PEARL GROUP HOLDINGS (NO. 1) LIMITED

Company Registration Number: 3524909

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

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Strategic report

The Directors present the Strategic report of Pearl Group Holdings (No. 1) Limited ('the Company') for the year ended 31 December 2020.

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

Corporate activity

Result and dividends
The results of the Company for the year are shown in the statement of comprehensive income on page 10. The profit before tax was £63.7m (2019: £72.2m) and the total comprehensive income for the year was £48.3m (2019: comprehensive loss of £249.5m).

Financial position as at 31 December 2020
The total equity of the Company at 31 December 2020 was £2,929.3m (2019: £2,881.0m). The increase in the year reflects total comprehensive income arising in the year of £48.3m (2019: comprehensive loss of £249.5m).

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

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

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

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

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

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

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

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

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

During the year, the directors of Pearl Group Holdings (No.1) Limited have applied section 172 of the Companies Act 2006 in a manner consistent with the overall purpose, values and strategic priorities of the Phoenix Group. When considering issues of strategic importance, and making key decisions about the company (or those that impact the wider Group), the directors have acted in a way which they consider, in good faith, is most likely to promote the success of the Company for the benefit of its members as a whole.

Strategic report (continued)

An example of how the board considered relevant matters set out in section 172 is outlined in the table below, demonstrating how the directors of Pearl Group Holdings (No.1) Limited have carried out their duties under section 172 of the Companies Act 2006 during the year ended 31 December 2020.

KEY BOARD DECISION	**Approval of YE19 Company Accounts**
Strategic Importance	Consideration of s172 matters
Managing our capital position	• The Board considered whether the expectation that the Company would continue in operational existence for the foreseeable future was appropriate. Such consideration enabled the Board to reach a decision to approve the YE19 accounts, within which a going concern statement was included (relied upon by others assessing the business). The long term impact of the decision to approve the YE19 accounts therefore included the potential reliance of others on the going concern statement, which the Board considered to be relevant and accurate. • Prior to approving the YE19 accounts, the board considered the outcome of an external audit for the accounts. By ensuring that clearance had been received from the external auditor, the Board was able to ensure that the Company's reputation for high standards of business conduct was maintained, expected by all stakeholders. • A paper accompanying the accounts under consideration provided the Board with guidance in relation to the impact of its decision on customers, the community and the environment. The decision to approve the YE19 accounts was not considered to impact the Group's customers, wider stakeholders (including its business partners and suppliers) nor the Group's ESG/sustainability agenda.
Outcome	Following due consideration of the matters set out in section 172, the Board approved the YE19 accounts.

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

Employees

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

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

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

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

DocuSigned by:
Rakesh Thakrar
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R Thakrar
Director
23 September 2021

Directors' report

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

The Company is incorporated in England as a private limited company. Its registration number is 3524909 and its Registered Office is 20 Old Bailey, London, EC4M 7AN or www.thephoenixgroup.com.

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 18 to the financial statements summarises the Company's capital management and risk objectives and policies together with its financial risks.

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

In order to meet the obligation under the current liabilities, the Company has been provided with a letter of support from its immediate parent undertaking, Impala Holdings Limited ("IHL"), with a value of £10m. IHL has provided the financial support until the earlier of: the date upon which an amount of £10m is paid in liquid assets to the Company by IHL; the Company has notified IHL that it no longer requires the financial support; the Company ceases to be a subsidiary (as defined in section 1159 of the Companies Act 2006) of IHL; or a winding-up or dissolution or any analogous process has been commenced in respect of the Company. Any support that may be provided by IHL is limited to extent that funds are not otherwise available to the Company to meets its liabilities.

As a result of this review, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for twelve months from the signing date to 30 September 2022. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Employees
Information on employees is shown in the Strategic Report on pages 2 to 3.

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

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

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

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

Disclosure of information to auditors
So far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware, and each of the Directors has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act 2006.

Statement on Business Relationships

Business relationships with customers
Although the Company provides a service mainly for the Phoenix Group (the 'Group'), it is the sponsoring employer in respect of the PGL Pension Scheme (the 'Scheme') and works closely with the trustees of the Scheme to ensure that the interests of the Scheme's members are safeguarded.

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

Directors' report (continued)

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

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

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

On behalf of the Board

DocuSigned by:
Rakesh Thakrar
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R Thakrar
Director
23 September 2021

Statement of Directors' responsibilities

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

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

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

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

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

Opinion

We have audited the financial statements of Pearl Group Holdings (No.1) Limited ("the company") for the year ended 31 December 2020 which comprise the Statement of comprehensive income, Statement of financial position, the Statement of cash flows, the Statements of changes in equity and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant related to elements of company law and tax legislation, and the financial reporting framework.
- We understood how the company is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the company and UK regulatory bodies and reviewed minutes of the Board.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the controls that the company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered the impact of COVID-19 on the company's entity level controls. Our procedures over the company's control environment included assessment of the consistency of entity level controls as they transitioned to operating remotely for a significant proportion of 2020.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved: making enquiries of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, enquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees and enquiring about the company's methods of enforcing and monitoring compliance with such policies.

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

Use of our report

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

Ernst & Young LLP

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

27 September 2021

Income statement
for the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Revenue			
Investment income	3	68.1	75.6
Total income		68.1	75.6
Administrative expenses	4	(4.4)	(3.4)
Profit before tax		63.7	72.2
Tax charge	8	(12.8)	(10.8)
Profit for the year attributable to owners		50.9	61.4

Statement of comprehensive income
for the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Profit for the year		50.9	61.4
Other comprehensive income:			
Items that will not be reclassified to profit of loss			
Re-measurements of net defined benefit	13	(3.2)	(315.1)
Deferred tax credit	8	0.6	4.2
		(2.6)	(310.9)
Total comprehensive income/(loss) for the year attributable to owners		48.3	(249.5)

Statement of financial position
as at 31 December 2020

	Notes	As at 31 December 2020 £m	As at 31 December 2019 £m
Equity attributable to owners			
Share capital	9	34.7	34.7
Share premium	10	1,574.1	1,574.1
Retained earnings		1,320.5	1,272.2
Total equity		2,929.3	2,881.0
Non-current liabilities			
Deferred tax	11	5.6	6.2
Total non-current liabilities		5.6	6.2
Current liabilities			
Amounts due to Group entities	12	5.6	12.9
Total current liabilities		5.6	12.9
Total liabilities		11.2	19.1
Total equity and liabilities		2,940.5	2,900.1
Assets			
Non-current assets			
Pension scheme asset	13	30.3	37.1
Long-term loans and receivables	14	-	2,860.5
Total non-current assets		30.3	2,897.6
Current assets			
Short-term loans and receivables	14	2,908.0	-
Accrued income	15	0.1	0.2
Financial assets	16	2.1	2.3
Total current assets		2,910.2	2.5
Total assets		2,940.5	2,900.1

On behalf of the Board

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Rakesh Thakrar
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R Thakrar
Director
23 September 2021

Statement of cash flows
for the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Cash flows from operating activities			
Cash absorbed by operations	17	(0.2)	(11.9)
Net cash flows from operating activities		(0.2)	(11.9)
Cash flows from investing activities			
(Purchase)/sale of financial assets		0.2	(0.8)
Repayment of loans by Group entities		-	12.7
Net cash flows from investing activities		0.2	11.9
Cash flows from financing activities			
Dividends paid		-	-
Net cash flows from financing activities		-	-
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

	2020 £m	2019 £m
Interest received	19.9	0.9

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

	Share capital (note 9) £m	Share premium (note 10) £m	Retained earnings £m	Total £m
At 1 January 2020	34.7	1,574.1	1,272.2	2,881.0
Profit for the year	-	-	50.9	50.9
Other comprehensive loss	-	-	(2.6)	(2.6)
Total comprehensive income for the year	-	-	48.3	48.3
At 31 December 2020	34.7	1,574.1	1,320.5	2,929.3

	Share capital (note 9) £m	Share premium (note 10) £m	Retained earnings £m	Total £m
At 1 January 2019	34.7	1,574.1	1,521.7	3,130.5
Profit for the year	-	-	61.4	61.4
Other comprehensive loss	-	-	(310.9)	(310.9)
Total comprehensive income for the year	-	-	(249.5)	(249.5)
At 31 December 2019	34.7	1,574.1	1,272.2	2,881.0

Included in retained earnings are reserves of £277.5m (2019: £229.2m) which are considered 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.

In order to meet the obligation under its current liabilities, the Company has been provided with a letter of support from its immediate parent undertaking, Impala Holdings Limited (“IHL”), with a value of £10m. IHL has provided the financial support until the earlier of: the date upon which an amount of £10m is paid in liquid assets to the Company by IHL; the Company has notified IHL that it no longer requires the financial support; the Company ceases to be a subsidiary (as defined in section 1159 of the Companies Act 2006) of IHL; or a winding-up or dissolution or any analogous process has been commenced in respect of the Company. Any support that may be provided by IHL is limited to extent that funds are not otherwise available to PGH1 to meets its liabilities.

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

The Company’s immediate parent is Impala Holdings Limited whose Registered Office is 1 Wythall Green Way, Wythall, Birmingham, B47 6WG. The results of the Company are consolidated into the accounts of the Company’s ultimate parent Phoenix Group Holdings Public Limited Company (‘PGH plc’), a company incorporated in the United Kingdom. The registered address of PGH plc is 20 Old Bailey, London, EC4M 7AN.

Statement of compliance
The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements are presented in sterling (£) rounded to the nearest £0.1m except where otherwise stated.

Assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the 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 Group.

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

Impairment of loans and receivables
Loans to Group entities are subject to regular impairment reviews when management are aware of objective evidence of impairment. Impairments in loans to Group entities are measured as 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 loans and receivables is detailed in accounting policy (e).

Pension benefit assets and liabilities
The valuation of pension benefit assets and liabilities is determined using actuarial valuations, which involves making assumptions about discount rates, expected return rates on assets, future salary increases, mortality rates and future pension increases. As defined benefit pension plans are long term in nature, such assumptions are subject to significant uncertainty. Details of the key assumptions used are shown in note 13. The Company’s policy in relation to employee benefits is detailed in accounting policy (d).

1. Accounting policies (continued)

(c) 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.

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

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

(d) Employee benefits

Defined contribution plans

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

Defined benefit scheme

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

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

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

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

(e) Financial assets

Classification of Financial assets

Financial assets are measured at amortised cost where they have:

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

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

1. Accounting policies (continued)

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

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

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

The loss allowance reduces the carrying value of the financial asset and is reassessed at each reporting date. ECLs are recognised using a provision for doubtful debts account in profit and loss. For other receivables, the ECL rate is recalculated each reporting period taking into account which counter parties are included in the reporting period.

ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:
- 12-month ECLs - Total expected credit losses that result from default events that are possible within 12 months after the reporting date.
- Lifetime ECLs - Expected credit losses that result from all possible default events over the expected life of the financial asset.

No significant changes to estimation techniques or assumptions were made during the reporting period.

(f) Amounts due from Phoenix Group entities
Amounts due from Phoenix Group entities are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method. Gains and losses are recognised in the income statement through the amortisation process.

The Company assesses at each reporting date whether amounts owed by Phoenix Group entities are impaired. The Company first assesses whether objective evidence of impairment exists. Evidence of impairment needs to be significant or prolonged to determine that objective evidence of impairment exists. Evidence of impairment is obtained by comparing the carrying value of the amounts owed by Phoenix Group entities with the present value of the estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the investments original effective interest rate.

(g) 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, net interest income/(expense) on the net defined asset/(liability) and fair value gains and losses on financial assets and amounts owed by Phoenix Group entities.

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

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

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

1. Accounting policies (continued)

(k) 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.

(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 2020, set out on pages 10 to 30 were authorised by the Board of Directors for issue on 23 September 2021.

Adoption of New Accounting Pronouncements in 2020
In preparing the financial statements, the Company has adopted the following standards, interpretations and amendments which have been issued by the International Accounting Standards Board ('IASB'):

- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7): The amendments have arisen following the phasing out of interest-rate benchmarks such as interbank offered rates ('IBOR'). S These amendments have no impact on the Company; and

- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Amendments clarify the definition of material and how it should be applied.

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

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

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

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

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

3. Investment income

	2020 £m	2019 £m
Investment income		
Interest income on loans and receivables	67.3	75.4
Net interest income on defined benefit scheme asset (see note 13)	0.8	0.2
Total investment income	68.1	75.6

Interest income on loans and receivables includes interest of £67.3m (2019: £75.4m) on loans to Group entities.

4. Administrative expenses

	2020 £m	2019 £m
Pension scheme - administrative expenses (see note 13)	3.1	3.2
Pension scheme - past service cost (see note 13)	1.3	-
Other administrative expenses	-	0.2
Total administrative expenses	4.4	3.4

5. Employee information

Employee costs comprise:

	2020 £000	2019 £000
Wages and salaries	687	1,042
Social security contributions	76	144
	763	1,186

	2020	2019
Average number of persons employed	12	12

All employee related costs for the current and prior year were borne by a fellow subsidiary, Pearl Group Management Services Limited. As at 1 July 2020, all employees were transferred to a fellow Group undertaking, Pearl Group Management Services Limited. At 31 December 2020, the Company had no employees.

6. Directors' remuneration

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

6. Directors' remuneration (continued)

During the year to 31 December 2020 key management personnel and their close family members contributed £73,691 to pensions and savings products sold by the Group. At 31 December 2020, the total value of key management personnel's investments in Group pensions and savings products was £184,802

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

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

7. Auditor's remuneration

The remuneration of the auditor of the Company, including their associates, in respect of the audit of the financial statements was £0.1m (2019: £0.1m) which is borne by the Company's parent, Impala Holdings Limited.

8. Tax charge

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

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

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

(a) Current year tax charge in the income statement

	2020 £m	2019 £m
Current tax:		
UK Corporation tax	12.8	14.3
Adjustments in respect of prior periods	-	(1.5)
Total current tax	12.8	12.8
Deferred tax:		
Origination and reversal of temporary differences	(0.7)	(2.0)
Effect of changes in tax rate	0.7	-
Total deferred tax	-	(2.0)
Total tax charge	12.8	10.8

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

	2020 £m	2019 £m
Deferred tax on actuarial gains of defined benefit schemes	(0.6)	(4.2)

8. Tax charge (continued)

(c) Reconciliation of tax charge

The tax assessed on the profit on ordinary activities for the year is higher (2019: lower) than the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%). The differences are reconciled below:

	2020 £m	2019 £m
Profit before tax	63.7	72.2
Tax at standard UK rate of 19.00% (2019: 19.00%)	12.1	13.7
Non-taxable income	-	(1.4)
Adjustments in respect of previous periods	-	(1.5)
Deferred tax rate change	0.7	
Total tax charge/(credit) for the year	12.8	10.8

9. Share capital

	2020 £m	2019 £m
Issued and fully paid:		
694,108,418 (2019: 694,108,418) ordinary shares of £0.05 each	34.7	34.7

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

10. Share premium

	2020 £m	2019 £m
At 1 January and 31 December	1,574.1	1,574.1

11. Tax assets and liabilities

	2020 £m	2019 £m
Deferred tax		
The balances at 31 December comprise:		
Deferred tax assets	0.1	0.1
Deferred tax liabilities	(5.7)	(6.3)
Net deferred tax liabilities	(5.6)	(6.2)

11. Tax assets and liabilities (continued)

Movement in deferred tax assets and liabilities:

Year ended 31 December 2020

	1 Jan £m	Recognised in the income statement £m	Recognised in other comprehensive income £m	31 Dec £m
Accelerated capital allowances	0.1	-	-	0.1
Pension scheme surplus	(6.3)	-	0.6	(5.7)
	(6.2)	-	0.6	(5.6)

Year ended 31 December 2019

	1 Jan £m	Recognised in the income statement £m	Recognised in other comprehensive income £m	31 Dec £m
Accelerated capital allowances	0.2	(0.1)	-	0.1
Pension scheme surplus	(12.6)	2.1	4.2	(6.3)
	(12.4)	2.0	4.2	(6.2)

12. Amounts due to Group entities

	2020 £m	2019 £m
Group relief payable	5.6	12.8
Short-term intra-group borrowings	-	0.1
Total amounts owed to Group entities	5.6	12.9

All amounts are due to be settled within 12 months.

13. Pension scheme

Scheme details

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

Defined contribution scheme

On 1 July 2020 the Group closed the defined contribution section of the PGL Scheme and ceased making contributions from this date. Contributions in the period to 1 July 2020 were £4.8m (2019: £7.0m).

Defined benefit scheme

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

The Scheme is administered by a separate trustee company, PGL Pension Trustee Ltd. The trustee company is comprised of two representatives from the Phoenix Group, three member nominated representatives and one independent trustee in accordance with the Trustee company’s articles of association. The Trustee is required by law to act in the interest of all relevant beneficiaries and is responsible for the investment policy with regard to the assets plus the day to day administration of the benefits.

13. Pension scheme (continued)

The valuation has been based on an assessment of the liabilities of the Scheme as at 31 December 2020, undertaken by independent qualified actuaries.

To the extent that an economic surplus will be available as a refund, the economic surplus is stated after a provision for tax that would be borne by the scheme administrators when the refund is made.

Funding

A triennial funding valuation of the Scheme as at 30 June 2018 was completed in 2019. This showed a surplus as at 30 June 2018 of £246.0m. The IFRS valuation cash flows have been updated to reflect the latest valuation data.

There are no further committed contributions to pay in respect of the defined benefit section of the Scheme.

Insurance policies with Group entities

In March 2019, the PGL Pension Scheme entered into a 'buy-in' agreement with Phoenix Life Limited ("PLL") which covered the remaining pensioner and deferred members of the Scheme not covered by the first such agreement concluded in December 2016. The scheme transferred £1,115m of plan assets to a collateral account and this transfer constituted the payment of premium to PLL. An adjustment of £13.0m to the value of the premium was paid to PLL in 2020.

As with the initial 'buy-in' transaction completed in December 2016, the economic effect of the transaction in the Scheme is to replace the plan assets transferred with a single line insurance policy reimbursement asset which is eliminated on consolidation. The value of this insurance policy at the date of the buy-in was £669.5m.

The value of the insurance policies with PLL at 31 December 2020 is £1,749.3m (2019: £1,686.5m).

13. Pension scheme (continued)

Summary of amounts recognised in the financial statements

The amounts recognised in the financial statements are as follows:

	Fair value of scheme assets £m	Reimbur-sement rights £m	Defined benefit obligation £m	Provision for tax on the economic surplus available as a refund £m	Total £m
At 1 January 2020	41.3	1,686.5	(1,690.7)	-	37.1
Interest income/(expense)	0.8	32.0	(32.0)	-	0.8
Administrative expenses	(3.1)	-	-	-	(3.1)
Past service cost	-	-	(1.3)	-	(1.3)
Included in income statement	(2.3)	32.0	(33.3)	-	(3.6)
Re-measurements:					
Return on plan assets excluding amounts included in interest income	(4.5)	105.5	-	-	101.0
Gain from change in demographic assumptions	-	-	6.9	-	6.9
Loss from change in financial assumptions	-	-	(153.9)	-	(153.9)
Experience gains	-	-	42.8	-	42.8
Included in other comprehensive income	(4.5)	105.5	(104.2)	-	(3.2)
Benefit payments	-	(74.7)	74.7	-	-
At 31 December 2020	34.5	1,749.3	(1,753.5)	-	30.3

13. Pension scheme (continued)

The amounts recognised in the financial statements are as follows:

	Fair value of scheme assets £m	Reimbur-sement rights £m	Defined benefit obligation £m	Provision for tax on the economic surplus available as a refund £m	Total £m
At 1 January 2019	1,157.8	877.2	(1,528.5)	(151.3)	355.2
Interest income/(expense)	9.2	33.0	(37.8)	(4.2)	0.2
Administrative expenses	(3.2)	-	-	-	(3.2)
Included in income statement	6.0	33.0	(37.8)	(4.2)	(3.0)
Re-measurements:					
Return on plan assets excluding amounts included in interest income	9.9	176.2	-	-	186.1
Loss on plan assets resulting from buy-in	(458.2)	-	-	-	(458.2)
Gain from change in demographic assumptions	-	-	10.8	-	10.8
Loss from change in financial assumptions	-	-	(175.0)	-	(175.0)
Experience losses	-	-	(34.3)	-	(34.3)
Change in provision for tax on economic surplus available as a refund	-	-	-	155.5	155.5
Included in other comprehensive income	(448.3)	176.2	(198.5)	155.5	(315.1)
Benefit payments	(4.7)	(69.4)	74.1	-	-
Insurance policy classified as reimbursement asset following buy-in	(669.5)	669.5	-	-	-
At 31 December 2019	41.3	1,686.5	(1,690.7)	-	37.1

13. Pension scheme (continued)

Scheme assets

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

	Total 2020 £m	Of which not quoted in an active market 2020 £m	Total 2019 £m	Of which not quoted in an active market 2019 £m
Cash and other	34.5	-	41.3	-
	34.5	-	41.3	-
Insurance policies	1,749.3	1,749.3	1,686.5	1,686.5
Total scheme assets	1,783.8	1,749.3	1,727.8	1,686.5

The actual return on plan assets was £133.8m (2019: negative income of £229.9m).

Defined benefit obligation

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

Deferred scheme members: 36% (2019: 36%)

Retirees: 64% (2019: 64%)

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

Principal assumptions

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

	2020 %	2019 %
Rate of increase in pensions in payment (7.5% per annum or RPI if lower)	2.90	3.00
Rate of increase for deferred pensions ('CPI')	2.10	2.20
Discount rate	1.40	2.00
Inflation – RPI	2.90	3.00
Inflation – CPI	2.10	2.20

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

It has been assumed that post-retirement mortality is in line with 86%/94% of S1PL base tables with future longevity improvements from 1 January 2017 based on modified CMI 2019 Core Projections (2019: CMI 2018 Core Projections) and a long-term rate of improvement of 1.70% (2019: 1.60%) per annum for males and 1.20% (2019: 1.30%) per annum for females. Under these assumptions, the average life expectancy from retirement for a member currently aged 40 retiring at age 62 is 28.4 years (2019: 28.3 years) and 29.3 years (2019: 29.6 years) for male and female members respectively.

13. Pension scheme (continued)

A quantitative sensitivity analysis for significant actuarial assumptions as at 31 December 2020 is shown below:

2020

Assumptions	Base	Discount rate		Retail Price Index		Life expectancy	
Sensitivity level		25bps increase	25bps decrease	25bps increase	25bps decrease	1 year increase	1 year decrease
	£m	£m	£m	£m	£m	£m	£m
Impact on the defined benefit obligation	1,749.3	(67.0)	69.7	55.1	(53.0)	64.8	(64.8)

2019

Assumptions	Base	Discount rate		Retail Price Index		Life expectancy	
Sensitivity level		25bps decrease	25bps increase	25bps decrease	1 year increase	1 year decrease	25bps increase
	£m	£m	£m	£m	£m	£m	£m
Impact on the defined benefit obligation	1,686.5	(64.6)	67.2	53.0	(51.0)	62.5	(62.5)

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

Guaranteed Minimum Pension ('GMP') Equalisation

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

In 2018, the Company undertook an initial assessment, and included an allowance for the potential cost of equalising GMP for the impact between males and females in its IAS 19 actuarial liabilities at 31 December 2018, pending further discussions with the scheme Trustees and the issuance of guidance as to how equalisation should be achieved. During the year, following a review of the current methodology and assumptions the allowance for the potential cost of equalising GMP has been updated and the resulting reduction in the defined benefit obligation of £16m has been recognised in other comprehensive income as an experience gain.

On 25 November 2020, the GMP equalisation ruling covering transfers out was released and this confirmed that pension schemes are required to equalise all transfers with 17 May 1990 to 5 April 1997 GMPs even if they were taken as far back as 1990. A further exercise was undertaken to estimate the additional costs of allowing for GMP equalisation on transfers out and during the year a further cost of £1.3m was recognised as a past service cost in the income statement.

14. Loans and receivables

	Carrying value		Fair value	
	2020	2019	2020	2019
	£m	£m	£m	£m
Amounts due by Phoenix Group entities	2,908.0	2,860.5	2,908.0	2,860.5
Total loans and receivables	2,908.0	2,860.5	2,908.0	2,860.5
Amounts due within 12 months	2,908.0	-		
Amounts due after 12 months	-	2,860.5		

The Company entered into a loan facility with Impala Holdings Limited ("IHL") which accrues interest at LIBOR plus a margin of 1.75%, which is capitalised semi-annually on 30 June and 31 December. The loan has a maturity date of 31 December 2021.

During the year, interest of £67.4m was capitalised (2019: £74.1m) and IHL repaid £19.9m (2019: £12.7m).

14. Loans and receivables (continued)

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

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

There were no level 1 or level 2 loans to Phoenix Group entities in 2020 or 2019.

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

15. Accrued income

	2020 £m	2019 £m
Accrued interest on loans and receivables	0.1	0.2

16. Financial assets

	2020 £m	2019 £m
Financial assets at fair value through profit or loss		
Shares in open ended investment companies	2.1	2.3

All amounts are recoverable within 12 months.

Determination of fair value and fair value hierarchy of financial assets

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

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

17. Cash flows from operating activities

	2020 £m	2019 £m
Profit for the year before tax	63.7	72.2
Adjustments to reconcile profit for the year to net cash inflow from operating activities in respect of:		
Investment income	(47.4)	(74.5)
Net interest income, administrative costs and service costs on defined benefit pension asset	3.6	3.0
Changes in operating assets and liabilities	(20.1)	(12.6)
Cash absorbed by operations	(0.2)	(11.9)

18. Capital and risk management

The Company's capital comprises share capital and all reserves. The total equity of the Company at 31 December 2020 was £2,929.3m (2019: £2,881.0m). The reduction in the year reflects the total comprehensive income for the year of £48.2m (2019: comprehensive loss of £249.5m).

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

  An increase of 1% in interest rates, with all other variables held constant, would result in an increase in profit after tax in respect of a full financial year and in equity of £23.6m (2019: £23.2m). A decrease of 1% in interest rates, with all other variables held constant, would result in an increase in profit after tax in respect of a full financial year and in equity of £23.6m (2019: £23.2m).

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

		1 year or less or on demand £m	1-5 years £m	Greater than 5 years £m	Total £m
2020	Amounts owed to Group entities	5.6	-	-	5.6
2019	Amounts owed to Group entities	12.9	-	-	12.9

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

  Credit risk management practices

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

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

18. Capital and risk management (continued)

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

2020	**Note**	**External credit rating**	**Internal credit rating**	**12m or lifetime ECL?**	**Gross carrying amount** £m	**Loss allowance** £m	**Net carrying amount** £m
Loans and receivables	14	N/A	Performing	12m ECL	2,908.0	-	2,908.0
Financial assets	16	AAA	Performing	12m ECL	2.1	-	2.1

2019	**Note**	**External credit rating**	**Internal credit rating**	**12m or lifetime ECL?**	**Gross carrying amount** £m	**Loss allowance** £m	**Net carrying amount** £m
Loans and receivables	14	N/A	Performing	12m ECL	2,860.5	-	2,860.5
Financial assets	16	AAA	Performing	12m ECL	2.3	-	2.3

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

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

Financial assets – the Company's financial assets are held in corporate bonds and open-ended investment companies, which apart from one corporate bond, have investment grade ratings; the non-rated corporate bond is subject to an internal rating review. The Company considers that its financial assets have a low credit risk based on the credit ratings, and there being no history of default.

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

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

19. 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.

Amounts due to related parties

	2020 £m	2019 £m
Other amounts due to fellow subsidiaries	5.6	12.9

Amounts due from related parties

	2020 £m	2019 £m
Loans due from parent	2,908.0	2,860.5

19. Related party transactions (continued)

Key management compensation
The total compensation allocated to the Company and payable to employees classified as key management, which comprises the Directors, is disclosed in note 6.

Parent and ultimate parent entity
Information on the Company's parent and ultimate parent is given in note 21.

20. Guarantees

The Company has guaranteed the performance of a guarantee given by Pearl Life Holdings Limited, a fellow subsidiary of the Phoenix Group, to the trustees of the PGL Pension Scheme ('the Scheme') in respect of the obligations and liabilities of the participating employers to make payments to the Scheme.

21. Other information

The Company is a private company limited by shares. Its principal place of business is the United Kingdom. The Company's immediate parent is Impala Holdings Limited and its ultimate parent is Phoenix Group Holdings Public Limited Company ('PGH plc'), a company incorporated in the United Kingdom. A copy of the financial statements of PGH plc can be obtained from the Company Secretary, The Phoenix Group, 20 Old Bailey, London, EC4M 7AN or www.thephoenixgroup.com.