Company Registration Number: 959082

SUN LIFE ASSURANCE COMPANY OF CANADA (U.K.) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2023

SUN LIFE ASSURANCE COMPANY OF CANADA (U.K.) LIMITED

CONTENTS

SUN LIFE ASSURANCE COMPANY OF CANADA (U.K.) LIMITED

DIRECTORS AND OFFICERS

DIRECTORS

K A Garner	- Chief Executive Officer
J H Sutcliffe	- Non-Executive Director and Chair of the Board (resigned 30 September 2023)
A S Birrell	- Non-Executive Director and Chair of the Risk Committee and With-Profits Committee (resigned 30 September 2023)
T Dunley-Owen	- Non-Executive Director and Chair of the Audit and Compliance Committee (resigned 30 September 2023)
J Lister	- Non-Executive Director and Chair of the Board (appointed 1 October 2023) and Chair of Nomination Committee (appointed 6 October 2023)
A Bowe	- Non-Executive Director and Senior Independent Director (appointed 1 October 2023)
I Craston	- Non-Executive Director (appointed 1 October 2023)
J Gill	- Non-Executive Director (appointed 1 October 2023)
R Harris	- Non-Executive Director and Chair of the Risk Committee (appointed 1 October 2023)
T Harris	- Non-Executive Director and Chair of the Audit and Compliance Committee* (appointed 1 October 2023)
N Poyntz-Wright	- Non-Executive Director (appointed 1 October 2023) and Chair of the Investment Committee (appointed 6 October 2023)

* with effect from 6 October 2023, the Audit and Compliance Committee was renamed the Audit Committee.

COMPANY SECRETARY

M F Hobbs

REGISTERED OFFICE

Matrix House
Basing View
Basingstoke
Hampshire
RG21 4DZ

COMPANY REGISTRATION

Registered in England and Wales, number 959082

COMPANY INFORMATION

A private company, limited by shares

GROUP INFORMATION

A member of the Phoenix Group Holdings plc group of companies (the Phoenix Group)

AUDITOR

Ernst & Young LLP (EY), London

DIRECTORS' REPORT

The directors present their report and the audited financial statements of Sun Life Assurance Company of Canada (U.K.) Limited, company number 959082, for the year ended 31 December 2023.

Principal activity

The principal activity of the company is the management of individual life, pension and annuity policies, which constitute a closed book of business.

The company ceased selling new individual life and pensions business with effect from 28 February 2001.

The company operates an outsourced business model, and outsourced its investment management and fund administration in 2001 and the administration of its business in 2002.

On 3 April 2023, Sun Life Financial Inc. completed the sale of SLF of Canada UK Limited and its subsidiaries, including the company, to Phoenix Group Holdings plc.

Directors

The directors of the company are shown on page 1.

Directors' indemnities

Phoenix Group Holdings plc, the company's ultimate parent undertaking, has made third-party indemnity provisions for the benefit of the directors of the company to the extent permitted under the Companies Act 2006. These were made during the year and remain in force at the date of this report. Prior to 3 April 2023, these indemnities were provided by Sun Life Financial Inc., the company's former ultimate parent undertaking.

Employees

The company has no direct employees (2022: none). SLFC Services Company (UK) Limited, a fellow subsidiary undertaking, has the contractual relationship with all employees of the SLF of Canada UK Limited group hereafter referred to as employees.

Investment in the community

The SLF of Canada UK Limited group operates a "Brighter Life" community programme. The aims of the programme are to support projects, charities and causes in the communities where our employees are based. The focus is on health but also covers the areas of arts and culture and education.

Further details of the programme are shown in the Section 172(1) statement on page 20.

Stakeholder engagement

The company recognises the importance of engaging effectively with its key stakeholders, and in particular employees, customers and suppliers. Key decisions are made considering the interests of all potentially affected stakeholders and this is firmly embedded in the company's culture. Details of how the company has engaged with its stakeholders in 2023 and how the directors have considered their interests when making key decisions is available in the Section 172(1) statement in the strategic report.

Streamlined Energy and Carbon Reporting

The company's energy consumption and greenhouse gas (GHG) emissions during 2023 were as follows, shown in kilowatt hours (kWh) and tonnes of carbon dioxide equivalent (tCO_2e):

	2023		2022	
	kWh	**tCO_2e**	kWh	tCO_2e
Electricity	**57,112**	**11.8**	53,918	10.4
Natural gas	**215,110**	**39.3**	239,018	43.6
Transport fuel (excluding air travel)	**6,613**	**1.6**	1,933	0.5
GHG emissions total	**278,835**	**52.7**	294,869	54.5
Intensity (tCO_2e / full time equivalent employees (FTE))		**0.67**		0.75

Electricity is based on actual usage and gas is allocated based on the proportion of office space occupied by the company.

The company does not directly own or control any vehicles, the fuel usage above refers to employees' use of rental or own private vehicles for business purposes, and for which they have claimed mileage expenses from the company.

GHG emissions are calculated using the following conversion factors to tCO_2e, as issued by the UK Government for reporting in 2023:

Electricity	0.00020707 x kWh
Natural gas	0.00018293 x kWh

Transport fuel (excluding air travel) has been converted to tCO_2e using the factors issued by the UK Government that apply to the relevant fuel type and engine size of each car.

GHG emissions per FTE is considered an appropriate intensity metric for the company, as this will provide a steadier ratio over time than using turnover or profit. The FTE used for the 2023 calculation was 78.5 (2022: 72.3).

In 2020, the company purchased carbon offsets to support a solar power project in India that reduces carbon emissions through the displacement of fossil fuels. As a result, the company has been certified carbon neutral by Carbon Footprint Limited, having offset 1,250 tCO_2e. This is sufficient to offset all GHG emissions calculated on the above basis between and including 2015 and 2023 (estimated to be circa 580 tCO_2e), with the residual available to offset future emissions.

The company considers sustainable investments and management of investment risks associated with climate change an important part of the overall investment strategy. The company is committed to support the move to a low-carbon, sustainable economy and has developed its own responsible investing principles (RIPs). It is continually looking for ways to reduce its impact on the environment and worked closely with its investment managers for the implementation of its RIPs and developing plans to support the low carbon transition. In addition, the company continues to manage its own carbon footprint by reducing paper usage in office printing and customer communications, using eco-friendly cleaning products and recycling. A sustainability dashboard is maintained and sustainability has become an integral part of the company culture.

Dividends

The directors have declared the following dividends:

	2023	2022
	£m	£m
Ordinary dividends		
Interim declared and paid	103.0	48.0

Financial instruments

The company is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets, reinsurance liabilities and policyholder liabilities. The financial risk factors affecting the company include market risk, credit risk and liquidity risk. Information on the management of financial risk is set out in note 28.

Statement of disclosure of information to auditor

Each of the persons who is a director at the date of this report confirms the following:

- So far as each of them is aware, there is no relevant audit information of which the auditor is unaware; and
- Each director has taken all the steps they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

The above confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

As a result of the acquisition of the company by the Phoenix Group, this is the final year of EY's tenure as external auditor. The selection of KPMG LLP as auditor for the year ended 31 December 2024 was approved by the Phoenix Group Board. Subject to the appointment Phoenix Group shareholders at the 2024 Annual General Meeting and appointment by the Phoenix Group, KPMG LLP will undertake the audit for the financial year end 31 December 2024 and EY will resign as auditors.

The directors' report of Sun Life Assurance Company of Canada (U.K.) Limited (registered number 959082) was approved by the Board, authorised for issue and signed on its behalf by:

M F Hobbs
Company Secretary

26 March 2024

Results and performance

The results of the company for the year, as set out on page 34, show a profit for the financial year of £78.4 million (2022 restated: loss of £(61.3) million). The total equity of the company at the year end was £154.9 million (2022 restated: £179.4 million).

Prior to 3 April 2023, the company reinsured its annuity business and most of its guaranteed annuity options (GAOs) attached to unit-linked contracts with former related parties in the Sun Life Financial Inc. group of companies. As a result, the company had transferred all longevity risk and investment risk in respect of this business and also reduced its regulatory capital requirements. On 3 April 2023, the company was acquired by the Phoenix Group. On the same day, the company recaptured the reinsurance treaty relating to the GAO business. The treaties with Sun Life Assurance Company of Canada (SLACC) for the annuities business continued, thereby maintaining the transfer of longevity risk and investment risk for existing annuities in payment.

With respect to the SLACC annuity treaties, in order to limit counterparty credit exposure, the reinsurer is required to deposit back investments at least equal to a minimum deposit back fund value. If the deposit back fund falls below the minimum, then the reinsurer has a time period to top-up the funds. These deposited back investments are managed as ring-fenced pools of assets and are included as part of the relevant balance sheet line items. The liability to repay the deposits is included within reinsurance liabilities in the balance sheet and amounted to £1,609.8 million at 31 December 2023 (2022 restated: £1,865.3 million).

Prior to 3 April 2023, the company also held an expense indemnity agreement with SLACC. The indemnity agreement provided protection against expense shocks and diseconomies of scale. On 3 April 2023, the expense indemnity agreement was terminated.

Assumptions underlying insurance contract liabilities are reviewed annually to ensure that they are appropriate. The impact of this review is shown in note 26.

Business environment

The FTSE All Share rose 7.9% on a total return basis over the year and global shares gained 16.9% when adjusted back to sterling.

Government and investment grade sterling fixed income markets rose 5.1% on a total return basis.

Globally, governments began to regain control of inflation. In the UK, inflation fell from 10.5% at the start of the year to 4.0% by the year end. This lagged behind other countries and partially explains why UK equities underperformed compared to international peers.

UK interest rates continued to be volatile in 2023, with the 10-year gilt yield ranging from a low of 3.0% to a high of 4.7% during the year and ultimately closing at 3.5%. Geopolitical tensions in the Middle East and uncertainties over the health of the UK economy have weighed on investors' minds.

Within the UK, the company is authorised and regulated by the Prudential Regulation Authority (PRA) who supervise it as a 'Category 1' firm, which they define as the most significant deposit-takers or designated investment firms whose size, interconnectedness, complexity, and business type give them the capacity to cause very significant disruption to the UK financial system (and through that to economic activity more widely) by failing, or by carrying on their business in an unsafe manner. The company is also regulated and supervised by the Financial Conduct Authority (FCA) as a 'dedicated supervision firm', which means it receives the highest level of attention from the FCA which it only affords to those firms that have the greatest potential to cause an impact to consumers and markets. Both classifications are as a direct result of the acquisition of the company by the Phoenix Group. Both regulators operate under statutory objectives and conduct their supervision using judgement and on a forward-looking basis. The company is guided by the regulatory direction provided by each of the regulators in their respective annual plans, the range of thematic reviews, consultations, statements, and policies published throughout the year, and an annual risk assessment performed by the PRA.

Although the company's permissions to write new business in the European Union (EU) expired at the end of the transitional period, allowed for in the UK-EU Withdrawal agreement, it was well prepared for this deadline and has maintained continuity of service to its policyholders and considers that it will be able to do so going forwards.

Strategy

On 3 April 2023, the company became a subsidiary of the Phoenix Group. The Phoenix Group is the UK's largest long-term savings and retirement business. The main focus has traditionally been on closed life fund consolidation, and the Phoenix Group specialises in the acquisition and management of closed life insurance and pension funds. Alongside this,

Strategy (continued)

the Phoenix Group has open business which manufactures and underwrites new products and policies to support people saving for their futures. The Phoenix Group's vision is to grow a strong and sustainable business to help more people on their journey to and through retirement, enabling improved outcomes for customers and to deliver value for shareholders.

The strategy of the company is to manage the existing book of life and pensions business in a controlled and prudent manner and support a successful integration to the Phoenix Group, with a focus on four key strategic priorities:

- Customer;
- Culture;
- Optimise; and
- Sustainability.

In order to ensure a sound financial basis for conducting business, the company maintains capital resources that meet or exceed regulatory requirements and that are appropriate to the risks of the business.

Key performance indicators (KPIs)

In monitoring the progress of the company, the directors consider the following KPIs:

	2023	Restated 2022	**Description**
Customer satisfaction score	**94.4%**	84.8%	Based on a survey of 1,000 customers, conducted on the company's behalf by Ipsos MORI, in response to the question, "Thinking about the experience you received from us, would you recommend us to others?"
Policy administration outsourcer service delivery	**65.5%**	70.6%	12-month average percentage of service level agreements achieved
Profit / (loss) for the financial year	**£78.4m**	£(61.3)m	Profit for the year per the income statement
Expenses	**£21.2m**	£50.2m	Administrative expenses, including project costs
Assets under management	**£7,707.7m**	£8,192.9m	Total assets at the end of the year
Policy attrition rate	**7.0%**	5.4%	Rolling 12-month attrition rate at the end of the year
Ratio of own funds to Solvency Capital Requirement (SCR)	**170%**	179%	Solvency II (Pillar 1) solvency ratio

Prior period comparatives of (loss) / profit for the financial year and assets under management have been restated as a result of the adoption of International Financial Reporting Standard (IFRS) 17 'Insurance Contracts' and IFRS 9 'Financial Instruments' as detailed in accounting policy (b). Administrative expenses include those considered directly attributable to insurance contracts as well as those not considered directly attributable to insurance contracts.

The consolidation of life and pension administration to one Life and Pensions Outsource Service Provider (OSP) in 2021, resulted in a significant impact to service levels in 2022 and 2023. The company took the deterioration in customer service extremely seriously and therefore implemented a recovery plan which included conducting more frequent joint governance and oversight meetings enabling parties to collaborate to achieve the best outcomes possible for all stakeholders. In addition to these performance issues, similar performance issues were encountered with the company's Annuity OSP, resulting in a drop in service levels in the third quarter of 2023. Service performance throughout 2023 across our OSPs has been materially below that expected and contractually agreed service levels. In the fourth quarter of 2023, the company saw the positive effect of the additional oversight put in place which resulted in the beginnings of an improved service position at the year end. The company will maintain the same level of oversight in 2024.

The loss seen for 2022 per the income statement is largely due to the adoption of IFRS 17 'Insurance contracts' and IFRS 9 'Financial instruments' which are explained in more detail in accounting policy (b). Expenses are lower in 2023 due to the refund of the expense indemnity agreement premium, as detailed in note 8, and a significantly lower reduction in the reimbursement right asset.

Environmental Responsibility

Details of how the company exercises environmental responsibility are shown in the Section 172(1) statement on page 19.

Audit Committee

Role of the Committee

The overarching role of the Committee is to assist the Board in fulfilling its oversight responsibilities by establishing, reviewing, and monitoring the company's financial reporting, internal controls framework, internal audit framework and changes in regulatory requirements. The Committee's terms of reference set out the responsibilities and duties of the Committee, which are reviewed and approved annually.

During the year, the Board Committee structure was aligned with that of its new parent company. As part of this process, the Committee's responsibility for compliance related activities were transferred to the Risk Committee and the name of the Committee was changed to the Audit Committee.

Committee composition

The Committee is composed solely of non-executive directors. The Board remains satisfied that the Committee as a whole has the experience and qualifications necessary to successfully perform its role and safeguard the interests of the shareholder and other stakeholders. The members of the Committee are shown in the table below.

Committee members who served during 2023	Number of meetings attended (eligible to attend)
T Dunley-Owen (Chair) (resigned 30 September 2023)	5 (5)
A S Birrell (resigned 30 September 2023)	5 (5)
J H Sutcliffe (resigned 30 September 2023)	5 (5)
T Harris (Chair) (appointed 1 October 2023)	2 (2)
I Craston (appointed 1 October 2023)	2 (2)
R Harris (appointed 1 October 2023)	2 (2)
N Poyntz-Wright (appointed 1 October 2023)	2 (2)

During the year, the composition of the Committee changed. An appropriate induction programme was designed to enable all new members to meet senior management and understand the business.

Committee meetings

The Committee met seven times during 2023. Meetings are attended by the Chief Executive Officer, Chief Financial Officer, Chief Actuary, Financial Controller, and Head of Internal Audit, as well as representatives from the external auditor. Representatives from the external auditor and the Head of Internal Audit have direct access to the Committee Chair and meet with the Committee, without senior management present, on a formal basis at least annually in order to provide additional opportunity for open dialogue and feedback. The Committee acts independently of management and engages closely with the Risk Committee to ensure there is a good understanding of the work undertaken by each and to enable efficient communication between the committees.

The Committee keeps the Board informed of its activities and recommendations, and the Chair of the Committee provides an update to the Board after every Committee meeting. The Committee discusses with the Board if it is not satisfied with, or believes that action or improvement is required, concerning any aspect of financial reporting, internal control, compliance, or audit-related activities.

Committee effectiveness

The Committee normally reviews its effectiveness annually. In 2023, it was agreed that an effectiveness review would not be conducted as the composition of the Committee changed from 1 October 2023.

Key areas of focus in 2023

Internal controls

The Committee supports the Board in its duties to review and monitor, on an ongoing basis, the effectiveness of the company's internal control systems. During the year, the Committee:

- Reviewed the adequacy and effectiveness of internal controls and concluded that they remain effective;
- Reviewed data governance activities and reported on these to the Board;
- Reviewed the Compliance function reporting of effectiveness of operation of compliance controls and activities until 1 October 2023; and

Audit Committee (continued)

- Reviewed the company's Speak Up Policy and framework to ensure it is effective and accessible, and obtained assurance on the completion of training by employees to promote and raise awareness of the policy.

External audit

On behalf of the Board, the Committee:

- Reviewed regular reports from the external auditor, including the external auditors' strategy and scope updates and reviews of the external auditors' findings, and the external auditors' reflections on their audits;
- Met with the external auditor without management present to discuss any issues that may have arisen during the audit of the Financial Statements; and
- Reviewed the effectiveness of the external auditor and was satisfied that the services it provided remained effective, objective and fit for purpose.

Internal Audit

The Committee is responsible for monitoring and reviewing the operation and effectiveness of the Internal Audit function including its focus, plans, activities, and resources. To fulfil these duties the Committee:

- Reviewed and recommended the annual Internal Audit Plan to the Board and monitored progress towards its delivery throughout the year. All updates and changes were specifically considered and approved;
- Received quarterly reports from Internal Audit. As part of this, the Committee reviewed material audit findings and monitored management progress in addressing agreed actions; and
- Evaluated the independence of the Internal Audit function, and reviewed the Group Internal Audit Charter and organisational structure to confirm the expertise, experience, and resources of the Internal Audit function are appropriate to complete planned activity.

Other matters

- Reviewed and recommended the 2022 Annual Report and Financial Statements and regulatory returns to the Board, supported by reports from management and the external auditors;
- Reviewed and recommended the actuarial valuation methodology and assumptions for the 31 December 2023 balance sheet to the Board;
- Reviewed and recommended the actuarial assumptions for staff pension scheme accounting to the Board;
- Reviewed significant legal matters;
- Continued its close oversight of the company's progress of the implementation of IFRS 17, which came into effect on 1 January 2023;
- Reviewed and recommended a number of methodology and assumption related matters pertinent to the implementation of IFRS 17;
- Monitored financial reporting and corporate governance developments;
- Monitored progress of the delivery of the annual Compliance function plan and recommended updates and changes to the Board until 1 October 2023 when responsibility transferred to the Risk Committee; and
- Reviewed the Committee's standing agenda and terms of reference.

These responsibilities form the basis of the Committee's annual work plan which is adjusted as necessary throughout the year. The Committee is authorised to seek any information it requires from management and external parties and to investigate issues or concerns as it deems appropriate. The Committee may also obtain independent professional advice at the company's expense. No such independent advice was requested in 2023.

Risk Management System (RMS)

The Board has defined an RMS to quantify and manage the company's risks and to ensure an appropriate forward-looking focus on emerging risks. The components of the RMS underpinned by our risk culture are:

- Risk strategy;
- Risk universe;
- Risk appetite; and
- Risk management policies and underpinning procedures.

Although the risk universe is broader in scope than that required by Solvency II standard formula, the company has considered the impact of the differences in detail and has concluded that it remains a standard formula firm.

RMS (continued)

The RMS is reviewed annually by the Board and material changes are approved by the Board.

Risk culture

The risk management processes of identifying, measuring, managing, monitoring and reporting define the "what" we do to manage risk. For these processes to operate effectively, how they are to be undertaken must also be defined. This is the purpose of the risk culture statement, namely to create the atmosphere within which the processes can operate effectively.

The company's risk culture statement is:

"We speak up, learn from mistakes and manage risks."

In the above, "manage risks" is to be interpreted in the broadest sense, covering both the known and unknown.

Risk strategy

The description of risk strategy below applies from the perspective of the shareholder. The customer lens is addressed within the Board approved customer strategy, which includes consideration of value, and the impact of market movements.

The company's risk strategy is to:

- Take selected risks to meet customer and business objectives whilst limiting the downside threats;
- Protect regulatory capital;
- Pay our customers and other commitments on time; and
- Maintain our reputation with customers, regulators, shareholder, and employees.

Risk universe

The risk universe adopts the components expected under the standard formula approach. These are considered as:

Financial risk

- Market risk is the risk that the fair value of assets or future cash flows of an insurance contract or financial instrument will fluctuate because of changes in market prices. Market risk includes equity market risk, interest rate and spread risk, currency risk and property risk. A wide range of market risk management practices and controls are employed as set out in note 28 which include asset liability management techniques.
- Insurance risk is the uncertainty of product performance due to differences between actual experience and assumptions affecting amounts of claims, benefits payments, expenses and the cost of embedded options and guarantees related to insurance risks. Insurance risk includes risks relating to pricing, mortality, morbidity, longevity, policyholder behaviour, expense and reinsurance. Insurance risk is managed through a number of company-wide controls addressing a range of insurance risk factors. Details of these are set out in note 27.
- Counterparty risk is the risk of financial loss, despite realisation of collateral security, resulting from the failure of a borrower or counterparty honouring its obligations to the company.

Operational risk

- Operational risk is the uncertainty arising from unexpected losses or damage to reputation resulting from inadequate or failed internal processes, controls or systems, or from external events.
- Operational risk has subcategories that address customer outcomes risk, cyber risk and regulatory risk.

Other risks

- Business and strategic risk (which includes climate change risk and environmental, social and governance risk);
- Liquidity risk;
- Data risk; and
- Employee pension scheme risk.

Risk appetite

The company seeks to maintain a sufficient capital buffer in excess of the Solvency II 1 in 200 requirement to withstand adverse events and continue to meet its Solvency II SCR. The buffer capital to withstand the adverse event is calibrated to an annual likelihood of approximately 1 in 20.

The company retains access to sufficient liquid assets to enable it to meet all obligations.

RMS (continued)

The company understands customer outcomes risk is a consequence of business activities but has a low appetite for it. This is achieved primarily by setting low tolerances for failures arising from all direct and indirect actions of the firm and its employees against four customer outcome principles. These are:

- Products and Services – We ensure our products and services are suitable for our customers;
- Price and Value – Customers are provided with value for money (where value for money allows for a range of factors as set out in the Product Review Value for Money Framework, including the quality of customer service and investment performance as well as charges);
- Customer Understanding – Customers are provided with clear and timely information so that they can make informed decisions; and
- Customer Support – Customers are able to realise the benefits of the products and services and are supported when pursuing their financial objectives.

Operational risk is accepted as a consequence of business activities and is managed to limit the possible exposure to losses from a single event and mitigated as far as possible subject to cost benefit considerations.

Risks, and their position against risk appetite, are reviewed regularly by the directors and management on both a current and a projected basis. The risk appetite statements are consistent with the definition of business viability and prioritisation set out in the Business Plan. In the event of a conflict between different risk appetite statements, those relating to regulatory solvency and capital ratios will take precedence over those in respect of earnings and dividends. The risk appetite statements are set out below.

<u>Risk policies</u>

The risk management policies of the business are aligned to the risk universe and are supported by detailed processes as necessary.

- The Board approves the risk policies required as part of the RMS, on the recommendation of the Risk Committee.
- Risks are assessed on both a gross (inherent) and net (residual) basis. The residual risk position is established by identifying mitigating controls and action plans and assessing their operational effectiveness. Assessments are performed quarterly for primary risks. The Risk Committee reviews the assessments and considers proposals that may adjust the risk profile.

<u>Financial risk appetite metrics</u>

The company uses a system of risk-specific and aggregated financial risk appetites and was within these at 31 December 2023.

The most fundamental financial risk appetites protect the company’s solvency and were set with reference to the Solvency II Pillar 1 and 2 measures on the following bases for 2023:

		Measure	**Threshold**	**Limit**
Level of Capital	Capital Ratio	Solvency II	145%	130%
Interest Rate Risk	Capital at Risk (CaR)	Change in Excess Own Funds	£(3.5)m	£(5.0)m
Swap Spread Risk	CaR	Change in Excess Own Funds	£(3.5)m	£(5.0)m
Credit Spread Risk	CaR	Change in Excess Own Funds	£(30.0)m	£(38.0)m
Equity Risk	CaR	Change in Excess Own Funds	£(20.0)m	£(25.0)m
Currency Risk	CaR	Change in Excess Own Funds	£(20.0)m	£(25.0)m
Inflation Risk	CaR	Change in Excess Own Funds	£(20.0)m	£(25.0)m
Level of Liquidity	Coverage ratio	1-month Run on the Bank	125%	100%
	Coverage ratio	1-month	1,125%	925%
	Coverage ratio	3-month	1,425%	N/A
	Coverage ratio	12-month	250%	175%

RMS (continued)

The Solvency II capital ratio threshold and limit have been increased by 5% to 145% and 130% respectively, effective 31 December 2023. The interest rate risk and swap spread risk thresholds and limits are effective 30 September 2023 based on the Phoenix Group 1 in 10 stresses.

The threshold represents the point at which remedial actions need to be considered with respect to an indicator. The limit represents the point at which the identified remedial actions must be enacted.

The company is projected to remain within its capital solvency risk appetites (which take priority) throughout the five-year Own Risk and Solvency Assessment (ORSA) period under reasonably foreseeable conditions. However, as at quarter four 2023, the equity risk limit was exceeded and remained in excess of the limit at year end. As a result of this, management reviewed the risk appetite parameters and tools available to manage the exposure. This review concluded that it was appropriate to increase the limit for the equity up stress which was approved by the Board effective January 2024.

Non-financial risk appetite statements

The company sets qualitative risk appetite statements, supported by underpinning key risk indicators, which address the following:

- Operational risk;
- Customer outcomes risk; and
- Cyber risk.

These non-financial risks are assessed by management to a set of pre-determined measures. During 2023, customer outcomes risk was deemed outside of the limit for the full 12 months based on the severity and duration of service level failures at the Life and Pensions OSP. Management treat breaches of risk appetite extremely seriously and focus significant effort on remediation. In this instance, this included the enactment of a recovery plan to re-establish customer facing service levels. Whilst service measures have begun to show signs of improvement, as at 31 December 2023, this measure remained outside of risk appetite threshold but within its limit, and focus will be maintained into 2024.

Cyber risk appetite was deemed outside of threshold, but not limit, based on the age of critical or high rated vulnerabilities within legacy (non-live but not yet decommissioned) systems identified within the supply chain.

Governance

The company has adopted the “three lines of defence” model of risk management:

- Line 1 – day-to-day risk management in business operations;
- Line 2 – propose the RMS to the Board for approval and check for compliance with this, undertake coordination, oversight, monitoring, challenge and advice; and
- Line 3 – independent assurance.

The model operates within a formalised governance framework in which the Board, assisted by the Risk Committee and the Audit Committee, has ultimate accountability for the performance of the business. The Board and its committees act in good faith to promote the success of the company by having regard to the following where relevant:

- The likely consequences of any decision in the long term;
- The interests of the company’s employees;
- The need to foster the company’s business relationship with suppliers, customers and others;
- The impact of the company’s operations on the community and the environment; and
- The desirability of the company maintaining a reputation for high standards of business conduct.

Further detail in respect of these is set out in the Section 172(1) statement on page 15.

The Risk Committee is responsible for ensuring that an appropriate risk control system exists. The Risk Committee achieves this by ensuring that the RMS is appropriate to the size and scale of the company and satisfying itself that it is being implemented and operated correctly.

Primary risks and uncertainties

The RMS, and the primary risks that are managed within it, operate within the context of the company undertaking significant strategic projects including residual activity relating to Life and Pensions Outsource Provider consolidation, a sale of the company to the Phoenix Group effective 3 April 2023, and subsequent integration activity. Activities related to

Primary risks and uncertainties (continued)

these initiatives can materially impact the risk profile across the entirety of the risk universe. Where it is appropriate to do so, they are referenced in the table of Risks and Mitigants below.

Financial risk

The primary market risk exposures are to equity risk, interest rate risk, and credit spread risk. A reduction in equity values adversely impacts fee income for unit-linked products, but there is an offsetting reduction in GAO liabilities. Interest rate risk arises primarily from liability guarantees and investments in fixed interest securities. Credit spread volatility impacts capital (surplus) and creates volatility in actuarial liabilities. There is a risk that interest income and capital redemptions from the financial assets backing the liabilities is insufficient to fund the guaranteed benefits payable. Selected results of the company's sensitivity testing in relation to market risks are shown in note 28.

Insurance risk

Selected results of the company's sensitivity testing in relation to insurance risks are shown in note 27. An expense indemnity agreement with SLACC was terminated on completion of the sale of the company to the Phoenix Group. Expense assumptions now reflect benefits from integration into the Phoenix Group. Risks associated with GAOs reinsured to SLACC were recaptured on completion of the sale to the Phoenix Group. At the same time, a new stop loss treaty with SLACC was introduced covering risks associated with investment guarantees on some unit-linked pension products.

Risk in respect of longevity is reinsured with SLACC for the annuities in payment and through insurance buy-ins for the staff pension scheme. The reinsurance is on a formal arms-length basis. The reinsurance remains an effective risk transfer mechanism that is Solvency II compliant. Whilst mitigating the primary risks, they do increase counterparty risk, although the recaptures have reduced this exposure it remains significant. Details of the arrangements are set out in notes 27 and 34.

In managing these risks, the company is required to exercise significant judgement. The use of judgement, estimates and assumptions is discussed within the accounting policies and notes to the financial statements. The most significant use of judgement in preparing the financial statements is the valuation of actuarial liabilities, specifically in the choice of assumptions and the use of complex models. Assumptions are reviewed on a regular basis, with all changes reviewed by the Audit Committee and approved by the Board. The methodology and assumptions used in valuing insurance contract liabilities are described in accounting policy (e) and note 26.

Operational risk

The table below sets out the primary operational risks. Much of the company's customer service work is outsourced to third parties and operational risk lies heavily in this area. Management and the Board consider the resilience of the company's processes and those of its outsourcers on a regular basis.

Risk	Mitigants
Operation Risks: Cyber, physical and information system security, legal and regulatory compliance, operational resilience, business continuity, model, privacy, tax, theft and fraud, external environment, processing errors, complex modelling and damage to physical assets.	The company's governance practices, policies, procedures and operating guidelines, together with the company-wide RMS set the foundation for mitigating operational risk and achieving a high standard of business conduct. This includes establishing appropriate internal controls and systems, appropriate training, the Information Technology and Cyber Risk Management Committee, on-going monitoring and reporting of all significant operational risks, including regular reporting to the appropriate Board committees, and the establishment of an operational resilience programme to define impact tolerances for important business services and test against these. This also includes adherence to the company's management of model risk policy and associated operating guidelines. Mitigating controls include periodic peer reviews and software audits of models. In respect of tax legislation, we continue to maintain a close and positive liaison with His Majesty's Revenue and Customs (HMRC) to identify possible changes in exposure and mitigate accordingly.

Primary risks and uncertainties (continued)

Operational risk (continued)

Risk	Mitigants
Third party	The company relies extensively on third party suppliers for outsourced policy administration, actuarial services, fund custody and administration and fund management, and as such is dependent on those organisations. The associated risks are mitigated by monitoring supplier performance, proactive relationship management, appropriate training, and detailed legal contracts. Management continues to focus on outsourcing arrangements to ensure that they maximise benefits to both shareholder and customers. The company also sources certain services from the Sun Life Financial Inc. group of companies under the Transitional Services Agreement (TSA) and from the Phoenix Group. In doing so, it gains access to a deeper resource and talent pool than would otherwise be available under self-supply. These services are governed by the Third Party Risk Management Policy. During 2023 subsequent to an earlier service transfer and service platform migration, the duration and severity of customer service issues remained significant, although improving throughout the year as a recovery plan was executed. This caused customer outcomes risk appetite to be breached throughout 2023, although it is within limit but outside threshold at 2023 year end, as noted in the non-financial risk appetite statements above. The company also carries out regular due diligence reviews and maintains contingency plans that would be invoked in the unlikely event of the failure of one of the suppliers. The company has teams dedicated to managing the outsourcing arrangements and maintaining and developing these relationships in the long-term interests of all the stakeholders in the company.
Human resource risk	Hiring and retention of competent people throughout the organisation is a priority. Compensation programmes are aligned with customer initiatives, business strategy, long-term shareholder value, the requirements of the Phoenix Group integration plan, and good governance and risk management practices, and are benchmarked against peer companies. The company provides a generous training and development budget. An employee forum oversees the interests of employees. Through the employee forum the company can engage with employees and share information and employees' concerns can be raised. This has met with increased frequency during 2023 with a focus on the Phoenix Group integration. All employees are able to participate in the "Brighter Life" community programme as described in the Directors' Report, which allows them to undertake charitable volunteering work without the use of holiday allowance or deduction from pay.
Customer outcomes risk	In considering customer outcomes risk, the focus is on factors that may cause harm to customer outcomes from the management of their products. As a closed book of business, the delivery of good customer outcomes is fundamental to the business model. Initiatives continue to include a formalised product review cycle. The company has continued to run customer satisfaction surveys, and conducted face to face interviews during the fourth quarter of 2023.
Regulatory relationship risk	Regulatory relationship risk arises from the changing and uncertain regulatory environment and the potential for non-compliance with existing regulations. The internal control framework ensures that the company is well placed to analyse the impact of these and implement compliant solutions. Effective 3 April 2023, formal liaison with the regulators is undertaken on behalf of the company by the Phoenix Group Regulatory Relationship Team. The regulatory relationship recognises the acquisition by the Phoenix Group has elevated the company from a 'Category 4' firm to a 'Category 1' firm by the PRA, and as a Fixed Portfolio firm by the FCA.

Climate Change

The company continues to evolve its approach to the management of risks arising from climate change. We have now formulated and embedded the foundational components in the management of this key risk and will continue to develop this year-on-year as our understanding of the risks improves. We have adopted an approach to our disclosures that aligns with the framework established by the Financial Stability Board's Task Force on Climate-related Financial Disclosures, with its four pillars of strategy, governance, risk management, and metrics and targets.

Climate Change (continued)

An external review validated our initial analysis that the principal risk, albeit not significant, to the company arises from asset transition risk that could reduce the value of equity and fixed interest investments and related fee income. In contrast, we have not identified a material level of impact from physical risk or from the impact on insurance liabilities. Climate risk is considered within the ORSA Report, and the company will be seeking to align its approach with that of the wider Phoenix Group.

Strategy

The strategy is to manage the material risks to the company, which at this stage relate solely to asset transition risk. Our strategy in this respect is included in a Board approved set of RIPs, which at a high level support a move to a low-carbon economy in line with the expectations of the UK government to achieve net-zero emissions by 2050.

Governance

The Board is ultimately accountable for the management of climate change risk. It is informed by a range of inputs from the chairs of its committees as set out below:

- The Risk Committee oversees the RMS, of which climate change is now a separately identifiable risk, and recommends risk disclosures in respect of climate change;
- The Audit Committee oversees internal controls and financial reporting procedures, including recommendations to the Board relating to climate change within the approval of the Annual Report and Financial Statements; and
- The Investment Committee receives updates on the Long Term Investment Plan actions which include those relating to sustainability and climate change.

Day to day responsibility for the management of climate change risk has been delegated to the Chief Actuary, with the Chief Financial Officer being separately responsible for climate-related disclosures. These responsibilities are formally documented in their respective statements of responsibility within the UK regulatory rules for insurers under the Senior Managers and Certification Regime.

The Chief Executive Officer has convened a Sustainability Steering Group to assist in the development of sustainable investments and operations, which supports the Chief Actuary and Chief Financial Officer with their designated climate change responsibilities.

Risk Management

Climate change risk has been incorporated into the company's RMS, which aims to identify, measure, monitor, manage, and report risks in a timely and accurate manner. These elements are now in place and will become more embedded year-on-year as data, knowledge and analysis improves.

Scenario and stress tests are also an essential component of the RMS. Output from an external analysis has supported Management's view that climate change risk does not pose a material risk to the company. The company recognises this analysis does not constitute a definitive view, and forms part of a broader information set that will continue to develop over time to inform our understanding of transition-related risks and enhance our climate scenario analysis capabilities.

Metrics and Targets

The Directors' report includes energy consumption and GHG emissions as required by the Streamlined Energy and Carbon Reporting regulations. The company achieved carbon-neutral operating status in 2020 and aims to sustain that position going forward.

Our RIPs state an objective is to achieve net-zero emissions by 2050 across our investment portfolio, in line with the UK government's commitment. The Phoenix Group is committed to a 50% reduction in the carbon economic emissions intensity of all assets within its investment portfolio over which it has control and influence by 2030. The group is also committed to a 25% reduction in the carbon economic emissions intensity of all listed equity and credit investments over which it has control and influence by 2025. The group are beginning to conduct carbon intensity analyses with respect to the company investment portfolio which should inform actions required to achieve the targets.

Overall risk profile

There have been no adverse risk profile changes during 2023 of sufficient materiality to warrant consideration of initiating an ORSA Report more frequently than its standard annual cycle. This assessment included related impacts of the Phoenix acquisition. The ongoing service recovery programme has continued to present challenges, and these have been managed alongside the requirements of the Phoenix integration programme.

The potential for wider external environmental risk from legislative or regulatory initiatives has lessened moderately based on the known change agenda. Although no longer regarded as a top risk, it continues to be an area of focus for management.

As a closed book company, customer outcomes risk also continues to be an area of focus and the outcomes of the related risk appetite statements have continued to focus management in this area.

Section 172(1) statement

The company ceased selling new individual life and pensions business in 2001. Its principal activity is to provide services to individual life, pensions, and annuity customers through its OSPs which provide policy administration, investment administration and actuarial services as well as certain fund managers who manage customers' and ultimate shareholder's funds.

The company's strategy is to manage the existing book of life and pension business in a controlled and prudent manner focusing on customer, culture, optimisation, and sustainability.

The Board has identified that, in addition to the company's ultimate shareholder, its key stakeholders are its customers, employees, key suppliers, regulators, the environment and the local community. Table A below describes why each of these stakeholders is important to the company and how the company engages with them.

The Board has reviewed how it has considered Section 172(1) of the 2006 Companies Act requirements in pursuit of the success of the company when making decisions during 2023. The Board recognises that the success of the company is dependent on considering the interests of those stakeholders. Table B describes the key decisions made during 2023 and how these decisions affected or took account of the interests of those stakeholders. Where their interests were not aligned, the table describes how decisions were made to balance those interests appropriately.

SLACC sold SLF of Canada UK Limited and its subsidiaries, including the company, to the Phoenix Group on 3 April 2023. Throughout 2023, the Board has been continually updated by management on the progress of separation, migration and integration activities, and has continued to ensure that sufficient consideration has been given to the interests of stakeholders.

The Board returned to predominantly in-person meetings throughout 2023, but the ability to attend meetings virtually by video conference remains.

Section 172(1) statement (continued)

Table A: Our Stakeholders – why they are important and how we engage with them

Customers	
Why they matter to the company	**How the company is engaging**
Customers are the driving force in the company and their service is its principal activity. Good service, value for money and good outcomes from their contracts matter to the company's customers. The delivery of these good customer outcomes is embedded in the company's culture and central to the company's strategy. Certain of our customers have been identified as "vulnerable". For these customers, the arrangements, and procedures we have put in place to administer their policies may require some adjustment to ensure they too receive good outcomes. .	Whilst management and the Board are responsible for delivering good customer outcomes, the role of the company's Customer Advocate is key. The Customer Advocate, whose role is to champion the customer, oversees and challenges management and the OSPs to take account of customers in their decision making and to be proactive on behalf of the customer. The Customer Advocate has direct access to the Board and the With-Profits Committee and reports to both quarterly. The company engages with all its customers to keep them informed about their policies and options to enable them to make informed decisions and provide a customer-focused service and deliver good customer outcomes. Customers are invited to provide feedback through different channels, including completing biannual engagement surveys and taking part in customer focus groups. During the survey period, customers who contact our call centre are also invited to provide feedback at the end of their call. Examples of the company's engagement with its customers in 2023 are: • Applying some of the financial easements used during the Covid-19 pandemic, where customers are facing difficulties in paying premiums due to financial hardship during the current cost of living crisis and enhancing wording of support on automatic arrears letters sent to customers who have not paid their premium when due; • Introducing a new digital portal to enable customers to view current information about their policies online and to perform certain detail changes electronically which has been well received by customers; • During a period of service recovery, following the migration to a new IT system, introducing straight-through processing of non-complex bereavement claims to ask for less documentation, make use of electronic checks where available to speed up the customer journey and payment process; and • Undertaking qualitative research face-to-face with customers to gain a better awareness of their understanding of information contained on the Annual Benefit Statement and the decisions made as a result of the information being provided. Following the policy administration system migrations in 2021, our customers experienced a deterioration in service. This resulted in extended wait times in our call centre, delays in making payments and responding to customer queries or correspondence. This inevitably resulted in an increase in service complaints. The recovery process has been protracted but the second half of 2023 has seen steady and consistent progress in reducing the outstanding work items. The call centre and payments have been viewed as materially recovered for much of 2023. The volume of administration complaints has reduced during the third quarter of 2023, and these are being responded to within regulatory time frames. Several processes were considered and enhanced with the aim of improving customer outcomes during this difficult time. The company continued to focus on its vulnerable customers and those who required additional support during the cost of living crisis. In continuing to reinforce understanding across all areas of the company of the different categories and circumstances that cause customers to be vulnerable, all employees completed a training module on this subject.

Section 172(1) statement (continued)

Customers (continued)	
Why they matter to the company	**How the company is engaging**
	This has assisted all areas of the company when making decisions, to consider the range of temporary and permanent vulnerabilities which might require different processes and approach from the rest of the customer population. The acquisition of the company by the Phoenix Group has involved in-depth integration planning to ensure that the service experience for our customers remains at the least, unchanged, but with opportunities to capitalise on the scale of influence and experience that the Phoenix Group has, to further improve the customer journey. This has been given extra focus as part of integration committed to fulfilling the regulatory requirements of the new Consumer Duty that comes into force on 31 July 2024.

Employees of the company and of the OSPs (the OSP teams)	
Why they matter to the company	**How the company is engaging**
The company considers the engagement and retention of employees and the OSP teams imperative to its success. Talent and culture are fundamental assets of the business. Employees and the OSP teams provide management and administration services for the day-to-day running of the company and the implementation of strategic initiatives including direct customer contact through the call centres.	The welfare of employees and the OSP teams remain high priority in a hybrid working environment, particularly whilst concluding the lengthy outsourcer consolidation project and following the completion of the acquisition of the company by the Phoenix Group and into integration planning. The company's Leadership Team has engaged with employees through: • A communication plan designed to keep employees well informed about progress against the company's objectives as well as encouraging employees to meet face-to-face through all company community days held in the office. • A culture of open and honest communication is maintained to ensure employees are regularly kept appraised of the company's strategy and how it is likely to affect them. • In addition to the regular communications channels, to support employees in the lead up to the close of the acquisition by the Phoenix Group, further regular communications have been provided, including regular integration project updates and Employee Forum meetings. • Phoenix Group functions have also developed employee engagement plans to help the company's employees get to know the Phoenix Group better and develop their networks. • During 2023, the company has remained committed to diversity, equity, and inclusion initiatives through individual access to a wealth of resources in the Phoenix Group's domain, which is well supported by a team specifically devoted to the diversity, equity, and inclusion agenda. Employees are incentivised to take account of all stakeholders in their day-to-day work and the annual incentive plan set for employees ensures that their objectives are consistent with the company's strategy set out in the opening paragraphs of this statement. There is continued focus on mental health and wellbeing to build an awareness and understanding of the things that can affect mental health at work and to make sure that employees know how and where to access mental health and wellbeing support. In 2023, employees have been supported with one-to-one career coaching to help them plan for the future; networking and dealing with change workshops have also been offered. The Board receives regular reports on talent management and culture.

Section 172(1) statement (continued)

<table>
<tr><th colspan="2">Suppliers</th></tr>
<tr><th>Why they matter to the company</th><th>How the company is engaging</th></tr>
<tr><td>The company has a number of key OSPs (including its policy administrators, fund managers, fund administration, custody and actuarial services as well as some services which are currently being provided under a TSA with SLACC and suppliers, together OSPs).

OSPs are key to the implementation of the company's strategy and to the quality of service provided to customers.

Collaborative engagement and a fair and balanced contractual relationship are important for the company's OSPs and assist management to ensure that all parties' interests are considered.</td><td>Engagement with OSPs is continuous throughout the business relationship. The company has comprehensive contractual arrangements in place with its OSPs but prefers to take a collaborative approach to managing relationships through governance forums. These forums monitor the services provided and measure the health of the business relationships.

Governance meetings are used to reinforce our conduct, culture and expectations of the service delivery provided to us by our OSPs. Our OSPs understand that our standards and culture are high, and customer focused, and they work to meet these standards and deliver on our culture.

We regularly consider the Conduct & Culture Framework of our OSPs, aligned with our own, and this is evidenced in the annual review of services and within quarterly continuous improvement reports.

Following the completion of the acquisition by the Phoenix Group, we completed a gap analysis between our policies and standards and the Phoenix Group's Supplier Code of Conduct. We identified no material differences and in September 2023 the Board approved that going forward we comply with the Phoenix Group's Code.

The company's Third Party Risk Management Policy was updated and delivered to third party risk managers and owners in early 2023. This policy applies both to all third-party arrangements that fall under the definition of outsourcing and material non-outsourcing third party arrangements.

Management conducts annual fund manager evaluations which incorporate both a systematic quantitative review of performance, along with identifying qualitative factors that may affect future performance or provide an unacceptable risk to the company and its stakeholders. Action plans are in place with managers where performance is behind expectations to ensure customers continue to receive good outcomes.

We have worked collaboratively with our external fund administrator and custodian to ensure service levels are maintained at acceptable levels.

On completion of the acquisition by the Phoenix Group, a TSA was executed to allow certain services provided by SLACC to the company to continue on a transitional basis. There is regular engagement through governance meetings and various workstreams to ensure the orderly migration of the business.</td></tr>
</table>

Section 172(1) statement (continued)

Regulators	
Why they matter to the company	**How the company is engaging**
The company's key regulators in the UK are the PRA and the FCA. The company is authorised by the PRA and regulated by both the PRA and the FCA. The regulators aim to meet their statutory objectives by ensuring the company maintains ongoing compliance with regulatory threshold conditions, fundamental rules and conditions governing business. Following the acquisition of the company by the Phoenix Group in April 2023, the company became supervised under the Phoenix Group protocols, which are more intensive because of the group's increased scale, nature and complexity of its business in relation to the regulators' respective objectives.	The company engages with its regulators in an open, transparent and cooperative way, disclosing matters to them where they would reasonably expect to be notified. The company achieves this through three key mechanisms: 1. The timely submission of regular reports and returns as specified by the regulators; 2. Tailored updates to regulators on matters where they would reasonably expect to be notified; and 3. Management and, where requested, non-executive directors, meet the PRA on a regular basis to discuss the strategy, risks and performance. Examples of the company's engagement with its regulators in 2023 are: • Updates to both regulators in the run-up to the completion of the company's acquisition by the Phoenix Group; • Post-acquisition meetings with new supervisory teams from the FCA and PRA; • Responding to requirements set by the PRA following the completion of their mid-point review of the company; • Application to the PRA for the renewal of a range of Solvency II waivers; and • Application to the regulators for the approval of new Senior Management Function (SMF) appointments at both executive and non-executive levels.

Environment	
Why it matters to the company	**How the company is engaging**
Environmental sustainability is becoming more prominent in the company's culture. The company is focused on ensuring it is resilient and sustainable for the long term, allowing it to continue to meet the needs of all its stakeholders.	The Sustainability Steering Group continues to assist the Chief Executive Officer in the development of sustainable investments and operations, including managing the impact of climate change risk on investments and operations. A range of workstreams have been established, covering operations, investments, climate change risk management and disclosures. The Steering Group receives reports to better understand how to manage, measure and reduce the company's impact on the environment. Climate change risk has been incorporated into the RMS. The company has a set of RIPs that outline the company's approach to responsible investing and our aim to deliver sustainable returns for customers, our shareholder, and reinsurers, and supports the move to a low-carbon, sustainable economy. The environmental benefits seen from working from home during the pandemic such as less waste, a reduction in the use of paper, minimal corporate travel, and a large reduction in fuel usage by employees no longer travelling to the office by car as frequently, have largely continued into the hybrid working arrangements which the company has adopted.

Section 172(1) statement (continued)

<table>
<tr><th colspan="2">Community</th></tr>
<tr><th>Why it matters to the company</th><th>How the company is engaging</th></tr>
<tr><td>The company believes that by actively supporting the communities in Hampshire, it can help build both a positive working environment and a positive reputation for the company.

Management continued to provide budget and support for the Brighter Life community programme (BLCP) in 2023.</td><td>The company operates a BLCP. The programme supports individual employees' own fundraising efforts and those of the company by matching the money raised.

In 2023, £157,534 has been donated to local charities and through matching employee fundraising and payroll giving.

The company received a silver award from Charitable Giving for having over 5% of employees taking part in payroll giving.

Since the company partnered with Community Matters Partnership Project in 2022, three team volunteering opportunities have been organised and in addition one employee took part in their 'Speakers for Schools' initiative.</td></tr>
</table>

<table>
<tr><th colspan="2">Ultimate shareholder</th></tr>
<tr><th>Why it matters to the company</th><th>How the company is engaging</th></tr>
<tr><td>Decisions made by the Board must support and enhance the investment made by the ultimate shareholder in the company, subject to and balanced with the interests of the other stakeholders.

Following the completion of the acquisition by the Phoenix Group on 3 April 2023, the ultimate shareholder changed from Sun Life Financial Inc. to Phoenix Group Holdings plc.</td><td>Prior to the completion of the acquisition by the Phoenix Group:
• The ultimate shareholder representative attended Board and committee meetings.
• The Sun Life Group Chief Risk Officer shared the group risk management framework with the Board annually.
• Many senior managers had either a direct or dotted reporting line to ultimate shareholder management.
• The ultimate shareholder Chief Executive Officer attended the Board just prior to completion of the acquisition and reported on the ultimate shareholder results and strategy.
• The sharing of management information and collaboration at many levels ensured that there was a close and symbiotic relationship between company and ultimate shareholder management for the benefit of both organisations which assisted with the sale process.
• The company continued to support the ultimate shareholder on its decision to sell the SLF of Canada UK Limited group to the Phoenix Group. The ultimate shareholder provided the Board with regular updates on the progress of the sale through attendance at Board meetings and via email.
• The ultimate shareholder provided services to the SLF of Canada UK Limited group thus engaging on a daily basis to reduce the risk of operational disruption to the company and / or its customers.

Post completion of the acquisition by the Phoenix Group:
• The ultimate shareholder representative attends Board and committee meetings.
• The company receives updates from the Phoenix Group on strategy, results and operating model.
• Engagement is mainly focussed on the migration of services from the TSA and integration of the company into the Phoenix Group.
• Some SMFs have a dotted reporting line to ultimate shareholder management.</td></tr>
</table>

Section 172(1) statement (continued)

Table B: Key decisions taken in 2023 and how they have affected our Stakeholders

Key decisions in 2023	Effect on Stakeholders
Board approval of the Customer Strategy to: • Reflect that the company is now part of the Phoenix Group; and • Incorporate the new Customer Outcome Statements to align with the FCA's Consumer Duty requirements.	**Customer** The updates to the Customer Strategy enables the company to clearly articulate the distinctive value and experience the company will deliver to its customers. **Regulators** The company has continued to comply with its regulatory requirements by making the necessary amendments to the Customer Strategy. **Suppliers** The company's OSPs are key in the delivery of good customer outcomes to its customers and the company will continue to engage with the OSPs to ensure they deliver the company's requirements and meet the company's expectations. **Employees** Employees have a role to play in implementing the Customer Strategy. Employees have completed training on the Customer Duty requirements, including the new Customer Outcomes Statements, as they have a duty to help deliver good customer outcomes for customers. **Ultimate shareholder** The company's continued compliance with the FCA's Consumer Duty is essential to the success of the company, its reputation and shareholder value.
Board approval of certain actions to facilitate the transition of the company to the Phoenix Group following the acquisition, namely: • A revised Asset Liability Management strategy and new risk appetite statements; • The recapture of the GAO reinsurance treaty, the Expense Indemnity Agreement termination and the new Guaranteed Return Fund stop loss treaty; and • Consideration of revised expense assumptions.	**Customer** To ensure the maintenance of suitable capital adequacy and therefore its continuing ability to meet its contractual and regulatory obligation to its customers. **Regulator** To continue to meet regulatory requirements and engage on matters they would reasonably be expected to be notified of when transitioning a business. **Employees** Continued benefits for employees and ensuring the needs of employees are met. **Ultimate shareholder** To ensure the orderly transition of the business in a way that does not affect the success of the company, shareholder value or reputation, and continues to provide good return on equity.
Board approval of changes to Board and committee composition following completion of the acquisition by the Phoenix Group.	**Customer** The ability to deliver good customer outcomes by maintaining high standards of Board and committee leadership, governance, competence, and accountability. **Regulator** The company has continued to comply with its regulatory requirements by seeking the relevant regulatory approvals for changes to SMF appointments at both executive and non-executive level. **Ultimate shareholder** The ability to continue to deliver the set of strategic aims and direction of the company, subject to and in line with the overall strategy set by the ultimate shareholder, by maintaining high standards of Board and committee leadership, governance, competence, and accountability.

Section 172(1) statement (continued)

Key decisions in 2023	Effect on Stakeholders
Board approval of dividends of £103 million, in line with the Capital Management Policy and Risk Appetite Statements.	**Customer** Following payment of the dividend, the company remained in line with the Capital risk appetite, and the company continues to have adequate resources to continue operational existence for the foreseeable future meaning customer obligations will continue to be met as they fall due. **Regulator** Whilst the company had latterly moved to a position where regulatory non-objection was not required provided the dividend was within risk appetite, there were regulatory interactions to establish if any action was necessary due to the Phoenix Group being the new ultimate shareholder. **Ultimate shareholder** Strong performance within risk appetite and a good return on equity.
Board approval of changes to the SLOC With-Profits Fund Investment Strategy to: • Change the Equity Backing Ratio in the section of the fund backing life contacts (Life EBR) methodology; • Increase the target Life EBR from 40% to 45%; and • Allocate the additional 5% Life EBR to international equities.	**Customer** Due to the financial strength of the SLOC With-Profits Fund, it was decided to increase the Life EBR. It was noted that increasing the Life EBR would increase expected returns while marginally increasing the investment risk. The additional 5% was allocated to international equities, which increases the international equities allocation compared with the UK equities allocation. **Ultimate shareholder** Increasing the Life EBR potentially increases the risk that the ultimate shareholder may have to support the SLOC With-Profits Fund in extreme adverse conditions. However, the risk is small and management actions could be taken to minimise the risk in such circumstances.
Board approval of a supplier proposal for the introduction of a new fund range for the company's Defined Contribution Staff Pension Scheme.	**Supplier** Adoption of supplier proposed fund range. **Employees** The updated fund range integrates environmental, social and governance factors and aligns with the Investment Association's Responsible Investment Framework. The change did result in some disruption for some members, who needed to decide on replacement funds or accept the default option. **Ultimate shareholder** If the new range had not been adopted, the provider would require ongoing annual investment advice on the old fund range, which has an associated cost for the company. By adopting the new fund range, the company has avoided this potential cost. The independent advice received by the company confirmed the new funds did offer good value for members. Some of the new fund range introduced came with higher charges, whilst a core number of funds were retained on the same charge.

Future outlook

The company will continue to pursue the achievement of its strategic objectives, as set out in the 'Strategy' section of this report, with the aim of managing the existing book of life and pensions business in a controlled and prudent manner, focusing on customer; culture; optimise; and sustainability objectives.

As the company operates an outsourced business model, the successful management and governance of its Third Party relationships will continue to be a key element in achieving its objectives. The company regularly reviews the terms, service delivery and business prospects of its outsourcers to ensure that service levels and performance commitments continue to be met.

Future outlook (continued)

The directors remain committed to the customer focused principles of the conduct risk agenda and continue to challenge to ensure that it is embedded in the company's business and culture. The directors also remain committed to promoting the success of the company.

Viability

The directors assess the prospects of the company over a five-year time horizon in reaching the conclusions in assessing the longer-term viability of the company.

The company is well positioned to withstand uncertain economic and market conditions, and has sufficient liquidity and a sound capital position, as shown in note 27. Capital and liquidity remain strong and in excess of agreed risk appetite thresholds and are projected to remain so. The directors gain comfort from the range of scenarios tested within the annual ORSA Report which demonstrate continuing viability.

The company will continue to monitor actively its investment and hedging strategies in order to manage financial risk and maintain its sound capital position. The primary risks and uncertainties faced by the company are set out on pages 11 to 13 and notes 27 and 28 and describe the company's objectives, policies and procedures for managing financial assets and liabilities.

The company has no external debt and considerable financial resources. As a consequence, the directors believe that the company is well placed to manage its business risks successfully, as detailed on pages 8 to 15.

As set out in accounting policy (a), the directors have reviewed the future projections of the company for the period to 26 March 2025, being twelve months following the signing date of these financial statements, taking into account expected profitability, capital and solvency projections and liquidity. Given the result of this assessment, the directors are satisfied that the going concern basis of preparation is appropriate.

The directors have a reasonable expectation that the company will continue to have adequate resources to maintain its operations for the foreseeable future. Five-year projections within the ORSA Report, which was approved by the Board, have been used to demonstrate on-going viability.

The strategic report of Sun Life Assurance Company of Canada (U.K.) Limited (registered number 959082) was approved by the Board, authorised for issue, and signed on its behalf by:

M F Hobbs
Company Secretary

26 March 2024

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors are required to prepare the financial statements in accordance with UK adopted International Accounting Standards (IAS). 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:

- Properly select and apply accounting policies;
- 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 IAS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the company's ability to continue as a going concern.

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 for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF

SUN LIFE ASSURANCE COMPANY OF CANADA (U.K.) LIMITED

Opinion

We have audited the financial statements of Sun Life Assurance Company of Canada (U.K.) Limited for the year ended 31 December 2023 which comprise the income statement, the statement of comprehensive income, the statement of changes in equity, the balance sheet, the cash flow statement, and the related notes 1 to 36 (except for those elements in note 27 which are marked as not subject to audit), 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 profit for the year then ended;
- Have been properly prepared in accordance with UK adopted international accounting standards; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC) Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

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

To evaluate the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting, we have:

- Confirmed our understanding of management's going concern assessment process and obtained management's assessment which covers the period to 26 March 2025;
- Inspected and assessed management's Business Plan and profit projections which forms the basis of management's going concern assessment;
- Evaluated the liquidity and solvency position of the company by reviewing base case liquidity and solvency projections;
- Evaluated management's forecast analysis and stress tests to understand how severe the downside scenarios would have to be to result in the elimination of solvency headroom;
- Assessed management's considerations of operational risks, including those related to OSPs and the planned transition to the Phoenix Group and its impact on the going concern assessment;
- Performed enquiries of management and those charged with governance to identify risks or events that may impact the company's ability to continue as a going concern. We also reviewed management's assessment approved by the Board, minutes of meetings of the Board and its committees; and
- Assessed the appropriateness of the going concern disclosures by comparing the disclosures with management's assessment and for compliance with the relevant reporting requirements.

Based on 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 26 March 2025, being twelve months from the date when the financial statements are authorised for issue.

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

Overview of our audit approach

Key audit matters (KAM)	i) Transition to IFRS 17 'Insurance contracts', comprising the following risk areas: • Methodology and implementation; • Adoption of fair value transition approach; and • Financial statement disclosures.
	ii) Valuation of insurance contract liabilities, comprising the following risk areas: • Actuarial assumptions; • Actuarial modelling; and • Policyholder data.
	iii) Valuation of contractual service margin (CSM) and its subsequent release.
Materiality	Overall materiality of £6.3 million which represents 2% of equity plus CSM.

An overview of the scope of our audit

Tailoring the scope

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

Climate change

Stakeholders are increasingly interested in how climate change will impact companies. The company has explained the most significant future impacts from climate change on operations in the primary risks and uncertainties section on pages 13 and 14 of the strategic report. This forms part of the other information rather than the audited financial statements and our procedures on the disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appear to be materially misstated.

As explained in the basis of preparation which forms part of the material accounting policy information on page 38, the company considers that climate change does not have a material impact on the recognition and measurement of assets and liabilities, and in particular the valuation of insurance and investment contract liabilities and financial instruments at 31 December 2023.

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

Our audit effort in considering climate change was focused on challenging management's risk assessment of the impact of climate change and their resulting conclusion that there was no material impact from climate change on balances in the financial statements and the adequacy of the company's disclosures in the basis of preparation note to explain their rationale.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters (continued)

KAM: Transition to IFRS 17

The transition to IFRS 17, the new accounting standard, effective for annual reporting periods beginning on or after 1 January 2023, has resulted in significant change to the reporting processes and to the financial statements of the company. This transition, which includes a number of key judgements, has required substantial focus during our audit.

This is a new key audit matter for the current year. Refer to the accounting policies on pages 39 to 44 and note 26 of the financial statements on pages 70 to 94.

Risk	Our response to the risk
We have focused on a number of transition areas, with the following being key areas of focus: i) Methodology and implementation – the risk of management's methodology and related implementation not being in accordance with the requirements of the standard. ii) Adoption of fair value transition approach – the risk of management's transition approach (including assessment of impracticability of the full retrospective approach) not being in accordance with the requirements of the standard. iii) Financial statement disclosures – the risk of disclosures in relation to the application of IFRS 17 being insufficient or inappropriate.	We have performed the following procedures to address the risk in relation to the transition to IFRS 17: • Obtained and challenged management's methodology papers and accounting policies to ensure compliance with the IFRS 17 accounting standard and subsequently assessed management's implementation of their methodology; • Assessed management's judgements in respect of the application of the fair value transition approach, including the impracticability of applying the full retrospective approach; • Assessed IFRS 4 to IFRS 17 bridging of equity and profit before tax including audit of the material adjustments in relation to transition opening balance sheet and restated 2022 balance sheet and income statement; • Obtained and assessed management's restated IFRS 17 disclosures in the financial statements in relation to the comparative periods which includes transition opening balance sheet and restated 2022 balance sheet and income statement; • Utilised our EY financial reporting specialists to review the financial statements to ensure adequacy of IFRS 17 disclosures; and • Assessed the completeness and accuracy of the data used in the preparation of the IFRS 17 disclosures.

Key observations communicated to the Audit Committee

Through the procedures performed, we have determined that management has appropriately implemented the transition to IFRS 17 in accordance with the standard and it is appropriately reflected in their financial statements in all material aspects.

KAM: Valuation of insurance contract liabilities

We have considered the areas of risk being the setting of actuarial assumptions, including risk adjustment, and the accuracy of actuarial models, including out of model adjustments and data.

We consider the valuation of gross insurance contract liabilities to be a fraud risk, due to the risk of management bias and override along with the significant level of judgement involved in relation to judgements which could be susceptible to misstatement as a result of intentional acts by management. Assumptions are both internal and external to the business, for which small changes can result in a material impact to the resultant valuation.

Consistent with previous periods, we have split the risks relating to the valuation of insurance contract liabilities into component parts.

The specific audit procedures performed to address the risk are set out below. In addition, we assessed management's analysis of movements in insurance contract liabilities and obtained evidence to support large or unexpected movements as this provided important audit evidence over the valuation of insurance contract liabilities.

The risk on valuation of insurance contract liabilities is unchanged from prior year, however, additional focus was given notwithstanding the transition to IFRS 17 which we have considered as a separate audit KAM. Valuation of insurance contract liabilities £4.4bn (2022 restated: £4.5bn). Refer to the accounting policies on pages 45 to 47 and note 26 of the financial statements on pages 70 to 94.

Key audit matters (continued)

Risk	Our response to the risk
Actuarial assumptions Economic assumptions are set by management taking into account market conditions as at the valuation date and require judgement similar to non-economic assumptions, which are based on the company's past experience, market experience and practice, regulations and expectations about future trends. The level of judgement involved in setting the non-economic assumptions means that they are inherently more susceptible to the risk of management override. Demographic assumptions under IFRS 17 are based on the best estimate view. The key changes with regards to the adoption of IFRS 17 are impacts on economic assumptions and the economic scenario generator and expense assumptions. Finally, IFRS 17 explicitly requires that a risk adjustment be included above the best estimate cash flows within the liability for incurred claims. IFRS 17 does not specify the estimation technique that should be used to determine the risk adjustment, so management must develop an appropriate estimation technique. Therefore, due to the inherent judgement required to determine both an appropriate technique and the relevant inputs, we consider the risk adjustment to be susceptible to management bias.	**Assumptions** Using EY actuaries as part of our audit team, we performed the following procedures: • Obtained an understanding and tested the design and operational effectiveness of key controls over management's process for setting and updating key actuarial assumptions; • Challenged and assessed whether the methodology and assumptions applied were appropriate based on our knowledge of the company, industry standards and regulatory and financial reporting requirements; • Challenged and assessed the results of management's experience analyses to assess whether these supported the adopted assumptions; • Challenged and assessed management's decisions on the inclusion or exclusion of data from the period impacted by Covid-19 when setting individual assumptions, including longevity, mortality, morbidity, and persistency; • Evaluated the results of management's analysis with respect to longevity improvements using the results from the industry standard Continuous Mortality Investigation (CMI) on longevity trends, and benchmarked the output against other industry participants; • Benchmarked the significant assumptions against those of other comparable industry participants; and • Assessed the assumptions used to determine the risk adjustment and assessed the calculations of the risk adjustment to verify that methodology and assumptions have been implemented appropriately in the models and is consistent with the approved basis.
Actuarial modelling We consider the integrity and appropriateness of models to be critical to the overall valuation of insurance contract liabilities. The company uses four separate models to value its insurance contract liabilities, with the residual balance calculated outside of these systems to cater for any additional required liabilities not reflected in the model. We consider the key risks to relate to i) changes applied to the core actuarial models and ii) the appropriateness of the calculations that are applied outside of the core actuarial model.	**Modelling** Using EY actuaries as part of our audit team, we performed the following procedures: • Obtained an understanding of management's process for model changes to the core actuarial systems and tested the design, implementation and operating effectiveness of key controls, including model change governance process; • Confirmed there were no model changes during the year; and • Gained an understanding of the rationale for balances calculated outside of the core actuarial systems and, for a sample of such calculations, assessed the appropriateness of the applied methodology and tested the calculation had been performed appropriately.

Key audit matters (continued)

Risk	Our response to the risk
Policyholder data The insurance contract data held on policy administration systems (the policyholder data) is a key input into the actuarial valuation process. The valuation of insurance contract liabilities is therefore dependent upon the accuracy and completeness of the data transferred to the actuarial models.	**Policyholder data** To assess the integrity of policyholder data used in the actuarial models, we performed the following procedures: • Tested the design and operating effectiveness of the key controls over management's data collection, extraction and validation process used to transfer data from policy administration systems to actuarial models; • Assessed the appropriateness of management's grouping of data for input into the actuarial model; • Tested reconciliations of valuation extracts from the policy administration system to the actuarial data used in the actuarial models to validate the completeness of the model inputs; and • Evaluated the accuracy of policyholder data in the actuarial model by testing a sample to underlying policy documents.

Key observations communicated to the Audit Committee

- We concluded that the actuarial assumptions used by management were reasonable based on the analysis of the experience to date, industry practice and the financial and regulatory requirements.

- We determine that the risk adjustment included above the best estimate cash flows is accurate and implemented appropriately in line with the company's methodology and requirements of the standard.

- We determined that the actuarial models used are appropriate. We consider that liabilities modelled outside these core actuarial modelling systems are reasonable based on our sample testing.

- We determined that the data used for the actuarial model inputs is materially complete and accurate.

KAM: Valuation of CSM and its subsequent release

This is a new key audit matter for the current year. Valuation of the CSM and its subsequent release £21.0 million (2022: £12.9 million). Refer to the accounting policies on page 46 and note 26 of the financial statements on page 70 to 94 and notes 1 and 3 on page 53.

Risk area	Our response to the risk
Valuation of the CSM and its subsequent release At initial recognition, the CSM relates to the unearned profit under insurance contracts issued. As services are provided under the terms of these contracts, the CSM is released to the income statement, reflecting the profit relating to services performed in the period. There is a high degree of complexity and estimation involved in deriving the release patterns. Therefore, there is potential to manipulate the timing of the recognition of revenue, hence we considered this to represent a higher risk of material misstatement.	**CSM** Using EY actuaries as part of our audit team, we performed the following procedures: • Performed walkthroughs of the CSM revenue recognition process (including both the derivation of the source data, input of the data into the IFRS 17 calculation engine, and output) and tested the design and operating effectiveness of key controls; • We considered the methodology used by management for the release of the CSM to profit or loss and compared it to the requirements of IFRS 17; • Challenged and assessed the results of management's experience analyses to assess whether these supported the adopted assumptions; • Tested and challenged management's independent calculation of the CSM release in accordance with the requirements of the standard; • Validated material cash flows which are input into the model by vouching back to source information; and • Reviewed material manual adjustments posted by management and vouched back to supporting documentation, to verify clerical accuracy and the appropriateness of these adjustments.

Key audit matters (continued)

Key observations communicated to the Audit Committee

Through the procedures performed, we have determined that the valuation of CSM and its subsequent release is reasonable and implemented appropriately in line with the company's methodology and requirements of the standard.

Our application of materiality

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

Materiality

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

We determined materiality for the company to be £6.3 million (2022: £5.3 million) which is 2% of equity plus CSM (2022: 2% of average net assets plus CSM).

Prior to the implementation of IFRS 17, we set materiality at 2% of average net assets on the basis that it most closely correlated with key performance metrics of Solvency II surplus and Own Funds.

Under IFRS 17, revenue and profit recognition of day 1 gains on annuity contracts is deferred into recognition at a point in the future, by being added to the CSM. This has seen the development of an Alternative Performance Measure (APM), Adjusted Net Assets, across the UK life insurance industry. Whilst this is an APM, it is simply the additional of two Generally Accepted Accounting Principles measures on the IFRS balance sheet. These considerations have led us to conclude that equity plus CSM is the most appropriate measure on which to base our materiality under IFRS 17 since this measure is the closest IFRS measure to Solvency II surplus and Own Funds.

During the course of our audit, we reassessed initial materiality and determined that the equity plus CSM is the more appropriate basis than average net assets given that this metric is the most closely aligned to the solvency position of the company.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality. On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 75% (2022: 75%) of our planning materiality, namely £4.7 million (2022: £4.0 million). We have set performance materiality at this percentage based on our assessment of the risk of misstatement.

Reporting threshold

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

We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £0.3 million (2022: £0.3 million), which is set at 5% (2022: 5%) of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

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

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated.

Other information (continued)

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- The information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The strategic report and the 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 any material misstatements in the strategic report or the 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 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

- We understood how the company is complying with those frameworks by making enquiries of management and those responsible for legal and compliance matters. We also reviewed correspondence between the company and UK regulatory bodies; reviewed minutes of the Board and management committees; and gained an understanding of the company's approach to governance, demonstrated by the Board's approval of the company's governance framework.

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

- The fraud risk was considered to be higher within the valuation of insurance contract liabilities and valuation of the CSM and its subsequent release. We considered management override risk to be higher within the valuation of insurance contract liabilities, the valuation of the CSM and its subsequent release.

Our procedures included:
  - Supported by our actuarial team, we assessed if there were any indicators of management bias in the valuation of insurance contract liabilities and valuation of the CSM and its subsequent release.
  - Tested the appropriateness of journal entries recorded in the general ledger, with a focus on manual journals and evaluating the business rationale for significant and/or unusual transactions.

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

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

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

Other matters we are required to address

Following the recommendation from the Audit Committee, we were appointed by the Board on 14 June 2021 to audit the financial statements for the year ending 31 December 2021 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is three years, covering the years ended 31 December 2021 to 31 December 2023. As a result of the acquisition of the company by the Phoenix Group, this is the final year of Ernst & Young LLP's tenure as external auditor arising from a competitive tender process performed by their parent, Phoenix Group Holdings plc.

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

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the company's member, 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 member 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 member as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:
Ernst & Young LLP
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Niamh Byrne (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
London, UK

28 March 2024

SUN LIFE ASSURANCE COMPANY OF CANADA (U.K.) LIMITED

INCOME STATEMENT
For the year ended 31 December 2023

	Notes	2023 £'000	Restated 2022 £'000
Insurance revenue	1	**253,633**	260,385
Insurance service expenses	2	**(203,759)**	(213,017)
Insurance service result before reinsurance contracts held		**49,874**	47,368
Allocation of reinsurance premium	3	**(181,417)**	(214,834)
Amounts recovered from reinsurers	3	**181,203**	181,920
Net expense from reinsurance contracts held		**(214)**	(32,914)
Insurance service result		**49,660**	14,454
Investment return	4	**517,974**	(1,329,032)
Insurance finance income / (expense)	5	**(367,460)**	899,864
Reinsurance finance income / (expense)	6	**35,800**	(49,787)
Change in investment contract liabilities	29	**(147,365)**	360,702
Net investment result		**38,949**	(118,253)
Fee and commission income	7	**29,051**	29,307
Change in deferred income liability	31	**(233)**	1,209
Investment contract claims		**(2,133)**	(1,474)
Commissions		**(35)**	(9)
Change in deferred acquisition costs	15	**420**	(724)
Administrative and other expenses	8	**(13,975)**	(40,719)
Other revenue and expenses		**13,095**	(12,410)
Profit / (loss) before tax		**101,704**	(116,209)
Tax attributable to policyholder's returns		**(9,270)**	40,030
Profit / (loss) before tax attributable to shareholder's profits		**92,434**	(76,179)
Total tax (charge) / credit	13	**(23,340)**	54,883
Less: tax attributable to policyholders' returns		**9,270**	(40,030)
Tax attributable to shareholder's profits		**(14,070)**	14,853
Profit / (loss) for the year		**78,364**	(61,326)

All results arise from continuing operations and all profits are attributable to the equity shareholder of the company.

Prior period comparatives have been restated as a result of the adoption of IFRS 17 and IFRS 9 as detailed in accounting policy (b).

STATEMENT OF COMPREHENSIVE INCOME
At 31 December 2023

	Notes	2023 £'000	Restated 2022 £'000
Profit / (loss) for the year		**78,364**	(61,326)
Other comprehensive income / (loss) arising in the year:			
Items that will not be reclassified subsequently to income:			
Actuarial gain / (loss) on pension schemes	12(h)	**181**	(1,673)
Deferred tax on actuarial gain / (loss) on pension schemes	22	**(45)**	(601)
Other comprehensive income / (loss) net of tax		**136**	(2,274)
Total comprehensive income / (loss) for the year		**78,500**	(63,600)

All comprehensive income is due to the equity shareholder of the company.

Prior period comparatives have been restated as a result of the adoption of IFRS 9 as detailed in accounting policy (b).

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2023

	Notes	Share capital £'000	Capital contribution £'000	Retained earnings £'000	Investment valuation reserve £'000	Total £'000
At 1 January 2022 (per IFRS 4)		22,500	50,566	244,973	(3,469)	314,570
Adjustment required due to initial application of IFRS 17		-	-	(23,839)	-	(23,839)
Adjustment required due to initial application of IFRS 9		-	-	(3,237)	3,469	232
At 1 January 2022 (restated)		22,500	50,566	217,897	-	290,963
Loss for the year (restated)		-	-	(61,326)	-	(61,326)
Other comprehensive (loss)		-	-	(2,274)	-	(2,274)
Dividend	14	-	-	(48,000)	-	(48,000)
At 31 December 2022 (restated)		22,500	50,566	106,297	-	179,363
Profit for the year		**-**	**-**	**78,364**	-	**78,364**
Other comprehensive income		**-**	**-**	**136**	-	**136**
Dividend	14	**-**	**-**	**(103,000)**	-	**(103,000)**
At 31 December 2023		**22,500**	**50,566**	**81,797**	-	**154,863**

Equity as at 1 January 2022 has been restated by £23.6 million due to the initial application of IFRS 17 and IFRS 9. Prior period comparatives have also been restated as a result of the adoption of IFRS 17 and IFRS 9. These changes are detailed in accounting policy (b) in the reconciliation of equity and income.

SUN LIFE ASSURANCE COMPANY OF CANADA (U.K.) LIMITED

BALANCE SHEET
At 31 December 2023

	Notes	**2023 £'000**	Restated 31 December 2022 £'000	Restated 1 January 2022 £'000
ASSETS				
Surplus assets in the staff pension scheme	12(b)	**16,674**	15,707	16,844
Reimbursement rights in staff pension scheme	12(c)	**1,763**	1,868	2,705
Deferred acquisition costs	15	**1,311**	891	1,615
Right-of-use assets	16	**283**	-	136
Investment property	17	**259,400**	294,900	297,825
Investment in subsidiary undertakings	18	**511**	469	655
Other financial assets	19	**7,179,011**	7,592,345	9,631,752
Reinsurance contract assets	26	**28,396**	18,375	28,129
Deferred tax assets	22	**35,206**	38,883	24,191
Current tax assets		**5,229**	455	1,042
Other receivables	23	**21,810**	50,044	74,538
Prepayments and accrued income	24	**36,337**	40,839	43,443
Cash and cash equivalents		**121,738**	138,115	119,078
Total assets		**7,707,669**	8,192,891	10,241,953
Equity attributable to equity shareholder of the company				
Called up share capital	25	**22,500**	22,500	22,500
Capital contribution		**50,566**	50,566	50,566
Retained earnings		**81,797**	106,297	217,897
Total equity		**154,863**	179,363	290,963
LIABILITIES				
Deficit in staff pension scheme	12(b)	**1,608**	1,805	2,560
Insurance contract liabilities	26	**4,353,722**	4,514,846	5,887,953
Reinsurance contract liabilities	26	**37,292**	121,271	106,498
Investment claims received but not yet settled		**17,722**	18,896	12,040
Investment contract liabilities	29	**3,030,400**	3,175,620	3,774,964
Provisions for other risks and charges	30	**4,560**	7,335	7,078
Deferred income liability	31	**2,396**	2,163	3,372
Deferred tax liability	22	**6,756**	-	40,219
Other payables	32	**98,350**	171,592	116,306
Total liabilities		**7,552,806**	8,013,528	9,950,990
Total equity and liabilities		**7,707,669**	8,192,891	10,241,953

Prior period comparatives have been restated as a result of the adoption of IFRS 17 and IFRS 9 as detailed in accounting policy (b).

The financial statements of Sun Life Assurance Company of Canada (U.K.) Limited (registered number 959082) on pages 34 to 111 were approved by the Board and authorised for issue. They were signed on its behalf by:

K. Garner

K A Garner
Chief Executive Officer

26 March 2024

SUN LIFE ASSURANCE COMPANY OF CANADA (U.K.) LIMITED

CASH FLOW STATEMENT
For the year ended 31 December 2023

	2023 £'000	2022 £'000
OPERATING ACTIVITIES		
Cash received from policyholders – insurance contracts	**48,637**	48,608
Cash received from policyholders – investment contracts	**5,973**	7,825
Risk reinsurance – net payments to reinsurers	**(58,687)**	(58,242)
Cash paid to policyholders – insurance contracts	**(500,517)**	(448,256)
Cash paid to policyholders – investment contracts	**(274,355)**	(212,578)
Commissions paid	**(44)**	(60)
Cash paid to service providers	**(37,724)**	(72,576)
Pension contributions paid by employer	**(126)**	(130)
Rental income	**13,617**	12,107
Interest received	**13,595**	7,672
Introduction fees received from third party annuity provider	**1,183**	1,141
Investment income on fixed interest securities	**119,700**	96,146
Investment income on equities and unit trusts	**128,978**	141,738
Amounts received in respect of derivative contracts	**10,003**	2,567
Net sales of investments	**634,163**	540,908
Cash from / (used in) operations	**104,396**	66,870
Taxes paid	**(17,725)**	(43)
Net cash from / (used in) operating activities	**86,671**	66,827
INVESTING ACTIVITIES		
Dividends received	**152**	346
Net cash from investing activities	**152**	346
FINANCING ACTIVITIES		
Dividends paid	**(103,000)**	(48,000)
Payment of lease liabilities	**(200)**	(136)
Net cash (used in) financing activities	**(103,200)**	(48,136)
Net (decrease) / increase in cash and cash equivalents	**(16,377)**	19,037
Cash and cash equivalents at beginning of the year	**138,115**	119,078
Cash and cash equivalents at end of the year	**121,738**	138,115

(a) Basis of preparation

The financial statements have been prepared in accordance with UK adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

A summary of the material accounting policies is set out below and, unless otherwise stated, accounting policies have been applied consistently in the current and preceding year.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments, and insurance and reinsurance assets and liabilities. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

The company's business activities are set out in the directors' report on pages 2 to 4. The strategic report on pages 5 to 23 describes the financial position of the company, the company's objectives, policies, and processes for managing its capital, the financial risk management objectives, and its exposure to credit risk and liquidity risk together with the factors likely to affect its future development, performance and position. The company has considered the impact of climate change in preparing the financial statements and in particular in respect of the valuation of insurance and investment contract liabilities and financial instruments. Government and societal responses to climate risks are still developing and the future impact cannot be fully predicted, but it is not considered to have a material impact on the recognition and measurement of assets and liabilities as at 31 December 2023.

As noted in the overall risk profile section on page 15, the stress testing undertaken as part of the ORSA has demonstrated that the company remains financially solvent even under highly stressed adverse circumstances. The company is well positioned to withstand uncertain economic and market conditions, and has sufficient liquidity and a sound capital position, as shown in note 27. Capital and liquidity remain strong and in excess of agreed risk appetite thresholds and are projected to remain so. The directors gain comfort from the range of scenarios tested within the annual ORSA Report which demonstrate continuing viability. Based on this and after making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in existence for the period to 26 March 2025 being twelve months following the signing date of these financial statements. Accordingly, the financial statements have been prepared on the going concern basis.

No consolidated financial statements have been prepared on the basis of the exemption provided by Section 400 of the Companies Act 2006 and IFRS 10, Consolidated Financial Statements, paragraph 4(a). The company is a subsidiary undertaking of Phoenix Group Holdings plc, a company incorporated in the UK, and the company's accounts are consolidated in the financial statements of Phoenix Group Holdings plc.

(b) Changes in accounting policies

New, amended and revised IFRS

The following new standards relevant to the company have been applied to these financial statements.

- IAS 1 'Presentation of Financial Statements' (amendment effective for reporting periods beginning on or after 1 January 2023). The amendment replaces the requirement to disclose significant accounting policies with a requirement to disclose material accounting policies with additional guidance as to how to apply materiality in this context. The company already discloses material accounting policies so the adoption of the amendment has had no impact on the financial statements.

- IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (amendment effective for reporting periods beginning on or after 1 January 2023). The definition of a change in accounting estimates is replaced with a definition of accounting estimates along with clarification that any changes to accounting estimates as a result of new information do not require restatement but that the discovery of a prior period error does require restatement. The adoption of this amendment has not had any impact on the financial statements.

- IAS 12 'Income Taxes' International Tax Reform (amendments effective for reporting periods beginning on or after 1 January 2023). The amendments clarify that IAS 12 applies to income taxes arising from law enacted or substantively enacted to implement the Pillar Two Model Rules published by the Organisation for Economic Cooperation and Development including tax law that implements the Qualified Domestic Minimum Top-up Tax. There is a mandatory exception from the recognition and disclosure of deferred tax assets and liabilities for 2023. Entities are required to disclose that they have applied the exemption and disclose information on exposure from Pillar Two income taxes. The company is not the ultimate parent company subject to the Pillar Two Model Rules, so the amendments have had no impact on the financial statements.

(b) Changes in accounting policies (continued)

- IAS 12 'Income Taxes' Deferred Tax related to Assets and Liabilities arising from a Single Transaction (amendments effective for reporting periods beginning on or after 1 January 2023). The amendments narrow the initial recognition exception so that it does not apply to a single transaction which has equal taxable and deductible temporary differences. The adoption of this amendment has had no impact on the financial statements.

- IFRS 17, effective from 1 January 2023, has replaced IFRS 4 'Insurance Contracts' and establishes new principles for the recognition, measurement, presentation and disclosure of insurance contracts. The change in accounting policy has been applied retrospectively. Details of the company's application of IFRS 17 and the financial impacts are shown below.

- IFRS 9 has replaced IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. However, as permitted by an amendment to IFRS 4, the company elected the optional temporary exemption from applying IFRS 9 and to defer the effective date to align with IFRS 17.

  Application of the standard required a change to the classification of private debt securities from amortised cost to fair value through profit or loss with the difference accounted for in opening equity. The majority of these assets are part of the reinsured business and therefore have an offset in reinsurance liabilities.

  Application of the standard also required a change to the classification of some debt instruments from available for sale to fair value through profit or loss.

  The methodology for these classification changes, and their impact, is shown below.

  The company has taken advantage of an amendment to IFRS 17 permitting the use of an optional overlay in the comparative period presented on initial application of IFRS 17. The overlay allows all financial assets, including those not connected to contracts within the scope of IFRS 17, to be classified on an instrument-by-instrument basis that aligns with how those assets are expected to be classified on initial application of IFRS 9. The classification overlay is intended to reduce mismatches in the comparative information which would arise as a result of the different dates of application of the transition requirements of IFRS 9 (1 January 2023) and IFRS 17 (1 January 2022). Additional net income of £0.2 million would have arisen in the comparative year from valuing private debt securities at amortised cost instead of fair value. Additional net income of £23.8 million would have arisen in the comparative year from measuring other debt securities as available for sale instead of fair value through profit or loss.

  For other financial instruments there were no impacts on the company's results and financial position.

The following standards relevant to the company have been amended but are not yet effective at this time.

IAS 1 'Presentation of Financial Statements' (amendment effective for reporting periods beginning on or after 1 January 2024). The amendments are to clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period. The company already defines non-current liabilities on this basis so does not expect the adoption of the amendments to have any impact on the financial statements.

There were no other changes to the company's accounting policies during 2023.

Application of IFRS 17 and IFRS 9 and impact of transition

<u>Presentation and disclosure</u>

The application of IFRS 17 has resulted in significant presentation and disclosure differences throughout the financial statements including those related to transition as described below. In particular, the income statement now presents an insurance service result, an investment result, other income and expenses and tax, and the disclosure notes now include changed disclosures with respect to insurance contract liabilities including detailed reconciliations of opening to closing insurance and reinsurance liabilities and assets (note 26).

The application of IFRS 9 has resulted in few significant presentation and disclosure differences, other than those related to transition as described below, and reflected in the relevant notes throughout the financial statements.

<u>Transition method</u>

The retrospective application of IFRS 17 at the transition date of 1 January 2022 for all groups of insurance contracts, was implemented using the fair value approach because a full retrospective approach was deemed impracticable. The full retrospective approach was deemed impracticable due to the inability to obtain historic assumptions and data at the required level of granularity without the material use of hindsight, in part due to the consolidation of a number of books from past acquisitions.

(b) Changes in accounting policies (continued)

Under the fair value approach, the CSM at transition for a group of insurance contracts is equal to the fair value of a group of insurance contracts less the fulfilment cash flows (FCF), which is the present value of future cash flows plus the risk adjustment for non-financial risk, measured using IFRS 17. The fair value of a group of insurance contracts is the amount that a market participant would require to take over the obligation of the group of insurance contracts.

Transition grouping

A portfolio of insurance contracts is a set of insurance contracts subject to similar risks and managed together. Portfolios of insurance contracts at transition are divided into groups which are the unit of account for the measurement of insurance contracts. Portfolios of reinsurance contracts held are defined according to the portfolios of the direct underlying contracts. Groups of insurance contracts at transition are either a) onerous, or b) have a significant possibility of becoming onerous, or c) are neither a) nor b). All the company's groups of insurance contracts fall into category c).

The company established portfolios at transition within each reportable business segment, which distinguish between insurance contracts issued and reinsurance contracts held, and with-profits and non-profit insurance contracts. Non-profit contracts also include portfolios to distinguish between unit-linked and conventional insurance contracts.

Fair value measurement

The fair value of a group of insurance contracts issued as at the transition date was measured using the adjusted FCF approach. This approach is a reasonable approximation for a market participant's requirements, as it shares the characteristics of a typical market participant in the insurance market. The determination of fair value involves estimates and assumptions that require significant judgement.

The adjusted FCF approach identifies specific amounts a market participant would require, in addition to the FCF, to take over the obligation of the group. These include:

- An amount for overhead and other non-directly attributable expenses not covered by FCF;
- A provision for risks not included in FCF such as reinvestment or operational risk, which was measured using the cost of regulatory capital requirements for interest rate risk, as defined by the Canadian Office of the Superintendent of Financial Institutions, as a measure to estimate the level of compensation required; and
- Other adjustments, including the tax charge on investment income in order to fulfil the contracts, and a profit margin reflecting what a market participant would require to manage the unit-linked business.

The fair value of a group of reinsurance contracts held as at the transition date was measured as the difference between the fair value of a group of underlying insurance contracts without consideration of reinsurance, and the fair value of the group of underlying insurance contracts together with the corresponding group of reinsurance contracts held.

CSM at transition

The CSM at transition for each group of insurance contracts was set as the fair value of the contracts less the FCF. The FCF at transition were measured using the methodology described in note 26. Under the fair value approach, the discount curve for each group of insurance contracts established at the transition date is the locked-in discount curve for the group going forwards.

(b) Changes in accounting policies (continued)

Reconciliation of income statement

	Notes	Year to 31 December 2022 £'000
Loss after tax as reported under IFRS 4 and IAS 39		(17,850)
Adjustments for:		
Insurance and reinsurance contract remeasurement	(i)	(27,477)
Experience on insurance contract premiums	(ii)	3,564
Experience on investment components of insurance contracts	(iii)	(3,121)
Onerous contract provision remeasurement	(iv)	665
Reclassification of private debt securities (PDS) from loans and receivables (L&R) to fair value through profit or loss (FVTPL)	(v)	(72,061)
Change in investment income ceded to reinsurers	(vi)	71,896
Reclassification of debt instruments held as available for sale (AFS) to FVTPL	(vii)	(31,373)
Deferred tax	(viii)	14,431
Loss after tax as reported under IFRS 17 and IFRS 9		(61,326)

Reconciliation of equity

	Notes	Assets 31 December 2022 £'000	Assets 1 January 2022 £'000	Liabilities 31 December 2022 £'000	Liabilities 1 January 2022 £'000	Equity 31 December 2022 £'000	Equity 1 January 2022 £'000
As reported under IFRS 4 and IAS 39		10,003,471	12,853,545	9,780,840	12,538,975	222,631	314,570
Adjustments for:							
Insurance and reinsurance contracts remeasurement	(i)	(2,476)	38,461	49,580	63,483	(52,056)	(25,022)
Onerous contracts provision remeasurement	(iv)	-	-	283	948	(283)	(948)
Reclassification of PDS from L&R to FVTPL	(v)	(58,252)	13,809	-	-	(58,252)	13,809
Change in deposit back liability to reinsurer	(vi)	-	-	(58,319)	13,577	58,319	(13,577)
Change in deferred tax asset / liability	(viii)	9,004	1,041	-	(1,090)	9,004	2,131
Reclassification of policy loans	(ix)	(14,805)	(15,518)	(14,805)	(15,518)	-	-
Reclassification of reinsurance contract asset to reinsurance contract liability	(x)	(1,744,051)	(2,649,385)	(1,744,051)	(2,649,385)	-	-
As reported under IFRS 17 and IFRS 9		8,192,891	10,241,953	8,013,528	9,950,990	179,363	290,963

In addition to the items shown in the reconciliations above, the following reclassifications within total liabilities have been made on transition to IFRS 17:

(b) Changes in accounting policies (continued)

- Certain contracts, including some with-profits contracts and some investment contracts with discretionary participating features, that were classified as investment contract liabilities under IFRS 4 have been reclassified as insurance contract liabilities under IFRS 17. The value of such contracts at transition to IFRS 17 on 1 January 2022 was £20.4 million (31 December 2022: £18.8 million).

- Some claims received but not yet settled on insurance contracts have been reclassified as claims received but not yet settled on investment contracts. The value of such claims received but not yet settled at transition on 1 January 2022 was £12.0 million (31 December 2022: £18.9 million).

(i) Insurance and reinsurance contracts remeasurement

Insurance and reinsurance contracts have been revalued in accordance with the requirements of IFRS 17. The change in discount rates used to estimate the value of insurance and reinsurance contracts, as described in note 26, gives rise to a significant change from IFRS 4. The difference arising from the change in measurement basis has been recorded in opening equity at the transition date with subsequent changes recorded in net income.

(ii) Experience on insurance contract premiums

Under IFRS 4, premiums receivable on insurance contracts and the change in insurance contract liabilities due to expected premiums receivable on insurance contracts were recorded in the income statement. Under IFRS 17, such insurance contract premium experience is recorded as a change in the value of the CSM, not income. The same applies to ceded premiums on reinsurance contracts and the change in reinsurance contract assets due to expected ceded premiums on reinsurance contracts.

(iii) Experience on investment components of insurance contracts

Under IFRS 4, all claims on insurance contracts and the change in insurance contract liabilities due to expected claims on insurance contracts, which together comprise claims experience, were recorded in the income statement. As described in accounting policy (e), IFRS 17 requires claims on insurance contracts to be divided into investment components and claims other than investment components. Investment component experience is recorded as a change in the CSM, not income.

(iv) Onerous contracts provision remeasurement

The measurement of the onerous contracts provision uses discount rates that are applied to insurance contract liabilities. As described in (i) above, the discount rates changed on transition to IFRS 17. The difference arising from the change in measurement basis has been recorded in opening equity at the transition date with subsequent changes recorded in net income.

(v) Reclassification of private debt securities from loans and receivables to fair value through profit or loss

As described above, private debt securities that were classified as loans and receivables measured at amortised cost have been reclassified as fair value through profit or loss and the option to overlay IFRS 9 treatment in the comparatives has been taken. The difference arising from the change of measurement basis has been recorded in opening equity with subsequent changes recorded in net income.

(vi) Impact of (v) on investment income ceded to reinsurers and the deposit back liability

The majority of the private debt securities in (v) above, are assets deposited with the company by a reinsurer. The change in classification and measurement of private debt securities gives rise to a change in value of the deposit back liability to the reinsurer and the investment return ceded to the reinsurer. The difference arising from the change in measurement basis has been recorded in opening equity with subsequent changes recorded in net income.

(vii) Reclassification of debt instruments held as available for sale to fair value through profit or loss

As described above, debt instruments held that were classified as available for sale have been reclassified as fair value through profit or loss and the option to overlay IFRS 9 treatment in the comparatives has been taken. The associated investment valuation reserve has therefore changed from £(3.5) million to £nil as the amount was moved into retained earnings.

(viii) Tax

A deferred tax asset has been recognised on the loss on transition to IFRS 17 and will be spread over 10 years in accordance with transitional tax provisions. The tax rate applied is based on the enacted rate in force at the expected time of utilisation.

(b) Changes in accounting policies (continued)

(ix) Reclassification of policy loans

Under IFRS 17 policy loans are included within the balance of insurance contract liabilities and are no longer part of a loans and receivables balance.

(x) Reclassification of reinsurance contract asset to reinsurance contract liability

Under IFRS 4, the deposit back liability relating to the annuity and GAO reinsurance arrangements with SLACC was disaggregated from the reinsurance asset. IFRS 17 does not allow such disaggregation and, accordingly, the deposit back liability has been aggregated within the reporting of the reinsurance treaty. The deposit back liability is larger than the reinsurance asset so reporting the two components as one net item results in classification as a reinsurance liability.

The following tables show the impact of transition from IAS 39 to IFRS 9 on financial instruments.

	IAS 39 classification	**IAS 39 measurement basis**	**IAS 39 amount £'000**	**Reclass (see (v) above) £'000**	**IFRS 9 amount £'000**	**IFRS 9 classification**
Financial assets at 31 December 2022						
Private debt securities	L&R[1]	Amortised cost	338,465	(58,252)	280,213	FVTPL[2] (mandatory)
Derivative assets	HFT[3]	FVTPL	97,756		97,756	FVTPL (mandatory)
Certain debt instruments	AFS[4]	FVOCI[5]	132,881		132,881	FVTPL (mandatory)
Other financial assets	FVTPL on initial recognition	FVTPL	7,081,495		7,081,495	FVTPL (mandatory)
Other receivables	L&R	Amortised cost	50,044		50,044	Amortised cost
Prepayments and accrued income	L&R	Amortised cost	40,839		40,839	Amortised cost
Cash and cash equivalents	L&R	Amortised cost	138,115		138,115	Amortised cost
Financial liabilities at 31 December 2022						
Investment contract liabilities	FVTPL on initial recognition	FVTPL	3,175,620		3,175,620	FVTPL (mandatory)
Derivative liabilities	HFT	FVTPL	129,366		129,366	FVTPL (mandatory)
Other payables	L&R	Amortised cost	42,225		42,225	Amortised cost

[1] Loans and receivables (L&R)
[2] Fair value through profit or loss (FVTPL)
[3] Held for trading (HFT)
[4] Available for sale (AFS)
[5] Fair value through other comprehensive income (FVOCI)

(b) Changes in accounting policies (continued)

	IAS 39 classification	IAS 39 measurement basis	IAS 39 amount £'000	Reclass (see (v) above) £'000	IFRS 9 amount £'000	IFRS 9 classification
Financial assets at 1 January 2022						
Private debt securities	L&R[1]	Amortised cost	307,589	13,809	321,398	FVTPL[2] (mandatory)
Derivative assets	HFT[3]	FVTPL	28,441		28,441	FVTPL (mandatory)
Certain debt instruments	AFS[4]	FVOCI[5]	165,633		165,633	FVTPL (mandatory)
Other financial assets	FVTPL on initial recognition	FVTPL	9,116,280		9,116,280	FVTPL (mandatory)
Other receivables	L&R	Amortised cost	74,538		74,538	Amortised cost
Prepayments and accrued income	L&R	Amortised cost	43,443		43,443	Amortised cost
Cash and cash equivalents	L&R	Amortised cost	119,078		119,078	Amortised cost
Financial liabilities at 1 January 2022						
Investment contract liabilities	FVTPL on initial recognition	FVTPL	3,774,964		3,774,964	FVTPL (mandatory)
Derivative liabilities	HFT	FVTPL	74,586		74,586	FVTPL (mandatory)
Other payables	L&R	Amortised cost	41,720		41,720	Amortised cost

[1] Loans and receivables (L&R)
[2] Fair value through profit or loss (FVTPL)
[3] Held for trading (HFT)
[4] Available for sale (AFS)
[5] Fair value through other comprehensive income (FVOCI)

(c) Use of judgements, estimates and assumptions

The preparation of the financial statements requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date, as well as affecting the reported income and expenses for the year. Although the estimates are based on management's best knowledge and judgement of information and financial data as at the date the financial statements are approved, the actual outcome may differ from these estimates.

Critical accounting judgements

The most significant example of when judgement is used when applying accounting policies, without the use of estimates or assumptions, is when determining the classification of insurance contracts and investment contracts. Further information is given below in accounting policy (d).

Other judgements were used on transition to IFRS 17 which are detailed above in accounting policy (b).

Key sources of estimation uncertainty

Some judgement made in the preparation of the financial statements requires the use of estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, revenue and expenses. The list below shows the sources of estimation uncertainty and assumptions considered most significant, along with the relevant accounting policy or note where they are discussed further.

(c) Use of judgements, estimates and assumptions (continued)

Source of uncertainty	Nature of uncertainty	Relevant accounting policy or note
Insurance contract assumptions and measurement	The valuation of insurance contract liabilities is sensitive to the assumptions which have been applied in their calculation. Economic assumptions are set taking into account market conditions as at the valuation date. Non-economic assumptions, such as future expenses, longevity and mortality are set based on past experience, market practice, regulations and expectations about future trends.	Accounting policy (e) Note 26 Insurance contract liabilities Note 27 Management of insurance risk
Staff pension schemes	The valuation of pension scheme liabilities is sensitive to the assumptions which have been applied in their calculation. Economic assumptions are set taking into account market conditions as at the valuation date. Non-economic assumptions, such as longevity and mortality are set based on past experience, market practice, regulations and expectations about future trends.	Accounting policy (k) Note 12 Staff pension schemes
Estimation of fair value on transition to IFRS 17	The determination of fair value of the insurance business at acquisition involved estimates and assumptions for what a market participant would require in addition to the fulfilment cashflows of the insurance business.	Accounting policy (b)

(d) Contract classification

The company has contracts that transfer insurance risk or financial risk or both.

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. Insurance risk is significant if, and only if, at the inception of the contract, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. A contract that is classified as an insurance contract will continue to be treated as such until all rights and obligations under the contract are extinguished or expire.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

All with-profits contracts and certain non-profit investment contracts contain a discretionary participating feature which entitles the holder to receive additional benefits or bonuses, as a supplement to the guaranteed benefits. Such contracts are classified as either insurance contracts or investment contracts with discretionary participating features, depending on the level of insurance risk transferred.

Certain unit-linked contracts include optional insurance rider benefits which transfer insurance risk. For contracts for which the insurance rider benefits are material, the whole of the contract is classified as an insurance contract. For some contracts for which the insurance rider benefits are immaterial, the unit component of the contract is accounted for as an investment contract under IFRS 9, whereas the insurance rider benefits are accounted for as an insurance contract under IFRS 17. This treatment is materially consistent with the requirements of IFRS 17 and IFRS 9.

The majority of the company's non-profit investment contracts are unit-linked. All of the company's reinsurance contracts are insurance contracts.

(e) Insurance contracts and investment contracts with discretionary participating features

Measurement

The measurement models used for insurance contracts and investment contracts with discretionary participating features as required by IFRS 17 are described in note 26.

(e) Insurance contracts and investment contracts with discretionary participating features (continued)

Insurance revenue

Insurance revenue is recognised as the company provides coverage and other services arising from the insurance contracts and investment contracts with discretionary participating features and is measured at an amount reflecting the consideration the entity expects to receive for providing those services. As the company provides services, the liability representing the provision of future services is subsequently derecognised giving rise to the following items recognised as insurance revenue:

- Derecognition of the insurance liability with respect to the reduction in future claims and benefits in the period;
- Derecognition of the insurance liability with respect to the reduction in directly attributable expenses in the period;
- Change in the period in the risk adjustment for non-financial risk; and
- CSM amortisation.

Insurance revenue excludes investment components as their repayment does not represent the provision of service by the company.

Claims and investment components

Claims on insurance contracts and investment contracts with discretionary participating features consist of investment components, which are amounts that are payable to a policyholder in all circumstances regardless of whether an insured event occurs, and amounts that are not investment components.

Distinct investment components are those which could be sold as a separate contract, are separable from the rest of the contract and can be measured separately from it. The company's contracts have no distinct investment components but do have non-distinct investment components.

Non-distinct investment components comprise:
- Surrender and maturity values on conventional non-profit pensions and conventional non-profit life policies;
- Death benefits up to the surrender value;
- Benefit payments to policyholders from the SLOC With-Profits Fund (excluding any payments in respect of guarantees that are biting); and
- For unit-linked contracts, all benefit payments from policyholders' accounts.

Claims, other than investment components, are charged to insurance service expenses when due for payment or, if earlier, on the date when the policy ceases to be included within the calculation of insurance contract liabilities. Reinsurance recoveries, for which there are no investment components, are accounted for in the same period as the related claim.

Bonuses

Bonuses charged to insurance service expenses in a given year comprise new reversionary bonuses declared in respect of that year, which are provided within the calculation of the with-profits investment contract liabilities, and terminal and cash bonuses paid out to policyholders, which are included within claims paid.

Policyholder liabilities

The company has a variety of insurance contracts that include life, health, critical illness insurance sold to individuals and groups, annuities, and unit-linked products with and without guarantees. The company also holds reinsurance contracts

that transfer longevity, mortality and other risks. Insurance contracts and investment contracts with discretionary participating features are determined in accordance with IFRS 17 and are included within insurance contract liabilities.

Assumptions underlying insurance contract liabilities are reviewed annually to ensure that they are appropriate. These assumptions are approved by the Board. Further details of the methodology and the principal assumptions used in the calculation of the insurance contract liabilities are set out in note 26.

CSM amortisation

An amount of CSM is recognised as insurance revenue over the reporting period based on the number of coverage units in the period. Coverage units are used to represent the pattern of services provided under a group of insurance contracts.

For insurance contracts, the number of coverage units in a group is the quantity of insurance contract services provided by the insurance contracts in the group, determined by considering, for each contract, the quantity of the benefits provided under a contract and its expected coverage period. For most groups, the number of coverage units is primarily based on amounts payable on death in each month; for annuities, the sum of monthly outgo is used; and for GAOs, the sum of

(e) Insurance contracts and investment contracts with discretionary participating features (continued)

monthly pre-vesting unit fund, monthly future cashflows and annuity payments vested since the current reporting period is used.

For investment contracts with discretionary participating features, the coverage unit reflects the investment component payable to the policyholder, representing the provision of investment related services in the period.

Risk mitigation option

For GAOs, the company has chosen not to recognise changes in the CSM to the extent they reflect the changes in the effect of financial risk on the company's share of underlying items, or the FCF, of groups of insurance contracts with direct participation features. The company is eligible to make this choice as the use of financial risk mitigation techniques such as derivatives, reinsurance contracts held and non-derivative assets at fair value through profit or loss is a documented risk management strategy and there is an economic offset which is not dominated by credit risk.

The risk mitigation option is provided to avoid accounting mismatches that would otherwise occur when the financial risk of a group of insurance contracts is mitigated outside the underlying items of the group. For insurance contracts with direct participation features, if the risk mitigation option is not used, changes related to financial risk adjust the CSM, but offsetting changes from risk mitigation techniques may go through income. The risk mitigation option allows for a change that would otherwise adjust the CSM to be recognised in income instead to avoid such a mismatch. The effect on the company's CSM of applying the risk mitigation option is disclosed in note 5.

(f) Non-profit investment contracts

Amounts received / paid

Amounts received in respect of non-profit investment contracts, which principally involve the transfer of financial risk, are accounted for using deposit accounting, under which amounts collected are credited directly to the balance sheet as an adjustment to investment contract liabilities. Similarly, amounts paid out are charged directly to the balance sheet as an adjustment to investment contract liabilities. Any amounts paid in excess of account balances are charged to the income statement as claims.

Deferred income liability

Fees receivable in respect of non-profit investment contracts are recognised within fee and commission income in the income statement in the year they are assessed, unless they relate to services to be provided in future years, in which case they are deferred as a liability and recognised over the expected term of the contract on a straight-line basis.

Deferred acquisition costs

Incremental costs that are directly attributable to securing non-profit investment contracts, and which are incurred during a financial year and expected to be recoverable out of future revenue margins, are deferred in the balance sheet as an intangible asset. The asset represents the company's contractual right to benefit from providing investment management services and is amortised as the company recognises the related revenue which approximates a straight-line basis over the expected term of the contract.

Annual impairment reviews are carried out to identify whether there are any circumstances that might indicate impairment. If such circumstances exist, the carrying values are adjusted to the recoverable amounts and any resulting impairment losses are charged to the income statement.

Financial liabilities

Unit-linked non-profit investment contract liabilities are designated as fair value through profit or loss as they are implicitly managed on a fair value basis because their value is directly linked to the market value of the underlying portfolio of assets. The liabilities are recognised when units are created.

For certain financial guarantees, an additional actuarial reserve is established if the market value of the assets is insufficient to provide for the cost of the guarantee.

(g) Expenses

Expenses recognised in the income statement comprise:

(g) Expenses (continued)

- Operating, administration and investment management expenses that are directly attributable to insurance contracts, which are reported within insurance service expenses; and
- Other operating, administration and investment management expenses which are reported within administrative and other expenses.

Expenses are considered to be directly attributable to groups of insurance contracts if they are incurred directly in the fulfilment of those contracts. The principal activity of the company is the management of a closed book of insurance and investment business so, to the extent that expenses relate to the insurance business, the majority of expenses are directly attributable to that insurance business.

Operating, administration and investment management expenses are allocated systematically and consistently to groups of insurance contracts primarily on the basis of the number of policies in a group compared to the number of policies to which the expense relates, except for:

- Some specific costs, such as those associated with redundancies and some project costs, are excluded and are not considered to be directly attributable to insurance contracts; and
- Investment management expenses which relate to the management of investments backing groups of insurance contracts without direct participation features.

Other operating, administration, and investment management expenses comprise:
- operating and administration expenses allocated to investment contracts;
- expenses that are specifically excluded from being directly attributable to insurance contracts; and
- expenses relating to the management of:
  - investments backing investment contracts,
  - investments backing groups of insurance contracts without direct participation features, or
  - surplus assets.

(h) Investment return

Investment return comprises income received from investments, realised investment gains and losses, movements in unrealised gains and losses and any net return on the pension schemes.

Dividends are included as investment income on the date that the shares become quoted ex-dividend. Income from fixed interest securities and rental income are recognised on an accruals basis.

Realised gains and losses on investments carried at fair value are calculated as the difference between sales proceeds and purchase cost. Movements in unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and the purchase price or the fair value at the last balance sheet date. The movement in unrealised gains and losses recognised in the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current year.

Investment expenses comprise fund managers' fees, interest expense and any expected charge on the pension schemes. Fund managers' fees are recognised on an accruals basis and interest expense is recognised on an effective interest basis. For portfolios of insurance contracts with direct participation features, these expenses are allocated to insurance service expenses in the income statement, however for other portfolios, these expenses are charged to administrative and other expenses.

(i) Insurance finance income or expenses

The company has chosen not to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income. All insurance finance income or expenses for the period are therefore included in profit or loss.

(j) Lease contracts

Contracts are assessed to determine whether a contract is, or contains, a lease at the inception date if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets in respect of these arrangements in the balance sheet. Income received from subleasing office space, is accounted for as an operating lease, and is shown in note 4.

(j) Lease contracts (continued)

Right-of-use assets

Right-of-use assets are carried at historic cost less accumulated depreciation and any provision for impairment. Depreciation is calculated using the straight-line method to write down the costs of the assets to their residual value over the lease term and is included within administrative expenses.

Lease liabilities

Lease liabilities are initially measured at the present value of lease payments over the term of the lease using a discount rate that is based on the incremental borrowing rate applicable to the company. This discount rate is determined with reference to the lease term.

Subsequently, lease liabilities are measured at amortised cost using the effective interest method, with interest charged to the income statement. Lease liabilities are recognised within other payables on the balance sheet.

Lease term

The lease term comprises the non-cancellable period of the lease contracts. The lease contracts reach the end of the next non-cancellable period in June 2025.

(k) Pension costs

The company operates two pension schemes, one approved by HMRC and one which is unapproved. The main scheme, which is approved, is a defined benefit plan. This scheme closed to new entrants in March 2002 and closed to future accrual from 31 December 2011. The assets of the approved scheme are segregated from those of the company and are administered by a Board of Trustees and are held in separate trustee administered funds.

The defined benefit plan provides benefits based on final pensionable earnings and length of service within the scheme prior to closure. The fund is formally valued every three years by a professionally qualified independent actuary (appointed by the trustees), with summary reviews being carried out in the intervening years.

The pension asset or liability recognised in the balance sheet in respect of each of the company's two defined benefit plans is the value of each scheme's assets less the present value of the scheme's liabilities. An asset is recognised only to the extent that it can be recovered through a refund of surplus.

The interest income net of expenses on the defined benefit assets net of liabilities is determined by applying the discount rates used to measure the defined benefit obligations at the beginning of the year to the defined benefit assets net of liabilities, taking into account any contributions and benefit payments during the year. The net interest on the defined benefit assets net of liabilities is included within investment return.

Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each year. When the scheme closed to future accrual from 31 December 2011, employee benefits were made paid up. This results in no current service cost from 2012 onwards. There have been no curtailments and no material settlements in the last two years.

The actuarial gains and losses which arise from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are taken to the statement of comprehensive income for the year. The attributable deferred taxation is shown separately in the statement of comprehensive income.

The company is a participating employer under an approved master trust with Aegon UK plc. Employer contributions are paid on a monthly basis as a percentage of each employee's pensionable salary to Aegon UK plc. The costs are charged to the income statement in the year in which they are payable.

(l) Taxation

Corporation tax in the income statement is based on income for the year determined in accordance with the relevant tax legislation, together with adjustments to provisions for prior periods. The tax charge is analysed between tax that is payable in respect of policyholders' returns and tax that is payable on owners' returns. The liability for current tax is calculated using tax rates that have been substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and

(l) Taxation (continued)

is accounted for using the balance sheet liability method. The tax rates used are those that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is calculated at the rates at which it is expected that the tax benefit / liability will arise. Deferred tax assets are recognised for deductible temporary differences to the extent that it is more likely than not that they will be recovered against future taxable profits. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax is recognised in the income statement for the period, except to the extent that it is attributable to items that are recognised in the same or a different period outside the income statement, in which case the deferred tax will be recognised in other comprehensive income or equity.

Tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority, and the company intends to settle its current tax assets and liabilities on a net basis.

(m) Dividends

Interim dividends are recognised when paid. Final dividends payable are recognised as a liability on the date declared by the Board and approved by the shareholder in a General Meeting.

(n) Investment property

Investment property, which is property held to earn rental income and / or for capital appreciation, is stated at its fair value at the balance sheet date.

The company applies the fair value model as detailed in IAS 40 'Investment property'. Land and buildings are valued each year by independent chartered surveyors. Gains or losses arising from changes in the fair value of investment property are recognised in the income statement in the period in which they arise.

(o) Investment in subsidiary undertakings

Investments in subsidiary undertakings are valued at fair value, with changes in fair value being reflected within investment return.

(p) Recognition and derecognition of financial instruments

A financial instrument is recognised if the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the company's contractual rights to the cash flows from the financial assets expire or if the company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. In general, purchases and sales of financial assets are recognised on the trade date i.e. the date that the company commits to purchase or sell the asset. Loans are recognised on their funding dates. Financial liabilities are derecognised if the company's obligations specified in the contract expire or are discharged or cancelled.

The company might enter into transactions, such as stock lending, whereby it transfers assets recognised in its balance sheet, but retains all risks and rewards of the transferred assets. If all, or substantially all, risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet.

(q) Financial assets

The company classifies its financial assets into the categories of amortised cost or fair value through profit or loss.

Amortised cost

The company classifies financial assets as amortised cost where they are held in order to collect contractual cash flows and where contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Other receivables, and cash and cash equivalents all meet these criteria so are classified as amortised cost (although the carrying amount will approximate to fair value).

(q) Financial assets (continued)

Such financial assets are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Subsequent to initial recognition, these assets are measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. It is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Fair value through profit or loss

Financial assets are classified as fair value through profit or loss unless the conditions for classification as fair value through other comprehensive income or amortised cost are met. The company has no financial assets that meet the conditions for classification as fair value through other comprehensive income. The fair value through profit or loss category includes debt instruments whose cash flow characteristics are not solely payments of principal or interest or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell financial assets. Financial assets with equity features such as equities, unit trusts and other instruments with equity performance features, derivatives, debt instruments and all invested assets backing policyholder liabilities are classified as fair value through profit or loss.

Financial assets at fair value through profit or loss are initially recognised and subsequently measured at fair value in the balance sheet. All changes in fair value are recognised in the income statement as described in the accounting policy for investment return.

The company uses derivative financial instruments to hedge its economic exposure to certain financial risks and for efficient portfolio management, and does not apply hedge accounting. Derivatives are recognised initially at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value are recognised immediately in the income statement. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

(r) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are set off and the net amount presented in the balance sheet when, and only when, the company has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by accounting standards, or for gains and losses arising from a group of similar transactions.

(s) Impairment of financial assets

A forward-looking expected credit loss (ECL) approach has been applied to the company’s financial assets carried at amortised cost. A significant portion of the company’s financial assets are classified as fair value through profit or loss and are therefore not subject to ECL assessment. The financial assets classified as amortised cost and subject to ECL mainly relate to short term receivables including derivative margin accounts and cash and cash equivalents balances.

For these in-scope financial assets at the reporting date, either a lifetime ECL (the credit loss expected within the lifetime of the financial asset) or a 12-month ECL (the credit loss expected on the financial asset within 12 months from the reporting date) is provided for, depending on an assessment of whether the credit risk associated with the specific asset has increased significantly since initial recognition.

Short- term receivables balances relate to derivative margin accounts and other regular receivables due to the company in the normal course of business. Expected credit losses are assessed as being immaterial given the typically short-term nature of these balances.

Cash and cash equivalents are held with banks and financial institutions with high quality credit ratings and no history of default. Expected credit losses are therefore assessed as being immaterial.

Based on the above assessments, an immaterial ECL balance has been determined and no such provision is recognised.

(t) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and other short-term investments with a maturity of three months or less from the date of acquisition. The carrying amount of these assets approximates to their fair value.

The cash flow statement includes both policyholder and shareholder cash flows. The company classifies the cash flows for the purchase and disposal of financial assets within operating cash flows as the purchases are funded from cash flows associated with the origination of insurance and investment contracts, net of the cash flows for payments of related benefits and claims.

(u) Collateral

Cash received / pledged as collateral is recognised / derecognised in the balance sheet with corresponding amounts recognised in other liabilities / other assets, respectively. All other types of assets received / pledged as collateral are not recognised / derecognised in the balance sheet.

(v) Deposits received from reinsurer

Deposits received from reinsurer are recognised initially at fair value plus incremental direct transaction costs and are subsequently measured at fair value through profit or loss. Deposits received from reinsurers are netted against the reinsurance asset in the relevant portfolio which results in the recognition of either a reinsurance asset or reinsurance liability on the balance sheet depending on whether the net position is an asset or liability.

(w) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation. Where the effect is material, provisions are discounted using a pre-tax rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The company recognises a provision for onerous contracts when, for a portfolio of investment contracts, the expected future benefits to be derived from the contracts are lower than the unavoidable costs of meeting the obligations under the contracts.

(x) Foreign currencies

Foreign currency transactions are translated into the company’s functional currency, pounds sterling, at the exchange rates ruling at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into pounds sterling at the foreign exchange rates ruling at the end of the financial year. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the dates of the transactions. Non-monetary items that are measured at fair value in a foreign currency are translated using the foreign exchange rates ruling at the dates when the fair values were determined. The exchange differences are reported as part of the fair value gain or loss.

1. INSURANCE REVENUE

	2023 £'000	2022 £'000
Expected claims and benefits	**184,750**	198,854
Expected directly attributable expenses	**24,960**	25,896
Risk adjustment for the risk expired	**10,494**	15,887
CSM recognised for services provided	**33,550**	19,863
Policyholder tax charges	**(121)**	(115)
	253,633	260,385

The disclosure of insurance revenue by with-profits, non-profit and unit-linked business is presented in note 26.

2. INSURANCE SERVICE EXPENSES

	2023 £'000	2022 £'000
Incurred claims and benefits	**(179,133)**	(186,284)
Incurred directly attributable expenses	**(24,626)**	(26,733)
	(203,759)	(213,017)

The disclosure of insurance service expenses by with-profits, non-profit and unit-linked business is presented in note 26.

3. NET INCOME OR EXPENSE FROM REINSURANCE CONTRACTS HELD

	2023 £'000	2022 £'000
Allocation of reinsurance premiums paid:		
Changes in amounts recoverable for claims and other expenses incurred	**(167,592)**	(194,167)
Risk adjustment for the risk expired	**(5,599)**	(13,671)
CSM recognised for services provided	**(12,526)**	(6,996)
Changes related to past services	**4,300**	-
	(181,417)	(214,834)
Amounts recovered from reinsurers for incurred claims:		
Claims and benefits recovered	**156,128**	167,562
Directly attributable expenses recovered	**8,003**	14,358
Changes related to future services	**17,072**	-
	181,203	181,920
	(214)	(32,914)

On 3 April 2023, the company was acquired by the Phoenix Group. On the same day, the company recaptured the reinsurance treaty relating to the GAO business, resulting in a gain of £17.1 million. The gain is recorded in changes related to future services.

4. INVESTMENT RETURN

	2023 £'000	Restated 2022 £'000
Investment income:		
Income from financial assets at fair value through profit or loss	**247,784**	249,625
Income from subsidiary undertakings	**152**	346
Rental income from investment property (note 17)	**12,540**	13,843
Rental income from subleasing right-of-use assets	**-**	7
Net return on pension schemes (note 12(g))	**752**	324
	261,228	264,145
Net gains / (losses) on the realisation of investments:		
Financial assets at fair value through profit or loss	**(69,895)**	(114,712)
Investment property (note 17)	**2,475**	2
	(67,420)	(114,710)
Net unrealised gains / (losses) on investments:		
Financial assets at fair value through profit or loss	**357,143**	(1,462,670)
Investment property (note 17)	**(33,019)**	(15,611)
Investments in group undertakings (note 18)	**42**	(186)
	324,166	(1,478,467)
Total investment return	**517,974**	(1,329,032)

Prior period investment income, realised losses, and unrealised losses for financial assets at fair value through profit or loss have been restated as a result of the adoption of IFRS 9 (see accounting policy (b)).

5. INSURANCE FINANCE INCOME / (EXPENSE)

	2023 £'000	2022 £'000
Changes in fair value of underlying items of contracts with direct participating features	**(201,535)**	180,684
Unwind of discount on FCF	**(88,517)**	(55,123)
Interest accreted on the CSM	**4,110**	4,069
Effect of changes in interest rates and other financial assumptions	**(38,904)**	778,948
Effect of changes to FCF at current rates less locked in rates	**(42,614)**	(8,714)
	(367,460)	899,864

The disclosure of insurance finance income and expense by with-profits, non-profit and unit-linked business is presented in note 26.

Insurance finance income and expenses comprises the changes in the carrying amount of the group of insurance contracts arising from the effect of the time value of money, changes in the time value of money, the effect of financial risk, and changes in financial risk.

For unit-linked insurance contracts and with-profits insurance contracts, substantially all investment return on the underlying assets is passed through to the policyholder and the associated change in the carrying amount of the contracts is shown in insurance finance income and expenses.

Other amounts recognised in insurance finance income and expense are not as directly impacted by the investment return on associated invested assets, although there is a strong relationship, for example, the effect of changes in interest rates and other financial assumptions tends to give rise to partially offsetting impacts in insurance finance income and expense and return on invested assets.

The impact of the company's use of the risk mitigation option, as described in note 26, was to recognise £3.7 million (2022: £193.7 million) more insurance finance income and expense. Without the use of the risk mitigation option, the CSM would have increased by this amount.

6. REINSURANCE FINANCE INCOME / (EXPENSE)

	2023 **£'000**	2022 £'000
Interest accreted on the CSM	**1,092**	840
Unwind of discount on FCF	**78,524**	53,094
Effect of changes in interest rates and other financial assumptions	**(86,709)**	(113,451)
Effect of changes to FCF at current rates less locked in rates	**42,893**	9,730
	35,800	(49,787)

7. FEE AND COMMISSION INCOME

	2023 **£'000**	Restated 2022 £'000
Fees from non-profit investment contracts:		
Asset based fees	**25,600**	25,395
Premium based fees	**2,268**	2,771
Introduction fees from third party annuity provider	**1,183**	1,141
	29,051	29,307

Asset based fees are variable in nature, based on a percentage of assets under management.

Prior period fee and commission income has been restated to exclude expenses recovered from reinsurers as a result of the transition to IFRS 17, this balance is now part of reinsurance income or expense (note 3).

8. ADMINISTRATIVE AND OTHER EXPENSES

	2023 **£'000**	Restated 2022 £'000
Administrative expenses	**(1,464)**	(28,810)
Investment management expenses	**(13,594)**	(12,801)
Interest paid	**(18)**	(1)
Change in onerous contracts provision (note 30)	**1,101**	893
	(13,975)	(40,719)

Administrative expenses, with the exception of costs for the provision of fund and policy administration outsourcer services, are largely borne by a fellow subsidiary undertaking, SLFC Services Company (UK) Limited. Costs incurred by SLFC Services Company (UK) Limited are charged to the company by way of a monthly service charge.

Prior period administrative and other expenses have been restated to exclude expenses that are directly attributable to insurance contracts. The change in onerous contracts provisions has been restated as a result of the transition to IFRS 17 (see accounting policy (b)).

On 3 April 2023, the company was acquired by the Phoenix Group. One the same day, the expense indemnity agreement between the company and SLACC was terminated giving rise to income of £17.9 million which is included within administrative expenses. As a result of the termination of the agreement, a significantly lower reduction in the reimbursement right asset was seen for 2023 compared to 2022.

9. AUDITOR'S REMUNERATION

The total remuneration payable by the company to its auditor is shown below:

	2023 £'000	2022 £'000
Audit services:		
Fees payable to the company's auditor for the audit of the company's annual accounts	**(906)**	(696)
Adjustments to fees payable for prior year audit	**-**	(105)
Non-audit services:		
Other services pursuant to legislation, including the audit of the regulatory return	**(256)**	(226)
Total Fees	**(1,162)**	(1,027)

Audit fees are included within the monthly service charge from SLFC Services Company (UK) Limited as detailed in note 8.

10. EMPLOYEE NUMBERS AND COSTS

The company has no direct employees. The contractual relationship with all employees was held by fellow subsidiary undertaking, SLFC Services Company (UK) Limited, in the current and preceding year.

11. KEY MANAGEMENT REMUNERATION

The company considers that only directors of the company meet the definition of key management. The non-executive directors that resigned on 30 September 2023, and the executive director were employed by a fellow subsidiary undertaking, SLFC Services Company (UK) Limited, in the current and preceding year. The non-executive directors appointed on 1 October 2023, were employed by a fellow group undertaking, Phoenix Group Management Services Limited. No allocation of costs in respect of the services of these directors has been made in 2023.

Certain directors of the company are also directors of other group undertakings. The directors received total remuneration from SLFC Services Company (UK) Limited as shown below. It is not considered practicable to apportion the remuneration between their services as directors of the company and their services as directors of other group undertakings.

	2023 £'000	2022 £'000
Remuneration	**(1,301)**	(893)
Amounts receivable (excluding shares) under long-term incentive programmes	**(331)**	(503)
Contributions to money purchase pension plans	**(9)**	(4)
	(1,641)	(1,400)

The number of directors who:

	No.	No.
Are members of the company's money purchase pension scheme	**1**	1

Highest paid director:

	£'000	£'000
Remuneration	**(965)**	(567)
Amounts receivable (excluding shares) under long-term incentive programme	**(331)**	(503)
Contributions to money purchase pension schemes	**(9)**	(4)

12. STAFF PENSION SCHEMES

The company operates two pension schemes, as outlined below.

Main scheme (approved)

The company operates a funded defined benefit plan, which closed to new entrants in March 2002 and closed to future accrual from 31 December 2011.

The most recent full actuarial valuation for funding purposes was carried out by Hymans Robertson LLP, independent actuarial advisers to the scheme, as at 31 December 2022 using the projected unit method. The market value of the scheme's assets at the date of the most recent valuation totalled £347.4 million and the level of funding (the ratio of the value of assets to liabilities) was 102%.

Since 1 January 2019, the Board of Trustees agreed some scheme administration costs, including investment manager expenses, should be charged to the assets of the scheme.

Unfunded scheme (unapproved)

The company operates an unfunded plan to provide defined benefits to certain former employees.

Full actuarial valuations for funding purposes are not required for the unfunded plan. The most recent actuarial valuation for accounting purposes was carried out by Hymans Robertson LLP as at 31 December 2023. The scheme has no assets. The value of the liabilities was £1.6 million (2022: £1.8 million).

The company paid contributions of £0.1 million into the scheme during 2023 (2022: £0.1 million), which met the benefits paid out of the scheme during those respective years.

There is no current service cost (2022: £nil) for the scheme as there are no current employees in the scheme (2022: nil).

Master trust

The company is a participating employer of an approved master trust arrangement with Aegon UK plc. This is a non-contributory defined contribution plan with employer contributions paid on a monthly basis as a percentage of each employee's pensionable salary.

Members can elect to pay into the scheme. If they choose to do this, then the company will match payments up to 2% of their pensionable salary. This is in addition to the standard employer contribution rate of 8%.

Risk exposure

The defined benefit schemes expose the company to risks such as longevity risk, inflation risk, market risk and credit risk. These risks are similar to those described in notes 27 and 28 in relation to the company's insurance contract liabilities. The company is not exposed to any unusual, entity specific or scheme specific risks.

The trustees of the defined benefit scheme have completed transactions to insure over 90% of the scheme liabilities. These liabilities are covered by buy-in contracts. The main scheme also has return seeking and hedging strategies. The return seeking strategy invests in asset backed securities that are typically rated AAA or AA. The hedging strategy uses gilts and index-linked gilts to manage the volatility in the scheme and in addition, there are holdings in short-term deposits. Broadly, the scheme is hedged against movements in inflation and interest rates up to the level of the assets in the scheme.

(a) Principal assumptions

The full actuarial valuation was updated to 31 December 2023 by Hymans Robertson LLP on an IAS 19 basis. The major assumptions are best estimates, chosen from a range of possible actuarial assumptions, and are set out below.

	2023	2022
Inflation assumption	**3.10%**	3.15%
Rate of increase in pensions in payment	**3.05%**	3.05%
Discount rate	**4.60%**	4.75%
Rate of revaluation of deferred pensions	**2.15%**	2.15%

12. STAFF PENSION SCHEMES (continued)

The discount rate and inflation assumptions have been determined by considering the shape of the appropriate yield curves and the duration of the scheme liabilities. This method determines an equivalent single rate for each of the discount and inflation rates, which is derived from the profile of projected benefit payments.

The mortality assumptions used in the valuation of the company's defined benefit pension scheme liabilities have been selected to reflect the characteristics and experience of the membership of these schemes. The assumptions include an allowance for future mortality improvement, based on the actuarial profession's 2022 projection table with no weight on 2020 or 2021 experience, and with a long-term annual improvement rate of 1.50% tapering at older ages. The mortality assumptions, before adjustment for future mortality improvements, are consistent with those used in the most recent full actuarial valuation for funding purposes as at 31 December 2022. The table below shows the expected longevity at age 65 based on these mortality assumptions.

	2023	2022
Longevity at age 65 for current pensioners:		
Men	**22.6 years**	23.2 years
Women	**24.4 years**	24.9 years
Longevity at age 65 for future pensioners (currently aged 45):		
Men	**23.1 years**	23.9 years
Women	**26.1 years**	26.8 years

Measurement of the company's defined benefit pension scheme liabilities is sensitive to changes in key assumptions as follows:

	Change in assumption	**Impact on liabilities**	
		Main scheme	Unfunded scheme
Discount rate	Decrease by 0.25%	Increase by £8.9m	Increase by £0.0m
Life expectancy	Decrease by 1 year	Decrease by £(11.3)m	Decrease by £(0.1)m
Rate of inflation	Increase by 0.25%	Increase by £6.5m	Increase by £0.0m

Sensitivities are calculated using the same approach as the liability projection methodology where the value of liabilities is re-assessed by varying financial and demographic assumptions.

(b) Assets in the scheme

	Value at 31 December	
	2023	2022
	£'000	£'000
Main scheme		
Debt instruments	**36,298**	42,092
Cash and cash equivalents	**3,938**	4,739
Derivatives	**-**	(6,830)
Qualifying insurance contracts	**256,842**	262,475
Total market value of assets	**297,078**	302,476
Present value of scheme liabilities	**(280,404)**	(286,769)
Surplus in the scheme	**16,674**	15,707
Related deferred tax liability (note 22)	**(4,169)**	(3,927)
Net pension asset	**12,505**	11,780

The majority of debt instruments have quoted prices in active markets. 99.8% (2022: 99.5%) of the portfolio is in investment grade bonds and 98.7% (2022: 99.0%) of the portfolio is rated AA and above.

12. STAFF PENSION SCHEMES (continued)

Unfunded scheme

Present value of scheme liabilities	**(1,608)**	(1,805)
Deficit in the scheme	**(1,608)**	(1,805)
Related deferred tax asset (note 22)	**402**	451
Net pension liability	**(1,206)**	(1,354)

(c) Reimbursement rights in the scheme

	Value at 31 December	
	2023	2022
	£'000	£'000
Main scheme		
Market value of reimbursement rights	**1,763**	1,868
Related deferred tax liability (note 22)	**(441)**	(467)
Net market value of reimbursement rights	**1,322**	1,401

Reimbursement rights represent annuities issued by the company. These are not qualifying insurance policies and therefore are excluded from the scheme assets.

(d) Reconciliation of present value of scheme liabilities

	Main scheme		Unfunded scheme	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
At 1 January	**286,769**	443,084	**1,805**	2,560
Interest cost	**13,252**	8,266	**83**	47
Benefits paid	**(14,280)**	(16,174)	**(126)**	(130)
Actuarial (gain) / loss – demographic assumptions	**(4,899)**	(2,219)	**(109)**	(20)
Actuarial (gain) / loss – experience	**(4,015)**	11,479	**(71)**	(14)
Actuarial loss / (gain) – financial assumptions	**3,577**	(157,667)	**26**	(638)
At 31 December	**280,404**	286,769	**1,608**	1,805

The weighted average duration of the defined benefit scheme liabilities at the end of the reporting period is 12.8 years (2022: 13.3 years).

(e) Reconciliation of fair value of scheme assets

	Main scheme		Unfunded scheme	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
At 1 January	**302,476**	459,928	**-**	-
Interest income	**13,998**	8,587	**-**	-
Return on scheme assets less than discount rate	**(5,285)**	(150,037)	**-**	-
Benefits paid	**(14,111)**	(16,002)	**(126)**	(130)
Contributions paid by employer	**-**	-	**126**	130
At 31 December	**297,078**	302,476	**-**	-

12. STAFF PENSION SCHEMES (continued)

The actual return on the assets in the main scheme in the year was a gain of £8.7 million (2022: loss of £141.5 million).

(f) Reconciliation of reimbursement rights

	Main scheme	
	2023	2022
	£'000	£'000
At 1 January	**1,868**	2,705
Interest income	**89**	50
Actuarial loss	**(25)**	(715)
Benefits paid	**(169)**	(172)
At 31 December	**1,763**	1,868

(g) Analysis of the amount credited / (charged) to investment income

	Main scheme		Unfunded scheme	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
Net income / (interest) on net defined benefit asset / (liability)	**746**	321	**(83)**	(47)
Net income on reimbursement rights	**89**	50	**-**	-
Net return	**835**	371	**(83)**	(47)

(h) Analysis of the amounts recognised in statement of comprehensive income

	Main scheme		Unfunded scheme	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
Return on scheme assets less than discount rate	**(5,285)**	(150,037)	**-**	-
Experience gain / (loss) arising on the scheme liabilities	**4,015**	(11,479)	**71**	14
Changes in demographic assumptions	**4,899**	2,219	**109**	20
Changes in assumptions underlying the present value of the scheme liabilities	**(3,577)**	157,667	**(26)**	638
Actuarial loss on reimbursement rights	**(25)**	(715)	**-**	-
Actuarial gain / (loss) in pension plan	**27**	(2,345)	**154**	672

(i) Movement in surplus during the year

	Main scheme		Unfunded scheme	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
Surplus / (deficit) in scheme at 1 January	**15,707**	16,844	**(1,805)**	(2,560)
Movement in year:				
Contributions paid by employer	**-**	-	**126**	130
Benefits in respect of reimbursement rights	**169**	172	**-**	-
Net income / (interest) on net defined benefit asset / (liability)	**746**	321	**(83)**	(47)
Actuarial gain / (loss)	**52**	(1,630)	**154**	672
Surplus / (deficit) in scheme at 31 December	**16,674**	15,707	**(1,608)**	(1,805)

13. TAXATION

UK corporation tax has been charged in the income statement on assessable income, based on the legislation as it applies to life assurance companies. In June 2021, the Government enacted an increase in the rate of corporation tax to 25% with effect from April 2023. For 2023, the tax rate of 20% is applied to I-E income and a rate of 23.52% is applied to the trade profits not covered by losses. Under UK adopted IAS, deferred tax is calculated using rates substantively enacted by the balance sheet date and as such, differing rates of tax between 20% and 25% have been taken into account in the closing deferred tax balances depending on the enacted rate in force at the projected time of utilisation.

(a) Tax charged / (credited) to the income statement

	2023	Restated 2022
	£'000	£'000
Current taxation:		
UK corporation tax at 23.52% (2022: 19.00%)	**12,973**	-
Overseas tax	**847**	884
Adjustments in respect of prior periods	**(868)**	(254)
	12,952	630
Deferred taxation:		
Origination and reversal of temporary differences	**14,167**	(59,961)
Adjustments in respect of prior periods	**765**	186
Tax rate change	**1,300**	-
Change in the value of losses recognised	**(5,844)**	4,262
	10,388	(55,513)
Total tax charge / (credit)	**23,340**	(54,883)

(b) Factors affecting the charge for the year

The total tax for the year can be reconciled to the accounting profit as follows:

	2023	Restated 2022
	£'000	£'000
Profit / (loss) before tax	**101,704**	(116,209)
Profit / (loss) before tax multiplied by the standard UK corporation tax rate of 23.52% (2022: 19.00%)	**23,921**	(22,080)
Effects of:		
Overseas tax	**847**	884
Adjustments in respect of prior periods	**(103)**	(68)
Tax rate change	**1,300**	-
Change in the value of losses recognised	**(5,844)**	4,262
UK tax basis for the taxation of life business	**3,219**	(37,881)
Total tax charge / (credit)	**23,340**	(54,883)
Attributable to:		
Policyholders	**9,270**	(40,030)
Shareholder	**14,070**	(14,853)
Total tax charge / (credit)	**23,340**	(54,883)

Deferred taxation has been restated due to the transition to IFRS 17 and IFRS 9 (see accounting policy (b)).

14. DIVIDENDS

	2023 **£'000**	2022 £'000
Ordinary shares:		
Interim dividend paid = 457.8p (2022: 213.3p) per £1 ordinary share	**103,000**	48,000

15. DEFERRED ACQUISITION COSTS

	2023 **£'000**	2022 £'000
At 1 January	**891**	1,615
Amortisation charged to the income statement	**(183)**	(724)
Charge in the year	**603**	-
At 31 December	**1,311**	891

Included in the carrying values above, £0.2 million (2022: £0.2 million) is expected to be amortised within 12 months of the balance sheet date and is classified as current. The balance relates entirely to acquisition costs arising from non-profit investment contracts.

16. RIGHT-OF-USE ASSETS

	2023 **£'000**	2022 £'000
Land and buildings:		
At 1 January	**-**	136
Depreciation charged to the income statement	**(189)**	(136)
Lease modifications	**472**	-
At 31 December	**283**	-

Income received from subleasing right-of-use assets during the year is shown in note 4.

The company did not exercise the break clause in the lease agreement at 31 December 2022 and revalued the asset at 1 January 2023 to the lease end date of June 2025.

17. INVESTMENT PROPERTY

	2023 **£'000**	2022 £'000
Fair value at 1 January	**294,900**	297,825
Additions – capital expenditure	**1,580**	12,686
Disposal	**(6,536)**	(2)
Change in fair value	**(30,544)**	(15,609)
Fair value at 31 December	**259,400**	294,900

Investment property, comprising freehold and long leasehold land and buildings, is held for long-term rental yields, and is not occupied by the company.

The property portfolio is managed by a specialist fund manager, Aberdeen Asset Managers Limited, who employ an independent third-party specialist valuation agent, Savills (UK) Limited. All land and buildings were valued as at 31 December 2023.

17. INVESTMENT PROPERTY (continued)

Property is valued in accordance with the Royal Institution of Chartered Surveyors' (RICS) Valuation – Global Standards, incorporating the International Valuation Standards, effective from 31 January 2022 and, where applicable, with the UK National Supplement effective 14 January 2019 (together the RICS Red Book).

The unique nature of properties and infrequent sales make property valuations subjective. Independent property valuations are specific to a property and take account of the circumstances of the property, for example, location, sector, state of repair, quality of tenants, length of outstanding leases. Property valuations also take account of regional factors, such as a scarcity of certain types of properties, and national trends, such as an increase in demand for industrial properties. Experienced valuation agents can accurately value properties allowing for these factors.

The value of a property is the price the property would be expected to sell at in the open market at the date of valuation given the assumptions and guidelines set out in the RICS Red Book. The rental income stream is capitalised at a discount rate that reflects the qualities and risks of the income. The discount rate will be in line with comparable sales and expected market trends.

	2023 £'000	2022 £'000
Rental income from investment property	**12,540**	13,843
Operating expenses from income producing investment property	**(1,444)**	(1,261)
Operating expenses from non-income producing investment property	**(2,269)**	(87)
Net income from investment properties	**8,827**	12,495

18. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

The company owned throughout the year the whole of the issued share capital (by way of ordinary shares) of the following subsidiary undertaking, which has the same registered office as the company.

Name of subsidiary undertaking	**Principal activity**	**Principal place of business and country of incorporation**
Barnwood Properties Limited	Property investment	UK

Investments in subsidiary undertakings are valued at fair value and have been categorised as level 3 in accordance with the fair value hierarchy:

	Cost £'000	**Revaluation £'000**	**Fair value £'000**
At 1 January 2022	2,310	(1,655)	655
Change in year	-	(186)	(186)
At 31 December 2022	2,310	(1,841)	469
Change in year	**-**	**42**	**42**
At 31 December 2023	**2,310**	**(1,799)**	**511**

During the year, the company received dividends of £0.2 million from Barnwood Properties Limited (2022: £0.3 million), resulting in a write down in value of £0.2 million (2022: £0.3 million) included in the change in year above.

19. OTHER FINANCIAL ASSETS

(i) Financial assets at fair value

	2023 £'000	Restated 2022 £'000
Financial assets mandatorily held at fair value through profit or loss:		
Shares and other variable yield securities, including holdings in collective investment schemes	**4,310,513**	4,550,845
Debt and other fixed income securities	**2,827,652**	2,943,744
Derivative financial assets	**40,846**	97,756
Total financial assets at fair value	**7,179,011**	7,592,345

Prior period financial assets at fair value have been restated to include assets previously measured at amortised cost as a result of the transition to IFRS 9 (see accounting policy (b)).

Debt and other fixed income securities have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The other financial assets in the above table do not have these terms.

The company is committed to purchase private debt securities, shown within debt and other fixed income securities, with payments falling due as follows:

	2023 £'000	2022 £'000
Within one year	**3,339**	5,536
In more than one year	**184**	3,523
Total	**3,523**	9,059

(ii) Determination of fair values and fair values hierarchy

For financial assets carried at fair value, the company has categorised the measurement basis into a 'fair value hierarchy' described below.

Quoted market prices in active markets – 'level 1'

Included within level 1 of the hierarchy are assets and liabilities where fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market. The types of instrument valued on the basis of unadjusted market price data include government securities, equities listed in active markets, listed derivatives such as futures and options, cash and cash equivalents.

Valuation techniques using significant observable market inputs – 'level 2'

Level 2 includes assets and liabilities where fair value is based on:

- Quoted prices for similar assets or liabilities in active markets; or
- Significant observable inputs; or
- Inputs that are derived principally from or corroborated with observable market data through correlation or other means.

Included within this level are corporate bonds, asset-backed securities, and short-dated bonds. Fair values for over-the-counter derivatives, principally forwards, swaps and swaptions, represent amounts estimated to be received from or paid to a market participant in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows and directly observed market prices, and other inputs such as quoted interest and currency rates.

Valuation techniques using significant unobservable market inputs – 'level 3'

Assets are categorised as level 3 where fair value is based on valuation techniques that require one or more significant unobservable inputs. These unobservable inputs reflect the company's expectations about the assumptions market participants would use in pricing the asset or liability. The company closely monitors the valuation of assets in markets that

19. OTHER FINANCIAL ASSETS (continued)

have become less liquid. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. Market inputs are used where possible, however where it is determined that there is no active market, fair value is determined based on cash flow models with gilt yield curves and credit spreads from the Merrill Lynch Non-Gilt Index as key inputs, and adjusted by a margin for illiquidity. Whilst such valuations are sensitive to estimates, adjustment to one or more of the assumptions would generally not change the fair value significantly.

Level 3 assets include illiquid bonds, property investments and a private placement in a unit-linked fund.

The following table presents the company's assets and liabilities that are carried at fair value by hierarchy level:

	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Assets at 31 December 2023				
Shares and other variable yield securities	**4,310,513**	**-**	**-**	**4,310,513**
Debt and other fixed income securities	**865,712**	**1,956,038**	**5,902**	**2,827,652**
Derivative financial assets	**-**	**40,846**	**-**	**40,846**
Investment property	**-**	**-**	**259,400**	**259,400**
	5,176,225	**1,996,884**	**265,302**	**7,438,411**

	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Liabilities at 31 December 2023				
Deposits received from reinsurer (note 26)	**1,609,750**	**-**	**-**	**1,609,750**
Investment contract liabilities – unit-linked (note 29)	**2,730,372**	**156,657**	**139,317**	**3,026,346**
Derivative liabilities (note 32)	**9,610**	**45,770**	**-**	**55,380**
	4,349,732	**202,427**	**139,317**	**4,691,476**

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets at 31 December 2022 Restated				
Shares and other variable yield securities	4,550,845	-	-	4,550,845
Debt and other fixed income securities	791,149	2,146,138	6,457	2,943,744
Derivative financial assets	-	97,756	-	97,756
Investment property	-	-	294,900	294,900
	5,341,994	2,243,894	301,357	7,887,245

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Liabilities at 31 December 2022 Restated				
Deposits received from reinsurer (note 26)	1,865,320	-	-	1,865,320
Investment contract liabilities – unit-linked (note 29)	2,474,733	164,398	138,358	2,777,489
Derivative liabilities (note 32)	-	129,366	-	129,366
	4,340,053	293,764	138,358	4,772,175

Prior year debt and other fixed income securities have been restated to include assets previously measured at amortised cost as a result of the transition to IFRS 9 (see accounting policy (b)). Deposits received from reinsurers have also been restated to reflect the change in value of private debt securities from amortised cost to fair value (accounting policy (b)).

19. OTHER FINANCIAL ASSETS (continued)

Following the acquisition on 3 April 2023, the accounting policies of the company were reviewed and subsequently aligned to those of the Phoenix Group. As a result, the level applied to governments bonds, within debt and other fixed income securities, has been updated in the current and prior year to level 1, previously level 2.

The following table provides a reconciliation of the opening to the closing balances for assets that have been categorised as level 3:

	Debt and other fixed income securities £'000	Investment property £'000
Opening balances at 1 January 2023	6,457	294,900
Gains and losses recognised in profit or loss	**(555)**	**(30,544)**
Purchases / conversions in the year	**-**	**1,580**
Transfers out of level 3	**-**	**(6,536)**
Closing balances at 31 December 2023	**5,902**	**259,400**

The following tables show the significant inputs and sensitivities of the level 3 assets:

	Valuation technique	Significant inputs	Key unobservable input value 2023	2022
Investment property	RICS valuation	Expected market rent / sq ft	**£16.85**	£17.35
		Capitalisation rate	**5.78%**	5.25%
Debt and other fixed income securities	Discounted cash flow model	Credit spread	**130.3bps**	181.6bps

	2023 £'000	2022 £'000
Sensitivities of asset valuations		
Investment property		
5% increase in market rent	**12,400**	13,700
5% decrease in market rent	**(12,000)**	(13,400)
25bps increase in yield	**(13,700)**	(24,100)
25bps decrease in yield	**15,200**	7,000
Debt and other fixed income securities		
65bps increase in credit spread	**(332)**	(314)
65bps decrease in credit spread	**372**	352

The company assesses the fair value hierarchy of its financial investments quarterly. Transfers between fair value hierarchy levels are deemed to have occurred at the assessment date.

For the year to 31 December 2023, there have been no transfers between fair value hierarchy levels 1 and 2.

Transfers into and out of level 3 arose for the following reasons:

- Changes in the market observability of valuation inputs;
- Changes in the market observability of inputs used to validate valuations; and
- Significant differences between third-party prices used for valuations and validation prices sourced from either third parties or internal models.

19. OTHER FINANCIAL ASSETS (continued)

Transfers into and out of level 3 are detailed in the table above. The transfers arose as a result of sales of investment properties.

20. ASSETS HELD TO COVER LINKED LIABILITIES

The following assets and liabilities are held for the benefit of unit-linked policyholders and are included within the relevant lines of the balance sheet:

	2023 **£'000**	2022 £'000
Investment property	**234,889**	267,118
Financial assets at fair value through profit or loss:		
Shares and other variable yield securities and units in unit trusts	**4,226,433**	4,467,225
Debt and other fixed income securities	**590,665**	608,437
Derivative financial assets	**-**	891
Cash and cash equivalents	**51,793**	74,155
Investment income due and accrued	**9,662**	11,229
Other receivables	**241**	-
Other payables:		
Derivative liabilities	**-**	(418)
Other liabilities	**(5,839)**	(14,044)
Current tax liabilities	**(487)**	(113)
Deferred tax liabilities	**(16,715)**	(14,348)
	5,090,642	5,400,132

The methods used for determining the fair values of financial investments are set out in note 19.

Unit-linked contracts have been classified as either insurance contracts or investment contracts, depending on whether they transfer significant insurance risk. The liabilities associated with the assets above are as follows:

	2023 **£'000**	2022 £'000
Insurance contract liabilities	**2,064,296**	2,531,505
Investment contract liabilities (note 29)	**3,026,346**	2,777,489
	5,090,642	5,308,995

In 2022, assets held to cover linked liabilities were higher than the liabilities that these assets back where the company had purchased assets to back liabilities related to the GAOs attached to unit-linked contracts.

The assets held to cover linked insurance liabilities are the underlying items in which the policyholders directly participate.

21. ASSETS HELD TO COVER WITH-PROFITS LIABILITIES

The following assets and liabilities are held for the benefit of with-profits policyholders and are included within the relevant lines of the balance sheet:

	2023	2022
	£'000	£'000
Investment property	**24,511**	27,782
Financial assets at fair value through profit or loss:		
Shares and other variable yield securities and units in unit trusts	**83,594**	83,163
Debt and other fixed income securities	**181,776**	222,115
Derivative financial assets	**-**	293
Cash and cash equivalents	**8,816**	2,489
Investment income due and accrued	**2,494**	2,632
Current tax assets	**77**	67
Deferred tax assets	**16,370**	18,437
Other receivables	**9,851**	10,668
Other payables:		
Derivative liabilities	**(8,331)**	(8,883)
Other liabilities	**(1,807)**	(2,613)
	317,351	356,150

The methods used for determining the fair values of financial investments are set out in note 19.

The liabilities associated with the assets above are as follows:

	2023	2022
	£'000	£'000
Insurance contract liabilities	**317,351**	356,150

The assets held in the SLOC With-Profits fund are the underlying items in which the policyholders directly participate.

22. DEFERRED TAX

Deferred tax balances comprise

	2023	Restated 2022
	£'000	£'000
Deferred tax assets	**35,206**	38,883
Deferred tax liabilities	**(6,756)**	-
Net deferred tax asset	**28,450**	38,883

22. DEFERRED TAX (continued)

The movement in net deferred tax assets / (liabilities) during the year is shown below:

	Long-term insurance contracts £'000	Restated Tax losses carried forward £'000	Restated Unrealised (gain) / loss on investments £'000	Restated Other timing differences £'000	Staff pension schemes £'000	Restated Total £'000
At 1 January 2022	460	24,060	(39,029)	1,709	(3,229)	(16,029)
(Charged) / credited to the income statement	(123)	20,785	27,412	7,552	(113)	55,513
(Charged) / credited to equity	-	-	-	-	(601)	(601)
At 31 December 2022	337	44,845	(11,617)	9,261	(3,943)	38,883
(Charged) / credited to the income statement	**(49)**	**(3,531)**	**(5,828)**	**(760)**	**(220)**	**(10,388)**
(Charged) / credited to equity	**-**	**-**	**-**	**-**	**(45)**	**(45)**
At 31 December 2023	**288**	**41,314**	**(17,445)**	**8,501**	**(4,208)**	**28,450**

Deferred tax assets are recognised where the company has accumulated trade losses, loan relationship deficits, excess management expenses and deductible temporary differences and it is more likely than not that future profits and gains will be available against which the asset can be utilised. Losses and deductible temporary differences have been valued based on the latest IFRS 17 management projections of future profits and gains. The company has unrecognised tax losses of £nil million (2022 restated: £48.8 million) relating to trade losses. The company also has £26.0 million of basic life assurance and general annuity business trading losses carried forward as at 31 December 2023. These losses are projected to be utilised, however, no value has been attributed to these deferred tax assets given the interaction with other deductible temporary differences. The utilisation of trade losses, loan relationship deficits and excess management expenses is not time limited. The company has also recognised deferred tax assets where there are temporary differences which will result in a future tax deduction.

Prior period comparatives have been restated to allow for changes to loss utilisation on transition to IFRS 17, changes to underlying asset classifications on transition to IFRS 9 (see accounting policy (b)).

23. OTHER RECEIVABLES

	2023 £'000	Restated 2022 £'000
Amounts due from the former parent undertaking	**-**	1,632
Amounts due from former group undertakings	**-**	138
Margins in respect of derivative holdings	**10,389**	36,369
Other debtors	**11,421**	11,905
	21,810	50,044
Current – within one year	**21,741**	48,641
Non-current – in more than one year	**69**	1,403
	21,810	50,044

Other receivables are held at amortised cost, with the carrying amount approximating to fair value.

23. OTHER RECEIVABLES (continued)

Prior period other receivables have been restated to exclude outstanding premiums as a result of the transition to IFRS 17, this balance is now part of insurance contract liabilities (note 26).

24. PREPAYMENTS AND ACCRUED INCOME

	2023 **£'000**	Restated 2022 £'000
Accrued interest	**33,927**	39,772
Prepayments	**2,410**	1,067
	36,337	40,839

Prepayments relate to prepayments made in connection with the payment execution services contract entered into with Diligenta Limited in May 2018.

Prior period accrued interest has been restated to exclude interest on policy loans as a result of the transition to IFRS 17 (see accounting policy (b)).

25. SHARE CAPITAL

	2023 **£'000**	2022 £'000
Allotted and fully paid:		
22.5 million (2022: 22.5 million) ordinary shares of £1 each	**22,500**	22,500

26. INSURANCE CONTRACT LIABILITIES

Measurement

Insurance and reinsurance contracts are measured in accordance with UK accepted actuarial practice, including IFRS 17, using one of the following approaches:

- Variable Fee Approach (VFA) – this approach applies to insurance contracts (excluding reinsurance contracts) with direct participating features and investment contracts with discretionary participation features. These are products where investments are managed on behalf of the policyholders, and investment returns less a variable fee are passed through to policyholders with the insurance benefits they receive. Insurance contracts with direct participating features include unit-linked contracts (including GAO contracts), and with-profits contracts.

- General Measurement Model (GMM) – this approach applies to all of the company's insurance contracts not measured using the VFA approach, including most conventional life and pensions contracts, annuities, and reinsurance contracts held.

The carrying value of insurance contracts comprises the liability for remaining coverage and the liability for incurred claims:

- The liability for remaining coverage is the measurement of the company's obligation to investigate and pay valid claims for insured events that have not yet occurred i.e., the obligation that relates to the unexpired portion of the coverage period.

- The liability for incurred claims is the measurement of the company's obligation to investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not yet been reported.

Level of aggregation

A portfolio of insurance contracts is a set of insurance contracts subject to similar risks and managed together. Portfolios of insurance contracts are divided into groups which are the unit of account for the measurement of insurance contracts.

26. INSURANCE CONTRACT LIABILITIES (continued)

Portfolios of reinsurance contracts held are defined according to the portfolios of the direct underlying contracts. Groups of insurance contracts must be written within a period no longer than a year and are either a) onerous, or b) have a significant possibility of becoming onerous, or c) are neither a) nor b). Each insurance contract is assigned to a group at initial recognition and remains in that group until the insurance contract is derecognised. All the company's groups of insurance contracts fall into category c). As the company adopted a fair value approach on transition to IFRS 17, and the company is a closed book of business, all insurance contracts existed at the date of transition and no division by time bands is required. Consequently, no further division of portfolios is required to define the company's groups of contracts.

The company has established portfolios, which distinguish between:
- Insurance contracts issued and reinsurance contracts held;
- With-profits and non-profit insurance contracts; and
- Unit-linked and conventional insurance contracts.

Measurement of insurance contracts

Groups of insurance contracts are recognised and measured as the total of the following measurement components:
- FCF which is comprised of:
    - The present value of future cash flows (including provision for financial risk);
    - The risk adjustment for non-financial risk; and
- A CSM, representing the unearned profit that will be recognised in income as insurance contract services are provided.

Initial measurement - present value of future cash flows

Estimates of the present value of future cash flows are explicit and consider all reasonable and supportable information available at the reporting date without undue cost or effort. The portion of the present value of future cashflows related to financial risk variables is consistent with observable market prices and, where necessary, considers a range of scenarios that provides a good representation of possible outcomes. The cash flows for each scenario are probability weighted and discounted using current assumptions.

Initial measurement - risk adjustment

The risk adjustment for non-financial risk represents the compensation required for uncertainty in the estimates of future cash flows related to non-financial risk. A confidence level technique is applied when calculating the risk adjustment allowing for diversification benefits between portfolios. The risk adjustment is allocated to portfolios based on an analysis of the risk profile of each portfolio. The risk adjustment is determined using a one-year time horizon, consistent with the time horizon used for Solvency II, a key metric which is used to manage the company. The risk adjustment is recalculated each period and changes recognised in the income statement as the non-financial risks of the insurance contracts diminish over time. The company has chosen to disaggregate the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income and expense.

Initial measurement - CSM

The CSM at the initial recognition of an insurance contract issued is the amount that fully offsets the FCF at initial recognition, and represents unearned profits that are deferred and only amortised into income as insurance contract service is provided. For insurance contracts that are not profitable at initial recognition (onerous insurance contracts), a CSM is not established, and losses are recognised in income immediately.

For reinsurance contracts held, there is no restriction on the CSM based on profitability at initial recognition, and any losses are deferred in the same manner as profits. In addition, the CSM for reinsurance contracts held can be adjusted to offset any gains or losses on the grounds of underlying direct contracts that would have gone through CSM if the group of underlying direct contracts had a CSM balance.

Initial measurement – onerous contracts

For onerous insurance contracts, the loss recognised in the income statement at initial recognition is added to the loss component of the group to which the contract is assigned. The loss component is a notional portion of the liability for remaining coverage that represents the amount of loss that can be reversed by future profit before a CSM is re-established for the group. For groups of reinsurance contracts held for which the CSM has been adjusted to offset gains and losses on groups of underlying direct contracts without a CSM, a loss recovery component is established. The company has no groups of contracts which have ever required the use of loss components or loss recovery components.

26. INSURANCE CONTRACT LIABILITIES (continued)

Initial measurement – with-profits contracts

For with-profits contracts, the FCF are set equal to the net asset value of the with-profits fund. All payments to policyholders from the with-profits fund's assets are non-distinct investment components. The risk adjustment for non-financial risk is zero and there is no provision for financial risk. The CSM for contracts in the with-profits fund is zero at transition and will remain at zero.

Initial measurement – unit-linked contracts

For unit-linked insurance contracts, the FCF are valued by adding the non-unit liability to the bid value of the units (the underlying item). The non-unit liability is calculated by projecting the cash flows from the unit-linked policies using mortality and morbidity, lapse and other policyholder behaviour, interest, inflation, and expense assumptions, and discounting these cash flows back to the valuation date.

Subsequent measurement - FCF

The subsequent measurement of FCF uses the same approach as described for initial measurement, but with current inputs for each subsequent reporting date.

Subsequent measurement - CSM

The measurement of the CSM after initial recognition is described below.

For groups of insurance contracts measured using the GMM, the CSM at the end of the reporting period is measured as the CSM at the beginning of the reporting period, adjusted for:

- Interest accretion on the carrying amount of the CSM;
- The change in FCF relating to future service, except to the extent that increases exceed the carrying amount of the CSM (giving rise to a loss) or decreases are allocated to the loss component of the liability for remaining coverage (reversing a prior loss); and
- The amount recognised as insurance revenue due to the performance of insurance contract services in the period (CSM amortisation).

For groups of insurance contracts measured using the VFA, the CSM at the end of the reporting period is measured as the CSM at the beginning of the reporting period, adjusted for:

- The change in the company's share of the fair value of underlying items, except to the extent a decrease exceeds the carrying amount of the CSM (giving rise to a loss) or an increase reverses a prior loss, or that a risk mitigation applies;
- The change in FCF relating to future service, except to the extent that increases exceed the carrying amount of the CSM (giving rise to a loss) or decreases are allocated to the loss component of the liability for remaining coverage (reversing a prior loss), or that risk mitigation applies; and
- CSM amortisation.

For groups of reinsurance contracts held, the CSM at the end of the reporting period is measured as the CSM at the beginning of the reporting period, adjusted for:

- Interest accretion on the carrying amount of the CSM;
- Income recognised in the reporting period as a result of gains or losses recognised to offset gains or losses on groups of underlying direct contracts with no CSM;
- Reversals of a loss-recovery component to the extent those reversals are not changes to FCF of a group of reinsurance contracts held;
- The change in FCF relating to future service, except to the extent that increases exceed the carrying amount of the CSM (giving rise to a loss) or decreases are allocated to the loss component of the liability for remaining coverage (reversing a prior loss);
- CSM amortisation.

Assumptions

In determining liabilities for insurance contracts, assumptions are made about longevity, mortality and morbidity rates, lapse and other policyholder behaviour, interest rates, inflation, expenses and other factors over the life of the products.

26. INSURANCE CONTRACT LIABILITIES (continued)

Most of these assumptions relate to events that are anticipated to occur many years into the future. Judgement is required in the choice of assumptions for future experience. Assumptions are regularly reviewed and, where appropriate, revisions to estimates are recognised prospectively.

These assumptions are determined as appropriate estimates at the date of valuation.

Assumptions for non-financial risk variables in the present value of future cash flows are intended to be current, neutral estimates of the expected outcome. The choice of best estimate assumptions takes into account current circumstances, past experience data (company and / or industry), the relationship of past to expected future experience, anti-selection, the relationship among assumptions and other relevant factors.

Assumptions for financial risk variables in the present value of future cash flows are based on current observable market prices, adjusted to account for differences between the financial risk embedded in our contracts and those in the corresponding observed market instrument. Where no relevant market instrument is available, the company uses the best information available.

Mortality assumptions have been set based on experience excluding experience from 2020 and 2021 due to significant excess mortality compared to previous years due to Covid-19. It still remains unclear how Covid-19 will impact future mortality rates, and there are reasons why it could either increase or decrease longer term rates. Due to this uncertainty no additional adjustments, other than excluding 2020 and 2021 experience, have been made to assumptions in respect of the expected impact of Covid-19.

	2023	2022
Mortality Assumptions: (1)		
With-profits life	85% AMC00 / 65% AFC00	75% AMC00 / 65% AFC00
Non-profit life	70% AMC00 / 65% AFC00	65% AMC00 / 65% AFC00
Non-profit pensions (in deferment) – former Confederation Life policies (2)	75% AMC00 / 75% AFC00	75% AMC00 / 75% AFC00
Non-profit pensions – other policies	60% AMC00 / 50% AFC00	85% AMC00 / 75% AFC00
GAOs (post exercise of option)	Modified PM(F)A08(c=2008)	Modified PM(F)A08(c=2008)
Immediate annuities	Modified PM(F)A08(c=2008)	Modified PM(F)A08(c=2008)

	2023	2022
Expenses (premium-paying / paid-up): (3)		
With-profits life	**£148.22 / £85.86**	£129.99 / £75.15
Non-profit life	**£82.79 / £68.07**	£96.82 / £82.42
Non-profit pensions	**£83.78 / £65.13**	£99.03 / £80.79
GAO	**£94.47 / £75.82**	£110.64 / £92.40
Non-profit immediate annuities	**n/a / £32.66**	n/a / £31.02

(1) For immediate annuity business and GAOs (post exercise of option), the expected mortality is based on the “08” series tables with mortality improvement applied from 2008 (i.e. first mortality improvement is in 2009 covering improvement from 2008 and 2009) in-line with the “Continuous Mortality Investigation (CMI)_2022 [1.30%F, 1.50%M]” table where 1.30%F and 1.50%M are the long-term rate of mortality improvement for females and males, respectively. The "CMI_2022" cohort is calibrated using population of England and Wales with an ultimate long-term rate of mortality improvement up to age 85 of 1.30%F and 1.50%M for females and males, respectively, and then graded down (on a pro-rata basis) to zero from age 110.

The resulting expectations of life for sample ages as at the valuation date are: 20.9 (males, age 65); 13.1 (males, age 75); 24.0 (females, age 65); and 15.3 (females, age 75).

(2) Mortality improvements apply from 2023 onwards in-line with post exercise of option assumptions in (1).

(3) The expense assumptions shown are as at 30 June 2024 and 30 June 2023 for the 2023 and 2022 valuations respectively and include both overhead and outsourcer expenses for all business.

Risk adjustment for non-financial risk

The risk adjustment for insurance contracts issued and reinsurance contracts held, corresponds to a confidence level of approximately 80%. The risk adjustment calibration is set at least annually, based on the company’s current view of risk. The risk adjustment calculation is reassessed at each reporting date.

26. INSURANCE CONTRACT LIABILITIES (continued)

Current discount rate

Current discount rates are used to discount estimates of future cash flows in determining the present value of future cash flows. All cash flows are discounted using risk-free yield curves adjusted to reflect the timing and liquidity of those cash flows. For the risk-free yield curve, the Solvency II swap curve is used. Current discount rates reflect the time value of money, the characteristics of cash flows, and the liquidity characteristics of the insurance contracts.

The timing of the cash flows is reflected by constructing a discount curve so that each cash flow is discounted consistently with the timing of the cash flow. Where necessary, yield curves are interpolated between the last available market data point and the ultimate risk-free rate, a rate beyond observable market information.

A liquidity premium that is consistent with the liquidity characteristics of the insurance contracts is added to the risk-free discount rate. For annuity and conventional life contracts, the liquidity premium in the observable period is based on the liquidity premium on assets with similar liquidity characteristics, which is estimated from the spread inherent in current market yields less a deduction for expected and unexpected credit losses. The deduction for expected and unexpected credit losses is estimated using historical rating agency data and current market conditions, and varies by asset type, quality, and duration. The liquidity premium in the unobservable period is interpolated between the latest observable liquidity premium and an ultimate liquidity premium or liquidity contracts.

For GAO contracts, the cash flow profile is comparable to annuities and therefore the liquidity premium is based on a reference portfolio of the annuity strategic asset allocation which aligns to the strategic investment objectives of the Phoenix Group. The strategic asset allocation sets out the target level of investment in a range of asset classes and the yield for these asset classes is determined based on the fair value of assets in that class held at the valuation date. Adjustments are made for differences between the reference portfolio and the insurance contact liability cash flows, including an allowance for credit defaults. The credit default deduction comprises an allowance for both expected and unexpected defaults and takes into consideration long-term historical data on actual defaults and an allowance for variability around these defaults. The approach to determining unexpected defaults is based on a percentage of spread, less the expected default allowance.

The following table provides an overview of the discount curve used to present value cash flows.

Discount rates 2023	**1 year**	**5 years**	**10 years**	**20 years**	**30 years**
Unit-linked life and pension, conventional life	**4.72%**	**3.35%**	**3.27%**	**3.42%**	**3.34%**
Conventional non-profit life	**4.96%**	**4.16%**	**3.71%**	**4.66%**	**4.80%**
Annuities	**5.51%**	**4.80%**	**4.81%**	**5.33%**	**5.30%**
GAO (1)	**5.87%**	**4.49%**	**4.42%**	**4.56%**	**4.49%**

Discount rates 2022	1 year	5 years	10 years	20 years	30 years
Unit-linked life and pension, conventional life	4.51%	4.12%	3.74%	3.57%	3.38%
Conventional non-profit life	4.12%	4.74%	3.92%	4.57%	4.37%
Annuities	4.96%	5.34%	5.18%	5.51%	5.35%
GAO (1)	4.96%	5.34%	5.18%	5.51%	5.35%

(1) For GAOs, the FCF have been determined on a stochastic basis, which means that future cash flows are projected for different scenarios and discounted at the scenario specific discount rate, resulting in a present value of future cash flows for each scenario. The projected cash flow is the average of the scenario specific values. Scenarios are consistent with the current market environment. The economic scenario generator calibration process produces integrated stochastic scenarios of financial risk variables (e.g., risk-free interest rates, bond fund returns, equity returns) with parameters calibrated to replicate observable market prices of financial instruments available in the market. Adjustments are made as the GAO contracts are illiquid, but the financial instrument to which the scenarios are calibrated are liquid. The discount rate shown is the risk-free rate plus liquidity premium as input into the models.

The discount rate for annuities, GAO, and conventional non-profit life includes an illiquidity premium which reflects the liquidity characteristics of underlying liabilities. Illiquidity premium is a term dependent adjustment applied as an increase above risk free rates. The illustrated rates shown below are cash flow weighted averages.

26. INSURANCE CONTRACT LIABILITIES (continued)

	2023	2022
Illiquidity premiums:		
Annuities	**1.64%**	1.51%
GAO	**1.09%**	1.87%
Conventional Life	**0.80%**	0.65%

Inflation

Except for outsourcer contract fees where inflation is fixed, expenses are assumed to increase at a rate derived from the UK inflation swaps curve.

Liability analysis

An analysis of the company's liabilities is provided below.

Liability analysis – 2023	**Gross £'000**	**Reinsurance £'000**	**Net £'000**
With-profits insurance contracts	**317,351**	**-**	**317,351**
Non-profit insurance contracts	**1,679,026**	**27,607**	**1,706,633**
Unit-linked insurance contracts	**2,357,345**	**(18,711)**	**2,338,634**
Total insurance liabilities	**4,353,722**	**8,896**	**4,362,618**

Insurance contracts issued	**With-profits £'000**	**Non-profit £'000**	**Unit-linked £'000**	**Total £'000**
Estimate of present value of future cash flows	**317,351**	**1,445,655**	**2,195,155**	**3,958,161**
Risk adjustment	**-**	**40,909**	**26,155**	**67,064**
CSM	**-**	**192,462**	**136,035**	**328,497**
Insurance contract liabilities	**317,351**	**1,679,026**	**2,357,345**	**4,353,722**

Reinsurance contracts held	**With-profits £'000**	**Non-profit £'000**	**Unit-linked £'000**	**Total £'000**
Reinsurers' share of provisions	**-**	**(1,375,171)**	**(19,779)**	**(1,394,950)**
Deposit back liability due to reinsurer	**-**	**1,609,750**	**-**	**1,609,750**
Estimate of present value of future cash flows	**-**	**234.579**	**(19,779)**	**214,800**
Risk adjustment	**-**	**(37,114)**	**(648)**	**(37,762)**
CSM	**-**	**(169,858)**	**1,716**	**(168,142)**
Reinsurance contracts held	**-**	**27,607**	**(18,711)**	**8,896**
Reinsurance contract assets	**-**	**(9,685)**	**(18,711)**	**(28,396)**
Reinsurance contract liabilities	**-**	**37,292**	**-**	**37,292**
Reinsurance contracts held	**-**	**27,607**	**(18,711)**	**8,896**

On transition to IFRS 17, for contracts with deposit back arrangements, the presentation of the deposit back liability of £1,609.8 million has changed to be shown within the reinsurance contracts' estimate of present value of future cash flows.

26. INSURANCE CONTRACT LIABILITIES (continued)

Liability analysis – 2022	Gross £'000	Reinsurance £'000	Net £'000
With-profits insurance contracts	356,150	-	356,150
Non-profit insurance contracts	1,695,317	88,882	1,784,199
Unit-linked insurance contracts	2,463,379	14,014	2,477,393
Total insurance liabilities	4,514,846	102,896	4,617,742

Insurance contracts issued	With-profits £'000	Non-profit £'000	Unit-linked £'000	Total £'000
Estimate of present value of future cash flows	356,150	1,544,426	2,285,830	4,186,406
Risk adjustment	-	57,095	44,978	102,073
CSM	-	93,796	132,571	226,367
Insurance contract liabilities	356,150	1,695,317	2,463,379	4,514,846

Reinsurance contracts held	With-profits £'000	Non-profit £'000	Unit-linked £'000	Total £'000
Reinsurers' share of provisions	-	(1,466,389)	(83,468)	(1,549,857)
Deposit back liability due to reinsurer	-	1,676,607	188,713	1,865,320
Estimate of present value of future cash flows	-	210,218	105,245	315,463
Risk adjustment	-	(53,326)	(26,120)	(79,446)
CSM	-	(68,010)	(65,111)	(133,121)
Reinsurance contracts held	-	88,882	14,014	102,896
Reinsurance contract assets	-	(10,235)	(8,140)	(18,375)
Reinsurance contract liabilities	-	99,117	22,154	121,271
Reinsurance contracts held	-	88,882	14,014	102,896

On transition to IFRS 17, for contracts with deposit back arrangements, the presentation of the deposit back liability of £1,865.3 million has changed to be shown within the reinsurance contracts' estimate of present value of future cash flows.

26. INSURANCE CONTRACT LIABILITIES (continued)

Movements in liabilities for remaining coverage and liabilities for incurred claims for insurance contracts

No loss component is shown in any of the following tables as the company has no groups of contracts which have ever required the use of loss components or loss recovery components.

With-profits insurance contracts:

	Liability for remaining coverage £'000	**Liability for incurred claims £'000**	**Total £'000**
At 1 January 2023	**336,755**	**19,395**	**356,150**
Insurance service result	**-**	**-**	**-**
Insurance finance (income) / expenses	**10,225**	**693**	**10,918**
Premiums received	**4,440**	**-**	**4,440**
Claims paid	**-**	**(54,157)**	**(54,157)**
Cash flows	**4,440**	**(54,157)**	**(49,717)**
Investment components	**(49,643)**	**49,643**	**-**
At 31 December 2023	**301,777**	**15,574**	**317,351**

	Liability for remaining coverage £'000	Liability for incurred claims £'000	Total £'000
At 1 January 2022	441,470	13,638	455,108
Insurance service result	-	-	-
Insurance finance (income) / expenses	(60,762)	203	(60,559)
Premiums received	4,468	-	4,468
Claims paid	-	(42,867)	(42,867)
Cash flows	4,468	(42,867)	(38,399)
Investment components	(48,421)	48,421	-
At 31 December 2022	336,755	19,395	356,150

26. INSURANCE CONTRACT LIABILITIES (continued)

Non-profit insurance contracts:

	Liability for remaining coverage £'000	**Liability for incurred claims £'000**	**Total £'000**
At 1 January 2023	**1,680,127**	**15,190**	**1,695,317**
Insurance revenue	**(178,335)**	**-**	**(178,335)**
Incurred claims and benefits	**-**	**152,160**	**152,160**
Incurred directly attributable expenses	**-**	**3,697**	**3,697**
Insurance service expenses	**-**	**155,857**	**155,857**
Insurance service result	**(178,335)**	**155,857**	**(22,478)**
Insurance finance (income) / expenses	**165,768**	**478**	**166,246**
Premiums received	**4,771**	**-**	**4,771**
Claims paid	**-**	**(161,133)**	**(161,133)**
Other expenses paid	**-**	**(3,697)**	**(3,697)**
Cash flows	**4,771**	**(164,830)**	**(160,059)**
Investment components	**(8,531)**	**8,531**	**-**
At 31 December 2023	**1,663,800**	**15,226**	**1,679,026**

	Liability for remaining coverage £'000	Liability for incurred claims £'000	Total £'000
At 1 January 2022	2,382,897	13,427	2,396,324
Insurance revenue	(177,297)	-	(177,297)
Incurred claims and benefits	-	156,619	156,619
Incurred directly attributable expenses	-	3,900	3,900
Insurance service expenses	-	160,519	160,519
Insurance service result	(177,297)	160,519	(16,778)
Insurance finance (income) / expenses	(523,954)	137	(523,817)
Premiums received	4,259	-	4,259
Claims paid	-	(160,771)	(160,771)
Other expenses paid	-	(3,900)	(3,900)
Cash flows	4,259	(164,671)	(160,412)
Investment components	(5,778)	5,778	-
At 31 December 2022	1,680,127	15,190	1,695,317

26. INSURANCE CONTRACT LIABILITIES (continued)

Unit-linked insurance contracts:

	Liability for remaining coverage £'000	**Liability for incurred claims £'000**	**Total £'000**
At 1 January 2023	**2,398,321**	**65,058**	**2,463,379**
Insurance revenue	**(75,298)**	**-**	**(75,298)**
Incurred claims and benefits	**-**	**26,973**	**26,973**
Incurred directly attributable expenses	**-**	**20,929**	**20,929**
Insurance service expenses	**-**	**47,902**	**47,902**
Insurance service result	**(75,298)**	**47,902**	**(27,396)**
Insurance finance (income) / expenses	**187,588**	**2,708**	**190,296**
Premiums received	**37,844**	**-**	**37,844**
Claims paid	**-**	**(285,849)**	**(285,849)**
Other expenses paid	**-**	**(20,929)**	**(20,929)**
Cash flows	**37,844**	**(306,778)**	**(268,934)**
Investment components	**(252,435)**	**252,435**	**-**
At 31 December 2023	**2,296,020**	**61,325**	**2,357,345**

	Liability for remaining coverage £'000	Liability for incurred claims £'000	Total £'000
At 1 January 2022	2,981,941	54,581	3,036,522
Insurance revenue	(83,087)	-	(83,087)
Incurred claims and benefits	-	29,665	29,665
Incurred directly attributable expenses	-	22,832	22,832
Insurance service expenses	-	52,497	52,497
Insurance service result	(83,087)	52,497	(30,590)
Insurance finance (income) / expenses	(316,365)	877	(315,488)
Premiums received	40,975	-	40,975
Claims paid	-	(245,208)	(245,208)
Other expenses paid	-	(22,832)	(22,832)
Cash flows	40,975	(268,040)	(227,065)
Investment components	(225,143)	225,143	-
At 31 December 2022	2,398,321	65,058	2,463,379

26. INSURANCE CONTRACT LIABILITIES (continued)

Movements in present value of future cash flows, risk adjustment and CSM of insurance contracts

With-profits insurance contracts:

	Estimates of the present value of future cash flows £'000	**Risk adjustment £'000**	**CSM £'000**	**Total £'000**
At 1 January 2023	**356,150**	**-**	**-**	**356,150**
Insurance service result	**-**	**-**	**-**	**-**
Insurance finance (income) / expenses	**10,918**	**-**	**-**	**10,918**
Total changes in the income statement	**10,918**	**-**	**-**	**10,918**
Premiums received	**4,440**	**-**	**-**	**4,440**
Claims paid	**(54,157)**	**-**	**-**	**(54,157)**
Other insurance expenses paid	**-**	**-**	**-**	**-**
Total cash flows	**(49,717)**	**-**	**-**	**(49,717)**
At 31 December 2023	**317,351**	**-**	**-**	**317,351**

	Estimates of the present value of future cash flows £'000	Risk adjustment £'000	CSM £'000	Total £'000
At 1 January 2022	455,108	-	-	455,108
Insurance service result	-	-	-	-
Insurance finance (income) / expenses	(60,559)	-	-	(60,559)
Total changes in the income statement	(60,559)	-	-	(60,559)
Premiums received	4,468	-	-	4,468
Claims paid	(42,867)	-	-	(42,867)
Other expenses paid	-	-	-	-
Total cash flows	(38,399)	-	-	(38,399)
At 31 December 2022	356,150	-	-	356,150

26. INSURANCE CONTRACT LIABILITIES (continued)

Non-profit insurance contracts:

	Estimates of the present value of future cash flows £'000	Risk adjustment £'000	CSM £'000	Total £'000
At 1 January 2023	**1,544,426**	**57,095**	**93,796**	**1,695,317**
CSM recognised for services provided	-	-	(15,327)	(15,327)
Risk adjustment for the risk expired	-	(5,040)	-	(5,040)
Experience adjustments	(2,111)	-	-	(2,111)
Total changes related to current service	(2,111)	(5,040)	(15,327)	(22,478)
Change in estimates that adjust CSM	(79,961)	(32,758)	112,719	-
Total changes related to future service	(79,961)	(32,758)	112,719	-
Insurance service result	(82,072)	(37,798)	97,392	(22,478)
Insurance finance (income) / expenses	143,360	21,612	1,274	166,246
Total changes in the income statement	61,288	(16,186)	98,666	143,766
Premiums received	4,771	-	-	4,771
Claims paid	(161,133)	-	-	(161,133)
Other expenses paid	(3,697)	-	-	(3,697)
Total cash flows	(160,059)	-	-	(160,059)
At 31 December 2023	**1,445,655**	**40,909**	**192,462**	**1,679,026**

Key assumption changes included in change in estimates that adjust CSM comprise a revision to mortality, mortality improvement and expense assumptions. It also includes a change in the time horizon over which the risk adjustment, a compensating for uncertainty about the amount and timing of the cashflows that arises from non-financial risk is calibrated, from an assessment of the risk adjustment over the lifetime of the policies to an assessment over one year.

26. INSURANCE CONTRACT LIABILITIES (continued)

Non-profit insurance contracts:

	Estimates of the present value of future cash flows £'000	Risk adjustment £'000	CSM £'000	Total £'000
At 1 January 2022	2,238,267	108,607	49,450	2,396,324
CSM recognised for services provided	-	-	(6,950)	(6,950)
Risk adjustment for the risk expired	-	(6,633)	-	(6,633)
Experience adjustments	(3,195)	-	-	(3,195)
Total changes related to current service	(3,195)	(6,633)	(6,950)	(16,778)
Change in estimates that adjust CSM	(48,399)	(2,379)	50,778	-
Total changes related to future service	(48,399)	(2,379)	50,778	-
Insurance service result	(51,594)	(9,012)	43,828	(16,778)
Insurance finance (income) / expenses	(481,835)	(42,500)	518	(523,817)
Total changes in the income statement	(533,429)	(51,512)	44,346	(540,595)
Premiums received	4,259	-	-	4,259
Claims paid	(160,771)	-	-	(160,771)
Other expenses paid	(3,900)	-	-	(3,900)
Total cash flows	(160,412)	-	-	(160,412)
At 31 December 2022	1,544,426	57,095	93,796	1,695,317

26. INSURANCE CONTRACT LIABILITIES (continued)

Unit-linked insurance contracts:

	Estimates of the present value of future cash flows £'000	Risk adjustment £'000	CSM £'000	Total £'000
At 1 January 2023	**2,285,830**	**44,978**	**132,571**	**2,463,379**
CSM recognised for services provided	**-**	**-**	**(18,224)**	**(18,224)**
Risk adjustment for the risk expired	**-**	**(5,454)**	**-**	**(5,454)**
Experience adjustments	**(3,718)**	**-**	**-**	**(3,718)**
Total changes related to current service	**(3,718)**	**(5,454)**	**(18,224)**	**(27,396)**
Change in estimates that adjust CSM	**(11,427)**	**(15,645)**	**27,072**	**-**
Total changes related to future service	**(11,427)**	**(15,645)**	**27,072**	**-**
Insurance service result	**(15,145)**	**(21,099)**	**8,848**	**(27,396)**
Insurance finance (income) / expenses	**193,404**	**2,276**	**(5,384)**	**190,296**
Total changes in the income statement	**178,259**	**(18,823)**	**3,464**	**162,900**
Premiums received	**37,844**	**-**	**-**	**37,844**
Claims paid	**(285,849)**	**-**	**-**	**(285,849)**
Other expenses paid	**(20,929)**	**-**	**-**	**(20,929)**
Total cash flows	**(268,934)**	**-**	**-**	**(268,934)**
At 31 December 2023	**2,195,155**	**26,155**	**136,035**	**2,357,345**

Key assumption changes included in change in estimates that adjust CSM comprise a revision to mortality, mortality improvement and expense assumptions. It also includes a change in the time horizon over which the risk adjustment, a compensating for uncertainty about the amount and timing of the cashflows that arises from non-financial risk is calibrated, from an assessment of the risk adjustment over the lifetime of the policies to an assessment over one year.

26. INSURANCE CONTRACT LIABILITIES (continued)

Unit-linked insurance contracts:

	Estimates of the present value of future cash flows £'000	Risk adjustment £'000	CSM £'000	Total £'000
At 1 January 2022	2,817,730	108,528	110,264	3,036,522
CSM recognised for services provided	-	-	(12,913)	(12,913)
Risk adjustment for the risk expired	-	(9,253)	-	(9,253)
Experience adjustments	(8,424)	-	-	(8,424)
Total changes related to current service	(8,424)	(9,253)	(12,913)	(30,590)
Change in estimates that adjust CSM	16,184	(55,991)	39,807	-
Total changes related to future service	16,184	(55,991)	39,807	-
Insurance service result	7,760	(65,244)	26,894	(30,590)
Insurance finance (income) / expenses	(312,595)	1,694	(4,587)	(315,488)
Total changes in the income statement	(304,835)	(63,550)	22,307	(346,078)
Premiums received	40,975	-	-	40,975
Claims paid	(245,208)	-	-	(245,208)
Other expenses paid	(22,832)	-	-	(22,832)
Total cash flows	(227,065)	-	-	(227,065)
At 31 December 2022	2,285,830	44,978	132,571	2,463,379

26. INSURANCE CONTRACT LIABILITIES (continued)

Movements in asset for remaining coverage and asset for incurred claims for reinsurance contracts held

No loss component is shown in any of the following tables as the company has no groups of contracts which have ever required the use of loss components or loss recovery components.

With-profits reinsurance contracts:

	Reinsurance asset for remaining coverage £'000	**Reinsurance asset for incurred claims £'000**	**Total £'000**
At 1 January 2023	**(1)**	**1**	**-**
Allocation of reinsurance premiums	**-**	**-**	**-**
Claims and benefits recovered	**-**	**-**	**-**
Amounts recovered from reinsurers	**-**	**-**	**-**
Net income / (expense) from reinsurance contracts held	**-**	**-**	**-**
Reinsurance finance income / (expense)	**(16)**	**-**	**(16)**
Premiums paid	**16**	**-**	**16**
Cash flows	**16**	**-**	**16**
At 31 December 2023	**(1)**	**1**	**-**

	Reinsurance asset for remaining coverage £'000	Reinsurance asset for incurred claims £'000	Total £'000
At 1 January 2022	(2)	-	(2)
Allocation of reinsurance premiums	-	-	-
Claims and benefits recovered	-	1	1
Amounts recovered from reinsurers	-	1	1
Net income / (expense) from reinsurance contracts held	-	1	1
Reinsurance finance income / (expense)	(15)	-	(15)
Premiums paid	16	-	16
Cash flows	16	-	16
At 31 December 2022	(1)	1	-

26. INSURANCE CONTRACT LIABILITIES (continued)

Non-profit reinsurance contracts:

	Reinsurance asset for remaining coverage £'000	Reinsurance asset for incurred claims £'000	Total £'000
At 1 January 2023	**(93,540)**	**4,658**	**(88,882)**
Claims and benefits recoverable	**(150,140)**	**-**	**(150,140)**
Directly attributable expenses recoverable	**(6,034)**	**-**	**(6,034)**
Risk adjustment for the risk expired	**(4,618)**	**-**	**(4,618)**
CSM recognised for services provided	**(12,302)**	**-**	**(12,302)**
Changes related to past services	**-**	**-**	**-**
Allocation of reinsurance premiums	**(173,094)**	**-**	**(173,094)**
Changes related to future services	**-**	**146,798**	**146,798**
Claims recovered	**-**	**6,098**	**6,098**
Directly attributable expenses recovered	**-**	**-**	**-**
Amounts recovered from reinsurers	**-**	**152,896**	**152,896**
Net income / (expense) from reinsurance contracts held	**(173,094)**	**152,896**	**(20,198)**
Reinsurance finance income / (expense)	**28,870**	**-**	**28,870**
Premiums paid	**84**	**-**	**84**
Commission ceded	**10**	**-**	**10**
Asset for remaining coverage cash flows	**205,330**	**-**	**205,330**
Claims and other expenses recovered	**-**	**(152,821)**	**(152,821)**
Cash flows	**205,424**	**(152,821)**	**52,603**
At 31 December 2023	**(32,340)**	**4,733**	**(27,607)**

26. INSURANCE CONTRACT LIABILITIES (continued)

Non-profit reinsurance contracts:

	Reinsurance asset for remaining coverage £'000	Reinsurance asset for incurred claims £'000	Total £'000
At 1 January 2022	(98,350)	5,229	(93,121)
Claims and benefits recoverable	(155,976)	-	(155,976)
Directly attributable expenses recoverable	(6,323)	-	(6,323)
Risk adjustment for the risk expired	(6,434)	-	(6,434)
CSM recognised for services provided	(3,582)	-	(3,582)
Changes related to past services	-	-	-
Allocation of reinsurance premiums	(172,315)	-	(172,315)
Changes related to future services	-	152,483	152,483
Claims recoverable	-	6,612	6,612
Directly attributable expenses incurred	-	-	-
Amounts recovered from reinsurers	-	159,095	159,095
Net income / (expense) from reinsurance contracts held	(172,315)	159,095	(13,220)
Reinsurance finance income / (expense)	(29,524)	-	(29,524)
Premiums paid	138	-	138
Commission ceded	50	-	50
Asset for remaining coverage cash flows	206,461	-	206,461
Claims and other expenses recovered	-	(159,666)	(159,666)
Cash flows	206,649	(159,666)	46,983
At 31 December 2022	(93,540)	4,658	(88,882)

26. INSURANCE CONTRACT LIABILITIES (continued)

Unit-linked reinsurance contracts:

	Reinsurance asset for remaining coverage £'000	Reinsurance asset for incurred claims £'000	Total £'000
At 1 January 2023	**(21,539)**	**7,525**	**(14,014)**
Claims and benefits recoverable	(9,479)	-	(9,479)
Directly attributable expenses recoverable	(1,939)	-	(1,939)
Risk adjustment for the risk expired	(981)	-	(981)
CSM recognised for services provided	(224)	-	(224)
Changes related to past services	4,300	-	4,300
Allocation of reinsurance premiums	(8,323)	-	(8,323)
Claims and benefits recovered	-	9,330	9,330
Directly attributable expenses recovered	-	1,905	1,905
Changes related to future services	17,072	-	17,072
Amounts recovered from reinsurers	17,072	11,235	28,307
Net income / (expense) from reinsurance contracts held	8,749	11,235	19,984
Reinsurance finance income / (expense)	6,946	-	6,946
Premiums paid	4,209	-	4,209
Commission ceded	-	-	-
Asset for remaining coverage cash flows	4,249	-	4,249
Claims and other expenses recovered	-	(2,663)	(2,663)
Cash flows	8,458	(2,663)	5,795
At 31 December 2023	**2,614**	**16,097**	**18,711**

26. INSURANCE CONTRACT LIABILITIES (continued)

Unit-linked reinsurance contracts:

	Reinsurance asset for remaining coverage £'000	Reinsurance asset for incurred claims £'000	Total £'000
At 1 January 2022	10,209	4,545	14,754
Claims and benefits recoverable	(23,928)	-	(23,928)
Directly attributable expenses recoverable	(7,940)	-	(7,940)
Risk adjustment for the risk expired	(7,237)	-	(7,237)
CSM recognised for services provided	(3,414)	-	(3,414)
Changes related to past services	-	-	-
Allocation of reinsurance premiums	(42,519)	-	(42,519)
Changes related to future services	-	15,078	15,078
Claims recoverable	-	7,746	7,746
Directly attributable expenses incurred	-	-	-
Amounts recovered from reinsurers	-	22,824	22,824
Net income / (expense) from reinsurance contracts held	(42,519)	22,824	(19,695)
Reinsurance finance income / (expense)	(20,248)	-	(20,248)
Premiums paid	7,870	-	7,870
Commission ceded	-	-	-
Asset for remaining coverage cash flows	23,149	-	23,149
Claims and other expenses recovered	-	(19,844)	(19,844)
Cash flows	31,019	(19,844)	11,175
At 31 December 2022	(21,539)	7,525	(14,014)

26. INSURANCE CONTRACT LIABILITIES (continued)

Movements in present value of future cash flows, risk adjustment and CSM of reinsurance contracts held

With-profits reinsurance contracts:

	Estimates of the present value of future cash flows £'000	**Risk adjustment £'000**	**CSM £'000**	**Total £'000**
At 1 January 2023	**-**	**-**	**-**	**-**
Experience adjustments	**-**	**-**	**-**	**-**
Total changes related to current service	**-**	**-**	**-**	**-**
Net income / (expense) from reinsurance contracts held	**-**	**-**	**-**	**-**
Reinsurance finance income / (expense)	**(16)**	**-**	**-**	**(16)**
Total changes in the income statement	**(16)**	**-**	**-**	**(16)**
Premiums paid	**16**	**-**	**-**	**16**
Cash flows	**16**	**-**	**-**	**16**
At 31 December 2023	**-**	**-**	**-**	**-**

	Estimates of the present value of future cash flows £'000	Risk adjustment £'000	CSM £'000	Total £'000
At 1 January 2022	(2)	-	-	(2)
Experience adjustments	1	-	-	1
Total changes related to current service	1	-	-	1
Net income / (expense) from reinsurance contracts held	1	-	-	1
Reinsurance finance income / (expense)	(15)	-	-	(15)
Total changes in the income statement	(14)	-	-	(14)
Premiums paid	16	-	-	16
Cash flows	16	-	-	16
At 31 December 2022	-	-	-	-

26. INSURANCE CONTRACT LIABILITIES (continued)

Non-profit reinsurance contracts:

	Estimates of the present value of future cash flows £'000	Risk adjustment £'000	CSM £'000	Total £'000
At 1 January 2023	**(210,218)**	**53,326**	**68,010**	**(88,882)**
CSM recognised for services provided	-	-	(12,302)	(12,302)
Risk adjustment for the risk expired	-	(4,618)	-	(4,618)
Experience adjustments	(3,278)	-	-	(3,278)
Total changes related to current service	(3,278)	(4,618)	(12,302)	(20,198)
Changes in estimates that adjust the CSM	(79,849)	(33,317)	113,166	-
Total changes related to future service	(79,849)	(33,317)	113,166	-
Net income / (expense) from reinsurance contracts held	(83,127)	(37,935)	100,864	(20,198)
Reinsurance finance income / (expense)	6,163	21,723	984	28,870
Total changes in the income statement	(76,964)	(16,212)	101,848	8,672
Premiums paid	84	-	-	84
Commission ceded	10	-	-	10
Asset for remaining coverage cash flows	205,330	-	-	205,330
Claims and other expenses recovered	(152,821)	-	-	(152,821)
Cash flows	52,603	-	-	52,603
At 31 December 2023	**(234,579)**	**37,114**	**169,858**	**(27,607)**

26. INSURANCE CONTRACT LIABILITIES (continued)

Non-profit reinsurance contracts:

	Estimates of the present value of future cash flows £'000	Risk adjustment £'000	CSM £'000	Total £'000
At 1 January 2022	(216,851)	104,712	19,018	(93,121)
CSM recognised for services provided	-	-	(3,582)	(3,582)
Risk adjustment for the risk expired	-	(6,434)	-	(6,434)
Experience adjustments	(3,204)	-	-	(3,204)
Total changes related to current service	(3,204)	(6,434)	(3,582)	(13,220)
Changes in estimates that adjust the CSM	(49,461)	(2,828)	52,289	-
Total changes related to future service	(49,461)	(2,828)	52,289	-
Net income / (expense) from reinsurance contracts held	(52,665)	(9,262)	48,707	(13,220)
Reinsurance finance income / (expense)	12,315	(42,124)	285	(29,524)
Total changes in the income statement	(40,350)	(51,386)	48,992	(42,744)
Premiums paid	138	-	-	138
Ceded commission	50	-	-	50
Asset for remaining coverage cash flows	206,461	-	-	206,461
Claims and other expenses recovered	(159,666)	-	-	(159,666)
Cash flows	46,983	-	-	46,983
At 31 December 2022	(210,218)	53,326	68,010	(88,882)

26. INSURANCE CONTRACT LIABILITIES (continued)

Unit-linked reinsurance contracts:

	Estimates of the present value of future cash flows £'000	Risk adjustment £'000	CSM £'000	Total £'000
At 1 January 2023	**(105,245)**	**26,120**	**65,111**	**(14,014)**
CSM recognised for services provided	-	-	(224)	(224)
Risk adjustment for the risk expired	-	(981)	-	(981)
Experience adjustments	(183)	-	-	(183)
Total changes related to current service	(183)	(981)	(224)	(1,388)
Changes in estimates that do not adjust the CSM	4,300	-	-	4,300
Total changes related to past service	4,300	-	-	4,300
Changes in estimates that adjust the CSM	111,848	(28,064)	(66,712)	17,072
Total changes related to future service	111,848	(28,064)	(66,712)	17,072
Net income / (expense) from reinsurance contracts held	115,965	(29,045)	(66,936)	19,984
Reinsurance finance income / (expense)	3,264	3,573	109	6,946
Total changes in the income statement	119,229	(25,472)	(66,827)	26,930
Premiums paid	4,209	-	-	4,209
Asset for remaining coverage cash flows	4,249	-	-	4,249
Claims and other expenses recovered	(2,663)	-	-	(2,663)
Cash flows	5,795	-	-	5,795
At 31 December 2023	**19,779**	**648**	**(1,716)**	**18,711**

26. INSURANCE CONTRACT LIABILITIES (continued)

Unit-linked reinsurance contracts:

	Estimates of the present value of future cash flows £'000	Risk adjustment £'000	CSM £'000	Total £'000
At 1 January 2022	(135,158)	83,811	66,101	14,754
CSM recognised for services provided	-	-	(3,414)	(3,414)
Risk adjustment for the risk expired	-	(7,237)	-	(7,237)
Experience adjustments	(9,044)	-	-	(9,044)
Total changes related to current service	(9,044)	(7,237)	(3,414)	(19,695)
Changes in estimates that adjust the CSM	(2,543)	674	1,869	-
Total changes related to future service	(2,543)	674	1,869	-
Net income / (expense) from reinsurance contracts held	(11,587)	(6,563)	(1,545)	(19,695)
Reinsurance finance income / (expense)	30,325	(51,128)	555	(20,248)
Total changes in the income statement	18,738	(57,691)	(990)	(39,943)
Premiums paid	7,870	-	-	7,870
Asset for remaining coverage cash flows	23,149	-	-	23,149
Claims and other expenses recovered	(19,844)	-	-	(19,844)
Cash flows	11,175	-	-	11,175
At 31 December 2022	(105,245)	26,120	65,111	(14,014)

Expectation of when CSM will be recognised in income

The following table illustrates the expected timing of CSM amortisation into insurance revenue for insurance contracts issued and into reinsurance contract held net income or expense for reinsurance contracts held:

	Insurance contracts issued		**Reinsurance contracts held**	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000
Less than 1 year	**34,086**	24,569	**(11,435)**	(6,584)
1 - 2 years	**29,665**	22,298	**(10,714)**	(6,480)
2 - 3 years	**26,586**	19,963	**(10,227)**	(6,189)
3 - 4 years	**24,183**	17,995	**(10,061)**	(6,036)
4 - 5 years	**21,860**	16,191	**(9,639)**	(6,091)
Over 5 years	**192,117**	125,351	**(116,066)**	(101,741)
Total	**328,497**	226,367	**(168,142)**	(133,121)

27. MANAGEMENT OF INSURANCE RISK

Capital management

The company's capital management policy is reviewed and updated, as appropriate, on an annual basis and approved by the Board.

The company is subject to solvency requirements, pursuant to the Solvency II regulatory framework. Accordingly, solvency is monitored on a Pillar 1 basis, which follows prescribed methodology designed to ensure resilience to a one in 200-year adverse event as well as on a Pillar 2 basis, which is an own assessment of solvency. The Pillar 1 basis is the constraining measure.

The company has met all of the solvency requirements throughout the year and has sufficient resources and financial strength.

The company reviews its solvency position on a regular basis. In ensuring that the company continues to meet its solvency requirements, the company pays due regard to the advice of its Chief Actuary. In connection with the use of management discretion and other matters that impact on the financial position of the SLOC With-Profits fund, the company pays due regard to the advice of the With-Profits Actuary and the With-Profits Committee.

In order to maintain or adjust its solvency position, the company considers each year the appropriate amount of dividend to declare and pay.

Capital management objectives

The objectives of the company in managing its capital are as follows:

- Maintain financial strength and liquidity in order for the company to meet its obligations as they fall due;
- Ensure that the company meets its regulatory solvency requirements on an on-going basis;
- Allocate capital efficiently and repatriate excess capital resources to the shareholder; and
- Provide appropriate returns to the shareholder.

Restrictions on available capital resources

The company is required to hold sufficient own funds to meet the Solvency II capital requirements. The company's policy is to ensure that it can meet its Pillar 1 and Pillar 2 requirements at all times. Own funds are maintained to meet Solvency II capital requirements and to maintain an appropriate margin above this to absorb changes in both own funds and capital requirements.

The company has one ring fenced fund, the SLOC With-Profits fund. This is independently maintained. Any available surplus held in the SLOC With-Profits fund can only be used to meet the requirements of the fund itself. With-profits policyholders are entitled to 100% of the distributed profits.

For non-profit business, the majority of surplus is available to the shareholder subject to meeting the requirements of the business. Included within the surplus is an amount of £9.2 million (2022: £12.3 million) which may be available in extreme adverse economic circumstances to support the SLOC With-Profits fund. The company has a small amount of overseas business which has not been shown separately as it is immaterial.

27. MANAGEMENT OF INSURANCE RISK (continued)

Eligible own funds (unaudited)

The company's total eligible own funds as at the year end was £297.0 million (2022: £281.9 million), as shown below.

Eligible own funds – 2023	**SLOC With-Profits £'000**	**Non-profit £'000**	**Total £'000**
Total shareholder's funds	**-**	**154,863**	**154,863**
Adjustments onto a solvency basis	**2,646**	**140,851**	**143,497**
Net assets on a solvency basis	**2,646**	**295,714**	**298,360**
Adjustments to own funds [1]	**(1,319)**	**-**	**(1,319)**
Total available own funds	**1,327**	**295,714**	**297,041**
SCR	**1,327**	**172,935**	**174,262**
Excess of own funds over solvency capital requirement	**-**	**122,779**	**122,779**

Eligible own funds – 2022 Restated	SLOC With-Profits £'000	Non-profit £'000	Total £'000
Total shareholder's funds	-	179,363	179,363
Adjustments onto a solvency basis	2,407	103,184	105,591
Net assets on a solvency basis	2,407	282,547	284,954
Adjustments to own funds [1]	(928)	-	(928)
Total available own funds	1,479	282,547	284,026
Eligibility restrictions to own funds [2]	-	(2,152)	(2,152)
Total eligible own funds	1,479	280,395	281,874
SCR	1,479	155,835	157,314
Excess of own funds over solvency capital requirement	-	124,560	124,560

(1) Adjustment for restricted excess surplus in the With-Profits fund.
(2) Restriction of tier 3 capital to 15% of the SCR.

Prior period total shareholder's funds and adjustments onto a solvency basis have been restated as a result of the transition to IFRS 17 and IFRS 9 (see accounting policy (b)).

Own funds sensitivities

Insurance liabilities are sensitive to changes in market conditions and other assumptions, such as expenses, mortality and persistency rates, which have been factored into their calculation.

Market sensitivity in relation to the with-profits business materialises if adverse changes in the value of the assets supporting this business could not be fully reflected in payments to policyholders because of the effect of guarantees and options. For unit-linked business, market sensitivity materialises if future fee income is reduced or if investment guarantees and options have more value.

Other deviations in long-term trends in expenses, mortality, morbidity or persistency rates may result in a need to change assumptions. This might require a strengthening or weakening of insurance liabilities. Depending on policy type, this sensitivity may differ. For example, an increase in mortality rates may have a different impact for with-profits liabilities as compared to term assurance liabilities.

27. MANAGEMENT OF INSURANCE RISK (continued)

In addition to assumptions made for persistency, assumptions are made about policyholders' behaviour in relation to guarantees and options. Insurance liabilities are sensitive to the rates and timing of utilisation of such guarantees and options.

Insurance liabilities in respect of annuities in payment, and deferred annuities have been reinsured. Net of reinsurance, own funds are largely insensitive to changes in market conditions and other assumptions relating to this reinsured business, as changes in gross insurance liabilities are generally matched by changes in the value of the reinsurance contract. The financial condition of the reinsurer is also a risk.

Provision for guarantees and options

A financial option or guarantee is one whose potential value is affected by market conditions and not by those features of life assurance contracts where the potential changes in policyholder benefits arise solely from insurance risk.

The insurance liabilities for material guarantees and options in the non-profit business are calculated using a stochastic model.

In providing these guarantees and options, the company's solvency position is sensitive to market risk, such as adverse fluctuations in financial variables, including interest rates, equity prices, property prices and foreign currency exchange rates. The value of guarantees and options is also affected by policyholder behaviour, such as the take-up rate of GAOs. Other guarantees, such as maturity value guarantees and guarantees in relation to minimum rates of return, are sensitive to the difference between realised investment returns and the level implicit in the guarantee as well as policyholder behaviour.

(i) With-profits business

For the purposes of managing insurance risk, provision is made for guarantees and options in determining insurance liabilities of the SLOC With-Profits fund.

The material guarantees and options in the with-profits business are shown below.

- Maturity value guarantees – Substantially all of the conventional with-profits endowment business has minimum maturity values reflecting the sums assured plus declared annual bonuses.

- GAOs – The SLOC With-Profits fund has contracts that contain GAOs, where the policyholder has the option to take the policy benefits in the form of an annuity based on guaranteed conversion rates. The liability for this guarantee has been calculated using a deterministic model. The insurance liability would increase in the event of falling interest rates. The reserve as at 31 December 2023 was £1.4 million (2022 restated: £1.6 million).

(ii) Non-profit business

The company has written contracts that include guarantees and options within its non-profit business. Provision for guarantees and options in the non-profit business has been included within the insurance liabilities.

The material guarantees and options in the non-profit business are shown below.

- GAOs (former Confederation Life policies) – Provision for these guarantees is based on a risk neutral stochastic model and amounted to FCF of £60.7 million (2022 restated: FCF of £70.8 million) at the year end, before reinsurance. The reinsurer's share of these provisions amounted to £nil following the recapture of the reinsurance treaty (2022 restated: £96.6 million).

- Other GAOs – Provision for these guarantees is based on a prudent deterministic model and amounted to £1.5 million (2022 restated: £2.0 million).

- Guaranteed unit price on certain products – Certain unit-linked pension products provide policyholders with a guaranteed unit price at retirement or death. The investment management strategy for these funds is designed to mitigate the costs of the guarantee. An amount of £5.3 million (2022 restated: £1.5 million) was held as the insurance liability to cover the cost of guarantees on the existing fund and future switch ins.

Otherwise, the bulk of the liabilities are in respect of unit-linked contracts where the assets and liabilities are very closely matched. Further reserves may be needed for some of these policies if the value of future margins is not enough to cover their benefits and running costs. The key elements to which the results are sensitive are shown below.

27. MANAGEMENT OF INSURANCE RISK (continued)

- The current level of maintenance expenses per policy. This is recalculated each year as part of an annual budgeting exercise.

- The assumed inflation rate for per policy maintenance costs. Increases in the third-party administration costs are based on the outlook for inflation indicated by, or derived from, various published government indices (such costs being determined by a formula linked to these). Other overheads are assumed to inflate at the estimated rate of growth in national average earnings.

Sources of insurance risk

The company has assumed insurance risk by issuing insurance contracts, under which the company agrees to compensate the policyholder or other beneficiary if a specified uncertain future event affecting the policyholder occurs. The company is exposed to insurance risk due to unfavourable claims experience in life assurance and other protection business and exposure to unfavourable operating experience in respect of factors such as persistency levels and management expenses.

The company manages its risks through a series of policies, procedures and internal controls within an overall risk management framework. The key insurance risks are described below.

(i) Mortality and morbidity

Mortality and morbidity risk is the risk that death, critical illness and disability claims are higher than the level assumed within the company's reserving assumptions. Possible causes are unexpected epidemics of new diseases and widespread changes in lifestyle such as eating and exercise habits.

The company is exposed to mortality risk where there are guaranteed death benefits in excess of reserves in the unit-linked and with-profits business. For unit-linked protection business, a risk charge is applied to meet the expected cost of the insured benefit (in excess of the unit value). The contractual terms for these products may include provision for increases in mortality charges in the event of significant changes in the expectation for future claims experience. The degree to which these provisions may be applied will be determined by the policy contract wording having due regard to fairness and customer outcomes.

Mortality and morbidity risk is, in some instances, mitigated by the use of reinsurance. All reinsurance arrangements entered into are in accordance with the policy for managing reinsurance risks, taking into account the creditworthiness of the counterparty and the concentration of risk.

(ii) Longevity

Longevity risk is the risk that the policyholder lives longer than expected and therefore the payment period exceeds that assumed within the company's reserving assumptions. This risk is relevant for contracts such as annuities. Whilst industry data and emerging trends are carefully monitored, continued advances in medical science and social conditions may lead to an unexpected improvement in longevity.

The company is exposed to longevity risk through its annuity-in-payment business and GAOs within certain with-profits and non-profit individual and group pension products.

The company has mitigated its longevity risk by reinsuring its annuity business with Sun Life Financial Inc. group undertakings. The reinsurance treaties cover all risks on annuities with the exception of expenses. A deposit back arrangement is in place to limit counterparty credit exposure.

On 4 November 2013, the company commenced an arrangement to refer vesting UK pension policyholders to a leading third-party annuity provider. From this date, the company offers annuities to holders of certain UK executive pension policies and Irish pension policies only.

(iii) Persistency

Persistency refers to the degree to which policies remain in force. High persistency means that surrender, transfer and / or lapse rates are low. Persistency risk is the risk that policyholders surrender, transfer or lapse their contracts at a volume other than that expected within the reserving assumptions.

For most unit-linked contracts without GAOs, persistency experience lower than the reserving assumptions will have an adverse effect on profitability. Lower persistency on contracts with GAOs will generally increase profitability. The company endeavours to ensure that customers are fully aware of their rights when transferring or vesting a contract containing a

27. MANAGEMENT OF INSURANCE RISK (continued)

GAO. For with-profits contracts, increased persistency will have an adverse impact and generally increase capital requirements.

Persistency risk is managed by regular monitoring of persistency rates across the business. In addition, other metrics that could be considered early warning signals for a potential reduction in persistency rates, for example, customer services metrics, are similarly monitored.

Persistency events can be driven by changes in the regulatory environment and these would usually come with an advanced warning. An example of this was the pension reforms introduced in April 2015. An increase in outsourcer capacity and daily monitoring were introduced to deal with increased transaction volumes and to closely monitor policyholder activity.

(iv) Expenses

Expense risk is the risk that expense levels will be higher than assumed within the contract reserving. This can arise from an increase in the unit costs of the company or an increase in expense inflation.

Internal governance expenses are carefully managed and policy administration outsourcing arrangements are secured on variable terms. Expense management is a key area of management attention and expenses are monitored monthly against plan at a cost centre level. Effective 3 April 2023, an expense indemnity agreement with the previous shareholder, SLACC, was unwound. Expense assumptions are now being aligned with those of the Phoenix Group.

Certain contract types include maintenance charges within their pricing structure. These charges are reviewed annually as part of an overall review of discretionary charges comparing total charges to total costs including claims and expenses. This review may result in changes in charge levels, having due regard to fairness and customer outcomes.

Concentration of insurance risk

Insurance risk comes from a wide variety of industry standard product types, which originated from several different insurance companies acquired in the past, for example, Lincoln Assurance Limited and Confederation Life Insurance Company. These operated in several geographical areas and were sold through different sales channels leading to a diverse insurance risk portfolio. Therefore, the populations covered are relatively diverse and there is little concentration of underwriting risk.

Sensitivity analyses

The company performs a number of sensitivity tests to understand the potential volatility of its earnings. Selected results of the company’s sensitivity testing in relation to insurance risks are shown below. The table sets out the estimated immediate impact on, or sensitivity of, the profit before tax, equity, and the CSM to certain instantaneous changes in insurance and other non-financial assumptions used in the calculation of insurance contract liabilities. The impact on CSM is attributable to insurance contracts measured under GMM and VFA. For insurance contracts measured under GMM, the impact flows through the CSM at locked-in discount rates. For insurance contracts measured under VFA, the impact flows through the CSM at current discount rates.

The impact on equity is attributable to any portion of the sensitivity for insurance contracts measured under GMM and VFA that cannot be absorbed by CSM and the difference in impact between locked-in and current discount rates for insurance contracts measured under GMM. If current rates are higher than locked-in rates, this generally results in a favourable impact to equity from contracts measured under GMM.

27. MANAGEMENT OF INSURANCE RISK (continued)

	Impact on profit (before tax)		Impact on equity		Impact on CSM	
	2023	2022	**2023**	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Mortality / morbidity:						
5% increase for insurance contracts	**19**	(56)	**18**	(51)	**(2,003)**	(2,085)
Longevity:						
5% reduction in mortality for annuity contracts	**(388)**	1,090	**(339)**	758	**(2,990)**	3,053
Persistency:						
10% decrease in persistency	**47**	(210)	**45**	(176)	**(3,130)**	(3,540)
10% increase in persistency	**(51)**	215	**(48)**	140	**3,409**	3,548
Expenses:						
5% increase in maintenance expenses	**435**	1,959	**326**	1,469	**(6,024)**	(8,130)

The impact on profit before tax shown in the table above reflects the sensitivity to a change in assumptions on insurance contract liabilities and corresponding reinsurance contracts where applicable.

The company has also modelled exposures to single events such as pandemics. This modelling indicates that the overall effect does not have a material adverse financial impact on the company.

28. MANAGEMENT OF FINANCIAL RISK

Financial risk management objectives

The company is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets, reinsurance liabilities and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from contracts with policyholders as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity and property risk and currency risk), credit risk and liquidity risk.

The risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The main financial risks that the company faces due to the nature of its investments and liabilities are interest rate risk, equity risk and credit risk.

The company maintains investment and other risk management policies that provide a framework within which these risks are managed. The company actively manages its risk exposures and monitors compliance with these policies on an on-going basis.

The company mitigates its financial risks by matching liabilities arising from policyholder contracts with suitable financial assets, by reference to the nature of the benefits payable to policyholders. For each distinct category of liabilities, a separate portfolio of assets is maintained. Financial risks are managed for each separate portfolio and in aggregate. Financial risk management policies and the appropriateness of assets matching liabilities are reviewed on a regular basis.

For unit-linked contracts, the policyholder liabilities are matched with assets in unit-linked portfolios on which the unit prices are based. There is no direct market risk, credit risk or liquidity risk to the company with respect to these contracts as the financial risks are borne by the policyholder, with the exception of GAOs attached to certain contracts. However, these risks can have an indirect impact to the extent that they affect fee income earned by the company.

Market risk

Market risk is the risk of loss arising as a result of fair values or future cash flows fluctuating because of changes in market prices, such as interest rates, equity and property prices and foreign exchange rates.

(i) Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities and liability guarantees. To the extent that claims costs and guarantees are related to interest rates, liabilities to policyholders are exposed to interest rate risk.

28. MANAGEMENT OF FINANCIAL RISK (continued)

Certain contracts have benefit payments that are fixed and guaranteed at the inception of the contract. The financial component of these benefits is usually a guaranteed fixed interest rate. The company's primary financial risk on these contracts is the risk that interest income and capital redemptions from the financial assets backing the liabilities is insufficient to fund the guaranteed benefits payable. Interest rate risk thus arises primarily from the nature of products sold and the term of investments held.

There is a risk of loss in the SLOC With-Profits fund from declining interest rates, which is entirely attributable to with-profits policyholders. However, in the event of a significant loss, there is a risk that the fund may not be able to meet its liabilities to policyholders, and management actions including reducing surrender value targets will be considered. In this scenario, if the fund were still not able to meet its liabilities to policyholders, the company would be required to provide support to the fund from the non-profit business.

Exposure to interest rate risk is evaluated at least quarterly by conducting a scenario-based analysis for the principal interest rate sensitive lines of business. Procedures for the less sensitive or less material liabilities are less rigorous, although most lines of business are reviewed at least annually. The analysis evaluates the duration gap between assets and policyholder liabilities to ensure that gaps are within policy limits. The analysis also assesses the adequacy of matching assets by testing the cash flows of assets and liabilities under a variety of future interest rate scenarios. Interest rate risk is managed with respect to the interest rate sensitivities of the solvency position and of the profit per the financial statements through the buying and selling of appropriate fixed interest securities of different terms, the use of derivative instruments and reinsurance.

The sensitivity of the company's results to interest rate changes is shown in section (v).

(ii) Equity and property risk

The company is exposed to equity and property price risk as a result of its holdings in equity and property investments.

The company's investment policy sets limits on the company's exposure to equities and properties. Aside from unit-linked funds, equities and properties are principally held within the SLOC With-Profits fund, the returns of which are entirely attributable to with-profits policyholders.

There is a risk of loss in the fund from falling market prices of equity and property, which is entirely attributable to with-profits policyholders. However, in the event of a significant loss there is a risk that the fund may not be able to meet its liabilities to policyholders, and management actions including reducing surrender value targets will be considered. In this scenario, if the fund were still not able to meet its liabilities to the policyholders, the company would be required to provide support to the fund from the non-profit business.

There is indirect exposure to changes in the value of equities and property held in policyholders' funds from which management charges are taken.

The sensitivity of the company's results to equity price changes is shown in section (v).

(iii) Currency risk

Currency risk arises when financial assets and policyholder liabilities are denominated in a currency that is not the company's functional currency. It is not considered material for the company.

The majority of currency exposures arise from non-sterling equity and fixed income securities in the SLOC With-Profits fund and the unit-linked funds, and in both cases fluctuations in exchange rates are attributable to policyholders.

(iv) Concentration of market risks

The largest market risks arise from risks to fee income from unit-linked funds. Unit-linked products are invested in a variety of funds within different sectors, geographical areas and managers. This diversification means it is believed there are no material concentrations of equity risk, apart from having exposure to the overall asset class.

Suitable diversification limits are maintained in investment guidelines and operating guidelines to ensure minimal concentration risk arising from single name, sector, issue proportion and / or rating exposure. A market risk concentration stress is performed for Solvency II and the low value for this confirms that there is no material concentration to particular counterparties.

There are interest rate guarantees that come into effect at broadly the same level for certain insurance contracts.

28. MANAGEMENT OF FINANCIAL RISK (continued)

(v) Sensitivity analyses

The company performs a number of sensitivity tests to understand the potential volatility of its earnings. Selected results of the company's sensitivity testing are shown below. The table shows, for each sensitivity test, the potential impact on profit before tax, equity, and the CSM of a reasonable possible change in a single factor on the company's financial assets, financial liabilities and policyholder liabilities, with other assumptions left unchanged. The effect on profit before tax, equity, and CSM is calculated assuming that the change in the variable had occurred at the balance sheet date and is applied to the risk exposures in existence at that date. The impact on equity includes the effect of tax adjustments.

The impact on CSM is attributable to insurance contracts measured under VFA where the change in variable fee flows through the CSM. If the risk mitigation option is applied, the risk mitigation component will also impact CSM. The risk mitigation option applies to GAO business so that economic changes in assets flow through CSM, offsetting changes in variable fee.

The impact on equity is attributable to insurance contracts measured under GMM, asset impacts for VFA measured portfolios with no risk mitigation option applied, and IFRS 9 impacts.

	Impact on profit (before tax)		**Impact on equity**		**Impact on CSM**	
	2023	2022	**2023**	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Interest rate sensitivity						
Liabilities:						
1% increase in interest rates [(1)]	**1,489**	(34,199)	**1,781**	(29,385)	**865**	11,774
1% decrease in interest rates [(1)]	**(2,508)**	44,377	**(3,348)**	31,624	**(2,470)**	(14,042)
Assets:						
1% increase in interest rates [(1)]	**(17,181)**	14,174	**(13,619)**	14,115		
1% decrease in interest rates [(1)]	**19,664**	(21,586)	**14,736**	(16,314)		
Equity market sensitivity						
Liabilities:						
10% increase in equity prices [(2)]	**-**	3,918	**-**	3,428	**1,983**	9,182
10% decrease in equity prices [(2)]	**-**	(3,700)	**-**	(2,775)	**(2,208)**	(9,319)
Assets:						
10% increase in equity prices [(2)]	**3,422**	(3,510)	**2,327**	(3,170)		
10% decrease in equity prices [(2)]	**(3,637)**	3,622	**(2,548)**	2,871		

(1) Represents a 100 basis point parallel shift in assumed interest rates across the entire yield curve.

(2) Represents the percentage change in equity markets.

Sensitivities are non-linear and larger or smaller impacts should not be interpolated or extrapolated from the above results. Furthermore, the financial position of the company may vary at the time that any actual market movement occurs.

The sensitivity analyses do not take into consideration that the company's assets and liabilities are actively managed. Management actions might include selling investments, changing investment portfolio allocations, adjusting bonuses credited to policyholders and taking other protective actions.

The company also prepares an annual ORSA which is a solvency analysis, performed under a number of extreme but plausible five-year scenarios. Corrective actions are taken where undue exposures are identified by this process.

Credit risk

Credit risk is the risk that a counterparty is unable to pay amounts in full when due. Areas in which the company is most exposed to credit risk include investment credit risk, reinsurance and derivative counterparty risks, and deposit and loan risks.

The amount disclosed in the balance sheet in respect of financial assets and reinsurers' share of insurance contract liabilities represents the company's maximum exposure to credit risk.

28. MANAGEMENT OF FINANCIAL RISK (continued)

The company manages the levels of credit risk that it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments. Exposures are actively monitored, and limits are subject to regular review. The concentration of credit risk is substantially unchanged compared to the prior year.

An indication of the company's exposure to credit risk is the quality of the investments and counterparties with which it transacts. The company has procedures in place to recognise a potential reduction in credit quality of investment assets at an early stage, when there are still a number of options available to manage default risk.

Credit ratings for debt (including private debt) and fixed income securities are reviewed by the company on a monthly basis and current market value is taken as partial evidence of possible impairment. The table below shows the credit ratings for the company's debt securities (listed and unlisted) as at the year end. The company primarily uses ratings provided by Sun Life Capital Management (Canada) Inc., a company in the Sun Life Financial Inc. group of companies, which undertakes independent credit analysis having regard to external ratings and other information to generate a security's rating. Where a rating is not available from this source, a waterfall of the external credit rating agencies is used. Standard & Poor's ratings are used if available, otherwise Moody's where available, then Fitch. If no rating is available, the asset is classed as unrated.

	Externally rated £'000	**Internally rated £'000**	**Total £'000**
At 31 December 2023			
AAA	**105,808**	**-**	**105,808**
AA	**1,256,780**	**4,351**	**1,261,131**
A	**704,812**	**132,778**	**837,590**
BBB	**381,361**	**187,457**	**568,818**
Below BBB	**16,461**	**37,844**	**54,305**
Debt and other fixed income securities at fair value (note 19)	**2,465,222**	**362,430**	**2,827,652**
AA	**1,581,655**	**-**	**1,581,655**
A	**19,199**	**-**	**19,199**
Reinsurers' share of insurance contract liabilities (note 26)	**1,600,854**	**-**	**1,600,854**

	Restated Externally rated £'000	Restated Internally rated £'000	Restated Total £'000
At 31 December 2022			
AAA	110,808	-	110,808
AA	1,086,851	4,284	1,091,135
A	834,861	128,768	963,629
BBB	508,997	143,518	652,515
Below BBB	87,898	37,759	125,657
Debt and other fixed income securities at fair value (note 19)	2,629,415	314,329	2,943,744
AA	1,751,060	-	1,751,060
A	11,364	-	11,364
Reinsurers' share of insurance contract liabilities (note 26)	1,762,424	-	1,762,424

2022 debt and other fixed income securities have been restated to include assets previously measured at amortised cost as a result of the transition to IFRS 9 (see accounting policy (b)).

Reinsurance is used to manage insurance risk. The creditworthiness of reinsurers is assessed on a regular basis by reviewing their financial strength.

28. MANAGEMENT OF FINANCIAL RISK (continued)

Longevity and investment risk relating to annuity business has been reinsured with SLACC. In order to limit counterparty credit exposure, the company has an arrangement whereby the reinsurer deposits back a ring-fenced pool of assets with the company for management and security purposes. This permits the company to manage and secure the quality of the assets backing the reinsurance, while the risk of asset performance remains with the reinsurer.

Derivative financial instruments are used to manage economic exposures and the company has policies that set out the minimum standards for the approval and use of derivatives, including the creditworthiness of counterparties. Collateral is received from the counterparty if the contract is in-the-money (i.e. is an asset of the company) and over any agreed minimum threshold and posted to the counterparty if the contract is out-of-the-money (i.e. is a liability of the company) and over any agreed minimum threshold. Collateral is held in the form of cash or debt securities. The fair value of cash received and posted as collateral in respect of derivative contracts at 31 December 2023 was £12.8 million (2022: £8.1 million) and £8.2 million (2022: £42.6 million) respectively. In addition, £63.8 million (2022: £59.4 million) of debt securities were posted as collateral and remain recognised in the balance sheet. There were £nil debt securities received as collateral that were not recognised in the balance sheet (2022: £nil). Transactions are conducted under terms and conditions that are in accordance with general market conventions.

Policy facilities are secured by the value of the underlying policy against which they are taken. As at the reporting date, the value of all policies exceeded the value of the associated policy facilities. At the point at which the value of policy facilities would otherwise exceed the value of the underlying policy, the policyholder is allowed 12 months to clear or reduce the excess to a level where there is sufficient value to support the cover of the plan until their next policy anniversary, otherwise the policies are then surrendered, and the proceeds are used to pay off the balance of the policy facilities.

No significant other receivables were past due or impaired at the reporting date and the company expects no significant losses from the non-performance of counterparties. There are also no other receivables that would otherwise be past due or impaired whose terms have been renegotiated.

The company did not obtain any assets by taking possession of collateral held as security or calling on other credit enhancements during the year.

Liquidity risk

Liquidity risk is the risk that cash may not be available at a reasonable cost for the company to meet its obligations as they fall due. Liquidity risk arises from a number of potential areas, including a short-term mismatch between assets and liabilities, an unexpectedly high level of policyholder payments and having to realise investments to meet liabilities when investment values are depressed.

The company aims to have sufficient liquidity to be able to meet all of its obligations under normal and stressed conditions. Liquidity risk is managed and mitigated by holding sufficient assets in investments that are readily marketable in a sufficiently short timeframe, to be able to meet obligations as they fall due. The company has a number of liquidity risk appetite measures. Safeguards are in place to ensure that the liquidity position under normal conditions remains satisfactory and includes regular monitoring of cash positions and a quarterly cash flow matching exercise for significant lines of business, such as annuities. Liquidity stress tests are also performed on a quarterly basis. The company has formulated a liquidity contingency plan in order to assist it in managing a liquidity crisis event, should one occur.

The tables below provide a maturity analysis of the company's financial liabilities, insurance liabilities and financial assets as at the year end. Financial assets and liabilities are analysed by contractual maturity date. Insurance liability cash flows are based on expected claim dates and are shown on a discounted basis.

28. MANAGEMENT OF FINANCIAL RISK (continued)

Financial liabilities at 31 December 2023	**Within 1 year or on demand £'000**	**1 - 2 years £'000**	**2 - 3 years £'000**	**3 - 4 years £'000**	**4 - 5 years £'000**	**Over 5 years £'000**	**Gross nominal outflow £'000**
Non-profit investment contract liabilities [1]	**3,030,400**	**-**	**-**	**-**	**-**	**-**	**3,030,400**
Investment claims received but not yet settled	**17,722**	**-**	**-**	**-**	**-**	**-**	**17,722**
Derivative liabilities	**-**	**10,195**	**1,684**	**1,267**	**-**	**96,297**	**109,443**
Other payables	**42,871**	**99**	**-**	**-**	**-**	**-**	**42,970**
	3,090,993	**10,294**	**1,684**	**1,267**	**-**	**96,297**	**3,200,535**

[1] Investment contract policyholders have the option to terminate their contracts at any time and to receive the surrender value of their policies. Although these liabilities are payable on demand, the company does not expect these amounts to all be paid out within one year of the reporting date.

Gross nominal outflows shown above are the same as the carrying amounts except for derivative liabilities for which the carrying amount is £55.4 million.

Financial liabilities at 31 December 2022 restated	Within 1 year or on demand £'000	1 – 2 years £'000	2 – 3 years £'000	3 – 4 years £'000	4 – 5 years £'000	Over 5 years £'000	Gross nominal outflow £'000
Non-profit investment contract liabilities [1]	3,175,620	-	-	-	-	-	3,175,620
Investment claims received but not yet settled	18,896	-	-	-	-	-	18,896
Derivative liabilities	50,650	-	2,565	2,862	305	178,492	234,874
Other payables	42,226	-	-	-	-	-	42,226
	3,287,392	-	2,565	2,862	305	178,492	3,471,616

[1] Investment contract policyholders have the option to terminate their contracts at any time and to receive the surrender value of their policies. Although these liabilities are payable on demand, the company does not expect these amounts to all be paid out within one year of the reporting date.

Gross nominal outflows shown above are the same as the carrying amounts except for derivative liabilities for which the carrying amount is £129.4 million.

Prior period financial liabilities have been restated to exclude investment contracts with discretionary participating features and deposits received from reinsurers which are now included within insurance liabilities as a result of the transition to IFRS 17 (see accounting policy (b)) and to align with the time periods required by IFRS 17 for insurance contract liabilities.

28. MANAGEMENT OF FINANCIAL RISK (continued)

Insurance liabilities at 31 December 2023	Within 1 year or on demand £'000	1 – 2 years £'000	2 – 3 years £'000	3 – 4 years £'000	4 – 5 years £'000	Over 5 years £'000	Total £'000
With-profits insurance contracts	**162,669**	**11,496**	**11,388**	**2,736**	**7,445**	**121,617**	**317,351**
Non-profit insurance contracts	**166,963**	**139,118**	**127,183**	**116,197**	**106,066**	**790,128**	**1,445,655**
Unit-linked insurance contracts	**2,161,276**	**(698)**	**782**	**2,394**	**2,807**	**28,594**	**2,195,155**
	2,490,908	**149,916**	**139,353**	**121,327**	**116,318**	**940,339**	**3,958,161**
Reinsurers' share	**(163,502)**	**(134,351)**	**(122,544)**	**(112,068)**	**(102,114)**	**(760,371)**	**(1,394,950)**
Deposit back liability to reinsurer	**1,609,750**	**-**	**-**	**-**	**-**	**-**	**1,609,750**
	3,937,156	**15,565**	**16,809**	**9,259**	**14,204**	**179,968**	**4,172,961**

The table above shows the cash flow maturities for the present value of future cash flows only, risk adjustment and CSM are not included.

Insurance liabilities at 31 December 2022 restated	Within 1 year or on demand £'000	1 - 2 years £'000	2 - 3 years £'000	3 - 4 years £'000	4 - 5 years £'000	Over 5 years £'000	Total £'000
With-profits insurance contracts	184,648	6,136	16,547	15,637	8,408	124,774	356,150
Non-profit insurance contracts	173,347	145,569	133,193	121,398	110,172	860,747	1,544,426
Unit-linked insurance contracts	2,246,542	568	134	1,580	2,440	34,566	2,285,830
	2,604,537	152,273	149,874	138,615	121,020	1,020,087	4,186,406
Reinsurers' share	(170,866)	(146,619)	(133,261)	(122,190)	(111,760)	(865,161)	(1,549,857)
Deposit back liability to reinsurer	1,865,320	-	-	-	-	-	1,865,320
	4,298,991	5,654	16,613	16,425	9,260	154,926	4,501,869

The table above shows the cash flow maturities for the present value of future cash flows only, risk adjustment and CSM are not included.

28. MANAGEMENT OF FINANCIAL RISK (continued)

Financial assets at 31 December 2023	**No contractual maturity £'000**	**Within 1 year £'000**	**1 - 2 years £'000**	**2 - 3 years £'000**	**3 - 4 years £'000**	**4 - 5 years £'000**	**Over 5 years £'000**	**Gross nominal inflow £'000**
Shares and other variable yield securities	**4,310,513**	**-**	**-**	**-**	**-**	**-**	**-**	**4,310,513**
Debt and other fixed income securities	**-**	**392,524**	**218,265**	**163,048**	**120,128**	**130,268**	**1,779,144**	**2,803,377**
Cash and cash equivalents	**67,664**	**54,074**	**-**	**-**	**-**	**-**	**-**	**121,738**
Derivative assets	**-**	**-**	**8,327**	**633**	**5,457**	**618**	**47,384**	**62,419**
	4,378,177	**446,598**	**226,592**	**163,681**	**125,585**	**130,886**	**1,826,528**	**7,298,047**

Volatility in financial markets has not impacted, and is not expected to impact, the company's ability to meet its obligations as they fall due.

Gross nominal outflows shown above are the same as the carrying amounts except for debt and other fixed income securities, and derivative assets for which the carrying amounts are £2,827.7 million and £40.8 million respectively.

Financial assets at 31 December 2023 restated	No contractual maturity £'000	Within 1 year £'000	1 - 2 years £'000	2 - 3 years £'000	3 - 4 years £'000	4 - 5 years £'000	Over 5 years £'000	Gross nominal inflow £'000
Shares and other variable yield securities	4,550,845	-	-	-	-	-	-	4,550,845
Debt and other fixed income securities	-	303,341	63,318	138,280	231,280	118,303	2,175,440	3,029,962
Cash and cash equivalents	56,666	81,449	-	-	-	-	-	138,115
Derivative assets	-	62,148	12,493	1,533	7,342	190	30,036	113,742
	4,607,511	446,938	75,811	139,813	238,622	118,493	2,205,476	7,832,664

Volatility in financial markets has not impacted, and is not expected to impact, the company's ability to meet its obligations as they fall due.

Gross nominal outflows shown above are the same as the carrying amounts except for debt and other fixed income securities, and derivative assets for which the carrying amounts are £2,943.7 million and £97.8 million respectively.

Prior period financial assets have been restated to reflect private debt securities moving from amortised cost to fair value as a result of the transition to IFRS 9 (see accounting policy (b)) and to align with the time periods required by IFRS 17 for insurance contract liabilities.

29. INVESTMENT CONTRACT LIABILITIES

	2023 £'000	Restated 2022 £'000
Non-profit investment contract liabilities – unit-linked	**3,026,346**	3,169,349
Non-profit investment contract liabilities – non-linked	**4,054**	6,271
	3,030,400	3,175,620

Prior period investment contracts have been restated to exclude with-profits contracts as a result of the transition to IFRS 17 (see accounting policy (b)).

Unit-linked investment contract liabilities are carried in the balance sheet at fair value through profit or loss.

The movements in non-profit investment contract liabilities are shown below.

	2023 £'000	Restated 2022 £'000
At 1 January	**3,175,620**	3,774,964
Deposits received from policyholders	**6,892**	7,706
Payments made to policyholders	**(271,609)**	(218,181)
Fees deducted	**(27,868)**	(28,166)
Change in non-profit investment contract liabilities	**147,365**	(360,703)
At 31 December	**3,030,400**	3,175,620

30. PROVISIONS FOR OTHER RISKS AND CHARGES

	Onerous contract provision £'000	Other £'000	Total £'000
Balance at 1 January 2022 restated	4,357	2,721	7,078
(Released) / charged in year restated	(893)	1,183	290
Utilised in year	-	(33)	(33)
Balance at 31 December 2022 restated	3,464	3,871	7,335
(Released) / charged in year	**(1,101)**	**(1,671)**	**(2,772)**
Utilised in year	**-**	**(3)**	**(3)**
Balance at 31 December 2023	**2,363**	**2,197**	**4,560**

Prior period onerous contract provision has been restated as a result of the transition to IFRS 17 (see accounting policy (b)).

Onerous contract provision – Where the cost of meeting obligations under unit-linked investment contracts exceeds the fees that the company expects to earn in the future from servicing those contracts, a provision is made for the anticipated losses.

Other – Includes an amount provided in respect of policy administration outsourcing arrangements.

31. DEFERRED INCOME LIABILITY

	2023 £'000	2022 £'000
At 1 January	**2,163**	3,372
Amortisation credited to the income statement	**(456)**	(1,209)
Charge in the year	**689**	-
At 31 December	**2,396**	2,163

Included in the carrying values above, £0.3 million (2022: £0.4 million) is expected to be amortised within 12 months of the balance sheet date and is classified as current. The balance relates entirely to front end fees arising from non-profit investment contracts.

32. OTHER PAYABLES

	2023 £'000	Restated 2022 £'000
Policyholders	**6,355**	2,449
Other		
Amounts owed to former parent undertakings	**-**	12,799
Amounts owed to former group undertakings	**-**	1,795
Amounts owed to SLFC Services Company (UK) Limited	**3,443**	1,881
Amounts owed to parent undertaking – group relief	**11,226**	-
Derivative liabilities (note 19)	**55,380**	129,366
Collateral received	**4,375**	2,082
Lease liabilities	**290**	-
Accrued expenses	**3,763**	3,345
Prepaid property income	**2,742**	3,077
Investment trades awaiting settlement	**5,146**	10,177
Other	**5,630**	4,621
	91,995	169,143
	98,350	171,592
Current – within one year	**42,871**	91,787
Non-current – in more than one year	**55,479**	79,805
	98,350	171,592

Other payables, with the exception of derivative liabilities, are measured at amortised cost. Derivative financial instruments are stated at fair value.

Prior period other payables have been restated as a result of the transition to IFRS 17 (see accounting policy (b)).

33. LEASE COMMITMENTS

Maturity analysis – contractual undiscounted cash flows

The company has future aggregate minimum lease payments under non-cancellable leases that fall due as follows:

	Land and buildings	
	2023	2022
	£'000	£'000
Within one year	**207**	142
Between one and five years	**99**	211
	306	353

34. RELATED PARTY TRANSACTIONS

The following transactions were entered into with related parties.

	2023	2022
	£'000	£'000
Other group undertakings		
Purchase of management and administrative services	**26,798**	23,327
Purchase of investment management services	**1,642**	8,174
Purchase of asset-liability management services	**106**	523

Management and administrative services are provided by a fellow subsidiary undertaking, SLFC Services Company (UK) Limited. SLFC Services Company (UK) Limited does not charge a mark-up on the services that it provides and seeks to recover all costs incurred by way of a monthly service charge.

Certain of the company's investments are managed by MFS Investment Management and Sun Life Capital Management (Canada) Inc., which were related parties until the acquisition of the company by the Phoenix Group on 3 April 2023. These companies continue to provide investment management services under a separate contractual agreement but are no longer disclosed as related party transactions after 3 April 2023. The charge for providing this service is included within investment management expenses.

Asset-liability management services are provided by SLACC, the former parent undertaking. Asset-liability management services continue to be provided under a TSA but are no longer disclosed as related party transactions after 3 April 2023. Up to this date, the charge was calculated by applying a basis point charge to funds under management. The charge is included within administrative expenses.

Key management remuneration

Details of key management remuneration are provided in note 11.

Dividends

Details of dividends paid to the immediate parent company are provided in note 14.

Amounts due from / to group undertakings

The company had receivable and payable balances with the former group undertakings detailed above as shown in notes 23 and 32. These were settled on completion of the acquisition of the company by the Phoenix Group.

In 2022, an amount of £1.3 million was included within receivables in respect of a reimbursement right asset for future recoveries under the expense indemnity agreement with SLACC, the former parent undertaking. The expense agreement was terminated, and the receivable was settled on completion of the acquisition of the company by the Phoenix Group.

Reinsurance

The company has reinsured its annuity business and, until 3 April 2023, the GAOs attached to unit-linked contracts with former related group undertakings in Bermuda and Canada. In order to limit counterparty credit exposure, the reinsurer is required to deposit back investments under the treaties. The liability to repay the deposits is detailed in note 26. On 3 April

34. RELATED PARTY TRANSACTIONS (continued)

2023, the company recaptured the reinsurance treaty relating to the GAO business and the deposit back liability to the reinsurer relating to the annuity business is no longer disclosed as a related party balance after this date.

Prior to 3 April 2023, outward reinsurance premiums to former group undertakings amounted to £0.5 million (2022: £2.6 million) and amounts received from group undertakings relating to reinsured benefits paid amounted to £39.4 million (2022: £164.5 million). In accordance with the treaties, the company recognised commissions due from the reinsurer of £nil (2022: £0.1 million) and expense allowances of £3.5 million (2022: £14.4 million).

Solvency II hedge

The sensitivity of the solvency position to movements in interest rates and swap spreads was managed by use of derivatives transacted with SLACC until 23 February 2023. The value of the derivatives at 31 December 2022 was £10.9 million.

35. FINANCIAL COMMITMENTS

The company has a number of on-going contracts for the provision of outsourcer services, the most significant of which are shown below with the estimated cost for 2024.

	2024 expected cost £'000
State Street Bank and Trust Company	**2,437**
Diligenta Limited	**8,004**
Equiniti, Paymaster (1836) Limited	**1,092**
Towers Watson Limited	**2,879**

The company is also committed to purchase private debt securities with payments falling due as detailed in note 19 on page 64.

36. PARENT COMPANIES

The company's immediate parent company is SLF of Canada UK Limited, a company incorporated in the UK.

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