retained earnings £m	Total £m
At 1 January 2016	806.0	-	1,621.6	75.0	533.6	3,036.2
Total comprehensive income for the year	-	-	-	-	319.2	319.2
Capital contributions received	-	-	928.9	-	-	928.9
Repayment of perpetual reset capital securities	-	-	-	(75.0)	-	(75.0)
Dividend paid	-	-	(111.6)	-	-	(111.6)
2016 coupon on perpetual reset capital securities	-	-	-	-	(4.9)	(4.9)
Tax relief on 2016 coupon	-	-	-	-	0.9	0.9
At 31 December 2016	806.0	-	2,438.9	-	848.8	4,093.7

	Share capital (note 11) £m	Subordin -ated loans £m	Capital contribu -tion reserve (note 12) £m	Perpetual reset capital securities (note 13) £m	Retained earnings £m	Total £m
At 1 January 2015	806.0	198.2	376.3	-	459.2	1,839.7
Total comprehensive income for the year	-	-	-	-	74.4	74.4
Net capital contributions received	-	-	1,245.3	-	-	1,245.3
Repayment of subordinated loans treated as equity	-	(198.2)	-	-	-	(198.2)
Receipt of perpetual reset capital securities	-	-	-	75.0	-	75.0
At 31 December 2015	806.0	-	1,621.6	75.0	533.6	3,036.2

Included in Retained earnings are reserves of £399.8m (2015: £399.8m) which are considered to be non-distributable.

Notes to the financial statements

1. Accounting policies

(a) Basis of preparation

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

The financial statements are separate financial statements and the exemptions in paragraph 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 ultimate parent Phoenix Group Holdings, a company incorporated in the 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 £0.1 million except where otherwise stated.

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

(b) Critical accounting estimates and judgements

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

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

Impairment of investments in subsidiaries and loans to Group entities

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

(c) Borrowings

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

(d) Income tax

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

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

1. Accounting policies (continued)

(d) Income tax (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 subsidiaries

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

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

(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.

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

(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 statement of comprehensive income.

Fair value estimation

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

(h) Cash and cash equivalents

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

1. Accounting policies (continued)

(i) Share capital and capital contributions

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

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

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

(k) Income recognition

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

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

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

(m) 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.

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

(o) 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 10 May 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).

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:

- 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 anticipates that the application of IFRS 9 is likely to have limited impact on the amounts reported in respect of the Company's financial statements.
- 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.
- 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. Investment income

	2016 £m	2015 £m
Investment income		
Interest income on cash and cash equivalents	1.0	0.4
Interest income on loans and receivables	10.5	17.1
Dividends received	483.9	95.6
	495.4	113.1
Fair value gains/(losses)		
Gain on novation of derivatives	25.3	-
Losses on matured derivatives	(28.4)	-
Unrealised losses on derivatives	(3.3)	-
Investment income	489.0	113.1

Interest income on loans and receivables includes interest of £10.5m (2015: £17.1m) on loans to Group entities.

Dividend income includes dividends from subsidiaries of £483.9m (2015: £95.6m), £372.3m which was received in cash (2015: £95.6m) and £111.6m in specie (2015: £nil).

4. Other income

	2016 £m	2015 £m
Gain on indemnity provided to subsidiary undertaking	13.5	-

The Company provided an indemnity to a subsidiary, Phoenix Life Assurance Limited ('PLAL'), whereby the Company the risk of the impact of any adjustments to a reinsurance contract entered into by PLAL. The gain represents the amount received from the reinsurer in respect of the true-up adjustments.

5. Other operating expenses

	2016 £m	2015 £m
Recharged service costs	6.8	1.2
Stamp duty on acquisition of subsidiary	4.7	-
Amortisation of debt issue costs	-	0.2
	11.5	1.4

Recharged service costs include £6.8m (2015: £1.2m) for management services and project costs charged by Pearl Group Management Services Limited and Pearl Group Services Limited.

Stamp duty of £4.7m was paid on the purchase of Abbey Life Assurance Company Limited and Abbey Life Trustee Services Limited.

6. Employee information

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

7. Directors' remuneration

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

	2016 £000	2015 £000
Salaries and other short-term benefits	222	225
Remuneration (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	222	225
Share-based payments	95	88
Contributions to money purchase pension schemes	-	-
Highest paid Directors' remuneration:		
Remuneration (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	84	77
Contributions to money purchase pension schemes	-	-
Number of Directors who are members of a money purchase pension scheme	-	-
Number of Directors who exercised share options during the year	2	1

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

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

8. Auditors' remuneration

The remuneration of the auditors of the Company, including their associates in respect of the audit of the financial statements was £0.1m (2015: £0.1m).

9. Finance costs

	2016 £m	2015 £m
Interest expense on borrowings at amortised cost	44.5	42.6
Debt issue costs	3.5	-
Amortisation of debt issue costs	0.3	-
	48.3	42.6

Interest expense on borrowings relates to interest of £44.5m (2015: £42.6m) on loans with Group entities.

10. Tax credit

Current year tax credit

	2016 £m	2015 £m
Current tax:		
UK Corporation tax	(6.9)	(5.3)

Reconciliation of tax credit

	2016 £m	2015 £m
Profit before tax	312.3	69.1
Tax at standard UK rate of 20.0% (2015: 20.25%)	62.5	14.0
Non-taxable income and gains	(96.8)	(19.3)
Non-taxable impairment of investments in subsidiaries	26.0	-
Disallowable expenses	1.4	-
Total tax credit for the year	(6.9)	(5.3)

11. Share capital

	2016 £m	2015 £m
Issued and fully paid: 806,000,022 (2015: 806,000,022) ordinary shares of £1 each	806.0	806.0

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

12. Capital contribution

	2016 £m	2015 £m
At 1 January	1,621.6	376.3
Additions	928.9	1,392.1
Returns	-	(146.8)
Distributions	(111.6)	-
At 31 December	2,438.9	1,621.6

During the year the Company received capital contributions of £928.9m from PGH (LCA) Limited ('LCA') and PGH (LCB) Limited ('LCB') (2015: £1,392.1m). The Company distributed £111.6m to LCA and LCB (2015: £nil) and returned capital contributions of £nil to LCA and LCB (2015: £146.8m).

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

13. Perpetual reset capital securities

	Principal outstanding		Carrying value	
	2016 £m	2015 £m	2016 £m	2015 £m
Perpetual reset capital securities	-	75.0	-	75.0

On 27 May 2015, the Company assumed the obligations of a fellow subsidiary, Pearl Group Holdings (No. 1) Limited ('PGH1') under perpetual reset capital securities issued to Phoenix Group Holdings for £75.0m (the 'Balancing Instrument') in exchange for a promissory note of £75.0m due to the Company.

On 25 April 2016, the Balancing Instrument was redeemed by the Company.

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

The Balancing Instrument had no fixed maturity date and interest payments may be deferred at the option of the Company; accordingly the Balancing Instrument met the definition of equity for financial reporting purposes. The Balancing Instrument 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').

The Balancing Instrument was redeemable at par in its entirety (but not in part), at the option of the Company on the first reset date of 25 April 2016 or on any coupon payment date thereafter. Redemption was subject to the agreement of the PRA and subject to PGH1 first repaying its outstanding liability under the perpetual reset securities Notes. In certain circumstances the Company had the right to substitute the Balancing Instrument or to redeem the Balancing Instrument before the first reset date.

Coupons were payable annually in arrears on 25 April, at the rate of 6.5864% per annum, until the first reset date. Thereafter coupons were payable semi-annually at 2.73% per annum over the then prevailing offered rate for six-month sterling deposits. A coupon of £4.9m was paid on 25 April 2016 (2015: £nil).

14. Borrowings

	Carrying value		Fair value	
	2016	2015	2016	2015
	£m	£m	£m	£m
Loans from Group companies at amortised cost:				
a) PGH (LCA) Limited and PGH (LCB) Limited	150.0	-	150.0	-
b) PGH Capital plc	425.3	425.0	451.6	437.9
c) Pearl Group Holdings (No.2) Limited	410.7	444.0	410.7	444.0
	986.0	869.0	1,012.3	881.9
Amounts due for settlement within 12 months	-	-		
Amounts due for settlement after 12 months	986.0	869.0		

a) On 27 May 2016, the Company (as borrower) entered into a £220.0m loan facility agreement with PGH (LCA) Limited and PGH (LCB) Limited ('the Lenders') and was advanced £182.4m under the facility on 31 October 2016. 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 20 December 2016, the Company repaid the advance under the facility. Interest of £0.2m was incurred under this facility during the year.

On 20 December 2016, the Company (as borrower) entered into a £250.0m loan facility agreement with the Lenders and drew down £200.0m of the facility. The loan accrues interest at LIBOR plus a margin ratchet which operates by reference to the Group's gearing ratio. The final maturity date of the loan is 30 June 2020 with the Company having the option to prepay the loan in whole or in part upon three days written notice to the Lenders. On 29 December 2016, the Company repaid £50.0m of the balance.

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

Debt issue costs of £3.3m were offset against the value of the loan and these are being amortised over the life of the loan. During the year, £0.3m of debt issue costs were amortised (2015: £0.2m), and interest of £28.6m was incurred (2015: £25.8m).

On 20 March 2017, PGH Capital plc was substituted as lender under this loan by Phoenix Group Holdings, the Company's ultimate parent entity.

c) On 28 May 2015 the Company was advanced a loan of £693.5m from Pearl Group Holdings (No.2) Limited. The loan accrues interest six month LIBOR plus a margin of 2.9% and has a maturity date of 28 May 2020. During the year, the Company settled the interest due on the loan in respect of 2015 of £9.4m and repaid £23.9m of the balance due under the loan. Interest of £15.6m was incurred under this loan during the year (2015: £9.4m).

Determination of fair value and fair value hierarchy of borrowings

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

There were no level 1 or level 2 borrowings in 2016 or 2015.

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

15. Derivative liabilities

	2016 £m	2015 £m
OTC derivative – synthetic equity forward	3.3	-

The derivative has a termination date of 17 March 2017.

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

There were no level 1 or level 3 derivative liabilities in 2016 or 2015.

16. Accruals

	2016 £m	2015 £m
Accrued interest on borrowings	1.2	1.1
Accrued expenses	4.7	-
	5.9	1.1

17. Investment in subsidiaries

	2016 £m	2015 £m
Cost		
At 1 January	3,376.9	1,205.8
Acquisitions	932.6	1,743.0
Capital contributions made to subsidiary	398.1	428.1
At 31 December	4,707.6	3,376.9
Impairment		
At 1 January	-	-
Impairment charge	(130.4)	-
At 31 December	(130.4)	-
At 31 December	4,577.2	3,376.9

On 1 October 2016, the Company made a cash capital contribution of £372.8m to Impala Holdings Limited ('IHL') (2015: £428.1m). On 1 November 2016, the Company novated derivatives with a fair value of £25.3m to IHL (2015: £nil).

On 30 December 2016, the Company acquired the entire issued share capital of Abbey Life Assurance Company Limited for a cash consideration of £932.6m.

17. Investment in subsidiaries (continued)

On 23 January 2015, the Company made a capital contribution of £428.1m to IHL.

On 22 June 2015, the Company acquired the remaining 25% of the issued share capital of IHL, which represented 82.75% of the economic interest in IHL, for a consideration of £1,743.0m. The consideration was settled in the form of capital contributions received by the Company and the settlement of loans due to the Company.

The subsidiaries of the Company at 31 December 2016 were as follows:

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

Where indicators of impairment have been identified the carrying value of the Company's investments in its subsidiaries has been tested for impairment at the period end. Following an assessment of the Company's investments in its subsidiaries, a provision for impairment of £130.4m was made (2015: £nil).

The financial statements of PGH2 and IHL contain listings of all material subsidiaries of those companies.

18. Loans and receivables

	Carrying value		Fair value	
	2016	2015	2016	2015
	£m	£m	£m	£m
Loans to Group companies at amortised cost:				
Phoenix Life Assurance Limited	250.0	250.0	250.0	250.0
Amounts due for settlement within 12 months	-	-		
Amounts due for settlement after 12 months	250.0	250.0		

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

The loan is not considered to be past due nor impaired.

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

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

There were no level 1 or level 2 loans and receivables in 2016 or 2015.

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

19. Financial assets at fair value through profit or loss

	2016 £m	2015 £m
Financial assets at fair value through profit or loss		
Designated upon initial recognition		
Open ended investment companies	247.6	272.5
Total financial assets	247.6	272.5

Determination of fair value and fair value hierarchy of financial assets

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

There were no level 2 or level 3 financial assets in 2016 or 2015.

Up to 31 December 2016, as part of the overall Phoenix Group capital requirements, the Company was required to maintain £50.0m liquid assets free from any charge. Liquid assets comprised holdings in open ended investment companies and cash and cash equivalents In the event that this liquid asset buffer was not maintained any dividends or planned loan repayments in lieu of dividends would have been reduced or suspended to the extent necessary to ensure that the £50.0m liquid asset buffer was restored within a reasonable time.

20. Other debtors

	2016 £m	2015 £m
Collateral lodged against derivative liabilities	3.4	-

21. Cash flows from operating activities

	2016 £m	2015 £m
Profit for the year before tax	312.3	69.1
Adjustments to reconcile profit for the year to net cash inflow from operating activities in respect of:		
Interest income on loans and receivables	-	(3.5)
Interest expense on borrowings	48.3	42.6
Dividends received	(483.9)	(95.6)
Fair value gains and losses	6.4	-
Impairments of investments in subsidiaries	130.4	-
Amortisation of debt issue costs	-	0.2
Change in operating assets and liabilities	(5.0)	2.0
Cash generated by operations	8.5	14.8

22. Capital and risk management

The Company's capital comprises share capital and all reserves. The total capital of the Company at 31 December 2016 was £4,093.7m (2015: £3,036.2m). The movement in the period reflects profit after taxation arising in the year of £319.2m (2015: £74.4m), net capital contributions received of £928.9m (2015: £1,245.3m), offset by dividends paid of £111.6m (2015: £nil), the redemption of perpetual reset capital securities of £75.0m (2015: issue of perpetual reset securities of £75.0m), the coupon paid net of tax on the perpetual reset securities of £4.0m (2015: £nil) and the repayment of subordinated loans treated as equity of £nil (2015: £198.2m).

Up to 31 December 2016, as part of the overall Phoenix Group capital requirements, the Company was required to maintain £50.0m liquid assets free from any charge. In the event that this liquid asset buffer was not maintained any dividends or planned loan repayments in lieu of dividends would have been reduced or suspended to the extent necessary to ensure that the £50.0m liquid asset buffer was restored within a reasonable time.

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 principal risks and uncertainties facing the Company are:

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

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

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 2016, interest income received by the Company on loans to its subsidiary and fellow subsidiaries amounted to £10.5m (2015: £13.6m) and interest expense paid by the Company on loans from its parent undertakings, subsidiaries and fellow subsidiaries amounted to £44.4m (2015: £25.8m).

Amounts due to related parties

	2016 £m	2015 £m
Loans due to parents	150.0	-
Loans due to subsidiary	410.7	440.0
Loans due to fellow subsidiaries	425.3	425.0
Amounts due to subsidiaries	0.1	-
Amounts due to fellow subsidiaries	1.9	0.2

Amounts due from related parties

	2016 £m	2015 £m
Loans due from fellow subsidiaries	250.0	250.0
Amounts due from parents	4.6	-
Amounts due from subsidiary	-	1.8
Amounts due from fellow subsidiaries	8.1	5.3

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 26.

24. Events after the reporting period

On 20 January 2017, the Company entered into a £300.0m Tier 3 loan with a fellow subsidiary, PGH Capital plc ('PGHC'). The loan bears interest at a rate of 4.175% and has a maturity date of 20 July 2022. The loan is subordinate to the claims of the senior creditors of the Company.

On 20 March 2017, PGHC was substituted as lender under both the £428.1m loan (see note 14) and the £300m Tier 3 loan above by Phoenix Group Holdings, the Company's ultimate parent entity.

25. Contingent liability

The Company has agreed and undertakes to Pearl Group Holdings (No. 2) Limited ('PGH2') that on written request from PGH2, and to the extent that funds are not otherwise available to PGH2 to meet its liabilities, the Company shall either directly pay any debt or claim outstanding from PGH2 to any of its creditors or shall fund the PGH2 in such manner as may be agreed to enable PGH2 to meet its obligations up to a maximum value of £205.0m.

During the year, the Company provided £40.0m to PGH2 under the above support arrangement, reducing the maximum value to £165.0m.

26. Other information

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

The Company's immediate parent companies are PGH (LCA) Limited and PGH (LCB) Limited who jointly control the Company. The Company's ultimate parent is Phoenix Group Holdings. 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.