SOLVENCY AND FINANCIAL CONDITION REPORT

PA (GI) Limited
For the year ended 31 December 2016

CONTENTS

SUMMARY

INTRODUCTION AND BACKGROUND

PA (GI) Limited ('the Company') is an insurance undertaking and a private company limited by shares, incorporated, registered and domiciled in the United Kingdom. The Company's principal activities are the investment of surplus funds and the administration of creditor insurance complaints relating to business 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 ('Part VII'), approved by the High Court on 12 December 2011.

The Company is authorised by the Prudential Regulation Authority ('PRA') and is regulated by the Financial Conduct Authority ('FCA') and the PRA.

The Company is a wholly owned subsidiary of Phoenix Life Holdings Limited ('PLHL'), which is the highest European Economic Area ('EEA') insurance holding company of the Phoenix Group. The ultimate parent undertaking is Phoenix Group Holdings ('PGH') which is registered in the Cayman Islands and has its principal place of business in Jersey, therefore outside of the EEA, and listed on the London Stock Exchange. Unless otherwise specified references to 'Group' or 'PLHL Group' mean PLHL and all of its subsidiary undertakings, which include the Company, and reference to 'Phoenix' or 'Phoenix Group' means PGH and all of its subsidiary undertakings. A simplified structure chart is presented in section A.1.2.1.

Following the implementation of Solvency II on 1 January 2016, this is the Company's first Solvency and Financial Condition Report ('SFCR') in accordance with the PRA rules and Solvency II regulations. The SFCR and the accompanying Quantitative Reporting Templates ('QRTs') provide detailed information of the Company's business and performance, governance, risk profile and capital position.

BASIS OF PREPARATION

The QRTs and the disclosures in the SFCR have been prepared in accordance with all applicable PRA rules and Solvency II regulations, hereafter referred to as 'the regulations'.

Certain sections of the SFCR require information based on the recognition and measurement principles applicable under the relevant Generally Accepted Accounting Principles ('GAAP') as presented in the financial statements. The Company's financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB'), and which have been adopted for use by the European Union ('EU').

The SFCR is presented in pound sterling (£) rounded to the nearest thousand, which is consistent with the presentation in the Company's IFRS financial statements.

The SFCR excludes disclosures required by the regulations which are not applicable to the Company. These include, but are not limited to:

- information on life business;
- information on Solvency II insurance Special Purpose Vehicles ('SPVs');
- information on the Volatility Adjustment and transitional measures on risk-free interest rates;
- Transitional Measure for calculation of Technical Provisions ('TMTP');
- Matching Adjustment ('MA');
- information on significant branches within the meaning of the regulation;
- information regarding the equity risk sub-module in the calculation of the Solvency Capital Requirement ('SCR'); and
- Standard Formula and Partial Internal Model ('PIM') QRTs and related disclosures as the Company's Solvency Capital Requirement ('SCR') at 31 December 2016 were calculated on an IM basis.

As permitted by the regulations, comparison of information reported in the previous reporting period has not been presented in the SFCR for the year ended 31 December 2016. Comparatives will be presented for the first time in the SFCR for the year ending 31 December 2017.

BUSINESS AND PERFORMANCE

Phoenix Group is the largest UK consolidator of closed life insurance funds with assets under management of £76 billion and more than 6 million policyholders. Phoenix Group aims to be recognised as the 'industry solution' for the safe, innovative and profitable decommissioning of closed life funds.

The Company no longer underwrites any insurance business but manages the settlement of past creditor insurance claims in respect of business previously underwritten by the Company.

The performance of the Company is influenced by the adverse movement in the provision to cover the expected costs relating to the creditor insurance complaints which have experienced a significant increase during the year. Further details are included in section A.

SUMMARY

OPERATING STRUCTURE AND GOVERNANCE

The Board is responsible for managing the overall direction and activities of the Company. It is also ultimately accountable for compliance with the Solvency II requirements.

There were no significant changes to governance arrangements during the year.

Further details on the operating structure are included in section B.1.

RISK PROFILE

Phoenix Group operates a standardised Risk Management Framework ('RMF') for the identification and assessment of the risks it may be exposed to, and the amount of capital that should be held in relation to those exposures. The Group defines a risk appetite framework covering the level of risk it is willing to accept in pursuit of its strategic objectives in the areas of policyholder security and conduct, earnings volatility, liquidity, and the control environment.

The Company's risk capital as at 31 December 2016 comprises entirely of operational risk capital, in respect of creditor insurance complaints relating to business previously underwritten by the Company. No other risk categories are considered sufficiently material to warrant the holding of risk capital.

CAPITAL POSITION

Following the implementation of Solvency II on 1 January 2016, the Company's capital is managed on a Solvency II basis. The Company's Own Funds, SCR and Solvency II surplus are further explained in section E. The Company held Own Funds in excess of both the SCR and MCR throughout the reporting period and therefore fully complied with the capital requirements.

FUTURE DEVELOPMENTS

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

DIRECTORS' RESPONSIBILITY STATEMENT

DIRECTORS' RESPONSIBILITY STATEMENT

PA (GI) LIMITED

Approval on behalf of the Board of Directors of the Solvency and Financial Condition Report for the financial period ended 31 December 2016.

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA rules and the Solvency II regulations.

We are satisfied that:

a) throughout the financial year in question, the Company has complied in all material respects with the requirements of the PRA rules and Solvency II regulations as applicable to the Company; and

b) it is reasonable to believe that the Company has continued so to comply subsequently and will continue so to comply in future.

Andrew Moss

Director and Chief Executive Officer

For and on behalf of the Board of Directors

Date: 12 May 2017

AUDITOR'S REPORT

AUDITOR'S REPORT

Report of the external independent auditor to the Directors of PA (GI) Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

REPORT ON THE AUDIT OF THE RELEVANT ELEMENTS OF THE SOLVENCY AND FINANCIAL CONDITION REPORT

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2016:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2016, ('the Narrative Disclosures subject to audit'); and
- Company templates S02.01.02, S23.01.01 and S28.01.01, ('the Templates subject to audit').

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'relevant elements of the Solvency and Financial Condition Report'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- Information contained within the relevant elements of the Solvency and Financial Condition Report set out about above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report;
- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S05.01.02 and S.25.03.21; and
- The written acknowledgement by management of their responsibilities, including for the preparation of the solvency and financial condition report ('the Responsibility Statement').

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of PA (GI) Limited as at 31 December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based and as supplemented by supervisory approvals.

This report is made solely to the Directors of the Company in accordance with Rule 2.1 of External Audit Chapter of the PRA Rulebook for Solvency II firms. Our work has been undertaken so that we might report to the Directors those matters that we have agreed to state to them in this 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 Directors, for our work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs(UK & I) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK & I) require us to report to you where:

- The directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is not appropriate; or
- The directors have not disclosed in the Solvency and Financial Condition Report any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Solvency and Financial Condition Report is authorised for issue.

AUDITOR'S REPORT
Continued

AUDITOR'S REPORT CONTINUED

REPORT ON THE AUDIT OF THE RELEVANT ELEMENTS OF THE SOLVENCY AND FINANCIAL CONDITION REPORT CONTINUED

Emphasis of Matter – Basis of Accounting

We draw attention to the 'Valuation for solvency purposes', 'Capital Management' and other relevant disclosures sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Emphasis of Matter – Quantification of provisions other than technical provisions

In forming our opinion on the Solvency and Financial Condition Report, which is not modified, we have considered the adequacy of the disclosures made in notes A1.4 and D3.1 to the Solvency and Financial Condition Report concerning the quantification of the provisions other than technical provisions. The ultimate estimate of the provision is subject to significant uncertainty and may differ materially from the estimate that is currently provided in the Solvency and Financial Condition Report.

Other Information

The Directors are responsible for the Other Information. Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and, we do not express and audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in 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 relevant elements of the Solvency and Financial Condition Report 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 this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors or the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which has been supplemented by written notices from the PRA on the Financial Services Register and as disclosed in Section E4.1 of the Solvency and Financial Condition Report.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report 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 it is not a guarantee that an audit conducted in accordance with ISAs (UK & I) 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 decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

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/Our-Work/Audit-and-Actuarial-Regulation/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx. The same responsibilities apply to the audit of the Solvency and Financial Condition Report.

Other Matter

The Company has authority to calculate its Solvency Capital Requirement using an internal model (''the Model'') approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion and in accordance with PRA Rules, we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Company's application or approval order.

AUDITOR'S REPORT
Continued

AUDITOR'S REPORT CONTINUED

REPORT ON THE AUDIT OF THE RELEVANT ELEMENTS OF THE SOLVENCY AND FINANCIAL CONDITION REPORT CONTINUED

Report on Other Legal and Regulatory Requirements.

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of PA (GI) Limited's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Ernst & Young LLP

Ernst & Young LLP

London

15 May 2017

The maintenance and integrity of the Phoenix Group Holdings web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the web site.

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

The relevant elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.23.01.01;
  - Row R0580: SCR.
- The following elements of template S.28.01.01;
  - Row R0310: SCR.
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

SECTION A

IN THIS SECTION

SECTION A

BUSINESS AND PERFORMANCE

A.1 BUSINESS

A.1.1 INFORMATION REGARDING THE UNDERTAKING

The Company is a private company limited by shares, incorporated, registered and domiciled in the UK.

The Company is regulated by the PRA and the FCA. The contact details for the PRA and FCA are:

Bank of England	
Prudential Regulation Authority	Financial Conduct Authority
20 Moorgate	25 The North Colonnade
London	London
EC2R 6DA	E14 5HS

The Company is an insurance subsidiary of PLHL, the highest EEA insurance holding company, which has its head office in the United Kingdom. The PLHL Group is also regulated by the PRA and FCA.

The name and contact details of the Company's external auditor are:

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

A.1.2 LEGAL AND ORGANISATIONAL STRUCTURE

A.1.2.1 Legal and organisational structure

The persons who were direct or indirect holders of qualifying holdings (i.e. where a shareholder has 10% or more of voting rights) in the Company at any time during the reporting period and as at 31 December 2016 were:

Pearl Life Holdings Limited

From 1 January 2016 to 31 December 2016, Pearl Life Holdings Limited ('PeLHL') held 100% of the issued share capital of the Company and was entitled to exercise 100% of the voting power at any general meeting of the Company.

Impala Holdings Limited

From 1 January 2016 to 31 December 2016, Impala Holdings Limited ('IHL') held 100% of the issued share capital of PeLHL, and was entitled to exercise 100% of the voting power at any general meeting of PeLHL.

Phoenix Life Holdings Limited

From 1 January 2016 to 31 December 2016, PLHL held 100% of the issued share capital of IHL, and was entitled to exercise 100% of the voting power at any general meeting of IHL.

PGH (LCA) Limited

From 1 January 2016 to 31 December 2016, PGH (LCA) Limited held 50% of the issued share capital of PLHL, and was entitled to exercise 50% of the voting power at any general meeting of PLHL.

PGH (LCB) Limited

From 1 January 2016 to 31 December 2016, PGH (LCB) Limited held 50% of the issued share capital of PLHL, and was entitled to exercise 50% of the voting power at any general meeting of PLHL.

Phoenix Group Holdings

From 1 January 2016 to 31 December 2016, PGH held 100% of the issued share capital of PGH (LCA) Limited and PGH (LCB) Limited, which between them held 100% of the shares of PLHL, a company of which the Company is a subsidiary undertaking. During the year PGH was entitled to exercise 100% of the voting power at any general meeting of PGH (LCA) Limited and PGH (LCB), which between them held 100% of the shares of PLHL. There are no qualifying holdings in PGH and hence no further qualifying holdings in the Company.

All of the above are incorporated, registered and domiciled in the UK, except for PGH, which is incorporated in the Cayman Islands, and registered and domiciled in Jersey.

SECTION A
Continued

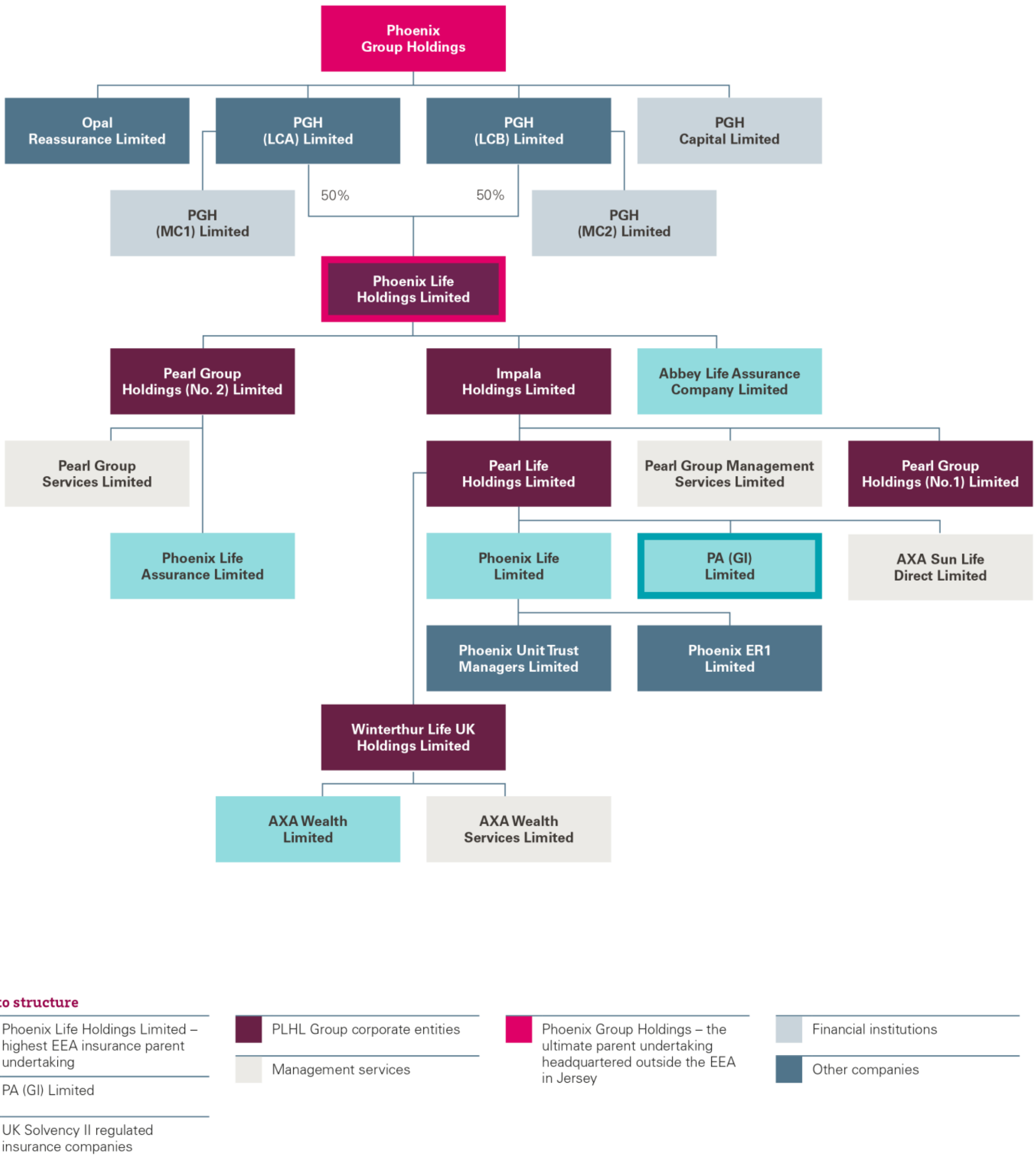
BUSINESS AND PERFORMANCE CONTINUED

A.1 BUSINESS CONTINUED

A.1.2 LEGAL AND ORGANISATIONAL STRUCTURE CONTINUED

A.1.2.1 Legal and organisational structure Continued

A simplified structure chart as at 31 December 2016 is provided below, and shows the Company's position within the legal structure of the Phoenix Group. All shareholdings are 100% unless shown otherwise.



A.1.2.2 Material related undertakings of the Company

There are no material related undertakings of the Company.

SECTION A
Continued

BUSINESS AND PERFORMANCE CONTINUED

A.1 BUSINESS CONTINUED

A.1.3 MATERIAL LINES OF BUSINESS AND GEOGRAPHICAL AREAS

The Company's principal activities are the investment of surplus funds and the administration of creditor insurance complaints relating to business previously underwritten by the Company. All business was underwritten in the UK.

The Company therefore no longer writes general insurance business or has any material lines of business.

A.1.4 SIGNIFICANT BUSINESS AND OTHER EVENTS

Following a High Court hearing in May 2015, the Court ruled that the Company retained liability in respect of creditor insurance complaints relating to business originally underwritten by the Company but subsequently transferred to third parties under Part VII.

As a result of this ruling, the Company has established processes to review the complaints received, and where appropriate, provide redress to the policyholders. The Directors are considering options in respect of seeking to recover the costs incurred from the third parties involved in various business transfers and from the Company's professional indemnity insurers.

On 12 December 2016, the Company contracted KPMG LLP ('KPMG') to handle the administration of creditor insurance complaints on behalf of the Company, commencing February 2017.

During 2016 the Company's immediate parent undertaking injected £68 million by way of capital contributions to provide the Company with additional working capital.

At 31 December 2016 the Company has recognised a provision of £33 million in respect of the complaints liability referred to above, which represents the best estimate of the likely future cash flows, after allowing for a range of possible outcomes for each of the key assumptions. However, the outcome of this issue remains uncertain and the ultimate quantum of the Company's liability may be significantly different to that which has been recognised, with the result that an increase in the provision may be required in future. 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 a deadline by which consumers will need to make their creditor insurance complaints or lose their right to have them assessed by firms or by the Financial Ombudsman Service. This rule will come into force on 29 August 2017, with the deadline falling on 29 August 2019. The deadline will be preceded by an FCA-led communications campaign which could have a material impact on the number of future complaints that the Company may receive in the intervening period.

A.2 UNDERWRITING PERFORMANCE

The Company did not have any underwriting performance during the year.

The movement during the reporting period for the provision detailed in section A.1 is presented split by line of business in S.05.01.02 QRT included in Appendix 1.2. The only relevant line of business is miscellaneous financial loss.

A.3 INVESTMENT PERFORMANCE

Investment income of £100k arose from the Company's investment in collective investment schemes.

All investment gains and losses are recognised in the income statement. There are no amounts recognised directly in equity.

The Company holds no direct investments in securitisation.

A.4 PERFORMANCE OF OTHER ACTIVITIES

During the year the Company incurred expenses of £33 million in respect of the increase in the provision to cover the expected costs relating to creditor insurance complaints discussed in section A.1.4.

There were no other material items during the reporting period.

A.5 ANY OTHER INFORMATION

There is no further material information to be disclosed regarding business and performance.

SECTION B

IN THIS SECTION

SECTION B

SYSTEM OF GOVERNANCE

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

This section provides information on the system of governance in place within the Company and any material changes that have taken place during the reporting period. Details on the structure of the Board is provided, with a description of its main role and responsibilities, as well as a description of the main accountabilities and responsibilities of all key function holders.

The Board is collectively responsible for the management of the Company. The Board is committed to high standards of corporate governance and implements the strategy and risk appetite of the Company defined by the Group.

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

B.1.1 SYSTEM OF GOVERNANCE

The objective of the Company's governance model is to ensure that management is empowered to run the business on a day-to-day basis in accordance with the authority delegated from the Board, whilst ensuring that Directors are able to discharge their statutory and regulatory responsibilities, and that the Board has appropriate oversight and supervision of the business.

The approach adopted is that:

1) The Board has the power to manage the Company in accordance with legislation (Companies Act), and laws and regulations.

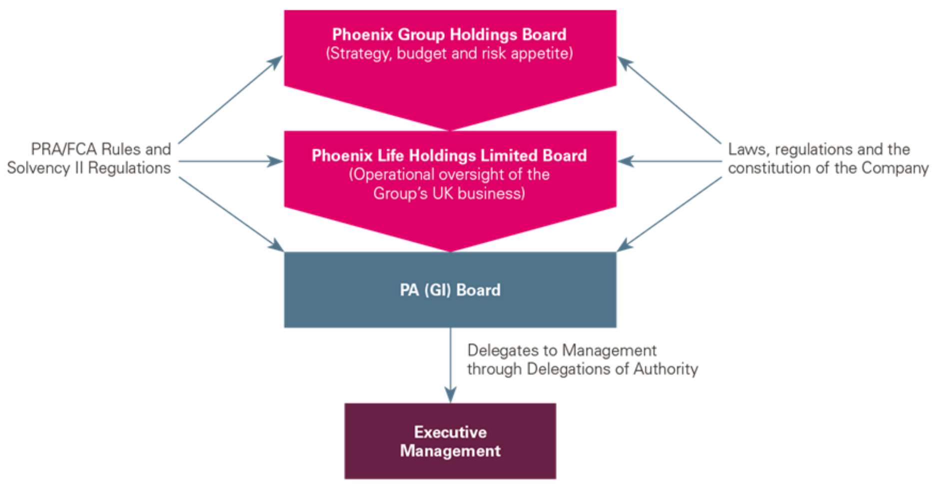
2) The Board delegates powers to Executive Directors and management through delegations of authority.

3) Management oversight committees support management in making decisions under delegations of authority (and are also used to review proposals before they go to the Board).

4) A system of Solvency II key functions (Actuarial, Internal Audit, Risk and Compliance) operates within the Company. Their duties and responsibilities are allocated, segregated and co-ordinated in line with Phoenix Group policies. In addition, the Internal Audit function reports directly to the Board Audit Committee for the Company. Further details about the roles and responsibilities of the key functions are provided later in this section (see sections B.3.1, B.4.2, B.5. and B.6). There are also a number of other key functions that operate across the Group including Group Finance, Treasure, Group Tax, Legal Services, Human Resources, Corporate Communications, Strategy and Corporate Development, Investor Relations and Company Secretariat.

B.1.2 BOARD AND COMMITTEE STRUCTURE

The chart below shows the Company Board structure within the Phoenix Group.



SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.2 BOARD AND COMMITTEE STRUCTURE CONTINUED

B.1.2.1 Composition and roles of the Board

The Board is made up of four Executive Directors. Those performing roles that require approval pursuant to the Senior Insurers Managers Regime ('SIMR') have been duly approved.

The Board members are presented below:

Name	Position	Date of appointment
Susan Davidson McInnes	Director	24/11/2015
Andrew Moss	Director	10/12/2015
Rakesh Kishore Thakrar	Director	29/03//2016
Quentin Jan Zentner	Director	23/03/2016

B.1.2.2 Committee framework

The Board has no formal committees of the Company in place.

B.1.3 REMUNERATION POLICY

The Group has one consistent remuneration policy for all levels of employees and this policy is made available to all staff. Therefore the same remuneration policy principles guide reward decisions for all Group employees, including Executive Directors, although remuneration packages differ to take into account appropriate factors in different areas of the business.

The Group-wide remuneration policy is overseen by the Remuneration Committee of PGH ('RemCo'). Further details on this Committee can be found on page 54 of the 2016 PGH Annual Report and Accounts and on the governance pages of the PGH website.

The policy focuses on ensuring sound and effective risk management and supports management in the operation of their business through the identification of minimum standards and key controls.

The key principles of the remuneration policy which applies across the Group are set out below.

A) **Attract, retain and motivate quality staff** – management keep remuneration practices under review to ensure that these support promotion of the long-term interests of the Group and its stakeholders, and adequately and fairly reward staff.

B) **Remuneration is positioned appropriately against external benchmarks** – remuneration is benchmarked against independent third party data at appropriate intervals.

C) **Remuneration is aligned to the long term success of the Group** – performance related components of remuneration are aligned to measures which reflect achievement of the Group's long term success and strategy.

D) **Proportion of variable pay is appropriate and balanced**, and has due regard to any impact of risk. The ratio of fixed to variable remuneration will differ depending on the specific incentive schemes in operation across the business. However, the Group seeks to ensure that an appropriate balance between fixed and variable remuneration is maintained for all employees, with the fixed proportion being sufficient to allow variable pay to operate on a fully-flexible basis, including the possibility of no payments of variable remuneration in a year. For material risk-takers subject to the regulatory requirements (further details on whom are included in section B.2) there is also an appropriate balance between annual and long-term incentives, with the deferral of annual incentives into shares and all incentives including provision for the application of malus and clawback where appropriate.

E) **Independence and strong governance in decision-making processes** – as the policy is overseen by RemCo this ensures an appropriate level of independent challenge given RemCo exclusively comprises independent Non-Executive Directors. Certain roles within control functions (risk, compliance, internal audit and actuarial) are also subject to different variable pay arrangements which exclude any linkage to financial performance for annual incentives.

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.3 REMUNERATION POLICY CONTINUED

B.1.3.1 Variable remuneration plans

Annual incentive plan

All permanent members of staff participate in a Group-wide Annual Incentive Plan ('AIP'). This is subject to a mixture of corporate and personal performance measures for all staff. This represents a balanced scorecard which includes customer metrics in addition to financial and personal measures.

The quantum of and the balance between corporate and personal performance measures varies between different levels of staff.

The corporate performance measures apply on a Group-wide basis to produce a corporate factor in calculating AIP outcomes. For 2016, the selected performance measures for the corporate element of the AIP are as follows:

Performance metric	Weighting of Corporate Measure
Corporate measure for AIP in 2016	
Operating companies' cash generation	50%
Operating profit	25%
Customer experience	25%

For 2017, the balance of corporate performance measures will be revised so that operating profit no longer applies and the sole financial measure is operating companies' cash generation. Both the cash generation and customer experience weightings will be increased.

Performance metric	Weighting of Corporate Measure
Corporate measure for AIP in 2017	
Operating companies' cash generation (increases from 35% in 2016)	71%
Customer experience (increases from 17.5% in 2016)	29%

The personal element remains unchanged from 2016 and is determined by line managers in accordance with an established performance appraisal grading structure.

One-third of AIP outcomes for all material risk-takers subject to the regulatory requirements are deferred for a period of three years under the Deferred Bonus Share Scheme. For 2017's AIP, the level of deferral will increase to 40% of AIP outcomes for members of the Executive Committee.

Long-term incentive plan

The Group operates a long-term incentive plan ('LTIP') for selected senior members of staff.

RemCo sets performance measures for each LTIP grant. Performance measures include an appropriate mix of measures based on growth in suitable performance conditions set at the time of grant. Performance measures are subject to additional underpin requirements which permit the RemCo to reduce or prevent vesting in appropriate circumstances.

The weightings of the LTIP performance measures for 2016 are summarised below. Each performance measure is assessed over the period of three financial years from 2016 to 2018.

Performance measure	Weighting of Performance Measure
Cumulative cash generation	50%
Total shareholder return ('TSR')	50%
Total	100%

All 2016 LTIP awards are subject to a further underpinning measure relating to debt and risk management within the Group. This underpin will be extended for 2017. LTIP awards to include consideration of customer satisfaction and, in exceptional cases, personal performance.

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE CONTINUED

B.1.3 REMUNERATION POLICY CONTINUED

B.1.3.1 Variable remuneration plans Continued

Long-term incentive plan *Continued*

The relative TSR measure is calculated against the constituents of the FTSE 250 (excluding investment trusts) with vesting commencing at median (25% of this part of the award) and full vesting at upper quintile levels, subject to an underpin regarding underlying financial performance.

The weightings for LTIP measures will be unchanged for 2017 LTIP awards.

B.1.4 OTHER ARRANGEMENTS AND MATERIAL TRANSACTIONS

B.1.4.1 Description of pension arrangements

All members of staff are invited to participate in the Group Personal Pension plan or other defined contribution pension arrangement that are open at that time. Where an individual is impacted by annual or lifetime limits on contribution levels to qualifying pension plans, the balance could be taken as a cash supplement (reduced for the impact of employers' National Insurance Contributions).

The Group does not operate any discretionary pension benefits. Death in Service benefits are provided to all staff.

B.1.4.2 Material transactions with shareholders and the Board

Details of a capital contribution paid by the Company's parent company are included in section A.1.4. There were no other transactions with shareholders, members of the Boards or persons who exercise significant influence on the Company.

B.2 FIT AND PROPER REQUIREMENTS

This section provides information on the specific requirements concerning skills, knowledge and expertise applicable to all senior employees who effectively run the undertaking or hold other key functions; and how they are assessed to be fit and proper.

B.2.1 SENIOR INSURANCE MANAGERS REGIME

Following industry consultation, the UK Regulators introduced the SIMR, applicable to all PRA and dual regulated entities (i.e. PRA and FCA) in response to the Solvency II requirements, which came into effect on 1 January 2016.

The associated regulatory requirements of this regime apply to all staff within the Group (including the Company) who are employed within a key function, defined as one which is essential for the successful operation of the business. Whilst all employees (with the exception of those engaged in facilities and catering activity) are subject to elements of the regime, the most significant impact is upon senior management (in particular, ExCo and Phoenix Management Board ('PMB')), Approved Persons and the Non-Executive Directors ('NEDs'). In total, this equates to c.40 roles across the Group.

The Company ensures the associated requirements are met through the effective implementation of the Phoenix Approved Person Framework, and associated documentation, policies and processes to all regulated entities including the Company. This framework covers the following:

- alignment of controlled functions (i.e. the activities performed by the Approved Persons) roles to the SIMR;
- authorisation process for pre-approved controlled function, notified functions (for example a NED in a role not requiring pre-approval) and key function holders;
- demonstration and maintenance of fitness and propriety;
- application and demonstration of the applicable conduct standards across the business; and
- evidence and maintenance of competence via the Phoenix performance management process.

With regards to the specific requirements concerning skills, knowledge and expertise to the initial and ongoing skills analysis, all individuals complete a relevant induction programme at appointment. As part of the recruitment process they also have a competency assessment and agree an appropriate development plan. Once in role, senior managers are subject to the Group's annual performance management process in addition to the annual fit and proper process, implemented for all Approved Persons, senior insurance manager functions and key function holders.

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

B.2 FIT AND PROPER REQUIREMENTS CONTINUED

B.2.2 PROCESS FOR ASSESSING FITNESS AND PROPRIETY

The Group has a number of policies and processes established which apply to all regulated entities and provide appropriate guidance and governance to ensure that those effectively running the Company have and maintain appropriate fit and proper status during their appointment. These policies and processes include the requirements to:

- Identify and maintain accurate records of all Approved Persons, sufficient to meet the requirements of the FCA and PRA.
- Ensure new appointments are appropriately authorised, including skills analysis and competence assessment.
- Maintain a Group Approved Persons Framework to provide direction and guidance to the Group's Approved Persons ensuring they understand and can evidence how they meet their regulatory requirements.
- Complete periodic assessments of Approved Persons to determine their on-going competence, including consideration of performance development rating, Disclosure and Barring Service ('DBS') check and financial self-certification.
- Maintain an effective performance management framework, ensuring that the performance of employees is effectively managed.
- Motivate and retain the right employees through appropriate reward structures.
- Deliver an appropriate organisational culture through embedding appropriate values and behaviours.
- Identify, plan and implement effective learning and development activities.
- Provide guidance, information and advice regarding the requirements, expectations and obligations of an Approved Person role.

Evidence of adherence to these standards is monitored on a quarterly basis and recorded within the Group centralised risk management system.

B.3 RISK MANAGEMENT SYSTEM, INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT

This section provides a description of the Group's risk management system including information on how the Risk Management functions are implemented and integrated into the organisational structure and decision-making processes of the Group.

The PGH Group Board is accountable for the Group's RMF, which is implemented consistently across all Group subsidiaries, including the Company. Ultimate accountability for compliance with the regulations rests with the PLHL Board. However each subsidiary Board (including the Company) has responsibility for complying with the regulations.

B.3.1 RISK MANAGEMENT FUNCTION

The Group Risk function is headed by the Chief Risk Officer ('CRO'), who reports directly to the Group CEO.

The Group Risk function has the primary responsibility for supporting the PGH, PLHL and subsidiary Boards in meeting their risk management responsibilities.

The Group Risk function is split into three teams, covering the following areas:

Operational and regulatory risk: This team is responsible for oversight of operational risk within the Group. This includes regulatory responsibility for all the Group's authorised undertakings and accountability for the successful implementation of all compliance activities. This team is also responsible for ensuring that the RMF is used by the Group to identify, assess, manage, monitor and report the operational risks it faces in achieving its strategic objectives. This responsibility extends across the business, including all Outsourced Service Providers ('OSPs').

Financial risk: This team is responsible for oversight of all financial risks within the Group. This includes ensuring that the RMF is used by the Group to identify, assess, manage, monitor and report the financial risks it faces in achieving its strategic objectives. This team also has responsibility for independently validating that the Group's IM continues to meet the regulatory requirements, including documentation requirements.

PRA/FCA relationship: This team is responsible for managing the relationship with the regulators, including the co-ordination and tracking of the interactions with the PRA and FCA, and arranging preparation for Supervisory Risk Assessment visits.

B.3.2 RISK MANAGEMENT FRAMEWORK

The Group has developed a RMF, which seeks to establish a coherent and interactive set of arrangements and processes to support the effective management of risk throughout the Group.

During the year, the Group continued to strengthen the RMF to meet the evolving regulatory requirements including Solvency II and the UK Corporate Governance Code.

SECTION B
Continued

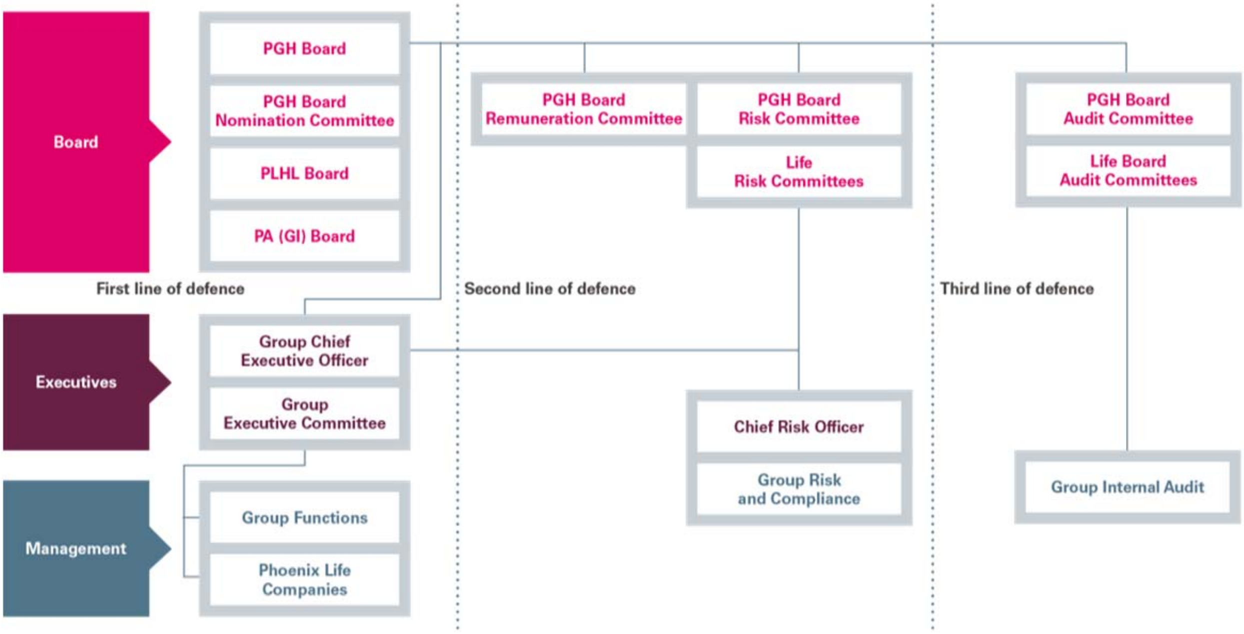
SYSTEM OF GOVERNANCE CONTINUED

B.3 RISK MANAGEMENT SYSTEM, INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT CONTINUED

B.3.2 RISK MANAGEMENT FRAMEWORK CONTINUED

GOVERNANCE

The RMF is underpinned by the operation of a three lines of defence model with clearly defined roles and responsibilities for statutory Boards and their Committees, management oversight Committees, Group Risk and Group Internal Audit. This is illustrated by the diagram below:



First line: Management – Management of risk is delegated from the Board to the CEO and through to business managers. A series of business unit management oversight Committees operate within the Group. They are responsible for implementation of the RMF and ensuring the risks associated with the business activities are identified, assessed, controlled, monitored and reported.

Second line: Risk oversight – Risk oversight is provided by the Group Risk function.

Third line: Independent assurance – Independent verification of the adequacy and effectiveness of the internal controls and risk management is provided by the Group Internal Audit function, which is supported by the Group BAC.

ORGANISATION

The Group CRO manages the Group Risk function and has responsibility for the implementation and oversight of the Group's RMF. The Group Risk function has responsibility for oversight over financial, operational and regulatory risk. The PRA/FCA relationship team manages the relationship and interactions with the Group's primary regulators and reports to the Group CRO.

POLICIES

The Group policy framework comprises a set of policies that support the delivery of the Group's strategy by establishing operating principles and expectations for managing the key risks to the Group's business. The policy set is mapped to the Group risk universe and contains the minimum control standards to which each business unit must adhere to and against which they report compliance.

The policies define:

- the individual risks the policy is intended to manage;
- the degree of risk the Group is willing to accept, which is set out in the policy risk appetite statements;
- the minimum controls required in order to manage the risk to an acceptable level; and
- the frequency of the control's operation.

Each policy is the responsibility of a member of the Executive Committee who is charged with overseeing compliance throughout the Group.

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

B.3 RISK MANAGEMENT SYSTEM, INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT CONTINUED

B.3.2 RISK MANAGEMENT FRAMEWORK CONTINUED

BUSINESS PERFORMANCE AND CAPITAL MANAGEMENT

The Annual Operating Plan ('AOP') is assessed to ensure that the Group operates within the stated risk appetite. Business performance is routinely monitored with consolidated reporting against performance targets.

RISK AND CAPITAL ASSESSMENT

The Group operates a standardised assessment framework for the identification and assessment of the risks it may be exposed to and how much capital should be held in relation to those exposures. This framework is applicable across the Group and establishes a basis, not only for the approach to risk assessment, management and reporting but also for determining and embedding capital management at all levels of the Group in line with Solvency II requirements.

Risk assessment activity is a continuous process and is performed on the basis of identifying and managing the significant risks to the achievement of the Group's objectives.

Independent reviews conducted by Group Risk provide further assurance to management and Board that individual risk exposures and changes to our risk profile are being effectively managed.

QUALITATIVE INFORMATION ON MATERIAL RISKS

The principal risks and uncertainties are detailed in the table below together with their potential impact and mitigating actions which are in place. As economic changes occur and the industry and regulatory environment evolves, the Group will continue to monitor the potential impact of these principal risks and uncertainties facing the Group.

Risk	Impact	Mitigation
Greater than anticipated redress cost of the Company's creditor insurance.	Cost of redressing creditor insurance complaints arising from historic general insurance policies transferred to other insurers prior to 2006 is greater than provisions held.	The Company continues to monitor the level of complaints and emerging experience to ensure that the provisions remain appropriate.

B.3.3 OWN RISK AND SOLVENCY ASSESSMENT PROCESS

The Company carries out an Own Risk and Solvency Assessment ('ORSA') to assess its risk profile on an ongoing basis. The ORSA process is made up of a number of components which operate at regular frequencies at PLHL Group level.

B.4 INTERNAL CONTROL SYSTEM

B.4.1 INTERNAL CONTROL FRAMEWORK

The Group's internal control system is outlined in the internal control framework and is implemented consistently across the Group. The internal control framework places reliance on the effective operation of the three lines of defence model described in section B.3.2 which is a recognised approach in supporting effective corporate governance and oversight.

There are five key elements to the effective operation of the internal control framework to enable Lines 1, 2 and 3 to fully discharge their responsibilities:

– Identification of the key controls within the business to effectively manage risks within risk appetite, which is undertaken as part of the annual Group policy refresh process. This includes identification of the minimum control standards ('MCS') required in order to manage risk within appetite.

– For each MCS defined, a clear articulation of the expected evidence to support the assertion that the MCS is operating effectively.

– Self-assessment by designated control owners of the operating effectiveness of each MCS on a quarterly basis.

– Implementation of a proportionate program of controls assurance activity by Line 1 supported by further review and assurance activities by Lines 2 and 3, which includes half-yearly completion of the Internal Control Self-Assessment process (ICSA).

– Reporting on MCS performance to provide assurance and management information to all stakeholders confirming that the controls are operating as expected or highlighting exceptions. This in turn enables the data to be incorporated and referenced with Line 1 and Line 2 risk reporting.

Each of these elements is an integral part of the RMF as outlined in section B.3, in particular risk appetite; governance, organisation and policies; management information; and technology and infrastructure.

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

B.4 INTERNAL CONTROL SYSTEM CONTINUED

B.4.2 THE COMPLIANCE FUNCTION

The Compliance function is undertaken by the Compliance Monitoring team which sits within the Operational and Regulatory Risk team under Group Risk. This is an independent function in the second line of defence and provides assurance to the Boards that the Group (including the Company) is operating within a compliant framework. Whilst compliance with regulation remains the responsibility of senior management assigned to specific roles, the Compliance function ensures that the appropriate mechanisms exist to support management in discharging their responsibilities to this end. In addition, the Compliance function provides assurance through its Line 2 compliance monitoring programme and is responsible for identifying and assessing the impacts of new regulations and disseminating these to the relevant parties.

An annual compliance monitoring plan is developed through a risk based approach. This plan includes specific Solvency II requirements as determined through the regulations or internally, which is in addition to the independent validation in relation to the IM.

The Regulatory Risk Policy and Guidance team monitor regulatory and industry developments. The team monitors the delivery of actions, providing challenge, oversight and senior management assurance around the effective management of regulatory risk in this regard.

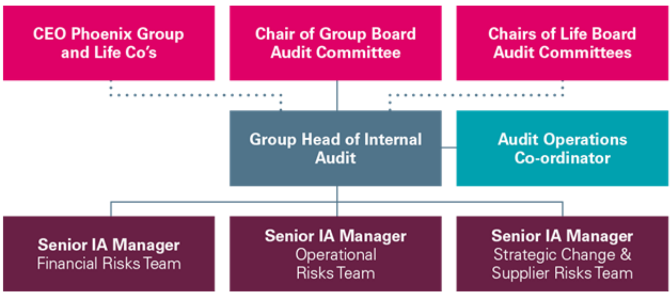
B.5 INTERNAL AUDIT FUNCTION

The primary role of the Phoenix Group Internal Audit ('PGIA') function is to support the Board and executive management in protecting the assets, reputation and sustainability of the organisation. This is achieved by assessing whether all significant risks are identified and appropriately reported, assessing whether they are adequately controlled and challenging executive management to improve the effectiveness of governance, risk management and internal controls.

PGIA operates in compliance with the International Standards for the Professional Practice of Internal Auditing, the Internal Audit Code of Ethics and the recommendations from the Committee on Internal Audit Guidance for Financial Services.

B.5.1 STRUCTURE OF INTERNAL AUDIT

A summarised structure chart for the Internal Audit function is shown below:



B.5.2 ROLES AND RESPONSIBILITIES OF INTERNAL AUDIT

The internal audit scope is unrestricted and there are no aspects of the organisation which PGIA is prohibited from reviewing. Key business risk areas and industry themes identified both internally and externally, will be prioritised to receive more extensive coverage, regular ongoing review and opinion formation.

The function has a number of responsibilities, including the following:

Production of internal audit plans: PGIA plans, and material changes to plans, are approved by the Group BAC) (further details on the committee are included in section B.1). They have the flexibility to deal with unplanned events to allow PGIA to prioritise emerging risks. Changes to the audit plan are considered through PGIA's ongoing assessment of risk.

Reporting results: PGIA's reporting to the Group BAC includes details of significant control weaknesses, root-cause analysis, themes and a view on the adequacy of management's remediation plans. Bi-annually, PGIA provides an opinion on the strength of the design and operation of the Risk Management/Internal Control Framework.

Oversight of Internal Audit functions: In the case of the Group's OSPs, PGIA operates a risk-based oversight model to ensure the activities of the outsourced Internal Audit functions meet PGIA standards (which are aligned to Chartered Institute of Internal Audit standards).

B.5.3 REPORTING

PGIA attend, and issue reports to the PGH BAC and any other governing bodies as appropriate.

PGIA's reporting to the PGH BAC includes significant control weaknesses, root-cause analysis, themes and a view on management's remediation plans. Bi-annually, PGIA provides an opinion on the strength of the design and operation of the Risk Management/Internal Control Framework (and the associated Risk, Control and Assurance standards).

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

B.5 INTERNAL AUDIT FUNCTION CONTINUED

B.5.4 INDEPENDENCE AND OBJECTIVITY OF THE INTERNAL AUDIT FUNCTION

In order to maintain its independence and objectivity from the activities it reviews, PGIA ensures the following:

The Group Head of Internal Audit ('GHIA') reports to the Group BAC (through the Chair) and to the Group CEO on a day to day basis. The Group BAC Chair is the final approval point for recommendations made by the Group CEO regarding the performance objectives, appraisal, appointment or removal of the GHIA, as well as the overall compensation package of the GHIA which is further ratified by the RemCo.

The remuneration of the GHIA and the senior Internal Audit managers is structured in a manner such that it avoids conflicts of interest, does not impair independence and objectivity and is not directly or exclusively linked to the short-term performance of the organisation.

PGIA has the right to attend and observe all or part of executive management meetings and any other key management decision making forums. It also has sufficient and timely access to all Board and executive management information and a right of access to all of the organisation's records, necessary to discharge its responsibilities.

Effective Risk Management, Compliance and other assurance functions are an essential part of the Group's corporate governance structure. PGIA is independent of these functions and is neither responsible for, nor part of, them. In evaluating the effectiveness of internal controls and risk management processes, in no circumstances does PGIA rely exclusively on the work of these other assurance providers, and always examines for itself, an appropriate sample of the activities under review. To the extent that PGIA places reliance, this is only after a thorough evaluation of the effectiveness of those functions in relation to the area under review.

B.6 ACTUARIAL FUNCTION

B.6.1 ORGANISATIONAL STRUCTURE

The Actuarial function within the Group comprises:

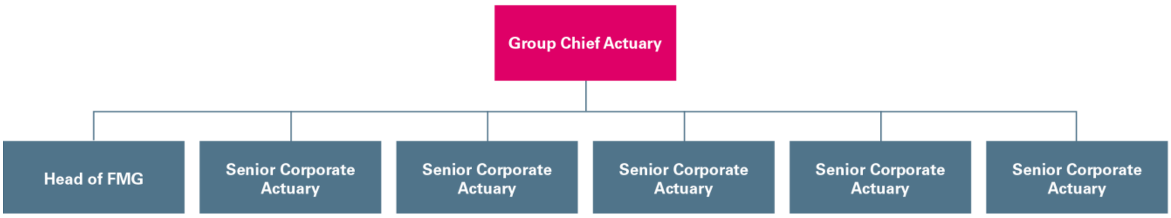
- the Life Actuarial department, headed by the Phoenix Life Chief Actuary; and
- the Group Actuarial department, headed by the Group Chief Actuary.

The Actuarial function provides a range of actuarial services and advice to the Boards and management teams of the Phoenix regulated insurance companies including the Company, and the Group companies, mainly PGH and PLHL.

Actuarial services in respect of the Company are currently the sole responsibility of the Group Actuarial department.

B.6.2 GROUP ACTUARIAL DEPARTMENT

A simplified structure chart for the Group Actuarial department is provided below:



The structure chart shows the Head of Financial Management Group ('FMG') reporting to the Group Chief Actuary. As FMG responsibilities are primarily related to investment strategy and management of assets, and are not directly actuarial in nature, further discussion of this team's activities is not considered in this section.

The Group Actuarial department supports the PLHL, PGH and the Company's Boards in ensuring capital is managed efficiently, manages the solvency position, contributes to the development of the investment strategy and identifies and delivers opportunities to enhance shareholder value across the Group, while maintaining oversight through membership on governance committees and Boards.

Key activities in respect of the Company include:

- finalise the methodology and assumptions underpinning the creditor insurance redress provision and SCR;
- calculate the Company's creditor insurance redress provision and SCR;
- implement the capital management policy on a quarterly basis; and
- maintain and develop the IM as it relates to the Company.

SECTION B
Continued

SYSTEM OF GOVERNANCE CONTINUED

B.7 OUTSOURCING

B.7.1 OUTSOURCING RELATIONSHIPS

On 12 December 2016, the Company contracted KPMG based in the UK to provide complaint handling services. KPMG was carefully selected following appropriate due diligence.

B.7.2 SOURCING AND PROCUREMENT POLICY

Sourcing is the structuring of the supply base, including the evaluation, selection and appointment of suppliers to support the operating model of the organisation and key functions, Procurement is the acquisition of goods or services to meet specific business needs and the creation of commercial and legal agreements to fulfil specific requirements. The Group has a sourcing and procurement policy in place which seeks to manage sourcing and procurement risk (the risk of reductions in earnings and/or value through financial or reputation loss associated with procuring services and managing service providers). The policy covers the Group's MCS which are to be adhered to when evaluating, selecting, implementing and managing suppliers in order to ensure risk is managed appropriately. The policy also contains the key risks associated with sourcing and procurement and the minimum control standards in place to mitigate those risks to within an acceptable risk appetite. This aligns with the Risk and Control framework operated across the Group to manage risk. Further details on the Risk and Control framework can be found in section B.3.

B.7.3 BOARD OVERSIGHT

Oversight of the KPMG relationship is undertaken by the Company's management. Appropriate escalations are made to the Company's Board as required.

B.8 ANY OTHER INFORMATION

B.8.1 SYSTEM OF GOVERNANCE — ASSESSMENT OF ADEQUACY

Overall, it has been deemed that the system of governance in place within the Company is adequate to meet the requirements of the regulations, demonstrated by the framework described herein.

There is no further material information to be disclosed regarding the system of governance.

SECTION C

IN THIS SECTION

SECTION C

RISK PROFILE

This section provides information on the risk profile of the Company, including for each category of risk, a description of the measures used to assess these risks, material risk exposures, concentrations and risk mitigation techniques.

Section B.3 set out the risk management system including information on how the Risk Management function is implemented and integrated into the organisational structure and decision-making processes of the Company.

The Company's undiversified IM SCR as at 31 December 2016 consists entirely of operational risk capital, in respect of creditor insurance risk. No other risk categories are considered sufficiently material to warrant the holding of risk capital.

Further details regarding the Company's SCR can be found in section E.1.

C.1 UNDERWRITING RISK

Underwriting risk refers to the risk that the frequency or severity of insured events may be worse than expected and includes expense risk. The Company does not currently have any exposure to underwriting risk as it no longer underwrites any insurance business.

C.2 MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market influences. The Company has no material exposure to market risk.

C.3 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 its obligation. These obligations can relate to both on and off balance sheet assets and liabilities. The Company is exposed to credit risk arising from counterparty default in relation to bank deposits and collective investments held.

No SCR is held in respect of the counterparty default risk, as counterparty default is considered beyond a 1-in-200 event.

There were no material changes to credit risk during the year.

C.3.1 PRUDENT PERSON PRINCIPLE REQUIREMENTS

The policies and procedures in place for credit risk include minimum control standards which have been designed to ensure compliance with the Prudent Person Principle requirements of the Solvency II Directive.

Collective investments are governed by the relevant investment mandates which meet the overarching requirements of Group policies.

Compliance with the relevant policies is monitored on an ongoing basis (see section B for more details on governance).

C.4 LIQUIDITY RISK

Liquidity is defined as the failure of the Company to maintain adequate levels of financial resources to enable it to meet its obligations as they fall due. The Company has 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 does not currently have any material exposure to liquidity risk and hence no liquidity stress testing process is currently in place. The Company's entire asset portfolio consists of liquid assets, which are held for the sole purpose of having funds readily available as redress to customers with a creditor insurance complaint, and paying the costs of complaint handling. As the value of assets held is expected to be sufficient to cover the entire future liability of the Company with a 99.5% probability (plus a capital policy buffer), the risk of any short-term liquidity issue is not significant, and consequently no risk capital is held against this risk.

The provisions for redress to customers and complaints handling are reviewed on a quarterly basis. This is followed by capital injections from the parent company as required, to ensure the Company has sufficient liquidity to pay creditor insurance claims and complaint handling costs in a timely manner.

There were no material changes to liquidity risk during the year.

C.5 OPERATIONAL RISK

C.5.1 RISK EXPOSURE AND CONCENTRATION

Operational risk is defined as the risk of reduction in earnings and/or value, through financial or reputational loss, from inadequate or failed internal processes and systems, or from people-related or external events.

The primary source of operational risk for the Company relates to creditor insurance complaints from the business previously underwritten by the Company. The Company has recognised a provision for this liability of £33 million which has been calculated on a best estimate basis after allowing for a range of possible outcomes for each of the key assumptions. The Company continues to review the adequacy of this provision in light of own experience and external market factors. However, the outcome of this issue remains uncertain and the ultimate quantum of the Company's liability may be significantly different to that which has been recognised.

SECTION C
Continued

RISK PROFILE CONTINUED

C.5 OPERATIONAL RISK CONTINUED

C.5.1 RISK EXPOSURE AND CONCENTRATION CONTINUED

In addition, the Company will face operational risk in respect of the performance of its outsourced complaints administration arrangement with KPMG. This administration arrangement came into effect in February 2017 and no capital was held against this risk as at 31 December 2016 as the counterparty has a strong control framework, the contract has a relatively short duration and alternative suppliers are known to be available if the Company wishes to change supplier.

C.5.2 RISK MEASUREMENT

The risk capital requirement for operational risk is assessed using the IM, which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period. The methodology used for this is a scenario-led approach in which the quantification for operational risks faced by the organisation is assessed by experts within the business.

From a qualitative perspective operational risk is regularly reported to management and the Company Board.

C.5.3 RISK MITIGATION

The Company, in line with the Group RMF, seeks to manage its exposure to operational risk by establishing MCS (and supporting practices where appropriate). These MCS are defined within the Group risk policies and are designed to ensure that the Group and its subsidiaries operate within the low level qualitative risk appetite statements defined within those policies. Periodic reporting by risk owners monitors risk exposure against these agreed limits.

The Group risk policies, and the minimum control standards outlined within them, is one of the key mitigants used to manage the Company's operational risk exposure.

The effectiveness of operational risk mitigation is monitored on an ongoing basis by the Operations Committee ('OC') and the Phoenix Customer Management Committee ('PCMC').

C.5.4 STRESS TESTING

Stress testing at the 99.5th percentile confidence level is used to determine the operational risk capital requirements, using the IM, the results of which are shown in section E.2.

C.6 OTHER MATERIAL RISKS

There are no other material risk exposures for the Company.

C.7 ANY OTHER INFORMATION

There is no further material information to be disclosed regarding the Company's risk profile.

SECTION D

IN THIS SECTION

SECTION D

VALUATION FOR SOLVENCY PURPOSES

This section covers the valuation of assets (section D.1), technical provisions (section D.2) and other liabilities (section D.3) on the Solvency II balance sheet. Their valuation is determined in line with the regulations. The balance sheet QRT S.02.01.02 is included at Appendix 1.1.

Sections D.1.2 and D.3.2 provides separately for each material class of assets and liabilities (excluding technical provisions), a description of the bases, methods and main assumptions used in their valuation for solvency purposes. There are no differences between the IFRS financial statements and the Solvency II value. All classes of assets and liabilities presented are consistent to the S.02.01.02 balance sheet QRT.

The Solvency II value of the assets and liabilities are set out together with a 'statutory accounts value' column.

The recognition and valuation methods used for the completion of the 'statutory accounts value' column are those used in the Company's statutory accounts in accordance with IFRS.

D.1 ASSETS

D.1.1 INTRODUCTION

This section covers the valuation of assets on the Solvency II balance sheet.

The table below sets out the Solvency II value of the assets and the 'statutory accounts value' column. There are no differences between the 'Solvency II value' column and the 'statutory accounts value' column.

Assets	Note	Solvency II value £000	Statutory accounts value £000
Investments (other than assets held for index-linked and unit-linked contracts)	**1**	**75,148**	**75,148**
Collective investment undertakings		75,148	75,148
Receivables (trade, not insurance)	2	16	16
Cash and cash equivalents	3	1	1
Total assets		**75,165**	**75,165**

D.1.2 ASSET VALUATION BASES, METHODS AND MAIN ASSUMPTIONS

The Company's Solvency II valuation principles (including the bases, methods and main assumptions) for each asset class are set out below. Unless otherwise stated (i.e. where there are differences to the 'statutory account value' column) the valuation methods included in IFRS are consistent with the valuation methods under the regulations.

Note	Balance sheet item	Solvency II valuation principles for each material asset class
1	**Investments (other than assets held for index linked and unit-linked contracts)**	The Solvency II fair value of collective investment undertakings is based on quoted market prices.
2	**Receivables (trade, not insurance)**	The receivables (trade, not insurance) balance principally includes accrued investment income, which is valued at fair value.
3	**Cash and cash equivalents**	Cash and cash equivalents comprise of cash balances that are usable for all forms of payments without penalty or restriction.

D.1.3 DEFERRED TAX ASSETS

There are no deferred tax assets as at 31 December 2016.

SECTION D
Continued

VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS

The Company held no technical provisions as at 31 December 2016.

D.3 OTHER LIABILITIES

D.3.1 INTRODUCTION

This section covers the valuation of other liabilities on the Solvency II balance sheet.

The table below sets out the Solvency II value of the liabilities and a 'statutory accounts value' column. There are no differences between the 'Solvency II value' column and the 'statutory accounts value' column.

Liabilities	Note	Solvency II value £000	Statutory accounts value £000
Provisions other than technical provisions	1	32,800	32,800
Payables (trade, not insurance)	2	506	506
Total liabilities		**33,306**	**33,306**

D.3.2 LIABILITY VALUATION BASES, METHODS AND MAIN ASSUMPTIONS

The Solvency II valuation principles (including the bases, methods and assumptions) for each liability class is set out below:

Note	Balance sheet item	Solvency II valuation principles for each material liability class
1	**Provisions other than technical provisions**	A provision is recognised when the Company has a present legal or constructive obligation, as a result of a past event, which is likely to result in an outflow of resources and where a reliable estimate of the amount of the obligation can be made. If the effect is material, the provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. The provisions other than technical provisions relates to a provision for creditor insurance. The £33 million recognised 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. This is discussed further in section A.1.4.
2	**Payables (trade not insurance)**	The payables (trade not insurance) balance principally comprises of intercompany balances and current tax. These are valued at fair value in line with IFRS.

D.3.3 DEFERRED TAX LIABILITIES

There are no recognised or unrecognised deferred tax liabilities as at 31 December 2016

D.4 ALTERNATIVE METHODS FOR VALUATION

There are no items valued using alternative methods as at 31 December 2016.

D.5 ANY OTHER INFORMATION

There is no further material information to be disclosed regarding the valuation of assets and liabilities for solvency purposes.

SECTION E

IN THIS SECTION

SECTION E

CAPITAL MANAGEMENT

E.1 OWN FUNDS

This section provides information on the Own Funds, including changes over the reporting period, and the SCR. There are no differences between net assets under IFRS and the excess of assets over liabilities for solvency purposes.

E.1.1 MANAGEMENT OF OWN FUNDS

Following the implementation of the regulations from 1 January 2016, the Company's capital is managed on 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 SCR, based on the Company's IM. Solvency II surplus is the excess of Eligible Own Funds over the SCR.

The Group and its insurance subsidiaries operate under a suite of capital management policies that govern the allocation of capital throughout the Group to achieve the framework objectives under a range of stress conditions. The policy suite considers policyholder security, creditor obligations, dividend policy and regulatory capital requirements. There have been no material changes to the Group's policy suite over the reporting period.

A capital policy is also set by the Board and monitored at Board level. This policy ensures sufficient liquidity to meet creditor obligations. The capital policy is managed according to the risk profile and financial strength of the Company.

The capital management framework for managing Own Funds is designed to achieve the following objectives:

- Provide appropriate security for policyholders and meet all regulatory capital requirements while not retaining unnecessary excess capital.
- Ensure sufficient liquidity to meet obligations to policyholders and other creditors.
- Optimise the overall financial leverage ratio to maintain an investment grade credit rating.
- Meet the dividend expectations of shareholders.

The Company's future performance is projected over a five-year planning horizon.

E.1.2 STRUCTURE AND QUALITY OF OWN FUNDS

The table below summarises the solvency position as at 31 December 2016. The Own Funds QRT S.23.01 is included in Appendix 1.3.

Description	Tier 1 £000
Ordinary share capital	3,000
Reconciliation reserve	38,858
Excess of assets over liabilities	**41,858**
Basic, Available and Eligible Own Funds to meet SCR	**41,858**
SCR	(31,589)
Solvency II surplus	**10,269**
Ratio of Eligible Own Funds to SCR	**133%**
Eligible Own Funds to meet MCR	**41,858**
MCR	(7,897)
Excess over MCR	**33,961**
Ratio of Eligible Own Funds to MCR	**530%**

Own Funds are split into tiers in line with the regulations. There are three tiers based on both permanence and loss absorbency (Tier 1 being the highest quality).

The regulations impose limits on the amount of each Tier that can be held to cover capital requirements with the aim of ensuring that the items will be available if needed to absorb any losses that may arise. This means that they need to be sufficient in amount, quality and liquidity to be available when the liabilities they are to cover arise. Items with a fixed duration or a right to redeem early may not be available when needed. Similarly, obligations to pay distributions or interest will reduce the amount available. The rules on tiering are designed to reflect the existence of such features.

All of the Company's capital items are classified as unrestricted Tier 1. The Company does not hold any items of capital that are considered to be Tier 2 or Tier 3.

SECTION E
Continued

CAPITAL MANAGEMENT CONTINUED

E.1 OWN FUNDS CONTINUED

E.1.2 STRUCTURE AND QUALITY OF OWN FUNDS CONTINUED

E.1.2.1 Overview of solvency position

As at 31 December 2016, the Solvency II surplus is £10 million, with a ratio of Eligible Own Funds to SCR of 133%. The excess of Eligible Own Funds over the MCR is £34 million, with a ratio of Eligible Own Funds to MCR of 530%.

E.1.2.2 Basic Own Funds

The Basic Own Funds total £42 million and comprised ordinary share capital and a reconciliation reserve. Further details regarding each Basic Own Funds item are set out below.

Ordinary share capital

The issued and fully paid ordinary share capital of £3 million is treated as Tier 1 unrestricted Own Funds.

Reconciliation reserve

The reconciliation reserve is treated as Tier 1 unrestricted Own Funds. This comprises:

Reconciliation reserve as at 31 December 2016	£000
Excess of assets over liabilities	41,858
Less: Ordinary share capital	(3,000)
Reconciliation reserve Total	**38,858**

E.1.3 ANALYSIS OF MOVEMENT IN CAPITAL POSITION

The table below provides an analysis of significant changes in the capital position during the year, including Own Funds, SCR and Solvency II surplus.

Analysis of movement in solvency position	Note	Eligible Own Funds £000	Solvency Capital Requirement £000	Solvency II surplus £000
Opening position at 1 January 2016		**7,663**	**(4,538)**	**3,125**
– Capital contribution received	1	68,000	–	68,000
– Movement in provision	2	(33,883)	(27,051)	(60,934)
– Interest received		100	–	100
– Other		(22)	–	(22)
Closing position at 31 December 2016		**41,858**	**(31,589)**	**10,269**

1 - Capital contribution

A capital contribution was received from PeLHL to provide the Company with additional working capital.

2 - Movement in provision

The creditor insurance provision is discussed in section A.1.4. A review of the key provision assumptions at 31 December 2016 resulted in an increase in the provision and the SCR in the year.

E.1.4 RECONCILIATION OF IFRS NET ASSETS TO EXCESS OF ASSETS OVER LIABILITIES UNDER SOLVENCY II

There are no differences between the Company's equity under IFRS and the excess of assets over liabilities under Solvency II.

SECTION E
Continued

CAPITAL MANAGEMENT CONTINUED

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

E.2.1 SOLVENCY CAPITAL REQUIREMENT

The Company's SCR at 31 December 2016 is presented below:

Analysis of Solvency Capital Requirement – 31 December 2016	£000
Risk categories	
Operational risk	31,589
Solvency Capital Requirement	**31,589**

The SCR is calculated in accordance with the Group's IM and is subject to on-going supervisory assessment. As noted in section C.5 the only significant risk category against which risk capital exists relates to operational risk.

E.2.2 CHANGES IN SOLVENCY CAPITAL REQUIREMENT

The material changes in the SCR and reasons thereof are set out in section E.1.3.

E.2.3 MINIMUM CAPITAL REQUIREMENT

As set out in section E.1.2 the Company's MCR as at 31 December 2016 is £8 million.

The MCR is calculated according to a formula prescribed by the regulations and is subject to a floor of 25% of the SCR or EUR 3.7m, whichever is higher, and a cap of 45% of the SCR. The MCR formula is based on factors applied to the technical provisions and capital at risk.

The components of the overall calculation of the MCR as at 31 December 2016 are:

Calculation of MCR – 31 December 2016	£000
MCR before the application of floors and caps	–
MCR cap (45% of SCR)	14,215
MCR floor (higher of 25% of SCR or EUR 3.7m)	7,897
MCR (post application of floors and caps)	7,897

The changes in MCR during the reporting period are set out below:

Analysis of change in MCR	£000
1 January 2016	2,657
31 December 2016	7,897
Movement in MCR	5,240

The MCR at both 1 January 2016 and 31 December 2016 is based on the prescribed floor of either 25% of SCR or EUR 3.7 million. Hence the change in SCR is the driver for change in MCR.

E.3 USE OF THE DURATION-BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF SOLVENCY CAPITAL REQUIREMENT

The Company does not use the equity risk sub-module in the calculation of the SCR. The UK has not implemented the member state option in the regulations to permit the use of this sub module for the Standard Formula calculation.

SECTION E
Continued

CAPITAL MANAGEMENT CONTINUED

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED

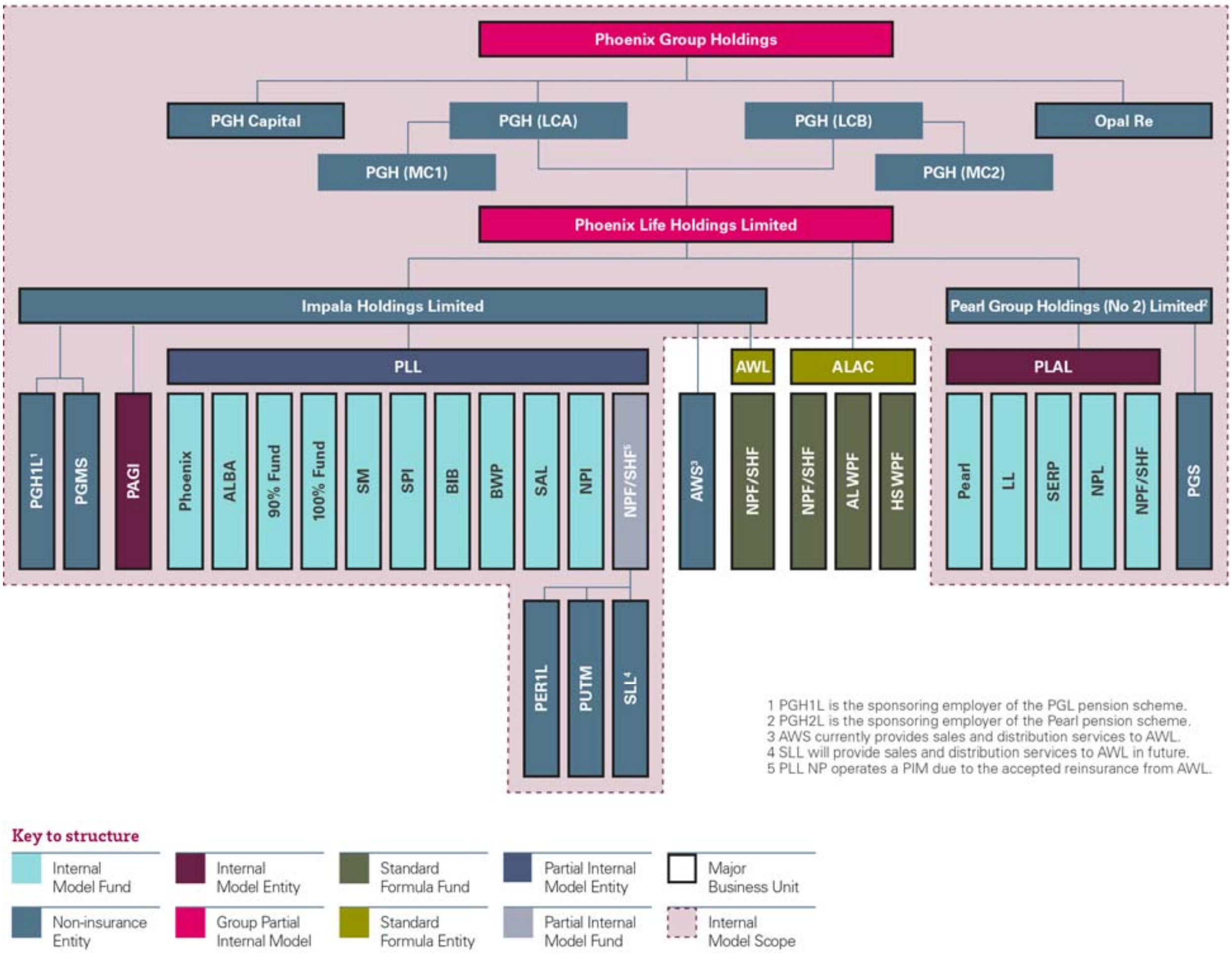
This section outlines the purpose of the IM, its scope, methodology and assumptions, key differences between Standard Formula and IM, and the nature and appropriateness of data used.

E.4.1 SCOPE OF INTERNAL MODEL

Coverage

The diagram below sets out a simplified view of the current Phoenix Group structure at year-end, and also details entities within the scope of the IM.

As shown in the table, the Company operates under a full IM. None of the risks associated with the Group's acquisitions during 2016 have transferred to or directly impact the Company.



1 PGH1L is the sponsoring employer of the PGL pension scheme.
2 PGH2L is the sponsoring employer of the Pearl pension scheme.
3 AWS currently provides sales and distribution services to AWL.
4 SLL will provide sales and distribution services to AWL in future.
5 PLL NP operates a PIM due to the accepted reinsurance from AWL.

SECTION E
Continued

CAPITAL MANAGEMENT CONTINUED

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED CONTINUED

E.4.1 SCOPE OF INTERNAL MODEL CONTINUED

Risk categories

A key element of the Group's risk strategy is to ensure that the every part of the Group has robust understanding of the risks it faces. This is achieved through regular monitoring and reporting of risks. Further details are included in section B.3.

All key risks (i.e., those forming part of the Standard Formula and risks specific to the insurance entities and Group) in the risk universe are within the scope of the IM.

Capital is held against all risks within the Risk Universe, unless:

– the risk is one that would not be expected to impact Own Funds; or

– exposure to the risk is not significant; or

– there is a dedicated risk management process in place to ensure that the risk exposure remains non-material or is unlikely to arise at all.

Justification for not holding capital for any risks within the risk universe is documented and approved by senior management. This position is reassessed periodically or sooner if specified trigger events have occurred.

Operational risk is considered to be the only material risk exposure for the Company.

E.4.2 USES OF THE INTERNAL MODEL

The IM is widely used and plays an important role in the system of governance (in particular, the risk management system), decision-making, solvency capital assessment and allocation of capital.

IM outputs (principally the balance sheet and stress and scenario analysis) are used to inform decisions which impact the risk profile or capital requirements. These decisions include, but are not limited to, setting capital management policy, decision-making in respect of Group funding, setting assumptions, and informing decisions on significant projects and strategic activity.

E.4.3 CALCULATION OF PROBABILITY DISTRIBUTION FORECAST

The calculation of the IM SCR requires an assessment of the capital required in a 1 in 200 one-year stress event. Probability distribution forecasts ('PDFs') are mathematical functions that assigns a probability of realisation to an exhaustive set of mutually exclusive future events and are utilised for this assessment.

E.4.4 METHODOLOGY AND ASSUMPTION DIFFERENCES BETWEEN STANDARD FORMULA AND INTERNAL MODEL

This section includes an explanation of the main differences in methodologies and underlying assumptions used in the Standard Formula and the IM.

1. Structural model differences

The structure of the Standard Formula and the Group's IM methodology are similar in that:

– for each univariate risk the stressed value of assets and liabilities are compared with the unstressed value of assets and liabilities to determine the univariate SCR; and

– univariate risk capital amounts are aggregated to produce an overall SCR using correlation matrices.

However, under the Standard Formula, univariate stress tests are aggregated at a risk module level, and a second correlation matrix is used to then further aggregate across risk modules. The IM aggregates all univariate stress tests through a single correlation matrix.

2. Differences in the nature of risks considered and application of the stress

The main difference between the assessment of the Company's risks under the IM and Standard Formula is that the IM operational risk assessment is based on a scenario approach, rather than the formulaic approach prescribed under the Standard Formula.

The key differences are set out below:

Operational risk

Feature	Internal Model	Standard Formula
Operational risk	Scenario approach focussed around judgements made by subject matter experts.	Operational risk under the Standard Formula uses a formulaic approach.

SECTION E
Continued

CAPITAL MANAGEMENT CONTINUED

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED CONTINUED

E.4.5 RISK MEASURES AND TIME PERIODS USED IN THE INTERNAL MODEL

The risk measures and time periods used in the IM are in line with those set out by the regulations, i.e. the SCR is assessed by considering the capital resources that are required to ensure that the Own Funds are sufficient to meet a stress event calibrated to a 99.5% confidence level over a one-year period. In practice stress events are assumed to occur instantaneously rather than over a one-year period.

E.4.6 NATURE AND APPROPRIATENESS OF DATA

The main data used in the IM is customer complaint data.

All data used in the IM is assessed for appropriateness, completeness and accuracy. To support this, a number of controls are in place which are set out in the data management framework, that outlines how data is handled, managed and controlled before being used in the IM.

Data weaknesses and limitations are logged and prioritised for future development activity. Any expert judgements applied during the data validation process are logged.

E.5 NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND NON-COMPLIANCE WITH THE SOLVENCY CAPITAL REQUIREMENT

The Company held Own Funds in excess of both the SCR and MCR throughout the reporting period and therefore fully complied with the capital requirements under the regulations.

E.6 ANY OTHER INFORMATION

There is no further material information to be disclosed regarding the Company's Own Funds, SCR and MCR.

APPENDIX AND ADDITIONAL INFORMATION

IN THIS SECTION

APPENDIX AND ADDITIONAL INFORMATION
Continued

GLOSSARY

ANNUAL OPERATING PLAN ('AOP')	The Group's 5 year strategic plan approved by the Board.
ASSET LIABILITY MANAGEMENT ('ALM')	Management of mismatches between assets and liabilities within risk appetite.
BEST ESTIMATE LIABILITY ('BEL')	The probability weighted average of future cash flows, taking into account of the time value of money (expected present value of future cash-flows), using the relevant interest rate term structure and taking into account economic and non-economic assumptions.
BLACK-SCHOLES	A mathematical model used to calculate the value of an option.
CLOSED LIFE FUND	A fund that no longer accepts new business. The fund continues to be managed for the existing policyholders.
EIOPA	European Insurance and Occupational Pensions Authority.
FAIR VALUE	The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
FINANCIAL CONDUCT AUTHORITY ('FCA')	The body responsible for supervising the conduct of all financial services firms and for the prudential regulation of those financial services firms not supervised by the Prudential Regulation Authority ('PRA'), such as asset managers and independent financial advisers.
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ('GAAP')	A common set of accounting principles, standards and procedures that companies must follow when they compile their financial statements.
INTERNATIONAL FINANCIAL REPORTING STANDARDS ('IFRS')	Accounting standards, interpretations and the framework adopted by the International Accounting Standards Board ('IASB').
INTERNAL MODEL ('IM')	The agreed methodology and model, approved by the PRA, to calculate the Solvency Capital Requirement ('SCR') pursuant to Solvency II.
LINE OF BUSINESS ('LoB')	The applicable lines of business as prescribed by Annex I of Commission Delegated Regulation (EU) 2015/35.
LONG TERM GUARANTEE MEASURES	the extrapolation of risk-free interest rates, the Matching Adjustment ('MA'), the Volatility Adjustment ('VA'), the extension of the recovery period in case of non-compliance with the SCR, the transitional measures on the risk-free interest rates and the Transitional Measure on Technical Provisions ('TMTP').
LONG-TERM INCENTIVE PLAN ('LTIP')	The part of an executive's remuneration designed to incentivise long-term value for shareholders through an award of shares with vesting contingent on employment and the satisfaction of stretching performance conditions linked to Group strategy.
MANAGEMENT SERVICE AGREEMENT ('MSA')	Contracts that exist between the Phoenix Life and management services companies or between management services companies and their outsource partners.
MATCHING ADJUSTMENT ('MA')	An allowance, subject to PRA's approval that allows insurers to use a higher discount rate, based on the underlying assets, when valuing liabilities that meet strict eligibility criteria.
OPERATING PROFIT	Operating profit is non-GAAP measure that is considered a more representative measure of performance than IFRS profit or loss after tax as it provides long-term performance information unaffected by short term economic volatility.
OWN FUNDS	Basic Own Funds comprise the excess of assets over liabilities valued in accordance with the Solvency II principles and subordinated liabilities which qualify to be included in Own Funds under the Solvency II rules. Eligible Own Funds are the amount of Own Funds that are available to cover the Solvency Capital Requirements after applying prescribed quantitative limits and transferability and fungibility restrictions to Basic Own Funds.
PARTIAL INTERNAL MODEL ('PIM')	A methodology of calculating SCR partially on an approved Internal Model basis and partially on a Standard Formula basis
PART VII TRANSFER	The transfer of insurance policies under Part VII of Financial Services and Markets Act 2000 ('FSMA') 2000. The insurers involved can be in the same corporate group or in different groups. Transfers require the consent of the High Court, which will consider the views of the PRA and FCA and of an Independent Expert.

APPENDIX AND ADDITIONAL INFORMATION
Continued

GLOSSARY CONTINUED

PRUDENTIAL REGULATION AUTHORITY ('PRA')	The body responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. The PRA and FCA use a Memorandum of Understanding to co-ordinate and carry out their respective responsibilities.
PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT ('PPFM')	A publicly available document which explains how the Company's with-profit business is run. As part of demonstrating that customers are treated fairly, the Board certifies that the PPFM has been complied with.
RISK MARGIN	The amount used to ensure that the value of the technical provisions is equivalent to the amount that a Life Company would be expected to require in order to take over and meet insurance and reinsurance obligations.
SOLVENCY II	A new regime for the prudential regulation of European insurance companies that came into force on 1 January 2016.
SOLVENCY II SURPLUS	The excess of Eligible Own Funds over the Solvency Capital Requirement.
SOLVENCY CAPITAL REQUIREMENT ('SCR')	SCR relates to risks and obligations to which the Group is exposed and calibrated so that the likelihood of a loss exceeding the SCR is less than 0.5% over one year. This ensure that capital is sufficient to withstand a broadly '1-in-200' event.
STANDARD FORMULA	A set of calculations prescribed by the regulations for generating the SCR.
TECHNICAL PROVISIONS	The sum of the Best Estimate Liabilities and the Risk Margin. Technical provisions include Transitional Measures on Technical Provisions where firms have received PRA approval to apply the deduction.
TRANSITIONAL MEASURE ON TECHNICAL PROVISIONS ('TMTP')	An allowance, subject to the PRA's approval, to apply a transitional deduction to technical provisions. The transitional deduction corresponds to the difference between net technical provisions calculated in accordance with Solvency II principals and net technical provisions calculated in accordance with the previous regime. It is expected to decrease linearly over a period of 16 years starting from 1 January 2016 to 1 January 2032. TMTP is an item of Own Funds.

APPENDIX AND ADDITIONAL INFORMATION
Continued

APPENDIX 1 – QUANTITATIVE REPORTING TEMPLATES

This report has been prepared in conjunction with the following Quantitative Reporting Templates which are included below:

- S.02.01.02 Balance sheet;
- S.05.01.02 Premiums, claims and expenses by line of business;
- S.23.01.01 Own funds;
- S.25.03.01 SCR – Internal Model firms; and
- S.28.01.01 MCR.

All public disclosure QRTs shown in the Appendices are in thousands.

APPENDIX AND ADDITIONAL INFORMATION
Continued

APPENDIX 1 — QUANTITATIVE REPORTING TEMPLATES CONTINUED

APPENDIX 1.1 — S.02.01.02 BALANCE SHEET QRT

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**75,148**
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	R0100	
Equities – listed	R0110	
Equities – unlisted	R0120	
Bonds	R0130	
Government Bonds	R0140	
Corporate Bonds	R0150	
Structured notes	R0160	
Collateralised securities	R0170	
Collective Investments Undertakings	R0180	75,148
Derivatives	R0190	
Deposits other than cash equivalents	R0200	
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
Loans and mortgages	**R0230**	
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	
Reinsurance recoverables from:	**R0270**	
Non-life and health similar to non-life	R0280	
Non-life excluding health	R0290	
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	
Reinsurance receivables	R0370	
Receivables (trade, not insurance)	R0380	16
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	1
Any other assets, not elsewhere shown	R0420	
Total assets	**R0500**	**75,165**

APPENDIX AND ADDITIONAL INFORMATION
Continued

APPENDIX 1 — QUANTITATIVE REPORTING TEMPLATES CONTINUED
APPENDIX 1.1 — S.02.01.02 BALANCE SHEET QRT CONTINUED

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	**R0510**	
Technical provisions – non-life (excluding health)	**R0520**	
TP calculated as a whole	R0530	
Best estimate	R0540	
Risk margin	R0550	
Technical provisions – health (similar to non-life)	**R0560**	
TP calculated as a whole	R0570	
Best estimate	R0580	
Risk margin	R0590	
TP – life (excluding index-linked and unit-linked)	**R0600**	
Technical provisions – health (similar to life)	**R0610**	
TP calculated as a whole	R0620	
Best estimate	R0630	
Risk margin	R0640	
TP – life (excluding health and index-linked and unit-linked)	**R0650**	
TP calculated as a whole	R0660	
Best estimate	R0670	
Risk margin	R0680	
TP – index-linked and unit-linked	**R0690**	
TP calculated as a whole	R0700	
Best estimate	R0710	
Risk margin	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	32,800
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	
Reinsurance payables	R0830	
Payables (trade, not insurance)	R0840	506
Subordinated liabilities	**R0850**	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	**R0900**	**33,306**
Excess of assets over liabilities	**R1000**	**41,858**

APPENDIX AND ADDITIONAL INFORMATION
Continued

APPENDIX 1 — QUANTITATIVE REPORTING TEMPLATES CONTINUED

APPENDIX 1.2 — S.05.01.02 PREMIUMS, CLAIMS AND EXPENSE BY LINE OF BUSINESS QRT

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of Business for: accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	Total
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																		
Gross – Direct Business	R0110																	0
Gross – Proportional reinsurance accepted	R0120																	0
Gross – Non-proportional reinsurance accepted	R0130																	0
Reinsurers' share	R0140																	0
Net	**R0200**																	0
Premiums earned																		
Gross – Direct Business	R0210																	0
Gross – Proportional reinsurance accepted	R0220																	0
Gross – Non-proportional reinsurance accepted	R0230																	0
Reinsurers' share	R0240																	0
Net	**R0300**																	0
Claims incurred																		
Gross – Direct Business	R0310																	0
Gross – Proportional reinsurance accepted	R0320																	0
Gross – Non-proportional reinsurance accepted	R0330																	0
Reinsurers' share	R0340																	0
Net	**R0400**																	0
Changes in other technical provisions																		
Gross – Direct Business	R0410																	0
Gross – Proportional reinsurance accepted	R0420																	0
Gross – Non-proportional reinsurance accepted	R0430																	0
Reinsurers' share	R0440																	0
Net	**R0500**																	0
Expenses incurred	**R0550**												33,883					33,883
Other expenses	R1200																	
Total expenses	**R1300**																	33,883

APPENDIX AND ADDITIONAL INFORMATION
Continued

APPENDIX 1 — QUANTITATIVE REPORTING TEMPLATES CONTINUED

APPENDIX 1.3 — S.23.01.01 — OWN FUNDS QRT

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	**3,000**	3,000			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	**38,858**	38,858			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	**R0290**	**41,858**	41,858			
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	**R0400**					
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	**41,858**	**41,858**			
Total available own funds to meet the MCR	**R0510**	**41,858**	**41,858**			
Total eligible own funds to meet the SCR	**R0540**	**41,858**	**41,858**			
Total eligible own funds to meet the MCR	**R0550**	**41,858**	**41,858**			
SCR	**R0580**	**31,589**				
MCR	**R0600**	**7,897**				
Ratio of Eligible own funds to SCR	**R0620**	**132.51%**				
Ratio of Eligible own funds to MCR	**R0640**	**530.04%**				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	**41,858**
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	**3,000**
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	**R0760**	**38,858**
Expected profits		
Expected profits included in future premiums (EPIFP) – Life Business	R0770	
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	
Total Expected profits included in future premiums (EPIFP)	**R0790**	

APPENDIX AND ADDITIONAL INFORMATION
Continued

APPENDIX 1 — QUANTITATIVE REPORTING TEMPLATES CONTINUED

APPENDIX 1.4 — S.25.03.21 — SOLVENCY CAPITAL REQUIREMENT — FOR UNDERTAKINGS ON INTERNAL MODELS

Unique number of component	Components description	Calculation of the Solvency Capital Requirement
C0010	**C0020**	**C0030**
70100I	Operational	**31,588,899.80**

Calculation of Solvency Capital Requirement		C0100
Total undiversified components	R0110	31,589
Diversification	R0060	
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	**R0200**	**31,589**
Capital add-ons already set	R0210	
Solvency capital requirement	**R0220**	**31,589**
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	
Amount/estimate of the overall loss-absorbing capacity of deferred taxes	R0310	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional))	R0420	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

APPENDIX AND ADDITIONAL INFORMATION
Continued

APPENDIX 1 — QUANTITATIVE REPORTING TEMPLATES CONTINUED

APPENDIX 1.5 — S. 28.01.01 — MINIMUM CAPITAL REQUIREMENT — ONLY LIFE OR ONLY NON-LIFE INSURANCE OR REINSURANCE ACTIVITY

		Non-life activities	
MCR calculation Non Life		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020		
Income protection insurance and proportional reinsurance	R0030		
Workers' compensation insurance and proportional reinsurance	R0040		
Motor vehicle liability insurance and proportional reinsurance	R0050		
Other motor insurance and proportional reinsurance	R0060		
Marine, aviation and transport insurance and proportional reinsurance	R0070		
Fire and other damage to property insurance and proportional reinsurance	R0080		
General liability insurance and proportional reinsurance	R0090		
Credit and suretyship insurance and proportional reinsurance	R0100		
Legal expenses insurance and proportional reinsurance	R0110		
Assistance and proportional reinsurance	R0120		
Miscellaneous financial loss insurance and proportional reinsurance	R0130		
Non-proportional health reinsurance	R0140		
Non-proportional casualty reinsurance	R0150		
Non-proportional marine, aviation and transport reinsurance	R0160		
Non-proportional property reinsurance	R0170		

Linear formula component for life insurance and reinsurance obligations

		Life activities	
MCR calculation Life		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance/ SPV) total capital at risk
		C0050	C0060
Obligations with profit participation – guaranteed benefits	R0210		
Obligations with profit participation – future discretionary benefits	R0220		
Index-linked and unit-linked insurance obligations	R0230		
Other life (re)insurance and health (re)insurance obligations	R0240		
Total capital at risk for all life (re)insurance obligations	R0250		

		Non-life activities	Life activities
		C0010	C0040
MCRNL Result	R0010		
MCRL Result	R0200		

Overall MCR calculation		C0070
Linear MCR	R0300	
SCR	R0310	31,589
MCR cap	R0320	14,215
MCR floor	R0330	7,897
Combined MCR	R0340	7,897
Absolute floor of the MCR	R0350	3,332
		C0070
Minimum Capital Requirement	**R0400**	**7,897**

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PA (GI) LIMITED

Registered address

1 Wythall Green Way
Wythall
Birmingham
B47 1WG

Company Registration Number 71805