STANDARD LIFE PENSION FUNDS LIMITED

Company Registration Number: SC046447

STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2022

Contents

Strategic report

The Directors present the Strategic report, their Report and the financial statements of Standard Life Pension Funds Limited ("the Company") for the year ended 31 December 2022.

The financial statements of the Company for the year ended 31 December 2022 have been prepared in accordance with UK adopted international accounting standards.

Business review

Principal activities
The Company transacts United Kingdom pension fund business and provides management services for pension funds based in the United Kingdom.

The pension fund business consists of non-participating insurance contracts which are reinsured with Standard Life Assurance Limited ('SLAL'), the Company's immediate parent undertaking.

Strategy
The Company is a member of the Phoenix Group, which consists of Phoenix Group Holdings plc and its subsidiaries (also, the 'Group'). The Group is the UK's largest long-term savings and retirement business. The main focus has traditionally been on closed life fund consolidation, and the Group specialises in the acquisition and management of closed life insurance and pension funds. Alongside this, the Group has open business which manufactures and underwrites new products and policies to support people saving for their futures. The Phoenix Group's vision is to grow a strong and sustainable business to help more people on their journey to and through retirement, enabling improved outcomes for customers and to deliver value for shareholders.

Future developments
Subject to regulatory approval, the Company intends to complete a Part VII of its business into Phoenix Life Limited, a fellow Group company, in order to realise further cost and capital synergies. The effective date of the Part VII is anticipated to be 30th September 2023, subject to receipt of all required court and regulatory approvals.

The Company continues to transition its policy administration activity to Tata Consultancy Services (TCS). The end state will involve the outsourcing of policy administration to TCS.

The Company continues its preparations for the introduction of the new insurance accounting standard, IFRS 17, which will significantly change the way the Company measures its insurance contracts, adding complexity to valuation processes, data requirements and assumption setting. Further detail on this is set out in note 3.

The UK government has launched a consultation into the Future Regulatory Framework for financial services, and separately into the Solvency ll regimes. These reviews could lead to significant changes to the Company's regulatory environment, and could create both challenges and opportunities for its business. The Company continues to monitor changes in the regulatory environment and feedback on consultations both via the Group and industry bodies.

Climate change
Climate change is one of the greatest global challenges Group faces today. Group's ambition is to be a net zero business by 2050 and the Company has a significant role to play in helping to address the climate emergency and accelerating the transition to a net zero economy. This is intrinsically linked to Group's purpose of helping people secure a life of possibilities.

Group have set an overarching target of being net zero carbon in our investment portfolio by 2050, in accordance with science-based targets. Group have also set interim carbon intensity reduction targets which provide a clear pathway to our overall net zero commitment: a 25% reduction in the carbon emission intensity of investments by 2025; and a 50% reduction in the carbon emission intensity of investments by 2030. These interim targets will cover listed equity and credit assets where the Company can exercise control and influence. The Company applies Group strategy and processes to ensure it can contribute towards Group meeting its objectives.

On 9 February 2022 the Bank of England launched the second round of the Climate Biennial Exploratory Scenario ("CBES") exercise, which is designed to assess the financial risks arising from climate change. Round 2 of the CBES was completed during 2022, on a consolidated basis including the Company, exploring the strategic responses to the three scenarios and the associated implications for business models.

The Group is engaging with partners to boost impacts by working collaboratively to deliver cross-sector change and thought leadership. The Group joined the Net Zero Asset owners alliance in May 2021, the Partnership for Carbon Accounting Financials UK in June 2021 and signed up to the Taskforce on Nature-related Financial Disclosures in November 2021.

More information can be found in the principal risks section of this report, and in the Group's Annual Report and Accounts and standalone Sustainability Report in line with the Task Force on Climate-related Financial Disclosures recommendations.

Key Performance Indicators ("KPIs")

The results of the Company for the year are shown in the Statement of comprehensive income on page 16.

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

Underwriting performance and investment return

The Company uses investment return as a measure of investment performance being the return on its sole investment in Aberdeen Standard Liquidity Fund (Lux) – Seabury Sterling Liquidity 2 Fund.

	2022 **£'000s**	**2021** **£'000s**
Change in insurance contract liabilities	(2,123)	(1,417)
Change in reinsurers' share of insurance contract liabilities	2,123	1,417
Other operating expenses	-	(3)
Net Investment Income	149	5
Profit before tax	149	**2**

Directors' duties under section 172 of the Companies Act

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

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

During the year, the Directors of the Company have applied section 172 of the Companies Act 2006 in a manner consistent with the overall purpose, values and strategic priorities of the Phoenix Group. When considering issues of strategic importance, and making key decisions about the Company (or those that impact the wider Group), the Directors have acted in a way which they consider, in good faith, is most likely to promote the success of the Company for the benefit of its members as a whole.

The Board recognises that a company's stakeholders are integral to its success. During the year, the Company's Directors ensured that considerations and decision-making processes took into account their impact on its own stakeholders, namely:

- The Company's customers for whom it transacts pension fund business;
- Its strategic partners and outsourced service providers;
- Employees engaged by the Company via service companies within the Phoenix Group;
- Its regulator, the Prudential Regulatory Authority (PRA); and
- The Company's immediate parent, SLAL and ultimate parent, Phoenix Group Holdings plc.

Significant decisions that show how the Board considered relevant matters set out in section 172 are outlined in the table below, demonstrating how the directors of the Company have carried out their duties under section 172 of the Companies Act 2006 during the year ended 31 December 2022.

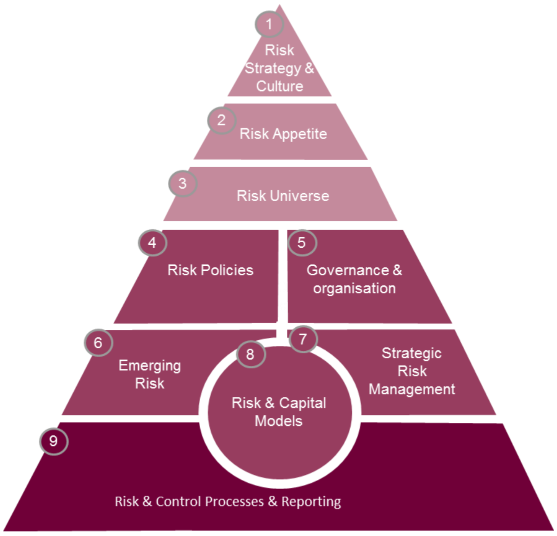
KEY BOARD DECISION	Approval of YE21 Annual Accounts
STRATEGIC IMPORTANCE Optimising our in-force business Investing in a sustainable future	CONSIDERATION OF S172 MATTERS • **Long term consequences**: as part of the year-end accounts approval process the Board considered whether the expectation that the Company would continue in operational existence for the foreseeable future was appropriate. Such consideration enabled the Board to reach a decision to approve the YE21 accounts, within which a going concern statement was included (relied upon by others assessing the business). The long term impact of the decision to approve the YE21 accounts therefore included the potential reliance of those reading the accounts on the going concern statement, which the Board considered to be relevant and accurate. • **Maintaining a reputation for high standards of business conduct**: prior to approving the YE21 accounts, the Board considered the opinions of the Finance Director with supporting paperwork presented by the Financial Reporting team, together with the outcome of an external audit for the accounts, including assessments relating to the impact of COVID 19 on the Company.
OUTCOME	Following due consideration of the matters set out in section 172, the Board approved the YE21 accounts.
KEY BOARD DECISION	**Approval of YE21 Annual Solvency II Pillar 3 Reports**
STRATEGIC IMPORTANCE Investing in a sustainable future	CONSIDERATION OF S172 MATTERS • **Maintaining a reputation for high standards of business conduct**: as part of the Group's annual Solvency II reporting processes, the Board reviewed the Company's Pillar 3 reports prior to submission to the PRA. In doing so it noted that the YE21 figures included in the reports were consistent with results reported earlier in the year and that audit work undertaken up to that point had not highlighted significant issues.
OUTCOME	Following due consideration of the matters set out in section 172 (and to the extent that they pertained to the Company), the Board approved: the inclusion of the Statement of Directors' Responsibilities in the Group Solvency and Financial Condition Report (SFCR); the content of specific sections in the Group SFCR; and the submission of regulatory reporting to the PRA.

In order to support the Board's consideration of the matters set out in section 172 (1) (a)-(f) each proposal submitted to the Board must include detail about Directors' duties including those set out above.

Risk Management Framework

The Company adopts the Phoenix Group's Risk Management Framework (RMF). The Group's RMF embeds proactive and effective risk management. It seeks to ensure that all material risks are identified, assessed, controlled monitored and managed within approved risk appetites and reported through agreed governance routes in line with delegated authorities. The Group RMF is aligned to the principles and guidance in ISO 31000 Risk Management standards.

The nine components of the harmonised RMF are illustrated in the diagram below. Further details on each component are outlined in the Strategic report of the Phoenix Group's Annual Report and Accounts 2022.



Principal risks and uncertainties

During 2022, for the purposes of managing risks of the Company, including those impacting the Company's financial assets and financial liabilities, the Company considered the following Risk Universe categories: Climate; Strategic; Financial; Financial Soundness (Liquidity, Funding, Capital Management, Tax); Market; Credit; Quality of credit assets; Insurance; Customer and Operational risk. Sources of these risks, and an explanation of actions taken to manage risk exposures during the year, are outlined in note 15.

On behalf of the Board

DocuSigned by:

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Samuel Lever, Director

11 May 2023

Directors' report

The Company is incorporated in Scotland. Its registration number is SC046447 and its registered office is Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH.

Financial instruments

Details of the Company's financial risk management objectives and policies in respect of its use of financial instruments are included in note 15 to the financial statements.

Going concern

The Strategic report and Directors' report summarise the Company's activities, its financial performance and financial position together with any factors likely to affect its future development. In addition, they discuss the principal risks and uncertainties it faces. Note 15 (g) and note 16 to the financial statements summarise the Company's capital management and risk objectives and policies together with its financial risks.

The Directors have followed the UK Financial Reporting Council's "*Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks (April 2016)*" when performing their going concern assessment. The Directors have undertaken a review of solvency, liquidity and cash flow projections under normal and stressed conditions. The Directors have considered financial projections which demonstrate the ability of the Company to withstand market shocks in a range of scenarios, including very severe ones. The Directors have also considered the planned Part VII of its business into Phoenix Life Limited, a fellow Group company which is anticipated to be 30th September 2023.

The Directors have taken note of the net asset position of £11,137k which is predominately held in a highly liquid cash fund and the £7,508k (unaudited) solvency surplus position of the Company as at 31 December 2022. The Directors also considered the financial security of SLAL on account of the reinsurance arrangement in place with that entity.

As a result of this review, the Directors believe the Company has adequate resources to continue in operational existence over the going concern period assessed up to 30 June 2024. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Business relationships with customers

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

Business relationships with Partners/Suppliers

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

Energy and carbon reporting

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

Directors

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

Andy Moss	(resigned 1 October 2022)
Peter Mayes	(appointed 1 October 2022)
Samuel Lever	(appointed 1 February 2021)
Brid Meaney	(appointed 30 April 2021)
John Lister	(appointed 1 November 2021)

Secretary

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

Matters disclosed in the Strategic report

The Directors' duties section of the Strategic report covers stakeholder engagement.

Disclosure of indemnity

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

Disclosure of information to auditor

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

Re-appointment of auditor

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

On behalf of the Board

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Samuel Lever, Director

11 May 2023

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under the law the Directors have elected to prepare those statements in accordance with UK adopted international accounting standards ("IFRS"). Under company law, the Directors must not approve the financial statements unless they are satisfied that they present fairly the financial performance, financial position and cash flows of the Company for the accounting period. A fair presentation of the financial statements in accordance with IFRS requires the Directors to:

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

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

Independent auditor's report to the members of Standard Life Pension Funds Limited

Opinion

We have audited the financial statements of Standard Life Pension Funds Limited for the year ended 31 December 2022 which comprise Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity, the Statement of cash flows and the related notes 1 to 19, (except for that element of note 1, which is marked as unaudited) including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- confirming our understanding of the directors' going concern assessment process and obtained the assessment which covers the period to 30 June 2024;
- assessing the accuracy of management's going concern analysis by testing the inputs used in the going concern assessment;
- evaluating management's going concern assessment, which included reviewing their evaluation of long-term business and strategic plans, solvency and liquidity positions pre and post the proposed Part VII business transfer under the base case scenario;
- evaluating management's going concern analysis to understand how severe the downside scenario, specifically reinsurer failure, would have to be to impact on the going concern status of the Company and the probability of this occurring;
- performing enquiries of management and those charged with governance to identify risks or events that may impact the Company's ability to continue as a going concern. We also confirmed that management's going concern assessment was approved by the Board and read minutes of meetings of the Board and its committees; and
- assessing the appropriateness of the going concern disclosures by comparing the disclosures with management's assessment and for compliance with the relevant reporting requirements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period to 30 June 2024.

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

Overview of our audit approach

Key audit matters	• Valuation of Insurance Contract Liabilities, comprising the following risk areas: o Actuarial assumptions; o Actuarial modelling; and o Policyholder data
Materiality	• Overall materiality of £222 thousand (2021: £220 thousand) which represents 2% of closing net assets (2021: 2% closing net assets).

An overview of the scope of our audit

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

Climate change
There has been increasing interest from stakeholders as to how climate change will impact companies. The Company has explained the most significant risks from climate change on its operations in the climate change section of the strategic report. This forms part of the "Other information" rather than the audited financial statements and our procedures on the disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

As explained in Note 2 (a) Critical accounting estimates and judgements, management has assessed climate change risks as having a limited effect on accounting judgements and estimates for the current period. The Critical accounting estimates and judgements note sets out the Company's consideration of the impact of climate change across a number of areas, predominantly in respect of the valuation of financial instruments, insurance contract liabilities and reinsurers' share of insurance contract liabilities.

Governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK adopted international accounting standards.

Our audit effort in considering climate change was focused on challenging management's risk assessment of the impact of climate change and their resulting conclusion that there was limited effect from climate change on balances in the financial statements and the adequacy of the Company's disclosures in the critical accounting estimates and judgements note to explain their rationale.

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

Risk
Valuation of insurance contract liabilities (£5,432 thousand; 2021: £7,554 thousand).

Refer to Note 2 Accounting policies (a) Critical accounting estimates and judgements and (j) Insurance contracts, and Note 14 Liabilities under insurance contracts of the financial statements.

We considered the valuation of insurance contract liabilities to be a significant risk for the Company. Specifically, we considered the actuarial assumptions and modelling that are applied, as these involve complex and significant judgments about future events both internal and external to the business for which small changes can result in a material impact to the resultant valuation. Additionally, the valuation process is reliant upon the accuracy and completeness of data.

We have split the risks relating to the valuation of insurance contract liabilities into the following component parts:

- actuarial assumptions;
- actuarial modelling; and
- policyholder data.

The specific audit procedures performed to address the significant risk are set out below.

Risk	Our response to the risk	Key observations communicated to the Board
Actuarial assumptions *There has been no change in our assessment of this risk from the prior year.* Economic assumptions are set by management taking into account market conditions as at the valuation date and require minimal judgment. Non-economic assumptions are set based on the Company's past experience, market experience and practice, regulations and expectations about future trends. The assumptions that we consider to have the most significant impact are the base and trend longevity and expenses. Given the recent economic volatility we place additional focus on future economic assumptions such as inflation assumptions at the 2022 year-end date. These assumptions are used as key inputs into the valuation models, which use standard actuarial methodologies.	To obtain sufficient audit evidence to conclude on the appropriateness of actuarial assumptions, using EY actuaries as part of our audit team, we performed the following procedures: • obtained an understanding and tested the design and operating effectiveness of key controls over management's process for setting and updating key actuarial assumptions; • challenged and assessed whether the methodology and assumptions applied were appropriate based on our knowledge of the Company, industry standards and regulatory and financial reporting requirements; • reviewed and challenged the results of management's experience analysis to assess whether these analyses justified the adopted assumptions; • challenged and assessed management's decisions on the inclusion or exclusion of data relating to COVID-19 when setting individual assumptions; • in respect of longevity improvements, we evaluated the results of management's analysis on longevity trend, challenged the judgments applied by management in setting the parameters and benchmarked the output against other industry participants and the results from the industry standard Continuous Mortality Investigation ('CMI'); • assessed the expense assumptions adopted by management considering an impact of the recent economic volatility on the components of expenses inflation. Our focus has been on the change in the nature of the cost base arising through the volumes of new insurance business written. We have challenged the assumed development of expenses including inflation across the Annual Operating Plan ('AOP') period, the allocation of those expenses between acquisition and maintenance and the resulting calculation of unit costs, as well as the	We determined that the actuarial assumptions used by management are reasonable based on the analysis of the experience to date, industry practice and the financial and regulatory requirements. We concluded the economic and non-economic assumptions have been appropriately included within the year-end actuarial models.

Risk	**Our response to the risk**	**Key observations communicated to the Board**
	inclusion of benefits arising from planned future management actions; • performed procedures to test that the assumptions used in the year end valuation were consistent with the approved basis; and • benchmarked the demographic and economic assumptions, against those of other comparable industry participants.	
Actuarial modelling *Our assessment of this risk has decreased following the migration to the new core actuarial model in the prior year.* We consider the integrity and appropriateness of models to be critical to the overall valuation of insurance contract liabilities. We consider the key risk to relate to model developments applied to the core actuarial model.	To obtain sufficient audit evidence to conclude on the core actuarial modelling system, using EY actuaries as part of our audit team we performed the following procedures: • obtained an understanding of management's process for model changes to the core actuarial system and tested the design, implementation and operating effectiveness of key controls, including governance processes, over that process; • tested the system infrastructure and IT general controls of the core actuarial model; • challenged and evaluated the methodology, inputs and assumptions applied model changes in the core actuarial modelling system over the year; • reviewed the governance process around model changes by review of the relevant committee minutes; and • assessed the results of management's analysis of movements in insurance contract liabilities to corroborate that the actual impact of changes to models was consistent with that expected when the model change was implemented.	We determined that the model used are appropriate, that there were no changes to the model implemented in the period, and that controls over management's processes for modelling insurance contract liabilities using the core actuarial modelling system was operating effectively.
Policyholder Data *There has been no change in our assessment of this risk from the prior year.* The insurance contract data held on policy administration systems ('the policyholder data') is a key input into the valuation process. The valuation of insurance contract liabilities is therefore reliant upon the accuracy and completeness of the policyholder data used.	To obtain sufficient audit evidence to assess the integrity of policyholder data we performed the following procedures: • obtained an understanding of the design of key controls, including information technology general controls, over management's data collection, extraction and validation process; • confirmed that the actuarial data extracted from the policy administration systems were used as an input to the actuarial model; • assessed the appropriateness of management's grouping of data for input into the actuarial model;	We determined based on our audit work that the policyholder data used for the actuarial model inputs is materially complete and accurate.

Risk	Our response to the risk	Key observations communicated to the Board
	• through the use of our data visualisation and analytics techniques, performed focussed substantive testing over the completeness and accuracy of the policyholder data; and • performed the comparison of policy level data between data in the actuarial models and that contained within the policy administration systems. We evaluated the accuracy of policyholder data by agreeing a sample back to the policyholder documents.	

Our application of materiality

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

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

We determined materiality for the Company to be £222 thousand (2021: £220 thousand), which is 2% of closing net assets (2021: 2% of closing net assets). The primary stakeholders of the Company is Standard Life Assurance Limited ('SLAL'), the Company's immediate parent undertaking (primarily concerned with capital surplus as a means of the Company providing cash to the parent company), the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA') as regulators (primarily focused on balance sheet strength and solvency), and policyholders (whose main interest is solvency as it reflects the ability to pay claims). Given the focus of these stakeholders, we have determined net assets as the most appropriate basis for setting materiality.

During the course of our audit, we reassessed initial materiality and concluded that materiality assessed at the planning stage remained appropriate.

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

Based on our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% (2021: 75%) of our planning materiality, namely £111 thousand (2021: £165 thousand). We have set performance materiality at this percentage based on our assessment of the risk of misstatement, given the magnitude and number of uncorrected misstatements identified in the prior period.

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

We agreed with the Board that we would report to them all uncorrected audit differences in excess of £11 thousand (2021: £11 thousand), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

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

Responsibilities of directors
As explained more fully in the Statement of Directors' Responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the direct laws and regulations related to elements of Company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

- We understood how the Company is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed minutes of the Board; and gained an understanding of the Company's approach to governance, demonstrated by the Company's risk management framework ('RMF') and internal control processes.

- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. Our procedures over the Company's control environment included assessment of consistency of operations and controls in place within the Company as they continue to operate hybrid working throughout the period.

- The fraud risk was considered to be higher within the valuation of insurance contract liabilities. We considered management override risk to be higher in this area due to the significant judgments and estimates involved. Our procedures, including those as detailed in the key audit matters above included:
  - Reviewing accounting estimates for evidence of management bias. Supported by EY actuaries, we assessed if there were any indicators of management bias in the valuation of insurance contract liabilities; and
  - Evaluating the business rationale for significant and/or unusual transactions.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, enquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, enquiring about the company's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the PRA and FCA.

- The Company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

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

Other matters we are required to address

- Following the recommendation from the Board we were appointed by the company on 31 August 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is 5 years, covering the years ending 31 December 2018 to 31 December 2022.

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

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

Use of our report

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

DocuSigned by:
Ernst & Young LLP
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Neeta Ramudaram (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
11 May 2023

Statement of comprehensive income
for the year ended 31 December 2022

	Note	2022 £'000s	2021 £'000s
Net investment income	4	149	5
Net investment income		149	5
Policyholder claims		(544)	(520)
Less: reinsurance recoveries		544	520
Net insurance benefits and claims		-	-
Change in insurance contract liabilities		2,123	1,417
Change in reinsurers’ share of insurance contract liabilities		(2,123)	(1,417)
Net policyholder claims and benefits incurred		-	-
Other operating expenses	5	-	(3)
Total operating expenses		-	(3)
Profit for the year before tax		149	2
Tax charge	8	(28)	-
Profit for the year attributable to owners		121	2
Other comprehensive income		-	-
Total comprehensive income for the year attributable to owners		121	2

Statement of financial position

as at 31 December 2022

	Note	2022 £000s	2021 £000s
ASSETS			
Collective investment schemes	9	11,140	11,029
Reinsurers' share of insurance contract liabilities	14	5,432	7,554
Accrued income	9	27	-
Cash and cash equivalents	12	2	1
Total assets		16,601	18,584
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Loan capital	13	50	50
Retained earnings		11,087	10,966
Total equity		11,137	11,016
Liabilities			
Insurance contract liabilities			
Liabilities under insurance contracts	14	5,432	7,554
Current tax payable	11	32	14
Total liabilities		5,464	7,568
Total equity and liabilities		16,601	18,584

On behalf of the Board

DocuSigned by:

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Samuel Lever, Director

11 May 2023

Statement of changes in equity
for the year ended 31 December 2022

	Loan capital (note 13) £000s	Retained earnings £000s	Total £000s
At 1 January 2022	50	10,966	11,016
Profit for the year	-	121	121
Total comprehensive income for the year	50	11,087	11,137
At 31 December 2022	50	11,087	11,137

	Loan capital (note 13) £000s	Retained earnings £000s	Total £000s
At 1 January 2021	50	10,964	11,014
Profit for the year	-	2	2
Total comprehensive income for the year	50	10,966	11,016
At 31 December 2021	50	10,966	11,016

Statement of cash flows

for the year ended 31 December 2022

	Note	2022 £000s	2021 £000s
Cash flows from operating activities			
Profit before tax		**149**	**2**
Adjustment for non-cash movements			
Fair value losses/(gains) on interests in collective investment schemes	4	4	2
Change in reinsurance assets	14	1,578	898
Change in insurance contracts	14	(1,578)	(898)
Non-cash dividends	4	(153)	(7)
		(149)	**(5)**
Decrease in operating assets / (increase) in operating liabilities			
Change in operating assets:			
Reinsurance assets	14	544	520
Interests in collective investment schemes		11	3
		555	**523**
Change in operating liabilities:			
Insurance contracts		(544)	(520)
Net increase in operating assets and liabilities		**11**	**3**
Taxation paid		(10)	-
Net flows from operating activities		1	-
Net increase in cash and cash equivalents		1	-
Cash and cash equivalents at the beginning of the year		1	1
Cash and cash equivalents at the end of the year	12	2	1

Notes to the Financial Statements

1. Basis of preparation

The financial statements for the year ended 31 December 2022, set out on pages 16 to 39, were authorised by the Board of Directors for issue on 11 May 2023.

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

The financial statements are presented in sterling (£) rounded to the nearest £ thousand except where otherwise stated.

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

The principal accounting policies set out below have been consistently applied to all financial reporting periods presented in these financial statements, unless otherwise stated.

Going concern
The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 2 to 5.

The Strategic report and the Directors' report summarise the Company's activities, its financial performance and its financial position together with any factors likely to affect its future development. In addition, it discusses the principal risks and uncertainties it faces. Note 15 (g) and note 16 to the financial statements summarises the Company's capital management and risk management objectives and policies together with its financial risks. The Directors have also considered the planned Part VII of its business into Phoenix Life Limited, a fellow Group company which is anticipated to be 30th September 2023. The Directors have undertaken a review of solvency, liquidity and cash flow projections under normal and stressed conditions. The Directors have considered financial projections which demonstrate the ability of the Company to withstand market shocks in a range of scenarios, including very severe ones.

The Directors have followed the UK Financial Reporting Council's "Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks" (issued April 2016) when performing their going concern assessment. The Directors have taken note of the net asset position of £11,137k which is predominately held in a highly liquid cash fund and the £7,508k (unaudited) solvency surplus position of the Company as at 31 December 2022. The Directors also considered the financial security of SLAL on account of the reinsurance arrangement in place with that entity.

As a result of this review, the Directors believe the Company has adequate resources to continue in operational existence until at least 30 June 2024. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Statement of compliance
The financial statements of the Company for the year ended 31 December 2022 have been prepared in accordance with UK adopted international accounting standards and Companies Act 2006, as applicable to the Company.

2. Accounting Policies
(a) Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Disclosures of judgements made by management in applying the Company's accounting policies include those that have the most significant effect on the amounts that are recognised in the Company's financial statements. Disclosures of estimates and associated assumptions include those that have a significant risk of resulting in a material change to the carrying value of assets and liabilities within the next year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the Company's business that typically require such estimates are the measurement of insurance contract liabilities and determination of the fair value of financial assets and liabilities. The application of critical accounting judgements that could have the most significant effect on the recognised amounts is the determination of operating profit. Details of all critical accounting estimates and judgements are included below.

Financial statement area	**Critical accounting estimates and assumptions**	**Related notes**
Insurance contract liabilities	Insurance contract liability accounting is discussed in more detail in accounting policies (i) and (j) with further detail of the key assumptions made in determining insurance contract liabilities included in the notes to the accounts. Economic assumptions are set taking into account market conditions as at the valuation date. Non-economic assumptions, such as future expenses, longevity and mortality are set based on past experience, market practice, regulations and expectations about future trends. The valuation of insurance contract liabilities is sensitive to the assumptions which have been applied in their calculation.	14

How climate change affects critical accounting estimates and judgement

In preparation of these financial statements, the Company has considered the impact of climate change across a number of areas, predominantly in respect of the valuation of financial instruments, insurance contract liabilities and reinsurers' share of insurance contract liabilities.

Many of the effects arising from climate change will be longer term in nature, with an inherent level of uncertainty, and have been assessed as having a limited effect on accounting judgments and estimates for the current period.

The majority of the Company's financial assets are held at fair value and use quoted market prices or observable market inputs in their valuation. The use of quoted market prices and market inputs to fair value is assumed to include current information and knowledge regarding the effect of climate risk.

Insurance contract liabilities and Reinsurers' share of insurance contract liabilities use economic assumptions taking into account market conditions at the valuation date as well as non-economic assumptions such as future expenses, longevity and mortality which are set based on past experience, market practice, regulations and expectations about future trends. At 31 December 2022 there are no adjustments made to assumptions to specifically allow for the impact of climate change.

(b) Income recognition

Net investment income

Net investment income comprises dividend income, fair value gains and losses and impairment reversals and losses. Fair value movements occur on financial assets, while impairment reversals and losses occur on other financial assets measured at amortised cost less impairment.

Interest income is recognised as income in the Statement of comprehensive income as it accrues using the effective interest method. Dividend income is recognised as income in the Statement of comprehensive income on the date the right to receive payments is established, which in the case of collective investment schemes is the ex-dividend date.

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

Revenue from contracts with customers

Fee income represents fund management fees from third parties. All fees and costs associated with the provision of management services are recognised in the period in which they are charged.

(c) Benefits, claims and expenses recognition

Gross benefits and claims

Claims on insurance contracts reflect the cost of all claims arising during the period. Where claims are payable and the contract remains in force, the claim instalment is accounted for when due for payment. Claims payable include the costs of settlement.

Reinsurance claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

(d) Income tax

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

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

Deferred tax is provided for on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and laws enacted or substantively enacted at the period end.

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

The tax charge is analysed between tax that is payable in respect of policyholders' returns and tax that is payable on owners' returns. This allocation is calculated based on an assessment of the effective rate of tax that is applicable to owners for the year. Deferred tax assets and liabilities taxed at policyholder rates are not offset against deferred tax assets or liabilities taxed at shareholder rates due to restrictions in place in life tax legislation.

(e) Dividends

Final dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's owners. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the reporting period are dealt with as an event after the reporting period.

(f) Financial assets

Classification of Financial assets
Financial assets are measured at amortised cost where they have:

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

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

The Company measures all of its financial liabilities at amortised cost.

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

Fair value estimation
For units in unit trusts and shares in open-ended investment companies, fair value is determined by reference to published bid-values. The fair value of receivables is their carrying value.

(g) Reinsurance

Reinsurance ceded
The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Reinsurers' share of insurance contract liabilities are dependent on expected claims and benefits arising under the related reinsured policies.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment charge is recorded as an expense in the Statement of comprehensive income.

Gains or losses on purchasing reinsurance are recognised as income or an expense in the Statement of comprehensive income at the date of purchase and are not amortised. They are the difference between the premiums ceded to reinsurers and the related change in the reinsurers' share of insurance contract liabilities.

(h) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits, money held at call and short notice with banks and any highly liquid investments with less than 3 months to maturity from the date of acquisition.

(i) Classification of contracts

Contracts are classified as insurance contracts where the Company accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain event adversely affects the policyholder.

Contracts with reinsurers are assessed to determine whether they contain significant insurance risk. Contracts that do not give rise to a significant transfer of insurance risk to the reinsurer are considered financial reinsurance and are accounted for and disclosed in a manner consistent with financial instruments.

(j) Insurance contracts

Insurance liabilities
Insurance contract liabilities for non-participating business, are calculated on the basis of current data and assumptions, using the gross premium method. The liability for annuity in payment contracts is measured by discounting the expected future annuity payments together with an appropriate estimate of future expenses at an assumed rate of interest determined to reflect conditions at the reporting date.

The principal assumptions are given in note 14.

(k) Financial liabilities

On initial recognition, financial liabilities are recognised when due and measured at the fair value of the consideration received less directly attributable transaction costs (with the exception of liabilities at fair value through profit or loss for which all transaction costs are expensed). Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

(l) Payables related to direct insurance contracts

Payables related to direct insurance contracts includes balances for outstanding claims. Outstanding claims under insurance contracts are valued using a best estimate method under IFRS 4.

(m) Events after the reporting period

The financial statements are adjusted to reflect significant events that have a material effect on the financial results and that have occurred between the period end and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the period end. Events that are indicative of conditions that arise after the period end that do not result in an adjustment to the financial statements are disclosed.

3. New and amended accounting standards

New accounting pronouncements not yet effective

The IASB has issued the following standards or amended standards which apply from the dates shown. The Company has decided not to early adopt any of these standards or amendments where this is permitted.

IFRS 17 Insurance contracts (1 January 2023)

IFRS 17 was issued by the International Standards Board in May 2017 and amended in June 2020. The standard was endorsed by the UK Endorsement Board in May 2022. IFRS 17 is effective from 1 January 2023.

IFRS 17 will replace IFRS 4 the current insurance contracts standard and it is expected to significantly change the way the Company measures and reports its insurance contracts. The overall objective of the new standard is to provide an accounting model for insurance contracts that is more useful and consistent for users.

In June 2022, the IFRS Interpretations Committee (IFRIC) provided its final agenda decision on the 'Transfer of Insurance Coverage under a Group of Annuity Contracts – IFRS 17', a non-objection from the International Accounting Standards Board was provided in July 2022. The methodology for coverage units determined by the Group and set out in the 'Coverage units' section below is compliant with this IFRIC final agenda decision.

Identifying contracts in scope of IFRS 17

IFRS 17 applies to insurance contracts (including reinsurance contracts) an entity issues, reinsurance contracts an entity holds and investment contracts with discretionary participation features an entity issues provided it also issues insurance contracts. The scope of IFRS 17 for the Company is materially consistent with that of IFRS 4. Investment contracts without discretionary participation features (DPF) will be measured under IFRS 9. The following requirements apply to reinsurance contracts unless stated otherwise.

IFRS 17 sets out criteria for when an investment component is distinct and may be separated from the host insurance contract. Following the application of these criteria the Company has concluded for the majority of its hybrid investment contracts with DPF within the scope of IFRS 17, the unit-linked component does not meet the definition of a distinct investment component so will no longer be accounted for as a financial instrument and will fall within the scope of IFRS 17. Hybrid investment contracts with DPF are those contracts which allow policyholders to invest in both with-profit and unit-linked fund options within a single contract.

Level of aggregation

IFRS 17 requires that contracts are divided into groups for the purposes of recognition and measurement. Portfolios of contracts are identified by grouping together contracts which have similar risks and are managed together. These groups are then further divided into cohorts based on their expected profitability. Contracts which are onerous at inception cannot be grouped with contracts which are profitable at inception. Contracts which are issued more than one year apart are not permitted to be included within the same cohort, although there is some relief from this requirement for business in-force at the date of transition under the transitional arrangements.

Measurement

The standard introduces three measurement approaches, of which two, the general model and the variable fee approach, are applicable to the Group's business. The main features of these models are the measurement of an insurance contract as the present value of expected future cash flows including acquisition costs, plus an explicit risk adjustment, remeasured at each reporting period using current assumptions, and a contractual service margin ('CSM'). Reinsurance contracts held are measured using the general model, irrespective of the measurement model applied to the underlying contracts reinsured.

The risk adjustment represents the compensation the Company requires for bearing the uncertainty about the amount and timing of cash flows that arise from non-financial risk as the obligations under the insurance contract are fulfilled.

The CSM represents the unearned profit of a group of insurance contracts and is recognised in the statement of comprehensive income as the insurance and/or investment service is provided to the customer using coverage units. Coverage units are a measurement of the quantum of service provided across the life of the contract and are used to measure the service provided in the reporting period and release a corresponding amount of profit to the statement of comprehensive income. If a group of contracts becomes loss-making after inception the loss is recognised immediately in the statement of comprehensive income. This treatment of profits and losses in respect of services is broadly consistent with the principles of IFRS 15 and IAS 37 applicable to other industries. For reinsurance contracts held, the CSM represents the net gain or net loss of the contract and is recognised in the statement of comprehensive incomes as the service is provided using coverage units.

Under the general model the CSM is adjusted for non-economic assumption changes relating to future periods. For certain contracts with participating features the variable fee approach is applied, this allows changes in economic assumptions and experience to adjust the CSM as well as non-economic assumptions, reflecting the variable nature of the entity's earnings driven by investment returns.

Significant judgements and estimates

Contract boundaries

Under IFRS 17, the measurement of a group of contracts includes all future cash flows within the boundary of each contract in the group. Cash flows are within the boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay premiums or in which the Company has a substantive obligation to provide services to the policyholder.

Discount rates

The Company will determine risk-free discount rates using the current market prices of interest rate swaps in each currency where the market is deep, liquid and transparent. The Company primarily writes contracts denominated in Pounds Sterling and Euros. The yield curve will be interpolated between the last available market data point and an ultimate forward rate, which reflects long-term real interest rate and inflation expectations.

The discount rates for annuity business will be determined by a 'top-down' approach using a reference portfolio of assets to determine an uplift to be applied to the risk-free discount rate curve.

Risk adjustment

The risk adjustment for non-financial risk will reflect the compensation that the Company requires for bearing non-financial risk. The Company will apply a confidence level technique. The risk adjustment will be allocated to groups of contracts based on an analysis of the risk profiles of the groups, reflecting the effects of the diversification benefits between Group entities. The Company will determine the risk adjustment using a one year time horizon, consistent with the time horizon used for Solvency II, the key metric underlying how the Company is managed.

To determine the risk adjustment for reinsurance contracts, the Company will apply its approach both gross and net of reinsurance and determine the amount of risk being transferred to the reinsurer as the difference between the two results.

Coverage units

The CSM of a group of contracts is recognised in profit or loss to reflect services provided in the period. The number of coverage units is updated at each valuation date and reflects the quantity of services provided by the contracts within a group considering both quantity of benefits provided and the length of the expected coverage period.

The Company will determine the quantity of benefits, and therefore the coverage units as follows:

Type of business	Coverage unit (qunatitiy of benefits)
Immediate annuity	Annuity payments in each period

Reinsurance contracts held will use coverage units consistent with the underlying policies reinsured.

Transition

IFRS 17 requires the standard to be applied retrospectively. Where this is assessed as impracticable the standard allows the application of a modified retrospective approach or a fair value approach to determine the contractual service margin.

The primary books of business that will be measured using the fully retrospective approach are:

- Immediate annuities vesting without guarantees, post 1 January 2021;

The majority of the Company's business will be transitioned using the fair value approach.

Key factors considered in determining whether the fully retrospective approach is impracticable include:

- The ability to obtain assumptions and data at the required level of granularity, without the introduction of material use of hindsight, particularly in relation to contracts within acquired businesses and where the Company's financial reporting metrics did not require such information
- The availability and usability of historic data given the significant integration work performed by the Company on both its policy administration and actuarial modelling systems where re-platforming from legacy systems onto a unified platform has been carried out
- The significant level of regulatory change experienced by the insurance industry, such as Solvency II, which impacts on the level of change undergone by both legacy and current policy administration and actuarial modelling systems

Fair value approach

The fair value approach determines the CSM (or loss component) at 1 January 2022 as the difference between the fair value of a group of contracts and the present value of expected future cash flows including acquisition costs, plus an explicit risk adjustment.

The fair value determined by the Company will use cash flows with contract boundaries consistent with IFRS 17 requirements and be broadly consistent with those used to determine the IFRS 17 liabilities. The measurement of the fair value of contracts will include items taken into consideration by a market participant but which are not included in the IFRS 17 measurement of contracts, such as a risk premium to reflect a market participant's view of uncertainty inherent in the contract cash flows being valued and a profit margin.

For groups of contracts measured using the fair value approach, the cohorts will contain contracts issued more than one year apart.

Presentation and disclosure

The introduction of IFRS 17 will simplify the presentation of the statement of financial position. It requires the presentation of groups of insurance (or reinsurance) contracts that are in an asset position separately from those in a liability position. All rights and obligations arising from a portfolio of contracts will be presented within the insurance or reinsurance contract balance, as such, balances such as payables related to direct insurance contracts and reinsurance receivables will no longer be presented separately.

The presentation of the statement of comprehensive income will change more significantly with IFRS 17 setting out how components of the profitability of contracts are disaggregated into an insurance service result and insurance finance income/expense. The insurance service result reflects the consideration earned in exchange for the provision of services in relation to the group of IFRS 17 contracts issued. The insurance financial income/expense reflects changes in the carrying amount of the group of insurance contracts that relate to financial risks. It comprises the effect of the time value of money as well as the effect of financial risks and changes in financial risks.

IFRS 17 also requires extensive disclosures, both quantitative and qualitative, in relation to:

- Amounts recognised in the financial statements, including reconciliations showing how the net carrying amounts of contracts changed during the period;
- Significant judgements and changes in these judgements; and
- The nature and extent of risks that arise from contracts within the scope of IFRS 17.

Impact assessment

The total profit recognised over the lifetime of contracts within the scope of IFRS 17 will not change from the total profit recognised under IFRS 4 and will continue to be recognised in the statement of comprehensive income. The pattern of profit emergence under IFRS 17 will primarily be driven by the timing of the recognition of the risk adjustment and CSM. The risk adjustment is released to the statement of comprehensive income as the related risk expires and the CSM is released as services are provided.

IAS 8 requires an entity to disclose all known or reasonable estimable information regarding the possible impact that the application of a new IFRS is expected to have on its financial statements. At the date of issuing these financial statements the financial impact of transition to IFRS 17 on Retained Earnings at 1 January 2022 is not reasonably estimable as work continues to deliver these later this year.

Implementation project status

The Group's implementation project, of which the Company is a subsidiary and within scope, continued throughout 2022 with a focus on continuing to develop and embed the operational capabilities required to implement IFRS 17 including data, systems and business processes, and determining the transition balance sheet as at 1 January 2022. The focus for 2023 is on finalising the transition balance sheet and the 2022 comparatives required for 2023 reporting, and implementation of the end state control environment.

- **IFRS 9 *Financial Instruments* (1 January 2023):**

Under IFRS 9, all financial assets will be measured either at amortised cost or fair value and the basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. In relation to the impairment of financial assets, IFRS 9 requires the use of an expected credit loss model, as opposed to the incurred credit loss model required under IAS 39 *Financial Instruments: Recognition and Measurement*. The expected credit loss model will require the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In addition, the general hedge accounting requirements have been updated under IFRS 9 to better reflect risk management activities of the Company.

The Company has to date taken advantage of the temporary exemption granted to insurers in IFRS 4 *Insurance Contracts* from applying IFRS 9 until 1 January 2023 as a result of meeting the exemption criteria as at 31 December 2015. As at this date the Company's activities were considered to be predominantly connected with insurance as the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities was greater than 90%.

IFRS 9 will be implemented at the same time as the new insurance contracts standard (IFRS 17 Insurance Contracts) effective from 1 January 2023. During the year, the Company completed its assessment of the impacts of adopting IFRS 9. The classification of the Company's financial assets has been reviewed and it has been determined that financial assets backing insurance liabilities will continue to be measured at fair value through profit or loss ('FVTPL'). The business model assessment concluded that these assets are actively managed and evaluated on a fair value basis and as such would be mandatorily classified at FVTPL. It is not expected that use of the fair value option, as permitted by IFRS 9, to designate assets as FVTPL to avoid an accounting mismatch will be required.

The new standard replaces the incurred loss model with an expected credit loss model for financial assets measured at amortised cost or at FVOCI. The proportion of financial assets classified at amortised cost is relatively small as a proportion of the total and due to the credit risk profile of these assets being investment grade, the expected credit loss on these assets is not expected to be material and therefore there will be limited financial impact on the Company.

A number of additional disclosures will be required by IFRS 7 Financial Instruments: *Disclosures* as a result of implementing IFRS 9. Additional disclosures have been made to the financial statements to provide information to allow comparison with entities who have already adopted IFRS 9.

- Disclosure of Accounting Policies (Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*) (1 January 2023): The amendments are intended to assist entities in deciding which accounting policies to disclose in their financial statements and requires an entity to disclose 'material accounting policy information' instead of its 'significant accounting policies'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements. These amendments are not expected to have any impact on the Company.

- Definition of Accounting Estimates (Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) (1 January 2023): The amendments replace the definition of a "change in accounting estimates" with an updated definition of "accounting estimates". Under the new definition, accounting estimates are 'monetary amounts in financial statements that are subject to measurement uncertainty'. The Board has retained the concept of changes in accounting estimates in the Standard by including a number of clarifications. These amendments are not expected to have any impact on the Company.

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 *Income Taxes*) (1 January 2023): The amendments narrow the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The IASB expects that the amendments will reduce diversity in reporting and align the accounting for deferred tax on such transactions with the general principle in IAS 12 of recognising deferred tax for temporary differences. There will potentially be some additional disclosures required in relation to the Company's leasing arrangements as a result of implementing these amendments.

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

- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16 *Leases*) (1 January 2024): The amendments relate to how a seller-lessee accounts for variable lease payments that arise in a sale and leaseback transaction. On initial recognition, the seller-lessee is required to include variable lease payments when measuring a lease liability arising from a sale and leaseback transaction. After initial recognition, they are required to apply the general requirements for subsequent accounting of the lease liability such that no gain or loss relating to the retained right of use is recognised. Seller-lessees are required to reassess and potentially restate sale-and-leaseback transactions entered into since the implementation. These amendments are not expected to have any impact on the Company.

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

On 31 January 2020, the UK left the EU and effective from 1 January 2021, the European Commission no longer endorses IFRSs for use in the UK. UK legislation provides that all IFRSs that had been endorsed by the EU on or before the 31 December 2020 became UK-adopted international accounting standards. New or amended IFRSs are now endorsed by the UK Endorsement Board following delegation of powers to endorse and adopt IFRSs for the UK by the Secretary of State in May 2021.

The following amendments to standards listed above have been endorsed for use in the UK by the UK Endorsement Board:

- IFRS 17 *Insurance Contracts*;
- Amendments to IFRS 17;
- Initial Application of IFRS 17 and IFRS 9 – Comparative Information;
- Disclosure of Accounting Policies (Amendments to IAS1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendments to IFRS 9 *Financial Instruments* formed part of the EU-adopted IFRSs which were adopted by the UK on 1 January 2021 and have previously been endorsed by the EU.

4. Net investment income

	2022 £000s	2021 £000s
Investment income		
Fair value (losses)/gains on interests in collective investment schemes	(4)	(2)
Dividend income	153	7
Net investment income	149	5

5. Other operating expenses

	2022 £000s	2021 £000s
Investment management expenses and transaction costs	-	3
	-	3

Other operating expenses mainly related to segregated pension management contracts, which, since the acquisition of the Company by Phoenix Group Holdings plc ('Phoenix Group') in 2018, have been in the process of being either terminated or novated. As contracts novate out of the Company, revenue and expenses in relation to those contracts will no longer flow into and out of the Company. As at 31 December 2022, no contracts remained and therefore no revenue or expenses relating to these contracts were recognised during 2022. The £3k in the prior year relates to sundry expenses.

6. Employee costs

The Company has no employees. Administrative services are provided by Standard Life Assets and Employee Services Limited ("SLAESL"), a fellow group company. Employee costs are payable by SLAL.

7. Auditor's remuneration

	2022 £000s	2021 £000s
Audit of the Company's financial statements	35	40

During the financial year ended 31 December 2022, Ernst & Young LLP acted as the Company's external auditor. Auditor's remuneration for services other than the statutory audit of the Company are not disclosed in the Company's financial statements since the consolidated financial statements of Phoenix Group Holdings plc, the Company's ultimate controlling party, are required to disclose fees in respect of non-audit services on a consolidated basis. Audit fees are payable by SLAL.

8. Tax charge/(credit)

Current year tax charge/(credit)

	2022 £000s	2021 £000s
Current tax:		
UK Corporation tax	28	-
Total current tax	28	-

Reconciliation of tax charge/(credit)

	2022 £000s	2021 £000s
Profit for the year before tax	149	2
Tax at standard UK rate of 19% (2021: 19%)	28	-
Total tax charge	28	-

9. Financial instruments

The Company has an investment in an investment vehicle structured as a Luxembourg mutual investment fund. This vehicle is structured in such a way that voting or similar rights are not the dominant factor in deciding who controls the entity and as such is classified as a structured entity. The Company's ownership interest in this vehicle can vary from day to day based on the Company and third party participation in it. The control assessment of this entity considers the rights of the Company to direct the relevant activities of the vehicle, its exposure to variability of returns and the ability to affect those returns using its power. In addition, the removal rights of other investors that may affect the capacity of the Company to direct the relevant activities are also taken into account. If the Company was deemed to control such a vehicle, the investment would be presented as a subsidiary. As the Company has an investment but not control over this entity, the investment is classified within collective investment schemes in the statement of financial position. The Company's maximum exposure to loss in respect of the interest presented below is the carrying value of the Company's investment.

Expected settlement dates

	Total 2022 £000s	Amounts recoverable after 12 months 2022 £000s	Total 2021 £000s	Amounts recoverable after 12 months 2021 £000s
Financial assets at FVTPL:				
Designated upon initial recognition:				
Collective investment schemes	11,140	-	11,029	-
Loans and receivables:				
Cash and cash equivalents	2	-	1	-
Accrued income	27	-	-	-
	11,169	-	11,030	-

10. Fair value

(a) Determination of fair value hierarchy

To provide further information on the approach used to determine and measure the fair value of certain assets and liabilities, the following fair value hierarchy categorisation has been used:

Level 1: Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair values measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair values measured using inputs that are not based on observable market data (unobservable inputs).

(b) Financial investments and financial liabilities

An analysis of the Company's financial investments and financial liabilities in accordance with the categories of financial instrument set out in IAS 39 is presented in note 10 (d) and includes those financial assets and liabilities held at fair value.

(c) Methods and assumptions used to determine fair value of assets and liabilities

Unless otherwise stated, the accounting policies in relation to the Company's financial assets and liabilities measured at fair value are set out in accounting policies (f) and (k).

For units in unit trusts and shares in open-ended investment companies, fair value is determined by reference to published bid-values.

(d) Fair value hierarchy for financial assets and financial liabilities at FVTPL

Equity instruments listed on a recognised exchange are valued using prices sourced from the primary exchange on which they are listed. These instruments are generally considered to be quoted in an active market and are therefore categorised as level 1 instruments within the fair value hierarchy.

At 31 December 2022, the Company's financial assets measured at fair value comprised of collective investment schemes of £11,140k (2021: £11,029k) which are categorised under the fair value hierarchy as level 1 (2021: level 1).

The Company did not hold any financial liabilities at FVTPL at 31 December 2022 (2021: £nil).

(e) Fair value of financial assets and liabilities measured at amortised cost

The carrying value of all financial assets and liabilities measured at amortised cost approximates their fair values.

11. Tax assets and liabilities

	2022	2021
	£000s	£000s
Current Tax		
Current tax payable	(32)	(14)

Deferred tax recognition

Deferred tax assets and liabilities are netted off to the extent that legal offset is available under local tax law.

Deferred tax assets are recognised on tax losses carried forward only to the extent that realisation of the related tax benefit is probable. The value attributed to them takes into account the certainty or otherwise of their recoverability. Their recoverability is measured against anticipated taxable profits and gains based on business plans.

At 31 December 2022 the Company had unused tax losses amounting to £52k (2021: £52k) for which no deferred tax asset has been recognised due to doubtful recoverability.

The UK corporation tax rate is increasing from 19% to 25% with effect from 1 April 2023. This was enacted on 10 June 2021.

12. Cash and cash equivalents

	2022 £000s	2021 £000s
Bank and cash balances	2	1
Total cash and cash equivalents	**2**	**1**

Cash in hand is non-interest bearing. All other cash and cash equivalents are subject to variable interest rates.

13. Loan capital

	2022 £000s	2021 £000s
Loan capital	50	50
	50	50

Under IAS 32 *Financial Instruments: Presentation,* the loan capital provided by the parent undertaking meets the definition of equity. It is non-interest bearing, repayable only on liquidation and ranks after all other creditors.

14. Liabilities under insurance contracts

	Gross liabilities 2022 £000s	Reinsurers' share 2022 £000s	Gross liabilities 2021 £000s	Reinsurers' share 2021 £000s
Life assurance business:				
Insurance contracts	5,432	5,432	7,554	7,554

	Gross liabilities 2022 £000s	Reinsurers' share 2022 £000s	Gross liabilities 2021 £000s	Reinsurers' share 2021 £000s
At 1 January	7,554	7,554	8,972	8,972
Claims	(544)	(544)	(520)	(520)
Other changes in liabilities	(1,578)	(1,578)	(898)	(898)
At 31 December	5,432	5,432	7,554	7,554

Included in other changes in liabilities are changes in assumptions and economic and non-economic experience. The reduction in gross liabilities in the year relates to market movements, primarily the increase in yields and fall in equity values, as well as business run-off.

Assumptions

Valuation of non-participating insurance contracts
The non-participating insurance contract liabilities are determined using a gross premium valuation method.

Process used to determine assumptions
The approach to the valuation of insurance contracts in the financial statements is as follows:

- In determining the discount rate to be applied when calculating non-participating insurance contract liabilities, the Company uses a swap curve plus 36bps.

- For non-participating insurance contract liabilities, the Company sets assumptions at management's best estimates and recognises an explicit margin for demographic risks.

Changes to assumptions
Due to changes in economic and non-economic factors, certain assumptions used in estimating insurance contract liabilities have been revised. Therefore, the change in liabilities reflects actual performance over the year, changes in assumptions and, to a limited extent, improvements in modelling techniques.

The impact of COVID-19 continues to be monitored on a regular basis, however given the uncertainty no adjustments have been deemed appropriate to date, as it remains too early to determine what the medium-long term impacts are likely to be and impacts may either reduce or increase future life expectancy.

Longevity and mortality assumptions
Longevity and mortality rates are based on published tables, adjusted appropriately to take account of changes in the underlying population mortality since the table was published, demographic differences between annuitants and the general population, company experience and forecast changes in future mortality. For both longevity and mortality base assumptions 2020 and 2021 data was excluded as it was distorted by the one-off effect of COVID-19 and is not deemed representative.

Expense assumptions
Expenses are assumed to increase at the rate of increase in the Retail Price Index (“RPI”) or Retail Price Index excluding mortgage payments plus typical fixed margins in accordance with the various Management Service Agreements (“MSAs”) the Company has in place with outsourced service providers. For the Company's business the rate of RPI inflation is based on the Bank of England inflation spot curve. For MSAs with contractual increases set by reference to national average earnings inflation, this is approximated as RPI inflation or RPI inflation plus 1%.

Following a period of sustained growth for the Group, the projected cost base has been reviewed for future years, and an increase in MSA rates has been assumed from 2025, with current rates applying until 31 December 2024, in line with current contractual agreements. In addition, provision has been made within the assumptions for additional short-term maintenance costs, direct costs and project costs, to reflect the investment required in the enlarged business.

Reinsurance arrangement
The company holds a reinsurance arrangement with SLAL. Under the terms of this arrangement, 100% of the Company's annuity portfolio is reinsured back to SLAL. The reinsurance is measured on a basis that is consistent with the valuation of the liability to policyholders to which the reinsurance applies.

Managing product risk
The following sections give an assessment of the risks associated with the Company’s main life assurance products and the ways in which the Company manages those risks. The following tables provide a product analysis of the liabilities under insurance contracts and reinsurers’ share of insurance contract liabilities within the Statement of financial position.

2022

	Gross insurance contracts £000s	Reinsurance insurance contracts £000s
With-profits funds		
Deferred annuities	437	437
Immediate annuities	4,995	4,995
	5,432	5,432

2021

	Gross insurance contracts £000s	Reinsurance insurance contracts £000s
Deferred annuities	641	641
Immediate annuities	6,913	6,913
	7,554	7,554

Deferred annuities
Deferred annuity policies are written to provide either a cash benefit at retirement, which the policyholder can use to buy an annuity on the terms then applicable, or an annuity payable from retirement. The policies contain an element of guarantee expressed in the form that the contract is written in i.e. to provide cash or an annuity.

Immediate annuities
This type of annuity is purchased with a single premium at the outset, and is paid to the policyholder for the remainder of their lifetime. Payments may also continue for the benefit of a surviving spouse or partner after the annuitant’s

death. Annuities may be level, or escalate at a fixed rate and may be payable for a minimum period irrespective of whether the policyholder remains alive.

The main risks associated with this product are longevity and investment risks. Longevity risk arises where the annuities are paid for the lifetime of the policyholder, and is managed through the initial pricing of the annuity and through reinsurance.

The pricing assumption for mortality risk is based on both historic internal information and externally generated information on mortality experience, including allowances for future mortality improvements. Pricing will also include a contingency margin for adverse deviations in assumptions.

15. Risk management

(a) Overview

Risk Management Framework
The Group's RMF embeds proactive and effective risk management across the Phoenix Group. It seeks to ensure that all material risks are identified, assessed, controlled, monitored, managed within approved risk appetites and reported through agreed governance routes in line with delegated authorities. The Group's RMF is aligned to the principles and guidance in ISO 31000 Risk Management standards. A diagram showing the nine elements of the Group's RMF is presented within the Company's strategic report, with further detail included in the Group's 2022 Annual Report and Accounts.

Risk Universe
The Group's Risk Universe (applicable to the Company) summarises the comprehensive set of risks to which the Company is exposed. The risk profile of each is an assessment of the impact and likelihood of those risks crystallising and the Company failing to achieve its strategic objectives. Changes in the risk profile are influenced by the commercial, economic and non-economic environment and are identified, assessed, managed, monitored and reported through the Group's RMF and Own Risk and Solvency Assessment (ORSA) processes.

There are three levels of Risk Universe categories; the highest is Level 1 and includes:

Level 1 category	Definition
Strategic risk	A possible source of loss that might arise from the pursuit of an unsuccessful business plan; this source of loss can be to the shareholders and / or to the policyholders, and may drive reputational damage which could further impact the Group's ability to meet its strategic objectives.
Financial soundness	The risk of financial failure, reputational loss, loss of earnings and/or value arising from a lack of liquidity, funding or capital, and/or the inappropriate recording, reporting and disclosure of financial, taxation and regulatory information.
Market risk	The risk of reductions in earnings and/or value, through financial or reputational loss, from unfavourable movements. The risk typically arises from exposure to equity, property and fixed income asset classes and the impact of interest rates, inflation rates and currency exchange rates.
Credit risk	The risk of reductions in earnings and/or value, through financial or reputational loss, as a result of the default of a counterparty or an associate of such a counterparty to a financial transaction (i.e. failure to honour their financial obligations, or failing to perform them in a timely manner), whether on or off balance sheet.
Insurance risk	The risk of reductions in earnings and/or value, through financial or reputational loss, due to fluctuations in the timing, frequency and severity of insured/underwritten events and to fluctuations in the timing and amount of claim settlements. This includes fluctuations in profits due to customer behaviour.
Customer risk	The risk of reductions in expected earnings and/or value to the Company or customers, through financial, reputational or operational losses as a result of not treating customers fairly or inappropriate/poor customer treatment (including poor advice).
Operational risk	The risk of reductions in earnings and/or value, through financial or reputation loss, from inadequate or failed internal processes and systems, or from people related or external events.

The Company has also defined a more granular categorisation for Level 2 risks. This helps to further explain our attitude to these risks.

(b) Climate risk

The Company is exposed to market and credit risk related to the transition to a low carbon economy, and the physical impacts resulting from climate change which could result in long-term market, credit, insurance, reputation, proposition and operational implications. As such, this risk is treated as a cross-cutting risk in the Group's Risk Universe.

Identification of climate related risks has been embedded into the Group's RMF, which applies to the Company. Significant progress has been made in recent years in developing a risk metrics and targets framework, and establishing appropriate governance and risk management processes. The Group has adopted a proactive approach towards combatting climate change, with key net-zero targets. Further details on these targets and on managing the related climate change risks are provided in the Climate Report and Task Force for Climate-related Financial Disclosures (TCFD) within the Group's 2022 Annual Report and Accounts.

(c) Strategic risk

Strategic risks threaten the achievement of the Company and Group strategy through poor strategic decision-making, implementation or response to changing circumstances. The Company recognises that core strategic activity brings with it exposure to strategic risk. However, the Company seeks to proactively review, manage and control these exposures.

The Company's strategy and business plan are exposed to external events that could prevent or impact the achievement of the strategy; events relating to how the strategy and business plan are executed; and events that arise as a consequence of following the specific strategy chosen. The identification and assessment of strategic risks is an integrated part of the RMF. Strategic Risk should be considered in parallel with the Risk Universe as each of the risks within the Risk Universe can impact the Group and Company's strategy.

A Strategic Risk Policy is maintained and reported against regularly, with a particular focus on risk management, stakeholder management, corporate activity and overall reporting against the Company and Group's strategic ambitions.

(d) Financial risks

The use of financial instruments naturally exposes the Company to the risks associated with them which comprise mainly financial soundness risk, market risk, and credit risk. Financial soundness is a broad risk category encompassing liquidity and funding risk, capital management risk and tax risk.

Responsibility for agreeing the financial risk profile rests with the Board, as advised by investment managers, internal committees and the actuarial function. In setting the risk profile, the Board will receive advice from the Chief Investment Officer, the Chief Actuary as to the potential implications of that risk profile on the probability of both realistic insolvency and of failing to meet the regulatory minimum capital requirement. The Chief Actuary will also advise the extent to which the investment risk assumed is consistent with the Company's commitment to deliver fair customer outcomes.

The Company's overall exposure to investment risk is monitored by appropriate committees, which agree policies for managing each type of risk on an ongoing basis, in line with the investment strategy developed to achieve investment returns in excess of amounts due in respect of insurance contracts. The effectiveness of the Company's Asset Liability Management ("ALM") framework relies on the matching of assets and liabilities arising from insurance contracts, taking into account the types of benefits payable to policyholders under each type of contract.

(e) Financial Soundness: Liquidity and funding risk

Liquidity risk in its broadest sense can be defined as failure to maintain adequate levels of financial resources to meet obligations as they fall due. Funding risk relates to the potential inability to raise additional capital or liquidity when required in order to maintain the resilience of the balance sheet. The Company has exposure to liquidity risk as a result of any failure to meet its short-term cash flow requirements, to meet its obligations to policy liabilities and the operating requirements of its subsidiaries.

The Board has defined a number of governance objectives and principles and the liquidity risk framework is designed to ensure that:

- Liquidity risk is managed in a manner consistent with the Board's strategic objectives, risk appetite and Principles and Practices of Financial Management ("PPFM");
- Cash flows are appropriately managed and the reputation of the Company and the Group are safeguarded; and
- Appropriate information on liquidity risk is available to those making decisions.

The Company's liquidity risk management strategy is based on a very low risk appetite of having insufficient liquid or tangible assets to meet financial obligations as they fall due.

For annuity contracts, the Company's liquidity risk is mitigated through the reinsurance arrangement with SLAL.

A significant proportion of the Company's financial assets are held in highly liquidity cash funds which the Company considers sufficient to meet the liabilities as they fall due.

As a result of the policies and processes established with the objective of managing exposure to liquidity risk, the Company expects to be able to manage liquidity risk on an ongoing basis despite the market volatility caused by the current high levels of inflation and interest rate increases from most of the world central banks including the Bank of England.

(f) Contractual undiscounted maturities

The following table provides a maturity analysis showing the remaining contractual maturities of the Company's undiscounted financial liabilities and associated interest. The contractual maturities of liabilities under insurance contracts are included based on the estimated timing of the amounts recognised in the Statement of financial position in accordance with the requirements of IFRS 4:

2022

	1 year or less or on demand	1-5 years	Greater than 5 years	No fixed term	Total
	£000s	£000s	£000s	£000s	£000s
Liabilities under insurance contracts	876	1,530	3,026	-	5,432

2021

	1 year or less or on demand	1-5 years	Greater than 5 years	No fixed term	Total
	£000s	£000s	£000s	£000s	£000s
Liabilities under insurance contracts	1,073	1,735	4,746	-	7,554

(g) Financial Soundness: Capital management risk

Capital management risk is defined as the failure of the Company to maintain sufficient capital to provide appropriate security for policyholders and meet all regulatory capital requirements whilst not retaining unnecessary capital. The Company has exposure to capital management risk through the regulatory capital requirements mandated by the PRA. Note 16 gives more detail on how capital and capital management risk are managed.

(h) Financial Soundness: Tax risk

Tax risk is defined as the risk of reductions in earnings and/or value, through financial or reputational loss, due to an unforeseen tax cost, or by the inappropriate reporting and disclosure of information in relation to taxation.

Potential causes of Tax risk are: the Company making a material error in its tax reporting; incorrect calculation of tax provisions; failure to implement the optimum financial arrangements to underpin a commercial transaction; and incorrect operation of policyholder tax requirements.

Tax risk is managed by maintaining an appropriately-staffed tax team who have the qualifications and experience to make judgements on tax issues, augmented by advice from external specialists where required. In addition, the Company has a formal tax risk policy, which sets out its risk appetite in relation to specific aspects of tax risk, and which details the controls the Company has in place to manage those risks.

(i) Market risk

Market risk is defined as the risk of reductions in earnings and/or value, through financial or reputational loss, from unfavourable market movements. The Company is exposed to fluctuations in fair value of future cash flows of a financial instrument caused by changes in market interest rates. The interests in pooled investment funds is an investment solely in the Aberdeen Standard Liquidity Fund (Lux) – Seabury Sterling Liquidity 2 Fund.

The most significant liabilities that expose the Company to interest rate risk are annuity insurance contracts. These liabilities have no fixed maturity.

There remains significant market uncertainty as a result of the developing conflict in Ukraine which has resulted in economic sanctions being introduced against Russia and Belarus. The Company continues to monitor its exposure to markets affected by the conflict in Ukraine and the effects of the conflict on markets in which the Company transacts.

As the annuity business is wholly reinsured to SLAL any changes to assumption due to movements in market conditions have no impact on the net liabilities.

(j) Credit risk

Credit risk is defined as the risk of reductions in earnings and/or value, through financial or reputational loss, as a result of the default of a counterparty or an associate of such a counterparty to a financial transaction (i.e. failure to honour their financial obligations, or failing to perform them in a timely manner), whether on or off balance sheet.

The amount disclosed in the Statement of financial position in respect of all financial assets represents the Company's maximum exposure to credit risk.
The Company is exposed to the risk of SLAL defaulting on the Company's reassurance arrangement, though this is considered to be minimal given the solvency position of SLAL and the broader Phoenix Group. In addition, the Company is exposed to credit risk in respect of the Company's sole collective investment scheme holdings in the Aberdeen Standard Liquidity Fund (Lux) – Seabury Sterling Liquidity 2 Fund. This is considered minimal given the aim being to preserve capital and liquidity by investing in high quality money market instruments.

The conflict in Ukraine continues to present a risk of downgrades and defaults. The Company has immaterial direct credit exposure to Russia, though the increased risk of higher inflation could impact areas of the credit portfolio. Given that the Company's funds are held highly liquid and readily available assets, the impact of economic volatility as a result of Ukraine is considered to be minimal.

(k) Quality of credit assets

An indication of the Company's exposure to credit risk is the quality of the investments and counterparties with which it transacts. The following table sets out the Company's aggregate credit exposure to different credit assets for those counterparties that are rated by an External Credit Assessment Institution (ECAI). Credit assets and their issuers are rated by ECAI's based on their credit worthiness. The Company aims to mainly invest in Investment Grade assets which are those assets in the range of AAA to BBB. Any asset with a rating lower than BBB- is considered sub-investment grade.

2022

	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated £m	Non-Rated £m	Unit Linked £m	Total £m
Reinsurers' share of investment contract liabilities	-	5,432	-	-	-	-	-	-	5,432
Cash and cash equivalents	-	-	2	-	-	-	-	-	2
	-	5,432	2	-	-	-		-	5,434

2021

	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated £m	Non-Rated £m	Unit Linked £m	Total £m
Reinsurers' share of investment contract liabilities	-	7,554	-	-	-	-	-	-	7,554
Cash and cash equivalents	-	-	1	-	-	-	-	-	1
	-	7,554	1	-	-	-		-	7,555

A credit rating has not been disclosed in the above table for the Company's holding in collective investment schemes. The credit quality of the underlying debt securities within this vehicle is managed by the safeguards built into the investment mandates for this vehicle.

The Company had no material assets which were impaired (2021: £nil)

(l) Insurance risk

Insurance risk is managed by analysing experience and using statistical data to make certain assumptions on the risks associated with the policy during the year that it is in force. Assumptions that are deemed to be financially significant are reviewed at least annually for pricing and reporting purposes. In analysing insurance risk exposures, the Company considers:

- Historic experience of relevant demographic and expense risks;
- The potential for future experience to differ from that expected or observed historically;
- The financial impact of variance in expectations; and
- Other factors relevant to their specific markets, for example, obligations to treat customers fairly.

Reinsurance or other risk transfer mechanisms are used to manage risk exposures and are taken into account in the Company's assessment of insurance risk exposures.

(m) (i) Elements of insurance risk

The Company is exposed to the following elements of Insurance risk:

- Longevity risk - lower than expected number of deaths experienced on annuity products or greater than expected improvements in annuitant mortality.
- Mortality risk - higher than expected death claims on assurance products or lower than expected improvements in mortality
- Expense risk - unexpected timing or value of expenses incurred

(m) (ii) Sensitivity analysis – insurance risk

As the annuity business is wholly reinsured to SLAL any changes to assumptions have no impact on net liabilities.

(n) Customer risk

Customer risk is defined as the risk of financial failure, reputational loss, loss of earnings and/or value arising from inappropriate or poor customer treatment (including poor advice). It can arise as a result of:

- **Customer Treatment:** Failings in the design and execution of the support and service interactions with customers leads to poor customer outcomes.
- **Customer Transformation:** The design, governance and oversight of Strategic Customer Transformation Activity in retained functions and service providers, fails to deliver on reasonable customer expectations, taking account of the Phoenix Group customer treatment risk appetites and regulatory requirements.
- **Product and Propositions:** Products/propositions are not designed and managed appropriates leading to poor customer outcomes.
- **Sales and Distribution:** Inappropriate (unclear, unfair or misleading) financial promotions, sales practices and/or distribution agreements resulting in poor customer outcomes.

The Group's Conduct Risk Appetite (which applies to the Company), sets the boundaries within which the Company expect customer outcomes to be managed. In addition, The Group Conduct Strategy, which overarches the Risk Universe and all risk policies, is designed to detect where customers are at risk of poor outcomes, minimise conduct risks, and respond with timely and appropriate mitigating actions.

The Company also has a suite of customer polices which set out the key customer risks and control objectives in place to mitigate them. The customer risks for the Group, and of the Company, are regularly reported to management oversight committees.

(o) Operational risk

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

Operational risk arises due to failures in one or more of the following aspects of our business:

- indirect exposures through our outsourcing service providers (OSPs) and suppliers;
- direct exposures through internal practices, actions or omissions;
- external threats from individuals or groups focused on malicious or criminal activities, or on external events occurring which are not within the Company's control; and
- negligence, mal-practice or failure of employees, or suppliers to follow good practice in delivering operational processes and practices.

It is accepted that it is neither possible, appropriate nor cost effective to eliminate operational risks from the business as operational risk is inherent in any operating environment particularly given the regulatory framework under which the Company operates. As such the Company will tolerate a degree of operational risk subject to appropriate and proportionate levels of control around the identification, management and reporting of such risks.

The conflict in Ukraine has increased cyber threat levels and the likelihood of a cyber-attack from a State actor, particularly on supply chains and the wider Financial Services industry which the Company relies upon. The Company regularly monitors National Cyber Security Centre guidance.

The Company's cyber controls are designed and maintained to repel the full range of the cyber-attack scenarios; although the main threat is considered to be Cyber Crime, from Individuals or Organised Crime Groups, the same controls are utilised to defend against a Nation-State level cyber-attack.

16. Capital management

(a) Capital Management Framework

The Company's Capital Management Framework is designed to achieve the following objectives:

- provide appropriate security for policyholders and meet all regulatory capital requirements whilst not retaining unnecessary excess capital;
- ensure sufficient liquidity to meet obligations to policyholders and other creditors; and
- meet the dividend expectations of owners.

The Company has met all of these objectives throughout the financial year. The framework comprises a suite of capital management policies that govern the allocation of capital throughout the Company to achieve the framework objectives under a range of stress conditions. The policy suite is defined with reference to policyholder security, creditor obligations, owner dividend policy and regulatory capital requirements.

The capital requirements of the Company are forecast on a periodic basis, and the requirements are assessed against the forecast available capital resources. In addition, internal rates of return achieved on capital invested are assessed against hurdle rates, which are intended to represent the minimum acceptable return given the risks associated with each investment. Capital plans are ultimately subject to approval by the Board.

Extractions of capital are required to be in line with the dividend policy approved by the Board. The dividend policy covers quantity of capital, quality of capital, and the amount of distributable reserves.

(b) Solvency II ("SII") external capital requirement

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

A SII capital assessment involves valuation in line with SII principles of the Company's Own Funds and a risk-based assessment of the Company's Solvency Capital Requirement ("SCR") and Minimum Capital Requirement ("MCR"). The Company is required to meet both the SCR and MCR at each quarterly valuation date.

Basic Own Funds represent the excess of assets over liabilities from the SII balance sheet. The Basic Own Funds are classified into three Tiers based on permanency and loss absorbency (Tier 1 being the highest quality and Tier 3 the lowest). Limits are imposed on the amount of each tier that can be held to cover the SCR.

The Company has obtained PRA approval to calculate the SCR using an Internal Model. This model has been calibrated to ensure that the Company's liabilities could be met in one year's time with a 99.5% confidence level, or in other words to be able to withstand a 1 in 200 year event.

The calculation of the MCR combines a linear formula based on net SII technical provisions, with a floor of 25% and a cap of 45% of the SCR, and subject to an absolute floor depending on the nature of the undertaking.

As the Company is fully reinsured, the SCR held is lower than the MCR, for which the sterling equivalent of the absolute floor of €4m is biting.

The Company did not breach the SCR nor MCR at any time during the year.

(c) Capital Policy
The capital policy is set by the Board and ensures there is sufficient capital to cover the SCR under stress conditions. It is monitored weekly by management and is reported each month at an executive and Board level.

The policy also ensures sufficient liquidity to meet creditor and dividend obligations. Volatility in the latter is monitored at the executive and Board level through stress and scenario testing. Where cash flow volatility is judged to be in excess of the Board's risk appetite, de-risking activities are undertaken.

The Company did not breach its capital policy at any time during the year.

17. Related party transactions

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

Reinsurance accepted and ceded
The Company acts as the cedant in reinsurance transactions with SLAL, the parent company.

	Note	2022 £000s	2021 £000s
Reinsurance ceded to parent company:			
Policyholder claims	14	544	520
Parent company: share of insurance contract liabilities	14	5,432	7,554

		2022 £000s	2021 £000s
Income earned from related parties			
Dividends received from other related parties		-	1
		-	1
Amounts due to related parties			
Amounts due to parent company	13	50	50
		50	50

Where financial instruments arising from transactions with related parties are offset in the Statement of financial position the net position is presented in the tables above.

18. Post Balance Sheet events

There are no post balance sheet events to report.

19. Ultimate parent and ultimate controlling party

The Company's immediate parent and its ultimate parent and ultimate controlling party is Phoenix Group Holdings plc, a company incorporated in England and Wales. Copies of the Phoenix Group Holdings plc consolidated financial statements can be obtained from their company website, www.thephoenixgroup.com.