

PHOENIX ER6 LIMITED

Company Registration Number: 12139423

STRATEGIC REPORT, DIRECTORS' REPORT AND
FINANCIAL STATEMENTS
for the year ended 31 December 2023

PHOENIX ER6 LIMITED

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Strategic report

The Directors present the Strategic report, their Report and the financial statements of Phoenix ER6 Limited (“the Company”) for the year ended 31 December 2023.

The Company is incorporated in England & Wales as a private limited company. Its registration number is 12139423 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”). The Company has acquired the beneficial interest in a portfolio of residential ERM loans from PLL, against which the Company has issued Fixed Rate and Junior Loan Notes which incur interest, as consideration to PLL.

On 7 December 2022, the Company acquired the beneficial interest in a new portfolio of residential ERM loans from PLL, against which the Company issued new Fixed Rate and Junior Loan Notes which incur interest, as consideration to PLL.

The Company has no employees.

Climate change: activity in the year and future developments

Climate change is one of the greatest global challenges we face today. The Group’s ambition is to be a net zero business by 2050 and we believe the Group has a significant role to play in helping to address the climate emergency and accelerating the transition to a net zero economy.

In May 2023 the Group published its inaugural Net Zero Transition Plan which outlines the actions being undertaken to become net zero by 2050 and to achieve the interim targets in 2025 and 2030 across the Group’s investment portfolio, operations and supply chain. The application of the Net Zero plan is set by Group but considers its subsidiary companies including the Company in their plan.

During 2023 the Group also published a Nature Statement which sets out a commitment to taking action across the Group’s three strategic pillars: Invest, Engage, Lead. This works in harmony with the other climate related disclosures namely Taskforce for Climate related Financial disclosures (“TCFD”) and helps to present a consistent view of our climate approach, both for the Group and the Company reporting within the group.

To bolster the commitment on climate, in May 2023 the Group signed the Finance for Biodiversity Pledge and joined the Foundation, which includes five commitments for signatories: collaboration and knowledge sharing, engaging with companies, assessing impact, setting targets, and reporting publicly. The Group also joined Nature Action 100, a global investor engagement initiative focused on driving greater corporate ambition and action to reverse nature and biodiversity loss.

During 2023 the Group also became a signatory on the UK Stewardship code and published its inaugural Stewardship report. This report expands on climate change and looks to provide greater clarity on the Group’s position towards ESG (Environmental, Social & Governance) emerging themes.

The Company seeks to follow and apply the strategy, risk management, and governance framework set by the Group to ensure it can contribute and help support the Group to meet its Climate and Sustainability Targets.

More information can be found in the Group’s Annual Report and Accounts and standalone Sustainability Report in line with the TCFD recommendations.

Result and dividends

The results of the Company for the period are shown in the statement of comprehensive income on page 12. The profit before tax was £nil (2022: £nil).

No dividends were paid to the parent company during the year (2022: £nil), and the Directors do not recommend the payment of a dividend.

Directors’ duties under section 172 of the Companies Act

Section 172 of the Companies Act 2006 (the ‘Act’) requires each Director of a company to act in the way they consider, 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:

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- 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 Act in a manner consistent with the wider Group’s purpose, values and strategic priorities, whilst having due regard to the Company’s ongoing regulatory responsibilities as a financial services business. To support the fulfilment of the Directors’ duties outlined above, each paper prepared for consideration by the Board contains an analysis of the potential impact of proposals to be considered by the Board in light of the factors contained in Section 172.

The Board recognises that the Company’s stakeholders are integral to its success. During the year, the Board ensured that its considerations and decision making processes took into account their impact on its own stakeholders. The key stakeholder groups of the Company and its relationships with each are as follows:

- 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; and
- any employees engaged by the Company via service companies within the Group.

Key board decisions

This section contains an example of a key decision of the Board, its alignment to the Group’s strategy, how the Board reached its decision (including consideration of matters set out in Section 172; the interests of stakeholders; related risks and opportunities; and challenges it faced) and the outcome of those considerations. The example shown is provided to demonstrate how the Directors of the Company have carried out their duties under Section 172 of the Act.

Example Key Board Decision	Equity Release Securitisation
Link to strategic priorities	How the Board reached its decision
<p>Optimising our in-force business</p>	<p><u>CONSIDERATION OF S172 MATTERS</u></p> <p>As part of wider activity to restructure and restructure ERM assets held elsewhere in the Group for driving operational simplicity and cost efficiencies for the Group, twice during the year the Board considered proposals for the purchase of ERM assets from Phoenix Life Limited in return for the issue of loan notes.</p> <p>In considering each proposal, the Board explored the likely long-term consequences of each, including adequacy of security over any new loan notes. It also sought and received confirmation that the transactions would not impact the going concern status of the Company. No matters of concern arose as a consequence.</p> <p>As part of ensuring a reputation for high standards of business conduct was maintained, the Board noted that on each occasion the appropriateness of assets to undergo securitisation had been assessed against the approved securitisation framework and were considered to be sufficiently low risk in profile. Those that did not meet the framework’s criteria had been excluded. Further, the Board noted that the proposed loan notes met the requirements set out by the Prudential Regulation Authority (“PRA”). The Board also noted the satisfactory outcome of a review of each proposal by Line 2.</p> <p>In considering the proposals, the Board recognised that their approval would facilitate the Company’s immediate parent 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. Doing so ensured that positive business relationships within the Group were maintained.</p>
<p>Outcome</p>	<p>Following due consideration of the matters set out in section 172, the Board approved each of the proposed transactions.</p>

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Example Key Board Decision	Approval of the Annual Accounts for the year ended 31 December 2022 (“YE22 accounts”)
Link to strategic priorities	How the Board reached its decision
Optimising our in-force business	<p><u>CONSIDERATION OF S172 MATTERS</u></p> <p>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 YE22 accounts, within which a going concern statement was included (relied upon by other assessing the business). The long term impact of the decision to approve the YE22 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.</p> <p>As part of the same approval process, the Board also noted that the financial statements had been subject to external audit, the outcome of which could, again, be used by those assessing the business to determine whether the Company had maintained high standards of business conduct.</p>
Outcome	Following due consideration of the matters set out in section 172, the Board approved the YE22 accounts.

Business relationships with customers

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

Business relationships with Partners/Suppliers

The Service Companies within the Group are the principal leads on maintaining relationships with suppliers with respect to their contractual obligations.

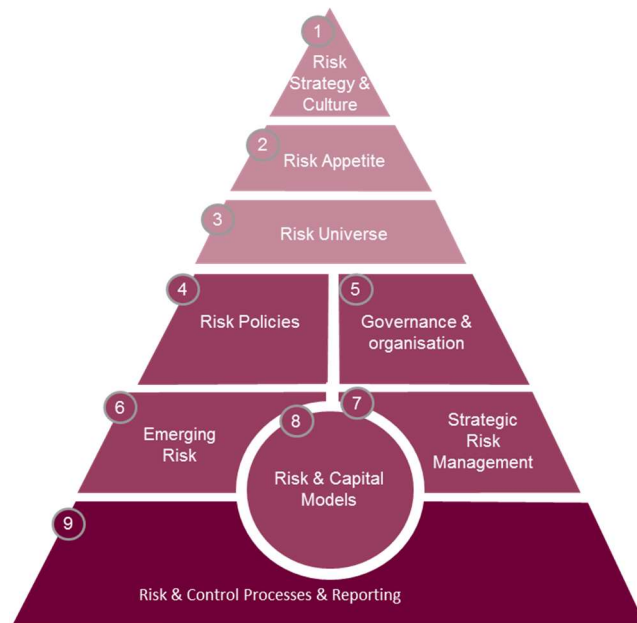
Energy and carbon reporting

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

Risk management framework

The Company adopts the 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 2023.



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Principal risks and uncertainties

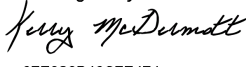
The Group applies a consistent methodology for the identification, assessment, management and reporting of risk that includes a high level framework for the management of key risks within each business unit.

The principal risks and uncertainties facing the Company are detailed in note 18 of the financial statements.

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:


Kerry McDermott

For and on behalf of Pearl Group Secretariat Services Limited
Company Secretary

30 August 2024

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. Note 18 to the financial statements summarises the Company's risk management 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 forecasts for the Company for the period to 30 September 2025.

The Company had £6m of cash and liquidity funds at 31 December 2023 and £20m (unaudited) at 30 June 2024. The Company also has access to a pre-agreed liquidity facility of £25m from PLL. The Company's liquidity position is monitored monthly and regular reviews are undertaken to identify cash flow requirements. The Company's forecasts show it has sufficient liquidity to meet its liabilities as they fall due over the going concern period to 30 September 2025.

As a result of this review, the Directors believe the Company has adequate resources to continue in operational existence over the going concern period assessed up to 30 September 2025. Accordingly, they 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 period or who held office as at the date of signature of this report are as follows:

R Angliker	(appointed 1 April 2024)
C A Baker	(resigned 28 April 2024)
A J Fenlon	(appointed 1 April 2024)
J J Grainger	(appointed 1 April 2024)
P Mayes	(resigned 31 March 2024)
B Meaney	(resigned 9 April 2024)
R Sheriff	(resigned 8 April 2024)

Secretary

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

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.

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 18 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 period 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.

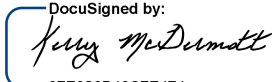
This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act 2006.

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Future auditor appointment

Ernst & Young LLP have reached the maximum period of service for an auditor of a Public Interest Entity, under the mandatory auditor rotation requirements, for another Life Company within the Group and will therefore step down as the Company's auditor on completing the audit for the year ended 31 December 2023. In accordance with section 485 of the Companies Act 2006, KPMG LLP will be appointed auditors to the Company for the year ended 31 December 2024, following a Group-wide selection process carried out in accordance with section 485B of the Companies Act 2006.

On behalf of the Board

DocuSigned by:


Kerry McDermott

For and on behalf of Pearl Group Secretariat Services Limited
Company Secretary

30 August 2024

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 ER6 Limited**Opinion**

We have audited the financial statements of Phoenix ER6 Limited for the year ended 31 December 2023 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 (except for the element of note 1, which is marked as unaudited), including material accounting policy information. 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 2023 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. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Confirming our understanding of management's going concern assessment process and obtaining management's assessment which covers the period up to 30 September 2025;
- Challenging the key assumptions used by management in determining appropriateness of the going concern assessment; and
- Assessing the appropriateness of the going concern disclosures by comparing their consistency with management's assessment and for compliance with the relevant reporting requirements

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period to 30 September 2025.

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:

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- 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 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the 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.
- Based on this understanding we designed out audit procedures to identify non-compliance with such laws and regulators. 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
 - Enquiring about the company's methods of enforcing and monitoring compliance with such policies.


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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.

Signed by:



Ernst & Young LLP

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Nneka Crichlow (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

30 August 2024

 PHOENIX ER6 LIMITED

Statement of comprehensive income
 for the year ended 31 December 2023

	Notes	2023 £000	2022 £000
Revenue			
Net investment income	3	27,666	2,425
Net income		<u>27,666</u>	<u>2,425</u>
Administrative expenses	4	(652)	(10)
Total operating expenses		<u>(652)</u>	<u>(10)</u>
Profit before finance costs and tax		27,014	2,415
Finance costs	7	(27,014)	(2,415)
Profit for the year before tax		<u>-</u>	<u>-</u>
Tax charge	8	-	-
Profit for the year		<u>-</u>	<u>-</u>
Other comprehensive income		-	-
Total comprehensive income for the year		<u><u>-</u></u>	<u><u>-</u></u>


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Statement of financial position

As at 31 December 2023

	Notes	As at 31 December 2023 £000	As at 31 December 2022 £000
Assets			
Financial assets			
Loans and receivables	9	808,804	283,139
Collective investment schemes	10	4,560	-
		<u>813,364</u>	<u>283,139</u>
Deferred tax	12	1,556	98
Other receivables	13	8	580
Cash and cash equivalents		1,642	196
		<u>816,570</u>	<u>284,013</u>
Total assets			
Equity			
Share capital	14	-	-
Retained earnings		-	-
		<u>-</u>	<u>-</u>
Total equity			
Liabilities			
Financial liabilities	15	814,878	283,884
Other payables	16	1,692	129
		<u>816,570</u>	<u>284,013</u>
Total liabilities			
Total equity and liabilities			
		<u>816,570</u>	<u>284,013</u>

On behalf of the Board

DocuSigned by:

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R Angliker
 Director

30 August 2024

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Statement of changes in equity
 for the year ended 31 December 2023

	Share capital (note 14) £000	Retained earnings £000	Total £000
At 1 January 2023	-	-	-
Total comprehensive income for the year	-	-	-
At 31 December 2023	-	-	-

	Share capital (note 14) £000	Retained earnings £000	Total £000
At 1 January 2022	-	-	-
Total comprehensive income for the year	-	-	-
At 31 December 2022	-	-	-

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Statement of cash flows

for the year ended 31 December 2023

	Notes	2023 £000	2022 £000
Cash flows from operating activities			
Cash generated from operations	17	1,446	196
Net cash flows from operating activities		<u>1,446</u>	<u>196</u>
Net increase in cash and cash equivalents		1,446	196
Cash and cash equivalents at the beginning of the year		196	-
Cash and cash equivalents at the end of the year		<u><u>1,642</u></u>	<u><u>196</u></u>

Notes to the financial statements**1. Accounting policies****(a) Basis of preparation**

The financial statements for the year ended 31 December 2023, set out on pages 12 to 27, were authorised by the Board of Directors for issue on 30 August 2024.

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

When performing their going concern assessment, the Directors have considered cash flow forecasts for the Company for the period to 30 September 2025.

The Company had £6m of cash and liquidity funds at 31 December 2023 and £20m (unaudited) at 30 June 2024. The Company also has access to a pre-agreed liquidity facility of £25m from Phoenix Life Limited ("PLL"). The Company's liquidity position is monitored monthly and regular reviews are undertaken to identify cash flow requirements. The liquidity facility has not been utilised by the Company during the year ended 31 December 2023 and up to the date of approval of these financial statements. The Company's forecasts show it has sufficient liquidity to meet its liabilities as they fall due over the going concern period to 30 September 2025.

Having carried out this assessment, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Further detail is provided within the Directors' report.

Statement of compliance

The financial statements 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.

In relation to the Level 3 financial instruments, sensitivity analysis is performed in respect of the key non-observable assumptions used in the valuation of these financial instruments. The details of this sensitivity analysis are included in note 11.

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.

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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 2023**

In preparing the financial statements, the Company has adopted the following standards, interpretations and amendments effective from 1 January 2023 which have been endorsed by the UK Endorsement Board ('UKEB'):

- Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgments). The amendments are intended to assist entities in deciding which accounting policies to disclose in their financial statements and require an entity to disclose 'material accounting policy information' instead of its 'significant accounting policies'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2;
- Definition of Accounting Estimates (Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors). The amendments replace the definition of a 'change in accounting estimates' with a definition of 'accounting estimates'. Under the new definition, accounting estimates are 'monetary amounts in financial statements that are subject to measurement uncertainty'. The Board has retained the concept of changes in accounting estimates in the standard by including a number of clarifications; and
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes). The amendments narrow the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The IASB expects that the amendments will reduce diversity in reporting and align the accounting for deferred tax on such transactions with the general principle in IAS 12 of recognising deferred tax for temporary differences.

New Accounting Pronouncements Not Yet Effective

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

- Classification of Liabilities as Current and Non-current Liabilities with Covenants (Amendments to IAS 1 Presentation of Financial Statements) (1 January 2024): The initial 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.
Further amendments were subsequently made which specify that covenants of loan arrangements which an entity must comply with only after the reporting date would not affect classification of a liability as current or non-current at the reporting date. However, those covenants that an entity is required to comply with on or before the reporting date would affect classification as current or non-current, even if the covenant is only assessed after the entity's reporting date. The amendments also introduce additional disclosure requirements. When an entity classifies a liability arising from a loan arrangement as non-current and that liability is subject to the covenants which an entity is required to comply with within twelve months of the reporting date, the entity shall disclose information in the notes that enables users of financial statements to understand the risk that the liability could become repayable within twelve months of the reporting period.
- Supplier Finance Arrangements (Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures) (1 January 2024): The amendments add a disclosure objective to IAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, IFRS 7 was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk.

None of the above amendments are expected to have a significant impact on the Company's financial statements or accounting policies.

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

- Classification of Liabilities as Current and Non-current (Amendments to IAS 1);
- Non-current Liabilities with Covenants (Amendments to IAS 1); and
- Supplier Finance Arrangements (Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures).

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3. Net investment income

	2023	2022
	£000	£000
<i>Investment income</i>		
Interest income on financial assets designated at fair value through profit or loss	33,773	2,940
Dividend income	97	-
	<u>33,870</u>	<u>2,940</u>
<i>Fair value (losses) / gains on items at fair value through profit or loss</i>		
Financial assets	6,000	(19,367)
Financial liabilities	(12,204)	18,852
	<u>(6,204)</u>	<u>(515)</u>
Net investment income	<u>27,666</u>	<u>2,425</u>

4. Administrative expenses

	2023	2022
	£000	£000
Investment management expenses	652	10

The Company has no employees.

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 2023, Ernst & Young LLP acted as the Company's external auditor.

In 2023 auditors' remuneration amounted to £16,000 (2022: £15,000) 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 (2022: none).

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

7. Finance costs

	2023	2022
	£000	£000
Interest expense		
On financial liabilities at fair value through profit or loss	27,014	2,415

8. Tax charge

The standard rate of UK corporation tax for the accounting period is 23.5% (2022: 19.0%).

An increase from the current 19.0% UK corporation tax rate to 25.0%, effective from 1 April 2023, was announced in the Budget on 3 March 2021, and substantively enacted on 24 May 2021. Deferred tax assets and liabilities, where provided, are reflected using hybrid rates determined by reference to the tax rate in force when the deferred tax items are released.

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Current year tax charge	2023	2022
	£000	£000
Current tax:		
UK Corporation tax	(1,458)	-
Adjustment in respect of prior periods	-	(98)
Total current tax	<u>(1,458)</u>	<u>(98)</u>
Deferred tax:		
Origination and reversal of temporary differences	1,458	98
Total deferred tax	<u>1,458</u>	<u>98</u>
Total tax charge	<u>-</u>	<u>-</u>
Reconciliation of tax charge	2023	2022
	£000	£000
Profit for the year before tax	-	-
Tax at standard UK rate of 23.5% (2022: 19.0%)	-	-
Total tax charge	<u>-</u>	<u>-</u>

9. Loans and receivables

	2023	2022
	£000	£000
Loans and receivables	<u>808,804</u>	<u>283,139</u>
	<u>808,804</u>	<u>283,139</u>
Amounts recoverable after 12 months	<u>756,644</u>	<u>269,154</u>

On 7 December 2022, 15 March 2023 and 16 November 2023, the beneficial interest in £300m, £182m and £314m (respectively) of ERM loans was transferred to the Company from PLL.

On the same dates as above, the Company issued Fixed Rate and Junior Loan Notes to PLL as consideration for the transfer of beneficial interest in ERM loans (note 15).

10. Collective investment schemes

	2023	2022
	£000	£000
Collective investment schemes	<u>4,560</u>	-
	<u>4,560</u>	-

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.

The Company has determined that its investments in Collective investment schemes as presented on the face of the Statement of Financial Position are structured entities. 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's holdings in these investments are subject to the terms and conditions of the fund's prospectus and are susceptible to market price risk arising from uncertainties about future values. The Company can withdraw assets from the fund immediately. The assets of the fund are invested with the aim to preserve capital whilst providing a return in line with prevailing short term money market interest rates by investing in assets that can be readily purchased and sold in normal market conditions, thus maintaining a high degree of liquidity.

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The fund manager is compensated by the fund for their services. Such compensation is calculated as a percentage of the Net Asset Value of the fund and is reflected in the valuation of the fund.

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

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

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.

Level 3 financial instrument sensitivities

Loans and receivables with a fair value of £809m (2022: £283m), relate to underlying ERM loans as described in note 9. The loans are valued using a discounted cash flow model and a Black Scholes model for valuation of the No Negative Equity Guarantee ("NNEG"). The NNEG caps the loan repayment in the event of death or entry into long-term care to be no greater than the sales proceeds from the property.

The future cash flows are estimated based on assumed levels of mortality derived from published mortality tables; entry into long term care rates and voluntary redemption rates. Cash flows include an allowance for the expected cost of providing a NNEG assessed under a real world approach using a closed form model including an assumed level of property value volatility. For the NNEG assessment, property values are indexed from the latest property valuation point and then assumed to grow in line with an RPI based assumption thereafter.

Cash flows are discounted using a risk free curve plus a spread, where the spread is based on recent originations, with margins to allow for the different risk profiles of ERM loans. The key non-market observable input is the voluntary redemption rate, for which the assumption varies by the origin and term of the loan. Experience analysis is used to inform this assumption, however where experience is limited for more recently originated loans, significant expert judgement is required.

Significant inputs	Key unobservable input value	
	2023	2022
Spread	Average 1.95% over SONIA swap curve + 36bps	Average 2.0% over SONIA swap curve + 36bps
Mortality	Based on published tables Adjusted PCA00	Based on published tables Adjusted PCA00
Voluntary redemption rate	1.9% to 6.5%	1.5% to 7%

The key valuation sensitivities are:

- An increase of 1% in the discount rate would decrease the value by £73m (2022: £27m).
- A decrease of 1% in the discount rate would increase the value by £78m (2022: £30m).
- An increase of 1% in the house price inflation would increase the value by £18m (2022: £5m).
- A decrease of 1% in the house price inflation would decrease the value by £25m (2022: £7m).
- An increase of 10% in house prices would increase the value by £11m (2022: £4m).
- A decrease of 10% in house prices would decrease the value by £16m (2022: £5m).
- An increase of 5% in mortality rates would increase the value by £2m (2022: £1m).
- A decrease of 5% in mortality rates would decrease the value by £2m (2022: £1m).
- An increase of 15% in the voluntary redemption rate would increase the value by £6m (2022: £3m).

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- A decrease of 15% in the voluntary redemption rate would decrease the value by £6m (2022 £4m).

Financial liabilities comprise of Fixed Rate and Junior Loan Notes issued by the Company to PLL as consideration for beneficial interest in the equity release mortgages. The valuation of such loan notes are linked to the fair value of the underlying equity release mortgages. The impact of key valuation sensitivities would therefore substantially mirror the impact in financial assets and net equity would remain substantially unchanged.

Movement in level 3 financial instruments measured at fair value

	At 1 January 2023 £000	Additions £000	Redemptions / Settlements £000	Total amount recognised in Statement of comprehensive income £000	At 31 December 2023 £000
Financial assets designated at fair value through profit or loss upon initial recognition: Loans and receivables	283,139	497,319	(11,397)	39,743	808,804
Financial liabilities designated at fair value through profit or loss upon initial recognition: Fixed Rate and Junior Loan Notes	(283,884)	(496,329)	4,552	(39,217)	(814,878)

	At 1 January 2022 £000	Additions £000	Redemptions / Settlements £000	Total amount recognised in Statement of comprehensive income £000	At 31 December 2022 £000
Financial assets designated at fair value through profit or loss upon initial recognition: Loans and receivables	-	300,357	(791)	(16,427)	283,139
Financial liabilities designated at fair value through profit or loss upon initial recognition: Fixed Rate and Junior Loan Notes	-	(300,320)	-	16,436	(283,884)

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:

	2023 £000	2022 £000
Deferred Tax		
The balance at 31 December comprises:		
Deferred tax asset	1,556	98

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Movement in deferred tax assets**Year ended 31 December 2023**

	At 1 January 2023 £000	Recognised in the Statement of comprehensive income £000	At 31 December 2023 £000
Provisions and other temporary differences	98	1,458	1,556
	<u>98</u>	<u>1,458</u>	<u>1,556</u>

Year ended 31 December 2022

	At 1 January 2022 £000	Recognised in the Statement of comprehensive income £000	At 31 December 2022 £000
Provisions and other temporary differences	-	98	98
	<u>-</u>	<u>98</u>	<u>98</u>

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

13. Other receivables

	2023 £000	2022 £000
Amounts due from parent company	-	580
Other receivables	8	-
	<u>8</u>	<u>580</u>
Amount due for settlement after 12 months	<u>-</u>	<u>-</u>

14. Share capital

	2023 £000	2022 £000
Issued and fully paid: 1 ordinary share (2022: 1) of £1 each	<u>-</u>	<u>-</u>

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.

15. Financial liabilities

	2023 £000	2022 £000
At 31 December		
Fixed Rate Loan Notes	772,941	277,635
Junior Loan Notes	41,937	6,249
	<u>814,878</u>	<u>283,884</u>
Amount due for settlement after 12 months	<u>800,187</u>	<u>280,269</u>

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On 7 December 2022, 15 March 2023 and 16 November 2023, the Company issued Fixed Rate and Junior Loan Notes to PLL amounting to £300m, £182m and £314m respectively, as consideration for the beneficial interest in ERM loans included in Loans and receivables (note 9).

The Fixed Rate Loan Notes accrue interest based on a fixed schedule of cash flows, and are repayable annually from 31 October 2022, with final maturity dates ranging from 31 October 2063 to 31 October 2069. The Junior Loan Notes pay interest to the extent that surplus funds are available on the specified dates and have a long stop repayment date of the 60th anniversary of the issue of the notes.

16. Other payables

	2023	2022
	£000	£000
Amounts due to parent company	81	-
Amounts due to fellow group companies	152	129
Other payables	1,459	-
	<u>1,692</u>	<u>129</u>
Amount due for settlement after 12 months	<u>-</u>	<u>-</u>

17. Cash flows from operating activities

	2023	2022
	£000	£000
<i>Cash flows from operating activities</i>		
Profit for the year before tax	-	-
<i>Non-cash movements in profit for the year before tax:</i>		
Fair value (gains) / losses on financial assets	(6,000)	19,367
Fair value losses / (gains) on financial liabilities	12,204	(18,852)
Interest income on loans and receivables	(33,773)	(2,940)
Interest expense	27,014	2,415
<i>Changes in operating assets and liabilities:</i>		
Increase in financial assets	(490,452)	(299,566)
Increase in other receivables	(886)	(677)
Increase in financial liabilities	491,776	300,321
Increase in other payables	1,563	128
Cash generated from operations	<u>1,446</u>	<u>196</u>

The cash flow has been prepared using the indirect method.

18. Risk management

The Company is exposed to a number of risks in its business including those arising from underlying assets and liabilities. The Company complies with the Group approach to risk management, which is described in the Phoenix Group Holdings annual report and accounts.

Risk and capital management objectives

The risk management objectives of the Company are based on the requirement to ensure the Company can meet various cash flow requirements, principally the Fixed Rate and Junior Loan Notes issued by the company. For the purposes of risk identification and measurement, risks are usually grouped by risk type: financial risk, customer risk and operational risk.

Financial risk

The use of financial instruments naturally exposes the Company to the risks associated with them, mainly, property price risk, credit risk, liquidity risk and interest rate risk. Responsibility for agreeing the financial risk profile rests with the Board.

As movement in the Company's financial assets and financial liabilities substantially mirror each other, the financial assets of the Company would not be sufficient to meet obligations under the terms of the Fixed Rate Loan Note only in extreme scenarios.

Each of the Company's financial risks are described below, together with a summary of how the Company manages them.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument fluctuates as a result of market interest rates. Changes in long term interest rates may also impact future redemption patterns. Interest rate risk is regularly monitored and is mitigated by the offset of the Company's financial assets and liabilities except in an extreme scenario.

Property price risk

The Company has exposure to property price risk as sustained underperformance of the underlying residential property prices increases the likelihood that proceeds from the property sale upon redemption will not be sufficient to meet the obligations on financial liabilities. The Company's portfolio has an average loan to value ratio of 32% (2022: 33%) and accordingly, a decrease in residential property prices would need to be significant to adversely impact the valuation of the financial assets.

The Company monitors house price inflation, the geographical spread of the portfolio and reviews the impact regularly. Property price risk is mitigated by the offset of the Company's financial assets and liabilities except in an extreme scenario such as sustained and significant falls in property prices.

Credit risk

The Company has exposure to credit risk with PLL mainly as a result of its beneficial interest in equity release mortgages. The equity release mortgages are secured against properties, mitigating the risk of borrower default. Further risk of the mortgage provider not passing on the proceeds of redemptions is closely managed by the Board and mitigated by trust arrangements with the providers.

The amount disclosed in the Statement of financial position in respect of financial assets represents the Company's maximum financial exposure to credit risk.

Liquidity risk

The Company has exposure to liquidity risk as a result of any failure to meet its cash flow obligations under the terms of the Fixed Rate and Junior Loan Notes issued by the Company. There is also a significant risk that the timing of the cash flows resulting from redemptions of the equity release mortgages (and corresponding settlement by PLL) do not correspond to the timing of amounts due under the terms of the Fixed Rate Loan Notes.

This risk is regularly monitored by the Board through detailed forecasting and it operates a reserve account to mitigate the risk arising from the timing of cash flows. Also an agreement is in place with PLL, the holder of the Loan Notes, to provide a liquidity facility of £25m (2022: £25m). The liquidity facility has not been utilised by the Company during the period to 31 December 2023 and up to the date of approval of these financial statements.

Customer risk

The Company has exposure to customer risks as redemptions of the underlying loans may be earlier or later than expected as a result of:

- voluntary prepayment – prepayment at the option of the customer.
- mortality – repayment as a result of death.
- morbidity – prepayment as a result of entry into long term care.

The Company regularly monitors experience of these factors within the portfolio and also utilises industry data in the judgements use to set assumptions.

Operational risk

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

The framework for identifying and managing operational risks comprises the following elements:

- Culture: the values and behaviours required to effectively manage operational risk.
- Organisational structure: the Company's organisational and management structures, including the business operating model.
- Governance: the framework in place to oversee the management of operational risk.
- Identification: the processes in place to identify sources of operational risk.
- Assessment: the processes in place to assess operational risk exposures.
- Monitoring & Management: the processes in place to monitor and manage operational risk.
- Management Information: the processes in place to report operational risk to an appropriate level in the Company.
- Control Environment: the control frameworks in place to manage operational risk within agreed appetites.

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

- Processes and Systems: inputs, processing and output; infrastructure and organisation, including facilities, networks, hardware, software, communications and their interfaces.
- People: the people required within the Company and our outsourcers to operate / interface with, our processes and systems.
- External: the identification, assessment, monitoring and reporting of external occurrences that could adversely impact the operations of the Company.

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

Operational impacts are being carefully managed through initiation of the 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 outsourced service providers ("OSPs") used by the Group 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 regular updates from key OSPs on their business continuity arrangements.

Climate risk

Climate risk is defined as the risk of reductions in earnings and/or value related to the transition to a low carbon economy, and the physical impacts of climate change. This risk is treated as a cross-cutting risk which impacts all areas of the Risk Universe.

Identification of climate related risks has been embedded into the Group's RMF, which applies to the Company. Significant progress has been made in recent years in developing a risk metrics and targets framework, and establishing appropriate governance and risk management processes.

The Group has adopted a proactive approach towards combatting climate change. Key targets include a 2050 net zero carbon commitment for its investment portfolio, and interim decarbonisation targets for 2025 and 2030. Further details on managing the related climate change risks are provided in the Task Force for Climate-related Financial Disclosures ("TCFD") within the Group's 2023 Annual Report and Accounts.

19. 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.

	2023	2022
	£000	£000
Amounts due from related parties		
Loans and receivables due from parent (note 9)	808,804	283,139
Other receivables due from parent (note 13)	-	580
	<u>808,804</u>	<u>283,719</u>
Amounts due to related parties		
Amounts due to parent (note 15/16)	814,959	283,884
Other amounts due to fellow subsidiaries (note 16)	152	129
	<u>815,111</u>	<u>284,013</u>
Amounts charged by related parties		
Interest charged on financial liabilities owed to parent (note 7)	27,014	2,415
Commitment fee on liquidity facility charged by parent	60	6
	<u>27,074</u>	<u>2,421</u>

On 7 December 2022, 15 March 2023 and 16 November 2023, the Company issued Fixed Rate and Junior Loan Notes to PLL amounting to £300m, £182m and £314m respectively, as consideration for the beneficial interest in ERM loans included in Loans and receivables (note 9).

PLL provides the Company with a short term liquidity facility of £25m. No borrowings were made during the year in respect of the arrangements (2022: none).

Key management compensation

The compensation payable to employees classified as key management, which comprises the Directors, is disclosed in note 5. During the period to 31 December 2023, 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.

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.