SUNLIFE LIMITED

Company Registration Number: 5460862

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

Contents

Strategic report

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

The financial statements of the Company for the year ended 31 December 2021 have been prepared in accordance with UK adopted international accounting standards.

Business review

Principal activities
The Company is regulated by the Financial Conduct Authority ("FCA"). The principal activity of the company is to distribute SunLife branded products on behalf of its immediate parent company, Phoenix Life Limited ("PLL") and certain third parties. The Company's ultimate parent is Phoenix Group Holdings plc ("the Group").

Financial performance
The results of the Company for the year are shown in the Statement of comprehensive income on page 12. The profit before tax was £39.9m (2020: £28.3m).

Dividends totalling £14.4m were paid to the parent company during the year (2020: £11.0m).

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

Capital resources
As the Company is regulated by the FCA, it regularly reviews and forecasts its adjusted net asset position as determined by Chapter 13 of IPRU (INV). At 31 December 2021, the Company had an excess over its regulatory capital requirements of £43.6m (2020: £25.6m).

Profits after taxation and distributable reserves
For the year ended 31 December 2021 the Company reported a profit after taxation of £32.3m (2020: £23.0m). As at 31 December 2021, the Company had distributable reserves amounting to £41.7m (2020: £23.8m).

Cash flows
Cash flows are monitored closely by the business to ensure that all liabilities can be met as they fall due. In 2021, operations generated cash of £8.7m (2020: £39.8m) and cash and cash equivalents totalled £66.2m (2020: £82.5m) as at 31 December 2021.

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

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

During the year, the Directors of the Company have applied section 172 of the Companies Act 2006 in a manner consistent with the overall purpose, values and strategic priorities of the Phoenix Group. When considering issues of strategic importance, and making key decisions about the company (or those that impact the wider Group), the Directors have acted in a way which they consider, in good faith, is most likely to promote the success of the Company for the benefit of its members as a whole.

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

- SunLife customers;
- The strategic partners, on behalf of whom SunLife acts as a distributor;
- The Company's employees;
- Its regulator, the Financial Conduct Authority;
- Its outsourced service providers; and
- The Company's immediate parent, Phoenix Life Limited and ultimate parent, Phoenix Group Holdings plc.

Examples of significant decisions that show how the Board considered relevant matters set out in section 172 are outlined in the table below, demonstrating how the Directors of the Company have carried out their duties under section 172 of the Companies Act 2006 during the year ended 31 December 2021.

Key Board Decision	**Approval of new strategic partner for Guaranteed Over 50 Plans**
STRATEGIC IMPORTANCE Meeting changing customer needs	CONSIDERATION OF S172 MATTERS • Fostering business relationships: the Board considered a proposal for the Company to enter into a distribution partner agreement with an Insurance panel provider for the sale of Guaranteed Over 50 Plans. In considering the proposal, the Board recognised its alignment to the Company's business model of acting as a distributor of third party products, the success of which was based on entering into and maintaining relationships with third party product providers. • Fostering customer relationships: consideration of how the new arrangement might impact customers was given by the Board. It was acknowledged that the terms of any new arrangement would ensure customers were treated fairly and negative policyholder impact minimised. • Maintaining a reputation for high standards of business conduct: as part of the Board's decision-making, the Board noted the due diligence undertaken on the Insurance panel provider, as required under sourcing and procurement processes. It also noted how any risks associated with the potential new arrangement would be managed. • Long term consequences: the Board considered financial metrics associated with the proposal, including commission arrangements and set up costs.
Outcome	Following due consideration of the matters set out in section 172, the Board approved and recommended the request to its immediate parent, Phoenix Life Limited, to approve the addition of the Insurance panel provider as a distribution agent of the Company.

Key Board Decision	**Payment of a Dividend**
STRATEGIC IMPORTANCE Managing our capital position	CONSIDERATION OF S172 MATTERS • Maintaining a reputation for high standards of business conduct: as part of the process to consider a proposal for payment of a dividend, the Board reviewed and approved changes to the Company's Financial Risk Policy, Capital Management Policy and Dividend approach. These changes were put forward in order to reflect improved analysis of the Company's risks and liquidity constraints and the Group's newly refreshed overarching risk policies. • Long term consequences: in considering the dividend proposal, the Board paid due regard to the Company's net assets and key risk exposures thereon, together with its continuing ability to meet its liabilities. For 2021, this included consideration of the uncertainty created by the Covid-19 pandemic and its impact on business levels and the Company's ability to continue to provide a service to its customers. • Need to foster business relationships: As part of its ongoing oversight of the business, the Company's regulator sets a minimum capital requirement which must be maintained. In considering the dividend proposal, the Board ensured that this minimum requirement was adequately met and further protected by an additional capital buffer. This, together with consideration of the long term consequences of the proposal (as outlined above), ensured that the Company's customers, strategic partners and employees were not adversely impacted by any decision to pay a dividend.
Outcome	Following due consideration of the matters set out in section 172, the Board approved a dividend of £14.4m, to be paid to its sole shareholder Phoenix Life Limited.

Key Board Decision	Approval of the YE20 Accounts
STRATEGIC IMPORTANCE Managing our capital position	CONSIDERATION OF S172 MATTERS • Long term consequences: the Board considered whether the expectation that the Company would continue in operational existence for the foreseeable future was appropriate. Such consideration enabled the Board to reach a decision to approve the YE20 accounts, within which a going concern statement was included (relied upon by others assessing the business). The long -term impact of the decision to approve the YE20 accounts therefore included the potential reliance of those reading the accounts on the going concern statement, which the Board considered to be relevant and accurate. • Maintaining a reputation for high standards: prior to approving the YE20 accounts, the Board considered the outcome of an external audit of the accounts, including assessments relating to the ongoing impact of COVID-19 on the Company. By ensuring that clearance had been received from the external auditor, the Board was able to ensure that the Company's reputation for high standards of business conduct was maintained, expected by all stakeholders.
Outcome	Following due consideration of the matters set out in section 172, the Board approved the YE20 accounts.

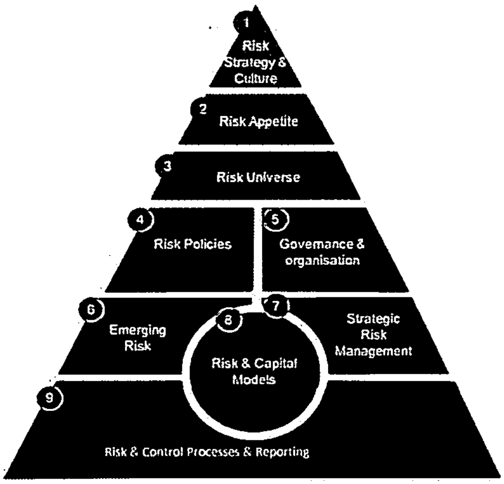
Key Board Decision	Approval of the Annual Operating Plan
STRATEGIC IMPORTANCE Managing our capital position *Meeting changing customer needs*	CONSIDERATION OF S172 MATTERS • Long term consequences: the Board considered its Annual Operating Plan in the context of the wider 5-year planning horizon. The plan reflected forecast volume and profit growth over the plan period and provided assurance on the Company's ability to produce its 2021 accounts on a going concern basis. • Maintaining a reputation for high standards: the Board considered forthcoming regulatory change in relation to distribution of funeral plan products and the impact on the Annual Operating Plan as part of ensuring that this new requirement was met. • Fostering business relationships: the Board recognised that the proposal to introduce different pricing for non-smokers and smokers across its core product could potentially complicate the existing customer journey and this was kept under close scrutiny as the proposition was developed, to ensure customer impact was minimised.
Outcome	Following due consideration of the matters set out in section 172, the Board approved the proposed Annual Operating Plan.

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

Principal risks and uncertainties

The Company adopts the Phoenix Group's Risk Management Framework (RMF). The Group's RMF embeds proactive and effective risk management. It seeks to ensure that all material risks are identified, assessed, controlled monitored and managed within approved risk appetites and reported through agreed governance routes in line with delegated authorities. The Group's RMF is aligned to the principles and guidance in ISO 31000 Risk Management standards.

The nine components of the Group's RMF are illustrated in the diagram below. Further details on each component are outlined in the Strategic Report of the Group's Annual Report and Accounts 2021.



The principal risks and uncertainties facing the Company are:

- the risk that inappropriate (unclear, unfair or misleading) financial promotions, sales practices and/or distribution agreements result in poor customer outcomes leading to reputational, financial and/or operational detriment (sales and distribution risk);
- the risk that the Company has insufficient capital to meet its regulatory capital requirements (capital management risk);
- the risk arising from an adverse movement in lapse rates leading to losses (lapse risk);
- the risk that the Company is unable to meet short-term cash flow requirements (liquidity risk);
- the risk of financial or reputation loss associated with outsourced partners and third party suppliers (sourcing and procurement risk).
- the risk arising from counterparty default in relation to amounts due from customers and bank deposits leading to financial loss (credit risk).

The risks noted above are discussed further in note 23.

COVID-19
Whilst many potential operational impacts of COVID-19 can now be effectively mitigated, and the COVID-19 vaccination programme has been successful, there remains potential for vaccine resistant mutations which could impact the Company's business operations and the wider economy. To date there has been minimal disruption in the Company's operations from the recent surge in COVID-19 infections since the Omicron variant was first identified. The Group's colleagues, and those of its outsourcers, are enabled to work from home and were encouraged to do so to mitigate risk. The application of the Group's Business Continuity Framework continues to work effectively and regular engagement across the Group's in-house and outsourced operations continues to monitor the ongoing position; this has supported any prioritisation decisions.

On behalf of the Board

DocuSigned by:
Kelly McDermott
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K McDermott
For and on behalf of Pearl Group Secretariat Services Limited
Company Secretary

14 March 2022

Directors' report

SunLife Limited ("the Company") is incorporated in England and Wales as a private limited company. Its registration number is 5460862 and its registered office is 1 Wythall Green Way, Wythall, Birmingham, B47 6WG.

Corporate governance

The Company, as part of a group wide framework, has established a governance framework for monitoring and overseeing strategy, operation of its business and compliance with applicable regulatory conduct standards that includes:

- a clear organisational structure with documented delegations of authority;
- matters reserved for the Board and written terms of reference for its committee;
- an Audit and Risk Committee, the members of which comprise not less than three members, all of whom are appointed by the Board from amongst and including, but not limited to, the independent non-executive Directors of the Company. The Committee's role is to monitor the overall integrity of the financial reporting by the Company, to review the overall effectiveness of the internal control and risk management systems of the Company, to monitor the overall effectiveness of the Internal Audit function of the Company, to oversee the relationship with the external auditors of the Company, to advise the Board on risk appetite and tolerance in setting the future strategy, taking account of the Board's overall degree of risk aversion, the current financial situation of the Company and the Company's capacity to manage and control risks within the agreed strategy; and
- the operation of a three lines of defence model with the Risk function providing risk oversight independent of management and the Internal Audit function providing independent verification of the adequacy and effectiveness of the internal controls and risk management processes in operation.

The Board is comprised of 2 non-executive Directors and 2 executive Directors.

Going concern

The Strategic report and the Directors' report summarise the Company's activities, its financial performance and its financial position together with any factors likely to affect its future development. In addition, it discusses the principal risks and uncertainties it faces. Notes 22 and 23 to the financial statements summarise the Company's capital management and risk management objectives and policies together with its financial risks.

The Directors have followed the UK Financial Reporting Council's *"Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks" (issued April 2016)* when performing their going concern assessment. As part of their comprehensive assessment of whether the Company is a going concern, the Directors have considered cash flow and solvency forecasts for the Company for the period to 31 March 2023.

As a result of this review, the Directors believe the Company has adequate resources to continue in operational existence over the going concern period assessed up to 31 March 2023. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Directors

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

J Cole	(resigned 1 November 2021)
B Curran	(appointed 25 May 2021)
D Lamble	(resigned 20 April 2021)
D Miller	
A Moss	(resigned 6 December 2021)
N Poyntz-Wright	
M Screeton	(appointed 12 October 2021)

Secretary

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

Matters disclosed in strategic report

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

Statement on Business Relationships

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

- **Business relationships with Partners/Suppliers**
  The Company's Board has oversight of the relationship with strategic partners and outsourced service providers ('OSPs') and its schedule of matters reserved includes the responsibility for monitoring the performance of those partners and service providers.

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

Disclosure of indemnity
Qualifying third party indemnity arrangements (as defined in section 234 of the Companies Act 2006) were in force for the benefit of the Directors of the Company during the year and remain in place at the date of approval of this report.

Disclosure of information to auditor
So far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditor is unaware, and each of the Directors has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information (as defined) and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act 2006.

Re-appointment of auditor
In accordance with section 487 of the Companies Act 2006, the Company's auditor, Ernst & Young LLP, will be deemed to have been re-appointed at the end of the period of 28 days following circulation of copies of these financial statements as no notice has been received from members pursuant to section 488 of the Companies Act 2006 prior to the end of the accounting reference period to which these financial statements relate.

On behalf of the Board

DocuSigned by:
Kerry McDermott
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K McDermott
For and on behalf of Pearl Group Secretariat Services Limited
Company Secretary

14 March 2022

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under the law the Directors have elected to prepare those statements in accordance with UK adopted international accounting standards. Under company law, the Directors must not approve the financial statements unless they are satisfied that they present fairly the financial performance, financial position and cash flows of the Company for the accounting period. A fair presentation of the financial statements in accordance with International Financial Reporting Standards ("IFRS") requires the Directors to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- state that the Company has complied with applicable IFRS, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of SunLife Limited

Opinion

We have audited the financial statements of SunLife Limited for the year ended 31 December 2021 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 27, including a summary of significant accounting policies. The financial reporting framework that has been applied is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period until 31 March 2023.

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

Other information

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

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to the reporting framework (UK adopted international accounting standards and the Companies Act 2006) and the relevant direct tax regulation in the United Kingdom. In addition, the Company is required to comply with laws and regulations relating to its operations, including health and safety, employees, anti-bribery and corruption and General Data Protection Regulation ('GDPR').

- We understood how the Company is complying with those frameworks by making inquiries with those charged with governance, internal audit and management to understand how the Company maintains and communicates its policies and procedures in these areas and corroborated this by reviewing supporting documentation. We also reviewed correspondence with relevant authorities.

- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved making inquiry of those charged with governance, management and internal audit for their awareness of any non-compliance of laws and regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers, inquiring about the Company's method of enforcing and monitoring compliance with such policies and inspecting significant correspondences with the regulators.

- 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 the risks identified by the entity and to prevent or detect fraud, including in a hybrid-working environment; and how management monitors these controls. We identified the risk of material fraud related to management override of controls and by assuming revenue recognition to be fraud risks. We evaluated the appropriateness of journal entries recorded in the general ledger, including the posting of manual revenue journals and evaluated the business rationale for significant and/or unusual transactions.

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

Use of our report

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

DocuSigned by:

Robin Enstone

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

March 17, 2022 | 3:22:20 GMT

Statement of comprehensive income
for the year ended 31 December 2021

	Notes	2021 £000	2020 £000
Revenue	3	106,452	116,713
Interest income		4	165
Administrative expenses	4	(66,564)	(88,550)
Profit for the year before finance costs and tax		39,892	28,328
Finance costs	5	(41)	(49)
Profit for the year before tax		39,851	28,279
Tax charge	8	(7,560)	(5,265)
Profit for the year		32,291	23,014
Other comprehensive income		-	-
Total comprehensive income for the year		32,291	23,014

Statement of financial position
as at 31 December 2021

	Notes	As at 31 December 2021	As at 31 December 2020
		£000	£000
Assets			
Property, plant and equipment	10	2,004	2,332
Deferred tax asset	11	56	956
Prepayments and accrued income	12	6,769	6,509
Contract assets	13	5,193	5,209
Other receivables	14	940	198
Cash and cash equivalents	15	66,223	82,537
Total assets		81,185	97,741
Liabilities			
Provisions	16	24,375	27,127
Accruals and deferred income	17	6,143	35,316
Lease liabilities	18	2,288	2,721
Other payables	19	1,724	3,813
Total liabilities		34,530	68,977
Equity			
Share capital	20	5,000	5,000
Retained earnings		41,655	23,764
Total equity		46,655	28,764
Total equity and liabilities		81,185	97,741

On behalf of the Board

DocuSigned by:
Mark Screeton
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M Screeton
Director

14 March 2022

Statement of cash flows
for the year ended 31 December 2021

	Notes	2021 £000	2020 £000
Cash flows from operating activities			
Cash generated from operations	21	8,721	39,787
Tax paid		(10,161)	(500)
Net cash flows from operating activities		(1,440)	39,287
Net cash flows from investing activities		-	-
Cash flows from financing activities			
Ordinary share dividends paid	9	(14,400)	(11,000)
Interest paid	5	(41)	(49)
Repayment of principal lease liabilities	18	(433)	(425)
Net cash flows from financing activities		(14,874)	(11,474)
Net (decrease)/ increase in cash and cash equivalents		(16,314)	27,813
Cash and cash equivalents at the beginning of the year		82,537	54,724
Cash and cash equivalents at the end of the year	15	66,223	82,537

Supplementary disclosures on cash flow from operating activities

	2021 £000	2020 £000
Interest received	4	165

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

	Share capital (note 20) £000	Retained earnings £000	Total £000
At 1 January 2021	5,000	23,764	28,764
Profit for the year	-	32,291	32,291
Total comprehensive income for the year	-	32,291	32,291
Dividends paid on ordinary shares (note 9)	-	(14,400)	(14,400)
At 31 December 2021	5,000	41,655	46,655

Of the above, £41.7m (2020: £23.8m) is considered distributable.

	Share capital (note 20) £000	Retained earnings £000	Total £000
At 1 January 2020	5,000	11,750	16,750
Profit for the year	-	23,014	23,014
Total comprehensive income for the year	-	23,014	23,014
Dividends paid on ordinary shares (note 9)	-	(11,000)	(11,000)
At 31 December 2020	5,000	23,764	28,764

Notes to the financial statements

1. Accounting policies

(a) Basis of preparation

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

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

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

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

The results of the Company are consolidated into the accounts of the Company's ultimate parent, Phoenix Group Holdings plc, a company incorporated in England and Wales.

Climate change

The Company has considered the potential impacts of climate change on the financial statements, including on key assumptions and estimates used in the valuation of reported assets and liabilities, and concluded that there are no material implications at this time. Impacts of climate change will remain under review by the Company and the wider Group.

Statement of compliance

The financial statements of the Company for the year ended 31 December 2021 have been prepared in accordance with UK adopted international accounting standards.

(b) Critical accounting estimates and judgements

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

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the Company's business that typically require such estimates are contract assets, revenue recognition and the determination of provisions as discussed in accounting policy (e), (j) and (h) respectively.

(c) Income tax

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

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

Deferred tax is provided for on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided in respect of temporary differences arising from the initial recognition of goodwill and the initial recognition of assets or liabilities in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and laws enacted or substantively enacted at the period end.

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

(d) Financial assets

Financial assets are measured at amortised cost where they have:

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

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

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

The Company measures loss allowances which have low credit risk using the 12-month Expected Credit Loss ("ECL"). Interest revenue is recognised on a gross basis. A simplified approach is used to determine the loss allowances for other receivables and contract assets within the scope of IFRS 15, as these are always measured at an amount equal to lifetime ECLs. See note 23 for details of how the Company assesses whether the credit risk of a financial asset has increased since initial recognition and when estimating ECLs.

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

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

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

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

(e) Contract assets
A contract asset is the right to consideration in exchange for services transferred to the customer. If the Company satisfies its performance obligation to the customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

(f) Cash and cash equivalents
Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity term of three months or less at the date of placement.

(g) Leases
At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an individual asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the lessor has a substantive substitutions right, then the asset is not identified;
- The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset i.e. it has the decision-making rights about how and for what purpose the asset is used.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairments, and adjusted for certain remeasurements of the lease liability. The right-of-use asset is depreciated over the remaining lease term.

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low value assets, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Lease liabilities are presented as a separate line item and right-of-use assets are presented within 'property, plant and equipment' in the statement of consolidated financial position.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate as the interest rate implicit in the lease cannot be readily determined. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from, for example, rent reviews or from changes in the assessment of whether a termination option is reasonably certain not to be exercised. The Company applies judgement to determine the lease term for leases with break clauses.

The Company excludes non-lease components such as service charges and accounts for these on a straight-line basis over its lease term.

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

(i) Dividends
Final dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's owners. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the reporting period are dealt with as an event after the reporting period.

(j) Revenue recognition
Revenue from contracts with customers is recognised at an amount that reflects the consideration to which the Company is expected to be entitled in exchange for transferring services to a customer. For each contract with a customer, the Company identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the services promised.

Variable consideration within the transaction price is present in certain contracts when the Company's right to consideration is contingent on the occurrence of a future event. Variable consideration is determined using the 'expected value' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved.

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

(l) Share capital

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

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

(n) Expense recognition
Equity-settled share-based payments to employees and others providing services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Further details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 24.

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

2. Financial information

The financial statements for the year ended 31 December 2021, set out on pages 12 to 30, were authorised by the Board of Directors for issue on 14 March 2022.

Adoption of New Accounting Pronouncements in 2021
In preparing the financial statements, the Company has adopted the following standards, interpretations and amendments which have been issued by the International Accounting Standards Board ('IASB'):

- Amendment to IFRS 16 Leases COVID-19-Related Rent Concessions beyond 30 June 2021 (1 June 2020): The amendment permits lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The Company does not expect to make use of this practical expedient.

The amendments to standards listed above have been endorsed for use in the UK by the Secretary of State. On 21 May 2021 the powers to endorse and adopt IFRSs were delegated by the Secretary of State to the UK Endorsement Board. There is no impact for the Company from implementing this amendment.

New Accounting Pronouncements Not Yet Effective
The IASB has issued the following new or amended standards and interpretations which apply from the dates shown. The Company has decided not to early adopt any of these standards, amendments or interpretations where this is permitted.

- IFRS 3 Business Combinations (1 January 2022): The amendments update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

- IAS 16 Property, Plant and Equipment (1 January 2022): The amendments prohibit the Company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the Company is preparing the asset for its intended use. Instead, such sales proceeds and related costs should be recognised in profit or loss.

- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (1 January 2022): The amendments specify which costs a company includes when assessing whether a contract will be lossmaking.

- Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements) (1 January 2023): The amendments are intended to assist entities in deciding which accounting policies to disclose in their financial statements and requires an entity to disclose 'material accounting policy information' instead of its 'significant accounting policies'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements.

Other new or amended accounting standards issued by the IASB are not considered to have a significant impact on the Company's financial statements or accounting policies.

3. Revenue

	2021	2020
	£000	£000
Revenue from contracts with customers		
Business manufactured within PLL	103,957	110,555
Third party business	2,495	6,158
	106,452	116,713

Revenue from contracts with customers represents net commission income generated from providing distribution services to the Company's immediate parent, Phoenix Life Limited ("PLL") and certain third parties, allowing for expected future commission clawback as a result of policy lapses.

The performance obligation in respect of these contracts is satisfied upon completion of the service. The consideration amount for certain contracts with third parties is variable and has been estimated using the expected value method, using lapse, funeral redemption and mortality assumptions based on historic experience. The amount of variable consideration included within third party business above is £187,000 (2020: £1,740,000).

4. Administrative expenses

	2021 £000	2020 £000
Employee costs	6,463	27,277
Other operating expenses	45,400	46,664
Movement in provisions	14,325	14,230
Operating lease rentals	4	7
Depreciation on right-of-use asset (note 10)	372	372
	66,564	88,550

Administrative services are provided by Pearl Group Management Services Limited ("PGMS"), a fellow group company.

Other operating expenses include £4,000 (2020: £7,000) of expense payments relating to low value leases which are not included in the measurement of the lease liabilities.

Employee costs comprise:

	2021 £000	2020 £000
Wages and salaries (including termination benefits)	5,413	26,134
Social security contributions	551	637
Other pension costs	499	506
	6,463	27,277

	2021 Number	2020 Number
Average number of persons employed	95	99

5. Finance costs

	2021 £'000	2020 £'000
Interest expense on lease liabilities	41	49

6. Directors' remuneration

	2021 £000	2020 £000
Remuneration (executive and non-executive Directors remuneration excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	655	796
Share option schemes and other long-term benefits	32	17,576
Compensation for loss of office	-	101

	2021 Number	2020 Number
Number of Directors accruing retirement benefits under:		
- a money purchase pension scheme	-	1
Number of Directors who had exercised share options during the year	1	3

	2021 £000	2020 £000
Highest paid Director:		
Remuneration	187	507
Long term benefits	-	14,578

The Executive Directors are employed by either the Company or PGMS, a fellow group company. The Non-Executive Directors are not employed but provide their services via a letter of appointment. For the purposes of this note an apportionment of the total remuneration paid to the Directors of the Company by the Phoenix Group has been made based on an estimate of the services rendered to the Company.

7. Auditor's remuneration

The remuneration of the auditors of the Company in respect of the audit of the financial statements was £26,000 (2020: £26,000). In addition, audit related assurance services of £5,000 were incurred during the year (2020: £5,000).

8. Tax charge

Current year tax charge

	2021 £000	2020 £000
Current tax:		
UK Corporation tax	6,690	5,261
Adjustment in respect of prior years	(30)	-
Total current tax	6,660	5,261
Deferred tax		
Origination and reversal of temporary differences	882	117
Change in rate of UK Corporation tax	(5)	(113)
Adjustment in respect of prior years	23	-
Total deferred tax	900	4
Total tax charge	7,560	5,265

Reconciliation of tax charge

	2021 £000	2020 £000
Profit before tax	39,851	28,279
Tax at standard UK rate of 19%	7,572	5,373
Adjustment in respect of prior years	(7)	-
Disallowed expenses	-	5
Deferred tax rate change	(5)	(113)
Total tax charge for the year	7,560	5,265

9. Dividends on ordinary shares

	2021	2020
	£000	£000
Final dividend for 2021 at 288p (Interim dividend for 2020 at 220p) per share	14,400	11,000

10. Property, plant and equipment

Set out below is the carrying amount of the right-of-use assets recognised and the movements during the period:

Property - right of use assets

	2021	2020
	£000	£000
As at 1 January	2,332	2,694
Adjustments to leasehold property provision (note 16)	44	10
Depreciation expense (note 4)	(372)	(372)
As at 31 December	2,004	2,332

The right-of-use asset relates to lease commitments in respect of Redcliff Quay which is office space leased by the Company. The leases commenced in March 2017 and expire in March 2027, but the Company has the option to break in March 2023.

11. Tax assets and liabilities

	2021	2020
	£000	£000
Deferred tax asset	56	956

Movement in deferred tax asset
Year ended 31 December 2021

	At 1 January £000	Recognised in the Statement of comprehensive income £000	At 31 December £000
Provisions and other temporary differences	930	(901)	29
Accelerated capital allowances	26	1	27
	956	(900)	56

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

An increase from the current 19% UK corporation tax rate to 25% effective from 1 April 2023, was announced in the Budget on 3 March 2021. Deferred tax assets and liabilities, where provided, are reflected using hybrid rates determined by reference to the tax rate in force when the deferred tax items are released.

12. Prepayments and accrued income

	2021	2020
	£000	£000
Prepayments	1,546	1,628
Accrued Income	5,223	4,881
	6,769	6,509
Amount recoverable after 12 months	-	-

13. Contract assets

	2021	2020
	£000	£000
As at 1 January	5,209	3,469
New contract assets recognised	1,628	2,111
Contract assets derecognised	(1,644)	(371)
As at 31 December	5,193	5,209
Amount recoverable after 12 months	4,885	4,896

Contract assets with customers are in respect of commission arrangements where Funeral Benefit Options ("FBO") are added to Guaranteed Over 50 policies. Commission on certain policies is received when the policyholder reaches a minimum age and for other policies is received upon redemption of the FBO. As the performance obligation occurs when the FBO is applied to the policy, no further services are required by the Company for the commission to become receivable

The consideration amount for these contracts is variable and has been estimated using the expected value method, using lapse, funeral redemption and mortality assumptions based on historic experience.

14. Other Receivables

	2021	2020
	£000	£000
Amounts due from fellow group companies	940	198
	940	198
Amounts recoverable after 12 months	-	-

15. Cash and cash equivalents

	2021	2020
	£000	£000
Bank and cash balances	10,966	10,282
Short term deposits	55,257	72,255
	66,223	82,537

16. Provisions

	Commission clawback	Leasehold property	Gift Card	Other	2021 Total
	£000	£000	£000	£000	£000
At 1 January 2021	23,409	450	3,268	-	27,127
Additions in the year	38,023	-	14,281	150	52,454
Adjustment through ROU asset	-	44	-	-	44
Released in the year	(1,227)	-	-	-	(1,227)
Utilised during the year	(39,267)	-	(14,756)	-	(54,023)
At 31 December 2021	20,938	494	2,793	150	24,375

The commission clawback provision represents the expected future clawback of commission income as a result of assumed lapses of policies or associated benefits. The lapse assumptions are based on historic experience for appropriate lines of business, reflecting the maturity of each policy at 31 December 2021.

The leasehold property provision is the Company's best estimate of the cost of removing alterations and returning its leased property to its original state at the end of the lease term. The timing of future cash outflows is dependent upon when the leases expire.

The gift card provision represents the Company's best estimate of the liability to make payments to policyholders in the form of gift cards as a welcome gift when taking out a policy.

The other provision represents the Company's contractual liability for the minimum guaranteed donation payable under a new distribution agreement with a charitable partner.

17. Accruals and deferred income

	2021	2020
	£000	£000
Accrued expenses	6,143	35,316
Amount due for settlement after 12 months	-	13

18. Lease liabilities

	2021	2020
	£000	£000
As at 1 January	2,721	3,146
Interest expense	41	49
Payments	(474)	(474)
As at 31 December 2020	2,288	2,721
Amount due after 12 months	1,846	2,288

Payments of £474,000 (2020: £474,000) consist of principal repayments of £433,000 (2020: £425,000) and interest expense of £41,000 (2020: £49,000).

Maturity analysis – contractual undiscounted cash flows

	2021	2020
	£000	£000
Not later than one year	474	474
Later than one year and no later than five years	1,897	1,897
Later than five years	-	474
	2,371	2,845

Lease commitments are in respect of Redcliff Quay which is office space leased by the Company. The leases commenced in March 2017 and expire in March 2027, but the Company has the option to break in March 2023.

The Company has elected not to recognise a lease liability for low value assets. Payments made under such leases are expensed on a straight-line basis.

The total cash outflow for leases (including the cash outflow for low value leases) for the year ended 31 December 2021 was £478,000 (2020: £481,000).

19. Other payables

	2021 £000	2020 £000
Amounts due to parent company	70	35
Amounts due to fellow group companies	10	2,561
Other payables	1,644	1,217
	1,724	3,813
Amount due for settlement after 12 months	-	-

20. Share capital

	2021 £000	2020 £000
Authorised: 5,000,100 (2020: 5,000,100) ordinary shares of £1 each	5,000	5,000
Issued and fully paid: 5,000,002 (2020: 5,000,002) ordinary shares of £1 each	5,000	5,000

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

21. Cash flows

Cash flows from operating activities

	2021 £000	2020 £000
Profit for the year before tax	39,851	28,279
Non-cash movements in profit for the year before tax		
Change in provisions	(2,752)	(763)
Depreciation of right of use asset	372	372
Interest on lease liabilities	41	49
Changes in operating assets and liabilities		
Change in other assets	(1,030)	(3,219)
Change in other liabilities	(27,761)	15,069
Cash generated from operations	8,721	39,787

The cash flow has been prepared using the indirect method.

22. Capital management

The Company's capital comprises share capital and reserves. At 31 December 2021, total capital was £46,655,000 (2020: £28,764,000).

The Company is regulated by the FCA and is subject to regulatory capital regulations that specify the minimum amount of capital that must be held. The Company manages capital in accordance with these rules and has embedded in its processes the necessary tests to ensure continuous and full compliance with such regulations. The Company monitored and maintained net assets in excess of its regulatory capital throughout the period. At 31 December 2021, the amount of capital that the Company was required to hold was £3,008,000 (2020: £3,194,000) and the excess capital over that required was £43,647,000 (2020: £25,570,000).

The company produces a five year financial forecast as part of the Phoenix Group annual planning process, which was presented to the Company's Board in December 2021. This showed a positive profitability and maintenance of net assets of the company significantly in excess of the minimum capital requirements over the period.

23. Risk management

The Phoenix Group Risk Management Framework sets out the high level arrangements for risk management, control and assurance within Phoenix Group and its subsidiaries. It is designed to provide a structured approach for identifying, assessing, controlling and monitoring financial and non-financial risks within Phoenix Group companies, which includes the Company.

Sales and distribution risk
Sales and Distribution risk can be defined as inappropriate (unclear, unfair or misleading) financial promotions, sales practices and/or distribution agreements resulting in poor customer outcomes leading to reputational, financial and/or operational detriment.

The Company adheres to a financial promotions development process, which includes financial promotions training and accreditation, an agreed set of financial promotions principles and a financial promotions code of reference. Financial promotions are approved by Line 1 Risk and a subset by Line 2 Risk prior to issue.

The Company's Telephony and Digital sales processes are subject to an annual assurance plan and are evidenced regularly through controls dashboards within risk governance.

Capital management risk
Capital management is discussed in note 22.

Lapse risk
The Company monitors lapse experience on a monthly basis at a product and business channel level. The Company also considers lead indicators including information regarding the policies going into arrears and those close to the end of the default process.

The Company utilises a retention program to provide customers going into arrears with relevant information and options.

The Company has been actively monitoring lapse experience in light of COVID-19. The lapse assumptions within the Company's lapse provisions are based on data prior to the pandemic as it is currently considered to be too early to determine any longer-term impact on lapses.

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

Key components of the monitoring framework include regular monitoring of cash flows and regular reviews to identify cash flow requirements.

Sourcing and procurement risk
The Company has established processes and controls across the business to minimise the risk of reductions in earnings and/or value through financial or reputation loss associated with outsourced partners and third party suppliers. The Company's Commercial team maintain a close working relationship with business functions and the Group's Legal team and employ a regular attestation program to ensure all contracts are appropriately approved, regularly monitored and correctly maintained.

The Company has managed the impacts of the COVID-19 pandemic on its own and its outsource service providers' ("OSPs") capacity, through business continuity arrangements, including focus on providing home working capability with appropriate controls and prioritising activities to focus on delivery of critical services to customers. All retained and outsourced functions have been able to continue throughout the pandemic.

The Company carries the risk that the OSPs used by the Company will no longer be able to provide the agreed services at an agreed cost and under the agreed timeframe. The Company manages this risk through established governance and relationship meetings together with regular updates from key OSPs on their business continuity arrangements.

Credit risk
Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. These obligations can relate to both recognised and unrecognised assets and liabilities.

Credit risk management practices

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

Category	**Description**	**Basis for recognising ECL**
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12m ECL
Doubtful	There has been a significant increase in credit risk since initial recognition, indicated by an increase in past-due amounts	Lifetime ECL (not credit impaired)
In default	There is evidence indicating the asset is credit-impaired, indicated by an increase in past-due amounts over 6 months old and increased counterparty risk by adverse changes in their credit ratings	Lifetime ECL (credit impaired)
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Company has no realistic prospect of recovery	Amount is written off

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

Financial Assets	**Note**	**External credit rating**	**Internal credit rating**	**ECL recognition**	**Gross carrying amount £000**	**Loss Allowance £000**	**Net carrying amount £000**
Contract assets	13	N/A	Performing	Lifetime ECL (simplified approach)	5,193	-	5,193
Intercompany receivables	14	N/A	Performing	12 month ECL	940	-	940
Cash and cash equivalents: Bank and cash balances	15	BBB	Performing	12 month ECL	10,966	-	10,966
Cash and cash equivalents: Short term deposits	15	AAA	Performing	12 month ECL	55,257	-	55,257

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

Contract assets within the scope of IFRS 15 are shown separately and always measured at an amount equal to lifetime ECLs in accordance with accounting policy.

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

Cash and cash equivalents - The Company's cash and cash equivalents are held with two financial institutions, which have an AAA and BBB investment grade rating and a positive outlook. The Company therefore considers that its cash and cash equivalents have low credit risk based on the external credit rating of the counterparty and there being no history of default.

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

24. Share Based Payments

Share-based payment expense

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

	2021	2020
	£'000	£'000
Expense arising from equity-settled share-based payment transactions	119	114

Long-Term Incentive Plan ('LTIP')

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

Assuming no good leavers or other events which would trigger early vesting rights, the 2020 and 2021 LTIP awards are subject to performance conditions tied to the Group's performance in respect of net operating cash receipts, return on shareholder value, persistency and TSR. A holding period applies so that any LTIP awards to Executive Committee members for which the performance vesting requirements are satisfied will not be released for a further two years from the third anniversary of the original award date. Dividends will accrue on LTIP awards until the end of the holding period. There are no cash settlement alternatives.

2021 LTIP awards were granted on 12 March 2021 and are expected to vest on 12 March 2024 and the 2020 awards will vest on 13 March 2023.

The fair value of these awards is estimated at the average share price in the three days preceding the date of grant, taking into account the terms and conditions upon which the instruments were granted. The fair value of the LTIP awards is adjusted in respect of the TSR performance condition which is deemed to be a 'market condition'. The fair value of the 2020 and 2021 TSR elements of the LTIP awards has been calculated using a Monte Carlo model.

The inputs to this model are shown below:

	2021 TSR performance condition	2020 TSR performance condition
Share price (£)	738.6	586.3
Expected term (years)	3.0	3.0
Expected volatility (%)	30	20
Risk-free interest rate (%)	0.14	0.28
Expected dividend yield (%)	Dividends are received by holders of the awards therefore no adjustment to fair value is required	

Each year, the Group issues a Chairman's share award under the terms of the LTIP, which is granted to a small number of employees in recognition of their outstanding contribution in the previous year. These awards are granted on the same dates as the core LTIP awards. These grants of shares are conditional on the employees remaining in employment with the Group for the vesting period and achieving an established minimum performance grading. Good leavers will be able to, at the discretion of the Remuneration Committee, exercise their full award at vesting.

Deferred Bonus Share Scheme ('DBSS')

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

The 2021 DBSS was granted on 12 March 2021 and is expected to vest on 12 March 2024. The 2018 DBSS awards vested on 15 March 2021. The 2019 awards are expected to vest on 11 March 2022 and the 2020 awards are expected to vest on 13 March 2023.

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

Sharesave scheme

The sharesave scheme allows participating employees to save up to £500 each month over a period of either three or five years. The 2021 sharesave options were granted on 9 April 2021.

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

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

The following information was relevant in the determination of the fair value of the 2017 to 2021 sharesave options:

	2021 Sharesave	2020 Sharesave	2019 Sharesave	2018 Sharesave	2017 Sharesave
Share price (£)	7.486	5.664	6.800	7.685	7.47
Exercise price (£) (Revised)	5.890	4.970	5.610	5.629	5.674
Expected life (years)	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25
Risk-free rate (%) – based on UK government gilts commensurate with the expected term of the award	0.5 (for 3.25 year scheme) and 0.7 (for 5.25 year scheme)	0.5 (for 3.25 year scheme) and 0.5 (for 5.25 year scheme)	1.0 (for 3.25 year scheme) and 1.1 (for 5.25 year scheme)	1.0 (for 3.25 year scheme) and 1.1 (for 5.25 year scheme)	0.2 (for 3.25 year scheme) and 0.4 (for 5.25 year scheme)
Expected volatility (%) based on the Company's share price volatility to date	30.0	30.0	30.0	30.0	30.0
Dividend yield (%)	6.3	8.2	6.8	6.5	6.3

Movements in the year

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

	Number of share options 2021		
	LTIP	Sharesave	DBSS
Outstanding at the beginning of the year	28,418	69,528	25,582
Granted during the year	31,738	15,942	8,432
Forfeited/cancelled during the year	(52,887)	(6,424)	-
Exercised during the year	-	(16,634)	-
Outstanding at the end of the year	**7,269**	**62,412**	**34,014**

	Number of share options 2020		
	LTIP	Sharesave	DBSS
Outstanding at the beginning of the year	1,427	68,042	16,502
Granted during the year	26,991	27,083	9,080
Forfeited/cancelled during the year	-	(11,793)	-
Exercised during the year	-	(13,804)	-
Outstanding at the end of the year	**28,418**	**69,528**	**25,582**

The weighted average fair value of options granted during the year was £5.28 (2020: £3.70).

The weighted average share price at the date of exercise for the rewards exercised is £7.00 (2020: £6.87).

The weighted average remaining contractual life for the rewards outstanding as at 31 December 2021 is 2.3 years (2020: 3.8 years).

25. Related party transactions

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

Administration
Pearl Group Management Services Limited ("PGMS"), a fellow group company, provided administration services to the Company. The charge made to the Company for the year ended 31 December 2021 amounted to £705,000 (2020: £2,411,000) and at the end of the year £10,000 was payable (2020: £198,000 receivable).

Transactions with PLL
Commission received from PLL for the year ended 31 December 2021 amounted to £119,380,000 (2020: £128,031,000). Commission paid to PLL for the year ended 31 December 2021 amounted to £27,000 (2020: £35,000).

Amounts payable to PLL at the end of the year amounted to £70,000 (2020: £35,000).

The Company has a provision for commission clawback payable to PLL at 31 December 2021 of £19,653,000 (2020: £21,857,000).

During the year ended 31 December 2021, the Company made payments totalling £19,000 (2020: £222,000) to PLL as reimbursement for VAT liabilities settled by PLL on behalf of the Company.

During the year ended 31 December 2021, the Company paid dividends to PLL of £14,400,000 (2020: £11,000,000).

Amounts due to / from fellow group companies
At 31 December 2021, an amount of £940,000 was receivable from (2020: £2,561,000 payable to) fellow group companies in respect of group tax relief.

Parent and ultimate parent entity
Information on the Company's parent and ultimate parent is given in note 27.

Key management compensation
The compensation payable to employees classified as key management, which comprises the Directors, is disclosed in note 6. Other transactions are disclosed below:

	2021 £'000	2020 £'000
Key management personnel and their close family members transactions with Pensions and Savings products sold by the Group:		
Contributions in the year	631	7
Disinvestments in the year	450	-
Value of investments at year end	2,369	8

26. Contingent liabilities

In the normal course of business, the Company is exposed to certain legal issues, which involve litigation and arbitration. At 31 December 2021, the Company had no known contingent liabilities.

27. Other information

The Company's immediate parent is Phoenix Life Limited and its ultimate parent is Phoenix Group Holdings plc, a company incorporated in England and Wales. A copy of the financial statements of Phoenix Group Holdings plc can be obtained from the Company Secretary, Juxon House, 100 St Paul's Churchyard, London, EC4M 8BU.