PHOENIX ER3 LIMITED

Company Registration Number: 10844152

STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2021

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Strategic report

The Directors present the Strategic report, their Report and the financial statements of Phoenix ER3 Limited ("the Company") for the year ended 31 December 2021.

The Company is incorporated in England & Wales as a private limited company. Its registration number is 10844152 and its registered office is 1 Wythall Green Way, Wythall, Birmingham, B47 6WG.

The financial statements of the Company have been prepared in accordance with UK adopted international accounting standards.

Business review

Principal activities
The Company is a member of the Phoenix Group ("the Group"), headed by Phoenix Group Holdings plc ("PGH").

The principal activity of the Company is to hold the beneficial interest in a portfolio of equity release mortgages ("ERM") on behalf of its parent company, Phoenix Life Limited ("PLL"). On 20 July 2017, the Company acquired the beneficial interest in the portfolio of residential ERM loans from PLL, against which the Company issued Fixed Rate and Junior Loan Notes which incur interest, as consideration to PLL.

On 10 November 2021, the Company transferred its entire ERM portfolio and other assets and liabilities to PLL. All outstanding Fixed Rate and Junior Loan Notes and associated accrued interest were also redeemed in consideration. Following the transfer, the Company became inactive.

The Company has no employees.

Result and dividends
The results of the Company for the year are shown in the statement of comprehensive income on page 11. The profit before tax was £nil (2020: £nil).

No dividends were paid during the year (2020: £nil).

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 Group. When considering issues of strategic importance, and making key decisions about the Company (or those that impact the wider Group), the directors have acted in a way which they consider, in good faith, is most likely to promote the success of the Company for the benefit of its members as a whole.

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

- the Company's immediate parent PLL, which securitises ERM loans into the Company and on behalf of whom the Company holds the beneficial interest;
- the Company's ultimate parent, PGH;
- third party loan originators and other Group companies who hold legal title to the ERM loans in question;
- any colleagues engaged by the Company via service companies within the Group.

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 2021.

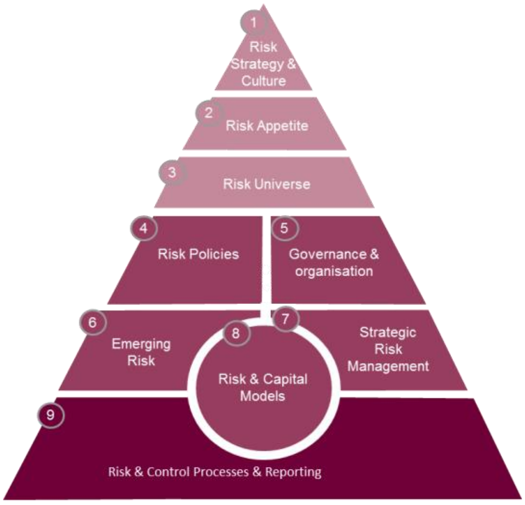
KEY BOARD DECISION	**Approval of Equity Release Dynamic Securitisation**
STRATEGIC IMPORTANCE Optimising our in-force business Enhancing our operating model	CONSIDERATION OF S172 MATTERS • **Long term consequences**: as part of wider activity to resecuritise and restructure ERM assets held elsewhere in the Group in order to drive operational simplicity and cost efficiencies for the Group, the Board received proposals for the redemption of loan notes. The Board recognised that on transfer of the assets to its parent, PLL, the Company would become dormant. The Board also sought and received confirmation that the transaction would not impact the going concern status of the Company. No matters of concern arose as a consequence. • **Maintaining a reputation for high standards of business conduct**: although the Company was not subject to regulation, the Board noted that the proposal to resecuritise and restructure had been discussed with the Prudential Regulation Authority and the securitisation framework had been designed in a way that was consistent with the regulator's feedback and complied with its issued Policy Statement on the matter. • **Fostering business relationships with others**: in considering the proposal, the Board recognised that approval would facilitate its immediate parent, PLL, to restructure its ERM assets into Matching Adjustment Eligible assets, which was a key part of the Group's long term strategic asset allocation objectives.
OUTCOME	Following due consideration of the matters set out in section 172, the Board approved the redemption of issued Fixed Rate and Junior loan notes at market value and the in specie transfer of the assets of the Company to PLL at the same value.

KEY BOARD DECISION	**Approval of YE20 Annual Accounts**
STRATEGIC IMPORTANCE Optimising our in-force business Investing in a sustainable future	CONSIDERATION OF S172 MATTERS • **Long term consequences**: as part of the year-end accounts approval process the Board considered whether the expectation that the Company would continue in operational existence for the foreseeable future was appropriate. Such consideration enabled the Board to reach a decision to approve the YE20 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 YE20 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 YE20 accounts, the Board considered a supporting report prepared by the Financial Reporting team, together with the outcome of an external audit for the accounts, including assessments relating to the impact of COVID-19 on the Company.
OUTCOME	Following due consideration of the matters set out in section 172, the Board approved the YE20 accounts.

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

Risk management framework
The Company adopts the 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 2021.



Principal risks and uncertainties

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

The Company is continuing to monitor developments regarding the conflict between Russia and Ukraine. As at 31 December 2021, the Company had no direct exposure to Russia and Ukraine.

Following the transfer of its ERM portfolio, the Company is not expected to be exposed to any material risks.

Key Performance Indicators ("KPIs")

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

On behalf of the Board

DocuSigned by:
Steven Watts
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S Watts
For and on behalf of Pearl Group Secretariat Services Limited
Company Secretary

28 September 2022

Directors' report

Going concern
Having reviewed the position in light of the Financial Reporting Council's "Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks" (issued April 2016); the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the going concern period assessed up to 30 September 2023. Accordingly, the Directors 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 or who held office as at the date of signature of this report are as follows:

C A Baker
P Mayes
A Moss
R Sheriff

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

Matters disclosed in strategic report
The Directors' duties section of the strategic report covers stakeholder engagement. Any dividends paid or proposed are also disclosed in the strategic report.

Statement on Business Relationships

- **Business relationships with customers**
  Customer matters are key for the Company and play a significant part of the rationale for decision-making that takes place. Board papers require authors to consider and provide detail relating to the potential impact of proposals on customers, ensuring that the Board is able to pay due regard to such matters.
- **Business relationships with Partners/Suppliers**
  The "Service Companies" within Phoenix Group Holdings plc are the principal leads on maintaining relationships with suppliers.

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

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 17 to the financial statements.

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 he/she ought to have taken as a Director to make himself/herself 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:
Steven Watts
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S Watts
For and on behalf of Pearl Group Secretariat Services Limited
Company Secretary

28 September 2022

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 Phoenix ER3 Limited

Opinion

We have audited the financial statements of Phoenix ER3 Limited for the year ended 31 December 2021 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 20, 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 2021 and of its results 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period to 30 September 2023.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained 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. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are direct laws and regulations related to elements of Company law and tax legislation, and the financial reporting framework.
- We understood how the company is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed minutes of the Board, gaining an understanding of the company's approach to governance having regard to the overall Phoenix Group's governance framework, risk management framework ('RMF') and internal control processes which are applied consistently throughout the Group.
- 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 controls in place within the company and the Outsource Service Provider ('OSPs').
- We also considered areas of significant judgement, including complex transactions, external pressures and the impact these have on the control environment. Our procedures involved:
    - Reviewing accounting estimates for evidence of management bias. Supported by EY actuaries, we assessed if there were any indicators of management bias in the valuation of Equity Release Mortgages which are recognised as loans and receivables and valuation of Fixed Rate and Junior Loan notes which are recognised as financial liabilities.
    - Testing the appropriateness of journal entries recorded in the general ledger, with a focus on manual journals and evaluating the business rationale for significant and/or unusual transactions.

- We designed our audit procedures to identify non-compliance with both direct and other laws and regulations. Our procedures involved: making enquiries of those charged with governance and senior management for their awareness of any non-compliance of laws and regulations, enquiring about the policies that had been established to prevent non-compliance with laws and regulations by officer and employees and enquiring about the company's methods of enforcing and monitoring compliance with such policies.

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

Use of our report

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

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

29 September 2022

Statement of comprehensive income
for the year ended 31 December 2021

	Notes	2021 £000	2020 £000
Revenue			
Net investment income	3	17,047	23,569
Net income		17,047	23,569
Administrative expenses	4	(761)	(1,343)
Total operating expenses		(761)	(1,343)
Profit before finance costs and tax		16,286	22,226
Finance costs	7	(16,286)	(22,226)
Profit for the year before tax		-	-
Tax charge	8	-	-
Profit for the year		-	-
Other comprehensive income		-	-
Total comprehensive income for the year		-	-

Statement of financial position
as at 31 December 2021

	Notes	As at 31 December 2021 £000	As at 31 December 2020 £000
Assets			
Financial assets			
Loans and receivables	9	-	715,874
Collective investment schemes	10	-	55,434
		-	771,308
Deferred tax	12	-	9,467
Cash and cash equivalents		-	5,530
Total assets		-	786,305
Equity			
Share capital	13	-	-
Retained earnings		-	-
Total equity		-	-
Liabilities			
Financial liabilities	14	-	776,573
Other payables	15	-	9,732
Total liabilities		-	786,305
Total equity and liabilities		-	786,305

On behalf of the Board

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R Sheriff
Director

28 September 2022

Statement of changes in equity
for the year ended 31 December 2021

	Share capital (note 13) £000	Retained earnings £000	Total £000
At 1 January 2021	-	-	-
Total comprehensive income for the year	-	-	-
At 31 December 2021	-	-	-

	Share capital (note 13) £000	Retained earnings £000	Total £000
At 1 January 2020	-	-	-
Total comprehensive income for the year	-	-	-
At 31 December 2020	-	-	-

Statement of cash flows
for the year ended 31 December 2021

	Notes	2021 £000	2020 £000
Cash flows from operating activities			
Cash absorbed by operations	16	(5,530)	(53,362)
Net cash flows from operating activities		(5,530)	(53,362)
Net decrease in cash and cash equivalents		(5,530)	(53,362)
Cash and cash equivalents at the beginning of the year		5,530	58,892
Cash and cash equivalents at the end of the year		-	5,530

Notes to the financial statements

1. Accounting policies

(a) Basis of preparation

The financial statements for the year ended 31 December 2021, set out on pages 11 to 23 were authorised by the Board of Directors for issue on 28 September 2022.

The financial statements have been prepared on a going concern basis and under the historical cost convention in accordance with the Companies Act 2006.

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 £000 except where otherwise stated.

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

Going concern

Having reviewed the position in light of the Financial Reporting Council's "Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks" (issued April 2016); the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the going concern period assessed up to 30 September 2023. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Statement of compliance

The financial statements have been prepared in accordance with UK adopted international accounting standards.

(b) Critical accounting estimates and judgements

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

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the Company's business that typically require such estimates are the determination of the fair value of financial assets and liabilities and income taxes.

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 policy (c) Financial instruments' valuations where the valuation techniques are based on non-observable inputs are categorised as Level 3 financial instruments. Level 3 financial instruments therefore involve the use of estimates and note 11 provides further details of methodology and assumptions used to determine fair values.

Income taxes

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which the losses can be relieved. The UK taxation regime applies separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a capital or trading nature may affect the recognition of deferred tax assets.

The accounting policy for income taxes (both current and deferred taxes) is discussed in more detail in accounting policy (d).

(c) Financial assets and liabilities
Financial assets and 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.

All changes in the fair value of the financial assets and liabilities are recognised in the Statement of Comprehensive Income.

The Company has designated all its financial assets and liabilities at fair value through profit and loss.

Fair value estimation
The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques such as discounted cash flow techniques. 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.

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

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

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

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

(e) Income recognition

Net investment income
Net investment income comprises interest, dividends and fair value gains and losses on financial assets and liabilities.

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.

Fair value gains and losses on financial assets and liabilities 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.

(f) Expenses recognition

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.

(g) Share capital
The Company has issued ordinary shares which are classified as equity.

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

2. Financial information

Adoption of New Accounting Pronouncements in 2021 and those not yet effective
In preparing the financial statements, the Company has adopted the standards, interpretations and amendments which have been issued by the International Accounting Standards Board ('IASB'):

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

There were no other new or amended accounting standards issued by the IASB which are considered to have a significant impact on the Company's financial statements or accounting policies.

3. Net investment income

	2021 £000	2020 £000
Investment income		
Interest income on financial assets designated at fair value through profit or loss	26,019	36,396
Dividend income	41	106
	26,060	36,502
Fair value gains / (losses) on items at fair value through profit or loss		
Financial assets	(30,846)	25,414
Financial liabilities	21,833	(38,347)
	(9,013)	(12,933)
Net investment income	17,047	23,569

4. Administrative expenses

	2021 £000	2020 £000
Investment management expenses	761	1,343

The Company has no employees. Administrative services were provided by Pearl Group Management Services Limited ("PGMS") a fellow group company.

5. Directors' remuneration

The Directors are employed by another Group company. The Directors received no remuneration in respect of their services to the Company.

6. Auditor's remuneration

During the financial year ended 31 December 2021, Ernst & Young LLP acted as the Company's external auditor.

In 2021 auditors' remuneration amounted to £10,000 (2020: £10,000) in respect of the audit of the Company's financial statements. 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 Phoenix Group Holdings plc, the Company's ultimate controlling party, are required to disclose fees in respect of non-audit services on a consolidated basis. There were no non-audit services provided to the Company in the current year (2020: none).

The audit fee has been borne by PLL, the immediate parent company.

7. Finance costs

	2021	2020
	£000	£000
Interest expense		
On financial liabilities at fair value through profit or loss	16,286	22,226

8. Tax charge

The standard rate of UK corporation tax for the accounting period is 19% (2020: 19%).

An increase from the current 19% UK corporation tax rate to 25% was substantively enacted on 24 May 2021 and would have been effective from 1 April 2023. Subsequent to year end, an announcement was made reversing the previously announced increase in corporation tax. The Company does not expect this to have an impact and has no deferred tax balances at 31 December 2021.

Current year tax charge/(credit)

	2021	2020
	£000	£000
Current tax:		
UK Corporation tax	-	3,192
Adjustment in respect of prior years	(9,467)	-
Total current tax	(9,467)	3,192
Deferred tax:		
Origination and reversal of temporary differences	9,467	(3,192)
Adjustment in respect of prior years	-	-
Total deferred tax	9,467	(3,192)
Total tax charge/(credit)	-	-

Reconciliation of tax charge/(credit)

	2021	2020
	£000	£000
Profit for the year before tax	-	-
Tax at standard UK rate of 19% (2020: 19%)	-	-
Tax rate difference	-	(738)
Group relief payable at rates other than 19% (2020: 19%)	(1,709)	738
Non-taxable/deductible fair value movements	2,532	-
Adjustment in respect of prior years	(9,467)	-
Write off of deferred tax on restructuring	8,644	-
Total tax charge/(credit)	-	-

9. Loans and receivables

	2021	2020
	£000	£000
Loans and receivables	-	715,874
	-	715,874
Amounts recoverable after 12 months	-	620,605

Loans and receivables comprised amounts due from PLL, the immediate parent company. On 20 July 2017, beneficial interest in £765m of equity release mortgage loans was transferred to the Company from PLL. Such loans accrue interest at fixed rates, depending on the terms of the mortgage, until the loans are repaid which is either upon death or when the individual is moved to a care home and the property becomes vacant.

On the same date, the Company issued Fixed Rate and Junior Loan Notes to PLL as consideration for the transfer of beneficial interest in equity release mortgage loans (note 14).

At 31 December 2020, Pearl Group Management Services Limited ('PGMS'), a fellow group company, held the legal title to £522m of these loans on behalf of the Company. The remaining legal title was held by the loan originators.

On 10 November 2021, the Company transferred its entire ERM portfolio and other assets and liabilities to PLL. All outstanding Fixed Rate and Junior Loan Notes were also redeemed in consideration.

10. Collective investment schemes

	2021	2020
	£000	£000
Collective investment schemes	-	55,434
	-	55,434
Amounts recoverable after 12 months	-	-

Collective investment schemes: 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. These investments are in liquidity funds (specifically a Short Term Variable Net Asset Value Money Market fund) which are held for the purpose of managing liquidity and are managed together with the Company's cash and cash equivalents.

The Company determined that the investment in Collective investment schemes as presented on the face of the Statement of Financial Position are structured entities.

As part of the total consideration for the redemption of the junior and senior loan notes on 10 November 2021, the Company transferred the collective investment scheme to PLL.

11. Fair Value

Determination of fair value and fair value hierarchy of financial instruments

Collective investment schemes
The Company's interests in collective investment schemes are held at fair value through profit or loss in accordance with accounting policy (c). Any change in fair value is included in the Statement of comprehensive income in 'net investment income'.

The fair value of collective investment schemes is measured by reference to published bid prices. 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.

All the Company's collective investment schemes have been valued using standard market pricing sources.

Loans and receivables and financial liabilities
The fair value of the Company's loans and receivables and financial liabilities are determined by valuation techniques using non market observable inputs and are based on internally developed discounted cash flow models using a risk adjusted discount rate corroborated with external market data where possible. As such, these instruments are classified in level 3 of the fair value hierarchy.

Movement in level 3 financial instruments measured at fair value

	At 1 January 2021 £000	Additions £000	Redemptions / Settlements £000	Transfer to PLL £000	Total amount recognised in Statement of comprehensive income £000	At 31 December 2021 £000
Financial assets designated at fair value through profit or loss upon initial recognition:						
Loans and receivables	715,874	352	(65,817)	(645,592)	(4,817)	-
Financial liabilities designated at fair value through profit or loss upon initial recognition:						
Fixed Rate and Junior Loan Notes	(776,573)	-	771,026	-	5,547	-

	At 1 January 2020 £000	Additions £000	Redemptions / Settlements £000	Transfer to PLL £000	Total amount recognised in Statement of comprehensive income £000	At 31 December 2020 £000
Financial assets designated at fair value through profit or loss upon initial recognition:						
Loans and receivables	710,054	687	(56,652)	-	61,785	715,874
Financial liabilities designated at fair value through profit or loss upon initial recognition:						
Fixed Rate and Junior Loan Notes	(768,819)	-	52,819	-	(60,573)	(776,573)

Revaluation gains and losses on Level 3 financial instruments are included as income or an expense in net investment income in the Statement of comprehensive income. Interest income is also recognised in net investment income, while interest paid is recognised in finance costs in the Statement of comprehensive income. There were no gains or losses recognised in other comprehensive income.

12. Tax assets and liabilities

The balances at 31 December comprise:

	2021 £000	2020 £000
Deferred Tax		
The balance at 31 December comprises:		
Deferred tax asset	-	9,467

Movement in deferred tax assets

Year ended 31 December 2021

	At 1 January 2021 £000	Recognised in the Statement of comprehensive income £000	At 31 December 2021 £000
Provisions and other temporary differences	9,467	(9,467)	-
	9,467	(9,467)	-

Year ended 31 December 2020

	At 1 January 2020 £000	Recognised in the Statement of comprehensive income £000	At 31 December 2020 £000
Provisions and other temporary differences	6,275	3,192	9,467
	6,275	3,192	9,467

As a result of the transaction in the period, the deferred tax has reversed fully. As such, there is no closing deferred tax balance recognised in the financial statements.

13. Share capital

	2021 £000	2020 £000
Issued and fully paid: 1 ordinary share (2020: 1) of £1 each	-	-

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.

14. Financial liabilities

	2021 £000	2020 £000
At 31 December		
Fixed Rate Loan Notes	-	771,814
Junior Loan Notes	-	4,759
	-	776,573
Amount due for settlement after 12 months	-	723,754

Financial liabilities comprise of fixed rate and junior loan notes due to PLL. On 20 July 2017, the Company issued Fixed Rate and Junior Loan Notes to PLL amounting to £765m as consideration for the beneficial interest in equity release mortgage loans included in Loans and receivables (note 9) and for £5m of related assets.

The outstanding Fixed Rate and Junior Loan Notes loan notes were settled in full when the Company transferred its entire ERM portfolio valued at £646m to PLL on 10 November 2021.

15. Other payables

	2021 £000	2020 £000
Amounts due to fellow group companies	-	9,716
Other payables	-	16
	-	9,732
Amount due for settlement after 12 months	-	-

16. Cash flows from operating activities

	2021 £000	2020 £000
Cash flows from operating activities		
Profit for the year before tax	-	-
Non-cash movements in profit for the year before tax:		
Fair value losses / (gains) on financial assets	30,846	(25,414)
Fair value (gains) / losses on financial liabilities	(21,833)	38,347
Interest income on loans and receivables	(26,019)	(36,396)
Interest expense	16,286	22,226
Changes in operating assets and liabilities:		
Decrease in financial assets	766,482	556
Decrease / (Increase) in other receivables	9,467	(3,192)
Decrease in financial liabilities	(771,027)	(52,819)
(Decrease) / increase in other payables	(9,732)	3,330
Cash absorbed by operations	(5,530)	(53,362)

The cash flow has been prepared using the indirect method.

17. Risk management

Following the transfer of its ERM portfolio, the Company is no longer exposed to financial risk.

18. Related party transactions

The Company entered into transactions with related parties in its normal course of business. These were at arm's length on normal commercial terms.

	2021 £000	2020 £000
Amounts due from related parties		
Loans and receivables due from parent (note 9)	-	715,874
Collective investment schemes: fellow subsidiaries	-	55,434
Amounts due to related parties		
Amounts due to parent	-	786,242
Other amounts due to fellow subsidiaries	-	47
Income from related parties		
Dividends received from fellow subsidiaries (note 3)	-	106
Amounts charged by related parties		
Interest charged on financial liabilities owed to parent (note 7)	16,286	22,226
Commitment fee on liquidity facility charged by parent	105	140
Management services provided by fellow subsidiaries	443	593

On 10 November 2021, the Company transferred its entire ERM portfolio (£646m) and other assets and liabilities to PLL, its parent company. All outstanding Fixed Rate and Junior Loan Notes due to PLL were also redeemed in consideration (£722m).

The short term liquidity facility of £40m provided to the Company by PLL was terminated following the transfer of the entire ERM portfolio. No borrowings were made during the year (2020: none).

The management services were provided by PGMS and related to staff and other services.

Other related parties
As part of the acquisition of Standard Life Assurance Limited by the Phoenix Group in 2018, Standard Life Aberdeen plc ("SLA") took an equity stake in the enlarged Phoenix Group, and therefore became a related party of the Company. Following the acquisition of Standard Life brand by the Group on 22 February 2021, SLA ceased to be a related party of the Company.

Key management compensation
The compensation payable to employees classified as key management, which comprises the Directors, is disclosed in note 5. During the year to 31 December 2021, key management and other family members had no transactions with the Company.

Parent and ultimate parent entity
Information on the Company's parent and ultimate parent is given in note 20.

19. Events after reporting period

The Company is continuing to monitor developments regarding the conflict between Russia and Ukraine. As at 31 December 2021, the Company had no direct exposure to Russia and Ukraine.

20. Other information

The Company's principal place of business is the United Kingdom. The Company's immediate parent is Phoenix Life Limited and its ultimate parent 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.