PA (GI) LIMITED

Company Registration Number: 71805

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

Contents

Strategic report

The Directors present the Strategic Report, their Report and the financial statements of PA (GI) Limited ("the Company") for the year ended 31 December 2020.

The financial statements of the Company for the year ended 31 December 2020 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Business review

Principal activities
The Company is regulated by the Prudential Regulatory Authority ("PRA") and the Financial Conduct Authority ("FCA"). The Company's principal activity is the administration of complaints relating to creditor insurance policies previously underwritten by the Company.

Until 1 January 2012 the Company's principal activity was transacting general insurance business which was in run off. The business was reinsured to, and administered by, Royal & Sun Alliance ("RSA"). With effect from 1 January 2012 the Company transferred its remaining general insurance liabilities to RSA in accordance with a scheme under Part VII of the Financial Services and Markets Act 2000 ("the Scheme"), approved by the High Court on 12 December 2011.

Following a High Court hearing in May 2015, the Court ruled that the Company retained liability in respect of complaints relating to creditor insurance originally underwritten by the Company but subsequently transferred to third parties in accordance with Part VII of the Financial Services and Markets Act 2000. As a result of this ruling, the Company has established processes to review the complaints received, and where appropriate, provide redress to the policyholders. This is the only activity undertaken by the Company. Further details are provided in note 12 to the financial statements.

Corporate activity
There have not been any changes to the Company's operations during the period under review.

Principal risks and uncertainties
The Phoenix Group ("the Group"), of which the Company is a member, 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 main risk facing the Company relates to the liability in respect of the complaints referred to above. The Company has recognised a provision for this liability of £1,570,000 (2019: £7,216,000) which has been calculated on a best estimate basis after allowing for a range of possible outcomes for each of the key assumptions. The Directors will continue to review the adequacy of this provision in light of the Company's own experience and external market factors.

On 2 March 2017, the FCA issued a policy statement (PS17/3) which set the deadline of 29 August 2019 by which consumers needed to have made their creditor insurance complaints or they lost their right to have them assessed by firms or by the Financial Ombudsman Service. The bulk of the complaints received by the Company ahead of the deadline were adjudicated during 2019 and 2020. The remaining provision is relatively insensitive to changes in the assumptions underpinning its calculation.

The Company is also exposed to credit risk, arising from counterparty default in relation to bank deposits, collective investments held and the other receivables.

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 policyholders 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.

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 the Company 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.

Examples of how the Board considered relevant matters set out in section 172 are outlined in the table below, demonstrating how the directors of PA (GI) Limited have carried out their duties under section 172 of the Companies Act 2006 during the year ended 31 December 2020.

KEY BOARD DECISION	**Payment of an interim dividend**
Strategic Importance	Consideration of s172 matters
Managing our capital position	• The Board received a paper setting out the Company's cash resources and liabilities as at 31 October 2020 to enable the Board to assess the surplus cash resources available for a distribution to the Company's sole shareholder, Pearl Life Holdings Limited ('PLHL'). When considering the proposal to approve an interim dividend the Board paid due regard to the long term impact of that decision – specifically in relation to Company's ability to meet its future financial obligations as they fall due. The Board considered a forecast of the Company's known and potential cash flows over the period to 31 December 2021 to ensure that approval of the dividend was appropriate. • Prior to approval of the dividend, the Directors of the Company considered their relevant obligations under the Companies Act 2006. This included, inter alia, the requirement for Directors to be satisfied that the Company's profits available for distribution had not reduced since the date of the management accounts (upon which the decision was being made) and that the Company had not incurred losses which might reduce profits available for distribution. By ensuring that all legal obligations were met, the Board was able to ensure that the Company's reputation for high standards of business conduct was maintained, expected by all stakeholders. • When considering the proposal to approve the interim dividend payment, the Board considered the impact of the decision on the Company's customers and noted that, due to retained liquidity in the business, there would be no adverse impact for customers. In addition, by ensuring appropriate liquidity to meet outstanding liabilities, the Board was also able to appropriately consider the need to foster business relationships with its suppliers and others.
Outcome	Following due consideration of the matters set out in section 172, the Board approved the interim dividend, to be paid to its sole shareholder, PLHL.
KEY BOARD DECISION	**Approval of annual financial statements for the year ended 31 December 2019 ('YE19')**
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, including assessments relating to the impact of Covid-19 on the Company. 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 YE19 accounts under consideration provided the Board with guidance in relation to the impact of the proposal to approve such accounts on customers. The Board noted that the decision to approve the accounts would not affect the Company's ability to treat customers fairly.
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 proposal submitted to the Board must include detail about directors' duties including those set out above.

Key Performance Indicators ('KPIs')
The Company's performance is measured and monitored by the Board with particular regard paid to the following KPIs:

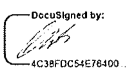
Capital resources
Since 1 January 2016, the Company has monitored its regulatory capital adequacy under the Solvency II regime. Under this regime, the Company is required to retain sufficient capital (termed "Own Funds") at all times to meet the higher of the Minimum Capital Requirement ("MCR") or the Solvency Capital Requirement ("SCR") as determined by the Group's PRA approved Internal Model.

As at 31 December 2020 the Company's estimated and unaudited Solvency II Own funds and MCR were £4,260,000 (2019: £63,841,000 audited) and £3,338,000 (2019: £3,187,000 audited) respectively.

Profits after taxation and distributable reserves
For the year ended 31 December 2020, the Company reported a profit after taxation of £420,000 (2019: loss after taxation of £2,684,000). As at 31 December 2020, the Company had distributable reserves amounting to £1,260,000 (2019: £60,840,000).

Cash flows
Cash flows are monitored closely by the business to ensure that all liabilities can be met as they fall due.

On behalf of the Board



S J Watts
For and on behalf of Pearl Group Secretariat Services Limited
Company Secretary

18 May 2021

Directors' report

The Company is incorporated in the United Kingdom. Its registration number is 71805 and its registered office is 1 Wythall Green Way, Wythall, Birmingham B47 6WG.

Result and dividends

The results of the Company for the year are shown in the statement of comprehensive income on page 13. The profit before tax was £471,000 (2019: loss before tax of £2,564,000).

An interim dividend of £60,000,000 was paid during the year (2019: £nil).

Future developments

It is intended that in due course the Company will apply to the PRA and FCA for cancellation of the Company's authorisation to undertake general insurance business.

Going concern

The Strategic report and Directors' report summarises the Company's activities, its financial performance and 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, including the potential impact of Covid-19. Notes 17 and 18 to the financial statements summarise the Company's risk and capital management objectives and policies together with its financial risks.

The Board has followed the UK Financial Reporting Council's *"Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks"* (issued April 2016) when performing its going concern assessment. As part of its comprehensive assessment of whether the Company is a going concern, the Board has prepared cash flow forecasts for the Company for the period to 31 May 2022, including the impact of the Covid-19 pandemic.

The Company had £13,081,000 of cash and liquidity funds at 31 December 2020 and £13,023,000 (unaudited) at 31 March 2021. The Company's liquidity position is monitored monthly and regular reviews are undertaken to identify cash flow requirements. The Company's forecasts show it has sufficient liquidity to meet its liabilities as they fall due over the going concern period to 31 May 2022.

As a result of this review the Directors believe the Company has adequate resources to continue in operational existence over the going concern period assessed up to 31 May 2022. Accordingly, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

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:

A Moss
R K Thakrar
D N Woollett
Q J Zentner

Secretary

Pearl Group Secretariat Services Limited 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 auditor

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 auditor is 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 auditor 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

Customer matters are key for the Company and play a significant part of the rationale for decision-making that takes place. Board papers require authors to consider and provide detail relating to the potential impact of proposals on customers, ensuring that the Board is able to pay due regard to such matters.

Business relationships with Partners/Suppliers

The "Service Companies" within the Phoenix Group are the principal leads on maintaining relationships with suppliers. However, during the year the Company engaged KPMG LLP ('KPMG') in respect of the provision of complaint handling services. The Company's management undertook oversight of this relationship, with appropriate escalations made to the Board as appropriate. The relationship with KPMG ceased in February 2020, with the Company assuming responsibility for all future complaint handling.

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 auditor

In accordance with section 487 of the Companies Act 2006, the Company's auditor, 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

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S J Watts

For and on behalf of Pearl Group Secretariat Services Limited

Company Secretary

18 May 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 present fairly the financial performance, financial position and cash flows of the Company for the accounting period. A fair presentation of the financial statements in accordance with International Financial Reporting Standards ('IFRS') requires the Directors 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 applicable IFRS, 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 PA (GI) LIMITED

Opinion

We have audited the financial statements of PA (GI) Limited (the "Company") for the year ended 31 December 2020 which comprise the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the related notes 1 to 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 as applied to public interest entities, 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. Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included assessing management's going concern papers and workings for unreasonable assumptions and conclusions. To evaluate management's assessment of the Company's ability to continue to adopt the going concern basis of accounting, we have:

- confirmed our understanding of management's going concern assessment process and obtained management's assessment which covers the period to 31 May 2022;
- evaluated management's analysis on the Company's provisions to understand how severe an adverse movement in either would have to be to result in the elimination of solvency requirement headroom;
- evaluated management's analysis on the Company's assets and liquidity to understand the extent to which the Company could meet its future obligations;
- performed enquiries of management and those charged with governance to identify risks or events that may impact the Company's ability to continue as a going concern. We also reviewed management's assessment approved by the Board, minutes of meetings of the Board and its committees, and made enquiries as to the impact of Covid-19 on the business; and
- assessed the appropriateness of the going concern disclosures by comparing the disclosures with management's assessment and for compliance with the relevant reporting requirements.

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 up to 31 May 2022 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.

Overview of our audit approach

Key audit matters	• Creditor insurance mis-selling provision
Materiality	• Overall materiality of £85,000 (2019: £1.3m) which represents 2% (2019: 2%) of equity as at 31 December 2020.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	**Our response to the risk**	**Key observations communicated to the Board**
Creditor Insurance Mis-selling Provision (2020: £1.6m, 2019: £7.2m) *There has been no change in our identification of this risk from the prior year.* *Refer to the Strategic Report (page 2); Accounting policies (page 17); and Note 12 of the Financial Statements (page 23)* The Company holds a provision relating to past sales of creditor insurance policies. We have deemed this to be a key audit matter due to a number of assumptions being used to determine the value of the provision held, all of which are subject to a high degree of uncertainty. In the year ended 31 December 2017, third parties agreed to reimburse the Company for a portion of the claims paid to date and in the future. While these agreements reduce the cost incurred by the Company, there still remains the uncertainty of the gross provision assumptions, as such the Company still has an exposure to the risks they present. As disclosed in note 12 of the financial statements, the FCA set the deadline of 29 August 2019 by which consumers needed to make their creditor insurance complaints. The approach of the deadline saw a significant increase in the number of complaints that the Company received prior to the deadline, which resulted in an increase in the required provision during	To obtain sufficient audit evidence to conclude on the appropriateness of the provision, we: • Reviewed management's assumptions and methodology in calculating the provision by validating the inputs and confirming the integrity of the calculation of the provision; • Performed a sensitivity analysis to assess the impact of assumption uncertainty on the quantification of the provision; • Performed a substantive analytical review over the claims paid movements over the year; • Considered the appropriateness of the provision model in the light of the Covid-19 pandemic; • Considered and concluded upon the adequacy of the disclosures made by the Company, with reference to the provision, in line with the applicable financial reporting framework.	We determined the calculation of the provision was reasonable based on the information available. Note 12 of the Financial Statements discloses the key sensitivities of the assumptions, and the resulting impact on the value of the provision, to quantify the underlying uncertainty of the provision. We are satisfied that the provision disclosure is in accordance with the applicable financial reporting framework. We have also concluded that the provision model remains appropriate and is not materially impacted by the Covid-19 pandemic.

Risk	Our response to the risk	Key observations communicated to the Board
2019. The subsequent adjudication of the complaints and the number of cases remaining open led to a reduction in the estimated costs during 2020. In 2020, we have also had the development of the Covid-19 pandemic, which has had an impact on the economy and could impact the valuation of the provision.		

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £85,000 (2019: £1.3 million), which is 2% (2019: 2%) of equity. Whilst profit before tax or operating profit are common bases used across the insurance industry, we believe that the use of net assets as the basis for assessing materiality is more appropriate given that the Company's principal activity is now the handling and payment of redress as a result of creditor insurance complaints, and the continuing regulatory solvency requirements. The basis of materiality has remained consistent with previous years.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2019: 75%) of our planning materiality, namely £64,000 (2019: £1.0m). We have set performance materiality at this percentage due to there being no expectation of misstatements greater than the reporting threshold based on experience in prior years.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We have reported to the directors all uncorrected audit differences in excess of £4,000 (2019: £65,000), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. The % basis used is in line with prior year.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

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 within 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 or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept, 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 statement of directors' responsibilities set out on page 7, 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 Company 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. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- 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; reviewed minutes of the Board and Executive Risk Committee; and gained an understanding of the Company's approach to governance, demonstrated by the Board's approval of the Company's governance framework and the Board's review of the Company's risk management framework ('RMF') and internal control processes.
- 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.

- We considered management override risk to be higher in the creditor insurance mis-selling provision due to the significant judgments and estimates involved. Our procedures, as detailed in the key audit matter above, included:
  - o Reviewing accounting estimates for evidence of management bias.
  - o Testing the appropriateness of journal entries recorded in the general ledger, with a focus on manual journals and evaluating the business rationale for significant and/or unusual transactions.
- We designed our audit procedures to identify non-compliance with both direct and other laws and regulations including those at the components impacting the Company. 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, enquiring about the Company's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and the PRA.
- The Company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

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.

Other matters we are required to address

- Following the recommendation from the Board we were appointed by the Company in 2004 to audit the financial statements for the year ending 31 December 2004 and subsequent financial periods.

  The period of total uninterrupted engagement including previous renewals and reappointments is 17 years, covering the years ending 31 December 2004 to 31 December 2020.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.

- The audit opinion is consistent with the additional report to the Board.

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

21 May 2021

Statement of comprehensive income
for the year ended 31 December 2020

	Notes	2020 £000	2019 £000
Investment income	3	266	633
Net income		266	633
Administrative expenses	4	205	(3,197)
Total operating expenses		205	(3,197)
Profit/(loss) for the year before tax attributable to owners		471	(2,564)
Tax charge	7	(51)	(120)
Profit/(loss) for the year attributable to owners		420	(2,684)
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		420	(2,684)

Statement of financial position
as at 31 December 2020

	Notes	As at 31 December 2020 £000	As at 31 December 2019 £000
EQUITY AND LIABILITIES			
Equity attributable to owners			
Share capital	10	3,000	3,000
Capital contribution reserve	11	21,000	81,000
Retained earnings		(19,740)	(20,160)
Total equity		4,260	63,840
Liabilities			
Provisions	12	1,570	7,216
Other payables	13	7,606	4,736
Accrued expenses		230	-
Bank overdraft		-	134
Total liabilities		9,406	12,086
Total equity and liabilities		13,666	75,926
ASSETS			
Financial assets			
Collective investment schemes	14	13,081	67,505
Other receivables	12	563	8,373
		13,644	75,878
Accrued income	15	1	48
Bank and cash balances		21	-
Total assets		13,666	75,926

On behalf of the Board

DocuSigned by:
Rakesh Thakrar
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R K Thakrar
Director

18 May 2021

Statement of cash flows
for the year ended 31 December 2020

	Notes	2020 £000	2019 £000
Cash flows from operating activities			
Cash generated/(utilised) in operations	16	60,155	(101)
Net cash flows from operating activities		60,155	(101)
Cash flows from financing activities			
Dividends paid	8	(60,000)	-
Net cash flows from operating activities		(60,000)	-
Net increase/(decrease) in cash and cash equivalents		155	(101)
Cash and cash equivalents at the beginning of the year		(134)	(33)
Cash and cash equivalents at the end of the year		21	(134)
Supplementary disclosures on cash flows from operating activities			
Interest received		313	639

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

	Share capital (note 10) £000	Capital contribution reserve (note 11) £000	Retained earnings £000	Total £000
At 1 January 2020	3,000	81,000	(20,160)	63,840
Total comprehensive profit for the year	-	-	420	420
Dividends paid (see note 8)	-	(60,000)	-	(60,000)
At 31 December 2020	3,000	21,000	(19,740)	4,260

Of the above, £1,260,000 (2019: £60,840,000) is considered distributable.

	Share capital (note 10) £000	Capital contribution reserve (note 11) £000	Retained earnings £000	Total £000
At 1 January 2019	3,000	81,000	(17,476)	66,524
Total comprehensive loss for the year	-	-	(2,684)	(2,684)
At 31 December 2019	3,000	81,000	(20,160)	63,840

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 that have been measured at fair value.

As a result of performing a going concern review and having assessed the principal risks and the other matters, the Directors believe the Company has adequate resources to continue in operational existence for the foreseeable future, this period being twelve months from the approval of these financial statements. Accordingly, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

The results of the Company are consolidated into the accounts of the Company's ultimate parent Phoenix Group Holdings Public Limited Company ("PGH plc"), a company incorporated in the United Kingdom. The registered address of PGH plc is Juxon House, 100 St Paul's Churchyard, London, EC4M 8BU.

Going Concern

The Directors have prepared cash flow forecasts for the Company for the period to 31 May 2022. The Company had £13.1m of cash and liquidity funds at 31 December 2020 and £13.0m (unaudited) at 31 March 2021. The Company's liquidity position is monitored monthly and regular reviews are undertaken to identify cash flow requirements. The Company's forecasts show it has sufficient liquidity to meet its liabilities as they fall due over the going concern period to 31 May 2022.

Having carried out this assessment, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Further detail is provided within the Directors' report.

Statement of compliance

The financial statements of the Company for the year ended 31 December 2020 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 £000 except where otherwise stated.

The Company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement more than twelve months after the period end is presented in the notes.

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 provisions as discussed in accounting policy (d). Further information on the key assumptions is provided in note 12.

(c) Income tax

Income tax comprises current tax. Income tax is recognised as income or an expense in the statement of comprehensive income except to the extent that it relates to items recognised as other comprehensive income in the statement of comprehensive income, in which case it is recognised as other comprehensive income in that statement.

Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantively enacted at the date of the statement of financial position together with adjustments to tax payable in respect of previous years.

(d) Provisions and contingent liabilities
A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where the Company has a present legal or constructive obligation as a result of a past event but it is not probable that there will be an outflow of resources to settle the obligation or the amount cannot be readily estimated, this is disclosed as a contingent liability.

Related recoveries are only recognised as and when they are virtually certain and are presented as a separate asset.

(e) Financial assets
Investments comprise shares in open-ended investment companies and are designated at fair value through profit or loss and accordingly are stated in the statement of financial position at fair value. They are designated at fair value through profit or loss because they are managed and evaluated on a fair value basis. Fair value is determined by reference to published bid values.

(f) 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.

For the purposes of the Statement of cash flows, cash and cash equivalents includes any bank overdrafts.

(g) 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.

(h) Income recognition

Investment income
Investment income comprises distributions received on the Company's holdings in financial assets, and is recognised in the statement of comprehensive income on the date the right to receive the payment is established.

(i) Share capital and capital contributions

Ordinary share capital
The Company has issued ordinary shares and deferred shares which are classified as equity.

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 capital. The reserve is considered distributable.

(j) 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 13 to 27, were authorised by the Board of Directors for issue on 18 May 2021.

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'):

- **Amendments to IFRS 3 Business Combinations:** The amendments have revised the definition of a business and aim to assist companies to determine whether an acquisition is of a business or a group of assets. These amendments have no impact on the Company.

- **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.

2. Financial information (continued)

- **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; and

- **Amendments to the References to the Conceptual Framework in IFRS Standards.**

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.

- **Annual Improvements Cycle 2018 – 2020 (1 January 2022)**: Minor amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 9 *Financial Instruments*, IAS 41 *Agriculture* and the Illustrative Examples accompanying IFRS 16 *Leases.* These amendments do not currently have any impact on the Company.

- **Classification of Liabilities as Current and Non-current (Amendments to IAS 1 Presentation of Financial Statements) (2023).** The amendments clarify rather than change existing requirements and aim to assist entities in determining whether debt and other liabilities with an uncertain settlement date should be classed as current or non-current. It is currently not expected that there will be any reclassifications as a result of this clarification.

- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) (Effective date deferred).** The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. These amendments are not expected to have any impact on the Company.

- **Amendment to IFRS 16 *Leases* Covid-19-Related Rent Concessions (1 June 2020).** This amendment is not applicable as the Company does not apply IFRS 16.

- **Amendments to IFRS 4 *Insurance Contracts* – deferral of IFRS 9 *Financial Instruments* (1 January 2021).** This amendment is not applicable as the Company has no insurance policies in issue.

- **IFRS 9 Financial Instruments (2023).** This is not applicable to the Company.

- **IFRS 3 *Business Combinations* (1 January 2022).** The amendments update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. As a result there are no impacts from this amendment.

- **IAS 16 *Property, Plant and Equipment* (1 January 2022).** The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss. These amendments do not currently have any impact on the Company.

- **IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (1 January 2022)**: The amendments specify which costs a company includes when assessing whether a contract will be loss-making. These amendments are not expected to have a significant impact on the Company.

- **IFRS 17 Insurance contracts (2023).** This standard is not applicable as the Company has no insurance policies in issue.

- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).** The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. These amendments are not expected to have any impact on the Company.

2. Financial information (continued)

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 European Commission's powers to endorse and adopt IFRSs will be delegated by the Secretary of State to the UK Endorsement Board.

3. Investment income

	2020 £000	2019 £000
Investment income		
Dividend income on financial assets designated at fair value through profit or loss on initial recognition	266	633

4. Administrative expenses

	2020 £000	2019 £000
Increase/(decrease) in provision (see note 12)	(1,190)	10,668
(Increase)/decrease in recoveries (see note 12)	985	(7,435)
Contribution to costs received from third parties	-	(36)
	(205)	3,197

The Company has no employees. Services are provided by Pearl Group Services Limited and Pearl Group Management Services Limited, fellow subsidiaries of the Company.

5. Directors' remuneration

	2020 £000	2019 £000
Remuneration (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	83	200
Other long-term benefits	67	120
Contributions to money purchase pension schemes	1	2
Number of Directors accruing retirement benefits under:		
- a money purchase pension scheme	2	2
Number of Directors who had exercised share options during the year	4	4
Highest paid Director's remuneration	35	82

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

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

During the year to 31 December 2020 key management personnel and their close family members contributed £1,810 to pensions and savings products sold by the Phoenix Group. At 31 December 2020, the total value of key management personnel's investments in the Group's pensions and savings products was £1,903.

During the year, one Director exercised share options (2019: one). Other long-term benefits due to the highest paid Director were £36,750 (2019: £58,500).

6. Auditor's remuneration

The remuneration of the auditors of the Company, including their associates, which were paid by another group company, was £15,000 (2019: £13,000).

	2020	2019
	£000	£000
Audit of the Company's financial statements	10	10
Audit related assurance services	5	3
	15	10

7. Tax charge

Current year tax charge

	2020	2019
	£000	£000
Current tax:		
UK Corporation tax	51	120
Total tax charge	51	120

Reconciliation of tax charge

	2020	2019
	£000	£000
Profit/(loss) before tax	471	(2,564)
Tax at standard UK rate of 19% (2019: 19%)	89	(487)
Unrecognised post cessation expenses carried forward	-	607
Income covered by unrecognised brought forward expenses	(38)	-
Total tax charge for the year	51	120

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%.

At 31 December 2020 the Company had unused post cessation expenses amounting to £24,884,000 (2019: 25,035,000) for which no deferred tax asset has been recognised due to doubtful recoverability.

An increase from the current 19% UK corporation tax rate to 25%, effective from 01 April 2023, was announced in the Budget on 3 March 2021. No deferred tax assets or liabilities are recognised at 31 December 2020 – no impact is therefore expected to the balance sheet from the announcement.

8. Dividends

	2020	2019
	£000	£000
Dividends declared	60,000	-

On 30 November 2020, the Board declared an interim cash dividend of £60,000,000 (2019: £nil).

9. Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities; (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors; (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Company has determined that all of its investments in collective investment schemes are structured entities in the form of liquidity funds.

The Company's holdings in these investments are subject to the terms and conditions of the respective fund's prospectus and are susceptible to market price risk arising from uncertainties about future values. The Company holds redeemable shares and units in each of the funds. The funds are managed by asset managers who apply various investment strategies to accomplish their respective investment objectives. All of the funds are managed by asset managers who are compensated by the respective funds for their services. Such compensation generally consists of an asset-based fee and a performance-based incentive fee and is reflected in the valuation of each fund.

Interests in structured entities
The Company does not provide financial or other support in relation to structured entities.

The Company's interests in structured entities are held as financial assets in the Company's statement of financial position and held at fair value through profit or loss. Any change in fair value is included in the income statement in 'net investment income'.

A summary of the Company's interests in structured entities is included below. These are shown according to the financial asset categorisation in the statement of financial position and further analysed by type of fund in which the entity is invested.

	Carrying value of financial assets	
	2020	2019
	£000	£000
Collective investment schemes		
Short term liquidity	13,081	67,505

Collective investment schemes have been analysed by reference to the predominant asset class the structure is investing in.

The Company's maximum exposure to loss on the interests presented above is the carrying amount of the Company's investments. Once the Company has disposed of its shares or units in a fund, it ceases to be exposed to any risk from that fund.

10. Share capital

	2020	2019
	£000	£000
Issued and fully paid: 60,000,000 (2019: 60,000,000) ordinary shares of 1p each	600	600
Issued and fully paid: 9,600,000 (2019: 9,600,000) deferred shares of 25p each	2,400	2,400
	3,000	3,000

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

The deferred shares do not entitle the holders to receive any dividend in respect of any accounting reference period of the Company unless, and until, there has been declared, and paid in respect of that period, a dividend of not less than £5 per ordinary share. Thereafter the holders of the deferred shares shall participate equally with the holders of such ordinary shares in the profits of the Company. The deferred shares do not entitle any holders to receive notice of, attend or vote at any general meeting of the Company.

10. Share capital (continued)

On a return of assets on liquidation or otherwise, the assets to be returned shall be applied to the holders of deferred shares, after paying to the holders of the ordinary shares £5,000 per share. In paying to the holders of the deferred shares the amounts paid up thereon and the balance of such assets shall belong to and be distributed among the holders of the ordinary shares in proportion to the amounts paid up on the ordinary shares held by them respectively.

11. Capital contribution reserve

	2020 £000	2019 £000
At 1 January	81,000	81,000
Dividends declared (see note 8)	(60,000)	-
At 31 December	21,000	81,000

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

12. Provisions

	2020 £000	2019 £000
At 1 January	7,216	17,388
(Release)additions in the year	(1,190)	10,668
Utilised during the year	(4,456)	(20,840)
At 31 December	1,570	7,216
Amount due for settlement after 12 months	-	-

Following a High Court hearing in May 2015, the Court ruled that the Company retained liability in respect of complaints relating to creditor insurance originally underwritten by the Company but subsequently transferred to third parties in accordance with Part VII of the Financial Services and Markets Act 2000. As a result of this ruling, the Company has established processes to review the complaints received, and where appropriate, provide redress to the policyholders. A provision for future complaint and litigation costs has been established to recognise the Company's obligations.

The total amount provided represents the Company's best estimate of the likely future costs. However, this is subject to a number of risks and uncertainties including future complaint volumes, uphold rates of complaints, and average redress paid. The ultimate cost of these factors could differ materially from the Company's estimates and assumptions of the total potential liability with the result that an increase in the provision may be required in future.

On 2 March 2017, the FCA issued a policy statement (PS17/3) which set the deadline of 29 August 2019 by which consumers needed to have made their creditor insurance complaints or they lost their right to have them assessed by firms or by the Financial Ombudsman Service. The approach of the deadline saw a significant increase in the number of complaints that the Company received prior to the deadline, which resulted in an increase in the required provision during 2019. The subsequent adjudication of the complaints and the number of cases remaining open led to a reduction in the estimated costs during the year.

Key sensitivities in the level of the provision are as follows:

- 10% increase in the expected number of complaints received would increase the provision by £7,000 (2019: £215,000);
- 5% increase in the uphold rate would increase the provision by £32,000 (2019: £62,000);
- £1,000 increase in the average redress per complaint upheld would increase the provision by £292,000 (2019: £1,904,000).

The Company monitors its operating environment for any exposure to events that may result in a significant change in the level of the provision. This includes events after the reporting period, provided they give evidence of conditions that existed at the period end. The Company's main exposure in regard to these events is in relation to issues raised by claims management companies with the Company in respect of the adjudication of complaints made in the period surrounding the deadline set by the FCA of 29 August 2019. The Company investigates all these issues and includes within the provision estimates of its future costs to ensure fair customer treatment.

12. Provisions (continued)

At 31 December 2020, a reimbursement asset of £563,000 (2019: £8,373,000) has been recognised in other receivables. This represents recoveries due from third parties under contractual arrangements.

	2020 £000	2019 £000
At 1 January	8,373	8,386
Recoveries (de-recognised)/recognised during the year	(985)	7,435
Received during the year	(11,430)	(9,928)
Included within Other payables (see note 13)	4,605	2,480
At 31 December	563	8,373
Amount of reimbursement asset due for settlement after 12 months	-	-

13. Other payables

	2020 £000	2019 £000
Amounts due to Group entities	314	1,140
Other payables	7,292	3,596
Total other payables	7,606	4,736
Amount due for settlement after 12 months	-	-

Included in Other payables is an amount of £7,285,000 (2019: £2,680,000) due to third parties in respect of the recoveries recognised.

14. Financial assets and financial instrument fair value hierarchy

	2020 £000	2019 £000
Financial assets at fair value through profit or loss		
Designated upon initial recognition		
Collective investment schemes	13,081	67,505
Amount recoverable after 12 months	-	-

Determination of fair value and fair value hierarchy of financial instruments:

Level 1 financial instruments

The fair value of 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.

All financial assets have been classified as level 1 financial instruments in the fair value hierarchy.

Offsetting financial assets and liabilities

The Company has no current legally enforceable right to offset recognised financial instruments.

15. Accrued income

	2020 £000	2019 £000
Accrued investment income	1	48
Amount recoverable after 12 months	-	-

The carrying amount of accrued income approximates to its fair value.

16. Cash flows from operating activities

	2020 £000	2019 £000
Profit/(loss) for the year before tax	471	(2,564)
Changes in operating assets and liabilities		
Change in financial assets	54,424	8,940
Change in prepayments and accrued income	47	6
Change in other receivables	7,810	13
Change in provision	(5,646)	(10,172)
Change in accruals	230	-
Change in other payables	2,819	3,676
Cash generated/(utilised) in operations	60,155	(101)

The Company classifies the cash flows from the acquisition and disposal of financial assets as operating cash flows, as the purchases are funded from the net cash flows associated with the recoveries received administrating complaints relating to creditor insurance policies and the payment of redress relating to these complaints, which are respectively treated under operating activities.

17. Risk management

The main risk facing the Company relates to the liability in respect of the creditor insurance complaints detailed in note 12. The Directors monitor the upholding and settlement of complaints on a regular basis. The Company has considered the impacts of Covid-19 post balance sheet date and the principal risks and uncertainties facing the Company are noted below:

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.

The Company's liquid assets are primarily invested in an authorised cash collective investment scheme ("CIS"). While the Company is exposed to some credit risk, the Directors consider this risk to be low due to the investment policy and diversified nature of the underlying investments held by the CIS.

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. The Company's policy is to maintain sufficient liquid assets of suitable credit quality to cover its capital requirements under the Solvency II Directive. The Company assesses its capital requirements on a regular basis to ensure that it retains sufficient liquidity to meets its obligations.

All of the Company's financial assets have maturity dates of less than 12 months.

Interest rate risk
Movements in interest rates will impact the value of interest receivable. An increase of 1% in interest rates, all other variables held constant, would result in an increase of £106,000 (2019: £547,000) in the profit after tax in respect of a full financial year with a corresponding change in equity. A decrease of 1% in interest rates, all other variables held constant, would result in a decrease of £106,000 (2019: £513,000) in the profit after tax in respect of a full financial year with a corresponding change in equity.

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

18. Capital management

Following the implementation of the Solvency II Directive effective from 1 January 2016, the Company's capital is managed on a Solvency II basis.

A Solvency II capital assessment involves valuation in line with Solvency II principles of the Company's Own Funds and a risk-based assessment of the Company's Solvency Capital Requirement ("SCR"). Solvency II surplus is the excess of Eligible Own Funds over the higher of its SCR or Minimum Capital Requirement ("MCR"). The Company's MCR, as represented by the absolute floor of the MCR, is currently higher than its SCR.

The Company holds an amount of Eligible Own Funds that is greater than the MCR to allow for adverse events in the future that may use capital and might otherwise cause the Company to fail the minimum level of regulatory capital, the MCR.

Basic Own Funds represent the excess of assets over liabilities from the Solvency II balance sheet adjusted to add back any relevant subordinated liabilities that meet the criteria to be treated as capital items.

The Basic Own Funds are classified into three Tiers based on permanency and loss absorbency (Tier 1 being the highest quality and Tier 3 the lowest). Limits are imposed on the amount of each tier that can be held to cover the SCR – Tier 3 own funds cannot be used to cover the MCR.

The Company has obtained PRA approval to calculate the SCR using the Phoenix Group's Internal Model. This model has been calibrated to ensure that the Company's liabilities could be met in one year's time with a 99.5% confidence level, or in other words to be able to withstand a one in 200 year event.

The Company met its capital requirements throughout the year.

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.

Pearl Group Services Limited and Pearl Group Management Services Limited provide management services to the Company, in the form of staff and other services. The charge made to the Company for the year ended 31 December 2020 amounted to £917,000 (2019: £5,416,000) and at the end of the year £nil (2019: £877,000) remained outstanding.

Amounts due to related parties

	2020 £000	2019 £000
Other amounts due to fellow subsidiaries	314	1,140

Key management compensation
The compensation payable to employees classified as key management, which comprises the Directors, is disclosed in note 5.

During the year to 31 December 2020, key management and other family members had no other transactions with the Company.

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

20. Events after the reporting period

An increase from the current 19% UK corporation tax rate to 25%, effective from 01 April 2023, was announced in the Budget on 3 March 2021. No deferred tax assets or liabilities are recognised at 31 December 2020 – no impact is therefore expected to the balance sheet from the announcement.

21. Other information

The Company is a private limited company registered in England. Its registration number is 71805 and its registered office is 1 Wythall Green Way, Wythall, Birmingham B47 6WG. Its principal place of business is the United Kingdom.

The Company's immediate parent is Pearl Life 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, Juxon House, 100 St Paul's Churchyard, London EC4M 8BU or www.thephoenixgroup.com.