ReAssure Limited

Company Registration Number: 00754167

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

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Strategic report

The Directors present the Strategic report, their Report and the financial statements of ReAssure 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 principal activities of the Company are the provision of life assurance and pension products in the UK. The Company places customers at the heart of what it does and is committed to delivering a high level of customer service. The Company remains focused on delivering profits to support the cash generation policy of Phoenix Group Holdings plc ("the Group").

The Company has acquired individual closed blocks of in-force long-term life, pensions and health business, either through reinsurance or by the purchase of an entire life insurance company and the subsequent transfer of its business to the Company under Part VII of the Financial Services and Markets Act 2000 ("Part VII transfer"). The Company administers policies until they reach maturity, are surrendered, or an insured event occurs. The principal products administered are long-term life and pension products, permanent health insurance and critical illness products and retirement annuities.

As part of the service to existing customers, the Company continues to write limited amounts of new business on a passive basis, responding to requests for pension annuities on retirement of existing policyholders, top-ups to existing contracts, and single premium reinvestment options at maturity. Gross new annual premium equivalent income for 2022 was £51m (2021: £49m).

All business is written in the UK.

The Company operates under the governance and risk management frameworks of the Group. The Company, Phoenix Life Limited, Phoenix Life Assurance Limited, Standard Life Assurance Limited, and ReAssure Life Limited (together the Life Companies) operate joint Boards of Directors, Audit Committees and Risk Committees, which operate under the Group's frameworks whilst having responsibility delegated to them for oversight of policies and activities that only impact the Life Companies.

Strategy
The Company is a member of the Phoenix 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 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.

Corporate activity
Sale of Northampton property structure
On 19 October 2022 it was announced that the Group had agreed to sell a subsidiary of RAL, Northampton Shopping Centre Limited Partnership ("NSCL") to Steve Anchor Evolve. On 30 November 2022, it was announced that the sale of NSCL had completed for a cash consideration of £19m. A loss on disposal of £(8)m is recognised in the statement of comprehensive income for the year ended 31 December 2022, being the difference between the opening net asset value held within collective investment schemes of £27m and the sale proceeds of £19m.

Partial recapture of intra-group retrocession ("IGR")
During 2022 work continued towards the transfer out of all Swedish, Norwegian and German based policies held by ReAssure Life Limited ("RLL"), a fellow group company, to a new Irish incorporated entity. This new entity, Phoenix Life Assurance Europe Designated Activity Company ("PLAEDAC"), is a subsidiary of the Company. Court approvals for the Part VII transfer were obtained on 18 October 2022 and 1 November 2022 and are effective from 1 January 2023.

The Company has an IGR with RLL, which covers the non-linked business and the insurance component of the unit-linked business of RLL. Further details on the IGR are included in note 2 (l). As a result of this Part VII transfer, the part of the IGR with RLL which relates to the policies transferred to PLAEDAC has been recaptured. The Company received £1m from RLL to terminate the contract. The partial recapture of the IGR is reported as a non-adjusting event after the reporting period, see note 39.

Intra group loans with Phoenix Group Holdings Plc
On 31 December 2022, the Company's ultimate Parent Company, Phoenix Group Holdings Plc ("PGHP") issued a contingent loan of £718m to enable the Company to more effectively manage market risk. This loan is contingent on a unit-linked surplus emergence. To preserve group liquidity, on 31 December 2022, a fixed loan of an equal

amount was issued by the Company to PGHP with a maturity date of 31 December 2027. Please see notes 16 and 29 for further detail.

Longevity Swap
As part of the Company's strategy to manage and mitigate longevity risk the Company entered into a longevity swap arrangement for £2.5bn in February 2023 with an external party, PartnerRe Ltd, which transferred 37% of the pre-swap longevity risk. This is reported as a non-adjusting event after the reporting period.

Diligenta
As part of a long-term strategy to provide policyholders with a consistent customer experience across all group entities it has been announced that the Company's policies, currently administered by the ReAssure in house administration system Alpha, will be transferred over a three-year period to an administration system managed by outsource provider Diligenta.

Future developments
Regulatory developments
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 and investment contracts with discretionary participation features ("DPF"), impacting profit emergence patterns and 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 II regime. 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: activity in the year and future developments
Climate change is one of the greatest global challenges we face today. The 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 the Company's purpose of helping people secure a life of possibilities.

The group have set an overarching target of being net zero carbon in our investment portfolio by 2050, in accordance with science-based targets. The 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 is focused on providing savings and insurance products that enable policyholders to direct finance to help accelerate the transition to a low carbon economy.

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 38.

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

Capital resources
The Company's solvency position is an important measure of financial strength. As at 31 December 2022 the Company's estimated Solvency II Own funds and excess of Own funds over solvency capital requirement (unaudited) were £2,769m (2021: £3,889m) and £1,129m (2021: £1,390m) respectively. The solvency capital requirement is calculated using the Standard Formula approach.

Dividends paid
Cash generation is a key metric across the Group. Cash remitted reflects the generation of free surplus within the life companies and the benefit of management actions implemented in the period. Dividends totalling £650m were paid to the parent company during the year (2021: £1,622m). The directors do not recommend the payment of a final dividend.

Financial ombudsman service (“FOS”) overturn rate
This is an independent view of how the Company is handling complaints. The 2022 result for the Company was 43% (2021: 11%*), which is worse than the industry average of 37% and the “Decumulation, Life and Pensions” category average of 26%. This increase is largely due to a backlog of complaints arising because of the Part VII transfer of policies from Legal & General to the Company in 2020. There was a high level of customer activity in relation to these policies which led to an increase in complaints.

*Please note that prior year data is only available for the 6-months to December 2021.

Speed of pension transfer payouts
This is a recognised industry measure for the speed of processing transfers. The 2022 result was 10.3 days (2021: 11.5 days), which is better than the industry average of 14 days.

Operations
During the year, the Company has maintained four with-profits (“WP”) funds of which the Windsor Life With Profit Fund (“WLWPF”), Guardian With Profit Fund (“GAWPF”) and L&G With Profit Fund (“LGWPF”) are operated on a 90:10 basis and the National Mutual With Profit Fund (“NMWPF”) on a 100:0 basis. The Company also maintains a portfolio of non-profit business (“NPFs) for which the profits accrue to the shareholder.

Administration is outsourced to ReAssure UK Services Limited (‘RUKSL’), which, in turn, has sub-contracted some administration to Hindustan Computers Ltd (‘HCL’). Under the Company’s agreement with RUKSL, the majority of costs are levied on a per policy basis thereby mitigating the Company’s expense risk.

The Company continues to partner with LV= (“Liverpool Victoria”) to offer customers the option to take an annuity from a panel of the UK's best-known providers.

Asset management is outsourced to a range of providers, of which the most significant are abrdn and Legal and General Investment Management.

Investment administration and custody services are primarily outsourced to HSBC Security Services.

The performance of the Company’s invested assets is reviewed against fund specific, pre-defined benchmarks by the Board, the Investment Committee and the Investment Management Committee, which is an internal management committee.

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 its considerations and decision-making processes took into account their impact on its own stakeholders, namely:

- Its customers;
- Its strategic partners and outsourced service providers;
- The Group’s employees engaged to undertake work on behalf of the Company;

- Its regulators, the Prudential Regulatory Authority and the Financial Conduct Authority; and
- The Company's immediate parent, ReAssure MidCo Limited, and ultimate parent, Phoenix Group Holdings plc.

During 2022, and as a result of the impact of the wider political and economic environment, the Board had deep dive sessions, in particular, on:

- The impact of the war in Ukraine to, to include the level of exposure to investments, impacts on customers and the increase in potential cyber attacks;
- the impact of the "Great Resignation" on the Group's employees and the potential for associated attrition and skills shortages;
- the impact of the "Cost of Living" and how the Group was reacting to the needs of both customers and the Group's employees who may be suffering from financial hardship; and
- the market instability faced during the second half of 2022.

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	**Charge Capping on IGC Policies**
STRATEGIC IMPORTANCE **Enhancing our operating model and culture** **Optimising our in-force business**	CONSIDERATION OF S172 MATTERS The Board received a proposal regarding the charge capping on initial units, advising that the approach for the Company differed to the approach taken by other company's within the wider Group. **Desirability of the company to maintain a reputation for high standards of business conduct and foster business relationships with suppliers, customers and others** In making a decision, the Board noted that there was no right or wrong approach between the companies but that aligning to one approach would ensure a consistency of treatment for all customers of the Group. In particular, for the Company's customers, the decision would see a reduction in charges, particularly those in small pots and would be applied to those customers in Independent Governance Committee-focused schemes first with a view to extending to the non-unitised pension pots during the course of 2023. The proposal was seen to be adding value to customers as a result of acquisition and demonstrating a positive example of aligning and improving customer outcomes across the heritages.
OUTCOME	Following due consideration of the matters set out in section 172, the Board approved the implementation of changes to the charge capping for policies overseen by the Independent Governance Committee, initially.
KEY BOARD DECISION	**2022 Sustainability Strategy**
STRATEGIC IMPORTANCE **Investing in a sustainable future** **Enhancing our operating model and culture**	CONSIDERATION OF S172 MATTERS The Board's review of proposals relating to the Group Sustainability Strategy, focused on the following elements: **Fostering business relationships with suppliers, customers and others** The Board explored the proposed response to current consumer attitudes and long term changing consumer needs, including the launch of a financial inclusion strategy, embedding Environmental, Social and Governance (ESG) standards within funds and growing the existing digital literacy programme. It also considered the key initiatives designed to support the business in working responsibly with its suppliers. These included plans for Net Zero modelling supplier emissions, undertaking an independent ESG risk assessment of the Group's supply chain and implementing outputs of a prompt payment project. An education session on the intended plans for the Net Zero Transition Plan due to be formalised in 2023 was provided to the Board in December 2022. **The interests of the company's employees** Initiatives relating to investing in people and culture were also considered by the Board. These included plans to position diversity and inclusion constructs and processes as cultural enablers, targeting, measuring and rewarding performance and measuring colleague engagement through surveys designed to drive action and measurable improvements. **The impact of the company's operations on the community and the environment** The Board reviewed initiatives and targets designed to reduce environmental impact. These included development of an internal carbon price to be used to inform a capital expenditure improvement plan, development of a biodiversity action plan and consideration of offsetting opportunities. It also considered ways in which the business

	proposed to support communities, which included further embedding charity partnerships, promoting the value of skills-based volunteering and maximising circular economy opportunities like equipment donation and lending facilities.
OUTCOME	Following due consideration of the matters set out in section 172, the Board approved the Sustainability Strategy at local level, providing a non-objection for the overall strategy. Final approval for the overall strategy was then sought and received from Company's ultimate parent, Phoenix Group Holdings plc.
KEY BOARD DECISION	**Conduct Risk Framework**
STRATEGIC IMPORTANCE **Enhancing our operating model and culture**	CONSIDERATION OF S172 MATTERS The Board received a report setting out proposed changes to the Company's Conduct Risk Framework. Key matters considered by the Board in relation to the revised Framework included: **Maintaining a reputation for high standards of business conduct** The Board noted that proposed changes to the Framework were designed to ensure it evolved in line with the increased scale and complexity of the Company and wider Group. **Fostering business relationships with suppliers, customers and others** The Board also recognised that the framework would support the business in identifying areas where its acts or omissions impacted outcomes delivered to customers, or had the potential to do so if not corrected. In addition, the proposed changes were intended to provide alignment to the expectations of the Company's regulator, the Financial Conduct Authority. **The interests of the company's employees** The Board noted that the standards set out in the Framework were aligned to a "Culture and Behaviours" pillar, which included colleague considerations such as Diversity and Inclusion. **The impact of the company's operations on the community and the environment** A further pillar to which standards were aligned to was that of "Force for Good", which considered the impact of the Company in Society in relation to markets, communities and the Group-wide sustainability strategy.
OUTCOME	Following due consideration of the matters set out in section 172, the Board resolved to approve the updated Conduct Risk Framework.
KEY BOARD DECISION	**YE21 Annual Accounts**
STRATEGIC IMPORTANCE **Optimising our in-force business**	CONSIDERATION OF S172 MATTERS **Likely consequences of any decisions in the long term** 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 geopolitical risk in light of escalating Ukraine tensions and remaining uncertainty in respect of COVID-19.
OUTCOME	Following due consideration of the matters set out in section 172, the Board approved the YE21 accounts.
KEY BOARD DECISION	**H1 2022 and YE22 Dividend Proposals**
STRATEGIC IMPORTANCE **Optimising our in-force business**	CONSIDERATION OF S172 MATTERS At the 2022 mid-year point and year end, the Board received papers setting out in detail the Company's actual and projected solvency and liquidity position, to enable it to assess the resources available for a distribution to the Company's sole shareholder, ReAssure MidCo Limited. **Likely consequences of any decisions in the long term** When considering the proposal to approve the dividends, the Board paid due regard to the long term impact of that decision – specifically in relation to the Company's ability to meet its regulatory capital requirement. In particular, the Board considered the impact of market stresses and extreme inflation on the Company's ability to remain

	robustly capitalised following the payment of any dividend. The Board also received comprehensive Line 2 assurance from the Risk function as to the appropriateness of the proposed dividend. **Fostering business relationships with suppliers, customers and others** The Board recognised the importance of being able to provide assurance to the regulator, the Prudential Regulatory Authority, as to its sound and prudent management. The Board considered the H1 interim and year end 2022 interim dividend proposals in the context of satisfying its regulatory capital obligations in this respect. It also noted the impact of the proposed dividend payment on the Company's customers, recognising that the solvency position post-payment meant that policyholder obligations continued to be met. **Maintaining a reputation for high standards of business conduct** In addition to maintaining its minimum regulatory capital requirement, the Company applies an additional capital buffer as an extra layer of prudence. The Board considered the H1 interim and year-end interim dividend proposals in the context of maintaining its additional management buffer. In doing so, it recognised the importance of the Company's ongoing capital strength.
OUTCOME	Following due consideration of the matters set out in section 172, the Board approved the H1 interim dividend of £200m and the year-end interim dividend of £450m, to be paid to its sole shareholder, ReAssure MidCo Limited.
KEY BOARD DECISION	**Closed Book Business Acquisition**
STRATEGIC IMPORTANCE **Growing our business to support both new and existing customers**	CONSIDERATION OF S172 MATTERS The Board received a proposal in relation to the ultimate parent's proposed acquisition of a closed book business in order to consider the impact of doing so on the Group's Life Companies, of which the Company is one. **Fostering business relationships with suppliers, customers and others** The proposal incorporated a detailed analysis of potential customer impacts in respect of the acquisition. The Board noted that whilst there were no red flags, work would be required to align some product outcomes to Phoenix's appetite. This work was expected to be achieved without placing customer outcomes for existing Phoenix customers at risk. **Maintaining a reputation for high standards of business conduct** The outputs of an Acquisition Impact Assessment of operational capacity to deliver the target operating model post-acquisition were considered by the Board. The Board noted that integration execution would be gradual and measured, beginning only when capacity became available. The only exception to this approach would be where the target was outside of Group risk appetite. **Likely consequences of any decisions in the long term** The Board discussed how any potential impact on the Company's capital position arising from the target's products offering guaranteed rates would need to be managed, noting that to do so, it needed to be comfortable that reserves were appropriate, the capital position was robust and that customers were being treated fairly.
OUTCOME	Following due consideration of the matters set out in section 172, the Board concluded that it was able to provide the Group Board with a non-objection for the transaction to proceed.
KEY BOARD DECISION	**Investment vehicle sale**
STRATEGIC IMPORTANCE **Optimising our in-force business**	CONSIDERATION OF S172 MATTERS The Board received a proposal in relation to the sale of an investment vehicle used to back with-profits policyholder liabilities. In considering the proposal, the Board explicitly noted their obligation to act in a way which they considered, in good faith, would be the most likely to promote the success of the Company for the benefit of its members as a whole, and to have regard to the matters (amongst others) set out in section 172 of the Companies Act 2006, as referenced at the start of this section of the Strategy Report.
OUTCOME	Following due consideration of the matters set out in section 172, the Board agreed to enter into the sale, concluding that doing so would contribute to the success of the Company and in turn its members.

KEY BOARD DECISION	**Customer and Vulnerable Customer Strategies**
STRATEGIC IMPORTANCE **Enhancing our operating model and culture**	CONSIDERATION OF S172 MATTERS The Board considered proposals relating to the ongoing strategy and management for customers, to include vulnerable customers. **Fostering business relationships with suppliers, customers and others** The Board considered the continued development of a Group wide customer strategy to include ambition, capabilities and investment which cuts across all areas of the Group and which aligned to the overall ambition of providing products and services to customers across the Group, to and through retirement. The Board noted that the proposals to provide a visible and holistic response to its vulnerable customers was integral to the delivering Phoenix's vision to grow a strong and sustainable business, helping more people on their journey towards and through retirement. It also recognised that vulnerability was not only driven by socio-economic factors, but was also exacerbated by the cost of living crisis and complexities around Life and Pensions business decision making and the guidance and advice gap. The Board noted that all customers had the potential to become vulnerable at some point in their lives. In considering the proposals, the Board challenged how consistency of approach across all books of business could be achieved and demonstrated. It also sought to understand how vulnerability was captured at the earliest stages of customer interaction. **Maintaining a reputation for high standards of business conduct** The Board discussed the need for the customer strategy to align to the principles being set out in the FCA's Consumer Duty plans. The Board noted how the proposed vulnerable customer strategy was designed to go beyond simply meeting FCA requirements or solving a current problem for customers. Rather the ambition was for Phoenix to become market leading in how it supports and proactively responds to customer vulnerability.
OUTCOME	Following due consideration of the matters set out in section 172, the Board approved: - the strawman Group wide customer strategy and approach; - the proposed strategy by which vulnerable Phoenix customers could be identified and supported.
KEY BOARD DECISION	**Longevity Swap**
STRATEGIC IMPORTANCE **Optimising our in-force business**	CONSIDERATION OF S172 MATTERS The Board considered the entering into a longevity swap as part of an interest rate / inflation hedging strategy to support the removal of longevity risk. **Likely consequences of any decisions in the long term** The Board acknowledged the use of longevity swaps as a useful contingent action to be taken and the experience of such actions and their associated impact on other companies within the Group. The Board noted that this action supported the intention to reduce the higher amount of retained longevity risk relative to those companies and would continue to protect the solvency position and value of the Company.
OUTCOME	Following due consideration of the matters set out in section 172, the Board approved the decision to pursue the longevity swap activity and to protect the solvency position. The longevity swap took place in February 2023.
KEY BOARD DECISION	**Contingent Loan Agreement with PGHP**
STRATEGIC IMPORTANCE **Optimising our in-force business**	CONSIDERATION OF S172 MATTERS In order to enable the Company to more effectively manage market risk, the Board was asked to consider the approval of a contingent loan from its ultimate parent, PGHP and a loan from the Company to PGHP with fixed, rather than contingent, repayments. **Likely consequences of any decisions in the long term** In considering the proposal, the Board noted that the contingent loan provided a benefit under the Transitional Measure on Technical Provisions ("TMTP") and that without it, TMTP would reduce the Solvency II Financial Resources Requirement ("FRR") to that required under Solvency I Pillar 1, which was a more onerous position. Further, the proposed action would realign solvency market risk to an economic basis in line with Group hedging policy, with interest rate, credit spread, equity and currency risk all reduced. The Board also reviewed the implications of the proposal on tax, accounting and Solvency II treatment and liquidity, as well as on the Company's dividend. It also noted how the Company would be protected in the unlikely event that PGHP should default on the loan from the Company to PGHP. **Maintaining a reputation for high standards of business conduct** As part of its considerations, the Board received the outputs of a Line 2 review of the emerging risk issues relating to the proposal. As a consequence of its review, Line 2

	were supportive of the proposal going ahead, subject to the risks identified being addressed and closure of a small number of outstanding matters. The Board also received independent legal opinion as to the alignment of the proposal to regulatory requirements, noting that there was a level of precedence for such arrangements to be in place. **Fostering business relationships with suppliers, customers and others** The Board discussed the relationship with the regulator and being able to answer any queries and address concerns it might have about the proposal. It also noted that the PRA had been engaged early in the process in relation to the contingent loan element of the proposal.
OUTCOME	Following due consideration of the matters set out in section 172, in particular in relation to the long term success of the Company, the Board approved the proposal to implement both loan structures as set out in the paper and to approach the regulator to discuss the position and proposals. The loan agreements were implemented later that month.

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.

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

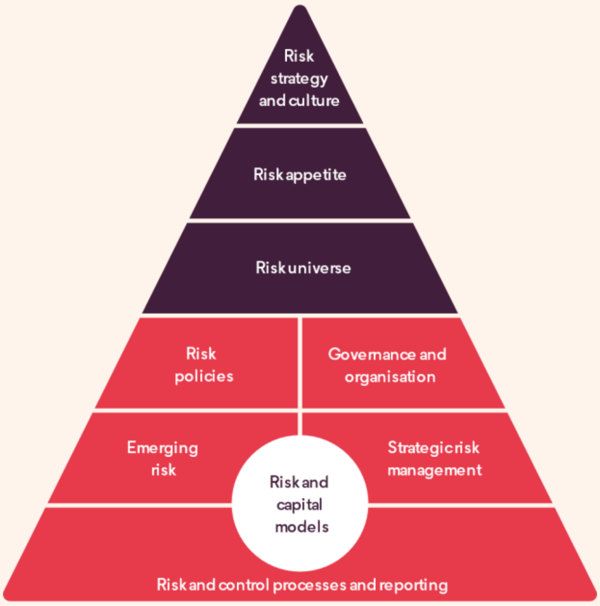
Business relationships with Partners/Suppliers
The Service Companies within the Group are the principal leads on maintaining relationships with suppliers with respect to their contractual obligations. In accordance with the PRA's Supervisory Statement 'SS/21', the Company's Board, as part of the collective Life Companies' Board, has oversight of the relationship with outsourced service providers ('OSPs') with respect to their delivery of services to customers. The Life Companies' Board's schedule of matters reserved includes the responsibility for monitoring the performance of management service provider contracts (including services contracted with OSPs).

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.

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's RMF is aligned to the principles and guidance in ISO 31000 Risk Management standards.

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



Risk Environment

The overall risk environment remains uncertain and is dominated by ongoing inflationary pressures, with implications for economic stability and the welfare of the Company's customers and colleagues.

The cost of living crisis and sustained high inflation is impacting the lives of the Company's customers, particularly those that are most vulnerable. Increased taxes and reduced public spending announced in the Autumn Budget are likely to exacerbate these impacts. The Company remains focused on finding ways to support its customers and has also introduced a number of initiatives to support colleagues. Central Banks face a challenging balancing act to control inflation whilst managing the risk of global recession. The Group's Stress and Scenario Testing programme continues to consider a range of adverse circumstances to help the Group and its Life Companies determine any actions needed to respond to economic pressures.

Geopolitical risk remains prominent, including the effects arising from the ongoing conflict in Ukraine as well as post-Brexit factors. The Group continues to monitor developments across the political environment.

The regulatory change agenda continues to have potentially significant implications for the Company and the Group achieving its strategic priorities. The Group is supportive of the Solvency II Reforms, but requires detail on the final rules to determine the implications for the Company's strategic asset allocation. Progressing key tasks on the implementation plan for the FCA's new Consumer Duty is another key area of focus in order to demonstrate the Group and Company's priority of helping customers achieve a life of possibilities.

The Group is working to implement the requirements of IFRS17. Whilst plans are in place to deliver the required disclosures in the interim accounts, there remain significant delivery risks given the complexity of the business. The Group recognises that should it not deliver IFRS 17 reporting for the HY23 interim accounts, certain reputational, regulatory and other market consequences would arise that could be material. Management has considered the risks to executing the plans and identified actions that could be taken should these risks materialise.

The Group also maintains a significant self-initiated change agenda which is relevant to the Company in order to deliver on its strategic priorities. In 2022 a number of enhancements were made to the Group's Change Management Framework, applicable to the Company including to the prioritisation and scheduling of change, and strengthened controls around change delivery.

Principal risks and uncertainties

From the perspective of the Company, its principal risks and uncertainties are integrated with the principal risks of the Group. Twelve of the thirteen Group principal risks are relevant to the Company and are outlined in the sections that follow.

During 2021, 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: Financial Soundness; Market; Insurance; Credit; Customer; Operational; and Strategic. Sources of these risks, and an explanation of actions taken to manage risk exposures during the year, are outlined in more detail in note 36 of the financial statements.

The principal risk exposures for the Company relate to the non-profit business and reflect the wide range of products in the funds. The Company is particularly exposed to insurance risk and a number of financial risks arising from its underlying assets and liabilities, including movements in financial markets, changes in interest rates, widening of credit spreads and the risk of corporate defaults.

The WP funds are all strong financially (i.e. the assets within the funds are sufficient for meeting its liabilities and capital requirements without requiring capital support from the Company) and the risks, such as annuitant longevity and meeting policyholder guarantees, are unlikely to have a material adverse impact on the owners. De-risking strategies are in place such as investment strategies matching liabilities with fixed and variable rate income securities to mitigate risks associated with guarantees and with the purchase of derivatives to mitigate risks of guaranteed annuity options. Selective reinsurance arrangements may be used to mitigate mortality, morbidity and longevity risk.

The Company closely manages the risk of failure to maintain sufficient capital to provide appropriate security for policyholders and meet all regulatory capital requirements mandated by the Solvency II Directive and the PRA. The Capital Management Framework is detailed in note 35.

<u>Market risk</u>

1. **Adverse market movements can impact the Group, and the Company's, ability to meet its cash flow targets, along with the potential to negatively impact customer sentiment**

Impact	Mitigation	Events in the year
The Company and its customers are exposed to the implications of adverse market movements. This can impact the Company's capital, solvency and liquidity position, fees earned on assets held, the certainty and timing of future cash flows and long-term investment performance for shareholders and customers. There are a number of drivers for market movements including government and central bank policies, geopolitical events, market sentiment, sector specific sentiment, global pandemics and financial risks of climate change, including risks from the transition to a low carbon economy.	The Company undertakes regular monitoring activities in relation to market risk exposure, including limits in each asset class, cash flow forecasting and stress and scenario testing. The Company continues to implement de-risking strategies and control enhancements to mitigate unwanted customer and shareholder outcomes from certain market movements such as equities, interest rates, inflation and foreign currencies. The Group maintains cash buffers in its holding companies and has access to a credit facility to reduce reliance on emerging cash flows.	There remains significant uncertainty around the economic recovery from COVID-19, geopolitical tensions and interest rates. The global macro-economic environment remains highly uncertain, as it has throughout 2022. The Ukraine conflict and rapid increase in inflation have increased market volatility throughout 2022, with recession expected throughout Europe and possibly the wider world. The longer-term impacts of the conflict have affected the cost and availability of food and vital commodities such as oil and gas, driving inflationary pressures. Inflation is considered a material short to medium-term risk. Pressures continue and the UK Consumer Price Index hit 11.1% in October 2022, ending the year at 10.5%, before retreating slightly to 10.1% in January 2023. Bank of England base rate has increased from 0.1% at December 2021 to 4% in February 2023, with rate rises expected during 2023. Higher interest rates, coupled with cost of living rises, are likely to

		suppress property prices over the coming year. The UK mini-budget added further pressure to yield rises, squeezing liquidity throughout the long-term savings sector. The tax increases and government spending cuts announced in the Chancellor's Autumn statement helped to stabilise markets but have the potential to worsen customer sentiment, which may deepen the expected recession in the UK and affect the ability of households to save. The Group, including the Company, continues to monitor and manage its market risk exposures, including to interest rates and inflation, and to markets affected by the conflict in Ukraine. The Company's strategy continues to involve hedging the major market risks and in 2022 the Group's Stress and Scenario Testing Programme continued to demonstrate the resilience of its Solvency II balance sheet to market stresses. Contingency actions remain available to help manage the Company's capital and liquidity position in the event of unanticipated market movements such as those following the mini-budget.

Credit Risk

2. **The Group, including the Company, is exposed to the risk of downgrade and/or failure of a significant counterparty**

Impact	**Mitigation**	**Events in the year**
The Company is exposed to the risk of downgrades and deterioration in the creditworthiness or default of investment, derivatives or banking counterparties. This could cause immediate financial loss or a reduction in future profits. The Company is also exposed to trading counterparties, such as reinsurers or service providers failing to meet all or part of their obligations. This would negatively impact the Company's operations which may in turn have adverse effects on customer relationships and may lead to financial loss.	The Company regularly monitors its counterparty exposures and has specific limits relating to individual counterparties (with sub-limits for each credit risk exposure), sector concentration and geography. The Company undertakes regular stress and scenario testing of the credit portfolio. Where possible, exposures are diversified through the use of a range of counterparty providers. All material reinsurance and derivative positions are appropriately collateralised. The Company regularly discusses market outlook with its asset managers in addition to oversight provided by Group Risk. For mitigation of risks associated with stock-lending, additional protection is provided through collateral and indemnity insurance.	Over 2022 the Company, has continued to undertake actions to increase the overall credit quality of its portfolio and mitigate the impact on risk capital of future downgrades. Furthermore, the Group and the Company has enhanced its counterparty concentration limits framework to better manage counterparty failure risk. This positive progress and the easing of the economic and social impacts of COVID-19, are balanced by risks arising from the Ukraine conflict and UK Government policy. Uncertainties over the global economic outlook and high inflation present an increased risk of downgrades and defaults. In addition, a UK sovereign downgrade which is now more probable would have a negative impact on UK related assets including Gilts, Housing Associations and Local Authority Loans. The Company has no direct shareholder credit exposure to Russia or Ukraine and no exposure to sanctioned entities.

Insurance risk

3. The Group, including the Company, may be exposed to adverse demographic experience which is out of line with expectations

Impact	Mitigation	Events in the year
The Company has guaranteed liabilities, annuities and other policies that are sensitive to future longevity, persistency and mortality rates. For example, if annuity policyholders live for longer than expected, then the Company will need to pay their benefits for longer. The amount of additional capital required to meet additional liabilities could have a material adverse impact on the Company's ability to meet its cash flow targets.	The Company undertakes regular reviews of experience and annuitant survival checks to identify any trends or variances in assumptions. The Company regularly reviews assumptions to reflect the continued trend of reductions in future mortality improvements. The Company continues to manage its longevity risk exposures, which includes the use of longevity swaps and reinsurance contracts to maintain this risk within appetite. The Company actively monitors persistency risk metrics and exposures against appetite. Where required, the Company continues to take capital management actions to mitigate adverse demographic experience.	Demographic experience and the latest views on future trends continue to be considered in regular assumption reviews although, for most products, experience over the COVID-19 pandemic has still been given little weight given its anomalous nature. The Company is actively monitoring customer behaviour as a result of the cost of living crisis; this includes the impacts that any change in behaviour could have on demographic assumptions. As noted elsewhere in this section, work is underway to ensure support is provided to customers as the impacts from the cost of living crisis continue to materialise.

Customer Risk

4. The Group, including the Company, fails to deliver fair outcomes for its customers or fails to deliver propositions that continue to meet the evolving needs of customers

Impact	Mitigation	Events in the year
The Company is exposed to the risk that it fails to deliver fair outcomes for its customers, leading to adverse customer experience and potential customer detriment. This could also lead to reputational damage for the Company and/or financial losses. In addition a failure to deliver propositions that meet the evolving needs of customers may result in the Company's failure to deliver its purpose of helping people secure a life of possibilities.	The Group's Conduct Risk Appetite, applicable to the Company, sets the boundaries within which the Group expects customer outcomes to be managed. The Group Conduct Risk Strategy, which overarches the Risk Universe and all risk policies, is designed to detect where the Group and the Company's customers are at risk of poor outcomes, minimise conduct risks, and respond with timely and appropriate mitigating actions. The Group, including the Company, has a suite of customer policies which set out key customer risks and controls in place to mitigate them.	The Group, including the Company, is preparing for the introduction of the FCA's Consumer Duty requirements which set higher and clearer standards of consumer protection across financial services and require firms to prioritise their customers' needs. The Consumer Duty initial implementation plan has been agreed by the Group. The Company is monitoring the impacts of the cost of living crisis on its customers, using customer behaviour research and analysis, to ensure that it provides them with the support and help that they need during this period of economic uncertainty. The Company continues to provide support to customers both when paying out on their protection plans and when making decisions about their life savings. Proactive action to support customers, including those most vulnerable, is a priority.

	The Company maintains a strong and open relationship with the FCA and other regulators, particularly on matters involving customer outcomes. The Company's Proposition Development Process ensures consideration of customer needs and conduct risk when developing propositions.	

<u>Operational Risk - Regulatory, legislative or political</u>

5. The Group, including the Company, is impacted by significant changes in the regulatory, legislative or political environment

Impact	Mitigation	Events in the year
Changes in regulation could lead to non-compliance with new requirements that could impact the quality of its customer outcomes, lead to regulatory sanction, impact financial performance or cause reputational damage. These could require changes to working practices and have an adverse impact on resources and financial performance. Political uncertainty or changes in the government could see changes in policy that could impact the industry in which we operate.	The Company undertakes proactive horizon scanning to understand potential changes to the regulatory and legislative landscape. This allows the Company to understand the potential impact of these changes to amend working practices to meet the new requirements by the deadline.	The volatile political environment following the UK Government's 'mini-budget' has stabilised with the election of Rishi Sunak as Prime Minister, but concerns remain due to the economic headwinds facing the new administration and the implications for the Company's customer base, including the cost of living, energy crisis and the potential increase in vulnerability. In November 2022, HM Treasury issued a consultation response that confirmed the UK Government's intended Solvency II reforms. The Group supports the PRA and HM Treasury's objectives to reform the regulations to better suit the UK market whilst maintaining the right safeguards for policyholders. These regulations are an important component of the changes needed to the wider UK investment landscape which will enable the Group to meet its ambition to invest more in the future. However, uncertainty remains over when the reforms will be implemented and the quantitative impacts will depend on the exact detail of the final legislation. The Group will therefore remain actively involved in industry lobbying on Solvency II. The FCA's proposed new Consumer Duty's objectives are to deliver a higher and more consistent level of consumer protection and for the industry to do more to foresee and prevent harm before it happens. In July 2022 the FCA published final rules and guidance, the impact of which the Group has assessed. As part of the Company's implementation plan, key priorities have been identified that must be addressed to ensure compliance with the Consumer Duty requirements within the relevant timescales.

		This plan has been approved by the Board and shared with the FCA. IFRS17 aims to standardise insurance accounting across the industry. Compliance with IFRS17 is a significant undertaking and a complex programme of work to deliver the Group's 2023 interim report is ongoing and reliant on the successful completion of significant workstreams across the Group. The Group expects to continue its finance transformation programme beyond delivery of the 2023 interim report to further streamline and automate IFRS17 processes to support efficient financial reporting in future. Further details on IFRS17 can be found in note 3.

Operational Risk – Diverse and engaged workforce

6. **The Group, including the Company, fails to retain or attract a diverse and engaged workforce with the skills needed to deliver its strategy**

Impact	**Mitigation**	**Events in the year**
Delivery of the Company's strategy is dependent on a talented, diverse and engaged workforce. This risk is inherent in the Company's business model given the nature of acquisition activity and specialist skillsets. Potential areas of uncertainty include: the ongoing transition of the Company into the Group and the introduction of the flexible working model. Periods of prolonged uncertainty can result in a loss of critical corporate knowledge, unplanned departures of key individuals or the failure to attract and retain individuals with the appropriate skills to help deliver our strategy. This could ultimately impact the Company's operational capability, its customer relationship and financial performance.	The Group aims to attract and retain colleagues, building a sense of belonging by providing timely communications to colleagues aim to provide clarity around corporate activities, including details of key milestones to deliver against our plans. The Company regularly benchmarks terms and conditions against the market. and maintains dynamic succession plans for key individuals, ensuring successors bring appropriate diversity of thought, capability and experience. Every six months, the Group's CEO and HR Director meet with the Executive Committee to discuss talent, succession and diversity. Monthly colleague surveys help to improve engagement whilst promoting continuous listening and rapid identification of concerns and actions. The Company continues to actively manage operational capacity required to deliver the Company's strategy with ongoing focus on senior bandwidth, attrition and sickness.	Strong engagement scores in colleague surveys have continued in 2022, although there remains uncertainty regarding the longer term impacts of the pandemic and cost of living crisis on colleague attrition, sickness, motivation and engagement. Skills essential to the Company continue to be in high-demand in the wider marketplace and recruitment and retention still has the potential to be impacted by post-Brexit, COVID-19 and inflationary factors. The Company monitors this closely but continues to remain confident in the attractiveness of its colleague proposition. The Group, and the Company, continue to successfully operate a flexible working model, with strategic investments in technology and other resources maximising its effectiveness. The model focuses on empowerment by enabling leaders and colleagues to agree working arrangements which meet individual, team and business needs. The increased scale and presence of the Group, and success in multi-site and remote working, gives greater access to a larger talent pool to attract in the future. The Group recently announced the plan to migrate the Company's customers from the ALPHA platform to TCS BaNCS which will impact colleagues in ReAssure Operations teams. The Group is working with TCS to finalise the detail of changes proposed, and - at an appropriate time - will enter consultation with impacted employees. The

	Flexible working offers colleagues greater flexibility in their working practices. The Company looks to proactively respond to external social, economic and marketplace events that impact colleagues.	Group will look to ensure that redundancies are kept to a minimum wherever possible, for example through redeployment opportunities and natural attrition.

Operational Risk – Operational Resilience

7. The Group, including the Company, or its outsourcers are not sufficiently operationally resilient

Impact	**Mitigation**	**Events in the year**
The Company is exposed to the risk of causing intolerable levels of disruption to its customers and stakeholders if it cannot maintain the provision of important business services when faced with a major operational disruption to core IT systems and operations. This could occur either within the Company or those of its primary and downstream outsourcers and include a range of environmental and climatic factors. The Company regularly conducts customer migrations as part of transition activities in delivering against its strategic objectives. In doing so, it faces the risk of interruption to its customer services, which may result in the failure to deliver expected customer outcomes. Regulatory requirements for operational resilience, and a timetable to achieve full compliance, were published in March 2021. Whilst the specific requirement to work within set impact tolerances takes effect in March 2025, the Group and the Company is exposed to regulatory censure now in the event of operational disruption should the Regulator determine that the cause was a breach of existing regulation.	The Group's Operational Resilience Framework, which applies to the company, enhances the protection of our customers and stakeholders, preventing intolerable harm and supports compliance with the regulations. The Company works closely with its outsourcers to ensure that the level of resilience delivered is aligned to the Company's impact tolerances. The Company and its outsourcers have well established business continuity management and disaster recovery frameworks that are subject to an annual refresh and regular testing. For example, extensive testing of the power capabilities of the Company and its critical suppliers has shown they are resilient to power cuts from the National Grid. The Company continues to actively manage operational capacity and monitor service continuity required to deliver its strategy, including transition activities. Rigorous planning and stress testing is in place to identify and develop pre-emptive management strategies should services be impacted as a result of customer migrations. The Company and its outsourcer's have a flexible working model in place. This significantly reduces exposure to intolerable disruption for its customers.	The Company's Group change agenda requires effective completion to deliver planned strengthening of its operational resilience both internally and with some outsourced service providers. The Group, including the Company, has a programme of work to strengthen operational resilience ahead of the next key regulatory deadline of March 2025. Where this is dependent upon customer migration to an alternative administration platform, the risk of late delivery is actively managed by both the relevant change programme and separate operational resilience remediation governance and reporting. As noted in the Company's 2021 financial statements, whilst many potential exposures to COVID-19 can now be effectively mitigated, a large-scale loss of colleagues due to illness or incapacity, in the UK or globally, is more challenging to resolve in the short-term as there remains uncertainty around the efficacy of vaccines against future COVID-19 variants.

Operational Risk – Cyber Resilience

8. The Group, including the Company, or its Supply Chain are not sufficiently Cyber resilient

Impact	Mitigation	Events in the year
As the Group continues to grow in size and profile this could lead to increased interest from cyber criminals and a greater risk of cyber-attack which could have significant impact on customer outcomes, strategic objectives, regulatory obligations and Group or the Company's reputation and brand. Based on external events and trends, the threat posed by a cyber security breach remains high and the complexity of the Group's increasingly interconnected digital ecosystem exposes the Group and the Company to multiple attack vectors. These include phishing and business email compromise, hacking, data breach and supply chain compromise. Increased use of online functionality to meet customer preferences and flexible ways of working, including remote access to business systems, adds additional challenges to cyber resilience and could impact service provision and customer security.	The Company is continually strengthening its cyber security controls, attack detection and response processes, identifying weaknesses through ongoing assessment and review. The Information/Cyber Security Strategy includes a continuous Improvement Programme, which is driven by input from the Annual Cyber Risk Assessment and external threat intelligence sources. The Company continues to consolidate its cyber security tools and capabilities. The specialist Information Security & Cyber Risk team in Group Risk provides independent oversight and challenge of information security controls; identifying trends, internal and external threats and advising on appropriate mitigation solutions. The Company continues to enhance and strengthen its outsources service provider and third party oversight and assurance process. Regular Board, Executive, Risk and Audit Committee engagement occurs within the Group.	The ongoing conflict in Ukraine has resulted in increased cyber threat levels and the increased likelihood of a cyber-attack from a State actor; this would most likely be against the UK's Critical National Infrastructure, particularly on supply chains and the wider Financial Services industry which the Company relies upon. The Group, including the Company, has improved its Threat Intelligence capabilities in 2022 and monitors National Cyber Security Centre guidance and other threat intelligence sources on a daily basis. To date, the Group and the Company has not seen a material increase in cyber-attacks since the conflict started. The Group's cyber controls are designed and maintained to repel the full range of the cyber-attack scenarios; although the Group's 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. Having strengthened and consolidated its cyber controls, including in areas such as Vulnerability and Patch Management, Detect and Respond and infrastructure scanning capabilities in the first half of 2022, the main improvement in the second half has been on strengthening the Supply Chain Security Oversight and Assurance framework. New Cyber Bandings, Processes and Controls have been implemented and will continue to be embedded and matured in 2023.

Strategic risk – Strategic Partnerships

9. The Group, and Company's, Strategic Partnerships fail to deliver the expected benefits

Impact	Mitigation	Events in the year
The Company's strategic partnerships are a core enabler for delivery of the Company's strategy; they allow the Company to meet the needs of our customers and clients and deliver value for shareholders. The Group's end state operating model will leverage the strengths of strategic partners whilst retaining in-house key skills	The Group has in place established engagement processes with abrdn plc to oversee and develop the strategic partnership. These processes reflect the simplified and extended strategic partnership between the Group and abrdn plc that was announced in February 2021. The Company has in place established processes to oversee services provided by HSBC, abrdn	To extend the Group's long-standing partnership with Tata Consultancy Service (TCS), the Group recently announced that the Company will be migrating all of its policies from its Alpha platform to the BaNCS platform provided by TCS Diligenta by 2026. Consolidating all policies on TCS BaNCS will allow the business to benefit from TCS's significant ongoing investment in the platform with Phoenix customers benefiting from the clear digital focus, consistent

which differentiate us from the market. However, there is a risk that the Group and the Company's strategic partnerships do not deliver the expected benefits leading to adverse impacts on customer outcomes, strategic objectives, regulatory obligations and the Group's reputation and brand. Some of the key strategic partnerships include: **abrdn plc:** Provides investment management services to the Group and the Company including the development of investment solutions for customers. **HCL:** Performs policy administration for ex-Barclays Life business. **HSBC:** Provides fund accounting services to the Company.	and HCL in line with its supplier management model. .	customer journeys and customer proposition provided by one platform. Activity involving Strategic Partnerships continues to assessed in line with the Supplier Management Model. The Group takes steps to monitor its supplier concentration risks and has rehearsed contingent management actions to deploy should there be a significant failure of a strategic partner.

Strategic Risk – Acquisitions & Transitions

10. The Group fails to make further value adding acquisitions or effectively transition acquired businesses. [Note: the Company may be impacted in the event of an acquisition due to its involvement in the transition of acquired businesses]

Impact	Mitigation	Events in the year
The transition of acquired businesses into the Group, including customer migrations, could introduce structural or operational challenges that, without sufficient controls, could result in the Group, and the Company, failing to deliver the expected outcomes for customers or value for shareholders.	Integration plans are developed and resourced with appropriately skilled staff to ensure target operating models are delivered in line with expectations. The Group's priority at all times is on delivering for its customers. Customer migrations are planned thoroughly with robust execution controls in place. Lessons learned from previous migrations are applied to future activity to continuously strengthen our processes.	The integration of the Company into Group frameworks is continuing as planned, with the integration of key functions, such as Finance and Actuarial, progressing well. In August 2022 the Group announced the acquisition of Sun Life of Canada UK, a closed book UK life insurance company, from Sun Life Assurance Company of Canada. The acquisition is subject to regulatory approvals and is expected to complete in Q1 2023. Sun Life of Canada UK operates a predominantly outsourced business model with the majority of its policy administration already undertaken by the Group's strategic outsourcing partner (TCS Diligenta), which supports a simplified operational integration programme.

Strategic Risk – Climate Change/ESG

11. The Group, including the Company, fails to appropriately prepare for and manage the effects arising from Climate Change and wider ESG risks

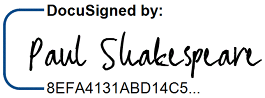
Impact	Mitigation	Events in the year
The Company is exposed to the risk of failing to respond to Environmental, Social and Governance ('ESG') risks and delivering on its social purpose; for example, failing to meet its sustainability commitments. A failure to deliver could result in adverse customer outcomes, reduced colleague engagement, reduced proposition attractiveness and reputational risks. The Company is exposed to market risk and credit risk related to climate change as a result of the potential implications of a transition to a low carbon economy. A failure to manage these risks could results in a loss in the value of policyholder and shareholder assets. In addition, there are long-term market, credit, insurance, reputational, propositional and operational implications of physical risks resulting from climate change (e.g. the impact of physical risks on the prospects of current and future investment holdings, along with potential impacts on future actuarial assumptions).	Sustainability risk and Climate risk are both embedded into the Group's RMF. Its approach to climate risk management is in line with the requirements of the PRA's Supervisory Statement 3/19 (SS3/19). The Group publishes an annual Sustainability Report and an annual Climate Report, the latter of which is prepared in line with the Task Force on Climate-related Financial Disclosures ('TCFD') guidance. A Sustainability Risk Policy is in place and updated annually. Consideration of material climate-related risks has been embedded into the Group risk policies (which the Company adopts), with regular reporting undertaken to ensure ongoing visibility of its exposure to these risks. The Group undertakes annual climate-related stress and scenario testing and continues to build its climate scenario modelling capabilities. The Group continues to evolve its sustainability strategy response to the changing needs of stakeholders and sets targets to monitor progress towards its sustainability commitments. Further details on the sustainability strategy are available in the Group's Sustainability Report. The Group continues to actively engage with regulators, suppliers and asset managers on progress with all climate change and sustainability-related deliverables.	The Group is committed to a 50% reduction in the carbon economic emissions intensity of all assets within its investment portfolio over which it has control and influence by 2030. The Group is also committed to a 25% reduction in the carbon economic emissions intensity of all listed equity and credit investments over which it has control and influence by 2025. The Group has been working with its key partners and suppliers to encourage them to adopt Science Based Targets initiative carbon reduction targets. A Net-Zero Transition Plan, which reflects potential future management actions and forward-looking investee company emission objectives, is in development. Round 2 of the Climate Biennial Exploratory Scenario exercise, launched by Bank of England, was completed during the year on a consolidated Group basis, including the Company. This explored the strategic responses to the three scenarios and the associated implications for business models. The Group is in the process of piloting the Task Force on Nature-related Financial Disclosures guidance ahead of the launch of the framework in 2023. The TCFD disclosures in the Group's Climate Report provide an overview of how it is compliant with SS3/19 and its planned future priorities across each of the TCFD focus areas.

Strategic Risk – Capacity & Capability to Deliver Change

12. The Group, including the Company, does not have sufficient capacity and capability to fully deliver its significant change agenda which is required to execute its strategic objectives

Impact	Mitigation	Events in the year
The Company's ability to deliver change on time and within budget could be adversely impacted by insufficient resource and capabilities as well as inefficient prioritisation, scheduling and oversight of projects. The risk could materialise both within the Company and its strategic partners. This could result in the benefits of change not being realised by the Company in the timeframe assumed in its business plans and may result in the Group being unable to deliver its strategic objectives. Poor change delivery could affect the Company's ability to operate its core processes in a controlled and timely manner.	The Group's Change Management Framework defines a clear set of prioritisation criteria and scheduling principles for new projects. This is to support the safe and controlled mobilisation of new change in line with capacity and risk appetite and to strengthen business readiness processes to deliver change safely into the operational environment. Information setting out the current and forecast levels of resource supply and demand continues to be provided to accountable senior management to enable informed decision-making to take place. This aims to ensure that all material risks to project delivery are appropriately identified, assessed, managed, monitored and reported.	The Group and the Company will continue to manage a significant volume of change, consistent with 2022. The Group has strengthened its Change Management Framework (applicable to the Company) during 2022, with details of the Framework set out in the mitigation column. In September 2022 the Group appointed Jackie Noakes as Group Chief Transformation Officer and subsequently as Group Chief Operating Officer. These changes will drive further enhancements to evolve and mature the Group's change operating model.

On behalf of the Board



P Shakespeare
For and on behalf of Pearl Group Secretariat Services Limited
Company Secretary
17 March 2023

Directors' report

The Company is incorporated in England. Its registration number is 00754167 and its registered office is Windsor House, Telford Centre, Telford, Shropshire, TF3 4NB.

Corporate governance

The corporate governance guidelines followed are the PRA's twelve aspects of governance for PRA-regulated firms as noted in their Supervisory Statement SS5/16.

In 2016, the PRA set out principles as to how a 'PRA-regulated firm' such as the Company should govern itself when it is not a listed company and is, therefore, not caught within the remit of the UK Corporate Governance Code (the "Code").

Within the guidelines, PRA-regulated firms are expected to focus on twelve aspects of governance, many of which echo the framework provided by the Code. These twelve aspects of governance, whilst not being as formal as following the Code (which is applied by the Company's ultimate parent, Phoenix Group Holdings plc), provide the Company with a framework which ensures the ability for the Board to adhere to and demonstrate compliance with all twelve aspects of governance as noted below.

This framework is assessed, reviewed and challenged by the Board on at least an annual basis with evidence focusing on the following points. For the avoidance of doubt, there have been no departures from these aspects of governance through the year:

Aspect of Governance	Demonstrated by
Setting Strategy	As noted in the Directors' duties section of the Strategic report which provides an overview of how the directors have regard for their duty in respect of consequences of decisions in the long-term, an annual strategy day is held each June for the Board to debate and challenge the strategy for the Company and input to the overall Group strategy debate. A more refined view, developed into an Annual Operating Plan, is created for review and sign off at the end of each year which maps out the ongoing strategic direction for the following 12 months and up to 5 years thereafter. Board agendas are prepared so as to ensure that the more strategic items have sufficient time for review and challenge. Key matters discussed and challenged at the Board during the year were: the Group's Sustainability Strategy; acquisition of a closed book of business; and approval of the strategy for and management of vulnerable customers.
Culture of risk awareness and ethical behaviour	On an annual basis, the Board approves a series of risk appetite statements for articulation throughout the Company. The Group Risk Function have created and presented their assessment of Risk Culture within the business during the year to the Risk Committee. The Dashboard considers 15 specific objectives across Purpose, Diversity & Inclusion, Governance & Controls and Leadership with assessments based on a variety of inputs to include colleague surveys and Board / Committee evaluations. In respect of remuneration, the Non-Executive Directors input into the proposed objectives and performance ratings for those individuals within the management team of the Company who are responsible for the day to day running of the business (typically direct reports of the Chief Executive and their direct reports who are also Senior Management Function Holders), as well their respective salary and remuneration packages. This ensures that these objectives promote an effective culture of risk awareness and ethical behaviour. In the same way, the Board was also engaged in the review of any bespoke remuneration plans for business units in advance of their consideration by the Phoenix Group Holdings plc Remuneration Committee.
Risk appetite, risk management and internal controls	As noted above, the risk appetite statements are approved by the Board. Oversight of risks, risk management and internal controls is delegated for oversight by both the Board Audit Committee and Board Risk Committee in line with their Terms of Reference. Both the Head of Internal Audit and Chief Risk Officer have access to the Chairman of the Board and the Audit Committee to raise any concerns directly. In addition, the Chief Risk Officer has direct access to the Chair of the Risk Committee.

	The operation of a three lines of defence model within the Company ensures that there is appropriate oversight, not only from the individual business unit but also from the Risk function providing risk oversight independent of management and the Internal Audit function providing independent verification of the adequacy and effectiveness of the internal controls and risk management processes in operation.
Board composition	In 2022, two new Non-Executive Directors were appointed, with Rosemary Harris and Timothy Harris joining the Board on 1 January 2022 and 1 May 2022 respectively. Non-Executive Director, Stephen Clarke, retired on 1 October 2022. As part of evolving the Group's operating model, Brid Meaney was appointed as a Company Executive Director on 1 January 2022, followed by Bernard Curran on 4 August 2022. Andrew Briggs, Peter Mayes and Rakesh Thakrar were then appointed as Company Executive Directors on 1 October 2022. Matthew Cuhls stood down as a Company Executive Director on 1 March 2022, with Michael Eakins, Andrew Moss and Jonathan Pears also standing down as Company Executive Directors on 1 October 2022. These changes have not had an impact on overall Board composition, which continues to comprise 6 Non-Executive Directors (including the Chairman) and 5 Executive Directors. There is a division of responsibility between the Non-Executive Chairman, who is responsible for the leadership and effective operation of the Board, and the Chief Executive Officer, who is responsible to the Board for the overall management and operation of the Company.
Role of Executive and Non-Executive Directors	All appointment letters and associated role profiles for Non-Executive Directors specify the requirements of the role to include constructive challenge, scrutiny of management information and the integrity of financial information. The 'Matters Reserved' for the Board of the Company specifies those activities for which the Board has retained approval with agendas for each meeting reminding all directors of their responsibilities under Section 172 of the Companies Act 2006. Board meetings, as evidenced through the Board Minutes produced, are an open forum for directors to be robust and challenge the proposals presented. Having a clear organisational structure allows for areas not covered by the Matters Reserved and which fall into the "day to day management" of the Company to be appropriately delegated through a structure of approved Delegations of Authority.
Knowledge and experience of Non-Executive Directors	The experience of the Non-Executive Directors is wide across the life insurance industry and all received a comprehensive induction on the business of the Company. A skills assessment is in place which identifies an individual's area of expertise such as accountancy, with-profits management, risk management, life and pensions and investments. This assessment demonstrates that our Non-Executive Directors have a substantial number of years' experience on the matters close to our Company. During the year, the Board is provided with regular education sessions to support any gaps in knowledge and to promote continuous professional development. During 2022, the Board received deep dives on the following topics: - People – reward - Phoenix Insights - Cyber update - Operational resilience - Group brand - Data Protection - Quality of capital - Solvency II reform - Outsourcers - Financial Wellness - Customer calls - Culture - Illiquidity risk appetite framework - Net Zero Transition Plan - Individual Annuities - Reinsurance - Risk Management Framework (control and risk policy structure)

Board time and resource	The Board met for 10 scheduled Board meetings in 2022 either in person or via video conference and one scheduled Sub-Committee meeting to discuss focused key matters. A further four out of cycle meetings were held to consider a decision to migrate annuity customer records for EEA customers to a newly formed Irish regulated subsidiary, to review the Annual Operating Plan and two of the meetings to consider the acquisition of a closed book business. As well as the Board, a number of Board Committees responsible for overseeing Audit, Risk, Nomination, With-Profits, Investment and Model Governance matters, have also been in operation during the course of the year. Should a Non-Executive Director be considering an additional external commitment, this is reviewed by the Board in advance during which time it is confirmed that the time commitment required will not impact their availability for Company matters.
Management information (MI) and transparency	The Chief Executive presents an update on the Company at least on a quarterly basis which includes a global review of the strategic objectives and associated performance to include Customer Treatment, Customer Complaints, Financial and Operational Capacity MI. The appointment of the Group Chief Executive as Chief Executive of the Company in October 2022 (subject to regulatory approval) has further strengthened the link, through management representation, between the Group and Life Boards.
Succession planning	The performance of the Chief Executive and their direct reports is considered at least annually in private sessions with the Non-Executive Directors during which more informal discussions on succession planning may take place. During 2022 the Board considered succession planning matters in relation to the role of Life Companies Audit Committee Chair. A skills audit exercise was undertaken during the year to support long term succession planning. The Board formally approved an updated version of the Board Succession Plan in December 2022.
Remuneration	Whilst the remuneration of executives is a matter for the Group and, specifically, the Group's Remuneration Committee, the Non-Executive Directors are provided with the information necessary to enable them to oversee the design and operation of the remuneration arrangements linked to the Company's strategic objectives. In addition, the Non-Executive Directors consider and opine on the performance outcomes of the individuals within the management team of the Company who are responsible for the day to day running of the business (typically direct reports of the Chief Executive).
Subsidiary boards	Within the scope of Board updates, there is the flexibility to consider the activities of the Company's subsidiary companies. Since 1 October 2022, the Group Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are executive directors of both the Company and its ultimate parent, Phoenix Group Holdings plc. Conflicts of interest are assessed for each agenda item and, where appropriate, the CEO and CFO are recused from decision making at the meeting.
Board Committees	The terms of reference of the committees of the Boards of the regulated Life Companies document the duties of the committees. Any matter which cannot be properly dealt with by the committee concerned or needs to be escalated is submitted to the Board for consideration. Board Committee terms of reference have been assessed against activity undertaken and amended during the course of the year, as appropriate, to ensure corporate governance arrangements remained aligned to the Group operating model.

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 19 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. Notes 35 and 36 to the financial statements summarise the Company's capital management and risk objectives and policies together with its financial risks.

The Board has followed the UK Financial Reporting Council's "*Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks (April 2016)*" when performing their going concern assessment. To this end, the Board has undertaken a review of solvency, liquidity and cash flow projections under normal and stressed conditions.

Solvency scenarios considered include the best estimate view of future economic developments (base) and a downside scenario. These were applied to 5 year projections, with the downside scenario reflecting the impacts of market disruption in the current financial year and assuming a stress period with a duration of one year from September 2022, followed by projected recovery to 2027. The projections use the below stress calibrations:

- No stress, plus 1-in- 10 sensitivities up/down on UK Swaps- 10 yr
- No stress, plus sensitivities up/down on Euro Swaps- 10 yr
- 15 bps increase in Gilts spread rise
- 50 bps increase in Credit- A rated 15 yr
- Short term spike (2.5%) in RPI inflation- 10 yr
- EUR 5% down vs GBP on Exchange GBP vs Euro
- USD 5% up vs GBP on Exchange GBP vs USD
- Inclusion of UK Sovereign Downgrade
- Further c£4.2bn in Downgrades over 2022/23
- 15% reduction in FTSE 100
- 8% reduction in Residential Property
- 15% reduction in Commercial Property

For the 5 year forecast period to which the downside scenario was applied, at all times the Company is anticipated to maintain sufficient headroom to meet its Capital Management Policy (CMP) buffer.

Stress testing has additionally been carried out against a 1 in 10 all-risks scenario and a 1 in 20 fast-moving market scenario, in accordance with the Company's CMP. The projections demonstrated that excess capital over the CMP would remain in the Company under both scenarios at the scenario low points.

The impact of market volatility in the latter part of the year ended 31 December 2022 and its potential impacts on CMP was considered specifically, with the conclusion reached that the Company's existing CMP calibrations remained robust and appropriate and no amendments were required.

Contingency actions to recover from downside risks are identified in detail, including timescales required, the challenges associated with each action, and the trigger for when each action should be considered.

The Company is anticipated to be able to meet headroom of liquid assets over projected cash flows including internally imposed liquidity buffers under base conditions, and also under a combined 1 in 200 stress scenario, supporting cash generation in the going concern period assessed up to 30 June 2024. Contingency actions can be taken to achieve this if required. Liquidity is considered to be adequate to meet liabilities as they fall due.

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.

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:

A Bowe	
A Briggs	(Appointed 1 October 2022)
S Clarke	(Resigned 1 October 2022)
M Cuhls	(Resigned 1 March 2022)
B Curran	(Appointed 4 August 2022)
M Eakins	(Resigned 1 October 2022)
R Harris	(Appointed 1 January 2022)
T Harris	(Appointed 1 May 2022)
M Hassall	
J Lister	(Chairman)
P Mayes	(Appointed 1 October 2022)
B Meaney	(Appointed 1 January 2022)
A Moss	(Resigned 1 October 2022)
J Pears	(Resigned 1 October 2022)
N Poyntz-Wright	
R Thakrar	(Appointed 1 October 2022)

Secretary

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

Matters disclosed in strategic report

The strategic report covers future developments and any dividends paid.

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

DocuSigned by:
Paul Shakespeare
8EFA4131ABD14C5...

P Shakespeare
For and on behalf of Pearl Group Secretariat Services Limited
Company Secretary
17 March 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. 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 UK adopted international accounting standards 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 UK adopted international accounting standards 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 UK adopted international accounting standards, 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 ReAssure Limited

Opinion

We have audited the financial statements of ReAssure Limited for the year ended 31 December 2022 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cashflows, and the related notes 1 to 41 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 management's going concern assessment process and obtained management's assessment which covers the period to 30 June 2024;
- with support from our actuarial team, we challenged the key actuarial assumptions used in management's five-year Annual Operating Plan ('AOP') and determined that the models are appropriate to enable management to make an assessment on the going concern of the Company. We have observed that assumptions used in the five-year AOP form the basis for management's going concern projections;
- assessing the accuracy of management's analysis by testing the inputs and the clerical accuracy of the liquidity and solvency models used;
- assessed management's consideration of how solvency and liquidity has been managed in response to the current economic environment and evaluating the liquidity and solvency position of the Company by reviewing base case liquidity and solvency projections that incorporate an estimated view of the potential future economic downturn;
- challenging the key assumptions, and plausibility of management actions used in management's stress scenarios based on our understanding of the Company and the available external data;
- evaluating management's forecast analysis to understand how severe the downside scenarios would have to be to result in the elimination of solvency headroom and concluded it to be remote;

- assessed management's considerations of operational risks, including those related to Outsourced Service Providers ('OSPs') and its impact on the going concern assessment;

- performed enquiries of management and those charged with governance to identify risks or events that may impact the Company's ability to continue as a going concern. We also reviewed management's assessment approved by the Board, minutes of meetings of the Board and its committees; and

- assessed the appropriateness of the going concern disclosures by comparing the disclosures with management's assessment and for compliance with the relevant reporting requirements.

Based on management's assessment, we have observed that the Company continues to have surplus cash and solvency above its Solvency Coverage Ratio in a number of extreme downside scenarios and the Company continues to service customers and meet its commitments in the current environment.

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. • Valuation of modelled debt securities
Materiality	• Overall materiality of £24m (2021: £48m) which represents 2% of forecast equity.

An overview of the scope of our audit

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

We instructed:

The Central Investments component team with respect to audit of investment balances and the associated income and expenses.

All other audit work was performed directly by the audit engagement team.

Component	Scope	Auditor
ReAssure Limited (RAL)	Full Scope	Primary team
Central Investments Component Team	Specific Scope	EY component team

Overall, our audit procedures covered 100% of the Company's equity and 100% of the Company's profit before tax.

Involvement of the component team

In establishing our overall approach to the EY component team, we determined the type of work that needed to be undertaken at the component by us, as the primary team.

The primary team provided detailed audit instructions to the component team which included guidance on areas of focus, including the relevant risks of material misstatement detailed above, and set out the information required to be reported to the primary team.

Audit procedures were performed on the full scope component by the primary team whilst the remaining component was audited by the EY component team. We determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Company financial statements as a whole. We followed a programme of planned virtual meetings and maintained oversight of the component team through onsite collaboration and regular meetings. We reviewed the audit procedures performed by the component team on the specific accounts.

The work performed on the component team gave us appropriate evidence for our opinion on the Company financial statements as a whole.

Climate change

Stakeholders are increasingly interested in how climate change will impact the Company. The Company has determined that the most significant future impacts from climate change on its operations is in the principal risks and uncertainties section of the strategic report. This forms part of the "Other information" rather than the audited financial statements. Our procedures on these unaudited 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, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the Company's business and any consequential material impact on its financial statements.

As explained in the accounting policies note on page 45, management have assessed climate change risks as having limited effect on accounting judgments and estimates for the current period. The accounting policies 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 and investment contract liabilities and intangible assets.

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 outcome 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 the impact of climate change on the financial statements was focused on evaluating 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 accounting policies note to explain their rationale.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

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 (£21.7bn; 2021: £28.8bn)

Refer to the Accounting policies (pages 44 to 52); Critical accounting estimates (pages 44 to 45); and note 28 of the financial statements (pages 80 to 84)

We considered the valuation of insurance contract liabilities to be a significant risk for our audit. 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. We note additionally, there was heightened risk due to i) the recalibration of the Company's prudence margin to align with other Life Companies within the Phoenix Group and ii) the migration of non-profit liabilities to a new actuarial model during the period. Additionally, the valuation process is reliant upon the accuracy and completeness of the policyholder 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. In addition, we assessed management's analysis of movements in insurance contract liabilities and obtained evidence to support large or unexpected movements as this provided important audit evidence over the valuation of insurance contract liabilities.

Risk area	Our response to the risk	Key observations communicated to the Audit Committee
Actuarial assumptions *The Company recalibrated its prudence margin to align with other Life Companies in the Phoenix Group. This had a large financial impact.Together with the current economic environment, this increases the risk of error this 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.	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, including the base and trend longevity, persistency and assured mortality, and tested the underlying data used in 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.

The assumptions that we consider to have the most significant impact are the base and trend longevity, persistency and assured mortality. Given the recent economic volatility we place additional focus on future economic assumptions such as inflation assumptions at the 2022 year-end date.	experience investigations, to assess whether these analyses justified the adopted assumptions; • challenged and assessed management's rationale and timing for recalibrating the prudence margin to align with the other Life Companies in the Phoenix Group; • evaluated management's calculation of the impact of recalibrating the prudence margin to the other Life Companies in the Phoenix Group; • challenged and assessed management's decisions on the inclusion or exclusion of data relating to COVID-19 when setting individual assumptions, including longevity, mortality, morbidity and persistency; • in respect of trend longevity, 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 are consistent with the managed service agreement ('MSA') between the company and RUKSL and all MSA and non MSA costs such as Asset Management charges are properly reflected and charged to the company; • 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 *The migration of the non-profit business to a new actuarial model increases the risk of error this year.* We consider the integrity and appropriateness of models to be critical to the overall valuation of insurance contract liabilities. 95% of insurance contract liabilities are modelled using the core actuarial modelling systems, with the residual balance modelled outside these	To obtain sufficient audit evidence to conclude on core actuarial modelling systems and balances calculated outside these systems, 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 over that process; • challenged and evaluated the methodology, inputs and assumptions applied to model changes made in the core actuarial modelling systems over the year;	We determined that the models used are appropriate, that changes to the models including the model migration were implemented as intended, and that controls over management's processes for modelling insurance contract liabilities using the core actuarial modelling systems were operating effectively. We also determined that liabilities modelled outside these core actuarial

systems to cater for any additional required liabilities not reflected in the models. We consider the key risks to relate to: i) model developments applied to the core actuarial models; ii) liabilities modelled outside the core actuarial modelling systems; and iii) the appropriateness of the core actuarial model. In addition, the migration of the non-profit business to a new actuarial model is considered a key risk area for 2022.	• reviewed the governance process around model changes by review of the relevant committee minutes; • with respect to the migration of non-profit business onto a new core actuarial modeling system, we tested management's process with a focus on both the robustness of the outputs and ensuring that the differences between current and previous models were understood; • 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; and • stratified the components of the balance modelled outside the core actuarial system as at the balance sheet date and focused our testing on those that, in our professional judgment, present a higher risk of material misstatement. As part of the testing, we gained an understanding of the rationale for balances calculated outside of the core actuarial system and assessed the appropriateness of the applied calculation methodology.	modelling systems are reasonable.
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 data used.	To obtain sufficient audit evidence to assess the integrity of policyholder data we performed the following procedures: • obtained an understanding and tested the design and operating effectiveness of the key controls, including information technology general controls, over management's data collection, extraction and validation process; • tested the reconciliation of data between the policy administration system and actuarial models; • focussed our testing on the changes to the data process as a result of the migration of the non-profit business to a new actuarial model; • confirmed that the actuarial data extracted from policy administration systems and those provided by the OSPs were those used as an input to the actuarial model; • assessed the appropriateness of management's grouping of data for input into the actuarial model; • through the use of our data visualisation and analytics techniques, performed focussed substantive testing over the completeness and accuracy of the	We determined based on our audit work that the data used for the actuarial model inputs is materially complete and accurate.

	policyholder data and the appropriateness of management's data cleansing rules; 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 comparing to information in policy documents.	
Valuation of modelled debt securities (£2.5bn; 2021: £2.9bn); *Refer to the Accounting policies (pages 44 to 52 and note 20);* *There has been no change in our assessment of this risk from the prior year.* The extent of judgment applied by management in valuing the Company's financial investments varies with the nature of securities held, the markets in which they are traded and the valuation methodology applied. Observable inputs are not readily available for the valuation of the modelled debt securities, such as private placements, local authority loans, infrastructure loans and commercial real estate loans. Consequently, management use models with other inputs to estimate their value. We consider the key risks related to valuation of modelled debt securities to be: i) the use of complex valuation methodologies as opposed to observable prices; ii) significant judgments involved in setting the spread above risk-free rate; iii) the subjectivity surrounding the selection of the comparable bonds to derive that spread; and iv) the reasonableness of credit ratings considering the ongoing impact of COVID-19.	We use EY valuation specialists to test the valuation of modelled debt securities. To obtain sufficient audit evidence to conclude on the valuation of modelled debt securities, we: • reviewed the ISAE 3402 Service Organisation Controls ('SOC') reports of the OSPs covering the period to 30 September 2022, including those controls over the valuation of modelled debt securities outsourced to the third parties, and determined the impact of any identified control exceptions; • obtained the bridging letter for the period 1 October 2022 to 31 December 2022 to review that the controls over the valuation of modelled debt securities were operating during the period; • inspected evidence of the operation of management's oversight controls over the OSPs; • understood the valuation process of modelled debt securities applied by the OSP and assessed the appropriateness of any methodology and assumption changes during the year, including an impact of the current economic volatility on economic assumptions; • for modelled debt securities overseen by the in-house Independent Pricing Valuation ('IPV') and Credit and Valuation Committee, we have obtained an understanding of the valuation methodology and tested the design and operating effectiveness of the key controls; • engaged EY valuation specialists to evaluate the appropriateness of the valuation methodology, calculate an independent range of comparable values for a sample of modelled debt securities using an independent valuation model and considered reasonable alternative key assumptions based on comparable securities; • validated the accuracy of security related inputs to the valuation of modelled debt securities by tracing a sample of inputs to	Based on our procedures performed on the modelled debt securities, we are satisfied that the valuation of these complex and illiquid assets is reasonable.

Given the recent economic volatility we place additional focus on economic assumptions.	the underlying agreements and documentation; • performed independent calibration on securities by reviewing the implied rate and sector credit spreads to validate the reasonableness of credit ratings used in the comparable values assessment; and • considered the downgrade of credit ratings or changes of spread in management's credit watchlist and known market risks in our independent comparable values assessment.	

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 'planning' materiality for the Company to be £24 million (2021: £48 million), which is 2% (2021: 2%) of forecast equity (2021: average equity). We reassessed the materiality reflecting year-end equity and considered that the planning materiality remained appropriate. As a closed life assurance consolidator, key performance metrics are cash generation, Solvency II capital requirements and Own Funds. As these measures are non-GAAP measures, we consider IFRS equity to be the most appropriate equivalent metric. We consider forecast equity rather than average, to be a more consistent basis following significant dividends paid during the last three years.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% (2021: 50%) of our planning materiality, namely £12m (2021: £24m). We have set performance materiality at this percentage due to the level of corrected and uncorrected misstatements in 2021.

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £1.2m (2021: £2.4m), 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 statement set out on page 26, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the relevant laws and regulations related to elements 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 and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and UK regulatory bodies; reviewed minutes of the Board and Executive Committees; and gained an understanding of the Company's approach to governance, demonstrated by the Board's approval of the Company's governance framework.
- 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 the consistency of operations and controls in place within the Company.

  The fraud risk was considered to be higher within the valuation of insurance contract liabilities and manual non-routine adjustments to revenue. We considered management override risk to be higher in these areas due to the significant judgments and estimates involved.

  Our procedures included:

  - As detailed in the key audit matters above, we reviewed accounting estimates for evidence of management bias. Supported by our actuarial team, we assessed if there were any indicators of management bias in the valuation of insurance contract liabilities.
  - Understood and tested manual non-routine adjustments to revenue. We assessed if there were any evidence of management override.
  - Tested the appropriateness of journal entries recorded in the general ledger, with a focus on manual journals and evaluating the business rationale for significant and/or unusual transactions.

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

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

Other matters we are required to address

- Following the recommendation from the audit committee we were appointed by the Company on 28 July 2020 to audit the financial statements for the year ending 31 December 2020 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is three years, covering the years ended 31 December 2020 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 audit committee.

Use of our report

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

Ernst & Young LLP

Ben Morphet (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham

17 March 2023

Statement of comprehensive income
for the year ended 31 December 2022

	Note	2022 £m	2021 £m
Gross premiums written	28	291	327
Less: premiums ceded to reinsurers	28	(273)	(313)
Net premiums written		18	14
Fees and commissions	4	233	249
Total revenue, net of reinsurance payable		251	263
Net investment (expense)/income	5	(6,798)	3,799
Other operating income		1	-
Net (expense)/income		(6,546)	4,062
Policyholder claims	28	(2,234)	(2,454)
Less: reinsurance recoveries	28	331	344
Change in insurance contract liabilities		7,136	2,638
Change in reinsurers' share of insurance contract liabilities		(480)	(256)
Transfer from/(to) unallocated surplus	30	59	(32)
Net policyholder claims and benefits incurred		4,812	240
Change in investment contract liabilities		2,210	(3,848)
Change in reinsurers' share of investment contract liabilities		(43)	67
Amortisation	12	(52)	(62)
Net reversal of impairment/(impairment) of subsidiary undertaking	15,18	4	(33)
Other operating expenses	6	(257)	(245)
Total operating income/(expenses)		6,674	(3,881)
Profit before finance costs and tax		128	181
Finance costs	9	(8)	(5)
Profit for the year before tax		120	176
Tax credit/(charge) attributable to policyholders' returns	10	281	(29)
Profit before tax attributable to owners		401	147
Tax credit/(charge)	10	202	(64)
Less: tax attributable to policyholders' returns		(281)	29
Tax charge attributable to owners	10	(79)	(35)
Profit for the year attributable to owners		322	112
Other comprehensive income	27	-	1
Total comprehensive income for the year attributable to owners		322	113

Statement of financial position

Statement of financial position - assets
as at 31 December 2022

	Note	As at 31 December 2022 £m	As at 31 December 2021 £m
ASSETS			
Intangible assets	12	413	465
Property, plant and equipment	13	4	4
Investment property	14	1,356	1,693
Subsidiaries held for strategic purposes	15	212	10
Financial assets			
Loans and deposits	16	721	3
Derivatives	17	595	215
Equities	19	18,472	20,927
Debt securities	19	15,816	21,621
Subsidiaries held for investment purposes	18	1,853	2,051
Collective investment schemes	19,20	15,086	17,990
Reinsurers' share of investment contract liabilities	19,20	393	477
		52,936	63,284
Deferred tax assets	22	97	4
Insurance assets			
Reinsurers' share of insurance contract liabilities	28	368	848
Reinsurance receivables		16	16
Insurance contract receivables		93	147
		477	1,011
Current tax receivable	22	145	104
Accrued income	23	53	61
Contract assets	25	133	166
Other receivables	24	927	349
Cash and cash equivalents		313	323
Total assets		57,066	67,474

Statement of financial position – equity and liabilities
as at 31 December 2022

	Note	As at 31 December 2022 £m	As at 31 December 2021 £m
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	26	387	387
Share premium		134	134
Other reserves	27	684	684
Retained earnings		206	534
Total equity		1,411	1,739
Liabilities			
Insurance contract liabilities			
Liabilities under insurance contracts	28	21,691	28,827
Unallocated surplus	30	397	456
		22,088	29,283
Financial liabilities			
Investment contracts	19,20	30,119	34,858
Borrowings	29	961	243
Deposits received from reinsurers		56	85
Derivatives	17	1,504	178
Other financial liabilities	31	105	190
		32,745	35,554
Provisions	32	13	20
Deferred tax liabilities	22	1	183
Reinsurance payables		43	36
Payables related to direct insurance contracts		648	604
Accruals and deferred income		30	35
Other payables	33	86	20
Bank overdraft		1	-
Total liabilities		55.655	65,735
Total equity and liabilities		57,066	67,474

On behalf of the Board

DocuSigned by:
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P Mayes
Director
17 March 2023

Statement of changes in equity

for the year ended 31 December 2022

	Share capital (note 26) £m	Share premium £m	Other reserves (note 27) £m	Retained Earnings £m	Total £m
At 1 January 2022	387	134	684	534	1,739
Profit for the year	-	-	-	322	322
Total comprehensive income for the year	-	-	-	322	322
Dividends paid on ordinary shares (note 11)	-	-	-	(650)	(650)
At 31 December 2022	387	134	684	206	1,411

	Share capital (note 26) £m	Share premium £m	Other reserves (note 27) £m	Retained earnings £m	Total £m
At 1 January 2021	387	134	683	2,044	3,248
Profit for the year	-	-	-	112	112
Other comprehensive income for the year	-	-	1	-	1
Total comprehensive income for the year	-	-	1	112	113
Dividends paid on ordinary shares (note 11)	-	-	-	(1,622)	(1,622)
At 31 December 2021	387	134	684	534	1,739

Of the above, £857m (2021: £1,184m) is considered distributable.

Statement of cash flows

for the year ended 31 December 2022

	Note	2022 £m	2021 £m
Cash flows from operating activities			
Cash generated from operations	34	853	1,446
Taxation (paid)		(29)	(90)
Net cash flows from operating activities		824	1,356
Cash flows from investing activities			
Sale of Ark Life		-	194
Capital repaid by subsidiary		18	-
Capital provided to subsidiary	15	(202)	-
Net cash flows from investing activities		(184)	194
Cash flows from financing activities			
Ordinary share dividends paid	11	(650)	(1,622)
Net cash flows from financing activities		(650)	(1,622)
Net decrease in cash and cash equivalents		(10)	(72)
Cash and cash equivalents at the beginning of the year		323	395
Cash and cash equivalents at the end of the year		313	323

Notes to the financial statements

1. Basis of preparation

The financial statements for the year ended 31 December 2022, set out on pages 38 to 102, were authorised by the Board of Directors for issue on 17 March 2023.

The financial statements have been prepared on a historical cost basis except for investment property, owner occupied property, investments in subsidiaries held for investment purposes, those financial assets and financial liabilities that have been measured at fair value, insurance and reinsurance contract assets and liabilities that are measured based on the present value of future cash flows, and impaired non-financial assets that are measured at the higher of fair value less costs of disposal and value in use.

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

The financial statements are presented in sterling (£) rounded to the nearest £ million 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 financial statements are separate financial statements and the exemption in section 400 of the Companies Act 2006 has been used not to present consolidated financial statements. The results of the Company are consolidated into the accounts of the Company's ultimate parent, Phoenix Group Holdings 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.

Going Concern
The Board has considered financial projections which demonstrate the ability of the Company to withstand market shocks in a range of scenarios, including severe ones.

In assessing the appropriateness of the going concern basis, the Board considered base case and plausible downside liquidity and solvency projections. The downside scenario used reflected the impacts of market disruption in the latter part of the current financial year and applied a stress period which incorporated a UK Sovereign downgrade amongst other appropriate stress calibrations

The projections demonstrated that excess capital would remain in the Company under the downside scenario, supporting cash generation in the going concern period to 30 June 2024, and that liquidity was adequate to meet liabilities as they fell due. Having carried out this assessment, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Further detail is provided within the Directors' report.

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

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.

Financial statement area	Critical accounting estimates and assumptions	Related notes
Insurance and investment contract liabilities	Insurance and investment contract liability accounting is discussed in more detail in accounting policies (p) and (q) with further detail of the key assumptions made in determining insurance and investment 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. Contracts are classified in accordance with the accounting policy (o). The valuation of insurance contract liabilities is sensitive to the assumptions which have been applied in their calculation. Details of sensitivity analysis carried out is set out within note 28.	28
Guarantees and options	The Company is required to estimate the value of future guarantees and options for the with profits contracts. These estimates are subject to uncertainty and may not represent the ultimate amounts paid out to satisfy claims by policyholders (even before allowing for future enhancements to distribute the surplus assets). However, this risk of estimation uncertainty is offset, due to the fact that in all reasonably foreseeable circumstances, any change in the estimates of the value of options and guarantees will result in an offsetting movement in either asset shares or the unallocated distributable surplus. Since the unallocated distributable surplus is presented as a liability, the total liabilities recognised for contracts within the with profits funds is not subject to significant estimation uncertainty. The measurement of investment contracts is mainly comprised of the value of the underlying units and is not subject to significant estimation uncertainty.	28
Fair value of financial assets and liabilities	The fair values of financial assets and liabilities are classified and accounted for as set out in accounting policies (k) and (r) respectively. Where possible, financial assets and liabilities are valued on the basis of listed market prices by reference to quoted market bid prices for assets and offer prices for liabilities, without any deduction for transaction costs. These are categorised as Level 1 financial instruments and do not involve estimates. If prices are not readily determinable, fair value is determined using valuation techniques including pricing models, discounted cash flow techniques or broker quotes. Financial instruments valued where valuation techniques are based on observable market data at the period end are categorised as Level 2 financial instruments. Financial instruments valued where valuation techniques are based on non-observable inputs are categorised as Level 3 financial instruments. Level 2 and Level 3 financial instruments therefore involve the use of estimates and the notes provide further disclosures on fair value hierarchy and assumptions used to determine fair values. In relation to the Level 3 financial instruments, sensitivity analysis is performed in respect of the key assumptions used in the valuation of these financial instruments.	20
Investment in subsidiaries	The Company has two categories of investment in subsidiaries: strategic subsidiaries and investment subsidiaries. Strategic subsidiaries are operating companies which support the Group and the Company's strategic objectives, as well as certain non-trading and dormant companies. Investment subsidiaries are held to generate capital or income growth through holding investments.	15,18

	The accounting for both types of subsidiaries, including determining whether the Company has control over its subsidiaries for investment purposes, is discussed in more detail in accounting policy j). Where a subsidiary is classed as a subsidiary for investment purposes it is subject to fair value accounting and the factors set out in the critical estimate above.	
Uncertain tax positions	IFRIC 23 clarifies the accounting for uncertainties in income taxes under IAS12. The interpretation is applied to the determination of taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates. The Company has a number of on-going matters with HMRC which are reviewed on a regular basis, applying the guidance set out in IFRIC 23 to determine the appropriate accounting treatment for each item under discussion and to calculate the expected value of the tax treatment. The calculation of the expected value of the tax treatment takes into account various factors as defined in IFRIC 23 but remains subject to significant estimation uncertainty until such time as these matters are brought to a conclusion with HMRC.	22
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. In relation to the excess expenses carried forward and the capital losses deferred tax assets recognised (in excess of deferred tax liabilities recognised on unrealised chargeable gains), their valuation was supported by accounting projections based on the recoverability over a 15 year period of these assets. The accounting projections were based on the forecasts that are used to drive Management decisions and establish KPIs. In this regard, IFRS 4 projections have been used, rather than IFRS 17; however sensitivity analysis has been undertaken to ensure appropriateness.	22

How climate risk affects our accounting estimates and judgments

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 and investment contract liabilities and intangible assets.

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 reflects current information and market sentiment regarding the effect of climate risk. For the valuation of level 3 financial instruments, there are no material unobservable inputs in relation to climate risk. Note 36 provides further risk management disclosures in relation to financial risks including sensitivities in relation to credit and market risk.

Insurance and investment 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. Due to the level of annuities written by the Company, it is particularly exposed to longevity risk. At 31 December 2022 there are no adjustments made to the longevity assumptions to specifically allow for the impact of climate change on annuitant mortality. Further details as to how assumptions are set and of the sensitivity of the Company's results to annuitant longevity and other key insurance risks are set out in note 28.

The assessment of impairment for intangible assets is based on value in use calculations. Value in use represents the value of future cash flows and uses the Company's five-year annual operating plan and the expectation of long-term economic growth beyond this period. The five-year annual operating plan reflects management's current expectations on competitiveness and profitability, and reflects the expected impacts of the process of moving towards a low-carbon economy. No impairment indicators were identified in relation to the impacts of climate related risks on the Company's competitiveness and profitability.

(b) Income recognition

Gross premiums

In respect of insurance contracts and investment contracts with DPF, premiums are accounted for on a receivable basis and exclude any taxes or duties based on premiums. Funds at retirement under individual pension contracts converted to annuities with the Company are, for accounting purposes, included in both claims incurred and premiums within gross premiums written.

Reinsurance premiums
Outward reinsurance premiums are accounted for on a payable basis. Reinsurance premiums include fixed monthly payments made under longevity swap arrangements.

Reinsurance premiums include amounts receivable as refunds of premiums in cases where the Company cancels arrangements for the reinsurance of risk to another insurer.

Fee and commission income
Fee and commission income relates to the following:
Investment contract income – investment contract policyholders pay annual management charges (“AMC”) and are charged for other non AMC investment contract income for fees to cover the running of the contracts - policy administration services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over those periods. ‘Front end’ fees are charged on some non-participating investment contracts. Where the non-participating investment contract is measured at fair value, such fees which relate to the provision of investment management services are deferred and recognised as the services are provided (between 5 and 30 years).

Net investment income
Net investment income comprises interest, dividends, rents receivable, fair value gains and losses and impairment reversals and losses. Fair value movements occur on financial assets, including subsidiaries held for investment purposes, while impairment reversals and losses occur on loans and investments in subsidiaries held for strategic purposes and 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 listed securities is the ex-dividend date.

Rental income from investment property is recognised as income in the Statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

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.

(c) Transfers of business
Where the Company participates in a transfer of insurance business scheme under Part VII of the Financial Services and Markets Act 2000 and the ultimate shareholders remain the same, the transaction constitutes business combinations involving entities or businesses under common control. IFRS does not prescribe the treatment of such transfers. Accordingly, on initial recognition, the transferred assets and liabilities are measured at the carrying value in the transferring company and the resulting gain or loss is recognised as income or an expense in the Statement of Comprehensive Income.

(d) Benefits, claims and expenses recognition
Gross benefits and claims
Claims on insurance contracts and investment contracts with DPF reflect the cost of all claims arising during the period, including policyholder bonuses allocated in anticipation of a bonus declaration. Claims payable on maturity are recognised when the claim becomes due for payment and claims payable on death are recognised on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within insurance contract liabilities. 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.

Finance costs
Interest payable is recognised as an expense in the Statement of comprehensive income as it accrues and is calculated by using the effective interest method.

Change in unallocated surplus
The change in unallocated surplus recognised in the Income statement comprises the movement in unallocated surplus during the period. However, where movements in assets and liabilities which are attributable to participating policyholders are recognised in other comprehensive income, the change in unallocated surplus arising from these movements is also recognised in other comprehensive income.

Expenses under arrangements with reinsurers
Expenses, including interest, arising under elements of contracts with reinsurers that do not transfer significant insurance risk are recognised on an accruals basis in the Statement of Comprehensive Income as expenses under arrangements with reinsurers.

(e) 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.

(f) 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.

(g) Intangible assets
Acquired in-force business
For AVIF, the carrying value of the asset is assessed annually using the Solvency II best estimate assumptions consistent with those used for associated insurance liabilities, in order to determine whether any impairment has arisen compared to the amortised acquired value based on assumptions made at the time of acquisition. Any impairment is recognised in full in the Statement of Comprehensive Income in the year it is identified. For AVIF where an impairment has previously been recognised, if, in future years, the recoverability of the AVIF asset had it not been impaired is now recoverable then the earlier impairment recognised would not be reversed.

(h) Property, plant and equipment
All property, plant and equipment is initially recognised at cost.

Subsequent to initial recognition, owner-occupied land and buildings are measured at fair value on the Statement of financial position. Fair value is determined annually by independent professional valuers, who are members of the Royal Institution of Chartered Surveyors and is based on market evidence. An increase in fair value is recognised immediately in other comprehensive income and accumulated in the revaluation reserve, except to the extent that it is the reversal of a previous revaluation decrease which was recognised in the Statement of Comprehensive Income. A decrease in fair value is recognised immediately in the Statement of Comprehensive Income, except to the extent that it reverses a previous revaluation surplus recognised in other comprehensive income. No depreciation is provided on owner-occupied buildings.

(i) Investment property
Investment property is initially recognised at cost, including any directly attributable transaction costs. Subsequently, investment property is measured at fair value. Fair value is the price that would be received to sell a property in an orderly transaction between market participants at the measurement date. Fair value is determined without any deduction for transaction costs that may be incurred on sale or disposal. Gains and losses arising from the change in fair value are recognised as income or an expense in the Statement of comprehensive income.

(j) Investment in subsidiaries
The Company has two categories of investment in subsidiaries: strategic subsidiaries and investment subsidiaries. Strategic subsidiaries are operating companies which support the Group and the Company's strategic objectives, as well as certain non-trading and dormant companies. Investment subsidiaries are held to generate capital or income growth through holding investments.

The Company has invested in a number of collective investment schemes and other types of investment where judgement is applied in determining whether the Company controls the activities of these entities. These entities are typically structured in such a way that owning the majority of the voting rights is not the conclusive factor in the determination of control.

The Company considers the scope of its decision-making authority, including the existence of substantive rights (such as power of veto, liquidation rights and the right to remove the fund manager) that give it the ability to direct the relevant activities of the investee. The assessment of whether rights are substantive rights, and the circumstances under which the Company has the practical ability to exercise them, requires the exercise of judgement. Where the Company is deemed to control such collective investment schemes they are classified as investments in subsidiaries held for investment purposes. Where the Company is deemed to exercise significant influence over such investments they are classified as associates. Where the Company has an investment but not control over these types of entities, the investment is classified as equity securities and collective investment schemes in the statement of financial position.

Investments in shares in subsidiaries held for strategic purposes are carried in the Statement of financial position at cost less impairment. At each reporting date for subsidiaries held at cost less impairment, the Company assesses whether there are any indications of impairment or reversal of impairment. When such indications exist, an impairment test is carried out by comparing the carrying value of the investment against the estimate of the recoverable amount, which represents the higher of value in use or fair value less costs of disposal. The value in use will be calculated with reference to IFRS net asset value, as this approximates fair value. Impairments and reversal of impairments are recognised as income or an expense in the Statement of comprehensive income in the period in which they occur.

Investments in shares in subsidiaries held for investment purposes are carried at fair value through profit or loss.

(k) Financial assets

Purchases and sales of financial assets are recognised on the trade date, which is the date that the Company commits to purchase or sell the asset.

Loans and receivables are non-derivative financial assets with fixed or determinable payments. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method.

Derivative financial instruments are classified as held for trading. They are recognised initially at fair value and subsequently are re-measured to fair value. Exchange-traded derivatives are valued at the published bid price, or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. The gain or loss on re-measurement to fair value is recognised as income or an expense in the Statement of comprehensive income.

Equities, debt securities (including those where a security has not been issued) and collective investment schemes are designated at fair value through profit or loss and accordingly are stated in the Statement of financial position at fair value. They are designated at fair value through profit or loss because they are managed and evaluated on a fair value basis in accordance with the Company’s stated risk management policies.

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.

Derecognition and offset of financial assets and liabilities

A financial asset (or a part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or
- The Company has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. When financial assets and liabilities are offset any related interest income and expense is offset in the Statement of Comprehensive Income.

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

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 and floating rate and overnight deposits with credit institutions is their carrying value. The fair value of fixed interest-bearing deposits is estimated using discounted cash flow techniques.

Collateral
It is the Company's practice to receive and pledge collateral in the form of cash or non-cash assets in respect of derivative contracts and reinsurance arrangements in order to reduce the credit risk of these transactions. The amount and type of collateral required where the Company receives collateral depends on an assessment of the credit risk of the counterparty, but is usually in the form of cash or marketable securities.

Collateral received in the form of cash, where the Company has contractual rights to receive the cash flows generated and is available to the Company for investment purposes, is recognised as a financial asset in the Statement of financial position with a corresponding financial liability for its repayment. The collateral repayable is recognised as 'obligations for repayment of collateral received' within 'other financial liabilities' and is measured at amortised cost, which in the case of cash is equivalent to cost. Non-cash collateral received is not recognised in the Statement of financial position, unless the counterparty defaults on its obligations under the relevant agreement.

Cash and non-cash collateral pledged where the Company retains the contractual rights to receive the cash flows generated is not derecognised from the Statement of financial position, unless the Company defaults on its obligations under the relevant agreement. Where the counterparty has contractual rights to receive the cash flows generated, cash and non-cash collateral pledged is derecognised from the Statement of financial position and a corresponding receivable is recognised for its return.

(l) 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.

It is the Company's practice to obtain collateral to mitigate the counterparty risk related to reinsurance transactions usually in the form of cash or marketable financial instruments. Where the Company receives collateral in the form of marketable financial instruments which it is not permitted to sell or re-pledge except in the case of default, it is not recognised in the Statement of financial position. Where the Company receives collateral on reinsurance transactions in the form of cash it is recognised in the Statement of financial position along with a corresponding liability to repay the amount of collateral received, disclosed as 'Deposits received from reinsurers'. Where there is interest payable on such collateral, it is recognised within 'Finance costs' in the Statement of comprehensive income.

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. The reinsurers' share of investment contract liabilities is measured on a basis that is consistent with the valuation of the liability to policyholders to which the reinsurance applies.

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.

Reinsurance accepted
The Company accepts insurance risk under reinsurance contracts. Premiums received from and claims paid to cedants in respect of such contracts are included in the premiums and claims recognised on the statement of comprehensive income and are not disclosed separately from premiums paid to and received from policyholders. Similarly, the actuarial liability in respect of these contracts is included in insurance and investment contract liabilities on the statement of financial position.

Contract assets are amortised to the Statement of Comprehensive Income as the cash flows emerge on the underlying contracts. At the end of each reporting period, contract assets are reviewed for recoverability against future margins from the related contracts at the balance sheet date. An impairment loss is recognised in the Statement of Comprehensive Income if the carrying amounts are greater than future margins from related contracts.

At each reporting date, the Company assesses whether there are any indications of impairment. When indications of impairment exist, an impairment test is carried out by comparing the carrying value of the asset with the estimate of the recoverable amount. When the recoverable amount is less than the carrying value, an impairment charge is recognised as an expense in the Statement of comprehensive income. Reassurance assets are also considered in the liability adequacy test for each reporting period.

Intra-group retrocession arrangement ("IGR")

The Company has an IGR with RLL. The IGR covers the non-linked business and the insurance component of the unit-linked business of RLL. In respect of the non-linked business, the premium due to the Company from RLL is recorded within Insurance contract receivables in the Statement of financial position. In respect of the insurance component of the unit-linked business, the Company has paid an advanced claim amount to RLL. This amount is recorded as a Contract asset in the Statement of financial position and released to the Other operating expenses line of the Income Statement over the period in which the underlying cash-flows emerge.

(m) 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.

(n) Share capital and capital contributions

The Company has issued ordinary shares which are classified as equity. Capital contributions received by the Company and which contain no agreement for their repayment are recognised directly in the Statement of changes in equity. The capital contribution reserve is distributable subject to the availability of distributable reserves.

(o) 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 under which the transfer of insurance risk to the Company from the policyholder is not significant are classified as investment contracts.

Some insurance and investment contracts contain a DPF. This feature entitles the policyholder to additional discretionary benefits as a supplement to guaranteed benefits. Investment contracts with a DPF are recognised, measured and presented as insurance contracts.

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.

Contracts that give rise to a significant transfer of insurance risk to the reinsurer are assessed to determine whether they contain an element that does not transfer significant insurance risk and which can be measured separately from the insurance component. Where such elements are present they are accounted for separately with any deposit element being accounted for and disclosed in a manner consistent with financial instruments. The remaining elements, or where no such separate elements are identified, the entire contracts, are classified as reinsurance contracts.

(p) Insurance contracts and investment contracts with DPF

Insurance liabilities

Non-participating non-profit insurance liabilities

For non-participating insurance contracts other than unit linked insurance contracts, in-force business liabilities are determined using a gross premium valuation method, which entails projecting forward cash flows on a policy-by-policy basis. The liability is determined as the sum of the discounted value of the expected benefits, plus future administrative expenses directly related to the contract and investment expenses, less the discounted value of expected future premiums. The assumptions are management's best estimate and the liabilities include an explicit prudent margin calculated as a percentile of the undiversified capital for non-hedgeable risks.

The principal assumptions are given in note 28.

Non-participating unit-linked liabilities

Unit linked insurance contracts are measured at current unit values, which reflect the fair values of the assets of the underlying unit linked funds. Current unit values are taken to be:

- for contracts unit linked to external unit trusts, the bid value of the units allocated to policies as at the valuation date; and
- for contracts unit linked to internal funds, the value of the underlying assets as at the valuation date.

An additional reserve is held where it is estimated the future cash outflows cannot be covered by future cash inflows. The liabilities include an explicit prudent margin calculated as a percentile of the undiversified capital for non-hedgeable risks.

Participating with-profit liabilities
For the with profit policies in the NMWPF, WLWPF and LGWPF, the technical provisions have been calculated using an approach that provides in full for contractual obligations to pay future bonuses. An allowance has also been included for the cost of policy options and guarantees, using a stochastic economic model calibrated to market prices applied as at the valuation date.

The NMWPF, WLWPF and LGWPF are each being run so that over time, as the policies in each fund mature or otherwise discontinue, all assets are distributed. The liabilities in the NMWPF allow for the full distribution of the assets in the fund. The liabilities in the WLWPF and LGWPF allow for the full distribution of the assets in the fund, other than those allocated to non-participating business in which the with profits policyholders have no interest.

Within the GAWPF, all liabilities (including policy options and guarantees) are calculated on a deterministic basis. Stochastic modelling has not been used for the with profit policies as the fund applies a close matching investment policy, which has been adopted to such an extent that the fixed interest portfolio is effectively a replicating portfolio for the guarantees and options within the fund.

The principal assumptions are given in note 28.

Liability adequacy
At each reporting date, liability adequacy tests are performed to assess whether the insurance contract and investment contract with DPF liabilities are adequate. Current best estimates of future cash flows (contractual cash flows, related cash flows such as claims handling costs, and cash flows resulting from embedded options and guarantees) are compared to the carrying value of the liabilities. Any deficiency is charged as an expense to the Statement of comprehensive income.

The Company's accounting policies for insurance contracts meet the minimum specified requirements for liability adequacy testing under IFRS 4 Insurance Contracts.

Unallocated surplus
A further liability arises in each of the with profit funds through the intention to distribute all surplus assets to participating policyholders over time. These surplus assets are distributed via further enhancement of asset shares.

The nature of these benefits is such that the amount of surpluses allocated to ordinary equity holders and participating policyholders is uncertain.

The total liabilities of the relevant fund are set equal to its total assets, with the balancing liability being the available surplus at the balance sheet date. The part of the available surplus that represents the present value of shareholder transfers is called the Unallocated Surplus. The Company has elected to classify the Unallocated Surplus as an insurance contract liability in the Statement of financial position. The remaining available surplus is allocated to 'Liabilities under insurance contracts' as planned surplus distributions for policyholders.

The amount of appropriated surplus released is determined by the Directors in accordance with the Articles of Association and the Principles and Practices of Financial Management ("PPFM"). The surplus released is used to provide bonuses for with profit policyholders and the corresponding shareholder transfers. For the WLWPF, GAWPF and LGWPF which are 90:10 funds, 1/9th of the bonus declared and paid in the year is allocated to the NPF. It is then available for subsequent transfer to shareholders. The NMWPF is a 100:0 fund. As such, all the surplus arising in the NMWPF is retained for future bonus allocations to policyholders.

(q) Investment contracts without DPF

Receipts and payments on investment contracts without DPF are accounted for using deposit accounting, under which the amounts collected and paid out are recognised in the Statement of financial position as an adjustment to the liability to the policyholder.

The valuation of liabilities on unit-linked investment contracts is based on the fair value of the related assets and liabilities. The financial liability is measured based on the carrying value of the assets and liabilities that are held to back the contract.

The Company has treaties in place with third party insurance companies to provide reinsurance in respect of liabilities that are linked to the performance of funds maintained by those companies. The contracts in question do not transfer significant insurance risk and therefore are classified as financial instruments and are valued at fair value through profit and loss. These contracts are disclosed under Reinsurers' share of investment contract liabilities in the Statement of financial position.

Investment income attributable to, and the movements in the fair value of, investment contracts without DPF are included in 'Change in investment contract liabilities' as income or an expense in the Statement of comprehensive income.

(r) Financial liabilities

On initial recognition, financial liabilities are recognised when due and measured at the fair value of the consideration payable or 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 (except for liabilities under investment contracts and other liabilities designated at fair value through profit or loss) are measured at amortised cost using the effective interest method.

Financial liabilities are designated upon initial recognition at fair value through profit or loss when doing so results in more meaningful information because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Company's key management personnel.

(s) Provisions and contingent liabilities

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

A provision is recognised for onerous contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs reflect the least net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

(t) Borrowings

Interest-bearing borrowings are recognised initially at fair value less any attributable transaction costs. The difference between initial cost and redemption value is amortised as income or an expense in the Statement of comprehensive income over the period of the borrowing under the effective interest method.

The loan with ERIP LP has been designated upon initial recognition at fair value through profit or loss and measured at fair value where doing so provides more meaningful information due to the reason stated above in the financial liabilities accounting policy. Transaction costs relating to borrowings designated upon initial recognition at fair value through profit or loss are expensed as incurred.

The contingent loan from PGHP has been designated upon initial recognition at fair value through profit or loss ("FVTPL") to reduce the accounting mismatch between the contingent loan and the fixed rate loan from the Company to PGHP. Further information on these loans is provided in notes 16 and 29.

(u) 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 new or amended standards and interpretations 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.

The adoption of IFRS 17 results in three main areas where contract boundaries differ from current practice:

- Some unit-linked and with-profit contracts contain a guaranteed annuity option, which allows the policyholder to convert the maturity benefit to an immediate annuity at a predetermined rate. The Company currently places a value on the guaranteed annuity option at maturity, but does not include within its measurement the cash flows associated with immediate annuity until the option is exercised. Under IFRS

17, the cash flows related to the immediate annuity will fall within the boundary of the contract as the Company does not have the practical ability to reprice the contract on maturity.
- The Company has issued renewable term assurance policies with varying terms. Where the Company has the practical ability to reassess the risks of the policyholders at individual contract or portfolio level the contract boundary ends at the earliest renewal date and the renewal will be treated as a new contract. Where the Company does not have the practical ability to reassess the risk, future renewals of these contracts on their guaranteed terms will be within the contract boundary.
- Some of the Company's reinsurance contracts cover underlying contract issued on a risk-attaching basis and provide unilateral rights to both the Company and the reinsurer to terminate the attachment of new contracts at any time by giving notice within a specified time period, for example three months. Currently the cash flows included in the measurement of reinsurance contracts considers only the underlying contracts ceded at the valuation date. However, under IFRS 17, the contract boundary includes underlying contracts expected to be issued and ceded during the period from the valuation date to the end of the reinsurance notice period.

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.

The discount rates for unit-linked business and with-profit business will be determined by a 'bottom-up' approach, using a risk-free discount rate curve adjusted to reflect the characteristics of the liabilities such as illiquidity.

With-profit inherited estate

The Company has a number of with-profit funds where surpluses are shared between the policyholders and the shareholders. All such funds are closed to new business. These funds typically have an inherited estate, being a surplus of assets over those needed to meet the liabilities of current policyholders. As these funds are closed to new business the surplus will be allocated to existing policyholders and the Company has determined it appropriate to allocate the expected future payments from the inherited estate to specific groups of contracts within the measurement of the best estimate cash flows. This results in the shareholders share of the inherited estate being recognised through the CSM. At transition, to the extent that services have been provided in previous periods, an element of the inherited estate will be recognised in Retained Earnings, with the remainder recognised within the CSM and released to the statement of comprehensive income in future periods in line with coverage units. The adoption of IFRS 17 will not change the point at which the shareholder will become entitled to receive its share of the inherited estate, which will continue to be at the point where bonuses are declared to policyholders.

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 (quantity of benefits)
Term life	Sum assured in force
Endowment	Sum assured in force
Whole of life	Sum assured in force
Other protection products	Sum assured in force
Immediate annuity	Annuity payments in each period
Unit linked	Annual Management Charge plus insurance charges
Conventional with-profits (CWP) & Unitised with-profits (UWP)	Maximum of the guaranteed benefit and asset share

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 simplified retrospective approach or a fair value approach to determine the contractual service margin.

The majority of the Company's business will be transitioned using the fair value approach, except for the Legal and General non-profit business which will be measured using the fully retrospective 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 estimated 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 capable of being reasonably estimated 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 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.

- **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.

- 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 a 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.

On 31 January 2020, the UK left the European Union (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. Fees and commissions

	2022 £m	2021 £m
Annual management charges ("AMC")	210	224
Non AMC investment contract income	21	23
Investment contract income	231	247
Commission income	2	2
Total fees and commissions	233	249

Annual management charges are recognised over time as the Company provides investment management services. The percentage fee is specified in the policy documents. There are no remaining performance obligations as the revenue recognised corresponds to the value to the customer.

Non AMC investment contract income represents fees charged in the running of investment contracts including the provision of benefits.

No significant judgements are required in determining the costs incurred to obtain or fulfil contracts with customers.

5. Net investment (expense)/income

	Note	2022 £m	2021 £m
Investment income			
Interest income on financial assets designated at fair value through profit or loss		646	668
Dividend income		910	908
Rental income		78	93
		1,634	1,669
Fair value gains/(losses) on items at fair value through profit or loss			
Financial assets and liabilities:			
Held for trading – derivatives		(1,153)	(452)
Designated upon initial recognition		(6,976)	2,164
Other		69	(8)
Investment in subsidiaries		(118)	202
Investment property	14	(254)	224
		(8,432)	2,130
Net investment income		(6,798)	3,799

Rental income is received on investment properties.

Other items include mostly immaterial foreign gains and losses on cash and cash equivalents.

6. Other operating expenses

	Note	2022 £m	2021 £m
Annual management expenses and transaction costs	38	126	99
Investment management expenses and transaction costs		77	73
Other		21	42
		224	214
Amortisation of contract assets	25	33	31
Total other operating expenses		257	245

Employee costs
The Company has no employees. Administrative services are provided by ReAssure UK Services Limited, (“RUKSL”), a fellow group company. Costs incurred by RUKSL are charged to the Company through a Management Services Agreement (“MSA”) by way of a monthly service charge.

7. Directors' remuneration

	2022 £000	2021 £000
Remuneration (executive and non-executive Directors remuneration excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	775	1,004
Share option schemes and other long-term benefits	681	496
	1,456	1,500

	2022 Number	2021 Number
Number of Directors who had exercised share options during the year	5	2

	2022 £000	2021 £000
Highest paid Director's remuneration	433	526

The Executive Directors are employed by either ReAssure UK Services Limited ("RUKSL"), Pearl Group Management Services Limited ("PGMS"), or Pearl Group Services Limited ("PGS"). The Non-Executive Directors are not employed but provide their services via a letter of appointment. For the purposes of this note an apportionment of the total remuneration paid to the Directors of the Company by the Phoenix Group has been made based on an estimate of the services rendered to the Company.

8. Auditor's remuneration

	2022 £000	2021 £000
Audit of the Company's financial statements	2,585	2,413

During the financial year ended 31 December 2022, Ernst & Young LLP acted as the Company's external auditor. Auditors' 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 PGHP, the Company's ultimate controlling party, are required to disclose fees in respect of non-audit services on a consolidated basis.

9. Finance costs

	2022 £m	2021 £m
Interest expense		
On deposits received from reinsurers	4	5
On intercompany loan	4	-
	8	5

See note 29 for more information on intercompany loan.

10. Tax (credit)/charge

Current year tax (credit)/charge

	2022 £m	2021 £m
Current tax:		
UK Corporation tax	77	23
Overseas tax	15	14
	92	37
Adjustment in respect of prior years	(19)	(63)
Total current tax	73	(26)
Deferred tax:		
Origination and reversal of temporary differences	(278)	99
Change in the rate of UK corporation tax	-	-
Adjustments in respect of prior years	3	(9)
Total deferred tax (note 22)	(275)	90
Total tax (credit)/charge	(202)	64
Attributable to:		
- policyholders	(281)	29
- owners	79	35
Total tax (credit)/charge	(202)	64

The 2022 current tax prior year adjustment relates principally to a dispute with HMRC in relation to the tax treatment of an asset formerly held by Guardian Assurance Limited (before the business was transferred to ReAssure Limited) that was resolved during 2022 in favour of the Company. The 2021 current tax liability included an accrual for the total tax under dispute on the basis that there was sufficient risk that the tax treatment of the Company would not then be accepted. In 2022 this tax liability is released.

The 2021 current tax prior year adjustment relates principally to the utilisation of excess management expenses transferred with the Legal & General business transfer in 2020. The benefit of the excess management expenses was not recognised in 2020 as discussions were ongoing with HMRC as to the appropriate tax treatment of the business transfer and associated transactions. Discussions with HMRC concluded late in 2021 and in accordance with IAS 12 and IFRIC 23 it is now considered appropriate to recognise the benefit of the excess management expenses. The expenses were utilised in full in the 2020 period reducing the current tax charge in 2020 by £57m and increasing the utilisation of the capital losses in the company in that period, thereby further reducing the tax charge by £9m.

Reconciliation of tax charge

	2022 £m	2021 £m
Profit for the year before tax	120	176
Tax credit/(charge) attributable to policyholders' returns	281	(29)
Profit before tax attributable to owners	401	147
Tax at standard UK rate of 19% (2021: 19%)	76	28
Tax attributed to policyholders' return	4	2
Transfer pricing adjustments	(12)	(5)
Adjustments in respect to prior years	(17)	16
(Reversal) of impairment/impairment of subsidiaries	-	6
Foreign tax relief	(2)	(2)
Different basis of taxation for UK life insurance companies	20	(14)
Movement in recognition of deferred tax asset	10	3
Income not subject to tax	(1)	1
Other	1	-
Tax attributable to owners	79	35
Tax (credit)/charge attributable to policyholders' returns	(281)	29
Total tax (credit)/charge	(202)	64

11. Dividends on ordinary shares

	2022 £m	2021 £m
Interim dividend for 2022 at 52p per share (2021: 215p per share)	200	832
Interim dividend for 2022 at 168p per share (2021: 419p per share)	450	790
	650	1,622

12. Intangible assets

	Acquired in-force business	
	2022 £m	2021 £m
Cost		
At 1 January	571	571
Additions	-	-
At 31 December	571	571
Amortisation and impairment		
At 1 January	(106)	(44)
Amortisation charge for the year	(52)	(62)
At 31 December	(158)	(106)
Carrying amount		
At 31 December	413	465
Amount recoverable after 12 months	364	413

Acquired in-force business is amortised over the estimated life of the contracts on a basis which recognises the emergence of the economic benefits. The total average period over which the acquired in-force business is amortised is between 17 and 45 years. Annually, each AVIF asset is reviewed for impairment in accordance with the criteria outlined within note 2(g) above. There has been no impairment charge recorded in 2022 (2021: £nil).

13. Property, plant and equipment

	Owner occupied property 2022 £m	Owner occupied property 2021 £m
Cost or valuation		
At 1 January	4	3
Revaluation	-	1
At 31 December	4	4

The revaluation effective date is 30th November 2022.

14. Investment property

	Note	2022 £m	2021 £m
At 1 January		1,693	1,445
Additions		23	99
Disposals		(106)	(75)
Net fair value gains / (losses)	5	(254)	224
At 31 December		1,356	1,693
Unrealised gains/(losses) in the period on assets held at the end of the year		(254)	(210)

The property portfolio consists of a mix of commercial sectors, spread geographically throughout the UK.

Fair value measurement

The fair value measurement of the investment property has been categorised as a level 3 fair value based on the inputs to the valuation techniques used.

Commercial investment property
The fair value of commercial investment property is based on valuations provided by external property valuation experts having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued, having regard to the condition of the property and local market conditions. The valuations are carried out in accordance with the Royal Institute of Chartered Surveyors ("RICS") guidelines.

The valuations are predominantly produced using an income capitalisation approach. The income capitalisation approach is based on capitalising an annual net income stream using an appropriate yield. The annual net income is based on both current and estimated future net income. The yield and future net income used is determined by considering recent transactions involving properties with similar characteristics to the property being valued. Where it is not possible to use an income capitalisation approach, for example on property with no rental income, a market comparison approach is used by considering recent transactions involving properties with similar characteristics to the property being valued. In both approaches, where appropriate, adjustments will be made by the valuer to reflect differences between the characteristics of the property being valued and the recent market transactions considered. The following table shows the valuation techniques used in measuring the fair value of each class of investment property and the significant non-observable inputs used:

Description	**Valuation technique**	**Significant inputs**	**Unobservable input value 2022**	**2021**
Commercial investment property and owner occupied property	RICS valuation	Expected income per square foot	£27.51 weighted average	£30.73 weighted average

Rental income and expense

	2022 £m	2021 £m
Direct operating expenses in respect of:		
Investment properties that generated rental income during the year	7	15
Future minimum lease rental receivables in respect of non-cancellable operating leases on investment properties due:		
Not later than one year	72	72
Later than one year and no later than five years	194	199
Later than five years	212	219
Total operating lease receivables	478	490

15. Subsidiaries held for strategic purposes

	2022 £m	2021 £m
Cost		
At 1 January	14	261
Capital contribution to Phoenix Life Assurance Europe DAC	202	-
Disposal of Ark Life Assurance Company DAC	-	(247)
At 31 December	216	14
Impairment		
At 1 January	4	22
Impairment of ARK	-	17
Disposal of Ark Life Assurance Company DAC	-	(35)
At 31 December	4	4
Carrying amount		
At 31 December	212	10

Investments in subsidiaries held for strategic purposes are held at cost less impairment. A listing of subsidiaries held at 31 December 2022 and of subsidiaries disposed and incorporated during the year can be found at note 40.

16. Loans and deposits

	2022 £m	2021 £m
Loan to PGHP at fair value through profit or loss	718	-
Other loans and deposits at amortised cost:		
Loans secured on policies	3	3
	721	3
Amount recoverable after 12 months	590	3

On 31 December 2022, the Company issued a £718m loan to its ultimate parent company, PGHP with a maturity date of 31 December 2027. The interest rate has been set at SONIA + 1.49%. Repayments of principal and interest will be made quarterly.

17. Derivatives

The Company purchases derivative financial instruments in connection with the management of its insurance contract and investment contract liabilities based on the principles of reduction of risk and efficient portfolio management. The Company does not typically hold derivatives for the purpose of selling or repurchasing in the near term or with the objective of generating a profit from short-term fluctuations in price or margin. The Company also holds derivatives to hedge financial liabilities denominated in foreign currency.

All derivative instruments have been classified as held for trading and are not part of a designated IAS 39 hedging relationship.

The Company pledges and receives collateral in respect of its derivative positions. Further information is provided in note 19.

The fair values of derivative financial instruments are:

	2022 Assets £m	2022 Liabilities £m	2021 Assets £m	2021 Liabilities £m
Forward currency	6	63	47	1
Stock index futures	34	17	19	25
Interest rate swaps	524	1,154	63	134
Swap options	1	-	-	-
Inflation swaps	10	5	-	-
Fixed income futures	20	35	11	5
Cross currency	-	230	74	12
Other – future funded private debt derivative	-	-	1	1
	595	1,504	215	178
Amount recoverable/payable after 12 months	535	1,388	133	172

18. Investment in subsidiaries held for investment purposes

	2022 £m	2021 £m
At 1 January	2,051	2,192
Additions	18	65
Disposals	(86)	(89)
Fair value gain/(loss) in subsidiaries	(132)	202
Transfer in to collective investment schemes	2	-
Transfer out to collective investment schemes	-	(319)
At 31 December	1,853	2,051

The Company has invested £1,000 of permanent capital into a special purpose entity, ERIP LP, a property management partnership registered in the United Kingdom, which represents 50% of the permanent capital of the partnership. At inception the Company also transferred property assets of £350m into ERIP LP. Under the partnership agreement it is entitled to 99.5% of the partnership's profits and losses.

In arriving at the valuation of the investment in ERIP LP, the Directors have made reference to the value of the assets and liabilities as reflected in ERIP LP's financial statements at the Statement of financial position date and the accounting policies used in arriving at those values. This includes land and buildings subject to an in-force policy being valued on a reversionary basis and land and buildings not related to an in-force policy valued at open market value. ERIP LP is categorised as level 3 of the fair value hierarchy because the inputs to the calculation of its fair value are unobservable. Refer to note 20 for more information on the different levels of the fair value hierarchy.

The reversionary basis represents the partnership's best estimate of the fair value having regard to the policyholders' lifetime lease; the reversionary value of the properties in the ERIP LP are calculated by discounting with a rate of 5.0% per annum future proceeds from the sale of ERIP LP properties assuming base mortality in line with the following assumptions.

	Tables	Long term improvement
2022		
Male lives	PML08_HAWP 107.0%	CMI_2020_2021_blend_M [1.50%]
Female lives	PFL08_HAWP 103.0%	CMI_2020_2021_blend_F [1.20%]
2021		
Male lives	PML08_HAWP 107.0%	CMI_2020_M [1.70%]
Female lives	PFL08_HAWP 103.0%	CMI_2020_F [1.20%]

In addition, an allowance is made for ERIP policyholders leaving their properties before death and that is modelled as 35% of the mortality rate.

As at 31 December 2022, an analysis of Open Ended Investment Companies ("OEIC's"), Unit Trusts, Sociétés d'investissement à Capital Variable ("SICAVs") and private equity funds is carried out to assess the level of control to determine whether they are investments in subsidiaries, investments in associates or financial assets. Resulting transfers between investment in subsidiaries, investment in associates and financial assets are recognised at the opening value.

A listing of subsidiaries can be found at note 40.

The fair value measurements of the investment in subsidiaries are classified in accordance with the principles in note 20, and information on the valuation methodology and hierarchy is given in that note.

19. Financial instruments

IFRS 9 Financial Instruments

The Company has taken advantage of the temporary exemption granted to insurers in IFRS 4 Insurance Contracts from applying IFRS 9. The tables below give the additional disclosures required by insurers taking this exemption:

		2022	2022	2021	2021
		Fair Value	Change in fair value	Fair Value	Change in fair value
	Note	£m	£m	£m	£m
Financial assets with contractual cash flows that are solely principal and interest ("SPPI") excluding those held for trading, or managed on a fair value basis					
Loans and deposits at amortised cost	16	3	-	3	-
Cash and cash equivalents		313	-	323	-
Other receivables		880	-	309	-
Accrued income	23	53	-	61	-
Financial assets at fair value through profit or loss					
Loans		718	-	-	-
Equities		18,472	(1,249)	20,927	2,926
Fixed and variable rate income securities		15,816	(4,448)	21,621	(1,405)
Investment in subsidiaries*		1,853	(118)	2,051	202
Collective investment schemes		15,086	(1,280)	17,990	645
Derivative assets		595	(1,153)	215	(452)
Reinsurers' share of investment contract liabilities*		393	(84)	477	(79)
Total		54,182	(8,332)	63,977	1,837

* Please note that the 2021 balances have been re-presented to provide additional clarity.

Credit ratings of financial assets with contractual cash flows that are SPPI

2022	A £m	BBB £m	Non-Rated £m	Unit Linked £m	Total £m
Loans and deposits at amortised cost	-	-	3	-	3
Cash and cash equivalents	25	(1)	-	289	313
Other receivables	-	-	880	-	880
	25	(1)	883	289	1,196

2021	A £m	BBB £m	Non-Rated £m	Unit Linked £m	Total £m
Loans and deposits at amortised cost	-	-	3	-	3
Cash and cash equivalents	55	(4)	-	272	323
Other receivables	-	-	295	-	295
	55	(4)	298	272	621

Expected settlement dates	Note	Total 2022 £m	Amounts recoverable after 12 months 2022 £m	Total 2021 £m	Amounts recoverable after 12 months 2021 £m
Financial assets					
Loans and deposits	16	3	3	3	3
Financial assets at fair value through profit or loss					
Derivatives held for trading	17	595	535	215	133
Designated upon initial recognition:					
Loans	16	718	587	-	-
Equities		18,472	-	20,927	-
Debt securities		15,816	14,850	21,621	20,350
Subsidiaries held for investment purposes*		1,853	-	2,051	-
Collective investment schemes		15,086	-	17,990	-
Reinsurers' share of investment contract liabilities		393	-	477	-
		52,936	15,975	63,284	20,486

* Please note that the 2021 balance has been re-presented to provide additional clarity.

	Note	Total 2022 £m	Amounts due for settlement after 12 months 2022 £m	Total 2021 £m	Amounts due for settlement after 12 months 2021 £m
Financial liabilities					
Financial liabilities at fair value through profit or loss					
Derivatives held for trading	17	1,504	1,388	178	172
Designated upon initial recognition:					
Investment contracts		30,119	-	34,858	-
Borrowings		952	-	234	-
Deposits received from reinsurers		56	50	85	77
Financial liabilities measured at amortised cost					
Other financial liabilities		105	-	190	-
Borrowings		9	-	9	-
		32,745	1,438	35,554	249

Due to the nature of equities, collective investment schemes and reinsurers’ share of investment contract liabilities, there is no fixed term associated with these items.

Borrowings relate to intercompany loans. See note 29 for further information on repayments.

Offsetting financial assets and financial liabilities

The Company has no financial assets and financial liabilities that have been offset in the Statement of financial position as at 31 December 2022 (2021: none).

The Company is party to a longevity swap with Reinsurance Group of America ("RGA") in order to transfer mortality risk on certain annuities to RGA; the present value of the annuity claims reinsured at 31 December 2022 is £527m (2021: £726m). As part of this agreement, the Company is required to post collateral, which is assessed quarterly, to support the difference between the fixed payments to RGA and the variable payments from RGA. At 31 December 2022, £54m of financial assets (principally corporate bonds) were posted as collateral (2021: £59m).

The title to these assets has been transferred to RGA although the Company can swap assets provided the total market value of the assets supports the overall collateral required to be posted.

Off balance sheet investments received as collateral for reinsured annuity business within the NPF totalled £462m (2021: £583m). The Company did not have the right to sell or re-pledge these types of investments. These investments were in the form of gilts, fixed income securities guaranteed by sovereign states or supra-nationals and corporate bonds with a credit rating of BBB or higher.

At 31 December 2022

		Related amounts not offset		
	Gross: Recognised financial instruments £m	Enforceable master netting arrangements £m	Collateral £m	Net amount £m
Financial assets				
Over-the-Counter (OTC) Derivatives	541	-	61	480
Exchange traded derivatives	54	-	-	54
Reinsurance assets	436	(26)	462	-
Total assets	1,031	(26)	523	534
Financial liabilities				
OTC Derivatives	1,452	289	705	458
Exchange traded derivatives	52	-	-	52
Total liabilities	1,504	289	705	510

At 31 December 2021

		Related amounts not offset		
	Gross: Recognised financial instruments £m	Enforceable master netting arrangements £m	Collateral £m	Net amount £m
Financial assets				
OTC Derivatives	184	11	141	32
Exchange traded derivatives	31	-	-	31
Reinsurance assets	587	11	576	-
Total assets	802	22	717	63
OTC Derivatives	147	10	128	9
Exchange traded derivatives	31	-	-	31
Total liabilities	178	10	128	40

Collateral

See accounting policies note 2 (k) for a description of the circumstances in which assets are recognised or derecognised from the Statement of financial position.

At 31 December 2022

	OTC Derivatives £m	Reinsurance £m
Collateral accepted		
Not recognised	-	462
Recognised assets	61	-
Recognised liabilities	(61)	-
Maximum exposure to credit risk	541	-
Risk mitigated by use of collateral	36	-
Remaining risk	577	-
Collateral pledged		
Pledged as collateral	289	54
In respect of liabilities of	1,452	123

At 31 December 2021

	OTC Derivatives £m	Reinsurance £m
Collateral accepted		
Not recognised	11	576
Recognised assets	141	-
Recognised liabilities	(141)	-
Maximum exposure to credit risk	184	-
Risk mitigated by use of collateral	(151)	-
Remaining risk	33	-
Collateral pledged		
Pledged as collateral	10	59
In respect of liabilities of	147	152

20. Fair value

Carrying values different to fair values

The carrying value of financial assets and liabilities measured at amortised cost approximates their fair value, except as disclosed below.

	Carrying value 2022 £m	Carrying value 2021 £m
Assets and liabilities for which fair value is not disclosed		
Participating investment contract liabilities	4,779	5,794
Obligations for repayment of collateral received	61	141
	4,840	5,935

It is not possible to reliably calculate the fair value of participating investment contract liabilities, included within liabilities under insurance contracts in the Statement of financial position. The assumptions and methods used in the calculation of these liabilities are set out in notes 2 and 28.

Obligations for repayment of collateral received, disclosed within note 31, have no expected settlement date. As the obligations relate to the repayment of collateral received in the form of cash, the liability is stated at the value of the consideration received and therefore no fair value has been disclosed.

Determination of fair value and fair value hierarchy of financial instruments

Level 1 financial instruments
The fair value of financial instruments traded in active markets (such as exchange traded securities and derivatives) is based on quoted market prices at the period end provided by recognised pricing services. Market depth and bid-ask spreads are used to corroborate whether an active market exists for an instrument. Greater depth and narrower bid-ask spread indicates higher liquidity in the instrument and are classed as Level 1 inputs. For collective investment schemes, fair value is by reference to published bid prices.

Level 2 financial instruments
The fair values of financial instruments traded in active markets with less depth or wider bid-ask spreads which do not meet the classification as Level 1 inputs are classified as Level 2. The fair values of financial instruments not traded in active markets are determined using broker quotes or valuation techniques with observable market inputs. Financial instruments valued using broker quotes are classified as Level 2, only where there is a sufficient range of available quotes. The fair value of OTC derivatives is estimated using pricing models or discounted cash flow techniques. Collective investments schemes where the underlying assets are not priced using active market prices are determined to be Level 2 instruments. Where pricing models are used, inputs are based on market related data at the period end. Where discounted cash flows are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument.

All the Company's Level 1 and Level 2 assets measured at fair value have been valued using standard market pricing sources.

Level 3 financial instruments
The Company's financial instruments determined by valuation techniques using non market observable inputs are based on a combination of independent third party evidence and internally developed models. In relation to private equity investments, third party evidence in the form of net asset valuation statements are used as the basis for the valuation. Adjustments may be made to the net asset valuation where other evidence, for example recent sales of the underlying investments in the fund, indicates this is required. For a number of investment vehicles and debt securities, standard valuation models are used, with inputs that may not be fully market observable. Where possible and appropriate, inputs into such models are based on market observable data. The fair value of loans and some borrowings with no external market is determined by internally developed discounted cash flow models using a risk adjusted discount rate corroborated with external market data where possible.

Transfers
For financial instruments that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the middle and end of each reporting period. Transfers identified are deemed to have taken place at the start of the reporting period.

Fair value hierarchy of financial instruments

Fair value hierarchy information for non-financial assets measured at fair value is included in note 14 for investment properties and owner occupied properties.

At 31 December 2022		Level 1	Level 2	Level 3	Total fair value
	Note	£m	£m	£m	£m
Financial assets measured at fair value					
Derivatives	17	54	541	-	595
Financial assets designated at fair value through profit or loss upon initial recognition					
Loans	16	-	718	-	718
Equities		18,375	94	3	18,472
Debt securities		12,027	1,302	2,487	15,816
Subsidiaries held for investment purposes		1,548	-	305	1,853
Collective investment schemes		14,846	240	-	15,086
Reinsurers' share of investment contract liabilities		393	-	-	393
Total financial assets measured at fair value		47,243	2,895	2,795	52,933
Loans and deposits at amortised cost	16	-	3	-	3
Total financial assets		47,243	2,898	2,795	52,936

	Note	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value					
Derivatives	17	52	1,452	-	1,504
Financial liabilities designated at fair value through profit or loss upon initial recognition					
Investment contract liabilities		-	30,119	-	30,119
Deposits received from reinsurers		-	-	56	56
Borrowings		-	952	-	952
Total financial liabilities measured at fair value		52	32,523	56	32,631
Borrowings at amortised cost		-	9	-	9
Total financial liabilities		52	32,532	56	32,640

At 31 December 2021

	Note	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets measured at fair value					
Derivatives	17	31	184	-	215
Financial assets designated at fair value through profit or loss upon initial recognition					
Equities		20,892	35	-	20,927
Debt securities		17,450	1,222	2,949	21,621
Subsidiaries held for investment purposes*		1,748	-	303	2,051
Collective investment schemes		17,492	496	2	17,990
Reinsurers' share of investment contract liabilities		477	-	-	477
Total financial assets measured at fair value		58,090	1,937	3,254	63,281
Loans and deposits at amortised cost	16	-	3	-	3
Total financial assets		58,090	1,940	3,254	63,284

* Please note that this balance has been re-presented to provide additional clarity.

	Note	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial liabilities measured at fair value					
Derivatives	17	30	147	1	178
Financial liabilities designated at fair value through profit or loss upon initial recognition					
Investment contract liabilities		-	34,858	-	34,858
Deposits received from reinsurers		-	-	85	85
Borrowings*		-	234	-	234
Total financial liabilities measured at fair value		30	35,239	86	35,355
Borrowings at amortised cost*		-	9	-	9
Total financial liabilities		30	35,248	86	35,364

* Please note that these balances have been re-presented to provide additional clarity.

During 2022	From level 1 to level 2	From level 2 to level 1
	£m	£m
Designated at fair value through profit or loss upon initial recognition		
Debit securities	494	134
Equity securities	65	5
Collective investment schemes	-	-
Reinsurers' share of investment contract liabilities	-	-

During 2021	From level 1 to level 2	From level 2 to level 1
	£m	£m
Designated at fair value through profit or loss upon initial recognition		
Debit securities	331	316
Equity securities	33	17
Collective investment schemes	9	-
Reinsurers' share of investment contract liabilities	-	477

Transfers in 2021 were due to alignment to Group policies, specifically incorporating a depth of trade test and quarterly bid/offer test which naturally introduces movement within levels. Transfers in 2022 were mainly due to further trade test and bid/offer tests.

There were no transfers of financial liabilities between level 1 and level 2.

Financial instrument valuation methodology:

Derivative financial assets and liabilities

OTC derivatives are measured at fair value using a range of valuation models including discounting future cash flows and option valuation techniques. The inputs are observable market data and OTC derivatives are therefore categorised as level 2 in the fair value hierarchy.

Exchange traded derivatives are valued using prices sourced from the relevant exchange. They are considered to be instruments quoted in an active market and are therefore categorised as level 1 instruments within the fair value hierarchy.

Non-performance risk to derivative assets arising from the credit risk of each counterparty has been considered on a net exposure basis in line with the Company's risk management policies. At 31 December 2022 and 31 December 2021 the residual credit risk is considered immaterial and no credit risk adjustment has been made.

Equities, collective investment schemes, subsidiaries held for investment at FVTPL, and reinsurers' share of investment contract liabilities

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.

The Company has limited exposure to unlisted equity securities via venture capital funds, where the Company receives valuations from the investment managers of the underlying funds.

The valuation of these securities is largely based on inputs that are not based on observable market data, and accordingly these instruments are categorised as level 3 instruments within the fair value hierarchy. Where appropriate, reference is made to observable market data.

Collective investment schemes, subsidiaries held for investment at FVTPL, and reinsurers' share of investment contract liabilities are valued in the same way as equities.

Debt securities

For debt securities, the Company has determined a hierarchy of pricing sources. The hierarchy consists of reputable external pricing providers who generally use observable market data. If prices are not available from these providers or are considered to be stale, the Company has established procedures to arrive at an internal assessment of the fair value. These procedures are based largely on inputs that are not based on observable market data. A further analysis by category of debt security is as follows:

Government, including provincial and municipal, and supranational institution bonds
These instruments are valued using prices received from external pricing providers who generally base the price on quotes received from a number of market participants. They are treated as level 1 or 2 instruments within the fair value hierarchy depending upon the nature of the underlying pricing information used for valuation purposes.

Corporate bonds (listed or quoted in an established over-the-counter market including asset backed securities)
These instruments are generally valued using prices received from external pricing providers who generally consolidate quotes received from a panel of banks into a composite price. These instruments are treated as level 1 or 2 within the fair value hierarchy dependent on observable bid and offer price spreads and the depth of quote available. As the market becomes less active the quotes provided by some banks may be based on modelled prices rather than on actual transactions. These sources are based largely on observable market data, and therefore these instruments are treated as level 2 instruments within the fair value hierarchy. When prices received from external pricing providers are based on a single broker indicative quote the instruments are treated as level 3 instruments.

The Company has an immaterial amount of listed instruments for which prices are either not available from external pricing providers or the prices provided are considered to be stale. These instruments are treated as level 3 instruments within the fair value hierarchy.

Other corporate bonds including unquoted bonds, commercial paper and certificates of deposit
These instruments are valued using models. For unquoted bonds the model uses inputs from comparable bonds and includes credit spreads which are obtained from brokers or estimated internally. Commercial paper and certificates of deposit are valued using standard valuation formulas. The classification of these instruments within the fair value hierarchy will be either level 2 or 3 depending upon the nature of the underlying pricing information used for valuation purposes.

Infrastructure Loans
The fair value of the infrastructure loans are estimated by external fund managers using discounted cash flow models which are based on discount curves and spread inputs that require management's judgement. Spread assumptions vary by manager but generally are based on a combination of publicly available spread information for comparable bonds, recent private transactions observed by the manager, and expert judgement. External valuations are verified internally using an in-house Independent Price Verification ("IPV") process. These instruments are classified as level 3 in the fair value hierarchy

Commercial mortgages
The fair value of commercial mortgages are estimated by external fund managers using discounted cash flow models which are based on discount curves and spread inputs that require management's judgement. Spread assumptions vary by manager but generally are based on a combination of publicly available spread information for comparable bonds, recent private transactions observed by the manager, and expert judgement. External valuations are verified internally using an in-house IPV process. The classification of these instruments within the fair value hierarchy will be level 3 in the fair value hierarchy.

Investment contract liabilities
The fair value of the unit-linked contracts is calculated to be equal to the fair value of the underlying assets and liabilities in the funds. Thus, the value of these liabilities is dependent on the methods and assumptions set out above in relation to the underlying assets and liabilities in which these funds are invested. The underlying assets and liabilities are predominately classified as level 1 or 2 and as such, the inputs into the valuation of the liabilities are observable. Therefore, the liabilities are classified within level 2 of the fair value hierarchy.

Liabilities at amortised cost
Insurance contract liabilities
As permitted by IFRS 7, the Company has not disclosed fair values for investment contracts with a DPF (disclosed within insurance contract liabilities) as fair value ranges for the DPF cannot be reliably estimated. There is no active market for these instruments which will be settled with policyholders in the normal course of business. The assumptions and methods used in the calculation of these liabilities, and the carrying values at the year end, are set out in notes 2 and 28.

Significant inputs for level 2 instruments and instruments measured at amortised cost

Financial instrument	**Valuation technique**	**Significant inputs**
OTC Derivative assets and liabilities	Pricing models	N/A
Financial assets		
Debt securities	Quoted market prices	N/A
Subsidiaries held for investment purposes	Net asset value statements[1]	N/A
Collective investment schemes	Quoted market prices	N/A
Financial liabilities		
Investment contract liabilities	Unit prices x number of units	Unit prices from internal pricing system or third party[2]

1. *Net asset value statements*: Net asset statements are provided by independent third parties, and therefore no significant non-observable input or sensitivity information has been prepared for those instruments valued on this basis.
2. *Unit pricing system*: A system that calculates unit prices for internal funds from a fair value of assets and liabilities within each fund using market data.

Investment contract liabilities
The valuation of liabilities on unit-linked investment contracts is based on the fair value of the related assets and liabilities. The financial liability is measured based on the carrying value of the assets and liabilities that are held to back the contract.

Fair value of level 3 financial instruments by category

	Fair value 2022	Fair value 2021
	£m	£m
Debt securities		
Local Authority Loans	175	297
Infrastructure loans	799	1,179
Private Placements	780	560
Commercial real estate loans	733	913
	2,487	2,949
Derivatives total	-	(1)
Equity total	3	-
*Subsidiaries held for investment purposes total**	305	303
Collective investment schemes total	-	2
Deposits received from reinsurers total	(56)	(85)
Total level 3 financial instruments	2,739	3,168

*Please note that the 2021 balance has been re-presented to provide additional clarity.

Sensitivities of level 3 financial instruments

	2022 Fair value £m	2021 Fair value £m
Forward private placements, infrastructure and local authority loans		
65 bp increase in spread	(78)	(156)
65 bp decrease in spread	78	156
35 bp increase in spread	(14)	(19)
35 bp decrease in spread	14	19
Other illiquid assets		
65 bp increase in spread	(2)	(1)
65 bp decrease in spread	2	1
35 bp increase in spread	-	-
35 bp decrease in spread	-	-

Significant inputs and input values for Level 3 instruments

Description	**Valuation technique**	**Significant inputs**	**Key unobservable input value**	
			2022	**2021**
Debt securities				
Commercial mortgages	DCF model[1]	Credit spread	257bps (weighted average)	221bps (weighted average)
Unquoted corporate bonds/ private placements	DCF model[1]	Credit spread	200bps (weighted average)	154bps (weighted average)
Local authority loans	DCF model[1]	Credit spread	142bps (weighted average)	134bps (weighted average)
Infrastructure loans	DCF model[1]	Credit spread	215bps (weighted average)	182bps (weighted average)
Equity	Net asset value statements[2]	N/A	N/A	N/A
Subsidiaries held for investment purposes	Net asset value statements[2]	N/A	N/A	N/A
Collective investment schemes	Net asset value statements[2]	N/A	N/A	N/A

1. *DCF model:* Except where otherwise stated, the discount rate used is based on a risk-free curve and a credit spread. The spread is derived from a basket of comparable securities
2. *Net asset value statements*: See above in level 2 instruments and instruments measured at amortised cost

For other illiquid assets, there are no reasonably possible movements in unobservable input values which would result in a significant movement in the fair value of the financial instruments.

For those assets valued using net asset value statements (equities and collective investment schemes) no sensitivity information has been prepared as the net asset statements are provided by independent third parties.

Movement in level 3 financial instruments measured at fair value
Financial assets 2022

	Derivatives £m	Equities £m	Debt securities £m	Collective investment scheme £m	Investment in subsidiaries £m	Total £m
At 1 January 2022	1	-	2,949	2	303	3,255
Total gains/ (losses) in Statement of comprehensive income	(1)	(34)	(596)	-	7	(624)
Purchases	-	3	436	-	13	452
Disposals	-	(7)	(302)	(2)	-	(311)
Transfers in from level 1 and level 2	-	41	-	-	-	41
Capital repayment from ERIP LP	-	-	-	-	(18)	(18)
At 31 December 2022	-	3	2,487	-	305	2,795
Unrealised gains/(losses) in the period on assets held at end of year	-	(36)	(584)	-	4	(616)

Movement in level 3 financial instruments measured at fair value
Financial assets 2021

	Derivatives £m	Equities £m	Debt securities £m	Collective investment scheme £m	Investment in subsidiaries* £m	Total £m
At 1 January 2021	5	5	2,424	-	269	2,703
Total gains/ (losses) in Statement of comprehensive income	(4)	(4)	38	-	2	32
Purchases	-	-	1,792	2	32	1,826
Disposals	-	-	(1,305)	-	-	(1,305)
Transfers in from level 1 and level 2	-	(1)	-	-	-	(1)
At 31 December 2021	1	-	2,949	2	303	3,255
Unrealised gains/(losses) in the period on assets held at end of year	-	(4)	60	-	-	56

*Please note that this balance has been re-presented to provide additional clarity.

Financial liabilities 2022

	Deposits received from reinsurers £m	Total £m
At 1 January 2022	85	85
Total losses in Statement of comprehensive income	(29)	(29)
At 31 December 2022	56	56
Unrealised losses in the period on liabilities held at end of year	(29)	(29)

Financial liabilities 2021

	Deposits received from reinsurers £m	Total £m
At 1 January 2021	97	97
Total losses in Statement of comprehensive income	(12)	(12)
At 31 December 2021	85	85
Unrealised losses in the period on liabilities held at end of year	(12)	(12)

21. Structured Entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements.

The Company has determined that all of its investments in collective investment schemes are structured entities. These investments are presented in the Statement of Financial Position as either investment subsidiaries or as Collective investment schemes, in accordance with the Company's accounting policies (see note 2). In addition, a number of debt security structures and private equity funds have been identified as structured entities. The Company has assessed that it has interests in the following types of structured entity:

- Unit trusts
- OEICs
- SICAVs
- Limited Partnerships
- Private Equity Funds (PEFs)
- Liquidity funds
- Asset-backed securities
- Collateralised Debt Obligation (CDOs)
- Other debt structures

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

The Company has not provided any non-contractual financial or other support to any structured entities and there are no current intentions to do so.

The Company's interests in structured entities are held at fair value through profit or loss. Any change in fair value is included in the Statement of comprehensive income in 'net investment income'.

	2022 £m	2021 £m
Investment in subsidiaries	1,596	1,780
Debt securities	2,303	4,764
Equities	3	5
Collective investment schemes	15,086	17,990
Commercial real estate loans	733	913
	19,721	25,452

The determination of the fair value and fair value hierarchy disclosure will be presented in note 20.

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

22. Tax assets and liabilities

	2022	2021
	£m	£m
Current Tax		
Current tax receivable	145	104

There are no amounts recoverable after 12 months (2021: nil).

Movement in deferred tax assets and liabilities

Year ended 31 December 2022	At 1 January	Adjustments in respect of prior years	Recognised in the Statement of comprehensive income	At 31 December
	£m	£m	£m	£m
Capital losses	28	-	(11)	17
Present value of future losses	(1)	-	-	(1)
Transitional adjustment arising on movement to new tax regime	4	-	(4)	-
Unrealised chargeable gains	(224)	(3)	128	(99)
Deferred acquisition expenses	10	-	(1)	9
Capital allowances	4	-	(1)	3
Excess expenses c/f	-	-	167	167
	(179)	(3)	278	96

Movement in deferred tax assets and liabilities

Year ended 31 December 2021	At 1 January	Adjustments in respect of prior years	Recognised in the Statement of comprehensive income	At 31 December
	£m	£m	£m	£m
Capital losses	31	-	(3)	28
Present value of future losses	(1)	-	-	(1)
Transitional adjustment arising on movement to new tax regime	8	-	(4)	4
Unrealised chargeable gains	(138)	5	(91)	(224)
Deferred acquisition expenses	11	-	(1)	10
Capital allowances	-	4	-	4
	(89)	9	(99)	(179)

The standard rate of UK corporation tax for the accounting period is 19% (2021: 19%).

An announcement was made in the UK budget, March 2021 to increase the rate of corporation tax to 25% from 1 April 2023. This was enacted on 10 June 2021 and accordingly, the relevant deferred tax balances have been measured at 25%.

IFRIC 23 is applied when there is uncertainty over income tax treatment under IAS 12.

Separately, companies in the UK life insurance industry have challenged HMRC's position on the corporation tax treatment of overseas portfolio dividends from companies resident in the EU ("EU dividends") using a Group Litigation Order ("GLO"). The issue relates to whether the UK tax rules, which taxed EU dividends prior to 1 July 2009, was contrary to EU law given that dividends received from UK companies were exempt from tax. In 2009 UK tax law was changed with both overseas and UK dividends being treated as exempt from corporation tax. As a result of the business transfer from L&G, a tax refund for the benefit of the Company's with-profit and unit linked funds has been recognised totalling £55.0m in 2020. The 2021 tax creditor included £4.2m tax payable relating to this matter that was settled in the period.

There is also a technical matter which is currently being discussed with HMRC in relation to the L&G insurance business transfer to the Company. These discussions are not sufficiently progressed at this stage for recognition of any tax benefit arising.

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. In relation to the excess expenses carried forward and the capital losses deferred tax assets recognised (in excess of deferred tax liabilities recognised on unrealised chargeable gains), their valuation was supported by accounting projections based on the recoverability over a 15 year period of these assets. The accounting projections were based on the forecasts that are used to drive Management decisions and establish KPIs. In this regard, IFRS 4 projections have been used, rather than IFRS 17; however sensitivity analysis has been undertaken to ensure appropriateness.

The Company has gross trading losses of £97m (2021: nil) that are projected to be utilised, however no value has been attributed to these deferred tax assets given the interaction with other deductible temporary differences.

The Company also has capital losses that have a potential value of £38m (2021: £26m) that are not recognised because, based on forecasts, they are not expected to be utilised.

The valuation of the trading losses and the capital losses are undertaken on the basis that no tax benefit arises in relation to the technical matter being discussed with HMRC in relation to the L&G insurance business transfer to the Company, mentioned above.

23. Accrued income

	2022 £m	2021 £m
Accrued income	53	61
Amount recoverable after 12 months	10	25

24. Other receivables

	Note	2022 £m	2021 £m
Investment broker balances		171	120
Collateral receivables		657	128
Amounts due from related parties	38	3	14
Property related receivables		-	36
Taxation: Group relief receivables		-	5
Overseas tax recoverable		45	36
Other receivables		51	10
		927	349

There are no amounts recoverable after 12 months (2021: nil).

For further details on related parties see note 38.

25. Contract assets

	2022 £m	2021 £m
At 1 January	166	196
Amortisation	(33)	(30)
At 31 December	133	166

On 31 December 2019, ReAssure Group plc acquired RLL (formerly known as Old Mutual Life Assurance Limited) from Quilter plc. Upon the acquisition of RLL, an IGR arrangement was put in place, which transfers the vast majority of the shareholder risk and rewards of the RLL business into the Company in return for an advanced claim amount and reinsurance premium.

The IGR covers the insurance component of the unit linked business, including both UK and the non-UK business, net of external reinsurance recoveries.

The contract asset represents the advanced claim paid by the Company to RLL as per the IGR contract. The contract asset was calculated based on a pricing model agreed between RLL and the Company. The contract asset is amortised as the cash flows emerge on the underlying contracts.

26. Share capital

	2022 £m	2022 Number	2021 £m	2021 Number
Issued and fully paid:				
Ordinary shares of £1 each	387	387,000,000	387	387,000,000
	387	387,000,000	387	387,000,000

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

The holders of the ordinary shares are entitled to one vote per share on matters to be voted on by owners and to receive such dividends, if any, as may be declared by the Board of Directors in its discretion out of legally available profits.

27. Other reserves

	Capital contribution reserve £m	Owner-occupied revaluation reserve £m	Total £m
At 1 January 2022	683	1	684
Revaluation	-	-	-
At 31 December 2022	683	1	684
At 1 January 2021	683	-	683
Revaluation	-	1	1
At 31 December 2021	683	1	684

Capital contribution reserve
The capital contribution reserve includes £33m of non-distributable reserves. The remaining £650m capital contributions received have been treated as capital as there is no agreement for repayment.

Owner-occupied property revaluation reserve
The owner-occupied property revaluation reserve has arisen due to an increase in fair value subsequent to initial recognition.

28. Liabilities under insurance contracts

	Gross liabilities 2022 £m	Reinsurers' share 2022 £m	Gross liabilities 2021 £m	Reinsurers' share 2021 £m
Life assurance business:				
Insurance contracts	16,912	368	23,033	848
Investment contracts with DPF	4,779	-	5,794	-
	21,691	368	28,827	848
Amounts due for settlement after 12 months	19,472	288	25,978	689

	Gross liabilities 2022 £m	Reinsurers' share 2022 £m	Gross liabilities 2021 £m	Reinsurers' share 2021 £m
At 1 January	28,827	848	31,465	1,104
Premiums	291	273	327	313
Claims	(2,234)	(331)	(2,454)	(344)
Other changes in liabilities	(5,193)	(422)	(511)	(225)
At 31 December	21,691	368	28,827	848

Included in other changes in liabilities are changes in assumptions and economic and non-economic experience.

Assumptions

Valuation of participating insurance and investment contracts

For participating business, which is with-profits business (insurance and investment contracts), the insurance contract liability is stated at the amount of the realistic value of the liabilities, adjusted to exclude the owners' share of future bonuses and the associated tax liability. This is a market consistent valuation, which involves placing a value on liabilities similar to the market value of assets with similar cash flow patterns.

For participating business in the LGWPF, NMWPF, and WLWPF the liabilities are calculated on a stochastic basis using an appropriate number of risk neutral scenarios produced by an economic scenario generator calibrated to market conditions and the PRA swap curve plus 36bps.

For participating business in the GAWPF the liabilities (including policy options and guarantees) are calculated on a deterministic basis using the PRA swap curve less investment expenses of 6.1bps plus a liquidity premium of 83bps in respect of assets backing the fund's liabilities. Stochastic modelling has not been used because the fund applies a close matching investment policy, which has been adopted to such an extent that the fixed interest portfolio is effectively a replicating portfolio for the guarantees and options within the fund.

Valuation of non-participating insurance contracts

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

Unit linked insurance contracts are measured at current unit values, which reflect the fair values of the assets of the underlying unit linked funds. Current unit values are taken to be:

- for contracts unit linked to external unit trusts, the bid value of the units allocated to policies as at the valuation date; and
- for contracts unit linked to internal funds, the value of the underlying assets as at the valuation date.

An additional reserve is held where it is estimated the future cash outflows of unit-linked policies cannot be covered by future cash inflows.

Process used to determine assumptions

The approach to the valuation of insurance contracts in the financial statements is as follows:

- For non-participating business in the Matching Adjustment (MA) annuity fund, gross annuity business is discounted using the PRA swap curve increased by the MA. The MA rate is calculated using a risk-adjusted yield in excess of the PRA swap curve taking a specified portfolio of assets and matching cash flows on the liabilities. Reinsurance annuity business is discounted using the PRA swap curve. The size of the MA rate depends on the actual spread on the Matching Portfolio of assets, and the credit quality of those assets. The MA rate applied at 31 December 2022 is 0.94% (31 December 2021 is 0.51%).

- Other non-participating business is discounted using the PRA 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 and investment 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 material changes during the year were as follows:

	Increase/ (decrease) in insurance liabilities 2022 £m	Increase/ (decrease) in insurance liabilities 2021 £m
Change in longevity assumptions	(34)	(113)
Change in expense assumptions	20	32
Change in mortality assumptions	-	(3)
Change in persistency assumptions	1	(3)
Change in other assumptions	-	-

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

For non-participating insurance contract liabilities, the Company sets assumptions at management's best estimates and recognises an explicit prudence margin for demographic risks. Following harmonisation of significant processes, the Company has recalibrated its prudence margin to align with other life companies in the Phoenix Group. This has led to an increase in the profit for the current year of £272m.

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.

Expense assumptions
The assumptions for future policy expense levels are set in line with the rates defined by Management Service Agreements (MSA) in place between the Company and a number of service companies (some of them external and some controlled by the Company). The MSAs provide policy administration and support services and in return regular payments are due to the service companies. These payments increase each year with inflation, but reduce for policy run-off.

Future payments are included in the liabilities by way of per policy expense assumptions and incorporate an annual inflation rate specified by the MSA.

An allowance for future investment expenses is also included in the liabilities.

Persistency assumptions
Persistency assumptions are set by reference to the Company's own recent experience, allowing for the expected effects of any known changes in the economic or regulatory environment (for example, the introduction of pensions flexibility arrangements).

For pension policies, the assumed lapse and retirement rates generally depend on the age of the policyholder. For life policies, the assumed lapse rates generally depend on the period that the policy has been in force.

Separate assumptions apply for the proportion of policies made paid-up each year.

Policyholder options and guarantees
Some of the Company's products give potentially valuable guarantees, or give options to change policy benefits which can be exercised at the policyholders' discretion. These options and guarantees are described below.

The Company's unit linked policies in general have no guarantees of significance, although a small number of policies benefit from a guaranteed minimum annuity rate at retirement. The cost of this is calculated using a similar approach as for the with profit policies. Non profit policies have fixed guaranteed benefits, in the form either of a payment at or from a specified date in the future or a series of regular payments throughout life.

The with profit policies in the LGWPF, NMWPF and WLWPF benefit from three main types of guarantee; minimum benefit guarantees, annuity guarantees and investment guarantees.

1. Most policies have a guaranteed minimum cash value at their maturity date (the LGWPF and WLWPF contain a number of with profit annuities-in-payment which have guaranteed minimum payments each year). The level of the guarantee depends on the type of policy, and is increased periodically through the addition of bonuses. For some policies, the guarantee extends across a range of dates, with the level being recalculated as appropriate. The total amount provided in the with-profits funds in respect of the future guaranteed minimum cash values are £304m (2021: £513m).

2. Annuity guarantees contractually guarantee how the pension fund is converted into an annuity at retirement. The most common of these types of annuity guarantee in LGWPF, NMWPF and WLWPF is a Guaranteed Annuity Rate (“GAR”). These specify a guaranteed annuity rate that will be used to convert the pension fund into cash. The total amount provided in the with-profits funds in respect of the future costs of guaranteed annuity options are £131m (2021: £323m).

3. Lastly, both LGWPF and WLWPF have investment guarantees in the form of a minimum guaranteed bonus or accumulation rate. This is usually set far above the supportable rate and hence increases the policyholders guaranteed benefits by a higher amount than would be the case otherwise. The total amount provided in the with-profits funds in respect of the future guaranteed minimum cash values for policies with minimum guaranteed bonus rates are £32m (2021: £46m). This value is part of the £304m (2021: £513m) total guaranteed minimum cash value shown in (1) above.

The split of the guarantee costs above between the three with-profit funds is shown in the following table:

	Guarantee costs 2022		Guarantee costs 2021	
	Minimum Benefit Guarantees	Annuity Guarantees	Minimum Benefit Guarantees	Annuity Guarantees
	£m	£m	£m	£m
With-profits Fund				
LGWPF	289	76	489	195
NMWPF	3	43	3	104
WLWPF	12	12	21	24
	304	131	513	323

Minimum benefit guarantees include 1 & 3 from the points before the table and annuity guarantees relate to 2.

With profits deferred annuities in GAWPF have a guaranteed minimum cash value at their maturity date. A prospective basis has been used for deferred annuities. These future cash flows include the shareholders’ share of reversionary bonus on with profits deferred annuities that have been reinsured to the Non Profit Fund. The equity component of the asset share has also been calculated and added to the with profits benefit reserve.

Discretionary participating bonus rate

The regular bonus rates assumed in each scenario are determined in accordance with the Company’s PPFM. Final bonuses are assumed at a level such that maturity payments will equal asset shares subject to smoothing rules set out in the PPFM.

With-profits deferred annuities participate in profits only up to the date of retirement. At retirement, a guaranteed cash option allows the policyholder to commute the annuity benefit into cash on guaranteed terms.

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		Reinsurance
	Insurance contracts	Investment contracts with DPF	Insurance contracts
	£m	£m	£m
With-profits funds			
Pensions			
Deferred annuities – with guarantees	920	-	-
Deferred annuities – without guarantees	786	289	-
Immediate annuities	482	-	-
Unitised with-profits	48	4,132	-
Total pensions	2,236	4,421	
Life			
Immediate annuities	143	-	-
Unitised with-profits	2,399	358	-
Life with-profits	320	-	4
Total life	2,862	358	4
Other	117	-	-
Non-profit funds			
Deferred annuities – with guarantees	306	-	-
Deferred annuities – without guarantees	11	-	-
Immediate annuities	8,428	-	363
Protection	297	-	1
Unit-linked	2,625	-	-
Other	30	-	-
	16,912	4,779	368

2021	Gross		Reinsurance
	Insurance contracts	Investment contracts with DPF	Insurance contracts
	£m	£m	£m
With-profits funds			
Pensions			
Deferred annuities – with guarantees	1,425	-	-
Deferred annuities – without guarantees	743	341	-
Immediate annuities	570	-	-
Unitised with-profits	60	5,029	-
Total pensions	2,798	5,370	-
Life			
Immediate annuities	178	-	-
Unitised with-profits	2,838	424	-
Life with-profits	427	-	4
Total life	3,443	424	4
Other	159	-	-
Non-profit funds			
Deferred annuities – with guarantees	549	-	-
Deferred annuities – without guarantees	13	-	-
Immediate annuities	12,565	-	843
Protection	401	-	1
Unit-linked	3,068	-	-
Other	37	-	-
	23,033	5,794	848

With-profits fund (Unitised and Traditional)
The Company operates a number of with-profits funds in which the with-profits policyholders benefit from a discretionary annual bonus (guaranteed once added in most cases) and a discretionary final bonus. Non-profit business is also written in some of the with-profits funds and some of the funds may include investment contracts, immediate annuities and deferred annuities with and without guarantees.

The investment strategy of each fund differs but is broadly to invest in a mixture of debt securities, equities, property and other asset classes in such proportions as is appropriate to the investment risk exposure of the fund and its capital resources.

The Company has significant discretion regarding investment policy, bonus policy and early termination values. The process for exercising discretion in the management of the with-profits funds is set out in the PPFM for each with-profits fund and is overseen by With-Profits Committees. Advice is also taken from the with-profits actuary of each with-profits fund. Compliance with the PPFM is reviewed annually and reported to the PRA and policyholders.

The bonuses are designed to distribute to policyholders a fair share of the return on the assets in the with-profits funds together with other elements of the experience of the fund.

Unitised and traditional with-profits policies are exposed to equivalent risks, the main difference being that unitised with-profits policies purchase notional units in a with-profits fund whereas traditional with-profits policies do not. Benefit payments for unitised policies are then dependent on unit prices at the time of a claim, although charges may be applied. A unitised with-profits fund price is typically guaranteed not to fall and increases in line with any discretionary bonus payments over the course of one year. The LGWPF unitised with-profits funds increase the number of fixed price units in line with discretionary bonus payments, rather than increasing the unit price.

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. Deferred annuity policies written to provide a cash benefit may also contain an option to convert the cash benefit to an annuity benefit on guaranteed terms; these are known as GAR policies.

During the last decade, interest rates and inflation have fallen and life expectancy has increased more rapidly than was anticipated when the contracts were written. The guaranteed terms on GAR policies are more favourable than the annuity rates currently available in the market. Deferred annuity policies which are written to provide annuity benefits are managed in a similar manner to immediate annuities and are exposed to the same risks, with the addition of persistency in the period prior to conversion to an immediate 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, or may escalate in line with a price index 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 (appropriately collateralised). Annuities may also be a partial 'natural hedge' against losses incurred in protection business in the event of increased mortality (and vice versa) although the extent to which this occurs will depend on the similarity of the demographic profile of each book of business.

Investment risk, which is made up of market and credit risk, depends on the extent to which the annuity payments under the contracts have been matched by suitable assets which is managed under the asset/ liability modelling ("ALM") framework.

Protection
These contracts are typically secured by the payment of a regular premium payable for a period of years providing benefits payable on certain events occurring within the period. The benefits may be a single lump sum or a series of payments and may be payable on death, serious illness or sickness.

The main risk associated with this product is the claims experience and this risk is managed through the initial pricing of the policy (based on actuarial principles), the use of reinsurance and a clear process for administering claims.

29. Borrowings

	2022	2021
	£m	£m
Borrowings:		
Loan from ERIP LP	234	234
Loan from ReAssure LL Limited	5	5
Loan from ReAssure PM Limited	4	4
Loan from Phoenix Group Holdings Plc	718	-
	961	243

On 31 December 2022 the Company's ultimate parent company, PGHP, issued a contingent loan of £718m to the Company with an interest rate of SONIA + 2.95%. Interest is capped at the level of unit linked surplus emerging in the quarter. The loan repayments will be equal to the unit linked surplus emerging in the quarter, less the interest paid. The loan repayments and interest payments will be made quarterly in arrears.

The unsecured loan of £234m with ERIP LP was transferred to the Company as part of the GE Life acquisition and attracts a commercial rate of interest. Interest rate is based on SONIA Solvency II curve. The Lender is at any time entitled, by written notice to the Borrower, to demand immediate repayment of all or part of the loan outstanding. The Company has the right but not the obligation to repay the principal amount subject to a maximum annual limit determined by the value of the property sales made by ERIP LP during the year.

The unsecured loans from ReAssure LL Limited and ReAssure PM limited accrue no interest and are repayable on demand.

30. Unallocated surplus

	2022	2021
	£m	£m
At 1 January	456	424
Recognised in the statement of comprehensive income	(59)	32
At 31 December	397	456

31. Other financial liabilities

	2022	2021
	£m	£m
Obligations for repayment of collateral received	61	141
Property related liabilities	16	14
Investment broker balances	15	8
Other payables	13	26
	105	190

There are no amounts due for settlement after 12 months (2021: nil).

Further information on the Company's collateral arrangements is also provided in note 19.

32. Provisions

	Redress provision £m	HMRC provision £m	Other £m	Total £m
At 1 January 2022	9	8	3	20
Additions in the year	-	1	1	2
Utilised during the year	(3)	(1)	-	(4)
Released during the year	(4)	(1)	-	(5)
At 31 December 2022	2	7	4	13
Amount due for settlement after 12 months	-	-	2	2

Redress provision

The redress provisions are for monies owed to customers due to various system and human errors which occurred on numerous dates during the period 2013 to 2020. These redress provisions were transferred to the Company on 7 September 2020 under the terms of the L&G Part VII transfer.

During the period c.13k policies were paid up, which utilised £3m of the L&G provision, in addition, there was a £4m release in line with policy holder terms and conditions.

HMRC provision

The £7m HMRC provision relates to a pre Guardian Assurance Limited acquisition breach of HMRC regulations. In 2018, the Company self-reported a breach of HMRC regulations in a limited number of annuities after the lack of provision of standard lifetime allowance details from an acquired block of business. The Company is working with the third party provider to rectify this breach before any settlement conclusion will be reached with HMRC. The maximum exposure for all breaches in this regard is approximately £140m for the period under the Company's ownership to date. However, the disclosure to HMRC was unprompted and believe that a negotiated outcome will be settled with HMRC for a significantly lower amount.

33. Other payables

	2022 £m	2021 £m
Amount due to related parties	23	20
Taxation: Group relief payables	63	-
	86	20

There are no amounts due for settlement after 12 months (2021: nil).

34. Cash flows

Cash flows from operating activities

	2022 £m	2021 £m
Profit for the year before tax	120	176
Non-cash movements in profit for the year before tax		
Fair value losses/(gains) on:		
Investment property	254	(224)
Subsidiaries held for investment purposes	114	(202)
Other financial assets and liabilities	8,130	(1,714)
Disposal of Ark Life	-	35
Amortisation of:		
Intangible assets	52	62
Contract assets	33	31
Change in unallocated surplus	(59)	32
Change in deposits received from reinsurers	(26)	4
Interest expense on borrowings	2	-
Interest expense on deposits received from reinsurers	4	5
Interest income on debt securities	(615)	(663)
Interest income on other	(31)	(5)
Changes in operating assets and liabilities		
Change in net investment properties additions/ disposals	84	(24)
Change in investment assets	4,867	5,540
Change in net derivative assets/liabilities	(207)	(42)
Change in reinsurance assets	562	395
Change in obligations for repayment of collateral received	(79)	(215)
Change in other assets	(544)	43
Change in other liabilities	(33)	(80)
Change in insurance contract and investment contract liabilities	(11,775)	(1,708)
Cash generated from operations	853	1,446

35. Capital management

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.

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"). The Company calculates its SCR on the standard formulae basis in accordance with the SII regulations. The Company is required to meet the SCR at each quarterly valuation date. SII surplus is the excess of Eligible Own Funds over the SCR.

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

Surplus funds in the with-profit funds are restricted and can only be included in Eligible Own Funds up to the value of the SCR they are used to support.

The estimated SII surplus position (unaudited) at 31 December 2022 is presented in the Strategic report on page 3.

The Company did not breach the SCR at any time during the year.

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.

36. 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 Company'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 financial failure, reputational loss, loss of earnings and/or value arising from inappropriate or 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 and Level 3 risks. This helps to further explain our attitude to these risks.

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 TCFD within the Group's 2022 Annual Report and Accounts.

Intra-Group Retrocession

The Company has reinsurance agreement with a fellow Group company, RLL which transfers all the risks and rewards of RLL's insurance business to the Company.

The business reinsured consists primarily of unit linked pension business but also covers a portfolio of non-linked protection business. The reinsured business is within the Company's risk appetite and the ongoing risks are managed in accordance with the Group's RMF.

(b) 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.

(c) 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 With-Profit Actuaries and 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 ALM framework relies on the matching of assets and liabilities arising from insurance and investment contracts, taking into account the types of benefits payable to policyholders under each type of contract. Separate portfolios of assets are maintained for with-profits business, which includes all of the Company's participating business, non-linked non-participating business and unit-linked business.

LIBOR transition

In 2021, the Company largely completed its transition from LIBOR to the replacement Risk Free Rates. The programme completed a systematic process to identify and address balance sheet exposures with LIBOR dependencies. All derivative exposures and the majority of non-derivative asset exposures were successfully transitioned over the course of the programme in 2021. Insurance contract liabilities and related items transitioned to the SONIA Solvency II curve published by the PRA with an adjustment of 36bps. The remaining residual exposures as at 31 December 2021 related to indirect exposures in a small proportion of liquid and illiquid credit assets, and a direct exposure of £55 million in relation to two illiquid credit assets referencing Sterling LIBOR. These residual exposures have largely been transitioned during the year and at 31 December 2022 a small amount of indirect illiquid credit exposure remains. This relates to two loans with M&G that pay a fixed rate of interest and LIBOR is only relevant on a prepayment. The Company does not anticipate a prepayment and this issue does not affect the fair value of the loans.

(d) 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 risk appetite less than 1 in 200 chance of having insufficient liquid or tangible assets to meet financial obligations as they fall due and is supported by:

- Holding appropriate assets to meet liquidity buffers;
- Holding high quality liquid assets to support day to day operations;
- An effective stress testing framework to ensure survival horizons are met under different plausible scenarios;
- Effective liquidity portfolio management; and
- Liquidity risk contingency planning

Liquidity forecasts that show headroom against liquidity buffers across a range of time horizons is monitored on a monthly basis across all funds and liquidity pools. In the event of a liquidity shortfall, this would be managed in line with the Contingency Liquidity Plan where the latest available contingent management actions would be considered. In addition the Company performs periodic reviews of its liquidity risks, monitors risk indicators, and performs stress testing on these risks to define minimum liquid asset requirements and assess resilience of available actions. This mitigates the risk that the Company does not have appropriate liquidity under severe stress conditions.

For annuity contracts, assets are held which are specifically chosen with the intention of matching the expected timing of annuity payments. The Company actively manages and monitors the performance of these assets against liability benchmarks and liquidity risk is minimised through the process of planned asset and liability matching.

For non-participating unit-linked contracts, a core portfolio of assets is maintained and invested in accordance with the mandates of the relevant unit-linked funds. Policyholder behaviour and the trading position of asset classes are actively monitored. The unit price and value of any associated contracts would reflect the proceeds of any sales of assets

Investment contract policyholders have the option to terminate or transfer their contracts in part or in full at any time and to receive the surrender or transfer value of their policies. Although these liabilities are payable on demand, and are therefore included in the contractual maturity analysis as due within one year, the Company does not expect all these amounts to be paid out within one year of the reporting date. Such surrenders would be matched in practice, if necessary, by sales of underlying assets and mass lapses are considered within liquidity requirements. The Company can delay settling liabilities to unit-linked policyholders to ensure fairness between those remaining in the fund and those leaving the fund. The length of any such delay is dependent on the underlying financial assets.

In extreme circumstances, the Company could be exposed to liquidity risk in its unit-linked funds. This could occur where a high volume of surrenders coincides with a tightening of liquidity in a unit-linked fund to the point where assets of that fund have to be sold to meet those withdrawals. Where the fund affected consists of less liquid assets such as property, it can take several months to complete a sale and this would impede the proper operation of the fund. In these situations, the Company considers its risk to be low since there are steps that can be taken first within the funds themselves both to ensure the fair treatment of all investors in those funds and to protect the Company's own risk exposure. If considered necessary, deferral terms within the policy conditions are invoked.

A significant proportion of the Company's financial assets are held in gilts, cash, supranationals and investment grade securities 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's central banks including the Bank of England.

(e) Contractual discounted maturities

The following table provides a maturity analysis showing the remaining contractual maturities of the Company's discounted 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 £m	1-5 years £m	Greater than 5 years £m	Total £m
Liabilities under insurance contracts	2,219	6,081	13,391	21,691
Investment contracts	30,119	-	-	30,119
Deposits received from reinsurers	7	21	28	56
Derivatives	116	152	1,236	1,504
Other financial liabilities	105	-	-	105
Reinsurance payables	43	-	-	43
Payables related to direct insurance contracts	648	-	-	648
Accruals and deferred income	26	4	-	30
Other payables	86	-	-	86

2021

	1 year or less or on demand £m	1-5 years £m	Greater than 5 years £m	Total £m
Liabilities under insurance contracts	2,850	8,152	17,825	28,827
Investment contracts	34,858	-	-	34,858
Deposits received from reinsurers	8	28	49	85
Derivatives	31	11	136	178
Other financial liabilities	190	-	-	190
Reinsurance payables	36	-	-	36
Payables related to direct insurance contracts	604	-	-	604
Accruals and deferred income	34	1	-	35
Other payables	20	-	-	20

(f) 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 35 gives more detail on how capital and capital management risk are managed.

(g) 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.

(h) 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 risk typically arises from exposure to equity, property and fixed income asset classes and the impact of changes in interest rates, inflation rates and currency exchange rates.

The Company is mainly exposed to market risk as a result of:

- the mismatch between liability profiles and the related asset investment portfolios;
- the investment of surplus assets including owners' reserves yet to be distributed, surplus assets within the long-term funds and assets held to meet regulatory capital and solvency requirements; and
- the income flow of management charges from the invested assets of the business.

The Company manages the levels of market risk that it accepts through the operation of a Market Risk Policy, using a number of controls and techniques including:

- Defined lists of permitted securities and/or application of investment constraints and portfolio limits;
- Clearly defined investment benchmarks for policyholder and shareholder funds;
- Stochastic and deterministic asset/liability modelling;
- Active use of derivatives to improve the matching characteristics of assets and liabilities and to reduce the risk exposure of a portfolio; and
- Setting risk limits for main market risks and managing exposures against these appetites.

All operations comply with regulatory requirements relating to the taking of market risk.

Assets in the shareholder funds are managed against benchmarks that ensure they are diversified across a range of asset classes, instruments and geographies that are appropriate to the liabilities of the funds or are held to match the cash flows anticipated to arise in the business. A combination of limits by name of issuer, sector, geographical region and credit rating are used where relevant to reduce concentration risk among the assets held.

The assets of the participating business are principally managed to support the liabilities of the participating business and are appropriately diversified by both asset class and geography, considering:

- The economic liability and how this varies with market conditions;
- The need to invest assets supporting participating business in a manner consistent with the participating policyholders' reasonable expectations and PPFM; and
- The need to ensure that regulatory and capital requirements are met.

In practice, an element of market risk arises as a consequence of the need to balance these considerations, for example, in certain instances participating policyholders may expect that equity market risk will be taken on their behalf, and derivative instruments may be used to manage these risks.

Markets remain volatile particularly given increased inflation and action by central banks to reduce these pressures on economies whilst balancing the need to aid post pandemic recovery. This is noted in the Strategic Report principal risk section.

(i) Market Risk: Interest rate and inflation risk

Interest rate (and inflation) risk is the risk that changes in long term interest rates or inflation rates (or the volatilities of these rates) could lead to reduction in asset values relative to liabilities which may result in losses for policyholders and shareholders.

The main financial assets held by the Company which give rise to interest rate risk are debt securities, loans and deposits, cash and cash equivalents. Insurance and investment contract liabilities exposed to interest rate risk principally comprise non-unit-linked liabilities. Other financial liabilities subject to interest rate risk include derivative financial instruments and borrowings.

The Company is required to manage its interest rate exposures in line with the Company's qualitative risk appetite statements, quantitative risk metrics and any additional hedging benchmarks. Interest rate risk is managed by matching assets and liabilities where practicable and by entering into derivative arrangements for hedging purposes where appropriate. This is particularly the case for the non-profit funds. For with-profit business, some element of investment mismatching is permitted where it is consistent with the principles of treating customers fairly. The with-profits funds of the Company provide capital to allow such mismatching to be effected. In practice, the Company maintains an appropriate mix of debt securities according to the underlying insurance or investment contracts and will review this at regular intervals to ensure that overall exposure is kept within the risk profile agreed for each particular fund. This also requires the maturity profile of these assets to be managed in line with the liabilities to policyholders.

With-profits business and non-participating business within the with-profits funds are exposed to interest rate risk as guaranteed liabilities are valued relative to market interest rates and investments include debt securities and derivatives. For with-profits business the profit or loss arising from mismatches between such assets and liabilities is largely offset by increased or reduced discretionary policyholder benefits.

The matching of movements in liabilities and hedging assets under several stresses is used to minimise the interest rate risk that arises from mismatches between participating contract liabilities and the assets backing those liabilities. Cash flow matching is used to minimise the interest rate risk that arises in the participating business from mismatches between non-participating insurance contract liabilities and the assets backing those liabilities. A combination of debt securities and derivative financial instruments are held to assist in the management of interest rate sensitivity arising in respect of the cost of guarantees.

A sensitivity analysis for interest rate risk is presented in section (q) below.

(j) Market Risk: Currency risk

Currency Risk is the risk of changes in the value of currencies could lead to reductions in asset values which may result in losses for policyholders and shareholders.

The Company's financial assets are generally denominated in the same currencies as its insurance and investment liabilities. Thus the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which insurance and investment liabilities are expected to be settled and, indirectly, from the earnings of UK companies arising abroad. This exposure is managed through the use of derivatives.

The Company is exposed to currency risk fluctuations impacting the income flow of management charges from the invested assets of unit-linked funds; this is primarily managed against risk appetites through the use of derivatives.

Certain with-profits funds have an exposure to overseas assets which is not driven by liability considerations. The purpose of this exposure is to reduce overall risk whilst maximising returns by diversification. This exposure is limited and managed through investment mandates which are subject to the oversight of the Enterprise Asset Management Committee and Board Investment Committees.

(k) Market Risk: Equity and property price risk

The Company is exposed to the risk reductions in the valuation of equities (or changes in the volatility) or property investments which could result in reductions in asset values and losses for policyholders or shareholders. In this context, equity assets should be taken to include shares, equity derivatives, equity collectives and unlisted equities. Property assets include direct property investment, shares in property companies, property collectives and structured property assets.

Equity and property price risk is primarily borne in respect of assets held in with-profits funds, unit-linked funds**.** For unit-linked funds this risk is borne by policyholders and asset movements directly impact unit prices and hence policy values. For with-profits funds policyholders' future bonuses will be impacted by the investment returns achieved and hence the price risk. In addition some equity investments are held in respect of owners' funds.

The Company's objective in holding these assets is to earn higher long-term returns by investing in a diverse portfolio of high quality equities and properties.

Equity and property price risk is managed through the agreement and monitoring of financial risk profiles that are appropriate for maintaining adequate regulatory capital and treating customers fairly. Exposures to equity securities are primarily controlled through the use of investment mandates including constraints based on appropriate equity indices. Portfolio characteristics are analysed regularly and price risks are actively managed in line with investment mandates. The Company's holdings are diversified across industries, and concentrations in any one company or industry are limited. For the participating business, exposures are also partially hedged through the use of derivatives. Exposures to property holdings are primarily controlled through the use of portfolio limits which specify the proportion of the value of the total property portfolio represented by any one property or group of property, geographic area, or property type.

The Company as a whole is exposed to price risk fluctuations impacting the income flow of management charges from the invested assets of all funds; this is primarily managed through the use of derivatives.

A sensitivity analysis for equity risk is presented in section (q) below. Please note that property price risk is nil for both 2022 and 2021 so is not included in section (q).

(l) 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.

There are two principal sources of credit risk for the Company:

- Credit risk which results from direct investment activities, including investments in debt securities, derivative counterparties, collective investment schemes, hedge funds and the placing of cash deposits; and
- Credit risk which results indirectly from activities undertaken in the normal course of business. Such activities include premium payments, outsourcing contracts, reinsurance agreements and the lending of securities.

The amount disclosed in the Statement of financial position in respect of all financial assets, together with rights secured under unrecognised collateral arrangements, but excluding those that back unit-linked liabilities, represents the Company's maximum exposure to credit risk.

Credit risk management
Credit risk is managed by the monitoring of aggregate Company exposures to individual counterparties and by appropriate credit risk diversification (including by sector, credit rating and geographic area). The Company manages the level of credit risk it accepts through the use of credit risk tolerances and limits. Additional controls for illiquid asset concentration risk are set out via specific risk limits within the risk appetite framework. Credit risk on derivatives and securities lending is mitigated through the use of collateral with appropriate haircuts.

The Company operates an Internal Credit Ratings Committee, Ratings Committee and Portfolio Credit Committee to monitor and control oversight of externally rated and internally rated assets. A variety of methods are used to validate the appropriateness of credit assessment from external institutions and fund managers. Internally rated assets are those that do not have a public rating from an external credit assessment institution. The Committees reviews the policies, processes and practices to ensure the appropriateness of the internal ratings assigned to asset classes, in line with the regulatory requirements.

The Company maintains accurate and consistent risk ratings across its asset portfolio. This enables management to focus on the applicable risks and to compare credit exposures across all lines of business, geographical regions and products. The rating system is supported by a variety of financial analytics combined with market information to provide the main inputs for the measurement of counterparty risk. All risk ratings are tailored to the various categories of assets and are assessed and updated regularly. Significant exposures and breaches are reported to the Board and to the Investment Committee.

The Company has increased exposure to an array of illiquid credit assets such as local authority loans, social housing, infrastructure and commercial real estate, with the aim of achieving greater diversification and investment returns, consistent with the Strategic Asset Allocation approved by the Board.

The impact of non-government debt securities and, inter alia, the change in market credit spreads during the year are fully reflected in the values shown in these financial statements. Credit spreads are the excess of corporate bond yields over the risk-free rate to reflect the higher level of risk and return. Similarly, the value of derivatives that the Company holds takes into account the full changes in swap spreads.

The shareholders' exposure to credit risk arising from investments held in the with-profits funds is similar in purpose to that disclosed for market risk exposures in section (h).

Concentration of credit risk
Concentration of credit risk might exist where the Company has significant exposure to an individual counterparty or a group of counterparties with similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. The Company's counterparty risk is monitored by the counterparty limit framework contained within the Group credit risk policy and further provided in the investment guidelines and investment management agreements, overlaid by regulatory requirements. Counterparty risk in respect of OTC derivative counterparties is monitored using a Potential Future Value ("PFE") exposure metric.

Reinsurance
The Company is exposed to credit risk as a result of insurance risk transfer contracts with reinsurers. The Company's policy is to place reinsurance only with highly rated counterparties. The Company must assign internal credit ratings to reinsurance counterparties which must be approved by the Company's Internal Credit Rating Committee. The Company is restricted from assuming concentrations of risk with individual external reinsurers by specifying limits on ceding and the minimum conditions for acceptance and retention of reinsurers, however due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings, some concentration risk does arise. The Company manages its exposure to reinsurance credit risk through collateralisation where appropriate and regular monitoring of exposures at the Reinsurance Management Committee.

Collateral
The credit risk exposure of the Company is mitigated, in certain circumstances, by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. The use of collateral is governed by formal contractual agreements between the parties.

Collateral is mainly obtained in respect of reinsurance, OTC derivatives and stocklending activity. Management monitors the market value of the collateral received, requests additional collateral when needed and performs an impairment valuation when impairment indicators exist.

Information on the values of collateral held and pledged is given in note 19.

(m) 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 table below sets out the Company's 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	AA	A	BBB	BB and below	Not Rated	Unit linked	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Loans and deposits	-	-	-	-	-	721	-	721
Derivatives	-	-	-	-	-	574	21	595
Debt securities	892	3,685	4,060	3,918	228	27	3,006	15,816
Reinsurers' share of insurance contract liabilities	-	(420)	771	-	-	17	-	368
Reinsurers' share of investment contract liabilities	-	-	-	-	-	-	393	393
Cash and cash equivalents	-	-	25	(1)	-	-	289	313
	892	3,265	4,856	3,917	228	1,339	3,709	18,206

2021

	AAA	AA	A	BBB	BB and below	Non-Rated	Unit Linked	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Loans and deposits	-	-	-	-	-	3	-	3
Derivatives	-	-	-	-	-	172	43	215
Debt securities	1,236	5,262	6,194	5,020	406	26	3,477	21,621
Reinsurers' share of insurance contract liabilities	-	(1,376)	2,187	37	-	-	-	848
Reinsurers' share of investment contract liabilities	-	-	-	-	-	-	477	477
Cash and cash equivalents	-	-	55	(4)	-	-	272	323
	1,236	3,886	8,436	5,053	406	201	4,269	23,487

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

To achieve better diversification of credit risk and enhance returns, the Company invests in private debt assets which are more illiquid than standard corporate bonds and generally not rated by an ECAI. The monitoring and control oversight of internally rated assets is discussed in more detail in section l).

The following table provides information regarding the aggregate credit exposure of internally rated assets:

2022

	AAA	AA	A	BBB	BB and below	Total
	£m	£m	£m	£m	£m	£m
Debt securities	-	464	600	1,295	131	2,490

2021

	AAA	AA	A	BBB	BB and below	Total
	£m	£m	£m	£m	£m	£m
Debt securities	-	537	951	1,281	291	3,060

Credit ratings have not been disclosed in the above tables for holdings in collective investment schemes. The credit quality of the underlying debt securities within these vehicles is managed by the safeguards built into the investment mandates for these vehicles.

Credit ratings have not been disclosed in the above tables for the assets of the unit-linked funds since the shareholder is not directly exposed to credit risks from these assets. Included in unit-linked funds are assets which are held as reinsured external fund links. Under certain circumstances, the shareholder may be exposed to losses relating to the default of the reinsured external fund link. These exposures are actively monitored and managed by the Company and the Company considers the circumstances under which losses may arise to be very remote.

For reinsurance assets, where the counterparty is part of a group and a rating only exists for the parent of the group, then the rating of the parent company has been used where appropriate.

(n) Insurance risk

Insurance risk is defined as 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.

Insurance risk is made up of:

- 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
- Morbidity/ Disability risk - higher than expected number of inceptions on critical illness or income protection policies and lower than expected termination rates on income protection policies
- Persistency risk - adverse movement in surrender rates, premiums paying rates, cash withdrawal rates, GAO surrender rates, GAO take-up rates, policyholder retirement dates, prosperity to commute benefits, transfer out rates or the occurrence of a mass lapse event leading to losses
- Expense risk - unexpected timing or value of expenses incurred

Objectives and policies for mitigating insurance risk

Insurance risks are managed by monitoring the Company's exposure against pre-defined appetite limits. If a risk is moving out of appetite, the Company can choose to mitigate it via reinsurance in the case of longevity, mortality and morbidity risks, or by taking other risk reducing actions.

This is supported by additional methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, experience analyses, external data comparisons, sensitivity analyses, scenario analyses and stress testing. Assumptions that are deemed to be financially significant are reviewed at least annually for pricing and reporting purposes.

For expense risk, RUKSL, a Service company within the Group, incurs the costs required to run the business and charges RAL a fixed cost per policy, reducing some of the expense risk exposure borne by RAL.

The profitability of the run-off of the Company's Heritage business depends to a significant extent on the values of claims paid in the future relative to the assets accumulated to the date of claim. Typically, over the lifetime of a contract, premiums and investment returns exceed claim costs in the early years and it is necessary to set aside these amounts to meet future obligations. The amount of such future obligations is assessed on actuarial principles by reference to assumptions about the development of financial and insurance risks.

It is therefore necessary for the Board to make decisions, based on actuarial advice, which ensure an appropriate accumulation of assets relative to liabilities. These decisions include investment policy, bonus policy and, where discretion exists, the level of payments on early termination.

The Company's liabilities under insurance contracts are detailed in note 29, which also covers the risks arising on specific contracts and how these are mitigated.

A sensitivity analysis for insurance risk is presented in section (q) below.

(o) 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.

(p) 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 colleagues, 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 Company 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 Company also has a set of operational risk policies that set out the nature of the risk exposure and minimum control standards in place to control the risk.

(q) Financial and insurance risk sensitivities

The tables that follow illustrate the sensitivity of profit after tax and equity to variations in the key assumptions made in relation to the Company's most significant financial and insurance risk exposures. The values have, in all cases, been determined by varying the relevant assumption as at the reporting date and considering the consequential impacts assuming other assumptions remain unchanged. The values are for a full financial year.

Insurance liabilities are sensitive to changes in risk variables, such as prevailing market interest rates, credit spreads and equity prices, since these variations alter the value of the financial assets held to meet obligations arising from insurance contracts and changes in investment conditions also have an impact on the value of insurance liabilities themselves. Additionally, insurance liabilities are sensitive to the assumptions which have been applied in their calculation. Sometimes allowance must also be made for the effect on future assumptions of management or policyholder actions in certain economic scenarios. The most significant non-economic sensitivities arise from mortality, longevity and lapse risk.

	2022	2021
	Effect on profit after tax and equity	Effect on profit after tax and equity
	£m	£m
100bp widening of credit spreads	8	34
100bp narrowing of credit spreads	(13)	(36)
1% increase in interest rates	(49)	(116)
1% decrease in interest rates	70	114
10% increase in equity	(98)	(110)
10% decrease in equity	99	111
5% increase in assurance mortality	(3)	(1)
5% decrease in assurance mortality	3	1
5% increase in annuitant longevity	(85)	(222)
5% decrease in annuitant longevity	91	208
10% increase in lapse rates	3	9
10% decrease in lapse rates	(3)	(9)

Limitations
The financial impact of certain risks is non-linear and consequently the sensitivity of other events may differ from expectations based on those presented below. Correlations between the different risks and/or other factors may mean that experience would differ from that expected if more than one risk event occurred simultaneously. The analysis has been assessed as at the reporting date. The results of the mortality sensitivity analysis have been based on instantaneous change in the mortality assumption at all ages, rather than considering gradual changes in mortality rates.

37. Commitments

	2022	2021
	£m	£m
To subscribe to private equity funds and other unlisted assets	44	54
To purchase, construct or develop investment property	2	15
For repairs, maintenance or enhancements of investment property	6	6
	52	75

38. 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
The Company acts as reinsurer in reinsurance transactions with RLL, a fellow company of the group.

	2022 £m	2021 £m
Reinsurance accepted from fellow subsidiaries:		
Premiums written	13	27
Amortisation of advanced claim	33	31
Change in insurance contract liabilities	(63)	5
Fellow subsidiary: Share of contract assets	133	166
Fellow subsidiary: Share of insurance contract liabilities	100	164
Fellow subsidiary: Reinsurance Receivables	74	125
Fellow subsidiary: Reinsurance Payables	4	19

	2022 £m	2021 £m
Income earned from related parties		
Dividends received from indirect subsidiaries	5	-
Expenses charged by related parties		
Loan interest to fellow subsidiary	3	-
Dividends paid to parent	650	1,622
Expense recharges payable to fellow subsidiaries	126	99
Amounts due from related parties		
Loans due from ultimate parent company	718	-
Amounts due from fellow subsidiaries	3	14
	721	14
Amounts due to related parties		
Loans due to fellow subsidiary	234	234
Loans due to subsidiary	9	9
Loans due to ultimate parent company	718	-
Amounts due to fellow subsidiaries	2	-
Amounts due to subsidiaries	19	-
	982	243

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.

Strategic asset allocation
During the year, as part of the Company's strategic asset allocation, the Company exchanged approximately £1.2 billion of liquid and illiquid debt securities and derivatives with Phoenix Life Limited. The Company exchanged the assets at fair value and as such recognised no gain or loss on the transaction.

Expense recharges payable to fellow subsidiaries
ReAssure UK Services Limited ("RUKSL") provide management services to the Company, in the form of staff and other services.

The Company has an IGR with RLL, which transfers the vast majority of the shareholder risk and rewards of the RLL business into the Company in return for an advanced claim amount and reinsurance premium. The IGR covers the insurance component of the unit linked business, including both UK and the non-UK business, net of external reinsurance recoveries. In respect of the insurance component of the unit-linked business, the Company paid an advanced claim amount to RLL.

The contract asset represents the advanced claim paid by the Company to RLL as per the IGR contract. The contract asset was calculated based on a pricing model agreed between RLL and the Company. The initial payment of £182m was based on projected liabilities with a true up of £24m made in 2020. The contract asset is amortised as the cash flows emerge on the underlying contracts and assessed for impairment.

Loans receivable and payable
For further details please see notes 16 and 29.

Transactions with parent company ReAssure Midco Company ("RML")
Dividends totalling £650m were paid to RML during the year (2021: £1,622m). Further details can be found in note 11.

Transactions with key management personnel
The compensation payable to employees classified as key management, which comprises the Directors, is disclosed in note 7.

	2022 £000	2021 £000
Key management personnel and their close family members transactions with Pensions and Savings products sold by the Group		
Contributions in the year	11	449
Transfer out of investments in the year*	(19)	(450)
Value of investments at year end	3,047	3,363

*Please note that the 2021 balance has been re-presented to provide additional clarity.

39. Events after the reporting period

Following the Part VII transfer from RLL to PLAEDAC of the Swedish, Norwegian and German based policies on 1 January 2023, the part of the IGR between the Company and RLL relating to these policies has been recaptured. The Company received £1m from RLL to terminate the contract. Further details are included in the corporate activity section of the Strategic report on page 2. As the partial recapture of the IGR did not take place until after the reporting date it will be accounted for and reported within the financial statements for the year ended 31 December 2023.

As part of the Company's strategy to manage and mitigate longevity risk the Company entered into a longevity swap arrangement in respect of c£2.5bn liabilities in February 2023 with an external party, PartnerRe Ltd, which transferred 37% of the pre-swap longevity risk. As the transaction was not entered into until after the reporting date the longevity swap arrangement will be accounted for and reported within the financial statements for the year ended 31 December 2023, on an IFRS17 basis. As set out in Note 3, financial impacts under IFRS17 have not been included in these financial statements.

As part of a long-term strategy to provide policyholders with a consistent customer experience across all group entities it has been announced that the Company's policies, currently administered by the ReAssure in house administration system Alpha, will be transferred over a three-year period to an administration system managed by outsource provider Diligenta.

The Directors are not aware of any other significant post balance sheet events that require disclosure within these financial statements.

40. Listing of subsidiaries

The subsidiaries of the Company held for strategic purposes and measured at cost less impairment are as follows:

Company name	Country of incorporation and principal place of operation	Type and % of holding	Address
Direct subsidiaries			
Namulas Pension Trustees Limited	England and Wales	Ordinary Shares, 100%	1
Gresham Life Assurance Society Limited	England and Wales	Ordinary Shares, 100%	1
ReAssure Trustees Limited	England and Wales	Ordinary Shares, 100%	1
ReAssure LL Limited	England and Wales	Ordinary Shares, 100%	1
ReAssure PM Limited	England and Wales	Ordinary Shares, 100%	1
103 Wardour Street Retail Company Limited	England and Wales	Ordinary Shares, 100%	1
Phoenix Life Assurance Europe	Republic of Ireland	Designated Activity Company, 100%	2

The commercial property entity listed above (103 Wardour Street Retail Investment Company Limited) transferred to the Company on the date of the L&G Part VII transfer. The net asset value of the commercial property entity is reported as a collective investment scheme in the Company's Statement of financial position. This is because the objective of this entity is solely to oversee the management of specific policyholder assets (which support related policyholder liabilities). Whilst the Company receives some income arising from the holding, management and disposal of the policyholder assets within this entity, it does not have responsibility for the day to day control of these assets.

The subsidiaries of the Company held for investment purposes and measured at fair value are as follows:

Company name/Fund name	Country of incorporation and principal place of operation	Type and % of holding	Address
Legal & General European Equity Income Fund	England and Wales	Unit Trust 87.5%	3
Legal and General Growth Trust	England and Wales	Unit Trust 71.5%	3
iShares 350 UK Equity Index Fund	England and Wales	OEIC 97.0%	4
HSBC Investment Funds – Balanced Fund	England and Wales	OEIC 81.2%	5
ASI Phoenix Venture Capital Partnership Life Fund	Scotland	Limited Partnership 80.0%	6
ASI Phoenix Venture Capital Partnership Pension Fund	Scotland	Limited Partnership 80.0%	6

All investments in unit trusts are held in Authorised unit trusts.

Registered office addresses

1. Windsor House, Telford Centre, Telford, Shropshire, England, TF3 4NB
2. 25-28 North Wall Quay, D01H104, Dublin 1, Dublin, Ireland
3. One Coleman Street, London, EC2R 5AA, United Kingdom
4. 12 Throgmorton Avenue, London EC2N 2DL, United Kingdom
5. 8 Canada Square, London, E14 5HQ, United Kingdom
6. 1 George Street, Edinburgh, EH2 2LL, United Kingdom

Limited partnership which the Company controls

The Company has invested £1,000 of permanent capital into a special purpose entity, ERIP LP, a property management partnership registered in the United Kingdom, which represents 50% of the permanent capital of the partnership. At inception the Company also transferred property assets of £350m into ERIP LP. Under the partnership agreement it is entitled to 99.5% of the partnership's profits and losses.

The carrying value of the Company's investment in ERIP LP is shown in the table below:

	2022	2021
	£m	£m
ERIP Limited Partnership	257	271

Refer to note 18 for further information on ERIP LP.

41. Ultimate parent and ultimate controlling party

The Company's immediate parent is ReAssure MidCo Limited 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.