PEARL GROUP SERVICES LIMITED

Company Registration Number: 5549998

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

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The Strategic report and the Directors' report summarise the Company's activities, its financial performance and its financial position together with any factors likely to affect its future development. In addition, the Strategic report discusses the principal risks and uncertainties the Company faces.

Strategic report

The Directors present the Strategic report, the Directors' Report and the Financial Statements of Pearl Group Services Limited ('the Company') for the year ended 31 December 2020.

The Company is incorporated in the United Kingdom as a private limited company which is limited by shares. Its registration number is 5549998 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 International Accounting Standards in conformity with the requirements of the Companies Act 2006.

Business review

Principal activities

The principal activity of the Company is the provision of management services, including governance and policy administration services, to the life assurance and group companies within the Phoenix Group. This will continue to be the principal activity for the foreseeable future.

The Company carries out the management services under arm's length, per policy based, Management Services Agreements ('MSAs'). The Company has outsourced some of the services it provides under the MSAs to third parties. All business is written in the UK.

Principal risks and uncertainties

The company is exposed to a number of risks from its provision of services to the Life Assurance and Group companies within the Phoenix Group. The Phoenix 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 key risks to which the Company is exposed are expense risk, liquidity risk, legislative and regulatory risk, VAT risk, credit risk, risk of outsourcer failure, operational risk and MSA risk. Further information on risk management can be found in note 19.

Going Concern

In considering whether it is appropriate to prepare the financial statements on a going concern basis the directors have considered the expected future performance and cashflows of the business, including consideration of the impact of the Covid-19 pandemic on the UK life insurance market to which the Company is exposed.

The Directors' assessment has been performed by taking into account the impact of severe stress scenarios, including unexpected material cost increases and reductions in income, on the cashflows of the company. Under these scenario, the Company can meet liabilities as they fall due. The Directors' assessment covered the period up to 31 December 2022.

Therefore the Directors are satisfied that the Company will be able to meet liabilities as they fall due and that it is appropriate to adopt the going concern basis of preparation for the financial statements.

<u>Covid-19</u>

The Covid-19 pandemic crisis exposes the Company to heightened operational and financial risks. Given the unprecedented nature of this event, there is significant uncertainty of its long term financial consequences. To mitigate macroeconomic risks, governments throughout the world have promised financial support to the economy at an unprecedented scale.

The temporary social distancing regulations introduced by the governments to counter the wider spread of the pandemic has resulted in widespread closure of offices, schools, restaurants, shops and other social places throughout the world, impacting the Company and its outsourced service providers' ("OSPs") operational capacity.

The Company has considered below the impact the pandemic has had over the operations and business of the Company and its ability to continue in operations. Operational impacts are being carefully managed through initiation of the Phoenix Group's business continuity arrangements, including focus on providing home working capability with appropriate controls and prioritising activities to focus on delivery of critical services to customers.

The Company carries the risk that the OSPs used by the Company will no longer be able to provide the agreed services at an agreed cost and under the agreed timeframe. The Company manages this risk through established governance and relationship meetings together with daily updates from key OSPs on their business continuity arrangements. In addition, controls are in place with key OSPs to enable electronic sign off whilst remote working is in place

Whilst the Company continues to monitor the operational impacts, management consider there are no significant operational issues that impair the Company's ability to continue in operations for the foreseeable future.

The Company had £107.8m of cash and cash equivalents at 31 December. The Company's liquidity position is monitored daily and regular reviews are undertaken to identify cash flow requirements.

Management consider there are no significant financial impacts that impair the Company's ability to continue in operations for a up to the period ending 31 December 2022 as at the date of approval of the financial statements.

Key Performance Indicators ('KPIs')

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

Profit before tax, profit after tax and total comprehensive income
As at 31 December 2020, the Company reported a profit before tax of £12,246,000 (2019: £22,589,000), a profit after tax of £9,354,000 (2019: £18,345,000) and total comprehensive income of £9,234,000 (2019: £18,056,000).

Dividends
During the year, the Company paid dividends amounting to £NIL (2019: £5,000,000).

Cash flows
Cash flows are monitored closely by the business to ensure that all liabilities can be met as they fall due. In 2020, cash and cash equivalents increased by £1,351,000 (2019: £17,333,000).

Employees
The Company is committed to providing equal opportunities to all employees irrespective of their sex, age, sexual orientation, marital status, religion, race or disability. It is the Company's policy to give positive consideration to disabled persons with respect to applications for employment, training, career development and promotion, having regards to each individual's particular aptitudes and abilities.

Corporate activities

As part of the Groups programme to integrate the Standard Life Assurance business it has extended its operating model across the Group for services provided from the Service Companies to other Group entities. This included a renegotiation of the existing MSA and the implementation of a new, second, MSA between Standard Life Assets & Employees Limited and Life Company commencing on 1 January 2020. The introduction of the new MSA transfered expense risk from the Life Company to the Service Company, in line with the existing concepts. The MSAs are priced on a per policy basis based on an end state operating model and policy volume as at 2023 and as such glidepath payments will be received to cover additional expenses over and above the end state.

In 2019, as part of the Group's programme to integrate the Standard Life Assurance business, the Group announced its intention to extend its strategic partnership with Tata Consultancy Services ('TCS') to support the Groups strategic ambition. Heads of Terms underpinning the service on migration of Standard Life policies onto the outsourcer platform was signed in September 2019. The cost of migration over the next 3 years was envisaged to be £72,000,000 recoverable from Group entities. A provision in relation to this was recognised originally in 2019, subsequently £15,700,000 has been utilised with a balance of £56,300,000 remaining. In addition, in the 2019 year we had also recognised restructuring costs provision of £6,380,000 relating to severance costs. During the year, the severance costs were reduced by £1,041,000. As at 31 December 2020 a balance of £5,339,000 remains. These provision movements are included in note 11.

Stakeholder engagement

The Board considers the following key stakeholders:

Customers
Without our customers the Phoenix Group would not exist. The Group's core purpose is centred on our customers (existing and potential), helping them to secure a life of possibilities. The board has paid due regard to the Group's customers and each paper presented to the Board must include consideration of any impact arising from proposals contained therein on customers.

Colleagues
Our colleagues glue our Group values together, working to achieve our strategic priorities in our pursuit of the Phoenix purpose.
Employment services are provided by the Group's Service Companies. Decisions likely to impact employees within the Phoenix Group are taken by the Board of Phoenix Group Holdings plc and its Board Committees. The Service Companies do not make decisions relating to employee remuneration.

Suppliers
The Group's suppliers, including service providers and partners, are key to our overall success and the achievement of the Group's strategic objectives. The relationships maintained with our suppliers, strategic or otherwise is of vital importance in our drive to achieve the Group's overall purpose. The Service Companies are principal leads on maintaining relationships with suppliers.

Communities
The Group's local communities and community partnerships enable our business to operate in regional areas across Europe. These communities comprise our colleagues, customers, suppliers and many other stakeholders. The Group understands the importance of building trust and inspiring confidence through community engagement and partnerships. The directors of the Company, by virtue of their positions within the Group are engaged with Group wide socially responsible activity. Further information about such activities can be found in the Phoenix Group Holdings plc annual report and accounts.

Government, trade bodies and regulators
Relationships with the Government, trade bodies and regulators is of vital importance, without which we could not provide services for our customers and utilise opportunities for growth. The Company is regulated by the Financial Conduct Authority and is subject to close and continuous supervision from its regulator. This includes a programme of regular meetings between board members and the regulator. The Senior Managers & Certification Regime, which clearly documents those individuals within the business who are decisions makers, requires that there is an annual review of their fitness and propriety.

Section 172 Statement

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

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

During the year, the directors of Pearl Group Services Limited 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.

An example of how the board considered relevant matters set out in section 172 is set out in the table below, demonstrating how the board of Pearl Group Services Limited has carried out its duty under section 172 of the Companies Act 2006.

KEY BOARD DECISION	Approval of the YE19 Annual Report and Accounts
STRATEGIC IMPORTANCE	**CONSIDERATION OF S172 MATTERS**
Managing our capital position	When reviewing the Company's annual report and accounts (including the going concern statement contained therein), the board also considered the long term sustainability of the Company, and the impact of declaring the business as a going concern, by reviewing sensitivity analyses relating to its Profit & Loss statement and the bearing of changes made to the Management Services Agreement (to enhance its durability) on the Company in light of its importance in governing the Company's relationship with the Life Companies in the Phoenix Group. When approving the Company's YE19 Annual Report and Accounts, the directors also considered the need to maintain a reputation for high standards of business conduct by producing clear and understandable accounts (including the contents of the strategic report, directors' report and financial statements), approved through robust governance procedures, noting that such information may be relied upon by its stakeholders, in particular the auditors.
OUTCOME	Following due consideration of the matters set out in section 172, the Board approved the Company's YE19 annual report and accounts.

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

On behalf of the Board

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Anthonios Kassimiotis
Director
23 April 2021

Directors' report

Going concern

The Strategic report and the Directors' report summarise the Company's activities, its financial performance and its financial position together with any factors likely to affect its future development. In addition, the Strategic report discusses the principal risks and uncertainties it faces including the potential impact of Covid-19. Notes 18 and 19 to the financial statements summarise the Company's capital management and risk objectives and policies together with its financial risks.

The Directors have followed the UK Financial Reporting Council's *"Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks"* (issued April 2016) when performing their going concern assessment. As part of their comprehensive assessment of whether the Company is a going concern, the Directors have prepared cash flow and solvency forecasts for the Company for the period ending 31 December 2022 and considered the potential impact of the Covid-19 pandemic.

As a result of this review, the Directors have a reasonable expectation that the Company has adequate resources to continue operating up to the period ending 31 December 2022. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Statement on business relationships

Business relationships with customers

The Board is provided with regular updates providing visibility of the measures used to determine fairness and customer experience for Lifetime Mortgage customers. The reporting pack covers all key areas of a lifetime mortgage product lifecycle.

Board papers require authors to consider and report on matters which will impact on customers so that these are made explicit when decisions are required.

Business relationships with Partners/Suppliers

The "Service Companies" within Phoenix Group Holdings plc are the principal leads on maintaining relationships with suppliers. During the course of 2020 the Board regularly received Material Outsourcer Reports on a variety of issues including the relationship and performance of all strategic partners and the actions being taken by management to address emerging issues.

In addition, the management committees support the Board oversight of the relationships. Supplier oversight is managed through a defined model operated throughout the group.

"Service Company Boards" - Pearl Group Management Services Limited, Pearl Group Services Limited, Standard Life Assets and Employee Services Limited (together the 'Service Companies')

Energy and carbon reporting

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

Directors

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

A Kassimiotis
P K Lane – resigned on 28 February 2021
R B F Seaman
R K Thakrar

Secretary

Pearl Group Secretariat Services Limited

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 auditors

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 auditors are 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 auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act 2006.

Re-appointment of auditors

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

Anthonios Kassimiotis
Director
23 April 2021

Statement of Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- state that the Company has complied with international accounting standards in conformity with the requirements of the Companies Act 2006, 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 PEARL GROUP SERVICES LIMITED

Opinion

We have audited the financial statements of Pearl Group Services Limited for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes1 to 23, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report . We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, 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 up until 31 December 2022.

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 with the annual report.

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. 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 9, 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 those that relate to the reporting framework (International Accounting Standards and the Companies Act 2006) and the relevant direct tax regulation in the United Kingdom. In addition, the Company is required to comply with laws and regulations relating to its operations, including health and safety, employees, anti-bribery and corruption and General Data Protection Regulation ('GDPR').
- We understood how the Company is complying with those frameworks by making enquiries with those charged with governance, internal audit and management to understand how the Company maintains and communicates its policies and procedures in these areas and corroborated this by reviewing supporting documentation. We also reviewed correspondence with relevant authorities.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the risk of management override of internal control and by assuming accounting provisions to be fraud risks.

Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved use of data analytics into our testing of manual journals, including segregation of duties. We tested specific transactions back to source documentation, ensuring appropriate authorisation of those transactions.

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.

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Ernst & Young LLP.
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April 26, 2021 | 11:57:02 BST

Robin Enstone (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol

Statement of comprehensive income
for the year ended 31 December 2020

	Notes	2020 £000	*Restated 2019 £000
Revenue			
Fee and commission income	3	207,379	252,871
Net investment income	4	320	6,585
Total revenue		207,699	259,456
Total income		207,699	259,456
Administrative expenses	5	(195,453)	(236,867)
Total administrative expenses		(195,453)	(236,867)
Profit for the year before tax		12,246	22,589
Tax charge	8	(2,892)	(4,244)
Profit for the year attributable to owners		9,354	18,345
Other comprehensive income:			
Movement in provision	11	(141)	(348)
Deferred tax credit on provision	8	21	59
Total comprehensive income for the year attributable to owners		9,234	18,056

*See note 1(c) for further information.

Statement of financial position
as at 31 December 2020

	Notes	As at 31 December 2020 £000	As at 31 December 2019 £000
Equity attributable to owners			
Share capital	9	-	-
Capital contribution reserve	10	-	-
Retained earnings		48,665	39,431
Total equity		48,665	39,431
Non-current liabilities			
Long-term provisions	11	29,945	67,642
Accruals and deferred income	12	44,441	45,046
Total non-current liabilities		74,386	112,688
Current liabilities			
Short-term provisions	11	39,016	18,334
Accruals and deferred income	12	12,843	31,627
Other payables	13	14,471	11,523
Total current liabilities		66,330	61,484
Total liabilities		140,716	174,172
Total equity and liabilities		189,381	213,603
Non-current assets			
Deferred tax	14	3,346	3,303
Total non-current assets		3,346	3,303
Current assets			
Other receivables	15	78,190	103,806
Cash and cash equivalents	16	107,845	106,494
Total current assets		186,035	210,300
Total assets		189,381	213,603

On behalf of the Board

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Anthonios Kassimiotis
Director
23 April 2021

Statement of cash flows
for the year ended 31 December 2020

	Notes	2020 £000	2019 £000
Cash flows from operating activities			
Cash generated by operations	17	1,351	27,333
Net cash flows from operating activities		1,351	27,333
Net cash flows from investing activities		-	-
Cash flows from financing activities			
Dividend Paid		-	(5,000)
Return of capital contribution (note 10)		-	(5,000)
Net cash flows from financing activities		-	(10,000)
Net increase in cash and cash equivalents		1,351	17,333
Cash and cash equivalents at the beginning of the year		106,494	89,161
Cash and cash equivalents at the end of the year	16	107,845	106,494

Supplementary disclosures on cash flow from financing activities

	2020 £000	2019 £000
Interest received	320	6,585
Interest paid	-	-

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

	Share capital (note 9) £000	Capital contribution reserve (note 10) £000	Retained earnings £000	Total £000
At 1 January 2020	-	-	39,431	39,431
Profit for the year	-	-	9,354	9,354
Other comprehensive income for the year	-	-	(120)	(120)
Total comprehensive income for the year	-	-	9,234	9,234
At 31 December 2020	-	-	48,665	48,665

	Share capital (note 9) £000	Capital contribution reserve (note 10) £000	Retained earnings £000	Total £000
At 1 January 2019	-	5,000	26,358	31,358
Profit for the year	-	-	18,345	18,345
Other comprehensive income for the year	-	-	(289)	(289)
Total comprehensive income for the year * **Restated**	-	-	18,056	18,056
Dividends Paid * **Restated**	-	-	(5,000)	(5,000)
Return of Capital contribution * **Restated**	-	(5,000)	-	(5,000)
Current tax credit on share schemes	-	-	17	17
At 31 December 2019	-	-	39,431	39,431

Distributable reserves include Capital contribution reserves of £nil (2019: £nil) and Retained earnings of £48,665,000 (2019: £39,431,000).

The return of capital contribution is presented correctly for 2019 comparative year outside of total comprehensive for the year.

*See note 1(c) for further information.

Notes to the financial statements

1. Accounting policies

(a) Basis of preparation

The financial statements have been prepared on a historical cost basis.

The Directors have followed the UK Financial Reporting Council's "Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks" (issued April 2017) when performing their going concern assessment. As part of their comprehensive assessment of whether the Company is a going concern, the Directors considered the possible impacts of the Covid-19 pandemic on the operational capacity and liquidity of the Company for a period up to 31 December 2022. The liquidity assessment considered the ability to meet liabilities as they fall due under a base case and a severe stress scenario.

As a result of this review, the Directors believe the Company has adequate resources to continue to meet liabilities as they fall due for the period up to 31 December 2022. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

The Company present 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 standalone financial statements and the exemption in paragraph 4 of IFRS 10 Consolidated Financial Statements and section 401 of the Companies Act 2006, have 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.

Statement of compliance
The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The financial statements are presented in sterling (£) rounded to the nearest £000 except where otherwise stated.

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 IFRS or interpretation, as specifically disclosed in the accounting policies of the Company.

(b) Changes to accounting policies

The accounting policies applied in these financial statements is the same as those applied in the last annual financial statements.

A number of new standards are effective from 1 January 2020 but they do not have a material effect on the Company's financial statements see note 2.

(c) Restatement of prior period information

The 2019 comparatives in the Statement of Comprehensive Income have been restated to reflect a presentational change in respect of dividends paid. The 2019 financial statements previously showed dividends paid (£5,000k) within the 'Other comprehensive income'. This has now been removed from 'Other comprehensive income', as the correct treatment is to present these within the Statement of Changes in Equity.

In addition, 2019 Statement of Changes in Equity showed the return of capital contribution (£5,000k) as a deduction from Other Comprehensive Income and dividends paid (£5,000k) within the "Total Comprehensive income". As both these items should have been shown as separate components of equity, the 2019 Statement of Changes in Equity has also been restated to reflect this presentational change"

(d) Critical accounting estimates and judgement

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the Company's business that typically require such estimates are income taxes, recognition of provisions, impairment of financial assets and share-based payments.

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 (e).

Provisions
The accounting policy for provisions is discussed in accounting policy (i).

Fair value of financial assets
The accounting policy for fair value of financial assets is discussed in accounting policy (g).

Impairment of financial assets
The impairment provisions for financial assets disclosed in note (g) are based on assumptions about risk of default and expected loss rates. The company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the company's past history and existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see note (g).

Share-based payments
The accounting policy for share-based payments is discussed in accounting policy (l).

(e) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised in the statement of changes in equity, in which case it is recognised in this statement.

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

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. Deferred tax is not provided in respect of temporary differences arising from the initial recognition of goodwill and the initial recognition of assets or liabilities in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable profit. 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.

(f) Employee benefits

The Company is a participating employer in the PGL pension scheme which has a defined contribution section and a dormant defined benefit section.

Defined contribution plans
Obligation for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income as and when incurred.

Defined benefit plans
No net defined benefit cost or cash contributions of the PGL scheme are borne by the Company as it is the policy of the Phoenix Group for these to be borne by the sponsoring employer for the PGL scheme, Phoenix Group Holdings (No.1) Limited, a Group entity.

The unfunded pension provision is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years, and that benefit is discounted to determine its present value.

The Company determines the net interest expense for the period by applying the discount rate used to measure the defined benefit liability at the beginning of the period to the opening liability. The discount rate is the yield at the period end on AA credit rated bonds that have maturity dates approximating to the terms of the Company's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

The movement in the net defined benefit liability is analysed between the net interest cost on the net defined benefit liability recognised within the income statement and remeasurement of the net defined liability in other comprehensive income.

(g) Financial assets

Classification of Financial assets

Financial assets are measured at amortised cost where they have:

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

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

Financial assets measured at amortised cost are included in Note 15 Other receivables and Note 16 Cash and cash equivalents.

Impairment of financial assets

The Company assesses the expected credit losses associated with its loans and receivables, other receivables and cash carried at amortised cost. The impairment methodology depends upon whether there has been a significant increase in credit risk.

The Company measures loss allowances which have low credit risk using the 12-month Expected Credit Loss (ECL). Interest revenue is recognised on a gross basis. A simplified approach is used to determine the loss allowances for other receivables as these are always measured at an amount equal to lifetime ECLs. See Note 19 for detail of how the Company assesses whether the credit risk of a financial asset has increased since initial recognition and when estimating ECLs.

The loss allowance reduces the carrying value of the financial asset and is reassessed at each reporting date. ECLs are recognised using a provision for doubtful debts account in profit and loss. For other receivables, the ECL rate is recalculated each reporting period taking into account which counter parties are included in the reporting period.

ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- 12-month ECLs - Total expected credit losses that result from default events that are possible within 12 months after the reporting date.
- Lifetime ECLs - Expected credit losses that result from all possible default events over the expected life of the financial asset.

No significant changes to estimation techniques or assumptions were made during the reporting period.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity term of three months or less at the date of placement. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are deducted from cash and cash equivalents for the purpose of the statement of cash flows.

(i) Provisions and contingent liabilities

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

(j) 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.

(k) Income recognition

Fee and commission income
Fee and commission income relates to the following:

- policy administration fees, which are recognised as the services are provided;
- Project fees
- Passthrough fees
- Corporate fees
- other fees, which are recognised as the services are provided.

Fee income received for the indemnity of future risks is treated as deferred income in the period in which it is received and recognised as revenue either in line with actual costs incurred (as these costs are considered to best reflect the rendering of services) or as a result of a reduction in the assumed level of future risks.

Net investment income
Net investment income comprises interest on cash and cash equivalents.

Interest income is recognised in the statement of comprehensive income as it accrues using the effective interest method.

(l) Expense recognition

Share-based payments
Equity-settled share-based payments to employees and others providing services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 20.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Phoenix Group Holdings ('PGH'), the Company's ultimate parent company estimate of equity instruments that will eventually vest. At each period end, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is charged or credited to equity.

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

(m) Share capital and capital contributions

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

Capital contributions
Capital contributions received by the Company and which contain no agreement for their repayment are recognised directly in the statement of changes in equity as a distributable reserve.

(n) 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 only disclosed.

2. Financial information

The financial statements for the year ended 31 December 2020, set out on pages 13 to 34 were authorised by the Board of Directors for issue on 23 April 2021.

In preparing the financial statements, the Company has adopted the following standards, interpretations and amendments which have been issued by the International Accounting Standards Board ('IASB') and have been adopted for use by the EU:

- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Amendments clarify the definition of material and how it should be applied;

- Amendments to the References to the Conceptual Framework in IFRS Standard

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, amendments or interpretations where this is permitted.

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

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

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

On 31 January 2020, the UK left the EU and consequently EFRAG will no longer endorse IFRSs for use in the UK. Legislation is in place to onshore and freeze EU-adopted IFRSs and from 1 January 2021 the Company will apply UK-adopted International Accounting Standards. The powers to endorse and adopt IFRSs will be delegated by the Secretary of State to the UK Endorsement Board once the draft statutory instrument, which was laid before Parliament on 1 February 2020, is approved.

3. Fee and commission income

	2020 £000	2019 £000
Policy administration fees	51,693	60,486
Project fees	138,910	91,241
Pass Through fees	2,123	3,230
Restructuring recharges	(1,041)	78,380
Corporate fees	14,944	18,726
Movement in deferred income (note 12)	605	658
Other fees	145	150
	207,379	252,871

Project related Income is allocated between between the Companies, PGMS and SLAESL, which are fellow subsidiaries, in accordance with a pre-defined governance framework.

Restructuring recharges relate to the restructuring costs rechargeable to fellow group entities.

4. Net investment income

	2020 £000	2019 £000
Net Interest income	320	716
Other Interest	-	5,869
	320	6,585

In 2019, other interest includes interest received in respect of a VAT rebate due to a result of partial exemption ruling settled by HMRC.

5. Administrative expenses

	2020 £000	*2019 £000
Employee costs	7,730	7,810
Outsourcing expenses	29,654	33,668
Project expenses	126,479	84,565
Restructuring costs	(1,041)	78,380
Profit share arrangement (note 15)	3,200	3,200
Other	29,431	29,244
	195,453	236,867

* A sum amounting to £6,854,000 has been reclassified from outsourcing expenses to other expenses in 2019 to align with 2020 presentation.

Outsourcing expenses include costs relating to policy administration services.

Project related costs are allocated between the Company, PGMS and SLAESL, which are fellow subsidiaries, in accordance with a pre-defined governance framework.

In 2019, restructuring costs related to the restructuring provision recognised, in 2020 subsequently £1,041,000 was released, see Note 11.

Staff costs and overheads are allocated between the Company, PGMS and SLAESL, which are fellow subsidiaries.

Employee costs comprise:

	2020 £000	2019 £000
Wages and salaries (including termination benefits)	6,345	6,407
Social security contributions	994	1,048
Other pension costs	391	355
	7,730	7,810

	2020	2019
Average number of persons employed	31	33

6. Directors' remuneration

	2020 £000	2019 £000
Salaries and other short term benefits	241	300
Remuneration (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	241	300
Contributions to money purchase pension schemes	14	20

	2020	2019
Number of Directors who:		
- are members of a money purchase pension scheme	4	4
- have exercised share options during the year	3	3

	2020 £000	2019 £000
Highest paid Director's remuneration	93	111
Contributions to money purchase pension schemes	2	1

During the year to 31 December 2020 key management personnel and their close family members contributed £37,000 to pensions and savings products sold by the Group.

At 31 December 2020, the total value of key management personnel's investments in Group pensions and savings products was £825,000.

7. Auditors' remuneration

The remuneration of the auditors of the Company in respect of the audit of the financial statements was £59,000 (2019: £59,000). In addition, audit related assurance services of £3,000 were incurred during the year (2019: £3,000)

8. Tax charge

Current year tax charge	2020 £000	2019 £000
Current tax:		
UK Corporation tax	2,538	3,855
Adjustment in respect of prior years	376	(4)
Total current tax charge	2,914	3,851
Deferred tax:		
Origination and reversal of temporary differences	360	418
Adjustment in respect of prior year	3	6
Change in the rate of UK corporation tax	(385)	(31)
	(22)	393
Total tax charge	2,892	4,244

Tax credited to other comprehensive income	2020 £000	2019 £000
Deferred tax credit on provision	(21)	(59)
	(21)	(59)

Reconciliation of tax charge	2020 £000	2019 £000
Profit before tax	12,246	22,589
Tax at standard UK rate of 19% (2019: 19%)	2,327	4,292
Non taxable income and gains	-	(184)
Disallowable expenses	17	33
Adjustment to tax charge in respect of prior years	378	2
Share based remuneration	555	132
Deferred tax rate change	(385)	(31)
Total tax charge for the year	2,892	4,244

9. Share capital

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

	2020 £	2019 £
Authorised: 5,000,000 (2019: 5,000,000) ordinary shares of £1 each	5,000,000	5,000,000
Issued and fully paid: 1 (2019: 1) ordinary share of £1 each	1	1

The holder of the ordinary share is 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 at its discretion out of legally available profits.

10. Capital contribution reserve

	2020 £000	2019 £000
As at 1 January 2020	-	5,000
Return of capital contribution	-	(5,000)
As at 31 December 2020	-	-

During the year, the company returned capital contributions of £nil (2019: £5,000,000).

11. Provisions

	Re-structuring £000	Staff related £000	Other £000	Total £000
At 1 January 2020	78,407	7,316	253	85,976
Additions in the year	-	1,139	5	1,144
Utilised during the year	(16,526)	(592)	-	(17,118)
Released during the year	(1,041)	-	-	(1,041)
At 31 December 2020	60,840	7,863	258	68,961
Amount due for settlement within 12 months	38,640	118	258	39,016
Amount due for settlement after 12 months	22,200	7,745	-	29,945

Restructuring provision

The restructuring provision covers the costs of restructuring management and staffing.

Included within the restructuring provision, a provision totalling £78,380,000 was recognised in 2019 and it was envisaged that costs would be incurred over a three year period and will include migration costs and severance costs. As at 2020, contractual migration costs of £56,300,000 (2019:£72,000,000) are payable to TCS and are subject to limited uncertainty as they are fixed under the terms of the agreement. A part of this restructuring provision includes £4,538,000 (2019: £6,380,000) relating to severance costs, both these costs are recoverable from group entities. During 2020, total costs of £16,501,000 were utilised in the year. £15,700,000 relating to migration costs and £801,000 relating to severance costs. The severance cost provision was also reduced by £1,041,000 during the year.

The remaining balance within restructuring provision comprises of a legacy provision which relates to amounts owed to former employees of PGS totalling £27,000, during the year £25,308 was utilised and a closing balance of £1,692 remains. The remaining balance will be expected to be utilised in 2021 year.

Staff related provision- Unfunded Pension

The main component of the staff related provisions is £5,414,000 (2019: £5,472,000) held in respect of unfunded pensions. This represents commitments of the Company under various legacy post-employment benefit arrangements to former employees. The Company is committed to paying the benefits due each year.

	Unfunded Pension	
	2020 £000	2019 £000
Opening provision as at 1 January	5,472	5,282
Net interest recognised in the income statement	106	144
Re-measurement effects recognised in other comprehensive income	141	348
Benefits paid directly by the Company	(305)	(302)
Closing provision as at 31 December	5,414	5,472

The key risks facing the Company are possible future adverse economic conditions and increases in longevity of Scheme members, which can result in higher payments for longer than assumed.

The key assumptions used in the calculation of the provision are:

Discount rate	1.40% (2019: 2.00%)
Pension increases in payment based on RPI	2.85% (2019: 2.90%)

The provision was recalculated at year end by AON Hewitt actuaries using assumptions (consistent with all Group Pension Schemes) set by the Phoenix Group.

The key sensitivities for this provision are:

- A 0.25% increase in the discount rate is expected to decrease the liabilities by £116,000. A 0.25% decrease in the discount rate is expected to increase liabilities by £120,000.
- A 0.25% increase in the inflation assumption is expected to increase the liabilities by £96,000. A 0.25% decrease in the inflation assumption is expected to decrease liabilities by £94,000.

Staff related provision- Healthcare provision

This provision was set up to cover healthcare costs associated with ex-employees who are entitled to healthcare benefits. There are 29 members remaining in the scheme at YE20. The provision was re-assessed by the Phoenix Actuaries on an annual basis in accordance with methodology approved by the Actuarial Technical Committee in 2014.

Staff related provisions also include £2,451,000 (2019: £1,845,000) held in respect of post-employment private medical insurance costs for former employees.

The key risk facing the Company in relation to the healthcare provision is possible adverse medical expense inflation, which may increase the costs to the Company.

The key assumptions used in the calculation of the provision are:

Medical expense inflation rate	13.0% (2019: 13.0%)
Mortality rates:	
Males	95.0% (2019: 95.0%)
Females	87.5% (2019: 87.5%)
Discount rate	0.29% (2019: 0.52%)

Other provisions include £126,000 (2019: £126,000) in respect of costs relating to the administration of policyholder pension schemes.

12. Accruals and deferred income

	2020	2019
	£000	£000
Deferred income	44,441	45,046
Accruals	12,843	31,627
	57,284	76,673
Amounts due for settlement after 12 months	44,441	45,046

The following table details the change in deferred income:

	2020	2019
	£000	£000
At 1 January	45,046	45,704
Movement during the year (note 3)	(605)	(658)
At 31 December	44,441	45,046

The Company renegotiated MSAs with Phoenix Life Assurance Limited ('PLAL') to harmonise the contract terms, structures and charging basis of the previous MSAs with effect from 31 December 2015. As part of the harmonisation, the Company accepted certain risks related to particular blocks of business from PLAL for a fee of £51,989,000. The fee income has been deferred and will be recognised in line with associated costs as and when they arise or as a result of a reduction in the risk. £605,000 has been recognised in income during the year (2019: £658,000).

Remaining performance obligations

As of 31 December 2020, the aggregate amount of the remaining deferred income is £44,441,000 (2019: £45,046,000) and the entity will recognise this revenue as future costs are incurred, the timing of which is uncertain.

13. Other payables

	2020	2019
	£000	£000
Trade creditors	4,582	529
Social security costs	482	2,662
Amounts owed to Group companies	9,407	8,206
Other payables	-	126
	14,471	11,523
Amount due for settlement after 12 months	-	-

At 31 December 2020, amounts owed to Group companies included £2,514,000 in respect of group relief (2019: £3,082,000) and group settlement payable amounting to £6,893,000 (2019: £5,124,000).

14. Tax assets and liabilities

	2020	2019
	£000	£000
Deferred Tax		
The balances at 31 December comprise:		
Deferred tax assets	3,346	3,303

Movements in deferred tax assets

Year ended 31 December 2020

	1 January	Recognised in the Income Statement	Recognised in other comprehensive income	31 December
	£000	£000	£000	£000
Share schemes	498	99	-	597
Unfunded pension scheme	930	78	21	1,029
Accelerated capital allowances	1,875	(155)	-	1,720
	3,303	22	21	3,346

Year ended 31 December 2019

	1 January	Recognised in the Income Statement	Recognised in other comprehensive income	31 December
	£000	£000	£000	£000
Share schemes	397	101	-	498
Unfunded pension scheme	898	(27)	59	930
Accelerated capital allowances	2,342	(467)	-	1,875
	3,637	(393)	59	3,303

The standard rate of UK corporation tax for the accounting period is 19% (2019: 19%).

Following the cancellation of the planned tax rate reduction from 19% to 17% announced in the March 2020 Budget, deferred tax assets and liabilities, where provided, are reflected at the rate of 19%.

Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.

15. Other receivables

	2020	2019
	£000	£000
Prepayments	-	3,320
Amounts owed by Group entities	78,160	100,196
Other receivables	30	290
	78,190	103,806

As a result of the MSA harmonisation (described in note 12), a component of the MSA agreement related to a profit share arrangement between the Company and PGMS where the Company transferred £16,000,000 cash to PGMS. This was included within prepayments and recognised in the income statement on a straight line basis over a period of 5 years. During 2020, we have recognised £3,200,000 (2019: £3,200,000) in the income statement. This is now fully utilised during the year.

Included in the balance of amounts owed by Group entities was £60,837,000 (2019: £78,380,000) which is recoverable from group companies in respect of the migration costs and severance costs (see note 11).

16. Cash and cash equivalents

	2020	2019
	£000	£000
Bank and cash balances	29,746	33,174
Short-term deposits (including demand and time deposits)	78,099	73,320
	107,845	106,494

The carrying amounts of cash and cash equivalents are not materially different from their fair values.

17. Cash flows

Cash flows from operating activities

	2020	2019
	£000	£000
Profit for the year before tax	12,246	22,589
Changes in operating assets and liabilities		
(Increase)/Decrease in other assets	25,616	(79,560)
Increase/(Decrease) in other liabilities	(36,511)	84,304
Cash generated by operations	1,351	27,333

The cash flow has been prepared using the indirect method.

18. Capital management

The Company's capital comprises share capital and reserves. At 31 December 2020, total capital was £48,665,000 (2019: £39,431,000). The positive movement in capital during the year comprises the total comprehensive income for the year of £9,234,000 (2019: £18,056,000). In 2019, tax credits relating to share schemes was posted to capital. £17,000 related to current tax credit on share schemes. There was no tax charge/credits relating to share schemes in 2020.

The Company is regulated by the FCA and as a result must maintain capital of £20,000 (2019: £20,000). The Company's capital is monitored by the Directors and managed on an on-going basis. The Directors are responsible for ensuring that the Company maintains an appropriate level of capital to enable it to meet liabilities arising from reasonably foreseeable extreme events. The Company has implemented a system of regular reviews to monitor the level of capital in the short to medium term taking account of the anticipated future developments of the Company. At 31 December 2020, the Company had an excess over its regulatory capital requirements of £48,645,000 (2019: £39,411,000).

The Directors have prepared cash flow forecasts for the Company for the foreseeable future. The cash flow forecasts indicate that the Company is able to meet its obligations as and when they fall due for the foreseeable future.

19. Risk management

On 31 December 2015, the Company agreed a revised MSA with PLL. Under this agreement, the Company entered into further risk buyouts relating to regulatory change and expense risk. The Company received a cash consideration for accepting these risks.

At the time of the risk transfers, the consideration was determined to be adequate to meet the foreseeable costs of the risks crystallising and continues to be at 31 December 2020. The risks are assessed as part of the following items:

Expense risk
The Company carries the risk of reducing its expenses in line with fee income from per policy based management services agreements.

To mitigate expense risk the company outsources policy administration services for a per policy based fee. The total cost of outsourced policy administration runs off in line with policy run off. The Company manages incremental expense risk through a focus on cost reduction initiatives across the business as a part of the annual operating plan.

Liquidity risk
The Company has exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements and this is monitored on an ongoing basis.

Key components of the monitoring framework include daily monitoring of cash flows and regular reviews with the parent company, PGH2, to identify cash flow requirements.

Management has considered the impact of Covid-19 on the Company's liquidity risk, which continues to be deminimis, since the Company hold its funds in highly liquid, readily available cash funds which exposed to only minimal changes in value. 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.

Legislative and regulatory risk
The Company is subject to regulation by the FCA. The FCA has broad regulatory powers dealing with all aspects of financial services including, amongst other things, the authority to grant and, in specific circumstances, to vary or cancel permissions to carry out particular activities. Phoenix Group has processes in place to keep up to date with latest FCA guidelines and regulation. Phoenix Group is also responsible for treating its customers fairly and adheres to FCA guidelines in respect of this.

VAT risk
Decisions of the Court of Justice of the European Union ("CJEU") meant that VAT would have likely become due on certain Outsourcer fees, such as claims handling/policy administrations services, in the absence of the UK's decision to leave the European Union ("EU"). This would give rise to additional expenses for the business.

After 31 December 2020, UK courts can now depart from judgements of the CJEU and it is felt unlikely that VAT will now be imposed on Outsourcer fees on the basis of EU case law. The risk cannot be said to have subsided completely, however, as the UK Government could legislate to impose VAT unilaterally, although no Government in recent times has indicated any wish to restrict the relevant VAT exemption in accordance with the CJEU judgements.

Credit risk
The table below details the credit quality of the Company's financial assets, as well as the Company's maximum exposure to credit risk by credit risk rating grades. Management has considered the impact of Covid-19 on the credit quality of the Company's financial assets and has concluded that the credit risk rating grades below are not impacted.

Credit risk management practices

The Company's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12m ECL
Doubtful	There has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit impaired
In default	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

The table below details the credit quality of the Company's financial assets, as well as the Company's maximum exposure to credit risk by credit risk rating grades:

31/12/2020	Note	External credit rating	Internal credit rating	12m or lifetime ECL?	Gross carrying amount	Loss Allowance	Net carrying amount
					£'000	£'000	£'000
Intercompany receivables	15	N/A	Performing	12m ECL	78,737	-	78,737
Other receivables	15	N/A	Performing	Lifetime ECL (simplified approach)	30	-	30
Cash and cash equivalents	16	AAA	N/A	12m ECL	107,845	-	107,845

The Company considers reasonable and supportable information that is relevant and available without undue cost or effort to assess whether there has been a significant increase in risk since initial recognition. This includes quantitative and qualitative information and also, forward-looking analysis.

Intercompany receivables – The credit risk from activities undertaken in the normal course of business is considered to be extremely low risk. The Company assesses whether there has been a significant increase in credit risk since initial recognition by assessing past credit impairments, history of defaults and the long term stability of the Phoenix Group.

Other receivables - The Company's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty including historic loss experiences and current market conditions. For each new counterparty, the Company also analyses the creditworthiness before the Company's standard payment terms and conditions are offered. The Company also reviews external ratings, if they are available, and financial statements.

Cash and cash equivalents - The Company's cash and cash equivalents are held with bank and financial institution counterparties, which have AAA investment grade ratings. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties and there being no history of default.

The Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Risk of outsourcer failure
The Company carries the risk that the outsourcers are no longer able to commit to providing the agreed services at the agreed costs. The risk of outsourcers becoming insolvent is continually monitored closely by the Operational Governance Team and considered to be minimal.

Operational risk
The Company has legal title to a portfolio of residential mortgages. However, the economic exposure to the returns on the investment is with PLL through its fully owned subsidiary PER1L, which holds beneficial interest to the loans. Administration of this portfolio has been outsourced to Link Mortgage Services Limited. However, the Company retains the ultimate liability for the administration, including all TCF requirements. In order to mitigate the risk of losses arising from legacy defects, the Company has received an unlimited indemnity from PGH2 against such losses until such time as the Company ceases to hold legal title.

The temporary social distancing regulations introduced by governments to counter the wider spread of the Covid-19 pandemic has resulted in widespread closure of offices, schools, restaurants, shops and other social places throughout the world, impacting the Company and its outsourced service providers' ("OSPs") operational capacity.

This is being carefully managed by the Phoenix Group through initiation of business continuity arrangements, including focus on providing home working capability with appropriate controls and prioritising activities to focus on delivery of critical services to customers.

MSA Risk
The Company will face the following risk as a result of the new MSA Agreement commencing on 1 January 2020;

Direct Expense Synergies Glidepath
Upon commencement of the MSA on 1st January 2020, there was a gap between The Company's income and expenses until expense synergies have been fully achieved. The final expense synergies will not be achieved until the end of 2022, and as a result to mitigate this risk a series of 'glidepath' payments have been included within the MSA.

20. Share-based payment

Equity-settled share-based payments to employees and others providing services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Phoenix Group Holdings ('PGH'), the Company's ultimate parent company estimate of equity instruments that will eventually vest. At each period end, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the statement of comprehensive income.

Share-based payment expense

The expense recognised for employee services receivable during the year is as follows:

	2020 £000	2019 £000
Expense arising from equity-settled share-based payment transactions	3,586	3,413

Whilst the expense arising from equity-settled transactions is recorded in the statement of comprehensive income, in accordance with IFRS 2 the corresponding credit entry is classified as a capital contribution received from PGH within equity. However this capital contribution is immediately offset by a corresponding management recharge of equivalent value.

Share-based payment schemes in issue

Long-Term Incentive Plan ('LTIP')

The Group implemented a long-term incentive plan to retain and motivate its senior management group. The awards under this plan are in the form of nil-cost options to acquire an allocated number of ordinary shares.

Assuming no good leavers or other events which would trigger early vesting rights, the 2018 and 2019 LTIP awards are subject to performance conditions tied to the Company's performance in respect of cumulative cash generation, return on Adjusted Shareholder Solvency II Own Funds and Total Shareholder Return ('TSR'). The 2020 LTIP awards are subject to performance conditions tied to the Company's performance in respect of net operating cash receipts, return on shareholder value, persistency and TSR.

For all LTIP awards, a holding period applies so that any LTIP awards to Executive Committee members, for which the performance vesting requirements are satisfied, will not be released for a further two years from the third anniversary of the original award date. Dividends will accrue on LTIP awards until the end of the holding period. There are no cash settlement alternatives.

2020 LTIP awards were granted on 13 March 2020 and are expected to vest on 13 March 2023. The 2017 LTIP awards vested on 24 March 2020. The 2018 awards will vest on 21 March 2021 and the 2019 awards will vest on 11 March 2022. The number of shares for all outstanding LTIP awards was increased in July 2018 to take account of the impact of the 2018 Group rights issue.

The fair value of these awards is estimated at the average share price in the three days preceding the date of grant, taking into account the terms and conditions upon which the instruments were granted. The fair value of the 2018, 2019 and 2020 LTIP awards is adjusted in respect of the TSR performance condition which is deemed to be a 'market condition'. The fair value of the 2018, 2019 and 2020 TSR elements of the LTIP awards has been calculated using a Monte Carlo model.

The inputs to this model are shown below:

	2020 TSR performance condition	2019 TSR performance condition	2018 TSR performance condition - March grant
Share price (£)	5.86	6.94	7.10
Expected term (years)	3.0	3.0	3.0
Expected volatility (%)	20	20	20
Risk-free interest rate (%)	0.28	0.74	0.96
Expected dividend yield (%)	Dividends are received by holders of the awards therefore no adjustment to fair value is required.		

LTIP Buy Out awards were granted to the Group Chief Executive Officer in 2019, and finalised in 2020, following forfeiture of a proportion of his long-term incentive awards held with Aviva that had been awarded in March 2017 and May 2018. The Aviva March 2017 LTIP vested on 27 March 2020 with a performance outturn of 50%. The Aviva May 2018 LTIP is due to vest on 26 March 2021.

On 14 August 2020, LTIP awards were granted to certain senior management employees. The vesting periods and performance conditions for these awards are linked to the core 2018, 2019 and 2020 LTIP awards.

On 21 December 2018 LTIP awards were granted to certain employees under the terms of the new PGH plc scheme rules. There are discreet vesting periods for these awards and the second tranche of awards vested on 27 March 2020. The remaining awards vest on 28 March 2021. These grants of shares are conditional on the employees remaining in employment with the Group for the vesting period.

Each year, the Group issues a Chairman's share award under the terms of the LTIP which is granted to a small number of employees in recognition of their outstanding contribution in the previous year. On 13 March 2020, awards were granted and are expected to vest on 13 March 2023. The 2017 awards vested on 24 March 2020. The 2018 and 2019 awards are expected to vest on 21 March 2021 and 11 March 2022 respectively. These grants of shares are conditional on the employees remaining in employment with the Group for the vesting period and achieving an established minimum performance grading. Good leavers will be able to, at the discretion of the Remuneration Committee, exercise their full award at vesting.

Deferred Bonus Share Scheme ('DBSS')

Each year, part of the annual incentive for certain executives is deferred into shares of the parent company. The grant of these shares is conditional on the employee remaining in employment with the Group for a period of three years from the date of grant.Good leavers will be able to, at the discretion of the Remuneration Committee, exercise their full award at vesting. Dividends will accrue for DBSS awards over the three year deferral period. The number of shares for all outstanding DBSS awards was increased in July 2018 to take account of the impact of the 2018 Group rights issue.

The 2020 DBSS was granted on 13 March 2020 and is expected to vest on 13 March 2023. The 2017 DBSS awards vested during the year. The 2018 awards are expected to vest on 15 March 2021 and the 2019 awards are expected to vest on 11 March 2022.

The fair value of these awards is estimated at the average share price in the three days preceding the date of grant, taking into account the terms and conditions upon which the options were granted.

Sharesave scheme

The sharesave scheme allows participating employees to save up to £500 each month for the UK scheme and up to €500 per month for the Irish scheme over a period of either three or five years. The 2020 sharesave options were granted on 8 April 2020.

Under the sharesave arrangement, participants remaining in the Group's employment at the end of the three or five year saving period are entitled to use their savings to purchase shares at an exercise price at a discount to the share price on the date of grant. Employees leaving the Group for certain reasons are able to use their savings to purchase shares if they leave prior to the end of their three or five year period.

Following the scheme of arrangement, participants in the Old PGH sharesave plan exchanged their options over Old PGH shares for equivalent options over PGH plc ordinary shares. All sharesave options were increased in November 2016 and again in July 2018 following the Group's rights issues and the exercise price of these awards was also amended as a result of these issues.

The fair value of the options has been determined using a Black-Scholes valuation model. Key assumptions within this valuation model include expected share price volatility and expected dividend yield.

The following information was relevant in the determination of the fair value of the 2016 to 2020 UK sharesave options:

	2020 sharesave	2019 sharesave	2018 sharesave	2017 sharesave	2016 sharesave
Share price (£)	5.66	6.80	7.69	7.47	8.89
Exercise price (£) (revised)	4.97	5.61	5.63	5.67	5.75
Expected life (years)	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25
Risk-free rate (%) based on UK Government Gilts commensurate with the expected term of the award	0.5 (for 3.25 year scheme) and 0.5 (for 5.25 year scheme	1.0 (for 3.25 year scheme) and 1.1 (for 5.25 year scheme	1.0 (for 3.25 year scheme) and 1.1 (for 5.25 year scheme	0.2 (for 3.25 year scheme) and 0.4 (for 5.25 year scheme)	0.6 (for 3.25 year scheme) and 1.0 (for 5.25 year scheme)
Expected volatility (%) based on the share price volatility to date	30.0	30.0	30.0	30.0	30.0
Dividend yield (%)	8.2	6.8	6.5	6.3	6.0

The information for determining the fair value of the 2020 Irish sharesave options differed from that included in the table above as follows:

- share price (€): 6.462
- Exercise price (€) 5.65
- Risk-free rate (%): (0.3) (for 3.25 year scheme) and (0.2) (for 5.25 year scheme).

Share Incentive Plan

The Group operates two Share Incentive Plan (‘SIP’) open to UK and Irish employees which allows participating employees to purchase ‘Partnership shares’ in the Company through monthly contributions. In respect of the UK SIP, the contributions are limited to the lower of £150 per month and 10% gross monthly salary. In 2019 the matching element of the UK SIP was amended to give the employee one ‘Matching share’ for each ‘Partnership share’ purchased limited to £50. Contributions above £50 are not matched. The Irish SIP, which was launched in 2019, gives the employee 1.4 ‘Matching shares’ for each ‘Partnership share’ purchased. For this plan monthly contributions are limited to the lower of €40 per month and 7.5% of gross monthly salary.

The fair value of the Matching shares granted is estimated as the share price at date of grant, taking into account terms and conditions upon which the instruments were granted. At 31 December 2020, 35 matching shares (including unrestricted shares) were conditionally awarded to employees (2019: 602).

Movements in the year

The following tables illustrate the number of, and movements in, LTIP, Sharesave and DBSS share options during the year:

	LTIP Schemes	SAYE Schemes	Deferred BSP
Outstanding at 1 January 2020	501,771	66,108	147,918
Transfer to PGMS	-	(3,191)	-
Granted during the year	271,454	52,866	57,018
Forfeited during the year	(46,914)	(27,144)	-
Exercised during the year	(102,603)	(17,197)	(46,079)
Outstanding at 31 December 2020	623,708	71,442	158,857
Outstanding at 1 January 2019	472,475	65,671	147,154
Granted during the year	161,246	27,221	44,301
Forfeited during the year	(71,198)	(3,836)	-
Exercised during the year	(60,752)	(22,948)	(43,537)
Rights issue	-	-	-
Outstanding at 31 December 2019	501,771	66,108	147,918

The weighted average fair value of options granted during the year was £5.10 (2019: £4.10). The weighted average share price at the date of exercise for the rewards exercised is £6.45 (2019: £6.81). The weighted average remaining contractual life for the rewards outstanding as at 31 December 2020 is 6.6 years (2019: 5 years).

21. 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.

The Company provides management services to fellow subsidiaries within the Phoenix Group, in the form of staff and other services, under management services agreements. The income received by the Company for the year ended 31 December 2020 amounted to £209,794,000 (2019: £182,341,000).

The Company recognised expenses totalling £3,200,000 (2019: £3,200,000) with PGMS, as a result of its profit share arrangement described in note 15.

At 31 December 2020, the Company held legal title to a portfolio of residential, equity release mortgages with a fair value of £83m (2019: £84m) which it administers on behalf of PLL and its fully owned special purpose vehicle PER1L. The economic exposure to this portfolio resides with PLL. Any losses arising from legacy risk is mitigated by the receipt of a guarantee from PGH2.

Amounts due to related parties

	2020 £000	2019 £000
Other amounts due to fellow subsidiaries (note 13)	9,407	8,206

Amounts due from related parties

	2020 £000	2019 £000
Other amounts due from parent	710	-
Other amounts due from fellow subsidiaries	77,450	100,196

Amounts due to fellow subsidiaries
At 31 December 2020, an amount of £2,514,000 (2019: £3,082,000) was payable to fellow subsidiaries in respect of group tax relief.

Amounts Due from related parties
Included within amounts due from related parties is £70,588,000 due from Phoenix Group Holdings PLC in respect of the migration costs.

Key management compensation
The total compensation payable to employees classified as key management, which comprises the Directors, is disclosed in note 6.

Payments made to Directors of the Company's parent companies amounted to £1,781,716 (2019: £893,304) principally comprising remuneration and other benefits.

During the year to 31 December 2020 key management personnel and their close family members contributed £37,000 (2019: 23,250) to Pensions and Savings products sold by the Group. At 31 December 2020, the total value of key management personnel's investments in Group Pensions and Savings products was £825,000 (2019: 645,020).

Dividends paid by the ultimate parent company to key management during the year amounted to £53,235 (2019: £42,143).

Parent and ultimate parent entity
Information on the Company's parent and ultimate parent is given in note 23.

22. Events after the balance sheet date

On 3 March 2021, an increase from the current 19% UK corporation tax rate to 25%, effective from 1 April 2023, was announced in the Budget. As a result of the rate increase, the net deferred tax asset in existence at the end of 2020 is expected to increase in value by approximately £751,000 to £4,097,000.

23. Other information

The Company's principal place of business is the United Kingdom. The Company's immediate parent is Pearl Group Holdings (No.2) Limited and its ultimate parent is Phoenix Group Holdings Plc, a company incorporated in England and Wales. A copy of the financial statements of Phoenix Group Holdings Plc can be obtained from the Company Secretary, 100 St Paul's Churchyard, London, EC4M 8BU or www.thephoenixgroup.com.