PHOENIX LIFE LIMITED

Company Registration Number: 1016269

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

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Strategic report

The Directors present the Strategic report, their Report and the financial statements of Phoenix Life Limited ("the Company") for the year ended 31 December 2020.

The financial statements of the Company for the year ended 31 December 2020 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Business review

Principal activities

The principal activities of the Company are the provision of life assurance and pension products in the UK. The Company places customers at the heart of what it does and is committed to delivering a high level of customer service. The Company remains focused on delivering profits to support the cash generation policy of Phoenix Group Holdings plc ("the Group").

The Company's business is largely in run off, with the exception of vesting pension annuity business, bulk purchase annuities and protection business written under the SunLife brand.

The Company has written a wide range of life and pensions business, predominantly on individual risks. The Company also provides de-risking products for corporate clients. Reinsurance arrangements are in place with companies outside of the Group to cover certain blocks of immediate and deferred annuities, some permanent health, critical illness and term assurance risks and investment contract liabilities that are linked to the performance of funds maintained by the Reinsurer. Longevity swap arrangements are in place with a range of reinsurers to reduce the Company's longevity risk exposure.

All business is written in the UK, with the exception of the Euro denominated business written by the Company's registered branch in the Republic of Ireland.

The Company operates under the governance and risk management frameworks of the Group. The Company, Standard Life Assurance Limited, and Phoenix Life Assurance Limited (together the Life Companies) operate joint Boards of Directors, Audit Committees and Risk Committees, which operate under the Group's frameworks whilst having responsibility delegated to them for oversight of policies and activities that only impact the Life Companies.

Strategy

The Company is a member of the Phoenix Group. The 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 Group specialises in the acquisition and management of closed life insurance and pension funds. Alongside this, the 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.

COVID-19

COVID-19 has resulted in an unprecedented global crisis which has challenged each and every one of us as we undertake our day-to-day lives. The measures taken to reinforce the Company's resilience have ensured we have continued to provide services to policyholders and generate cash throughout these uncertain times. COVID-19 has not affected the Company's ability to continue as a going concern. The Company's key priorities throughout the pandemic have been to support and ensure the safety of our colleagues, customers and of the communities in which we operate while protecting the long-term value of the Company. The Company implemented a number of customer initiatives, including waving the moratorium on COVID-19 related claims for newer SunLife customers.

COVID-19 has created short-term and potential long-term financial consequences for the Company, and there is potential for the Company's strategic objectives to be adversely impacted by the pandemic. The Company has effectively responded to quickly evolving changes arising from COVID-19; for example, the development of a range of COVID-19 stresses to assess the resilience of the Company to a range of potential adverse outcomes of the pandemic. A number of risk-mitigating actions have been taken, to protect the Company's resilience against the impacts of COVID-19. Commentary concerning the associated risks and mitigants has been included within the Company's principal risks below.

The Company has been actively monitoring demographic experience in light of COVID-19. No adjustments have been made to mortality or longevity assumptions for protection or annuity business as it is currently considered to be too early to determine the longer-term impacts.

Following the 'second wave' of COVID-19 deaths at the end of 2020, the Company has recognised a short term actuarial provision of £10m in anticipation of excess deaths relative to long-term mortality and longevity valuation assumptions at 31 December 2020.

Considerations as to valuation uncertainty and other specific impacts of COVID-19 have been included within the notes to the financial statements on fair value (note 25) and liabilities under insurance contracts (note 32).

Corporate activity

During 2020 the Company continued its activities in the bulk purchase annuity ("BPA") market, completing six external BPA transactions and the Pearl Pension Scheme transaction referred to below, totalling approximately £2,477m of pension liabilities across 14,890 pension scheme members. For all of the transactions, reinsurance was effected, transferring the associated longevity risk to Reinsurance Group of America ("RGA"), Prudential Insurance Company of America and SwissRe. Reinsurance was also effected with RGA for the 2019 transaction not reinsured in the prior year. The assets received to satisfy the premiums are being transitioned to a strategic asset mix over time. The Company received capital contributions of £228m from its parent undertaking to cover the initial solvency strain of these transactions.

On 17 November 2020, the Company entered into a Commitment Agreement with the Pearl Pension Scheme ("the Scheme"), a related party of the Company, to complete a series of four "Buy-ins" that are scheduled to be executed each year up to 31 December 2023. On this day, the first "Buy-in" of 25% (approximately £750m) of the Scheme's pensioner in-payment and deferred member liabilities was completed. On the same day, the Company executed a longevity swap with RGA, covering 100% of the longevity risk.

The Company has obtained approval for the use of dynamic ERM securitisation from the Prudential Regulation Authority ("PRA"). On 21 October 2020 the Company completed its first dynamic securitisation, transferring the beneficial interest of £457m of ERM loans into Phoenix ER5 Limited ("PER5L"), a wholly owned strategic subsidiary. PER5L issued Loan Notes to the Company as consideration for the transfer, under the terms of which the Company retains substantially all the risks and rewards of the loans. The loans therefore do not qualify for derecognition under IAS 39, and the Company recognised liabilities of £457m due to PER5L for the beneficial interest transferred.

The Company continues to move towards its target Strategic Asset Allocation ("SAA"), which includes an allocation to illiquid assets including Equity Release Mortgages ("ERM"). Moving to the target SAA requires changes to the assets held in the annuity portfolios and is expected to take several years to complete. A further Matching Adjustment ("MA") application was approved by the PRA during the year, adding Infrastructure assets to the assets eligible for MA.

On 31 December 2020, the Central Bank of Ireland approved the Company's application for the establishment of a "third country branch" to serve the Company's policyholders in Ireland. Prior to 31 December 2020, the services were provided by the Company's Irish branch using EU passporting arrangements, which were no longer available after the end of the Brexit transition period. There has been no change to the management of the Irish policies and no impact on policyholders in Ireland.

On 29 November 2018, Phoenix Group announced its intention to move to a single, digitally enhanced outsourcer platform which will improve customer outcomes, supported by Diligenta Limited ("Diligenta"), a subsidiary of Tata Consultancy Services Limited. During the period one million policies across 12 policy systems were successfully transferred to Diligenta, with a further one million expected to transfer in 2021.

Future developments

The bulk of the company's long term life assurance business is in gradual run off. The Company will continue to explore future business opportunities, including bulk purchase annuity deals, which help to secure future benefits for both policyholders and owners.

Subject to regulatory approval, the Company intends to complete a Part VII of the business of Standard Life Assurance Limited, Standard Life Pension Funds Limited and Phoenix Life Assurance Limited (all fellow Group companies) into the Company in order to realise further cost and capital synergies.

The Company continues its preparations for the introduction of the new insurance accounting standard, IFRS 17, which will significantly change the way the Company measures its insurance contracts and investment contracts with DPF, impacting profit emergence patterns and adding complexity to valuation processes, data requirements and assumption setting. Further detail on this is set out in note 3.

Given the continuing uncertainty over the eventual trading relationship with the EU in respect of financial services, the Company continues to closely monitor and review the operational and financial impacts of a range of future scenarios to enable it to consider potential mitigating actions.

On 8 February 2021, the Company gave notice to Noteholders that it will redeem £200m 7.25% undated subordinated notes in full on 25 March 2021. The notes will be redeemed at their principal amount, together with interest accrued to 25 March 2021. The redemption of the notes will be financed by the maturity proceeds of the £202m inter-company loan to Pearl Life Holdings Limited.

Key Performance Indicators ("KPIs")

The results of the Company for the year are shown in the Statement of comprehensive income on page 35.

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

Capital resources
The Company's solvency position is an important measure of financial strength. As at 31 December 2020 the Company's estimated Solvency II Own funds and excess of own funds over solvency capital requirement (unaudited) were £4,942m (2019: £4,522m) and £1,537m (2019: £1,339m) respectively.

Operating profit
Operating profit is one of the key performance indicators used by the Company's Directors and executive management to explain the financial performance of the Company. This measure incorporates an expected return, including a longer term return on financial investments backing shareholder and policyholder funds over the period, with consistent allowance for the corresponding expected movements in liabilities. Operating profit excludes impacts arising from short-term economic volatility and other one-off items which, due to their size or nature, are not indicative of long-term operating performance.

This non-GAAP measure provides a more representative view of the Company's performance than the IFRS result after tax as it provides long-term performance information unaffected by short-term economic volatility and one-off items, and is stated net of policyholder finance charges and tax. It helps give stakeholders a better understanding of the underlying performance of the Company by identifying and analysing non-operating items.

Operating profit increased by £81m to £401m (2019: £320m). Operating profit includes expected returns, including the owners' share of with-profits bonus, of £211m (2019: £191m), changes in demographic assumptions of £35m (2019: £65m), demographic experience of £(40)m (2019: £(15)m), model and methodology changes of £(1)m (2019: £28m) new business profits of £185m (2019: £51m) and other operating variances of £11m (2019: £nil).

A reconciliation from operating profit to profit attributable to owners can be found in note 6.

Dividends paid
Cash generation is a key metric across the Group. Cash remitted reflects the generation of free surplus within the life companies and the benefit of management actions implemented in the period. Dividends totalling £200m were paid to the parent company during the year (2019: £300m). The directors do not recommend the payment of a final dividend.

Customer satisfaction score
The 2020 customer satisfaction percentage for the Phoenix Life division (comprising the Company and its fellow subsidiary Phoenix Life Assurance Limited ("PLAL")), was 94% (2019: 94%). This measure highlights how satisfied customers are with Phoenix's telephony servicing proposition. The Company aims to maintain a customer satisfaction score which is consistently above 90%.

Financial ombudsman service ("FOS") overturn rate
This is an independent view of how the Company is handling complaints. The 2020 result for the Phoenix Life division (comprising the Company and its fellow subsidiary PLAL), was 16% (2019: 17%), which is significantly better than the industry average of 34%.

Speed of pension transfer payouts
This is a recognised industry measure for the speed of processing transfers. The 2020 result for the Phoenix Life division (comprising the Company and its fellow subsidiary PLAL) was 10.5 days (2019: 10.5 days), which is better than the industry target of 12 days.

Operations
During the year, the Company has maintained ten with-profits ("WP") funds of which the Alba WP, Britannic IB, Britannic WP, Phoenix WP, 90% WP, SMA WP, SPL WP, SAL WP and NPI WP funds are operated on a 90:10 basis and the 100% WP fund on a 100:0 basis. The Company also maintains a portfolio of non-profit business ("NPFs") for which the profits accrue to the shareholder. This portfolio of non-profit business had gross policyholder liabilities of £44,480m (2019: £41,619m) at the period end and comprises unit-linked life and pensions and conventional life, pensions and permanent health business.

During the year, the 90% WP fund was provided with shareholder support of £2m in order to meet its minimum capital margin. The support was still in place at the period end but was no longer required.

Administration is outsourced to the Service companies, which, in turn, have sub-contracted some administration most significantly to Diligenta and to Capita Life and Pensions Regulated Services Limited. Under the Company's agreements with the Service companies, the majority of costs are levied on a per policy basis thereby mitigating the Company's expense risk.

Asset management is outsourced to a diversified range of providers, of which the most significant are Ignis Investment Services Limited and Aberdeen Asset Management plc, both members of the Standard Life Aberdeen group, which is a related party of the Company, and Henderson Global Investors Limited (part of Janus Henderson Investors).

Investment administration and custody services are primarily outsourced to HSBC Security Services.

The performance of the Company's invested assets is reviewed against fund specific, pre-defined benchmarks by the Board, the Investment Committee and the Investment Management Committee, which is an internal management committee.

Phoenix Unit Trust Managers Limited ("PUTM"), a wholly owned strategic subsidiary, is the authorised fund manager of a range of collective investment schemes, of which the Company is the majority unitholder.

SunLife Limited, a wholly owned strategic subsidiary, distributes protection products manufactured by the Company in return for a commission.

Directors' duties

In accordance with section 172 of the Companies Act, the Directors have a duty to promote the success of the Company. In carrying out this duty during 2020, the Directors have had regard for, amongst other matters, the areas set out below:

Area of consideration	Demonstrating this in practice
Consequences of decisions in the long-term	Since March 2020, the Life Company Boards have needed to consider the potential longer-term impacts of COVID-19. During the first few months of the pandemic, the Board met regularly to discuss how the Life Companies were performing in respect of managing customers, colleagues and maintaining BAU whilst considering the risks associated in asset management given the turbulent market and macroeconomic environments. As the lengthening of restrictions and impacts continued, the Board considered the resilience of the Company by reviewing varying scenarios and stress testing our capital and solvency positions against them. These considerations formed a key part of the decisions made regarding dividend payments. In June 2020, the Board met to discuss and challenge the ongoing strategy for the Company focusing on the strategic objectives and priorities of both the Group and the Life Companies. During this session, consideration was given to emerging risks and opportunities from the perspective of internal and external environments to include the anticipated impact of COVID-19, future sustainability aspirations, the Environmental, Social and Governance ('ESG') agenda and a review of the Life Companies operating model to ensure alignment with Group objectives. Given the acquisition of the ReAssure Group of Companies in July 2020, a number of ReAssure senior executives were also invited to join the strategy sessions to play a part in the review of growth opportunities, investment strategy and business capabilities. The outputs of the strategy session drive the context for decisions on what the Annual Operating Plan for the Life Companies should be for both the following and next five years to reflect the strategic direction of the business. The Annual Operating Plan is considered in principle in Q4 for approval early in the following year with the Board then considering the progress being made against the objectives set out on a quarterly basis. During 2020, the Life Company Boards have continued to develop the relationship with Diligenta in order to move towards a digital ecosystem offering a strong base platform for servicing policyholders and the breadth to bring new products to market more quickly and efficiently. Throughout the year, there were updates on the transition and transformation projects supporting this strategy with the Board required to authorise progress on this activity based on supporting acknowledgements from management that acceptance criteria had been met. A revised Target Operating Model has been designed for the Group as a whole during 2020 for which a simplified governance structure is being planned. Whilst this will not have a direct impact on the Board and Board Committee structure for the Company, the development of the Open Business strategy within the Life Companies and its oversight is likely to be in greater focus in the longer term.
Employees	The Life Companies do not directly employ any staff. However, given the reliance by the Life Companies on the employees within the Phoenix Group, their interests have been considered when discussing arrangements for the transition of business units during the joining up of Phoenix with Standard Life and plans for the integration of ReAssure. Regular updates have been provided to the Life Company Boards on these matters, at least quarterly.

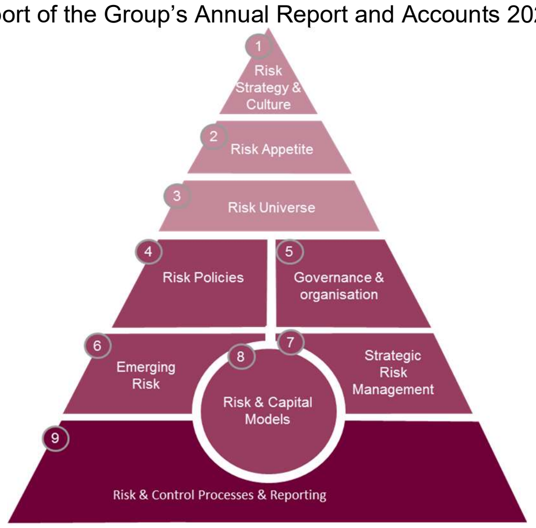
Area of consideration	Demonstrating this in practice
	In accordance with the requirements of the Regulators, the Board has regularly considered and reviewed the operational capacity of the Life Company and the abilities to meet the demands of the change agenda in the short to long term. The Board has requested and received information on colleague wellbeing, key person dependencies and resource demand during the year in support of the oversight of this requirement. During the initial lockdown phase of COVID-19, the Board received weekly and more ad hoc updates on its impact; in particular the impact on colleagues assessed through four 'pulse' Employee Insight Surveys which were shared through board reporting. Following their appointment in July 2020, the new Group HR Director attended and reported to the Life Company Board on colleague matters on two occasions. Firstly to share their vision and objectives having recently started in the role; secondly to share and discuss the response to an action from the PRA regarding talent and succession planning for the Board's information, with the discussion focusing on the capability pipeline within the Life Companies. In relation to Remuneration, the majority of decisions are deferred to the Phoenix Group Holdings plc Remuneration Committee. However, the Life Company Boards opine on and review the position in relation to individuals within the management team of the Company who are responsible for the day to day running of the business (typically the Chief Executive of the Company and their direct reports).
Business relationships with customers	Our Company values place customers at the heart of everything we do and the Life Company Boards are committed to considering the customer impact of every decision made. Board papers require authors to consider and report on matters which will impact on customers so that these are made explicit when decisions are required. Indeed, the prominence of the 'Customer impact' section has been escalated within the board template during the year to ensure it is one of the first areas considered when a decision is required. The Life Company Boards receive quarterly updates on management information which highlight performance on customer treatment. During 2020 the focus of management information has been on engagement with customers, growing the customer base and operational capacity (in light of COVID-19) to ensure the continuation of Customer Operations and acceptable customer satisfaction rates, including management of Outsourced Service Provider Customer functions. The Directors also review various metrics in respect of Treating Customers Fairly ("TCF"), customer communication and complaints within the quarterly MI. TCF is monitored through various TCF committees and any exceptions are reported to the Board as appropriate. New propositions or any strategic or business changes which have the potential to impact on policyholders are all matters reserved for the Board to ensure that customers are treated fairly. As examples during the course of 2020, the Board has challenged the payment of trail commissions, and the value for money assessment of the Standard Life Flexible Drawdown product offered to the Company's customers. In November, the Board received an education session from the Customer Division on the approaches to managing vulnerable customers across the Group. There is a With-Profits Committee, comprising mostly of independent members, to opine on issues of fairness to policyholders including ensuring policyholder monies are managed in accordance with the Company's Principles and Practices of Financial Management ("PPFM"). The With-Profits Committee appraises the Board as to their activity following each meeting. There is also an Independent Governance Committee ("IGC"), comprising mostly of independent members, acting in the interest of members of the contract-based workplace pension schemes operated by the Company and assessing the ongoing value for money delivered by them. The remit of the IGC has changed through 2020 in line with FCA requirements to consider ESG and Investment Pathways. The Chair of the IGC attended the Board in December to discuss the progress being made.

Area of consideration	Demonstrating this in practice
Business relationships with suppliers	The "Service Companies" within Phoenix Group Holdings plc have the principal responsibility for maintaining relationships with suppliers. However, as a number of key suppliers are responsible for the day to day management and oversight of our policyholders, it is imperative that the Life Company Boards meet with and discuss performance on the key strategic suppliers on a regular basis. The Service Companies present an annual update to the Life Companies on the performance of the service delivery of the key strategic suppliers and during 2020 the Life Companies focused attention on the performance of suppliers in light of COVID-19 and each supplier's 'working from home' operating model, ensuring appropriate capacity was available to continue delivery within tolerance. In addition, the Chief Operating Officer for Phoenix Group Holdings plc, who is also the Chairman of the Service Companies, has attended the Life Company Boards (and is a regular attendee of the Life Company Risk Committees) to provide input on operational performance in general, the performance of the strategic suppliers and their progress on both BAU and project activity. In addition, the Board has had the opportunity to meet with senior stakeholders from both Capita and Diligenta, two of the Company's key policy administration partners. Any systemic service issues or incidents are escalated and reviewed through the Risk Committees.
Impact on the community and environment	The Life Companies have a long-standing tradition for investing in their respective local communities to include programs which support local charities and their initiatives. As much of this reflects Group wide activity, further information can be found within the Phoenix Group Holdings plc annual report and accounts. The Life Company Boards have continued to discuss the increasing focus on an "Environmental, Social and Governance" policy and reporting that has been an increasing focus of the Government, Industry and the Regulatory environment. The Life Company Boards have dedicated time through the year to considering ESG and associated risks and opportunities at its annual strategy session, with a focus on aspirations for an ESG enabled default proposition. As the focus on the ESG and sustainability agenda has increased, the Board have sought more regular input from the business on these matters. The Director of Corporate Affairs and Investor Relations for the Group attended the Board in December to provide an overview of the progress being made in this space. In addition, the Group's "Net Zero" commitments and the alignment to the 'Paris Agreement' were presented to both the Board and Board Investment Committee in Q4 2020.
Reputation for high standard of business conduct and relationship with the Regulators	Being regulated by both the Financial Conduct Authority and Prudential Regulation Authority (the "Regulators"), the Life Companies have strict rules and guidelines which must be adhered to regarding conduct, ethics and responsibilities. The Senior Managers and Certification Regime, which clearly documents those individuals within the business who are decision makers, requires that there is an annual review of their fitness and propriety. The Regulators receive regular board reporting and minutes of meetings so that they can oversee the activity of the Life Company Boards. In addition, they conduct a series of meetings with directors and senior individuals throughout the year in order to enquire as to the conduct of the business. Each year, the Regulators will issue letters ("Firm Evaluation Meeting" Letter from the FCA and a "Periodic Summary Meeting" Letter from the PRA) which highlight those areas of focus within the industry – to include those which may be company specific – for which the Board monitor input and progress against any required actions. At each meeting, the Board receives a summary of the key matters being discussed with the Regulators, to include the material correspondence issued, for their review and comment.
Acting fairly between members of the company.	Whilst not having external shareholders, the Life Company Boards are required to link in with the activity of the Group Board, their ultimate shareholder, on matters such as strategic direction and financial performance.

Area of consideration	Demonstrating this in practice
	The activities of the Life Company Audit and Risk Committees and Life Company Boards are regularly included in reporting to the Group Board / Board Committees through either Chair summaries or by actual attendance. The Chairman of the Company also attends the Group's annual strategy session. The Group Chief Executive and Chief Finance Officer, on at least a quarterly basis, attend the Board meetings to provide an update to the Directors on Group matters. With an open dialogue between the Company and the Group, any matters which have required escalation to the relevant shareholder for each Life Company Board, and / or the Group have been appropriately managed.

Risk Management Framework

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 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 2020.



Risk Environment

The overall risk environment is heightened since March 2020; this predominantly reflects prolonged uncertainty relating to COVID-19 and the resulting impacts on the economy, our customers and our colleagues, in addition to the scale of the internal demands from the extent of change in the organisation.

The rollout of the COVID-19 vaccines is positive; however, there is significant uncertainty over the timing of any economic recovery and the consequences of the pandemic remain unclear, both from a financial and societal perspective. Due to the heightened risk environment there is a continued need to consider a wide range of adverse scenarios to inform key business decisions; this is facilitated through our established Stress and Scenario testing programme, a key component of our RMF and Own Risk and Solvency Assessment (ORSA).

The Company has utilised its RMF to effectively respond to the rapidly changing pandemic; for example, the Company continues to adapt a range of COVID-19 stresses which are used to assess the resilience of the Company to a range of potential adverse outcomes of the pandemic. A number of risk mitigating actions have been taken since March 2020, to provide ongoing support to customers, protect customer outcomes and ensure the Company remains financially resilient.

The well-being of colleagues remains critical, particularly as lockdown measures continue, coupled by periods of home schooling and caring responsibilities. The Company has managed this carefully since the start of the pandemic through cross-organisational collaboration and health and well-being support. In addition, to ensure no material impact on our priorities at this time, operational capacity across the Company, and within our outsourcing partners, continues to be actively monitored by management and Boards. This ensures the Company is effectively prioritising activity and sufficient capacity exists to continue to meet business demands and prevent any adverse impact to customer outcomes and business performance.

Following the addition of a principal risk on climate change and wider ESG risk in 2019 the Group has continued to embed climate-related risks and opportunities into the RMF. Further details on planned future activity across each of the TCFD focus areas are outlined in the Group's year end 2020 Annual Report and Accounts.

Political uncertainty continues to give rise to the risk of potential changes to tax regimes, pensions allowances and other policy positions, the impacts of which the Company may need to manage if they were to materialise.

As a result of pre-emptive action, the Company was well placed to deal with any operational consequences arising from the end of the Brexit transition period. The Company continues to monitor the implications for our operations in light of the new trading relationship agreed between the UK and EU and will take any mitigating action if required.

Principal risks and uncertainties

From the perspective of the Company, its principal risks and uncertainties are integrated with the principal risks of the Group which are outlined in the Strategic report of the Group's Annual Report and Accounts 2020. All twelve Group principal risks are relevant to the Company and are outlined in the sections that follow.

During 2020, for the purposes of managing risks of the Company, including those impacting the Company's financial assets and financial liabilities, the Company considered the following Risk Universe categories: Financial Soundness; Market; Insurance; Credit; Customer; Operational; and Strategic. Sources of these risks, and an explanation of actions taken to manage risk exposures during the year, are outlined in more detail in note 40 of the financial statements.

Following a review of principal risks at the Group level, two new strategic risks around 'Open Business' and 'Delivery of change' have been introduced. This recognises the growing importance of managing risk in these areas to enable the Group to effectively deliver its strategic objectives. These risks also apply to the Company.

In addition, a principal risk in the Group's (and Company's) 2019 Annual Report and Accounts involving customer proposition development has been combined with the 'customer outcomes' principal risk. This reflects the importance of delivering propositions that meet the evolving needs of our customers across our Open and Heritage businesses.

The principal risk exposures for the Company relate to the non-profit business and reflect the wide range of products in the funds. The Company is particularly exposed to insurance risk and a number of financial risks arising from its underlying assets and liabilities, including movements in financial markets, changes in interest rates, widening of credit spreads and the risk of corporate defaults.

The WP funds are all relatively strong financially and the risks, such as annuitant longevity and meeting policyholder guarantees, are unlikely to have a material adverse impact on the owners. De-risking strategies are in place such as investment strategies matching fixed and variable rate income securities with liabilities to mitigate risks associated with guarantees, the purchase of interest rate swaptions to mitigate risks of guaranteed annuity options, and selective reinsurance arrangements to mitigate mortality, morbidity and longevity risk.

The Company closely manages the risk of failure to maintain sufficient capital to provide appropriate security for policyholders and meet all regulatory capital requirements mandated by the Solvency II Directive and the PRA. The Capital Management Framework is detailed in note 39.

Market risk

1. Adverse market movements can impact the Group, and the Company's, ability to meet its cash flow targets, along with the potential to negatively impact customer sentiment

Impact	Mitigation	Events in the year
The Company and its customers are exposed to the implications of adverse market movements. This can impact the Company's capital, solvency and liquidity position, fees earned on assets held, the certainty and timing of future cash flows and long-term investment performance for shareholders and customers. There are a number of drivers for market movements including government and central bank policies, geopolitical events, market sentiment, sector specific sentiment, global pandemics and financial risks of climate change including risks from the transition to a low carbon economy.	The Company undertakes regular monitoring activities in relation to market risk exposure, including limits in each asset class, cash flow forecasting and stress and scenario testing. The Company continues to implement de-risking strategies to mitigate against unwanted customer and shareholder outcomes from certain market movements such as equities, interest rates and foreign currencies. The Group maintains cash buffers in its holding companies and has access to a credit facility to reduce reliance on emerging cash flows. The Company's excess capital position continues to be closely monitored and managed. The Company regularly discusses market outlook with its asset managers.	The potential for adverse market risk is further heightened since March 2020 due to the low interest rate environment and the ongoing uncertainty regarding the external environment, particularly COVID-19. Markets reacted favourably to the positive news on the vaccines, but there remains significant uncertainty over the timing and extent of any recovery and the economic consequences of the pandemic. The Company implemented a number of management actions in 2020 that provided resilience against unanticipated market movements. Further contingency actions are available to help manage the Company's capital and liquidity position. The Company's Stress and Scenario Testing Programme considered the changes to the environment as a result of COVID-19 and the potential implications of the pandemic looking forward. During 2020 and as a consequence of COVID-19 a number of Unit Linked Property funds were put into suspension due to valuation uncertainty; this was managed in line with the Company's standard fund deferral process. The majority of these funds are now out of suspension. Exposure to residential property continues to increase as a result of the Company's BPA investment strategy; however, exposures are currently relatively small and remain within risk appetite. See also comment in section above around with profit fund strength in relation to market risk.

Credit risk

2. The Group, including the Company, is exposed to the risk of downgrade and/or failure of a significant counterparty

Impact	Mitigation	Events in the year
The Company is exposed to the risk of downgrades and deterioration in the creditworthiness or default of investment, reinsurance or banking counterparties. This could cause immediate financial loss or a reduction in future profits. The Company is also exposed to trading counterparties, such as reinsurers or service providers failing to meet all or part of their obligations.	The Company regularly monitors its counterparty exposures and has specific limits relating to individual exposures, counterparty credit rating, sector and geography. The Company undertakes regular stress and scenario testing of the credit portfolio. Where possible, exposures are diversified through the use of a range of counterparty providers. All material reinsurance and derivative positions are appropriately collateralised. The Company regularly discusses market outlook with its asset managers. For mitigation of risks associated with stock lending, additional protection is provided through indemnity insurance.	The risk of unexpected downgrades and defaults within the Company's credit risk portfolio is heightened as a result of market volatility and wider economic and social impacts arising from COVID-19. Throughout 2020 the Company took de-risking action to mitigate the decline in the overall credit quality of the portfolio and mitigate the impact of future downgrades on risk capital, for example block trade switches were completed on Matching Adjustment funds. At year-end 2020, actual downgrades experienced were less than expected in our forecasts. The Company continues to increase investment in illiquid credit assets as a result of BPA transactions. This is in line with our strategic asset allocation plan and within risk appetite. Exposure to reinsurer default has increased as a result of the reinsurance of longevity on BPA transactions. We consider the risk of reinsurer default to be low.

Insurance risk

3. The Group, including the Company, may be exposed to adverse demographic experience which is out of line with expectations

Impact	Mitigation	Events in the year
The Company has guaranteed liabilities, annuities and other policies that are sensitive to future longevity, persistency and mortality rates. For example, if annuity policyholders live for longer than expected, then Company will need to pay their benefits for longer. The amount of additional capital required to meet additional liabilities could have a material adverse impact on the Company's ability to meet its cash flow targets.	The Company undertakes regular reviews of experience and annuitant survival checks to identify any trends or variances in assumptions. The Company regularly reviews assumptions to reflect the continued trend of reductions in future mortality improvements. The Company continues to manage its longevity risk exposures, which includes the use of reinsurance contracts to maintain this risk within appetite. The Company actively monitors persistency risk metrics and exposures against appetite. Where required the Company continues to take capital management actions to mitigate against adverse demographic experience.	The heightened risk exposure reflects increased uncertainty around future demographic experience as a result of COVID-19 impacts, particularly mortality, longevity and persistency risk. The long term impact of COVID-19 on both longevity and persistency experience is not yet clear. The Company has monitoring and triggers in place to ensure current assumptions remain representative of our view on future experience. The Company completed six external bulk annuity transactions in 2020 with a combined premium of c£1.8bn. Consistent with previous transactions we continue to reinsure the vast majority of the longevity risk with existing arrangements reviewed regularly. See also comment in section above around with profit fund strength in relation to insurance risk.

Customer risk

4. The Group, including the Company, fails to deliver fair outcomes for its customers and propositions that continue to meet their evolving needs

Impact	Mitigation	Events in the year
The Company is exposed to the risk that it fails to deliver fair outcomes for its customers, leading to adverse customer experience and/or potential detriment. This could also lead to reputational damage for the Company and/or financial losses. In addition, a failure to deliver propositions that meet the evolving needs of our customers and clients may result in a failure to deliver the Company's purpose of helping people secure a life of possibilities.	The Group's Conduct Risk Appetite, applicable to the Company, sets the boundaries within which the Group expect customer outcomes to be managed. The Group Conduct Risk Framework (CRF), which overarches the Group's Risk Universe and all risk policies, is designed to detect where the Group and Company's customers are at risk of poor outcome, minimise conduct risks, and respond with timely and appropriate mitigating actions. The CRF applies to the Company. The Group, including the Company, has a suite of customer polices which set out the key customer risks and minimum control standards in place to mitigate them. The Company maintains a strong and open relationship with the FCA and other regulators, particularly on matters involving customer outcomes. The Company's Proposition Development Process ensures consideration of customer needs and conduct risk when developing propositions.	Throughout the pandemic the Group and the Company have continued to provide ongoing support to customers, including those most vulnerable, when making decisions about their life savings during this period of uncertainty. One-off initiatives have been undertaken to support customers, with all changes being supported by communications to customers. In November 2020 we successfully and safely completed the transition of over 1m policyholders from Capita to Diligenta, including the migration of over 100k policies onto Diligenta's BaNCS Platform. As part of this activity the Company took a number of actions to minimise disruption to customers and protect customer outcomes.

Operational Risk

5. The Group, including the Company, is impacted by significant changes in the regulatory, legislative or political environment

Impact	Mitigation	Events in the year
Changes in regulation or legislation could lead to non-compliance with new requirements that could impact the Company's fair treatment of its customers. These changes could require changes to working practices; have an adverse impact on resources and the balance sheet. Political uncertainty or changes in the government could impact how the Company can operate in locations outside the UK and impact the Company's ability to provide a service to customers.	The Company undertakes proactive horizon scanning to understand potential changes to the regulatory and legislative landscape to allow it to understand the potential impact of these changes to amend working practices to meet the new requirements by the deadline.	There is some uncertainty as to whether the UK government will change current regulatory and legislative requirements in a post-Brexit environment but it is anticipated that any such change will include a sufficiently long lead in time to allow the Company to react appropriately. There is also a lack of full clarity on how the post Brexit environment will impact customers in EEA countries, including former UK customers. The Group is working with UK regulators who are, in turn, working with European regulators, to better understand the situation. The Group, and Company view is that they planned appropriately and as a result has communicated, and will continue to communicate, with these customers to ensure they are fully aware of any potential impact. Political uncertainty continues to give rise to the risk of potential changes to tax regimes, pensions allowances and other policy positions, the impacts of which the Company may need to manage if they were to materialise.

6. The Group, including the Company, fails to retain or attract a diverse and engaged workforce with the skills needed to deliver its strategy

Impact	Mitigation	Events in the year
Delivery of the Company's strategy is dependent on a talented and engaged workforce. Periods of uncertainty can result in a loss of critical corporate knowledge, unplanned departures of key individuals or the failure to attract individuals with the appropriate skills to help deliver our strategy. This risk is inherent in the Group's business model given the nature of its acquisition activity and specialist risk management skillsets. Potential areas of uncertainty include the transition of the Standard Life Assurance business into the Phoenix Group; the transition of ReAssure Group plc into the Group; and, the expanded strategic partnership with TCS. Prolonged home working, caring and childcare lockdown implications and extended distancing due to COVID-19 can affect colleague engagement, wellbeing and productivity.	Timely communications to colleagues aim to provide clarity around corporate activities. Communications include details of key milestones to deliver against its plans. The Company regularly benchmark terms and conditions against the market. The Company maintains and reviews succession plans for key individuals. Following the transition to working from home due to COVID-19, the Company has conducted regular Colleague Snapshot Surveys to monitor colleague engagement levels and identify any concerns; appropriate actions are taken following publication of the results. The Company continues to actively manage operational capacity required to deliver our strategy. This is particularly pertinent given the increasing demands on our workforce at this time. A project to define our 'Future Ways of Working' is underway which is likely to offer colleagues greater flexibility in both where and how they choose to work in future.	There has been a significant increase in engagement scores in Colleague surveys during 2020. However, there remains the potential for colleagues' engagement, wellbeing and resilience to be adversely affected by ongoing COVID-19 restrictions, prolonged home working and organisational design changes. The Company continues to manage this carefully through cross-organisational collaboration and health and wellbeing support. The Group successfully rolled out its Unified People Proposition (including across the Company), creating a more aligned experience for our colleagues and meaning the Company is prepared for future Group-led acquisition and transition activity, and will be able to respond flexibly to future business needs. The increased scale and presence of the Group, and success in multi-site and remote working, gives the Company greater access to a larger talent pool to attract in the future. Colleagues have reacted positively to the 'Phoenix Story' launched in summer 2020 bringing renewed societal and business purpose to the Group.

7. The Group, including the Company, or its outsourcers are not sufficiently operationally resilient

Impact	Mitigation	Events in the year
The Company is exposed to the risk of causing intolerable levels of disruption to its external stakeholders if it cannot maintain the provision of important business services when faced with major operational disruption to core IT systems and operations. This could occur either within the Company or within the Company's primary and downstream outsourcers. The Company is also increasing its use of online functionality to meet customer preference. This, coupled with a move to home working, exposes the group to the risk of cyber-attacks. Regulatory guidance in respect of operational resilience is expected to be published in early 2021, together with a timetable to achieve full compliance. Failure to meet this timetable will also expose the business to the potential for regulatory censure.	The Company has established business continuity management frameworks that are subject to an annual refresh and regular testing. The Group has also established an Operational Resilience Programme which will define and implement an operational resilience framework and establish where operational resilience needs to be improved to enable regulatory compliance with the new guidance. The Company's response to COVID-19 during 2020 has contributed towards the mitigation of some aspects of this risk; the current working from home model significantly reduces the exposure to a number of physical risks which could cause disruption to our important business services. The Company continues to utilise cyber security tools and capabilities in order to mitigate Information Security and Cyber risk. Our specialist Group Risk Information Security & Cyber Risk team provides independent oversight and challenge of IT and information security controls; identifying trends, internal and external threats and advising on appropriate mitigation solutions.	There are three core drivers for the heightened risk assessment: COVID-19 could still adversely impact the operational resilience of the Company and its operations both in the UK and globally in regions where some of the Company's outsource partners have a presence. Whilst many potential exposures can be effectively mitigated, a large scale loss of colleagues on a temporary or more permanent basis is more challenging to resolve in the short term. The threat posed by an Information or Cyber Security breach that affects the availability of the core Information Technology assets which underpin the delivery of important business services to our customers is considered to be increasing. This inevitably leads to greater interest from cyber criminals; subsequently it is critical that the ongoing commitment to continually improving Security Controls where appropriate is maintained. The scale of strategic customer transformation activity across the Group over the coming two to three years creates increased potential for operational disruption to occur, including within the Company.

Strategic risk

8. The Group, including the Company, fails to deliver long term growth in its Open business

Impact	Mitigation	Events in the year
Our strategic partnerships are a core enabler for delivery of the Company's strategy; they allow us to meet the needs of our customers and clients, and deliver value for our shareholders. The Company's end state operating model will leverage the strengths of our strategic partners whilst retaining in-house key skills which differentiate us. There is a risk that the Company's strategic partnerships do not deliver the expected benefits. Some of our key strategic partnerships include: **SLA plc:** Provides investment management services to the Company, including the development of investment solutions for our customers.. **Diligenta**: provides Business Process Outsourcing services for the Company's closed book life and pensions business. **HSBC:** The Group, and the Company, is continuing its plan to transfer all fund accounting services to HSBC, enlarging and enhancing our current partnership.	The Group's new Business Unit structure brings renewed focus and accountability. The key areas of growth are Customer Savings & Investments and Retirement Solutions. The Company will hold an annual strategy setting exercise to consider customer needs, the interests of shareholders, the competitive landscape, and the Company's overall purpose and objectives. As part of the Annual Operating plan the Company is committed to making significant investment in the Open business which will include propositions which are driven by customer insight. The Group is established in the Bulk Purchase Annuity (BPA) market and continues to invest in its operating model to further strengthen its capability to support its growth plans. For new BPA business, the Group continues to be selective and proportionate, focusing on value not volume, by applying the Group's rigorous Capital Allocation Framework.	The Company completed six external bulk purchase annuity transactions with a combined premium of £1.8bn in 2020; this was in line with our business plans.

9. The Group, and Company's, Strategic Partnerships fail to deliver the expected benefits

Impact	Mitigation	Events in the year
Our strategic partnerships are a core enabler for delivery of the Company's strategy; they allow us to meet the needs of our customers and clients, and deliver value for our shareholders. The Company's end state operating model will leverage the strengths of our strategic partners whilst retaining in-house key skills which differentiate us. There is a risk that the Company's strategic partnerships do not deliver the expected benefits. Some of our key strategic partnerships include: **SLA plc:** is expected to provide additional Open business growth opportunities as well as investment management services to the Company. **Diligenta**: provides Business Process Outsourcing services for the Company's closed book life and pensions business. **HSBC:** The Group, and the Company, is continuing its plan to transfer all fund accounting services to HSBC, enlarging and enhancing our current partnership.	The Company's engagement with Diligenta, and its parent TCS, adheres to a rigorous governance structure, in line with the Group's Supplier Management Model. As a result, productive and consistent relationships have been developed with TCS, which will continue to develop throughout future phases of our enlarged partnership. The Company has in place established processes to oversee services provided by HSBC. The Group has in place established engagement processes with SLA plc to oversee and develop the strategic partnership. These processes will be adapted to reflect the new simplified extended strategic partnership between the Group and SLA plc that was announced in February 2021.	Strategic activity involving Diligenta and the Company continues to be assessed for COVID-19 impacts; actions are being taken to protect strategic and BAU activity.

10. The Group fails to make further value adding acquisitions or effectively transition acquired businesses.

Impact	Mitigation	Events in the year
The Group is exposed to the risk of failing to drive value through inorganic growth opportunities, including acquisitions of life and pensions books of business. The transition of acquired businesses into the Group could introduce structural or operational challenges that result in the Group, and the Company, failing to deliver the expected outcomes for customers or value for shareholders. The Company plays a material part in the transition of acquired businesses.	The Group continues to assess new inorganic growth opportunities and applies a clear set of criteria to assessing these opportunities. The Group's acquisition strategy is supported by the Group's financial strength and flexibility, its strong regulatory relationships and its track record of managing customer outcomes and generating value. The financial and operational risks of target businesses are assessed in the acquisition phase and potential mitigating actions are identified. Integration plans are developed and resourced with appropriately skilled staff to ensure target operating models are delivered in line with expectations. The Company continues to actively manage operational capacity required to deliver its strategy, including transition activities.	Phase 1 of the Standard life Assurance Limited integration is substantially complete with Phases 2 and 3 progressing well and remains on track to deliver our synergy targets. In July 2020, the Group successfully completed its acquisition of ReAssure Group plc bringing additional scale to Phoenix's Heritage business and enhancing our key attributes of cash generation, resilience and growth. Integration of ReAssure Group plc is underway.

11. The Group, including the Company, fails to appropriately prepare for and manage the effects arising from Climate Change and wider ESG risks

Impact	Mitigation	Events in the year
The Company is exposed to market risks related to climate change as a result of the potential implications of a transition to a low carbon economy. In addition there are long-term market, insurance, reputational, propositional and operational implications of physical risks resulting from climate change (e.g. the impact of physical risks on the prospects of current and future investment holdings, along with potential impacts on future actuarial assumptions). The Company is also exposed to the risk of failing to respond to wider Environmental, Social and Governance (ESG) risks and delivering on our social purpose; for example failing to meet our sustainability commitments. COVID-19 has amplified expectations for delivery of the Company's social purpose and sustainability vision, and failing to meet these could result in adverse customer outcomes, reduced colleague engagement, reduced proposition attractiveness and reputational risks.	A Group-wide project is underway to enhance our approach to managing the financial risks of climate change, including embedding climate risk considerations within the Group's RMF, which will meet the requirements of the PRA's Supervisory Statement 3/19.In March 2020, the Group became a signatory to the Task Force on Climate-related Financial Disclosures ('TCFD'). The Group's disclosures in line with TCFD recommendations, including planned future activity across each of the TCFD focus areas is outlined in the Group's year end 2020 Annual Report and Accounts. The Group's risk policies are being updated to ensure that climate-related risks are assessed and managed. The Group Board has also approved a new Sustainability Risk Appetite Statement. The Group's new sustainability strategy has evolved to respond to the changing needs of our stakeholders and we have set targets to monitor progress towards our sustainability commitments. Further details on the sustainability strategy are available in the Group's Sustainability Report. The Group continues to actively engage with our regulators on progress with all climate change and sustainability-related deliverables.	The TCFD disclosure noted in the Group's 2020 Annual Report and Accounts provides an overview of progress against the recommendations and planned future activity across each of the TCFD focus areas, including developing internal climate risk appetites linked to a metrics and targets framework, embedding climate risk considerations within the Group's RMF and developing internal climate risk reporting. Later in the year the Group will be participating in the Bank of England's Climate Biennial Exploratory Scenario exercise (CBES21); the Company will be a part of this. In 2020 the Group committed to supporting the goals of the 1.5° Paris Agreement to limit global warming to 1.5°C above preindustrial levels, and the Group has set a target of being net-zero carbon by 2025 across our operations and by 2050 across our investment portfolio.

12. The Group, including the Company, does not have sufficient capacity and capability to fully deliver its significant change agenda which is required to execute its strategic objectives

Impact	Mitigation	Events in the year
The Company's ability to deliver change on time and within budget could be adversely impacted by insufficient resource and capabilities as well as inefficient prioritisation, scheduling and oversight of projects. This could result in the benefits of change not being realised by the Company in the timeframe assumed in our business plans and may result in the Group being unable to deliver its strategic objectives.	The Group's Change Management Framework (CMF), applicable to the Company, is to be strengthened over 2021 with a revised change model, consistent with ensuring empowerment and accountability within business units to effectively deliver change. An enhanced prioritisation model will also be implemented, with clearer alignment to the Group's Strategic Framework. Information setting out the levels of resource demand and supply, both a current and forecast view, will continue to be provided to accountable senior management so that informed decision-making can take place, with all risks to delivery appropriately identified, assessed, managed, monitored and reported.	The Resource management framework, which oversees the prioritisation of the Change portfolio, allocated a prioritisation rating to change activity enabling the Group, and the Company, to make prioritisation calls in an agile manner. This process was utilised in 2020 when there was close monitoring of the COVID-19 crisis and the potential impacts to portfolio delivery.

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

16 March 2021

Directors' report

The Company is incorporated in England and Wales. Its registration number is 1016269 and its registered office is 1 Wythall Green Way, Wythall, Birmingham B47 6WG.

Corporate governance

The corporate governance guidelines followed are the PRA's twelve aspects of governance for PRA-regulated firms as noted in their Supervisory Statement SS5/16.

In 2016, the PRA set out principles as to how a 'PRA-regulated firm' such as the Company should govern itself when it is not a listed company and is, therefore, not caught within the remit of the UK Corporate Governance Code (the "Code").

Within the guidelines, PRA-regulated firms are expected to focus on twelve aspects of governance, many of which echo the framework provided by the Code. These twelve aspects of governance, whilst not being as formal as following the Code (which is applied by the Company's ultimate parent, Phoenix Group Holdings plc), provide the Company with a framework which ensures the ability for the Board to adhere to and demonstrate compliance with all twelve aspects of governance as noted below.

This framework is assessed, reviewed and challenged by the Board on at least an annual basis with evidence focusing on the following points. For the avoidance of doubt, there have been no departures from these aspects of governance through the year:

Aspect of Governance	Demonstrated by
Setting Strategy	As noted in the Directors' duties section of the Strategic report which provides an overview of how the directors have regard for their duty in respect of consequences of decisions in the long-term, an annual strategy day is held in June for the Board to debate and challenge the strategy for the Company and input to the overall Group strategy debate. A more refined view, developed into an Annual Operating Plan, is created for review and sign off at the end of each year which maps out the ongoing strategic direction for the following 12 months and up to 5 years thereafter. Board agendas are prepared so as to ensure that the more strategic items have sufficient time for review and challenge. Key matters discussed and challenged at the Board during the year were: the implementation of a single, digitally enhanced platform for policyholders, the Group's acquisition of ReAssure, the Standard Life transition programme, the immediate, and anticipated future, impact of COVID-19, ESG, the Life Companies' sustainability risk appetite, development of the Bulk Purchase Annuities operating model and ERM Dynamic Securitisation for alignment with the Strategic Asset Allocation for annuity business.
Culture of risk awareness and ethical behaviour	On an annual basis, the Board approves a series of risk appetite statements for articulation throughout the Company. The Group Risk Function have created and presented their assessment of Risk Culture within the business twice during the year to the Risk Committee. The Dashboard considers 15 specific objectives across People, Customers, Governance & Controls and Leadership with assessments based on a variety of inputs to include colleague surveys and Board / Committee evaluations. In respect of remuneration, the Non-Executive Directors input into the proposed objectives and performance ratings for those individuals within the management team of the Company who are responsible for the day to day running of the business (typically direct reports of the Chief Executive), as well their respective salary and remuneration packages. This ensures that these objectives promote an effective culture of risk awareness and ethical behaviour.
Risk appetite, risk management and internal controls	As noted above, the risk appetite statements are approved by the Board. Oversight of risks, risk management and internal controls is delegated for oversight by both the Board Audit Committee and Board Risk Committee in line with their Terms of Reference. Both the Head of Internal Audit and Chief Risk Officer have access to the Chairman of the Board and the Audit Committee to raise any concerns directly. In addition, the Chief Risk Officer has direct access to the Chair of the Risk Committee.

Aspect of Governance	Demonstrated by
	The operation of a three lines of defence model within the Company ensures that there is appropriate oversight, not only from the individual business unit but also from 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.
Board composition	As a result of the ReAssure acquisition, the number of Non-Executive Directors (including the Chairman) increased during the year from 5 to 7. There continues to be 5 Executive Directors. There is a division of responsibility between the Non-Executive Chairman, who is responsible for the leadership and effective operation of the Board, and the Chief Executive Officer, who is responsible to the Board for the overall management and operation of the Company.
Role of Executive and Non-Executive Directors	All appointment letters and associated role profiles for Non-Executive Directors specify the requirements of the role to include constructive challenge, scrutiny of management information and the integrity of financial information. The ‘Matters Reserved’ for the Board of the Company specifies those activities for which the Board has retained approval with agendas for each meeting reminding all directors of their responsibilities under Section 172 of the Companies Act 2006. Board meetings, as evidenced through the Board Minutes produced, are an open forum for directors to be robust and challenge the proposals presented. Having a clear organisational structure allows for areas not covered by the Matters Reserved and which fall into the “day to day management” of the Company to be appropriately delegated through a structure of approved Delegations of Authority.
Knowledge and experience of Non-Executive Directors	The experience of the Non-Executive Directors is wide across the life insurance industry and all received a comprehensive induction on the business of the Company. A skills assessment is in place which identifies an individual’s area of expertise such as accountancy, with-profits management, risk management, life and pensions and investments. This assessment demonstrates that our Non-Executive Directors have a substantial number of years’ experience on the matters close to our Company. During the year, the Boards are provided with regular education sessions to support any gaps in knowledge and to promote continuous professional development. During 2020, the Boards received deep dives on the following topics: - Internal Model Harmonisation Programme; - the proposed Part VII transfer bringing together the legacy Phoenix and Standard Life businesses; - the Group’s values; - the Life Companies digital functionality; - the approach to managing vulnerable customers; - talent and capability within the business; - ESG and sustainability;
Board time and resource	The Board met formally 17 times in 2020 either in person or via video conference. The Board met for their scheduled Board meetings on eight occasions. During the initial weeks of the COVID-19 pandemic, the Board held an additional four meetings to receive updates and progress on operational resilience of the business following lockdown. The Board met a further five times to handle out of cycle matters such as BPA transactions, financial and solvency resilience when considering dividend payments and material outsourcing contractual agreements. As well as the Board, a number of Board Committees responsible for overseeing Audit, Risk, Nomination, With-Profits, Investment and Model Governance matters, have also been in operation during the course of the year. Should a Non-Executive Director be considering an additional external commitment, this is reviewed by the Board in advance during which time it is confirmed that the time commitment required will not impact their availability for Company matters.

Aspect of Governance	Demonstrated by
Management information (MI) and transparency	The Chief Executive presents an update on the Company at least on a quarterly basis which includes a global review of the strategic objectives and associated performance to include Customer Treatment, Customer Complaints and Financial MI. During 2020 the Board also reviewed and considered the Company's 'Operational Capacity' in conjunction with the performance MI which enabled Directors to more appropriately challenge the availability of resource for additional strategic projects and existing change activity.
Succession planning	The performance of the Chief Executive and their direct reports is considered at least annually in private sessions with the Non-Executive Directors during which more informal discussions on succession planning may take place. The Chief Risk Officer has met with the Non-Executives on three occasions during the year to discuss the successor for the Life Companies Chief Risk Officer role. In December 2020, the Board received a copy of the response from the Group HR Director to the PRA on the talent and succession planning activity in place across the business which was discussed accordingly.
Remuneration	Whilst the remuneration of executives is a matter for the Group and, specifically, the Group's Remuneration Committee, the Non-Executive Directors are provided with the information necessary to enable them to oversee the design and operation of the remuneration arrangements linked to the Company's strategic objectives. In addition, the Non-Executive Directors consider and opine on the performance outcomes of the individuals within the management team of the Company who are responsible for the day to day running of the business (typically direct reports of the Chief Executive).
Subsidiary boards	Within the scope of Board updates, there is the flexibility to consider the activities of the Company's subsidiary companies. For example, the Board receives a regular update from SunLife Limited. From a governance perspective, there are no cross directorships between the Company and its ultimate parent, Phoenix Group Holdings plc.
Board Committees	The terms of reference of the committees of the Boards of the regulated Life Companies document the duties of the committees. Any matter which cannot be properly dealt with by the committee concerned or needs to be escalated is submitted to the Board for consideration. These terms of reference have been amended during the course of the year to reflect both the acquisition of ReAssure and also the proposed target operating model changes.

Energy and carbon reporting

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

Financial instruments

Details of the Company's financial risk management objectives and policies in respect of its use of financial instruments are included in note 40 to the financial statements.

Going concern

The Strategic report and Directors' report summarise the Company's activities, its financial performance and financial position together with any factors likely to affect its future development. In addition, they discuss the principal risks and uncertainties it faces. Notes 39 and 40 to the financial statements summarise the Company's capital management and risk objectives and policies together with its financial risks.

The Board has followed the UK Financial Reporting Council's "*Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks (April 2016)*" when performing their going concern assessment. To this end, the Board has undertaken a review of solvency, liquidity and cash flow projections under normal and stressed conditions.

Solvency scenarios considered include the best estimate view of the economic downturn due to the impacts of COVID-19, being a base case scenario incorporating a deep recession with 3-5% permanent GDP loss, and a severe downside scenario with 6-9% permanent GDP loss. The scenarios include falls for equities, property, gilts, and stresses to GBP valuation and spreads, but do not cover insurance related stresses, as it is too early to determine what the long term insurance impacts are likely to be and impacts may either reduce or increase future life expectancy. Downgrades and defaults have been considered on an individual investment basis. These scenarios have been validated against latest available external benchmarks, including International Monetary Fund and Bank of England forecasts.

Stress testing has additionally been carried out against a 1 in 10 all-risks scenario, in accordance with the Company's Capital Management Policy (CMP).

The projections demonstrated that excess capital over the CMP would remain in the Company under both COVID-19 scenarios at the scenario low points, while in the 1 in 10 all-risks scenario there would be a small strain to CMP but the SCR (Solvency Capital Ratio, an external capital requirement) would not be breached. The strain versus CMP could be mitigated using identified contingency actions.

Contingency actions to recover from downside risks are identified in detail, including timescales required, the challenges associated with each action, and the trigger for when each action should be considered.

The Company is projected to have significant headroom of liquid assets over projected cash flows including internally imposed liquidity buffers over the next 12 months under base conditions, and also under a combined 1 in 200 stress scenario, supporting cash generation in the going concern period assessed up to 31 March 2022. Liquidity is considered to be adequate to meet liabilities as they fall due.

As set out in the strategic report, the Board do not consider that the COVID-19 pandemic has impacted the Company's ability to continue as a going concern from either a financial or operational point of view.

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 2022. 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 and who held office at the date of signature of this report are as follows:

A H Bowe	
S A Clarke	
A Curran	(appointed 1 October 2020)
M J Eakins	(appointed 23 July 2020)
J D Gallagher	(appointed 23 July 2020)
M G Hassall	(appointed 23 July 2020)
J R Lister	
S D McInnes	(appointed 9 April 2020, resigned 1 October 2020)
A Moss	
J R Pears	
S K Percival	
N H Poyntz-Wright	
R K Thakrar	(resigned 15 May 2020)
M N Urmston	(Chairman)

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

Branches
The Company currently has branches in Hong Kong and the Republic of Ireland.

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

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:

Kelly McDermott

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

16 March 2021

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under the law the Directors have elected to prepare those statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law, the Directors must not approve the financial statements unless they are satisfied that they 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 Phoenix Life Limited

Opinion

We have audited the financial statements of Phoenix Life Limited (the 'Company') for the year ended 31 December 2020 which comprise the Statement of comprehensive Income, the Statement of financial position, the Statement of changes in equity, the Statement of cash flows and the related notes 1 to 45 (except for the information in note 39 which is marked as unaudited), including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard 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 the directors' going concern assessment process and obtained the assessment which covers the period to 31 March 2022;
- with support from EY actuaries, challenged the key actuarial assumptions used in management's five-year Annual Operating Plan ('AOP') and determined that the models are appropriate to enable management to make an assessment on the going concern of the Company. We have observed that assumptions used in the five-year AOP form the basis for management's going concern projections;
- assessed the accuracy of the going concern analysis by testing the inputs and the clerical accuracy of the models used;
- evaluated the liquidity and solvency position of the Company by reviewing base case liquidity and solvency projections that incorporate an estimated view of the potential future economic downturn that is anticipated to be experienced due to the impacts of COVID-19 as well as the stress scenarios which assume a more severe economic downturn;
- evaluated the stress scenarios included in the Phoenix Group's Recovery Plan to understand how severe the downside scenarios would have to be to result in the elimination of solvency and liquidity headroom;
- assessed management's considerations of operational risks, including those related to Outsourced Service Providers ('OSPs') and its impact on the going concern assessment;
- assessed the plausibility of available management actions to mitigate the impact of the key risks by comparing them to our understanding of the Company;
- 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 confirmed that the going concern assessment was approved by the Board, read minutes of meetings of the Board and its committees, and made enquiries as to the impact of COVID-19 on the business; 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.

We have observed that in testing the Company's going concern status, a reasonably foreseeable stress has historically been modelled using a 1 in 10 market stress scenario. However, due to the current economic volatility that is anticipated due to the impacts of COVID-19, management has performed additional stress scenarios which assume a more onerous economic downturn scenario for the current year assessment. Based on management's assessment, we have observed that the Company is projected to maintain surplus cash to meet its liabilities and for solvency to remain above its Solvency Capital Requirement in a number of extreme downside scenarios. The Company has continued to service customers and meet its commitments in the current environment.

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 the period to 31 March 2022.

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

Overview of our audit approach

Key audit matters	• Valuation of Insurance Contract Liabilities, comprising the following risk areas: o Actuarial assumptions o Actuarial modelling; and, o Policyholder data • Valuation of Equity Release Mortgages • Valuation of fair value hierarchy 3 ('FVH3') modelled debt securities
Materiality	• Overall materiality of £36m which represents 2% of closing net assets

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 controls 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of insurance contract liabilities £35.9 billion, 2019: £33.2 billion

Refer to Note 2 Accounting policies (a) Critical accounting estimates and (s) Insurance contracts and investment contracts with DPF, and 'Note 32 Liabilities under insurance contracts' of the financial statements.

We considered the valuation of insurance contract liabilities to be a significant risk for the Company. Specifically, we considered the actuarial assumptions and modelling that are applied, as these involve complex and significant judgements about future events both internal and external to the business for which small changes can result in a material impact to the resultant valuation. Additionally, the valuation process is reliant upon the accuracy and completeness of the data. We have split the risks relating to the valuation of insurance contract liabilities into the following component parts:

- Actuarial assumptions;
- Actuarial modelling; and,
- Policyholder data

The specific audit procedures performed to address the significant 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.

Risk area	**Our response to the risk**	**Key observations communicated to the Audit Committee**
Actuarial assumptions *We consider the risk associated with actuarial assumptions to have increased as a result of the COVID-19 pandemic.* Economic assumptions are set by management taking into account market conditions as at the valuation date and require minimal judgment. Non-economic assumptions such as future expenses, persistency, longevity and mortality are set based on past experience, market experience, market practice, regulations and expectations about future trends. The assumptions that we consider to have the most significant impact are the base and trend longevity, persistency, assured mortality and expenses. As stated in Note 32 of the financial statements, a short term actuarial provision has been made for the effects of COVID-19 relating to the insurance risks to which the Company is exposed. However, management has not adjusted the assumptions to reflect the impact of COVID-19 on the basis that the longer term impact is uncertain at the current time.	To obtain sufficient audit evidence to conclude on the appropriateness of actuarial assumptions, using EY actuaries as part of our audit team, we performed the following procedures: • obtained an understanding of and tested the design and operating 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; • reviewed and challenged the results of management's experience analysis, including the base longevity, persistency and assured mortality, to assess whether these justified the adopted assumptions. This has incorporated specific challenge of management's consideration of COVID-19 in the setting of these assumptions and whether it was appropriate for management not to adjust the key assumptions for the longer term impact of COVID-19 and to provide an allowance for the potential short-term effects of COVID-19; • reviewed and challenged management's basis for setting a short term COVID-19 provision;	We determined that the actuarial assumptions used by management are reasonable based on the analysis of the experience to date, (including specific consideration of the impact of COVID-19), industry practice and the financial and regulatory requirements. We consider it appropriate that assumptions have not been adjusted to reflect the impact of COVID-19 as the longer term impact is not yet clear, and the position adopted by management is consistent with that taken by most companies operating in the life insurance sector. We concluded that the economic and non-economic assumptions have been appropriately included within the year-end actuarial models.

Risk area	Our response to the risk	Key observations communicated to the Audit Committee
These assumptions are used as key inputs into the valuation models, which use standard actuarial methodologies.	• in respect of longevity improvements, we evaluated the results of management's analysis on longevity trend and benchmarked the output against other industry participants and the results from the industry standard Continuous Mortality Investigation ('CMI'); • assessed the expense assumptions adopted by management with reference to the management service agreement ('MSA') with the service companies; • performed procedures to test that the assumptions used in the year end valuation were consistent with the approved basis; and, • benchmarked the demographic and economic assumptions, against those of other comparable industry participants.	
Actuarial modelling *There has been no change in our assessment of this risk from the prior year.* We consider the integrity and appropriateness of models to be critical to the overall valuation of insurance contract liabilities. Over £28.4 billion of the £35.9 billion of insurance contract liabilities are modelled using the core actuarial modelling systems with the residual balance modelled outside these systems to cater for any additional required liabilities not reflected in the models. We consider the key risks to relate to i) model developments applied to the core actuarial models and ii) the appropriateness of the calculations that are applied outside of the core actuarial model.	To obtain sufficient audit evidence to conclude on core actuarial modelling systems and balances calculated outside these systems, 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 system and tested the design, implementation and operating effectiveness of key controls over that process, including an assessment of the operational impacts of COVID-19 on those controls; • challenged and evaluated the methodology, inputs and assumptions applied to model changes made in the core actuarial modelling systems over the year; • reviewed the governance process around model changes by review of the relevant committee minutes; • assessed the results of management's analysis of movements in insurance contract liabilities to corroborate that the actual impact of changes to models was consistent with that expected when the model change was implemented; and	We determined that the models used are appropriate, that changes to the models were implemented as intended and that controls over management's processes for modelling insurance contract liabilities using the core actuarial modelling systems were operating effectively. We also determined that liabilities modelled outside these core actuarial modelling systems are reasonable.

Risk area	**Our response to the risk**	**Key observations communicated to the Audit Committee**
	• stratified the components of the balance modelled outside the core actuarial system as at balance sheet date and focused our testing on those that, in our professional judgment, present a higher risk of material misstatement. As part of the testing, we gained an understanding of the rationale for balances calculated outside of the core actuarial system and assessed the appropriateness of the applied calculation methodology.	
Policyholder Data *There has been no change in our assessment of this risk from the prior year.* The insurance contract data held on policy administration systems (‘the policyholder data’) is a key input into the valuation process. The valuation of insurance contract liabilities is therefore reliant upon the accuracy and completeness of the data used.	To obtain sufficient audit evidence to assess the integrity of the policy holder data we performed the following procedures: • obtained an understanding and tested the design and operating effectiveness of the key controls, including information technology general controls over management’s data collection, extraction and validation process, which included an assessment of the operational impacts of COVID-19 on the applicable controls; • for Outsourced Service Providers (‘OSP’) where we have placed reliance on the Service Organisation Controls (‘SOC1’) report, we have reviewed the SOC1 report and determined the impact of any identified control exceptions; • for OSPs where we do not receive a SOC1 report we have obtained an understanding of the process over data extraction and input into the actuarial models and performed direct testing of the design and operating effectiveness of the key controls; • confirmed that the actuarial data extracts provided by the OSPs were those used as an input to the actuarial model; • assessed the appropriateness of management’s grouping of data for input into the actuarial model; • through the use of our data visualisation and analytics techniques, performed focussed substantive testing over the completeness and accuracy of the policyholder data and the appropriateness of management’s data cleansing rules; and • performed the comparison of policy level data between data in the actuarial models and that contained within the policy administration systems. Evaluated the accuracy of policyholder data by testing a sample to the policyholder documents.	We determined based on our audit work that the data used for the actuarial model inputs is materially complete and accurate.

Valuation of Equity Release Mortgages (ERM) (£3,484 million; 2019: £2,781 million)

Refer to Note 2 Accounting policies (a) Critical accounting estimates and (m) Financial assets, and Note 24 of the financial statements.

Risk	**Our response to the risk**	**Key observations communicated to the Audit Committee**
We consider the risk associated with valuation of ERM to have increased as a result of the COVID-19 pandemic. Observable inputs are not readily available for the valuation of equity release mortgages ('ERM') financial investments. Consequently, management use models and other inputs to estimate their value. We consider that the key risks relating to the valuation of ERM loans, relates to: i) assumptions as these are largely based on non-observable inputs and are highly judgmental, and ii) the completeness and accuracy of data feeding the valuation model.	To obtain sufficient audit evidence to conclude on the valuation of ERM, we: • tested the design and operating effectiveness of key controls over management's assumption setting processes for valuing these instruments; • tested the completeness of the ERM loans and underlying data at the period end through independent confirmation from the OSPs; • tested the accuracy of mortgage data used in the valuation model by agreeing a sample of new loans to supporting evidence and validating any movements on static data over the period; • evaluated the methodology, inputs and assumptions used to value the ERM financial investments including the No Negative Equity Guarantee ('NNEG') (such as house price inflation, residential house price volatility, longevity improvement and base mortality, voluntary early redemption as well as economic assumptions such as discount rate), • challenged and validated the key assumptions including relevant COVID-19 considerations by comparing to published market benchmarks and other demographic and economic assumptions against those of other industry participants, to confirm that key valuation inputs were consistent with industry norms and our understanding of the instrument type; and • developed our own independent model, using EY actuaries as part of our audit team, to value the ERM loans and compared the output to the results produced by the Company.	Based on our procedures performed on ERM assumptions and policyholder data feeding into the model we are satisfied that the valuation of the ERM assets is reasonable.

Valuation of fair value hierarchy 3 ('FVH3') modelled debt securities (£1,459.0 million; 2019 £694.7 million)

Refer to Note 2 Accounting policies (a) Critical accounting estimates and (m) Financial assets', and 'Note 24 of the financial statements'.

Risk	**Our response to the risk**	**Key observations communicated to the Audit Committee**
Due to the increased size of the FVH3 modelled debt securities, the increased valuation uncertainty due to the COVID-19 pandemic and the outsourcing of the valuation of these modelled debt securities by its OSP to a new third party during the year, we believe the identified risk to have a higher magnitude of potential misstatement than in the previous year. We have deemed the risk to relate to FVH3 modelled debt securities, such as private placements, local authority loans and infrastructure loans where the valuation is concentrated in one material fund manager and relates to assets in non-profit and stressed with profit funds. We consider that the key risks related to valuation of modelled debt securities to be the (i) use of complex valuation methodologies as opposed to observable prices; ii) significant judgments involved in setting the spread above risk-free rate; iii) reasonableness of credit ratings considering the impact of COVID-19; and iv) the subjectivity surrounding the selection of the comparable bonds to derive that spread. We consider the COVID-19 pandemic to have increased the uncertainty in these areas. Additionally, valuation of these modelled debt securities for the Company has been outsourced by the Company's OSP to a new third party during the year which increases risk of management's oversight over the valuation processes for these financial investments.	To obtain sufficient audit evidence to conclude on the valuation of FVH3 modelled debt securities, we: • reviewed the SOC1 report of the OSP covering period to 30 September 2020, including those controls over the valuation of modelled debt outsourced by the Company's OSP to the new third party, and determined the impact of any identified control exceptions. This includes assessing the operational impacts of COVID-19 on the applicable controls; • obtained the bridging letter for the period 1 October 2020 to 31 December 2020 to confirm that the controls over the valuation of modelled debt securities were operating effectively during the period. In addition, we tested a sample of these controls in the bridging period to confirm they were operating effectively; • inspected evidence of the operation of management's oversight controls over the OSPs, including an assessment of the operational impacts of COVID-19 on the applicable oversight controls; • understood the valuation process of modelled debt securities applied by the new third party and assessed the appropriateness of any methodology and assumption changes during the year; • engaged EY valuation specialists to evaluate the appropriateness of valuation methodology, calculate an independent range of reasonable values for a sample of modelled debt securities using an independent valuation model and considering reasonable alternative key assumptions based on comparable securities. Our valuation procedures were designed to take into account the impact of the COVID-19 pandemic;	Based on our procedures performed on the valuation methodology of FVH3 modelled debt securities, we are satisfied that the valuation is reasonable.

	• validated the accuracy of security related inputs to the valuation of modelled debt securities by tracing a sample of inputs to the underlying agreements and documentation; • performed independent calibration based on securities implied rate and sector credit spreads to validate the reasonableness of credit ratings used in the comparable values assessment; and • considered the downgrade of credit ratings or changes of spread in management's credit watchlist and known market risks in our independent comparable values assessment.	

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 £36 million (2019: £26.9 million), which is 2% of the closing net assets (2019: 2% of the average opening and closing net assets). Whilst profit before tax or operating profit are common bases used across the life insurance industry, we believe that the use of net assets as the basis for assessing materiality is more appropriate given that the Company is a closed life assurance consolidator and as such net assets provides a more stable, long-term measure of value. We note also that net assets more closely correlate with key Company performance metrics such as Solvency II capital requirements and Own Funds. However, as these measures are non-GAAP measures, we consider net assets to be more appropriate.

During the course of our audit, we reassessed initial materiality of £26.9 million and updated it to £36 million due to an increase in the Company's net assets between the interim and year end.

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 50% (2019: 50%) of our planning materiality, namely £18m (2019: £13.4m). 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 them all uncorrected audit differences in excess of £1.8m (2019: £1.3m), which is set at 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 set out on pages 2 to 23, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is 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 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 23, 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.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the direct 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 Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

- We understood how the Company is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and UK regulatory bodies; reviewed minutes of the Board and its Committees; and gained an understanding of the Company's approach to governance, demonstrated by the Board's approval of the Company's governance framework and the Board's review of the Company's risk management framework ('RMF') and internal control processes.

- 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. We also considered the impact of COVID-19 on the Company's control environment. 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 as they transitioned to operating remotely for a significant proportion of 2020.

- The fraud risk, including management override, was considered to be higher within the valuation of insurance contract liabilities, specifically on actuarial assumptions as these involve significant judgments.

  Our procedures, as detailed in the key audit matter above, included:

  - Reviewing accounting estimates for evidence of management bias. Supported by EY actuaries, we assessed if there were any indicators of management bias in the valuation of insurance contract liabilities.

  - Testing the appropriateness of journal entries recorded in the general ledger, with a focus on manual journals and evaluating the business rationale for significant and/or unusual transactions.

- We designed our audit procedures to identify non-compliance with both direct and other laws and regulations. Our procedures involved: making enquiries of those charged with governance and senior management for their awareness of any non-compliance of laws 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, 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 Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Company on 30 September 2004 to audit the financial statements for the year ending 31 December 2004 and subsequent financial periods.

- The period of total uninterrupted engagement including previous renewals and reappointments is 17 years, covering the years ending 31 December 2004 to 31 December 2020.

- 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.

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

DocuSigned by:
Ernst & Young LLP
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Neeta Ramudaram (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
…….March 2021

March 16, 2021 | 7:12:00 GMT

Notes:

1. The maintenance and integrity of the Phoenix Life website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of comprehensive income
for the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Gross premiums written	7	3,431	3,302
Less: premiums ceded to reinsurers	8	(592)	(537)
Net premiums written		2,839	2,765
Fees and commissions	9	164	178
Total revenue, net of reinsurance payable		3,003	2,943
Net investment income	10	3,426	5,638
Gain on transfer of business	4	-	4
Net income		6,429	8,585
Policyholder claims		(2,640)	(2,888)
Less: reinsurance recoveries		711	673
Change in insurance contract liabilities		(2,685)	(2,931)
Change in reinsurers' share of insurance contract liabilities		(172)	37
Transfer from / (to) unallocated surplus		19	(20)
Net policyholder claims and benefits incurred		(4,767)	(5,129)
Change in investment contract liabilities		(1,132)	(3,231)
Change in reinsurers' share of investment contract liabilities		400	823
Amortisation	17	(12)	(13)
Other operating expenses	11	(441)	(423)
Total operating expenses		(5,952)	(7,973)
Profit before finance costs and tax		477	612
Finance costs	14	(31)	(35)
Profit for the year before tax		446	577
Tax charge attributable to policyholders' returns	15	(31)	(119)
Profit before tax attributable to owners		415	458
Tax charge	15	(106)	(196)
Less: tax attributable to policyholders' returns		31	119
Tax charge attributable to owners		(75)	(77)
Profit for the year attributable to owners		340	381
Other comprehensive income		-	-
Total comprehensive income for the year attributable to owners		340	381

Statement of financial position - assets
as at 31 December 2020

	Notes	As at 31 December 2020 £m	As at 31 December 2019 £m
ASSETS			
Intangible assets	17	111	123
Investment property	18	473	501
Subsidiaries held for strategic purposes	19	32	24
Investment in associates	20	302	388
Financial assets			
Loans and deposits	21	206	211
Derivatives	22	1,580	1,139
Equities		359	382
Debt securities		22,442	18,840
Subsidiaries held for investment purposes	23	25,861	21,102
Collective investment schemes		7,822	12,842
Reinsurers' share of investment contract liabilities		6,200	5,657
	24	64,470	60,173
Insurance assets			
Reinsurers' share of insurance contract liabilities	32	2,368	2,541
Reinsurance receivables		50	49
Insurance contract receivables		8	20
		2,426	2,610
Current tax receivable	27	1	-
Deferred acquisition costs		33	24
Prepayments and accrued income	28	87	94
Other receivables	29	390	588
Cash and cash equivalents		415	425
Total assets		68,740	64,950

Statement of financial position – equity and liabilities
as at 31 December 2020

	Notes	As at 31 December 2020 £m	As at 31 December 2019 £m
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	30	69	69
Share premium		1	1
Other reserves	31	802	574
Retained earnings		930	790
Total equity		1,802	1,434
Liabilities			
Insurance contract liabilities			
Liabilities under insurance contracts	32	35,863	33,176
Unallocated surplus		577	597
		36,440	33,773
Financial liabilities			
Investment contracts		24,472	24,356
Borrowings	33	258	269
Deposits received from reinsurers		331	333
Derivatives	22	224	165
Other financial liabilities	34	4,271	3,768
	24	29,556	28,891
Provisions	35	27	44
Deferred tax liabilities	27	110	119
Reinsurance payables		10	11
Payables related to direct insurance contracts		527	485
Current tax payable	27	-	13
Accruals and deferred income	36	41	43
Other payables	37	227	137
Total liabilities		66,938	63,516
Total equity and liabilities		68,740	64,950

On behalf of the Board

DocuSigned by:

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S Percival
Director

16 March 2021

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

	Share capital (note 30) £m	Share premium £m	Other reserves (note 31) £m	Retained earnings £m	Total £m
At 1 January 2020	69	1	574	790	1,434
Profit for the year	-	-	-	340	340
Total comprehensive income for the year	-	-	-	340	340
Dividends paid on ordinary shares (note 16)	-	-	-	(200)	(200)
Capital contribution received (note 31)	-	-	228	-	228
At 31 December 2020	69	1	802	930	1,802

	Share capital (note 30) £m	Share premium £m	Other reserves (note 31) £m	Retained earnings £m	Total £m
At 1 January 2019	69	1	476	709	1,255
Profit for the year	-	-	-	381	381
Total comprehensive income for the year	-	-	-	381	381
Dividends paid on ordinary shares (note 16)	-	-	-	(300)	(300)
Capital contribution received (note 31)	-	-	98	-	98
At 31 December 2019	69	1	574	790	1,434

Of the above, £1,732m (2019: £1,364m) is considered distributable.

Statement of cash flows
for the year ended 31 December 2020

	Note	2020 £m	2019 £m
Cash flows from operating activities			
Cash generated from operations	38	68	262
Taxation (paid) / recovered		(83)	16
Net cash flows from operating activities		(15)	278
Cash flows from investing activities			
Capital repaid by subsidiary	19	-	10
Capital provided to subsidiary	19	(8)	-
Dividend received from subsidiary		11	-
Net cash flows from investment activities		3	10
Cash flows from financing activities			
Capital contribution received	31	228	98
Ordinary share dividends paid	16	(200)	(300)
Repayment of borrowings	33	(12)	(16)
Interest paid		(14)	(14)
Net cash flows from financing activities		2	(232)
Net (decrease) / increase in cash and cash equivalents		(10)	56
Cash and cash equivalents at the beginning of the year		425	369
Cash and cash equivalents at the end of the year		415	425

Notes to the Financial Statements

1. Basis of preparation

The financial statements for the year ended 31 December 2020, set out on pages 35 to 102, were authorised by the Board of Directors for issue on 16 March 2021.

The financial statements have been prepared on a historical cost basis except for investment property, investments in subsidiaries and associates held for investment purposes and those financial assets and financial liabilities that have been measured at fair value.

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 £ million 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 financial statements are separate financial statements and the exemption in section 400 of the Companies Act 2006 has been used not to present consolidated financial statements. The results of the Company are consolidated into the accounts of the Company's ultimate parent, Phoenix Group Holdings plc, a company incorporated in England and Wales. Copies of the Phoenix Group Holdings plc consolidated financial statements can be obtained from their company website, www.thephoenixgroup.com.

Going Concern

The Board has considered financial projections which demonstrate the ability of the Company to withstand market shocks in a range of scenarios, including very severe ones. In assessing the appropriateness of the going concern basis, the Board considered base case liquidity and solvency projections that incorporated an estimated view of the economic downturn that is anticipated due to the impacts of COVID-19. In addition, a more onerous economic downturn was also modelled. These scenarios have been validated against latest available external benchmarks, including International Monetary Fund and Bank of England forecasts.

The projections demonstrated that excess capital would remain in the Company under both scenarios, supporting cash generation in the going concern period to 31 March 2022, and that liquidity was adequate to meet liabilities as they fell due. Having carried out this assessment, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Further detail is provided within the Directors' report.

Statement of compliance

The financial statements of the Company for the year ended 31 December 2020 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

2. Accounting Policies

a) Critical accounting estimates and judgements

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

Financial statement area	Critical accounting estimates and assumptions	Related notes
Operating profit	Operating profit is the Company's non-GAAP measure of performance. The Company is required to make judgements as to the appropriate longer-term rates of investment return for the determination of operating profit, based on risk-free yields at the start of each financial year, and as to what constitutes an operating or non-operating item in accordance with the accounting policy detailed in (b). Profits on the initial recognition of new business, including the writing of bulk purchase annuities, are included in operating profit on a basis using valuation assumptions consistent with the Company's expected longer term asset allocation attributable to that business. The impact on profit of subsequent changes in planned or actual asset allocation are excluded from operating profit.	6
Insurance and investment contract liabilities	Insurance and investment contract liability accounting is discussed in more detail in accounting policies (s) and (t) with further detail of the key assumptions made in determining insurance and investment contract liabilities included in the notes to the accounts. 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. The valuation of insurance contract liabilities is sensitive to the assumptions which have been applied in their calculation.	32
Fair value of financial assets and liabilities	The fair values of financial assets and liabilities are classified and accounted for as set out in accounting policies (m) and (u) respectively. Where possible, financial assets and liabilities are valued on the basis of listed market prices by reference to quoted market bid prices for assets and offer prices for liabilities, without any deduction for transaction costs. These are categorised as Level 1 financial instruments and do not involve estimates. If prices are not readily determinable, fair value is determined using valuation techniques including pricing models, discounted cash flow techniques or broker quotes. Financial instruments valued where valuation techniques are based on observable market data at the period end are categorised as Level 2 financial instruments. Financial instruments valued where valuation techniques are based on non-observable inputs are categorised as Level 3 financial instruments. Level 2 and Level 3 financial instruments therefore involve the use of estimates and the notes provide further disclosures on fair value hierarchy and assumptions used to determine fair values. In relation to the Level 3 financial instruments, sensitivity analysis is performed in respect of the key assumptions used in the valuation of these financial instruments. Longevity contracts classified as derivatives are valued by models on actuarial bases. These are unobservable inputs and are classified as Level 3 financial instruments.	25

b) Operating profit

The Company has chosen to report a non-GAAP measure of performance, being operating profit. Operating profit is considered to provide a comparable measure of the underlying performance of the business as it excludes the impact of short-term economic volatility and other one-off items.

This measure incorporates an expected return over the period, including a longer term return on financial investments backing shareholder and policyholder funds using risk free yields at start of year, with consistent allowance for the corresponding expected movements in liabilities. Annuity new business profits are included in operating profit using valuation assumptions consistent with the pricing of the business (including the Company's expected longer term asset allocation backing the business).

Operating profit includes the effect of variances in experience for non-economic items, such as mortality and expenses, and the effect of changes in non-economic assumptions. It also incorporates the impacts of significant management actions where such actions are consistent with the Company's core operating activities (for example, actuarial modelling enhancements and data reviews). Operating profit is reported net of policyholder finance charges and policyholder tax.

Operating profit excludes the impact of the following items:

- the difference between the actual and expected experience for economic items and the impacts of changes in economic assumptions on the valuation of liabilities;
- amortisation and impairments of intangible assets;
- finance costs attributable to owners;
- the financial impacts of mandatory regulatory change;
- integration, restructuring or other significant one-off projects; and
- any other items which, in the Directors' view, should be disclosed separately by virtue of their nature or incidence to enable a full understanding of the Company's financial performance.

Whilst the excluded items are important to an assessment of the financial performance of the Company, management considers that the presentation of the operating profit metric provides useful information for assessing the underlying performance of the Company on an ongoing basis.

The hedging strategy of the Company is calibrated to protect the regulatory capital position and cash generation capability, as opposed to the IFRS financial position. This can create additional volatility in the IFRS result which is excluded from the operating profit metric. In addition, significant non-recurring items are excluded where their nature is not reflective of the underlying performance of the business.

The Company therefore considers that operating profit provides a more representative indicator of the ability to generate cash available for distribution to shareholders. Accordingly, the measure is more closely aligned with the business model of the Company and how performance is managed by those charged with governance.

c) Segmental analysis

The Company defines and presents operating segments based on the information that is presented to the Chief Operating Decision Maker.

Following a change in the governance and management structure in 2019, the Company reassessed its operating segments and considers that it still has a single operating segment, being life assurance. This consists of closed funds, bulk purchase annuities and SunLife products. Closed funds no longer actively sell products to policyholders and will therefore run-off gradually over time. These funds will accept incremental premiums on in-force policies and provide annuities to existing policyholders with vesting products. While the SunLife polices are actively sold by the Company's strategic subsidiary, these are not managed separately to the closed funds in respect of the policy and asset management activities carried out by the Company. The Company's operations in the Republic of Ireland are included in the life assurance segment, as these are not managed separately to the UK business.

d) Income recognition

Gross premiums

In respect of insurance contracts and investment contracts with discretionary participation features ("DPF"), premiums are accounted for on a receivable basis and exclude any taxes or duties based on premiums. Funds at retirement under individual pension contracts converted to annuities with the Company are, for accounting purposes, included in both claims incurred and premiums within gross premiums written.

Reinsurance premiums

Outward reinsurance premiums are accounted for on a payable basis. Reinsured premiums include fixed monthly payments made under longevity swap arrangements.

Reinsurance premiums include amounts receivable as refunds of premiums in cases where the Company cancels arrangements for the reinsurance of risk to another insurer.

Fee and commission income

Fee and commission income relates to the following:

- investment contract income – investment contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over those periods. 'Front end' fees are charged on some non-participating investment contracts. Where the non-participating investment contract is measured at fair value, such fees which relate to the provision of investment management services are deferred and recognised as the services are provided; and
- release of deferred income reserve.

Net investment income

Net investment income comprises interest, dividends, rents receivable, fair value gains and losses and impairment reversals and losses. Fair value movements occur on financial assets, including subsidiaries held for investment purposes, while impairment reversals and losses occur on loans and investments in subsidiaries held for strategic purposes and measured at amortised cost less impairment.

Interest income is recognised as income in the Statement of comprehensive income as it accrues using the effective interest method. Dividend income is recognised as income in the Statement of comprehensive income on the date the right to receive payments is established, which in the case of listed securities is the ex-dividend date.

Rental income from investment property is recognised as income in the Statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

Fair value gains and losses on financial assets designated at fair value through profit or loss are recognised as income or expense in the Statement of comprehensive income. Realised gains and losses are the difference between the net sale proceeds and the original cost. Unrealised gains and losses are the difference between the valuation at the period end and their valuation at the previous period end or purchase price, if acquired during the year.

e) Transfers of business
Where the Company participates in a transfer of insurance business scheme under Part VII of the Financial Services and Markets Act 2000 and the ultimate shareholders remain the same, the transaction constitutes business combinations involving entities or businesses under common control. IFRS does not prescribe the treatment of such transfers. Accordingly, on initial recognition, the transferred assets and liabilities are measured at the carrying value in the transferring company and the resulting gain or loss is recognised as income or an expense in the Statement of comprehensive income.

f) Benefits, claims and expenses recognition
Gross benefits and claims
Claims on insurance contracts and investment contracts with DPF reflect the cost of all claims arising during the period, including policyholder bonuses allocated in anticipation of a bonus declaration. Claims payable on maturity are recognised when the claim becomes due for payment and claims payable on death are recognised on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within insurance contract liabilities. Where claims are payable and the contract remains in force, the claim instalment is accounted for when due for payment. Claims payable include the costs of settlement.

Reinsurance claims
Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract. Reinsured claims include variable monthly claim recoveries received under longevity swap arrangements.

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

Change in unallocated surplus
The change in unallocated surplus recognised in the income statement comprises the movement in unallocated surplus during the period. However, where movements in assets and liabilities which are attributable to participating policyholders are recognised in other comprehensive income, the change in unallocated surplus arising from these movements is also recognised in other comprehensive income.

Expenses under arrangements with reinsurers
Expenses, including interest, arising under elements of contracts with reinsurers that do not transfer significant insurance risk are recognised on an accruals basis in the income statement as expenses under arrangements with reinsurers.

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

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

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

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

The tax charge is analysed between tax that is payable in respect of policyholders' returns and tax that is payable on owners' returns. This allocation is calculated based on an assessment of the effective rate of tax that is applicable to owners for the year. Deferred tax assets and liabilities taxed at policyholder rates are not offset against deferred tax assets or liabilities taxed at shareholder rates due to restrictions in place in life tax legislation.

h) 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.

i) Intangible assets

Acquired in-force business

Insurance and investment contracts with DPF acquired in business combinations and portfolio transfers are measured at fair value at the time of acquisition. The difference between the fair value of the contractual rights acquired and obligations assumed and the liability measured in accordance with the Company's accounting policies for such contracts is recognised in the financial statements as acquired in-force business. This acquired in-force business is amortised over the estimated life of the contracts on a basis which recognises the emergence of the economic benefits. The amortisation period and method is reviewed annually.

At each reporting date, the Company assesses whether there are any indications of impairment. When indications of impairment exist, an impairment test is carried out by comparing the carrying value of the asset with the estimate of the recoverable amount. When the recoverable amount is less than the carrying value, an impairment charge is recognised as an expense in the Statement of comprehensive income. Acquired in-force business is also considered in the liability adequacy test for each reporting period.

j) Investment property

Investment property is initially recognised at cost, including any directly attributable transaction costs. Subsequently investment property is measured at fair value. Fair value is the price that would be received to sell a property in an orderly transaction between market participants at the measurement date. Fair value is determined without any deduction for transaction costs that may be incurred on sale or disposal. Gains and losses arising from the change in fair value are recognised as income or an expense in the Statement of comprehensive income.

k) Investment in subsidiaries

The Company has two categories of investment in subsidiaries: strategic subsidiaries and investment subsidiaries. Strategic subsidiaries are operating companies which support the Group and the Company's strategic objectives, as well as certain non-trading and dormant companies. Investment subsidiaries are held to generate capital or income growth through holding investments.

The Company has invested in a number of collective investment schemes and other types of investment where judgement is applied in determining whether the Company controls the activities of these entities. These entities are typically structured in such a way that owning the majority of the voting rights is not the conclusive factor in the determination of control.

The Company considers the scope of its decision-making authority, including the existence of substantive rights (such as power of veto, liquidation rights and the right to remove the fund manager) that give it the ability to direct the relevant activities of the investee. The assessment of whether rights are substantive rights, and the circumstances under which the Company has the practical ability to exercise them, requires the exercise of judgement. Where the Company is deemed to control such collective investment schemes they are classified as investments in subsidiaries held for investment purposes. Where the company is deemed to exercise significant influence over such investments they are classified as associates. Where the Company has an investment but not control over these types of entities, the investment is classified as equity securities and collective investment schemes in the statement of financial position.

Investments in shares in subsidiaries held for strategic purposes are carried in the Statement of financial position at cost less impairment. At each reporting date for subsidiaries held at cost less impairment, the Company assesses whether there are any indications of impairment or reversal of impairment. When such indications exist, an impairment test is carried out by comparing the carrying value of the investment against the estimate of the recoverable amount, which represents the higher of value in use or fair value less costs of disposal. The value in use will be calculated with reference to IFRS net asset value, as this approximates fair value. Impairments and reversal of impairments are recognised as income or an expense in the Statement of comprehensive income in the period in which they occur.

Investments in shares in subsidiaries held for investment purposes are carried at fair value through profit or loss.

l) Investments in associates and joint ventures

Investments in associates and joint ventures that are held for investment purposes are accounted for under IAS 39 *Financial Instruments: Recognition and Measurement* as permitted by IAS 28 *Investments in Associates and Joint Ventures*. These are measured at fair value through profit or loss. There are no investments in associates and joint ventures which are of a strategic nature.

m) Financial assets

Purchases and sales of financial assets are recognised on the trade date, which is the date that the Company commits to purchase or sell the asset.

Loans and receivables are non-derivative financial assets with fixed or determinable payments. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method.

Reinsurance and retrocession contracts not considered to be insurance contracts under IFRSs are classified as debt securities and are recognised and measured at fair value.

Derivative financial instruments are classified as held for trading. They are recognised initially at fair value and subsequently are re-measured to fair value. Exchange-traded derivatives are valued at the published bid price, or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. The gain or loss on re-measurement to fair value is recognised as income or an expense in the Statement of comprehensive income.

Equities, debt securities (including those where a security has not been issued) and collective investment schemes are designated at fair value through profit or loss and accordingly are stated in the Statement of financial position at fair value. They are designated at fair value through profit or loss because they are managed and evaluated on a fair value basis in accordance with the Company’s stated risk management policies.

Impairment of financial assets

The Company assesses at each period end whether a financial asset, or group of financial assets, held at amortised cost is impaired. The Company first assesses whether objective evidence of impairment exists for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

Derecognition and offset of financial assets and liabilities

A financial asset (or a part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or
- The Company has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Financial 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 asset and settle the liability simultaneously. When financial assets and liabilities are offset any related interest income and expense is offset in the income statement.

Fair value estimation

The fair value of financial instruments traded in active markets such as publicly traded securities and derivatives are based on quoted market prices at the period end. The quoted market price used for financial assets is the current bid price on the trade date. The fair value of investments that are not traded in an active market is determined using valuation techniques such as broker quotes, pricing models or discounted cash flow techniques. Where pricing models are used, inputs are based on market related data at the period end. Where discounted cash flow techniques are used, estimated future cash flows are based on contractual cash flows using current market conditions and market calibrated discount rates and interest rate assumptions for similar instruments.

For units in unit trusts and shares in open-ended investment companies, fair value is determined by reference to published bid-values. The fair value of receivables and floating rate and overnight deposits with credit institutions is their carrying value. The fair value of fixed interest-bearing deposits is estimated using discounted cash flow techniques.

Stock lending
Financial assets that are lent under the Company's stock lending programme do not qualify for derecognition from the Statement of financial position as the Company retains substantially all the risks and rewards of the transferred assets.

Collateral
It is the Company's practice to receive and pledge collateral in the form of cash or non-cash assets in respect of stock lending transactions, derivative contracts and reinsurance arrangements in order to reduce the credit risk of these transactions. The amount and type of collateral required where the Company receives collateral depends on an assessment of the credit risk of the counterparty, but is usually in the form of cash or marketable securities.

Collateral received in the form of cash, where the Company has contractual rights to receive the cash flows generated and is available to the Company for investment purposes, is recognised as a financial asset in the Statement of financial position with a corresponding financial liability for its repayment. The collateral repayable is recognised as 'obligations for repayment of collateral received' within 'other financial liabilities' and is measured at amortised cost, which in the case of cash is equivalent to cost. Non-cash collateral received is not recognised in the Statement of financial position, unless the counterparty defaults on its obligations under the relevant agreement.

Cash and non-cash collateral pledged where the Company retains the contractual rights to receive the cash flows generated is not derecognised from the Statement of financial position, unless the Company defaults on its obligations under the relevant agreement. Where the counterparty has contractual rights to receive the cash flows generated, cash and non-cash collateral pledged is derecognised from the Statement of financial position and a corresponding receivable is recognised for its return.

n) Reinsurance

Reinsurance ceded
The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Reinsurers' share of insurance contract liabilities are dependent on expected claims and benefits arising under the related reinsured policies.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment charge is recorded as an expense in the Statement of comprehensive income. The reinsurers' share of investment contract liabilities is measured on a basis that is consistent with the valuation of the liability to policyholders to which the reinsurance applies.

Reinsurance premiums payable in respect of certain reinsured individual and group annuity contracts are payable in quarterly instalments until the year 2053. Due to the period of time over which reinsurance premiums are payable under these arrangements, the liability for the outstanding reinsurance premiums is measured at fair value through profit and loss using a discounted cash flow model and pre-tax risk-free discount rate. The unwinding of the discount calculated at the original effective date is included as a charge within finance costs in the Statement of comprehensive income. The impact of revaluation to a current discount rate is recognised as an item of income or expense within fair value gains or losses.

Gains or losses on purchasing reinsurance are recognised as income or an expense in the Statement of comprehensive income at the date of purchase and are not amortised. They are the difference between the premiums ceded to reinsurers and the related change in the reinsurers' share of insurance contract liabilities.

Reinsurance accepted
The Company accepts insurance risk under reinsurance contracts. Amounts paid to cedants at the inception of reinsurance contracts in respect of future profits on certain blocks of business are recognised as a reinsurance asset. Changes in the value of the reinsurance assets created from the acceptance of reinsurance are recognised as an expense in the Statement of comprehensive income, consistent with the expected emergence of the economic benefits from the underlying blocks of business.

At each reporting date, the Company assesses whether there are any indications of impairment. When indications of impairment exist, an impairment test is carried out by comparing the carrying value of the asset with the estimate of the recoverable amount. When the recoverable amount is less than the carrying value, an impairment charge is recognised as an expense in the Statement of comprehensive income. Reassurance assets are also considered in the liability adequacy test for each reporting period.

o) Deferred acquisition costs
Acquisition costs, comprising all direct and indirect costs arising from the conclusion of non-profit insurance and investment contracts are deferred as an explicit acquisition cost asset. This asset is amortised over the period in which the costs are expected to be recoverable out of margins from matching revenues from related policies and in accordance with the pattern of such margins.

Deferred acquisition cost amortisation is expensed within other operating expenses in the Statement of comprehensive income. At the end of each accounting period, deferred acquisition costs are reviewed for recoverability, by category, against future margins from the related policies in force at the period end.

p) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits, money held at call and short notice with banks and any highly liquid investments with less than 3 months to maturity from the date of acquisition.

q) Share capital and capital contributions

The Company has issued ordinary shares which are classified as equity. Capital contributions received by the Company and which contain no agreement for their repayment are recognised directly in the Statement of changes in equity. The capital contribution reserve is distributable subject to the availability of distributable reserves.

r) Classification of contracts

Contracts are classified as insurance contracts where the Company accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain event adversely affects the policyholder.

Contracts under which the transfer of insurance risk to the Company from the policyholder is not significant are classified as investment contracts.

Some insurance and investment contracts contain a DPF. This feature entitles the policyholder to additional discretionary benefits as a supplement to guaranteed benefits. Investment contracts with a DPF are recognised, measured and presented as insurance contracts.

Longevity contracts which do not meet the definition of insurance contracts are classified as derivatives and are valued by models on actuarial bases.

Contracts with reinsurers are assessed to determine whether they contain significant insurance risk. Contracts that do not give rise to a significant transfer of insurance risk to the reinsurer are considered financial reinsurance and are accounted for and disclosed in a manner consistent with financial instruments.

Contracts that give rise to a significant transfer of insurance risk to the reinsurer are assessed to determine whether they contain an element that does not transfer significant insurance risk and which can be measured separately from the insurance component. Where such elements are present they are accounted for separately with any deposit element being accounted for and disclosed in a manner consistent with financial instruments. The remaining elements, or where no such separate elements are identified, the entire contracts, are classified as reinsurance contracts.

s) Insurance contracts and investment contracts with DPF

Insurance liabilities

Insurance contract liabilities for non-participating business, other than unit linked insurance contracts, are calculated on the basis of current data and assumptions, using either a net premium or gross premium method. Where a gross premium method is used, the liability includes allowance for prudent lapses. Negative policy values are allowed for on individual policies:

- where there are no guaranteed surrender values; or
- in the periods where guaranteed surrender values do not apply even though guaranteed surrender values are applicable after a specified period of time.

For unit linked insurance contract liabilities the provision is based on the fund value, together with an allowance for any excess of future expenses over charges, where appropriate.

For participating business, the liabilities under insurance contracts and investment contracts with DPF are calculated in accordance with the following methodology:

- liabilities to policyholders arising from the with-profits business are stated at the amount of the realistic value of the liabilities, adjusted to exclude the owners' share of projected future bonuses;
- acquisition costs are not deferred; and
- reinsurance recoveries are measured on a basis that is consistent with the valuation of the liability to policyholders to which the reinsurance applies.

The realistic liability for any contract is equal to the sum of the with-profit bonus reserve and the cost of future policy-related liabilities.

The with-profit bonus reserve for an individual contract is determined by either a retrospective calculation of 'accumulated asset share' approach or by way of a prospective 'bonus reserve valuation' method.

The cost of future policy related liabilities is determined using a market consistent approach, mainly based on a stochastic model calibrated to market conditions at the end of the reporting period. Non market related assumptions (for example, persistency, mortality and expenses) are based on experience adjusted to take into account of future trends.

Where policyholders have valuable guarantees, options or promises in respect of the with-profit business, these costs are generally calculated using a stochastic model.

In calculating the realistic liabilities, account is taken of the future management actions consistent with those set out in the Principles and Practices of Financial Management.

The principal assumptions are given in note 32.

Present value of future profits on non-participating business in the with-profits funds
For UK with-profits funds, an amount may be recognised for the present value of future profits ("PVFP") on non-participating business written in a with-profits fund where the determination of the value of liabilities in that with-profits fund takes account, directly or indirectly, of this value.

Where the PVFP can be shown to be due to policyholders this amount is recognised as a reduction in the liability rather than as an intangible asset, and is then apportioned between the amounts that have been taken into account in the measurement of liabilities and other amounts which are shown as an adjustment to the unallocated surplus.

Where it is not possible to apportion the future profits on this non-participating business to policyholders the present value of future profits on this business is recognised as an intangible asset and changes in its value are recorded as a separate item of income or expense in the Statement of comprehensive income.

The value of PVFP is determined in a manner consistent with the measurement of liabilities. In particular, the methodology and assumptions involve adjustments to reflect risk and uncertainty, which are based on current estimates of future experience and current market yields and allow for market consistent valuation of any guarantees or options within the contracts. The value is also adjusted to remove the value of capital backing the non-profit business if this is included in the realistic calculation of PVFP.

The principal assumptions used to calculate the PVFP are the same as those used in calculating the insurance contract liabilities given in note 32.

Embedded derivatives
Embedded derivatives, including options to surrender insurance contracts, that meet the definition of insurance contracts or are closely related to the host insurance contract, are not separately measured. All other embedded derivatives are separated from the host contract and measured at fair value through profit or loss.

Liability adequacy
At each reporting date, liability adequacy tests are performed to assess whether the insurance contract and investment contract with DPF liabilities are adequate. Current best estimates of future cash flows are compared to the carrying value of the liabilities. Any deficiency is charged as an expense to the Statement of comprehensive income.

The Company's accounting policies for insurance contracts meet the minimum specified requirements for liability adequacy testing under IFRS 4 *Insurance Contracts*, as they allow for current estimates of all contractual cash flows and of related cash flows such as claims handling costs. Cash flows resulting from embedded options and guarantees are also allowed for, with any deficiency being recognised as income or an expense in the Statement of comprehensive income.

Unallocated surplus
The unallocated surplus comprises the excess of the assets over the policyholder liabilities of the with-profits business. For the Company's with-profits funds, the amount included in the Statement of financial position line item 'Unallocated surplus' represents amounts which have yet to be allocated to owners since the unallocated surplus attributable to policyholders has been included within liabilities under insurance contracts. The with-profits funds are closed to new business and as permitted by IFRS 4, the whole of the unallocated surplus has been classified as a separate liability.

If the realistic value of liabilities to policyholders exceeds the value of the assets in any with-profits fund, the unallocated surplus is valued at £nil.

t) Investment contracts without DPF
Receipts and payments on investment contracts without DPF are accounted for using deposit accounting, under which the amounts collected and paid out are recognised in the Statement of financial position as an adjustment to the liability to the policyholder.

The valuation of liabilities on unit-linked contracts is based on the fair value of the related assets and liabilities. The financial liability is measured based on the carrying value of the assets and liabilities that are held to back the contract. The liability is the sum of the unit-linked liabilities plus an additional amount to cover the present value of the excess of future policy costs over future charges.

The Company has treaties in place with third party insurance companies to provide reinsurance in respect of liabilities that are linked to the performance of funds maintained by those companies. The contracts in question do not transfer significant insurance risk and therefore are classified as financial instruments and are valued at fair value through profit and loss. These contracts are disclosed under Reinsurers' share of investment contract liabilities in the Statement of financial position.

Investment income attributable to, and the movements in the fair value of, investment contracts without DPF are included in 'Change in investment contract liabilities' as income or an expense in the Statement of comprehensive income.

u) Financial liabilities
On initial recognition, financial liabilities are recognised when due and measured at the fair value of the consideration payable or received less directly attributable transaction costs (with the exception of liabilities at fair value through profit or loss for which all transaction costs are expensed). Subsequent to initial recognition, financial liabilities (except for liabilities under investment contracts and other liabilities designated at fair value through profit or loss) are measured at amortised cost using the effective interest method.

Financial liabilities are designated upon initial recognition at fair value through profit or loss when doing so results in more meaningful information because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Company's key management personnel.

v) Borrowings
Interest-bearing borrowings are recognised initially at fair value less any attributable transaction costs. The difference between initial cost and the redemption value is amortised as income or an expense in the Statement of comprehensive income over the period of the borrowing using the effective interest method.

Reversion loans and retrocession contracts are designated upon initial recognition at fair value through profit or loss and measured at fair value where doing so provides more meaningful information due to the reasons stated above in the financial liabilities accounting policy. Transaction costs relating to borrowings designated upon initial recognition at fair value through profit or loss are expensed as incurred.

w) 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.

A provision is recognised for onerous contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs reflect the least net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

x) Payables related to direct insurance contracts
Payables related to direct insurance contracts includes balances for outstanding claims. Outstanding claims under insurance contracts and investment contracts with DPF are valued using a best estimate method under IFRS 4. Outstanding claims under investment contracts without DPF are measured at full settlement value in accordance with IAS 39.

y) 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.

3. New and amended accounting standards

Adoption of New Accounting Pronouncements in 2020

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'):

- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7): The amendments have arisen following the phasing out of interest-rate benchmarks such as interbank offered rates ('IBOR'). Specific hedge accounting requirements have been modified to provide relief from potential effects of the uncertainty caused by IBOR reform. In addition, these amendments require entities to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. There has been no impact on the Company as a result of these amendments as it does not adopt IFRS hedge accounting.

- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Amendments clarify the definition of material and how it should be applied; and Amendments to the Conceptual Framework in IFRS Standards. These new and amended standards do not currently have any impact on the Company

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.

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (1 January 2021). The changes introduced in Phase 2 of the Interest Rate Benchmark Reform project relate to the modification of financial assets, financial liabilities and lease liabilities (introducing a practical expedient for modifications required by the IBOR reform), specific hedge accounting requirements to ensure hedge accounting is not discontinued solely because of the IBOR reform, and disclosure requirements applying IFRS 7 to accompany the amendments regarding modifications and hedge accounting. The IASB also amended IFRS 4 to require insurers that apply the temporary exemption from IFRS 9 to apply the amendments in accounting for modifications directly required by IBOR reform. There is not expected to be an impact for the Company from implementing these amendments but a review will be undertaken in 2021 to confirm this.

- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9 Financial Instruments (1 January 2021): Following the issue of IFRS 17 Insurance Contracts (Revised) in June 2020, the end date for applying the two options under the IFRS 4 amendments (including the temporary exemption from IFRS 9) was extended to 1 January 2023, aligning the date with the revised effective date of IFRS 17. The Company expects to take advantage of this extension to align the implementation of IFRS 9 and IFRS 17.

- IFRS 9 Financial Instruments (2023): Under IFRS 9, all financial assets will be measured either at amortised cost or fair value and the basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. In relation to the impairment of financial assets, IFRS 9 requires the use of an expected credit loss model, as opposed to the incurred credit loss model required under IAS 39 Financial Instruments: recognition and Measurement. The expected credit loss model will require the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

  The Company has taken advantage of the temporary exemption granted to insurers in IFRS 4 Insurance Contracts from applying IFRS 9 until 1 January 2023 as a result of meeting the exemption criteria as at 31 December 2015. As at this date the Company's activities were considered to be predominantly connected with insurance as the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities was greater than 90%. There have been no changes to the activities of the Company that require this assessment to be re-performed.

  IFRS 9 will be implemented at the same time as the new insurance contracts standard (IFRS 17 Insurance Contracts) effective from 1 January 2023. During the year, the Company continued its implementation activities in respect of IFRS 9 and the Company expects to continue to value the majority of its financial assets as at fair value through profit or loss on initial recognition, either as a result of these financial assets being managed on a fair value basis or as a result of using the fair value option to irrevocably designate the assets at fair value through profit or loss. A number of additional disclosures will be required by IFRS 7 Financial Instruments: Disclosures as a result of implementing IFRS 9. Additional disclosures have been made in note 24 to the financial statements to provide information to allow comparison with entities who have already adopted IFRS 9.

- IFRS 17 Insurance Contracts (2023): Once effective IFRS 17 will replace IFRS 4, the current insurance contracts standard and it is expected to significantly change the way the Company measures and reports its insurance contracts. The overall objective of the new standard is to provide an accounting model for insurance contracts that is more useful and consistent for users. The new standard uses three measurement approaches and the principles underlying two of these measurement approaches will significantly change the way the Company measures its insurance contracts and investment contracts with DPF. These changes will impact profit emergence patterns and add complexity to valuation processes, data requirements and assumption setting. The Group-wide implementation project continued throughout 2020 with an increasing focus on implementation activities alongside ongoing financial and operational impact assessments and methodology development.

  In June 2020, the IASB issued its narrow-scope amendments to IFRS 17 to address a number of the concerns and issues identified in the original version of the standard. Whilst the changes have given clarity in some areas there remain a number of implementation challenges which the Company will need to address. Development of the Company's methodologies and accounting policies continues to progress with increasing focus on the application of these methodologies. All activities will continue throughout 2021.

Of the amendments to standards listed above IFRS 9 Financial Instruments has been endorsed by the EU.

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.

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

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16); and

- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9 Financial Instruments

4. Transfers of business

Abbey Life Assurance Company Limited ("ALAC") to the Company
With effect from 31 December 2018, all long-term business and the majority of the assets and liabilities of ALAC were transferred to the Company for £nil consideration in accordance with the terms of a scheme under Part VII of the Financial Services and Markets Act 2000 ("The Scheme") approved by the High Court on 18 December 2018.

During 2019, following the deauthorisation of ALAC to carry out long-term business, the remaining assets of ALAC, comprising a £4m investment in collective investment schemes, were transferred to the Company for £nil consideration, in accordance with the Scheme.

5. Segmental analysis

The Company has a single operating segment and accordingly no segmental analysis is presented.

Substantially all revenues from external customers are sourced in the United Kingdom. Revenue transactions with a single customer amounting to greater than 10% of the Company's revenue are disclosed in note 7. All non-current assets other than financial instruments are located in the United Kingdom.

6. Operating Profit

Reconciliation of operating profit to profit before tax attributable to owners

	2020 £m	2019 £m
Operating profit	401	320
Investment return variances and economic assumption changes on long-term business	46	(22)
Amortisation of acquired in-force business	(12)	(13)
Other non-operating items	(5)	188
Finance costs attributable to owners	(15)	(15)
Profit before tax attributable to owners	**415**	**458**

Key drivers of operating profit

	2020 £m	2019 £m
Expected returns, including the owners' share of with-profits bonus	211	191
Changes in demographic assumptions	35	65
Change in demographic experience	(40)	(15)
Changes in model and methodology	(1)	28
New business	185	51
Other operating variances	11	-

Other non-operating items
Non-operating items other than investment return variances in 2020 include:

- £(5)m in respect of impacts from ongoing work to move to a single outsourcer platform.

Non-operating items other than investment return variances in 2019 included:

- £138m in respect of the 'Buy-in' arrangement with PGLPS;
- £46m in respect of a reduction in future expense assumptions resulting from the revised MSA with the Service Companies;
- £4m in respect of the ALAC Part VII transfer.

Investment return variances
The investment return variances and economic assumption changes excluded from the long-term business operating profit largely arise due to differences in the IFRS reporting basis compared to the hedged Solvency II position, after allowance for risk capital.

Calculation of the long-term investment return
The long-term nature of much of the Company's operations means that, for internal performance management, the effects of short-term economic volatility are treated as non-operating items. The Company focuses instead on an operating profit measure that incorporates an expected return on investments supporting its long-term business. The methodology for the determination of the expected investment return is explained below:

The expected return on investments for both owner and policyholder funds is based on opening economic assumptions applied to the funds under management at the beginning of the reporting period. Expected investment return assumptions are derived actively, based on risk-free yields at the start of each financial year.

The long-term risk-free rate used as a basis for deriving the long-term investment return is set by reference to a swap curve, plus 10bps (2019: 10bps). A risk premium is added to the risk-free yield according to asset type as shown below.

	Long term investment return assumption		Risk premium	
	2020 %	2019 %	2020 Bps	2019 Bps
Equities	4.7	5.2	349	350
Properties	3.7	4.2	249	250
Gilts	1.4	2.2	15	50
Corporate bonds	1.8	2.9	55	120

7. Gross premiums written

Transactions with a single customer comprising over 10% of revenue in the current and prior year are as follows:

On 29 May 2020, the Company completed a bulk purchase annuity transaction with the Trustees of The LV= Pension Trustee Limited pension scheme and recognised a premium of £802m.

On 18 September 2020, the Company completed a bulk purchase annuity transaction with the Trustees of the Marks and Spencer Pension Trust Limited pension scheme and recognised a premium of £357m. On 12 April 2019, the Company completed a bulk purchase annuity transaction with the same customer and recognised a premium of £462m in the prior year.

On 17 November 2020, the Company entered into a “Buy-in” agreement with the Pearl Pension Scheme, a related party of the Company. The Company recognised a premium of £735m.

On 11 December 2020, the Company completed a bulk purchase annuity transaction with the Trustees of the Safeway & WM Morrison pension schemes and recognised a premium of £332m.

On 1 March 2019, the Company entered into a ‘Buy-in’ agreement with PGL Pension Scheme (“PGLPS”), a related party of the Company. The Company recognised a premium of £1,128m in the prior year.

8. Premiums ceded to reinsurers

During 2020, the Company entered into swap agreements with reinsurers in respect of longevity risk associated with pension liabilities acquired via bulk purchase annuity transactions and the Pearl Pension Scheme ‘Buy-in’. Premiums ceded under these agreements totalled £37m.

Premiums ceded to reinsurers comprise:

	2020 £m	2019 £m
Longevity swap payments	575	513
Reinsurance premiums ceded under on-going reinsurance arrangements	17	24
	592	537

9. Fees and commissions

	2020 £m	2019 £m
Annual management charges ("AMC")	152	165
Non AMC investment contract income	10	11
Investment contract income	162	176
Movement in deferred income	2	2
Total fees and commissions	164	178

Annual management charges are recognised in proportion to the Company’s provision of investment management services. The percentage fee is specified in the policy documents. There are no remaining performance obligations as the revenue recognised corresponds to the value to the customer.

Non AMC investment contract income represents fees charged in the running of investment contracts including the provision of benefits.

Movement in deferred income comprises the recognition of the consideration received at inception of investment contracts in line with the performance of the provision of investment management services over the expected life of the contracts.

No significant judgements are required in determining the costs incurred to obtain or fulfil contracts with customers.

10. Net investment income

	2020 £m	2019 £m
Investment income		
Interest income on loans and deposits at amortised cost	5	5
Interest income on financial assets designated at fair value through profit or loss	513	501
Dividend income	625	608
Rental income	24	26
	1,167	1,140
Fair value gains/(losses) on items at fair value through profit or loss		
Financial assets and liabilities:		
Derivatives held for trading	750	359
Designated upon initial recognition	1,164	2,118
Investment in subsidiaries (note 23)	430	1,994
Investment in associates (note 20)	(86)	25
Investment property (note 18)	1	2
	2,259	4,498
Net investment income	3,426	5,638

Rental income is primarily received on investment properties.

Interest income on loans and deposits at amortised cost includes interest receivable of £5m (2019: £5m) on loans to the immediate parent company.

11. Other operating expenses

	2020 £m	2019 £m
Outsourcing expenses	164	173
Investment management expenses and transaction costs	138	139
Annual management charges payable under reinsurance arrangements	15	16
	317	328
Acquisition costs incurred	133	100
Acquisition costs deferred	(11)	(7)
Amortisation of deferred acquisition costs	2	2
Total other operating expenses	441	423

Employee costs
The Company has no employees. Administrative services are provided by Pearl Group Management Services Limited ("PGMS"), Pearl Group Services Limited ("PGS"), and Pearl Group Management Services (Ireland) Limited ("PGMSI"), fellow group companies.

12. Directors' remuneration

	2020 £000	2019 £000
Remuneration (executive and non-executive Directors remuneration excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	700	609
Share option schemes and other long-term benefits	302	219
Contributions to money purchase pension schemes	-	1
	1,001	829

	2020 Number	2019 Number
Number of Directors accruing retirement benefits under:		
- a money purchase pension scheme	1	1
Number of Directors who exercised share options during the year	5	5

	2020 £000	2019 £000
Highest paid Director's remuneration	303	283

The highest paid Director exercised share options during the year.

The Executive Directors are employed by either PGMS, PGS or Standard Life Assets and Employee Services Limited ("SLAESL"). 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.

13. Auditor's remuneration

	2020 £000	2019 £000
Audit of the Company's financial statements	1,884	1,971

During the financial year ended 31 December 2020, Ernst & Young LLP acted as the Company's external auditor. Auditors' remuneration for services other than the statutory audit of the Company are not disclosed in the Company's financial statements since the consolidated financial statements of Phoenix Group Holdings plc, the Company's ultimate controlling party, are required to disclose fees in respect of non-audit services on a consolidated basis.

14. Finance costs

	2020 £m	2019 £m
Interest expense		
On financial liabilities at amortised cost	18	23
On financial liabilities at fair value through profit or loss	13	12
	31	35

15. Tax charge/(credit)

Current year tax charge

	2020 £m	2019 £m
Current tax:		
UK Corporation tax	107	88
Overseas tax	4	6
	111	94
Adjustment in respect of prior years	4	1
Total current tax	115	95
Deferred tax:		
Origination and reversal of temporary differences	(17)	99
Adjustment in respect of prior years	4	5
Change in the rate of UK corporation tax	4	(3)
Total deferred tax	(9)	101
Total tax charge	106	196

Attributable to:		
- policyholders	31	119
- owners	75	77
Total tax charge	106	196

The Company, as a proxy for policyholders in the UK, is required to pay taxes on investment income and gains each year. Accordingly, the tax benefit or expense attributable to UK life assurance policyholder earnings is included in the income tax expense.

Reconciliation of tax charge

	2020 £m	2019 £m
Profit for the year before tax	446	577
Tax charge attributable to policyholders' returns	(31)	(119)
Profit before tax attributable to owners	415	458
Tax at standard UK rate of 19% (2019: 19%)	79	87
Non taxable income and gains	(3)	-
Adjustment to owners' tax in respect of prior years	1	-
Non-taxable gain on Part VII transfer	-	(1)
Profits taxed at rates other than 19%	(4)	(7)
Deferred tax rate change	4	(3)
Irrecoverable overseas tax suffered	-	1
Other	(2)	-
Tax attributable to owners	75	77
Tax charge attributable to policyholders' returns	31	119
Total tax charge	106	196

16. Dividends on ordinary shares

	2020 £m	2019 £m
Interim dividend for 2020 at 289p per share (2019: 434p per share)	200	300

17. Intangible assets

	Acquired in-force business	
	2020 £m	2019 £m
Cost		
At 1 January and at 31 December	388	388
Amortisation		
At 1 January	(265)	(252)
Amortisation charge for the year	(12)	(13)
At 31 December	(277)	(265)
Carrying amount		
At 31 December	111	123
Amount recoverable after 12 months	99	110

Acquired in-force business is amortised over the estimated life of the contracts on a basis which recognises the emergence of the economic benefits. The remaining estimated life of the contracts is approximately 20 years.

18. Investment property

	2020 £m	2019 £m
At 1 January	501	525
Improvements	2	5
Disposals	(31)	(31)
Net fair value gains	1	2
At 31 December	473	501
Unrealised gains in the period on assets held at the end of the year	1	2
The fair value of property can be analysed as:		
Commercial investment property	412	431
Residential property reversions	61	70

The property portfolio consists of a mix of commercial sectors, spread geographically throughout the UK

Fair value measurement

The fair value measurement of investment property has been categorised as a level 3 fair value based on the inputs to the valuation techniques used.

Commercial investment property
The fair value of commercial investment property is based on valuations provided by external property valuation experts having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued, having regard to the condition of the property and local market conditions. The valuations are carried out in accordance with the Royal Institute of Chartered Surveyors ("RICS") guidelines.

The valuations are predominantly produced using an income capitalisation approach. The income capitalisation approach is based on capitalising an annual net income stream using an appropriate yield. The annual net income is based on both current and estimated future net income. The yield and future net income used is determined by considering recent transactions involving properties with similar characteristics to the property being valued. Where it is not possible to use an income capitalisation approach, for example on property with no rental income, a market comparison approach is used by considering recent transactions involving properties with similar characteristics to the property being valued. In both approaches, where appropriate, adjustments will be made by the valuer to reflect differences between the characteristics of the property being valued and the recent market transactions considered.

Residential property reversions
The residential property reversions arise from sales of the NPI Extra Income Plan. These interests in customers' properties that the Company will realise upon their death are valued using a DCF model based on the Company's proportion of the current open market value, discounted for the lifetimes of the policyholders derived from published mortality tables. The open market value is measured using RICS valuations. The individual properties are valued triennially and indexed using regional house price indices to the balance sheet date. The residential property reversions have been substantially refinanced under the arrangements with Santander described in note 24.

The following table shows the valuation techniques used in measuring the fair value of each class of investment property and the significant non-observable inputs used:

Description	Valuation technique	Significant inputs	Unobservable input value	
			2020	2019
Commercial investment property	RICS valuation	Expected income per square foot	£20.71 weighted average	£21.81 weighted average
		Capitalisation rate	6.09% weighted average	6.09% weighted average
Residential property reversions	Internally developed model and RICS valuations	Mortality rate	130% IFL92C15 (Female) 130% IML92C15 (Male)	130% IFL92C15 (Female) 130% IML92C15 (Male)
		House price inflation	3 year RPI rate plus 0.75%	4 year OBR* rate minus 1%
		Discount rate	3 year swap rate plus 1.7% margin	4 year swap yield plus 1.7% margin
		Deferred possession rate	3.7%	3.6%

*OBR: Office for Budget Responsibility

Rental income and expense

	2020 £m	2019 £m
Direct operating expenses in respect of:		
Investment properties that did not generate rental income during the year	-	1

Future minimum lease rental receivables in respect of non-cancellable operating leases on investment properties due:		
Not later than one year	22	25
Later than one year and no later than five years	59	70
Later than five years	55	63
Total operating lease receivables	136	158

19. Subsidiaries held for strategic purposes

	2020 £m	2019 £m
Cost		
At 1 January	394	404
Capital contribution provided	8	-
Return of capital contribution	-	(10)
At 31 December	402	394
Impairment		
At 1 January and at 31 December	370	370
Carrying amount		
At 31 December	32	24

Investments in subsidiaries held for strategic purposes are held at cost less impairment. A listing of subsidiaries held at 31 December 2020 can be found at note 43.

20. Investment in associates

	2020 £m	2019 £m
At 1 January	388	377
Disposals	-	(14)
Fair value (losses) / gains	(86)	25
At 31 December	302	388
Dividend income received from associate	10	16

The associate of the Company is UK Commercial Property REIT Limited ("UKCP REIT"), a property investment company which is domiciled in Guernsey and is admitted to the official list of the UK Listing Authority and to trading on the London Stock Exchange. Its registered office is PO Box 255, Trafalgar Court, Les Banques, St Peter Port, Guernsey, Channel Islands GY1 3QL. As at 31 December 2020, the Company held 33.73% (2019: 33.73%) of the issued share capital of UKCP REIT.

On 29 November 2018 the company entered into four stock lending arrangements , lending equity share holdings in UKCP REIT to strategic wholly owned subsidiaries Phoenix SPV1 Limited, Phoenix SPV2 Limited, Phoenix SPV3 Limited and Phoenix SPV4 Limited ("the SPVs"). Under the arrangements the SPVs agreed to pass on any dividends received to the Company and therefore the Company continues to retain the risks and rewards of its investment in UKCP REIT, and recognise it on the Statement of Financial Position as an investment in associate.

The Company lent a total of £454m to the SPVs, and the value of the shares lent at 31 December 2020 is equal to the value of the investment in associate shown above.

There is no contractual maturity date in respect of the agreements.

As the shares of the associate are traded on an active market, the fair value measurement of the associate has been categorised as a level 1 fair value. For more information on fair value levels see note 25.

21. Loans and deposits

	2020 £m	2019 £m
Loans to Group entities at amortised cost:		
Loan to parent	202	197
Loans to strategic subsidiaries	-	10
	202	207
Other loans and deposits at amortised cost		
Loans secured on policies	4	4
Total loans and deposits	206	211
Amount recoverable after 12 months	4	209

Details of loans to Group entities

Loan to	Start date	End date	Interest rate	Amount advanced £m
Parent				
Pearl Life Holdings Limited	20 December 2016	28 February 2021	LIBOR + 180bps	183
Strategic subsidiaries				
Phoenix ER 4 Limited	17 December 2018	28 February 2019	1.75%	3
Phoenix ER 4 Limited	16 December 2019	31 January 2020	1.75%	1
Phoenix ER 5 Limited	16 December 2019	16 December 2020	1.33%	9

Movements in loans to Group entities

	Parent £m	Strategic subsidiaries £m	Total group loans £m
At 1 January 2020	197	10	207
Repayments	-	(10)	(10)
Interest	5	-	5
At 31 December 2020	202	-	202
At 1 January 2019	191	3	194
Loans advanced	-	10	10
Repayments	-	(3)	(3)
Interest	6	-	6
At 31 December 2019	197	10	207

On 8 February 2021, the Company received £202m in full settlement of a loan provided to Pearl Life Holdings Limited. The settlement proceeds will be used to redeem the Company's £200m 7.25% undated subordinated loan notes in full on 25 March 2021 (see note 33).

22. Derivatives

The Company purchases derivative financial instruments in connection with the management of its insurance contract and investment contract liabilities based on the principles of reduction of risk and efficient portfolio management. The Company does not typically hold derivatives for the purpose of selling or repurchasing in the near term or with the objective of generating a profit from short-term fluctuations in price or margin. The Company also holds derivatives to hedge financial liabilities denominated in foreign currency.

All derivative instruments have been classified as held for trading and are not part of a designated IAS 39 hedging relationship.

The Company pledges and receives collateral in respect of its derivative positions. Further information is provided in note 24.

The Company has in place longevity swap arrangements with corporate pension schemes which do not meet the definition of insurance contracts under the Company's accounting policies. Under these arrangements the majority of the longevity risk has been passed to third parties. The derivative assets and liabilities recognised are shown below.

In addition, the Company has entered into a transaction under which it has accepted reinsurance on a portfolio of single and regular premium life insurance policies and retroceded the majority of the insurance risk. Taken as a whole, this transaction does not give rise to the transfer of significant insurance risk to the Company and therefore does not meet the definition of an insurance contract under the Company's accounting policies. The fair value of amounts due from the cedant are recognised within debt securities (see note 25). The amounts recognised as derivatives are shown below.

The fair values of derivative financial instruments are:

	2020 Assets £m	2020 Liabilities £m	2019 Assets £m	2019 Liabilities £m
Forward currency	44	1	21	9
Interest rate swaps	1,228	38	887	32
Total return bond swaps	43	-	29	-
Swaptions	42	-	14	-
Inflation swaps	22	84	8	41
Stock index futures	7	15	4	8
Fixed income futures	39	-	42	1
Retrocession contracts	-	1	-	4
Longevity swap contracts	155	85	134	70
	1,580	224	1,139	165

23. Investment in subsidiaries held for investment purposes

	2020 £m	2019 £m
At 1 January	21,102	16,987
Additions	17,548	9,444
Disposals	(12,757)	(4,655)
Fair value gains	430	1,994
Transfers in from collective investment schemes	9	-
Transfers out to collective investment schemes	(471)	(2,668)
At 31 December	25,861	21,102

As at 31 December, an analysis of Open Ended Investment Companies ("OEIC's"), Unit Trusts, Sociétés d'investissement à Capital Variable ("SICAVs") and private equity funds is carried out to assess the level of control to determine whether they are investments in subsidiaries, investments in associates or financial assets. Resulting transfers between investment in subsidiaries, investment in associates and financial assets are recognised at the opening value.

A listing of subsidiaries can be found at note 43.

The fair value measurements of the investment in subsidiaries are classified in accordance with the principles in note 25, and information on the valuation methodology and hierarchy is given in that note.

24. Financial instruments

IFRS 9 Financial Instruments

As set out in note 3 the Company has taken advantage of the temporary exemption granted to insurers in IFRS 4 Insurance Contracts from applying IFRS 9. The tables below give the additional disclosures required by insurers taking this exemption:

	2020 Fair Value £m	2020 Change in fair value £m	2019 Fair Value £m	2019 Change in fair value £m
Financial assets with contractual cash flows that are solely principal and interest ("SPPI") excluding those held for trading, or managed on a fair value basis				
Loans and deposits	206	-	211	-
Cash and cash equivalents	415	3	425	(1)
Other receivables	390	-	588	-
Accrued income	8	-	15	-
All other financial assets	61,399	2,041	60,350	4,405
Total	62,418	2,044	61,589	4,404

2020 credit ratings of financial assets with contractual cash flows that are SPPI

	AA £m	A £m	BBB £m	Non-Rated £m	Unit Linked £m	Total £m
Loans and deposits	-	-	-	206	-	206
Cash and cash equivalents	16	313	51	1	34	415
Other receivables	-	-	-	390	-	390
Accrued income	-	-	-	8	-	8
	16	313	51	605	34	1,019

2019 credit ratings of financial assets with contractual cash flows that are SPPI

	AA £m	A £m	BBB £m	Non-Rated £m	Unit Linked £m	Total £m
Loans and deposits	-	-	-	211	-	211
Cash and cash equivalents	274	95	15	-	41	425
Other receivables	-	-	-	588	-	588
Accrued income	-	-	-	15	-	15
	274	95	15	814	41	1,239

Expected settlement dates

	Total 2020 £m	Amounts recoverable after 12 months 2020 £m	Total 2019 £m	Amounts recoverable after 12 months 2019 £m
Financial assets				
Loans and deposits at amortised cost	206	4	211	209
Financial assets at fair value through profit or loss				
Derivatives held for trading	1,580	1,476	1,139	1,085
Designated upon initial recognition:				
Equities	359	-	382	-
Debt securities	22,442	21,153	18,840	17,685
Subsidiaries held for investment purposes	25,861	-	21,102	-
Collective investment schemes	7,822	-	12,842	-
Reinsurers' share of investment contract liabilities	6,200	-	5,657	-
	64,470	22,633	60,173	18,979

	Total 2020 £m	Amounts due for settlement after 12 months 2020 £m	Total 2019 £m	Amounts due for settlement after 12 months 2019 £m
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Derivatives held for trading	224	201	165	140
Designated upon initial recognition:				
Investment contracts	24,472	-	24,356	-
Borrowings	58	58	69	69
Deposits received from reinsurers	331	307	333	308
Other financial liabilities	3,042	2,910	2,488	2,357
Financial liabilities measured at amortised cost				
Borrowings	200	-	200	200
Other financial liabilities	1,229	-	1,280	-
	29,556	3,476	28,891	3,074

Due to the nature of equities, collective investment schemes and reinsurers' share of investment contract liabilities, there is no fixed term associated with these items.

ERM loans

	2020 £m	2019 £m
Legal title held by:		
Loan originators	2,396	1,678
Fellow subsidiaries	1,088	1,103
	3,484	2,781
Beneficial interest transferred to strategic subsidiaries in the year	457	876

The Company has a beneficial interest in a portfolio of equity release mortgage ("ERM") loans, included within debt securities. The legal title to certain loans resides with PGMS and PGS, fellow group companies.

On 21 October 2020, the Company transferred the beneficial interest of £457m of ERM loans to Phoenix ER5 Limited ("PER5L"), a wholly owned strategic subsidiary. PER5L issued a further tranche of Fixed Rate and Junior Loan Notes to the Company as consideration for the transfers. The ERM loans do not qualify for derecognition as the Company retains substantially all the risks and rewards of the ERM loans.

The Fixed Rate Loan Notes accrue interest based on a fixed schedule of cashflows, and are repayable on specified dates. The Junior Loan Notes pay interest to the extent that surplus funds are available on the specified dates and have a long stop repayment date of the 50th anniversary of the issue of the notes.

Retrocession contracts

The Company is party to a reinsurance and retrocession arrangement with AXIA Insurance Limited ('AXIA') that, taken as a whole, does not meet the definition of an insurance contract. The Company makes monthly repayments to AXIA based on the surplus emerging from a securitised block of 1.7 million life insurance policies. Repayments are contingent on the receipt of payments due from the Cedants (wholly owned Spanish and Portuguese insurance subsidiaries of Banco Santander, S.A) and comprise a minimum guaranteed surplus amount and a share of any excess surplus, net of certain other amounts. Any excess amount serves to accelerate the repayment of the principal, expected to occur by 2021.

The contracts are recognised in the financial statements at fair value, which is an asset of £28m (2019: £24m) presented within debt securities. The asset represents the excess of the fair value of the future fees under the reinsurance agreement over the remaining financing liability.

Offsetting financial assets and financial liabilities

The Company has no financial assets and financial liabilities that have been offset in the Statement of financial position as at 31 December 2020 (2019: none).

The Company's over the counter (OTC) derivatives are all subject to an International Swaps and Derivative Association (ISDA) master agreement, which is considered a master netting agreement. Such agreements do not meet the criteria for offsetting in the Statement of financial position as the Company has no current legally enforceable right to offset recognised financial instruments. Furthermore, certain related assets received as collateral under the netting arrangements will not be recognised in the Statement of financial position as the Company does not have permission to sell or re-pledge, except in the case of default. The table below contains disclosures related to financial assets and financial liabilities recognised in the Statement of financial position that are subject to enforceable master netting arrangements or similar agreements.

At 31 December 2020

		Related amounts not offset		
	Gross amounts of recognised financial instruments	Financial instruments received / pledged as collateral	Cash received / pledged as collateral	Net amount
	£m	£m	£m	£m
Financial assets				
OTC Derivatives	1,534	721	1,230	(417)
Exchange traded derivatives	46	-	8	38
Stock lending	1,355	1,483	-	(128)
Total assets	2,935	2,204	1,238	(507)
Financial liabilities				
OTC derivatives	209	614	1	(406)
Exchange traded derivatives	15	-	15	-
Total liabilities	224	614	16	(406)

At 31 December 2019

	Gross amounts of recognised financial instruments	Related amounts not offset: Financial instruments received / pledged as collateral	Related amounts not offset: Cash received / pledged as collateral	Net amount
	£m	£m	£m	£m
Financial assets				
OTC Derivatives	1,093	208	1,278	(393)
Exchange traded derivatives	46	-	5	41
Stock lending	1,770	1,911	-	(141)
Total assets	2,909	2,119	1,283	(493)
Financial liabilities				
OTC Derivatives	156	193	289	(326)
Exchange traded derivatives	9	-	9	-
Total liabilities	165	193	298	(326)

Collateral

See accounting policies note 2(m) for a description of the circumstances in which assets are recognised or derecognised from the Statement of Financial Position.

At 31 December 2020

	OTC derivatives	Reinsurance	Stock lending
	£m	£m	£m
Collateral accepted			
Not recognised	721	2,162	1,483
Recognised assets	1,229	331	-
Recognised liabilities	(1,229)	(331)	-
Maximum exposure to credit risk	1,534	2,368	1,355
Risk mitigated by use of collateral	(1,398)	(2,220)	(1,355)
Remaining risk	136	148	-
Collateral pledged			
Pledged as collateral	615	-	-
In respect of liabilities of	209	-	-

At 31 December 2019

	OTC derivatives	Reinsurance	Stock lending
	£m	£m	£m
Collateral accepted			
Not recognised	208	2,126	1,911
Recognised assets	1,278	333	-
Recognised liabilities	(1,278)	(333)	-
Maximum exposure to credit risk	1,093	2,541	1,770
Risk mitigated by use of collateral	(1,024)	(2,231)	(1,770)
Remaining risk	69	310	-
Collateral pledged			
Pledged as collateral	482	-	-
In respect of liabilities of	156	-	-

Credit risk on exchange traded derivative assets of £46m (2019: £46m) is mitigated through regular margining and the protection offered by the exchange.

Buy-In Arrangements
On 19 December 2016, the Company entered into a “Buy-In” agreement with the PGL Pension Scheme (“PGLPS”), which converted an existing longevity swap agreement with PGLPS into a bulk annuity contract. The Company assumed certain additional risks in respect of the benefits payable to the beneficiaries covered by the longevity swap arrangement, including the investment risk associated with the assets covering those benefits. On 1 March 2019 the Company entered into another such “Buy-In” with PGLPS.

The transactions were conducted on a premium with-held basis. PGLPS transferred an agreed portfolio of assets into a Collateral Account over which the Company has a fixed charge. The transfer of the assets to the Collateral Account constituted the payment of the premium to the Company and a simultaneous deposit back by the Company. PGLPS retains legal title to the assets whilst the Company retains the risk and rewards of the collateral provided, hence the assets are recognised in the Company.

Assets not derecognised

	2020 £m	2019 £m
Stock lending		
Listed financial assets	1,657	2,158
PGLPS Buy-in		
Debt securities	2,261	2,012
Collective investment schemes	45	100

25. Fair value

Carrying values different to fair values

The carrying value of financial assets and liabilities measured at amortised cost approximates their fair value, except as disclosed below.

	Carrying value 2020 £m	Fair Value 2020 £m	Carrying value 2019 £m	Fair Value 2019 £m
Assets and liabilities for which carrying value does not approximate fair value				
Borrowings (note 33)	200	204	200	211
Assets and liabilities for which fair value is not disclosed				
Investment contracts with DPF (note 32)	5,157	n/a	5,213	n/a
Obligations for repayment of collateral received (note 34)	1,229	n/a	1,280	n/a

It is not possible to reliably calculate the fair value of participating investment contract liabilities, included within liabilities under insurance contracts in the Statement of Financial Position. The assumptions and methods used in the calculation of these liabilities are set out in the accounting policies and note 32.

Obligations for repayment of collateral received, disclosed within Other financial liabilities, have no expected settlement date. As the obligations relate to the repayment of collateral received in the form of cash, the liability is stated at the value of the consideration received and therefore no fair value has been disclosed.

Determination of fair value and fair value hierarchy of financial instruments

Level 1 financial instruments
The fair value of financial instruments traded in active markets (such as exchange traded securities and derivatives) is based on quoted market prices at the period end provided by recognised pricing services. Market depth and bid-ask spreads are used to corroborate whether an active market exists for an instrument. Greater depth and narrower bid-ask spread indicates higher liquidity in the instrument and are classed as Level 1 inputs. For collective investment schemes, fair value is by reference to published bid prices.

Level 2 financial instruments
The fair values of financial instruments traded in active markets with less depth or wider bid-ask spreads which do not meet the classification as Level 1 inputs are classified as Level 2. The fair values of financial instruments not traded in active markets are determined using broker quotes or valuation techniques with observable market inputs. Financial instruments valued using broker quotes are classified as Level 2, only where there is a sufficient range of available quotes. The fair value of over the counter derivatives is estimated using pricing models or discounted cash flow techniques. Collective investments schemes where the underlying assets are not priced using active market prices are determined to be Level 2 instruments. Where pricing models are used, inputs are based on market related data at the period end. Where discounted cash flows are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument.

All the Company's Level 1 and Level 2 assets measured at fair value have been valued using standard market pricing sources.

Level 3 financial instruments
The Company's financial instruments determined by valuation techniques using non market observable inputs are based on a combination of independent third party evidence and internally developed models. In relation to investments in hedge funds and private equity investments, third party evidence in the form of net asset valuation statements are used as the basis for the valuation. Adjustments may be made to the net asset valuation where other evidence, for example recent sales of the underlying investments in the fund, indicates this is required. Securities that are valued using broker quotes which could not be corroborated across a sufficient range of quotes are considered as Level 3. For a number of investment vehicles and debt securities, standard valuation models are used, with inputs that may not be fully market observable. Where possible and appropriate, inputs into such models are based on market observable data. The fair value of loans and some borrowings with no external market is determined by internally developed discounted cash flow models using a risk adjusted discount rate corroborated with external market data where possible.

Transfers
For financial instruments that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the middle and end of each reporting period. Transfers identified are deemed to have taken place at the start of the reporting period.

Fair value hierarchy of financial instruments

Fair value hierarchy information for non-financial assets measured at fair value is included in note 18 for investment properties and in note 20 for associates.

At 31 December 2020	Level 1	Level 2	Level 3	Total fair value
	£m	£m	£m	£m
Financial assets measured at fair value				
Derivatives	8	1,379	193	1,580
Financial assets designated at fair value through profit or loss upon initial recognition				
Equities	357	-	2	359
Debt securities	12,233	1,954	8,255	22,442
Subsidiaries held for investment purposes	25,200	-	661	25,861
Collective investment schemes	7,514	303	5	7,822
Reinsurers' share of investment contract liabilities	6,200	-	-	6,200
Total financial assets measured at fair value	51,512	3,636	9,116	64,264
Financial assets for which fair values are disclosed				
Loans and deposits at amortised cost	-	4	202	206
Total financial assets	51,512	3,640	9,318	64,470

	Level 1	Level 2	Level 3	Total fair value
	£m	£m	£m	£m
Financial liabilities measured at fair value				
Derivatives	15	123	86	224
Financial liabilities designated at fair value through profit or loss upon initial recognition				
Investment contract liabilities	-	24,472	-	24,472
Borrowings	-	-	58	58
Deposits received from reinsurers	-	331	-	331
Other financial liabilities	-	-	3,042	3,042
Total financial liabilities measured at fair value	15	24,926	3,186	28,127
Financial liabilities for which fair values are disclosed				
Borrowings at amortised cost	-	-	204	204
Total financial liabilities	15	24,926	3,390	28,331

At 31 December 2019	Level 1	Level 2	Level 3	Total fair value
	£m	£m	£m	£m
Financial assets measured at fair value				
Derivatives	5	959	175	1,139
Financial assets designated at fair value through profit or loss upon initial recognition				
Equities	379	-	3	382
Debt securities	11,375	1,246	6,219	18,840
Subsidiaries held for investment purposes	20,455	-	647	21,102
Collective investment schemes	12,509	327	6	12,842
Reinsurers' share of investment contract liabilities	5,657	-	-	5,657
Total financial assets measured at fair value	50,380	2,532	7,050	59,962
Financial assets for which fair values are disclosed				
Loans and deposits at amortised cost	-	4	207	211
Total financial assets	50,380	2,536	7,257	60,173

	Level 1	Level 2	Level 3	Total fair value
	£m	£m	£m	£m
Financial liabilities measured at fair value				
Derivatives	8	82	75	165
Financial liabilities designated at fair value through profit or loss upon initial recognition				
Investment contract liabilities	-	24,356	-	24,356
Borrowings	-	-	69	69
Deposits received from reinsurers	-	333	-	333
Other financial liabilities	-	-	2,488	2,488
Total financial liabilities measured at fair value	8	24,771	2,632	27,411
Financial liabilities for which fair values are disclosed				
Borrowings at amortised cost	-	-	211	211
Total financial liabilities	8	24,771	2,843	27,622

During 2020	From level 1 to level 2	From level 2 to level 1
	£m	£m
Designated at fair value through profit or loss upon initial recognition		
Debt securities	360	54

During 2019	From level 1 to level 2	From level 2 to level 1
	£m	£m
Designated at fair value through profit or loss upon initial recognition		
Reinsurers' share of investment contract liabilities	-	5,417
Debt securities	277	19

There were no transfers of financial liabilities at fair value between Level 1 and Level 2 and between Level 2 and Level 1.

The application of the Company's fair value hierarchy classification methodology at an individual security level, in particular observations with regard to measures of market depth and bid-ask spreads, have resulted in an overall net movement of debt securities from Level 1 to Level 2 in the current period and prior period.

Following a review of the valuation methodology, reinsurers' share of investment contract liabilities was reclassified from Level 2 to Level 1 in the prior period.

Financial instrument valuation methodology

Derivative financial assets and liabilities

OTC derivatives are measured at fair value using a range of valuation models including discounting future cash flows and option valuation techniques. The inputs are observable market data and OTC derivatives are therefore categorised as level 2 in the fair value hierarchy.

Exchange traded derivatives are valued using prices sourced from the relevant exchange. They are considered to be instruments quoted in an active market and are therefore categorised as level 1 instruments within the fair value hierarchy.

A description of the longevity swaps and retrocession contracts assumed by the Company following the ALAC part VII transfer is given in note 24 and 22. Derivatives also include forward private placements, infrastructure and local authority loans which include commitment to provide funding for fixed rate debt at specified future dates. These are all valued using unobservable inputs and are therefore categorised as level 3 in the fair value hierarchy.

Equities, collective investment schemes, subsidiaries held for investment at FVTPL, and reinsurers' share of investment contract liabilities
Equity instruments listed on a recognised exchange are valued using prices sourced from the primary exchange on which they are listed. These instruments are generally considered to be quoted in an active market and are therefore categorised as level 1 instruments within the fair value hierarchy.

The Company's exposure to unlisted equity securities primarily relates to private equity investments. The majority of the Company's private equity investments are carried out through European fund of funds structures, where the Company receives valuations from the investment managers of the underlying funds.

The valuations received from investment managers of the underlying funds are reviewed and where appropriate adjustments are made to reflect the impact of changes in market conditions between the date of the valuation and the end of the reporting financial year. The valuation of these securities is largely based on inputs that are not based on observable market data, and accordingly these instruments are categorised as level 3 instruments within the fair value hierarchy. Where appropriate, reference is made to observable market data.

Collective investment schemes, subsidiaries held for investment at FVTPL, and reinsurers' share of investment contract liabilities are valued in the same way as equities.

Debt securities
For debt securities, the Company has determined a hierarchy of pricing sources. The hierarchy consists of reputable external pricing providers who generally use observable market data. If prices are not available from these providers or are considered to be stale, the Company has established procedures to arrive at an internal assessment of the fair value. These procedures are based largely on inputs that are not based on observable market data. A further analysis by category of debt security is as follows:

ERM loans and other debt securities
The ERM loans are valued using a discounted cash flow model and a Black Scholes model for valuation of the No Negative Equity Guarantee ("NNEG"). The NNEG caps the loan repayment in the event of death or entry into long-term care to be no greater than the sales proceeds from the property.

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

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

These instruments are classified as level 3 in the fair value hierarchy.

In order to benefit from the matching adjustment on the regulatory basis, the ERM loans are securitised into tranches of fixed rate senior notes and variable junior loan notes via special purpose vehicles wholly owned by the Company. Other debt securities include £3,168m (2019: £2,584m) of these loan notes. Where ERM loans are securitised, there is an offsetting impact in insurance liabilities for changes in discount rate via the matching adjustment. This results in any net financial impact of change in discount rate being substantially offset by a corresponding movement in insurance liabilities.

In the long term, all ERM loans will be used to back illiquid liabilities in the Company's matched portfolio. At 31 December 2020, approximately £467m (2019: £317m) were pending securitisation.

Government, including provincial and municipal, and supranational institution bonds
These instruments are valued using prices received from external pricing providers who generally base the price on quotes received from a number of market participants. They are treated as level 1 or 2 instruments within the fair value hierarchy depending upon the nature of the underlying pricing information used for valuation purposes

Corporate bonds (listed or quoted in an established over-the-counter market including asset backed securities)
These instruments are generally valued using prices received from external pricing providers who generally consolidate quotes received from a panel of banks into a composite price. As the market becomes less active the quotes provided by some banks may be based on modelled prices rather than on actual transactions. These sources are based largely on observable market data, and therefore these instruments are treated as level 2 instruments within the fair value hierarchy. When prices received from external pricing providers are based on a single broker indicative quote the instruments are treated as level 3 instruments.

For instruments for which prices are either not available from external pricing providers or the prices provided are considered to be stale, the Company performs its own assessment of the fair value of these instruments. This assessment is largely based on inputs that are not based on observable market data, principally single broker indicative quotes, and accordingly these instruments are treated as level 3 instruments within the fair value hierarchy.

Other corporate bonds including unquoted bonds, commercial paper and certificates of deposit
These instruments are valued using models. For unquoted bonds the model uses inputs from comparable bonds and includes credit spreads which are obtained from brokers or estimated internally. Commercial paper and certificates of deposit are valued using standard valuation formulas. The classification of these instruments within the fair value hierarchy will be either level 2 or 3 depending upon the nature of the underlying pricing information used for valuation purposes.

Infrastructure loans
These instruments are valued using models. The models use a discounted cash flow technique where future cash flows (including principal, interest and arrangement fees) are discounted to determine their present value. These inputs are generally observable with the exception of the spread used in the determination of the discount factor. These instruments are classified as level 3 in the fair value hierarchy

Commercial mortgages
These instruments are valued using models. The models use a discount rate adjustment technique which is an income approach. The key inputs for the valuation models are contractual future cash flows, which are discounted using a discount rate that is determined by adding a spread to the current base rate. The spread is derived from a pricing matrix which incorporates data on current spreads for similar assets and which may include an internal underwriting rating. These inputs are generally observable with the exception of the spread adjustment arising from the internal underwriting rating. The classification of these instruments within the fair value hierarchy is level 3 due to this adjustment.

Retrocession contracts
A description of the retrocession contracts assumed by the Company following the ALAC part VII transfer is given in note 24. These instruments are classified as level 3 in the fair value hierarchy.

Assets at amortised cost
Loans to group companies
Loans and deposits at amortised cost are predominantly loans to group entities as described in note 21. The fair value of these instruments is measured using internally developed DCF models using a risk adjusted discount rate corroborated with external market data where possible. Due to the level of unobservable inputs, these assets are classified as level 3.

Investment contract liabilities
The fair value of the unit-linked contracts is calculated to be equal to the fair value of the underlying assets and liabilities in the funds. Thus, the value of these liabilities is dependent on the methods and assumptions set out above in relation to the underlying assets and liabilities in which these funds are invested. The underlying assets and liabilities are predominately classified as level 1 or 2 and as such, the inputs into the valuation of the liabilities are observable. Therefore, the liabilities are classified within level 2 of the fair value hierarchy. The liability is the sum of the unit-linked liabilities plus an additional amount to cover the present value of the excess of future policy costs over future charges

Borrowings at FVTPL
Property reversion loans
A description of the property reversion loans can be found in note 33. These instruments are valued using models and due to the level of unobservable inputs are classified as level 3.

Other financial liabilities
Insurance liabilities for securitised loans
These liabilities represent the obligation created due to the ERM loans not meeting the derecognition criteria discussed above in debt securities. Accordingly, their value is dependent on the ERM loan valuation, and they are classified as level 3 in the fair value hierarchy.

Liabilities at amortised cost
Borrowings
The borrowings at amortised cost are subordinated loan notes as described in note 33. The fair value of these instruments is measured using internally developed DCF models using a risk adjusted discount rate corroborated with external market data where possible. Due to the level of unobservable inputs, these liabilities are classified as level 3.

Insurance contract liabilities
As permitted by IFRS 7, the Company has not disclosed fair values for investment contracts with a DPF (disclosed within insurance contract liabilities) as fair value ranges for the DPF cannot be reliably estimated. There is no active market for these instruments which will be settled with policyholders in the normal course of business. The assumptions and methods used in the calculation of these liabilities, and the carrying values at the year end, are set out in the accounting policies and note 32.

COVID-19 effect on valuations
Following the effects of the COVID-19 crisis, the credit ratings for a small number of corporate bonds have been downgraded and the impacts of this have been reflected in the fair values at 31 December 2020. There remains ongoing uncertainty in respect of the credit ratings for unquoted corporate bonds and commercial real estate loans in light of the continuing economic volatility. Internal review processes are in place to closely monitor credit ratings and additional reviews are carried out as required, for example when triggered by credit performance or market factors.

Significant inputs for Level 2 instruments and instruments measured at amortised cost

Financial instrument	**Valuation technique**	**Significant inputs**
OTC Derivative assets and liabilities	Pricing models	N/A
Financial assets		
Debt securities	Quoted market prices	N/A
Subsidiaries held for investment purposes	Net asset value statements[1]	N/A
Collective investment schemes	Quoted market prices	N/A
Loans and deposits at amortised cost	DCF model[2]	Discount rate
Financial liabilities		
Investment contract liabilities	DCF model[2]	Discount rate
Deposits received from reinsurers	DCF model[2]	Discount rate
Borrowings at amortised cost	DCF model[2]	Discount rate

1. *Net asset value statements*: Net asset statements are provided by independent third parties, and therefore no significant non-observable input or sensitivity information has been prepared for those instruments valued on this basis.
2. *Discounted cash flow (“DCF”) model:* Except where otherwise stated, the discount rate used is based on a risk-free curve and a credit spread. The spread is derived from a basket of comparable securities.

Fair value of level 3 financial instruments by category

	Fair value 2020 £m	Assets 2020 £m	Liabilities 2020 £m	Fair value 2019 £m	Assets 2019 £m	Liabilities 2019 £m
Derivatives						
Forward private placements, infrastructure and local authority loans	38	38	-	40	41	(1)
Longevity swap contracts	70	155	(85)	64	134	(70)
Retrocession contracts	(1)	-	(1)	(4)	-	(4)
	107	193	(86)	100	175	(75)
Debt securities						
ERM loans	3,484	3,484	-	2,781	2,781	-
Other illiquid assets	1,574	1,574	-	809	809	-
Retrocession contracts	28	28	-	43	43	-
Other debt securities	3,169	3,169	-	2,586	2,586	-
	8,255	8,255	-	6,219	6,219	-
Equity total	2	2	-	3	3	-
Subsidiaries held for investment total	661	661	-	647	647	-
Collective investment schemes total	5	5	-	6	6	-
Borrowings						
Property reversion refinancing loans	(58)	-	(58)	(45)	-	(45)
Retrocession contracts	-	-	-	(24)	-	(24)
	(58)	-	(58)	(69)	-	(69)
Other financial liabilities: Insurance liabilities for securitised loans	(3,042)	-	(3,042)	(2,488)	-	(2,488)
Total Level 3 financial instruments	5,930	9,116	(3,186)	4,418	7,050	(2,632)

Other illiquid debt securities comprise corporate and government bonds, infrastructure loans and commercial mortgages.

Significant inputs and input values for Level 3 instruments

Description	**Valuation technique**	**Significant inputs**	**Key unobservable input value 2020**	**Key unobservable input value 2019**
Derivative assets and liabilities				
Forward private placements, infrastructure and local authority loans	DCF model[1]	Credit spread	133 bps (weighted average)	117 bps (weighted average)
Longevity swaps	DCF model[1]	Swap curve	Swap curve + 10bps	Swap curve + 10bps
Debt securities				
ERM loans	DCF model[1] and Black-Scholes model	Spread	Average 2.1% over swap curve + 10bps	Average 2.1% over swap curve + 10bps
		Mortality	Based on published tables Adjusted PCA00	Based on published tables Adjusted PCA00
		Voluntary redemption rate	2% to 7%	2% to 7%
Other illiquid assets	DCF model[1]	Credit spread	146 bps (weighted average)	139 bps (weighted average)
Other debt securities	Underlying valuation based on ERM loans – see above			

Description	Valuation technique	Significant inputs	Key unobservable input value	
			2020	2019
Equity	Single broker [2] and net asset value[3]	Single broker indicative price	N/A	N/A
Subsidiaries held for investment purposes	Net asset value statements[3]	N/A	N/A	N/A
Collective investment schemes	Net asset value statements[3]	N/A	N/A	N/A
Borrowings				
Property reversion loans	Internally developed model	Mortality rate	PFL92 (Female) PML92 (Male)	PFL92 (Female) PML92 (Male)
		House price inflation	3 year RPI rate plus 0.75%	4 year OBR[4] rate minus 1%
		Discount rate	3-year swap yield	4-year swap yield
		Deferred possession rate	3.7%	3.6%
Other liabilities				
Insurance liabilities for securitised loans	Underlying valuation based on ERM loans – see above			
Multiple categories				
Retrocession contracts	DCF model[1]	Euro swap curve	Euro swap curve + 10bps	Euro swap curve + 10bps

1. *DCF model:* See above in level 2 instruments and instruments measured at amortised cost
2. *Broker indicative prices:* Although such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not change the fair value significantly.
3. *Net asset value statements*: See above in level 2 instruments and instruments measured at amortised cost
4. *OBR*: Office for Budget Responsibility

Sensitivities of level 3 financial instruments	2020	2019
	£m	£m
Forward private placements, infrastructure and local authority loans		
35 bp increase in spread	(19)	(25)
35 bp decrease in spread	21	28
Other illiquid assets		
35 bp increase in spread	(76)	(35)
35 bp decrease in spread	82	38
ERM loans		
100bp increase in spread	(351)	(265)
100bp decrease in spread	397	296
5% increase in mortality	(11)	(8)
5% decrease in mortality	7	5
15% increase in voluntary redemption rate	(24)	(17)
15% decrease in voluntary redemption rate	22	15
1% increase in house price inflation	29	26
1% decrease in house price inflation	(48)	(43)
Longevity swap contracts		
100bp increase in spread	(15)	(13)
100bp decrease in spread	17	17

For the property reversion loans and the retrocession contracts, there are no reasonably possibly movements in unobservable input values which would result in a significant movement in the fair value of the financial instruments.

For those assets valued using net asset value statements (equities, subsidiaries held for investment and collective investment schemes) no sensitivity information has been prepared as the net asset statements are provided by independent third parties.

Movement in level 3 financial instruments measured at fair value

Financial assets 2020

	Derivatives	Equities	Debt securities	CIS	Investment subsidiaries	Total
	£m	£m	£m	£m	£m	£m
At 1 January 2020	175	3	6,219	6	647	7,050
Total gains/ (losses) in Statement of comprehensive income	18	(2)	565	-	39	620
Purchases	-	-	1,826	-	7	1,833
Sales/ Redemptions	-	1	(338)	(1)	(32)	(370)
Transfers out of level 3	-	-	(17)	-	-	(17)
At 31 December 2020	193	2	8,255	5	661	9,116
Unrealised gains/(losses) in the period on assets held at end of year	31	(1)	566	-	39	635

The availability of a quoted price resulted in the transfer of debt securities with a value of £17m from Level 3 to Level 2.

Financial assets 2019

	Derivatives	Equities	Debt securities	CIS	Investment subsidiaries	Total
	£m	£m	£m	£m	£m	£m
At 1 January 2019	162	3	4,240	5	648	5,058
Total gains in Statement of comprehensive income	13	-	423	1	12	449
Purchases	-	-	1,868	-	17	1,885
Sales/ Redemptions	-	-	(312)	-	(203)	(515)
Transfers into level 3	-	-	-	-	173	173
At 31 December 2019	175	3	6,219	6	647	7,050
Unrealised gains in the period on assets held at end of year	13	-	422	1	12	448

A change in the significance of a non-market observable valuation input resulted in a transfer of Investment subsidiaries with a value of £173m from Level 2 to Level 3 in the prior period.

Financial liabilities 2020

	Derivatives	Borrowings	Other financial liabilities	Total
	£m	£m	£m	£m
At 1 January 2020	75	69	2,488	2,632
Total losses in Statement of comprehensive income	11	1	143	155
Additions	-	-	576	576
Settlements	-	(12)	(165)	(177)
At 31 December 2020	86	58	3,042	3,186
Unrealised losses in the period on liabilities held at end of year	11	1	143	155

Financial liabilities 2019

	Derivatives	Borrowings	Other financial liabilities	Total
	£m	£m	£m	£m
At 1 January 2019	110	91	1,549	1,750
Total losses / (gains) in Statement of comprehensive income	(35)	(6)	113	72
Additions	-	-	990	990
Settlements	-	(16)	(164)	(180)
At 31 December 2019	75	69	2,488	2,632
Unrealised losses / (gains) in the period on liabilities held at end of year	(35)	(6)	113	72

26. Structured Entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements.

The Company has determined that all of its investments in collective investment schemes are structured entities. These investments are presented in the Statement of Financial Position as either investment subsidiaries or as Collective investment schemes, in accordance with the Company's accounting policies (see note 2(k)). In addition, a number of debt security structures and private equity funds have been identified as structured entities. The Company has assessed that it has interests in the following types of structured entity:

- Unit trusts
- OEICs
- SICAVs
- Limited partnerships
- Private Equity Funds (PEFs)
- Liquidity funds
- Asset-backed securities
- Collateralised Debt Obligation (CDOs)
- Other debt structures

The Company's holdings in the above investments are subject to the terms and conditions of the respective fund's prospectus and are susceptible to market price risk arising from uncertainties about future values. The Company holds redeemable shares and units in each of the funds. The funds are managed by asset managers who apply various investment strategies to accomplish their respective investment objectives. All of the funds are managed by asset managers who are compensated by the respective funds for their services. Such compensation generally consists of an asset-based fee and a performance-based incentive fee and is reflected in the valuation of each fund.

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

The Company's interests in structured entities are held at fair value through profit or loss. Any change in fair value is included in the Statement of comprehensive income in 'net investment income'.

	2020	2019
	£m	£m
Investment subsidiaries	25,861	21,102
Equities	299	307
Collective investment schemes	7,822	12,536
Debt securities	5,174	4,451
	39,156	38,396

The Company's maximum exposure to loss to the interests presented above is the carrying amount of the Company's investments. Once the Company has disposed of its shares or units in a fund, it ceases to be exposed to any risk from that fund. A complete list of the Company's subsidiaries, including unit trusts and OEICs is included in note 43. Details of commitments to subscribe to private equity funds are included in note 41.

27. Tax assets and liabilities

	2020 £m	2019 £m
Current Tax		
Current tax payable	-	(13)
Current tax recoverable	1	-
	1	(13)
Deferred Tax		
Deferred tax liabilities	(110)	(119)
Net deferred tax liabilities	(110)	(119)

Movement in deferred tax liabilities

Year ended 31 December 2020

	At 1 January £m	Recognised in the Statement of comprehensive income £m	At 31 December £m
Expenses and deferred acquisition costs carried forward	4	(1)	3
Provisions and other temporary differences	(4)	(1)	(5)
Accelerated capital allowances	1	-	1
Unrealised gains on investments	(86)	7	(79)
Acquired in-force business	(21)	-	(21)
IFRS transitional adjustments	(13)	4	(9)
	(119)	9	(110)

Year ended 31 December 2019

	At 1 January £m	Recognised in the Statement of comprehensive income £m	At 31 December £m
Expenses and deferred acquisition costs carried forward	35	(31)	4
Provisions and other temporary differences	(5)	1	(4)
Accelerated capital allowances	1	-	1
Spread pension scheme payments	1	(1)	-
Unrealised gains on investments	(7)	(79)	(86)
Acquired in-force business	(26)	5	(21)
IFRS transitional adjustments	(17)	4	(13)
	(18)	(101)	(119)

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

Following the cancellation of the planned tax rate reduction from 19% to 17% announced in the March 2020 Budget, shareholder deferred tax assets and liabilities, where provided, are reflected at the rate of 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. As a result of the rate increase, the net deferred tax liability in existence at the end of 2020 is expected to increase in value by c£6m from £110m to £116m.

The Finance Act 2012 introduced new rules for the taxation of insurance companies, with effect from 1 January 2013. The deferred tax on the non-profit surplus has reversed and was replaced with IFRS transitional adjustments. The deferred tax on the transitional adjustments is being amortised over a 10 year period on a straight line basis commencing 2013 and ending in 2022 as the IFRS tax transitional adjustment is brought into account in the current tax computations.

Deferred tax recognition
Deferred tax assets and liabilities are netted off to the extent that legal offset is available under local tax law.

Deferred tax assets are recognised on tax losses carried forward only to the extent that realisation of the related tax benefit is probable. The value attributed to them takes into account the certainty or otherwise of their recoverability. Their recoverability is measured against anticipated taxable profits and gains based on business plans.

Deferred tax has not been recognised in respect of BLAGAB trade losses of £5m (2019: £5m). The BLAGAB trade losses can only be offset against future BLAGAB trade profits relating to the former non-profit business of Phoenix AW Limited and have no expiry date.

EU dividend Group Litigation order
The Company in conjunction with a number of other companies has challenged HMRC's position on the corporation tax treatment of portfolio dividends from companies resident in the EU ("EU dividends") using a Group Litigation Order ("GLO"). The issue relates to whether the UK tax rules, which taxed EU dividends received prior to 1st July 2009 was contrary to EU law given that dividends received from UK companies were exempt from tax. In 2009 UK tax law was changed with both overseas and UK dividends generally being treated as exempt from corporation tax.

The Supreme Court concluded in favour of the tax payer in July 2018 and a tax benefit of £7m was recognised at 31 December 2018 in relation to enhanced double tax relief claims which the Company is entitled to in accordance with the Court judgement. The tax refund is for the benefit of the Phoenix and SAL with-profits funds (total c£5m) and unit linked life funds (£2m). In the case of the with-profits funds there was an increase in unallocated surplus and for the unit linked life funds there is a corresponding increase in investment contract liabilities as a result of the recognition of the tax asset.

HMRC issued a communication to taxpayers who are affected by the dividend GLO but not direct participants of it, in January 2020, setting out their intended approach to settling enquiries into the amount of double tax relief available for statutory protective or other claims. In view of the large number of cases involved HMRC are currently unable to offer a specific date by which they will be able to deal with the various claims outstanding.

ALAC is not a member of the GLO but has made statutory protective tax claims totalling c£8m for the benefit of unit linked life funds based on the Supreme Court decision, and these were transferred to the Company in 2018 as detailed in note 4. HMRC has challenged the validity of such claims and is currently considering further tax litigation in this area against other third parties. Due to the uncertainty around the potential success of the claims a tax asset has not been recognised in respect of these claims.

28. Prepayments and accrued income

	2020 £m	2019 £m
Prepayments	79	79
Accrued income	8	15
	87	94
Amount recoverable after 12 months	53	57

Included within prepayments is £57m (2019: £61m) of consideration relating to the transfer of various risks to PGMS and PGS. This consideration is amortised over the expected life of the contracts.

29. Other receivables

	2020 £m	2019 £m
Initial margins	130	103
Collateral pledged	81	293
Investment broker balances	19	17
Other receivables	160	175
	390	588
Amount recoverable after 12 months	-	-

30. Share capital

	2020 £m	2020 Number	2019 £m	2019 Number
Issued and fully paid:				
Ordinary shares of £1 each	69	69,087,572	69	69,087,572

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

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.

31. Other reserves

	Capital contribution reserve £m	Foreign currency translation reserve £m	Other reserves total £m
At 1 January 2020	581	(7)	574
Capital contribution received	228	-	228
At 31 December 2020	809	(7)	802
At 1 January 2019	483	(7)	476
Capital contribution received	98	-	98
At 31 December 2019	581	(7)	574

Capital contribution reserve
The capital contributions received have been treated as capital as there is no agreement for repayment. The reserve is considered distributable, subject to the availability of distributable reserves.

Foreign currency translation reserve
The foreign currency translation reserve arose as a result of the exchange gains and losses on profits retained in an overseas branch which have subsequently been distributed.

32. Liabilities under insurance contracts

	Gross liabilities 2020 £m	Re-insurers' share 2020 £m	Gross liabilities 2019 £m	Re-insurers' share 2019 £m
Life assurance business				
Insurance contracts	30,706	2,249	27,963	2,425
Investment contracts with DPF	5,157	119	5,213	116
	35,863	2,368	33,176	2,541
Amounts due for settlement after 12 months	32,604	1,925	30,037	2,132

Movement in liabilities

	Gross liabilities 2020 £m	Re-insurers' share 2020 £m	Gross liabilities 2019 £m	Re-insurers' share 2019 £m
At 1 January	33,176	2,541	30,263	2,503
Premiums	3,431	592	3,302	537
Claims	(2,640)	(711)	(2,888)	(673)
Other changes in liabilities	1,894	(54)	2,517	174
Foreign exchange adjustments	2	-	(18)	-
At 31 December	35,863	2,368	33,176	2,541

Included in other changes in liabilities are changes in assumptions and economic and non-economic experience.

Assumptions

Valuation of participating insurance and investment contracts

For participating business, which is with-profits business (insurance and investment contracts), the insurance contract liability is stated at the amount of the realistic value of the liabilities, adjusted to exclude the owners' share of future bonuses and the associated tax liability. This is a market consistent valuation, which involves placing a value on liabilities similar to the market value of assets with similar cash flow patterns.

For participating business the liabilities are determined stochastically using an appropriate number of risk neutral scenarios produced by an economic scenario generator calibrated to market conditions and swap yields as at the valuation date.

Valuation of non-participating insurance contracts

The non-participating insurance contract liabilities are determined using a gross premium valuation method.

Process used to determine assumptions

The approach to the valuation of insurance contracts in the financial statements is as follows:

- In determining the discount rate to be applied when calculating participating and non-participating insurance contract liabilities, the Company uses a swap curve plus 10bps.
- For non-participating insurance contract liabilities, the Company makes an explicit adjustment to the risk-free rate to adjust for illiquidity in respect of assets backing illiquid liabilities.
- For both participating and non-participating insurance contract liabilities, the Company sets assumptions at management's best estimates and recognises an explicit margin for demographic risks.

Changes to assumptions

Due to changes in economic and non-economic factors, certain assumptions used in estimating insurance and investment contract liabilities have been revised. Therefore, the change in liabilities reflects actual performance over the year, changes in assumptions and, to a limited extent, improvements in modelling techniques. The impact of material changes during the year were as follows:

	Increase/ (decrease) in insurance liabilities 2020 £m	Increase/ (decrease) in insurance liabilities 2019 £m
Change in longevity assumptions	(60)	(71)
Change in expenses assumptions	9	(11)
Change in mortality assumptions	31	17
Change in persistency assumptions	(18)	(1)
Change in other assumptions	4	1

Following the 'second wave' of COVID-19 deaths at the end of 2020, the Company has recognised a short term actuarial provision of £10m in anticipation of excess deaths relative to long-term mortality and longevity valuation assumptions at 31 December 2020.

The impact over the longer term continues to be monitored on a regular basis, however given the uncertainty no adjustments have been deemed necessary to date, as it is too early to determine what long term impacts are likely to be and impacts may either reduce or increase future life expectancy.

Longevity and mortality assumptions
Longevity and mortality rates are based on published tables, adjusted appropriately to take account of changes in the underlying population mortality since the table was published, demographic differences between annuitants and the general population, company experience and forecast changes in future mortality.

Expense assumptions
Expenses are assumed to increase at the rate of increase in the Retail Price Index ("RPI") or Retail Price Index excluding mortgage payments plus typical fixed margins in accordance with the various Management Service Agreements ("MSAs") the Company has in place with outsourced service providers. For with-profits business the rate of RPI inflation is determined within each stochastic scenario. For other business it is based on the Bank of England inflation spot curve. For MSAs with contractual increases set by reference to national average earnings inflation, this is approximated as RPI inflation or RPI inflation plus 1%.

Persistency assumptions
The assumed rates for surrender and voluntary premium discontinuance in the participating business depend primarily on the length of time a policy has been in force. Withdrawal rates used in the valuation of with-profits policies are based on observed experience and adjusted when it is considered that future policyholder behaviour will be influenced by different considerations than in the past. In particular, it is assumed that withdrawal rates for unitised with-profits contracts will be higher on policy anniversaries on which Market Value Adjustments do not apply.

Sensitivities
Financial and insurance risk sensitivities are set out in note 40.

Policyholder options and guarantees
Some of the Company's products give potentially valuable guarantees, or give options to change policy benefits which can be exercised at the policyholders' discretion. These products are described below.

Most with-profits contracts give a guaranteed minimum payment on a specified date or range of dates or on death if before that date or dates. For pension contracts, the specified date is the policyholder's chosen retirement date or a range of dates around that date. For endowment contracts, it is the maturity date of the contract. For with-profits bonds it is often a specified anniversary of commencement, in some cases with further dates thereafter. Annual bonuses when added to with-profits contracts usually increase the guaranteed amount.

There are guaranteed surrender values on a small number of older contracts.

Some pension contracts include guaranteed annuity options (see deferred annuities below for details). The total amount provided in the with-profits funds and non-profit funds in respect of the future costs of guaranteed annuity options are £676m (2019: £628m) and £105m (2019: £103m) respectively.

Discretionary participating bonus rate
The regular bonus rates assumed in each scenario are determined in accordance with the Company's PPFM. Final bonuses are assumed at a level such that maturity payments will equal asset shares subject to smoothing rules set out in the PPFM.

With-profits deferred annuities participate in profits only up to the date of retirement. At retirement, a guaranteed cash option allows the policyholder to commute the annuity benefit into cash on guaranteed terms.

In common with other life companies in the UK which have written pension transfer and opt-out business, the Company has set up provisions for redress relating to personal pension policies. These provisions, which have been calculated from data derived from detailed file reviews of specific cases, are included in liabilities arising under insurance contracts. The total amount provided in the with-profits and non-profit funds in respect of redress relating to pension policies, including associated costs, are £22m (2019: £10m) and £6m (2019: £6m) respectively.

Managing product risk
The following sections give an assessment of the risks associated with the Company's main life assurance products and the ways in which the Company manages those risks. The following tables provide a product analysis of the liabilities under insurance contracts and reinsurers' share of insurance contract liabilities within the Statement of financial position.

2020	Gross		Reinsurance	
	Insurance contracts £m	Investment contracts with DPF £m	Insurance contracts £m	Investment contracts with DPF £m
With-profits funds				
Pensions				
Deferred annuities – with guarantees	4,819	-	917	-
Deferred annuities – without guarantees	1,156	-	-	-
Immediate annuities	1,040	-	891	-
Unitised with-profits	2,589	3,709	-	53
Total pensions	9,604	3,709	1,808	53
Life				
Immediate annuities	3	-	2	-
Unitised with-profits	502	385	-	66
Life with-profits	1,083	-	3	-
Total life	1,588	385	5	66
Other	500	-	82	-
Non-profit funds				
Deferred annuities – without guarantees	1,927	-	(115)	-
Immediate annuities	14,660	-	441	-
Protection	813	-	58	-
Unit-linked	1,828	1,063	30	-
Other	(214)	-	(60)	-
	30,706	5,157	2,249	119

2019	Gross		Reinsurance	
	Insurance contracts £m	Investment contracts with DPF £m	Insurance contracts £m	Investment contracts with DPF £m
With-profits funds				
Pensions				
Deferred annuities – with guarantees	4,825	-	924	-
				-
Deferred annuities – without guarantees	1,131	-	-	-
Immediate annuities	944	-	808	-
Unitised with-profits	2,649	3,755	-	54
Total pensions	9,549	3,755	1,732	54
Life				
Immediate annuities	7	-	4	-
Unitised with-profits	527	376	-	62
Life with-profits	1,183	-	4	-
Total life	1,717	376	8	62
Other	447	-	75	-
Non-profit funds				
Deferred annuities – without guarantees	1,598	-	(23)	-
Immediate annuities	12,283	-	610	-
Protection	632	-	59	-
Unit-linked	1,950	1,082	33	-
Other	(213)	-	(69)	-
	27,963	5,213	2,425	116

With-profits fund (Unitised and Traditional)
The Company operates a number of with-profits funds in which the with-profits policyholders benefit from a discretionary annual bonus (guaranteed once added in most cases) and a discretionary final bonus. Non-profit business is also written in some of the with-profits funds and some of the funds may include investment contracts, immediate annuities and deferred annuities with Guaranteed Annuity Rates ("GAR").

The investment strategy of each fund differs, but is broadly to invest in a mixture of debt securities, equities, property and other asset classes in such proportions as is appropriate to the investment risk exposure of the fund and its capital resources.

The Company has significant discretion regarding investment policy, bonus policy and early termination values. The process for exercising discretion in the management of the with-profits funds is set out in the PPFM for each with-profits fund and is overseen by With-Profits Committees. Advice is also taken from the with-profits actuary of each with-profits fund. Compliance with the PPFM is reviewed annually and reported to the PRA and policyholders.

The bonuses are designed to distribute to policyholders a fair share of the return on the assets in the with-profits funds together with other elements of the experience of the fund. The owners of the Company are entitled to receive approximately one-ninth of the cost of bonuses declared for some funds and £nil for others.

Unitised and traditional with-profits policies are exposed to equivalent risks, the main difference being that unitised with-profits policies purchase notional units in a with-profits fund whereas traditional with-profits policies do not. Benefit payments for unitised policies are then dependent on unit prices at the time of a claim, although charges may be applied. A unitised with-profits fund price is typically guaranteed not to fall and increases in line with any discretionary bonus payments over the course of one year.

Deferred annuities
Deferred annuity policies are written to provide either a cash benefit at retirement, which the policyholder can use to buy an annuity on the terms then applicable, or an annuity payable from retirement. The policies contain an element of guarantee expressed in the form that the contract is written in i.e. to provide cash or an annuity. Deferred annuity policies written to provide a cash benefit may also contain an option to convert the cash benefit to an annuity benefit on guaranteed terms; these are known as GAR policies. Deferred annuity policies written to provide an annuity benefit may also contain an option to convert the annuity benefit into cash benefits on guaranteed terms; these are known as Guaranteed Cash Option ("GCO") policies.

During the last decade, interest rates and inflation have fallen and life expectancy has increased more rapidly than originally anticipated. The guaranteed terms on GAR policies are more favourable than the annuity rates currently available in the market available for cash benefits. The guaranteed terms on GCO policies are currently not valuable. Deferred annuity policies which are written to provide annuity benefits are managed in a similar manner to immediate annuities and are exposed to the same risks.

The option provisions on GAR policies are particularly sensitive to downward movements in interest rates, increasing life expectancy and the proportion of customers exercising their option. Adverse movements in these factors could lead to a requirement to increase reserves which could adversely impact profit and potentially require additional capital. In order to address the interest rate risk (but not the risk of increasing life expectancy or changing customer behaviour with regard to exercise of the option), the Company has purchased derivatives that provide protection against an increase in liabilities and have thus reduced the sensitivity of profit to movements in interest rates.

The Company seeks to manage this risk in accordance with both the terms of the issued policies and the interests of customers, and has obtained external advice supporting the manner in which it operates the long-term funds in this respect.

Immediate annuities
This type of annuity is purchased with a single premium at the outset, and is paid to the policyholder for the remainder of their lifetime. Payments may also continue for the benefit of a surviving spouse or partner after the annuitant's death. Annuities may be level, or escalate at a fixed rate, or may escalate in line with a price index and may be payable for a minimum period irrespective of whether the policyholder remains alive.

The main risks associated with this product are longevity and investment risks. Longevity risk arises where the annuities are paid for the lifetime of the policyholder, and is managed through the initial pricing of the annuity and through reinsurance (appropriately collateralised) or transfer of existing liabilities. Annuities may also be a partial 'natural hedge' against losses incurred in protection business in the event of increased mortality (and vice versa) although the extent to which this occurs will depend on the similarity of the demographic profile of each book of business. In addition, the Company has in place longevity swaps that provide downside protection over longevity risk. £9,847m (2019: £7,108m) of net insurance contract liabilities are covered by longevity swap arrangements.

The pricing assumption for mortality risk is based on both historic internal information and externally generated information on mortality experience, including allowances for future mortality improvements. Pricing will also include a contingency margin for adverse deviations in assumptions.

Investment risk, which is made up of market and credit risk, depends on the extent to which the annuity payments under the contracts have been matched by suitable assets which is managed under the ALM framework. Asset/liability modelling is used to monitor this position on a regular basis.

Protection
These contracts are typically secured by the payment of a regular premium payable for a period of years providing benefits payable on certain events occurring within the period. The benefits may be a single lump sum or a series of payments and may be payable on death, serious illness or sickness.

The main risk associated with this product is the claims experience and this risk is managed through the initial pricing of the policy (based on actuarial principles), the use of reinsurance and a clear process for administering claims.

33. Borrowings

	2020 £m	2019 £m
Financial liabilities measured at amortised cost		
Debenture loans		
£200m 7.25% unsecured subordinated loans (note a)	200	200
Financial liabilities at fair value through profit or loss		
Property reversion loan (note b)	58	69
	258	269
Amount due for settlement after 12 months	58	269

(a) Scottish Mutual Assurance Limited issued £200m 7.25% undated, unsecured subordinated loan notes on 23 July 2001, which were transferred to the Company with effect from 1 January 2009 as part of a Part VII Scheme. The earliest repayment date of the notes is 25 March 2021 and thereafter on each fifth anniversary so long as the notes are outstanding. In the event of the winding-up of the Company, the right of payment under the notes is subordinated to the rights of the higher-ranking creditors (principally policyholders). On 8 February 2021, the Company announced that it would repay the loan notes on their first call date on 25 March 2021 and accordingly they are presented as due within 12 months.

(b) As part of a loan agreement with Santander UK plc ("Santander") relating to the sale of Extra-Income Plan policies, Santander receive an amount from the Company calculated by reference to the movement of the Halifax House Price Index and the Company has undertaken to indemnify Santander against profits or losses arising from mortality or surrender experience which differs from the basis used to calculate the reversion amount. Repayment will be on a policy-by-policy basis and is expected to occur over the next 10 to 20 years. The embedded derivative feature of the contract is unable to be separately measured from the host contract. As such the borrowing is designated as a liability at fair value through profit or loss. During the year, repayments totalling £12m (2019: £16m) were made. It is expected that further repayments will occur within 12 months, broadly in line with the reduction in associated property reversions (Note 18), although the value cannot be reliably estimated.

Movement in liabilities arising from financing activities
The table below details changes in the Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Company's Statement of cash flows as cash flows from financing activities.

	At 1 January 2020 £m	Financing cash flows £m	Changes in fair value £m	At 31 Dec 2020 £m
£200m 7.25% unsecured subordinated loans (note a)	200	-	-	200
Property reversion loan (note b)	69	(12)	1	58
	269	(12)	1	258

	At 1 January 2019 £m	Financing cash flows £m	Changes in fair value £m	At 31 Dec 2019 £m
£200m 7.25% unsecured subordinated loans (note a)	200	-	-	200
Property reversion loan (note b)	78	(16)	7	69
Retrocession contracts (note 24)	13	-	(13)	-
	291	(16)	(6)	269

34. Other financial liabilities

	2020 £m	2019 £m
Obligations for repayment of collateral received	1,229	1,280
Amount due to related parties	3,042	2,488
	4,271	3,768
Amount due for settlement after 12 months	2,901	2,357

Amounts due to related parties are due to strategic subsidiaries and relate to mortgage loans where beneficial interest has been transferred. Further detail is provided in note 24.

Further information on the Company's collateral arrangements is also provided in note 24.

35. Provisions

	Strategic review of outsourcing relationships £m	Complaints and litigation costs £m	Total £m
At 1 January 2020	42	2	44
Additions in the year	3	1	4
Utilised during the year	(19)	(2)	(21)
At 31 December 2020	26	1	27
Amount due for settlement after 12 months	4	-	4

Provision for strategic review of outsourcing relationships
On 29 November 2018, Phoenix Group announced the intention to move to a single, digitally enhanced outsourcer platform which will improve customer outcomes, supported by Diligenta Limited. A provision was recognised in 2018 for the Company's share of the expected cost of the platform migration, payable to PGMS as policies are successfully transferred. During the period 2 million policies across 12 policy systems were successfully transferred to Diligenta, and therefore £19m of the provision was utilised in the period.

36. Accruals and deferred income

	2020 £m	2019 £m
Accruals	33	33
Deferred income reserve	8	10
	41	43
Amount due for settlement after 12 months	7	8

Remaining performance obligations
The practical expedient under IFRS 15 has been applied and remaining performance obligations are not disclosed as the Company has the right to consideration from customers in amounts that correspond with the performance completed to date. Specifically management charges become due over time in proportion to the company's administration of customers' life or pension products.

The movement in the deferred income reserve is explained in Note 9.

37. Other payables

	2020 £m	2019 £m
Investment broker balances	137	43
Other payables	90	94
	227	137
Amount due for settlement after 12 months	-	-

38. Cash flows from operating activities

Cash flows from operating activities

	2020 £m	2019 £m
Profit for the year before tax	446	577
Non-cash movements in profit for the year before tax		
Fair value (gains)/losses on:		
Investment property	(1)	(2)
Investment in associates	86	(25)
Subsidiaries held for investment purposes	(430)	(1,994)
Other financial assets and liabilities	(1,914)	(2,477)
Amortisation of:		
Acquired in-force business	12	13
Deferred acquisition costs	2	2
Gain on transfer of business	-	(4)
Change in unallocated surplus	(19)	20
Change in deposits received from reinsurers	(2)	(7)
Interest expense on borrowings	31	35
Interest income on loans	(5)	(5)
Changes in operating assets and liabilities		
Change in investment assets	(1,683)	(849)
Change in net derivative assets/liabilities	368	103
Change in obligations for repayment of collateral received	(49)	391
Change in insurance assets	(370)	(278)
Change in other assets	193	(81)
Change in other liabilities	603	778
Change in insurance contract and investment contract liabilities	2,800	4,065
Cash generated from operations	68	262

Supplementary disclosures on cash flow from operating activities

Interest received	498	403
Dividends received	456	684

39. Capital management

Capital Management Framework
The Company's Capital Management Framework is designed to achieve the following objectives:

- provide appropriate security for policyholders and meet all regulatory capital requirements whilst not retaining unnecessary excess capital;
- ensure sufficient liquidity to meet obligations to policyholders and other creditors; and
- meet the dividend expectations of owners.

The Company has met all of these objectives throughout the financial year. The framework comprises a suite of capital management policies that govern the allocation of capital throughout the Company to achieve the framework objectives under a range of stress conditions. The policy suite is defined with reference to policyholder security, creditor obligations, owner dividend policy and regulatory capital requirements.

The capital requirements of the Company are forecast on a periodic basis, and the requirements are assessed against the forecast available capital resources. In addition, internal rates of return achieved on capital invested are assessed against hurdle rates, which are intended to represent the minimum acceptable return given the risks associated with each investment. Capital plans are ultimately subject to approval by the Board.

Extractions of capital are required to be in line with the dividend policy approved by the Board. The dividend policy covers quantity of capital, quality of capital, and the amount of distributable reserves.

Solvency II ("SII") external capital requirement
Following the implementation of the SII directive effective from 1 January 2016, the Company's capital is managed on a SII basis.

A SII capital assessment involves valuation in line with SII principles of the Company's Own Funds and a risk-based assessment of the Company's Solvency Capital Requirement ("SCR"). The Company is required to meet the SCR at each quarterly valuation date. SII surplus is the excess of Eligible Own Funds over the SCR.

Basic Own Funds represent the excess of assets over liabilities from the SII balance sheet adjusted to add back any relevant subordinated liabilities that meet the criteria to be treated as capital items. The Basic Own Funds are classified into three Tiers based on permanency and loss absorbency (Tier 1 being the highest quality and Tier 3 the lowest). Limits are imposed on the amount of each tier that can be held to cover the SCR.

Surplus funds in the with-profit funds are restricted and can only be included in Eligible Own Funds up to the value of the SCR they are used to support.

The Company has obtained PRA approval to calculate the SCR using an Internal Model. This model has been calibrated to ensure that the Company's liabilities could be met in one year's time with a 99.5% confidence level, or in other words to be able to withstand a 1 in 200 year event.

The estimated SII surplus position (unaudited) at 31 December 2020 is presented in the Strategic report on page 4.

The Company did not breach the SCR at any time during the year.

Capital Policy
The capital policy is set by the Board and ensures there is sufficient capital to cover the SCR under stress conditions. It is monitored weekly by management and is reported each month at an executive and Board level.

The policy also ensures sufficient liquidity to meet creditor and dividend obligations. Volatility in the latter is monitored at the executive and Board level through stress and scenario testing. Where cash flow volatility is judged to be in excess of the Board's risk appetite, de-risking activities are undertaken.

The Board did not consider it necessary to make any changes to the capital policy as a result of the COVID-19 pandemic.

The Company did not breach its capital policy at any time during the year.

40. Risk management

(a) Overview

Risk Management Framework

The Group's RMF embeds proactive and effective risk management across the Phoenix Group. It seeks to ensure that all material risks are identified, assessed, controlled, monitored, managed within approved risk appetites and reported through agreed governance routes in line with delegated authorities. A diagram showing the nine elements of the Group's RMF is presented within the Company's strategic report, with further detail included in the Group's 2020 Annual Report and Accounts.

Risk Universe

The Group's Risk Universe (applicable to the Company) summarises the comprehensive set of risks to which the Company is exposed. The risk profile of each is an assessment of the impact and likelihood of those risks crystallising and the Company failing to achieve its strategic objectives. Changes in the risk profile are influenced by the commercial, economic and non-economic environment and are identified, assessed, managed, monitored and reported through the Group's RMF processes.

There are three levels of Risk Universe categories; the highest is Level 1 and includes:

Level 1 category	Definition
Strategic risk	A possible source of loss that might arise from the pursuit of an unsuccessful business plan; this source of loss can be to the shareholders and / or to the policyholders, and may drive reputational damage which could further impact the Group's ability to meet its strategic objectives.
Financial soundness	The risk of financial failure, reputational loss, loss of earnings and/or value arising from a lack of liquidity, funding or capital, and/or the inappropriate recording, reporting and disclosure of financial, taxation and regulatory information.
Market risk	The risk of reductions in earnings and/or value, through financial or reputational loss, from unfavourable movements. The risk typically arises from exposure to equity, property and fixed income asset classes and the impact of interest rates, inflation rates and currency exchange rates.
Credit risk	The risk of reductions in earnings and/or value, through financial or reputational loss, as a result of the default of a counterparty or an associate of such a counterparty to a financial transaction (i.e. failure to honour their financial obligations, or failing to perform them in a timely manner), whether on or off balance sheet.
Insurance risk	The risk of reductions in earnings and/or value, through financial or reputational loss, due to fluctuations in the timing, frequency and severity of insured/underwritten events and to fluctuations in the timing and amount of claim settlements. This includes fluctuations in profits due to customer behaviour.
Customer risk	The risk of reductions in expected earnings and/or value to the Company or customers, through financial, reputational or operational losses as a result of not treating customers fairly or inappropriate/poor customer treatment (including poor advice).
Operational risk	The risk of reductions in earnings and/or value, through financial or reputation loss, from inadequate or failed internal processes and systems, or from people related or external events.

The Company has also defined a more granular categorisation for Level 2 risks. This helps to further explain our attitude to these risks.

(b) Strategic risk

Strategic risks threaten the achievement of the Company and Group strategy through poor strategic decision-making, implementation or response to changing circumstances. The Company recognises that core strategic activity brings with it exposure to strategic risk. However, the Company seeks to proactively review, manage and control these exposures.

The Company's strategy and business plan are exposed to external events that could prevent or impact the achievement of the strategy; events relating to how the strategy and business plan are executed; and events that arise as a consequence of following the specific strategy chosen. The identification and assessment of strategic risks is an integrated part of the RMF. Strategic Risk should be considered in parallel with the Risk Universe as each of the risks within the Risk Universe can impact the Group and Company's strategy.

A Strategic Risk Policy is maintained and reported against regularly, with a particular focus on risk management, stakeholder management, corporate activity and overall reporting against the Company and Group's strategic ambitions.

(c) Financial risks

The use of financial instruments naturally exposes the Company to the risks associated with them which comprise mainly financial soundness risk, market risk, and credit risk. Financial soundness is a broad risk category encompassing liquidity and funding risk, capital management risk and tax risk.

Responsibility for agreeing the financial risk profile rests with the Board, as advised by investment managers, internal committees and the actuarial function. In setting the risk profile, the Board will receive advice from the appointed investment managers, the With-Profit Actuaries and the Chief Actuary as to the potential implications of that risk profile on the probability of both realistic insolvency and of failing to meet the regulatory minimum capital requirement. The Chief Actuary will also advise the extent to which the investment risk assumed is consistent with the Company's commitment to deliver fair customer outcomes.

The Company's overall exposure to investment risk is monitored by appropriate committees, which agree policies for managing each type of risk on an ongoing basis, in line with the investment strategy developed to achieve investment returns in excess of amounts due in respect of insurance contracts. The effectiveness of the Company's Asset Liability Management ("ALM") framework relies on the matching of assets and liabilities arising from insurance and investment contracts, taking into account the types of benefits payable to policyholders under each type of contract. Separate portfolios of assets are maintained for with-profits business, which includes all of the Company's participating business, non-linked non-participating business and unit-linked business.

A Group-wide project is underway to enhance our approach to managing the financial risks of climate change, including embedding climate risk considerations within the Group's Risk Management Framework, which will meet the requirements of the PRA's Supervisory Statement 3/19. The Group's disclosures in line with the Task Force for Climate-related Financial Disclosures (TCFD), including planned future activity across each of the TCFD focus areas, are outlined within the Group's 2020 Annual Report and Accounts.

(d) Financial Soundness: Liquidity and funding risk

Liquidity risk in its broadest sense can be defined as failure to maintain adequate levels of financial resources to meet short-term obligations as they fall due. Funding risk relates to the potential inability to raise additional capital or liquidity when required in order to maintain the resilience of the balance sheet. The Company has exposure to liquidity risk as a result of any failure to meet its short-term cash flow requirements, to meet its obligations to policy liabilities and the operating requirements of its subsidiaries.

The Board has defined a number of governance objectives and principles and the liquidity risk framework is designed to ensure that:

- Liquidity risk is managed in a manner consistent with the Board's strategic objectives, risk appetite and Principles and Practices of Financial Management ("PPFM");
- Cash flows are appropriately managed and the reputation of the Company and the Group are safeguarded; and
- Appropriate information on liquidity risk is available to those making decisions.

The Company's liquidity risk management strategy is based on a very low risk appetite of having insufficient liquid or tangible assets to meet financial obligations as they fall due and is supported by:

- Holding appropriate assets to meet liquidity buffers;
- Holding high quality liquid assets to support day to day operations;
- An effective stress testing framework to ensure survival horizons are met under different plausible scenarios;
- Effective liquidity portfolio management; and
- Liquidity risk contingency planning

The Company undertakes regular assessments of its cash flow requirements under normal conditions as well as considering scenarios where cash flows differ markedly from those expected (due to extreme market movements, policyholder behaviour, and/or insurance risk events). In addition the Company performs periodic reviews of its liquidity risks, monitors risk indicators, and performs stress testing on these risks to define minimum liquid asset requirements and assess resilience of available actions. This mitigates the risk that the Company does not have appropriate liquidity under severe stress conditions.

For annuity contracts, assets are held which are specifically chosen with the intention of matching the expected timing of annuity payments. The Company actively manages and monitors the performance of these assets against liability benchmarks and liquidity risk is minimised through the process of planned asset and liability matching.

For non-participating unit-linked contracts, a core portfolio of assets is maintained and invested in accordance with the mandates of the relevant unit-linked funds. Policyholder behaviour and the trading position of asset classes are actively monitored. The unit price and value of any associated contracts would reflect the proceeds of any sales of assets

Investment contract policyholders have the option to terminate or transfer their contracts in part or in full at any time and to receive the surrender or transfer value of their policies. Although these liabilities are payable on demand, and are therefore included in the contractual maturity analysis as due within one year, the Company does not expect all these amounts to be paid out within one year of the reporting date. Such surrenders would be matched in practice, if necessary, by sales of underlying assets and mass lapses are considered within liquidity requirements. The Company can delay settling liabilities to unit-linked policyholders to ensure fairness between those remaining in the fund and those leaving the fund. The length of any such delay is dependent on the underlying financial assets.

In extreme circumstances, the Company could be exposed to liquidity risk in its unit-linked funds. This could occur where a high volume of surrenders coincides with a tightening of liquidity in a unit-linked fund to the point where assets of that fund have to be sold to meet those withdrawals. Where the fund affected consists of property, it can take several months to complete a sale and this would impede the proper operation of the fund. In these situations, the Company considers its risk to be low since there are steps that can be taken first within the funds themselves both to ensure the fair treatment of all investors in those funds and to protect the Company's own risk exposure.

If considered necessary, deferral terms within the policy conditions are invoked. A number of unit-linked property funds were suspended starting from 18 March 2020, due to Material Valuation Uncertainty clauses being applied by independent property valuers immediately prior to the COVID-19 lockdown. In line with contractual terms, certain transactions, including transfers-out, surrenders and switches were not permitted while funds were in deferral. However, claims in respect of retirement transactions, policy maturities, deaths and regular maturities are deemed ‘non-discretionary’ and were paid based on available daily prices. The majority of funds have since had suspensions lifted, and those that remained subject to deferral as at 31 December 2020 had an aggregate Assets under Administration of £40m, and continue to be monitored.

A significant proportion of the Company’s financial assets are held in gilts, cash, supranationals and investment grade securities which the Company considers sufficient to meet the liabilities as they fall due.

As a result of the policies and processes established with the objective of managing exposure to liquidity risk, the Company expects to be able to manage liquidity risk on an ongoing basis, despite the effect of the COVID-19 pandemic.

(e) Contractual Undiscounted maturities

The following table provides a maturity analysis showing the remaining contractual maturities of the Company's undiscounted financial liabilities and associated interest. The contractual maturities of liabilities under insurance contracts are included based on the estimated timing of the amounts recognised in the Statement of financial position in accordance with the requirements of IFRS 4:

2020

	1 year or less or on demand £m	1-5 years £m	Greater than 5 years £m	No fixed term £m	Total £m
Liabilities under insurance contracts	3,259	8,115	24,489	-	35,863
Investment contracts	24,472	-	-	-	24,472
Borrowings	215	-	-	58	273
Deposits received from reinsurers	24	86	241	-	351
Derivatives	24	97	126	-	247
Other financial liabilities	1,496	720	2,055	-	4,271
Reinsurance payables	10	-	-	-	10
Payables related to direct insurance contracts	527	-	-	-	527
Accruals and deferred income	32	6	3	-	41
Other payables	227	-	-	-	227

2019

	1 year or less or on demand £m	1-5 years £m	Greater than 5 years £m	No fixed term £m	Total £m
Liabilities under insurance contracts	3,139	7,640	22,397	-	33,176
Investment contracts	24,356	-	-	-	24,356
Borrowings	15	215	-	69	299
Deposits received from reinsurers	25	90	261	-	376
Derivatives	26	16	190	-	232
Other financial liabilities	1,504	635	1,629	-	3,768
Reinsurance payables	11	-	-	-	11
Payables related to direct insurance contracts	485	-	-	-	485
Accruals and deferred income	34	6	3	-	43
Other payables	137	-	-	-	137

(f) Financial Soundness: Capital management risk
Capital management risk is defined as the failure of the Company to maintain sufficient capital to provide appropriate security for policyholders and meet all regulatory capital requirements whilst not retaining unnecessary capital. The Company has exposure to capital management risk through the regulatory capital requirements mandated by the PRA. Note 39 gives more detail on how capital and capital management risk are managed.

(g) Financial Soundness: Tax risk
Tax risk is defined as the risk of financial failure, reputation damage, loss of earnings/value arising from a lack of liquidity, funding or capital, and/or the inappropriate recording, reporting, understanding of tax legislation and disclosure of financial, taxation and regulatory information.

Tax risk can be caused by: the Company making a material error in its tax reporting; incorrect calculation of tax provisions; failure to implement the optimum financial arrangements to underpin a commercial transaction; and incorrect operation of policyholder tax requirements.

Tax risk is managed by maintaining an appropriately-staffed tax team who have the qualifications and experience to make judgements on tax issues, augmented by advice from external specialists where required. In addition, the Company has a formal tax risk policy, which sets out its risk appetite in relation to specific aspects of tax risk, and which details the controls the Company has in place to manage those risks.

(h) Market risk
Market risk is defined as the risk of reductions in earnings and/or value, through financial or reputational loss, from unfavourable market movements. The risk typically arises from exposure to equity, property and fixed income asset classes and the impact of changes in interest rates, inflation rates and currency exchange rates.
The Company is mainly exposed to market risk as a result of:

- the mismatch between liability profiles and the related asset investment portfolios;
- the investment of surplus assets including owners' reserves yet to be distributed, surplus assets within the long-term funds and assets held to meet regulatory capital and solvency requirements; and
- the income flow of management charges from the invested assets of the business.

The Company manages the levels of market risk that it accepts through the operation of a Market Risk Policy, using a number of controls and techniques including:

- Defined lists of permitted securities and/or application of investment constraints and portfolio limits;
- Clearly defined investment benchmarks for policyholder and equity holder funds;
- Stochastic and deterministic asset/liability modelling;
- Active use of derivatives to improve the matching characteristics of assets and liabilities and to reduce the risk exposure of a portfolio; and
- Setting risk limits for main market risks and managing exposures against these appetites.

All operations comply with regulatory requirements relating to the taking of market risk.

Assets in the shareholder business are managed against benchmarks that ensure they are diversified across a range of asset classes, instruments and geographies that are appropriate to the liabilities of the funds or are held to match the cash flows anticipated to arise in the business. A combination of limits by name of issuer, sector and credit rating are used where relevant to reduce concentration risk among the assets held.

The assets of the participating business are principally managed to support the liabilities of the participating business and are appropriately diversified by both asset class and geography, considering:

- The economic liability and how this varies with market conditions;
- The need to invest assets supporting participating business in a manner consistent with the participating policyholders' reasonable expectations and PPFM; and
- The need to ensure that regulatory and capital requirements are met.

In practice, an element of market risk arises as a consequence of the need to balance these considerations, for example, in certain instances participating policyholders may expect that equity market risk will be taken on their behalf, and derivative instruments may be used to manage these risks.

Market risk is heightened versus 2019 as a result of COVID-19, as discussed further in the Strategic report 'Principal risks and uncertainties' section.

(i) Market Risk: Interest rate and inflation risk
Interest rate risk is the risk that changes in long term interest rates or inflation rates (or the volatilities of these rates) could lead to reduction in asset values relative to liabilities which may result in losses for policyholders and shareholders.

The main financial assets held by the Company which give rise to interest rate risk are debt securities, loans and deposits, cash and cash equivalents. Insurance and investment contract liabilities exposed to interest rate risk principally comprise non-unit-linked liabilities. Other financial liabilities subject to interest rate risk include derivative financial instruments and borrowings.

The Company is required to manage its interest rate exposures in line with the Company's qualitative risk appetite statements and quantitative risk metrics. Interest rate risk is managed by matching assets and liabilities where practicable and by entering into derivative arrangements for hedging purposes where appropriate. This is particularly the case for the non-profit funds. For with-profit business, some element of investment mismatching is permitted where it is consistent with the principles of treating customers fairly. The with-profits funds of the Company provide capital to allow such mismatching to be effected. In practice, the Company maintains an appropriate mix of debt securities according to the underlying insurance or investment contracts and will review this at regular intervals to ensure that overall exposure is kept within the risk profile agreed for each particular fund. This also requires the maturity profile of these assets to be managed in line with the liabilities to policyholders.

With-profits business and non-participating business within the with-profits funds are exposed to interest rate risk as guaranteed liabilities are valued relative to market interest rates and investments include debt securities and derivatives. For with-profits business the profit or loss arising from mismatches between such assets and liabilities is largely offset by increased or reduced discretionary policyholder benefits. The contribution of these funds to the Company result is determined primarily by either the owners' share of the declared annual bonus or by the owners' interest in any change in value in the capital advanced to the Company's with-profits funds.

Duration matching is used to minimise the interest rate risk that arises from mismatches between participating contract liabilities and the assets backing those liabilities. Cash flow matching is used to minimise the interest rate risk that arises in the participating business from mismatches between non-participating insurance contract liabilities and the assets backing those liabilities. A combination of debt securities and derivative financial instruments are held to assist in the management of interest rate sensitivity arising in respect of the cost of guarantees.

A sensitivity analysis for interest rate risk is presented in section (q) below.

(j) Market Risk: Currency risk
The Company's principal transactions are carried out in sterling and therefore its exchange risk is limited principally to foreign operations.

The Company's non-sterling denominated operations generally invest in assets in the same currency denomination as their liabilities, so foreign currency mismatch risk between assets and liabilities is largely mitigated.

The Company's financial assets are generally denominated in the same currencies as its insurance and investment liabilities. Thus the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which insurance and investment liabilities are expected to be settled and, indirectly, from the earnings of UK companies arising abroad.

The Company as a whole is exposed to currency risk fluctuations impacting the income flow of management charges from the invested assets of all funds; this is primarily managed against risk appetites through the use of derivatives.

Certain with-profits funds have an exposure to overseas assets which is not driven by liability considerations. The purpose of this exposure is to reduce overall risk whilst maximising returns by diversification. This exposure is limited and managed through investment mandates which are subject to the oversight of the Investment Committees. Over the course of 2020 the Matching Adjustment Portfolios (MAPs) have increased investment in overseas investment grade credit (primarily US) again with the purpose of increasing returns whilst reducing overall risk through diversification. The currency risk arising from these investments is hedged back into sterling, therefore not increasing the Company's currency exposure.

(k) Market Risk: Equity and property price risk

The Company is exposed to the risk of adverse equity or property market movements which could result in a financial loss as a result of its holdings of marketable equity securities and property investments.

Equity and property price risk is primarily borne in respect of assets held in with-profits funds, unit-linked funds or equity release mortgages in the non-profit fund. For unit-linked funds this risk is borne by policyholders and asset movements directly impact unit prices and hence policy values. For with-profits funds policyholders' future bonuses will be impacted by the investment returns achieved and hence the price risk. In addition some equity investments are held in respect of owners' funds. For the non-profit fund property price risk from equity release mortgages is borne by the Company with the aim of achieving greater diversification and investment returns, consistent with the Strategic Asset Allocation approved by the Board.

The Company's objective in holding these assets is to earn higher long-term returns by investing in a diverse portfolio of high quality equities and properties.

Equity and property price risk is managed through the agreement and monitoring of financial risk profiles that are appropriate for maintaining adequate regulatory capital and treating customers fairly. Exposures to equity securities are primarily controlled through the use of investment mandates including constraints based on appropriate equity indices. Portfolio characteristics are analysed regularly and price risks are actively managed in line with investment mandates. The Company's holdings are diversified across industries, and concentrations in any one company or industry are limited. For the participating business, exposures are also partially hedged through the use of derivatives. Exposures to property holdings are primarily controlled through the use of portfolio limits which specify the proportion of the value of the total property portfolio represented by: any one property or group of property, geographic area, or property type.

The Company as a whole is exposed to price risk fluctuations impacting the income flow of management charges from the invested assets of all funds; this is primarily managed through the use of derivatives.

A sensitivity analysis for equity and property price risk is presented in section (q) below.

(l) Credit risk

Credit risk is defined as the risk of reductions in earnings and/or value, through financial or reputational loss, as a result of the default of a counterparty or an associate of such a counterparty to a financial transaction (i.e. failure to honour their financial obligations, or failing to perform them in a timely manner), whether on or off balance sheet.

There are two principal sources of credit risk for the Company:

- Credit risk which results from direct investment activities, including investments in debt securities, derivative counterparties, collective investment schemes, hedge funds and the placing of cash deposits; and
- Credit risk which results indirectly from activities undertaken in the normal course of business. Such activities include premium payments, outsourcing contracts, reinsurance, and the lending of securities.

The amount disclosed in the Statement of financial position in respect of all financial assets, together with rights secured under unrecognised collateral arrangements, and excluding those that back unit-linked liabilities, represents the Company's maximum exposure to credit risk.

Credit risk is heightened versus 2019 as a result of COVID-19, as discussed further in the Strategic report 'Principal risks and uncertainties' section.

Credit risk management

Credit risk is managed by the monitoring of aggregate Company exposures to individual counterparties and by appropriate credit risk diversification (including by sector, credit rating and geographic area). The Company manages the level of credit risk it accepts through the use of credit risk tolerances. Credit risk on derivatives and securities lending is mitigated through the use of collateral with appropriate haircuts. The credit risk borne by the owners on with-profits policies is dependent on the extent to which the underlying insurance fund is relying on owners' support.

The Company operates an Internal Credit Rating Committee to monitor and control oversight of externally rated and internally rated assets. A variety of methods are used to validate the appropriateness of credit assessment from external institutions and fund managers. Internally rated assets are those that do not have a public rating from an external credit assessment institution. This Committee reviews the policies, processes and practices to ensure the appropriateness of the internal ratings assigned to asset classes.

The Company maintains accurate and consistent risk ratings across its asset portfolio. This enables management to focus on the applicable risks and to compare credit exposures across all lines of business, geographical regions and products. The rating system is supported by a variety of financial analytics combined with market information to provide the main inputs for the measurement of counterparty risk. All risk ratings are tailored to the various categories of assets and are assessed and updated regularly. Significant exposures and breaches are reported to the Board and to the Investment Committee.

The Company has increased exposure to illiquid credit assets such as equity release mortgages, private placements and commercial real estate with the aim of achieving greater diversification and investment returns, consistent with the Strategic Asset Allocation approved by the Board.

The impact of non-government debt securities and, inter alia, the change in market credit spreads during the year are fully reflected in the values shown in these financial statements. Credit spreads are the excess of corporate bond yields over the risk free rate to reflect the higher level of risk. Similarly, the value of derivatives that the Company holds takes into account fully the changes in swap spreads.

The shareholders' exposure to credit risk arising from investments held in the with-profits funds is similar in purpose to that disclosed for market risk exposures in section (h).

Concentration of credit risk
Concentration of credit risk might exist where the Company has significant exposure to an individual counterparty or a group of counterparties with similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. The Company's counterparty risk is monitored by the counterparty limits contained within the investment guidelines and investment management agreements, overlaid by regulatory requirements and the monitoring of aggregate counterparty exposures across the Company. Counterparty risk in respect of OTC derivative counterparties is monitored using a Potential Future Value ("PFE") exposure metric.

The Company is also exposed to concentration of credit risk with outsourced service providers. This is due to the nature of the outsourced services market. The Company operates a policy to manage outsourcer service counterparty exposures and the impact from default is reviewed regularly by executive committees and also measured through stress and scenario testing.

Reinsurance
The Company is exposed to credit risk as a result of insurance risk transfer contracts with reinsurers. The Company's policy is to place reinsurance only with highly rated counterparties. The Company must assign internal credit ratings to reinsurance counterparties which must be approved by the Company's Credit Risk Committee. The Company is restricted from assuming concentrations of risk with individual external reinsurers by specifying limits on ceding and the minimum conditions for acceptance and retention of reinsurers, however due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings, some concentration risk does arise. The Company manages its exposure to reinsurance credit risk through collateralisation where appropriate and regular monitoring of exposures at the Reinsurance Management Committee.

The company has successfully completed six Bulk Purchase Annuity transactions during 2020 and the majority of the associated longevity exposures are ceded to third party reinsurers.

Collateral
The credit risk exposure of the Company is mitigated, in certain circumstances, by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. The use of collateral is governed by formal contractual agreements between the parties.

Collateral is mainly obtained in respect of reinsurance, OTC derivatives and stock lending activity. Management monitors the market value of the collateral received, requests additional collateral when needed and performs an impairment valuation when impairment indicators exist and the asset is not fully secured.

Information on the values of collateral held and pledged are given in note 24.

(m) Quality of credit assets

An indication of the Company's exposure to credit risk is the quality of the investments and counterparties with which it transacts. The following table provides information regarding the aggregate credit exposure split by credit rating:

2020

	AAA £m	AA £m	A £m	BBB £m	Internally rated £m	Non-Rated £m	Unit Linked £m	Total £m
Loans and deposits	-	-	-	-	-	206	-	206
Derivatives	-	582	701	127	38	123	9	1,580
Debt securities	1,226	8,528	2,604	1,277	4,789	4,017	1	22,442
Reinsurers' share of investment contract liabilities	-	-	-	-	-	-	6,200	6,200
Reinsurers' share of insurance contract liabilities	-	1,000	1,196	-	-	172	-	2,368
Cash and cash equivalents	-	16	313	51	-	1	34	415
	1,226	10,126	4,814	1,455	4,827	4,519	6,244	33,211

2019

	AAA £m	AA £m	A £m	BBB £m	Internally rated £m	Non-Rated £m	Unit Linked £m	Total £m
Loans and deposits	-	-	-	-	-	211	-	211
Derivatives	-	3	780	159	-	191	6	1,139
Debt securities	1,040	7,967	2,366	1,123	3,410	2,933	1	18,840
Reinsurers' share of investment contract liabilities	-	-	-	-	-	-	5,657	5,657
Reinsurers' share of insurance contract liabilities	-	1,032	1,341	-	-	168	-	2,541
Cash and cash equivalents	-	274	95	15	-	-	41	425
	1,040	9,276	4,582	1,297	3,410	3,503	5,705	28,813

The Company had no material assets which were impaired or past due (2019: £nil).

The following table provides information regarding the aggregate credit exposure of internally rated assets:

2020

	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Total £m
Derivatives	-	28	7	3	-	38
Debt securities	1,935	1,026	1,492	275	61	4,789
	1,935	1,054	1,499	278	61	4,827

2019

	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Total £m
Debt securities	1,779	673	819	139	-	3,410

Non-equity based derivatives are included in the credit risk table above and are subject to appropriate collateral arrangements.

Credit ratings have not been disclosed in the above tables for holdings in collective investment schemes. The credit quality of the underlying debt securities within these vehicles is managed by the safeguards built into the investment mandates for these vehicles.

Credit ratings have not been disclosed in the above tables for the assets of the unit-linked funds since the shareholder is not directly exposed to credit risks from these assets. Included in unit-linked funds are assets which are held as reinsured external fund links. Under certain circumstances, the shareholder may be exposed to losses relating to the default of the reinsured external fund link. These exposures are actively monitored and managed by the Company and the Company considers the circumstances under which losses may arise to be very remote.

For reinsurance assets, where the counterparty is part of a group and a rating only exists for the parent of the Group, then the rating of the parent company has been used where appropriate.

(n) Insurance risk

Insurance risk is defined as the risk of reductions in earnings and/or value, through financial or reputational loss, due to fluctuations in the timing, frequency and severity of insured/underwritten events and to fluctuations in the timing and amount of claim settlements. This includes fluctuations in profits due to customer behaviour.

The Company is exposed to the following elements of Insurance risk

- Longevity risk - lower than expected number of deaths experienced on annuity products or greater than expected improvements in annuitant mortality
- Mortality risk - higher than expected death claims on assurance products or lower than expected improvements in mortality
- Morbidity risk - higher than expected number of inceptions on critical illness or income protection policies and lower than expected termination rates on income protection policies
- Persistency risk - adverse movement in surrender rates, GAO surrender rates, GAO take-up rates, policyholder retirement dates.
- Expense risk - unexpected timing or value of expenses incurred
- New business pricing risk - inappropriate pricing of new business that is not in line with the underlying risk factors for that business.

Objectives and policies for mitigating insurance risk

The Company uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, experience analyses, external data comparisons, sensitivity analyses, scenario analyses and stress testing. In addition to this, mortality, longevity and morbidity risks may in certain circumstances be mitigated by the use of reinsurance. Assumptions that are deemed to be financially significant are reviewed at least annually for pricing and reporting purposes.

The profitability of the run-off of the Company’s closed long-term insurance businesses depends to a significant extent on the values of claims paid in the future relative to the assets accumulated to the date of claim. Typically, over the lifetime of a contract, premiums and investment returns exceed claim costs in the early years and it is necessary to set aside these amounts to meet future obligations. The amount of such future obligations is assessed on actuarial principles by reference to assumptions about the development of financial and insurance risks.

It is therefore necessary for the Board to make decisions, based on actuarial advice, which ensure an appropriate accumulation of assets relative to liabilities. These decisions include investment policy, bonus policy and, where discretion exists, the level of payments on early termination.

The Company’s longevity risk exposures have increased as a result of the Bulk Purchase Annuity deals it has successfully acquired, however the majority of these exposures have been reinsured to third parties. Yield falls have also increased the Company’s longevity exposures.

Insurance risk is heightened versus 2019 as a result of COVID-19, as discussed further in the Strategic report ‘Principal risks and uncertainties’ section.

The Company’s liabilities under insurance contracts are detailed in note 32, which also covers the risks arising on specific contracts and how these are mitigated.

(o) Customer risk

Customer risk is defined as the risk of reductions in expected earnings and/or value to the Company or customers, through financial, reputational or operational losses as a result of not treating customers fairly or inappropriate/poor customer treatment (including poor advice). It can arise as a result of:

- **Customer Treatment:** Failure to have a customer centric culture which drives appropriate behaviours and decisions leading to customer interactions and outcomes which meet or exceed reasonable customer and regulator expectations and which take account of potential customer vulnerability.
- **Customer Transformation:** The design, governance and oversight of Strategic Customer Transformation Activity in retained functions and service providers, fails to deliver on reasonable customer expectations, taking account of the Phoenix Group customer treatment risk appetites and regulatory requirements.
- **Product and Propositions:** Failure to design and/or manage products/propositions appropriately, or failure of the manufacturer to ensure that products/ propositions are distributed to the appropriate target market, perform as intended and in line with the expectations set.
- **Sales and Distribution:** 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.

Risk capital requirement for customer risk is assessed using the Company's PRA approved Internal Model which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period. The methodology is based on scenarios assessed by experts within the business. From a qualitative perspective, the customer risks for the Group, and of the Company, are regularly reported to management oversight committees.

The Group's Conduct Risk Appetite (which applies to the Company), sets the boundaries within which the Company expect customer outcomes to be managed. In addition, the Group Conduct Risk Framework ('CRF'; applies to the Company), which overarches our Risk Universe and all risk policies, consists of a set of outcomes, intents and standards for all staff to follow to ensure that we have embedded and effective controls in place across our business activities to detect where our customers are at risk of poor outcome, minimise conduct risks, and respond with timely and appropriate mitigating actions.

The Company also has a suite of customer polices which set out the key customer risks and minimum control standards in place to mitigate them.

(p) Operational risk

Operational Risk is defined as the risk of reductions in earnings and/or value, through financial or reputation loss, from inadequate or failed internal processes and systems, or from people related or external events.

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

- indirect exposures through our outsourcing service providers (OSPs) and suppliers;
- direct exposures through internal practices, actions or omissions;
- external threats from individuals or groups focused on malicious or criminal activities, or on external events occurring which are not within the Company's control; and
- negligence, mal-practice or failure of employees, or suppliers to follow good practice in delivering operational processes and practices.

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

(q) Financial and insurance risk sensitivities

The tables that follow illustrate the sensitivity of profit after tax and equity to variations in the key assumptions made in relation to the Company's most significant financial and insurance risk exposures. The values have, in all cases, been determined by varying the relevant assumption as at the reporting date and considering the consequential impacts assuming other assumptions remain unchanged. The values are for a full financial year.

Insurance liabilities are sensitive to changes in risk variables, such as prevailing market interest rates, currency rates and equity prices, since these variations alter the value of the financial assets held to meet obligations arising from insurance contracts and changes in investment conditions also have an impact on the value of insurance liabilities themselves. Additionally, insurance liabilities are sensitive to the assumptions which have been applied in their calculation. Sometimes allowance must also be made for the effect on future assumptions of management or policyholder actions in certain economic scenarios. The most significant non-economic sensitivities arise from mortality, longevity and lapse risk.

Sensitivities

	2020	2019
	Effect on profit after tax and equity	Effect on profit after tax and equity
	£m	£m
Financial sensitivities		
100bp widening of credit spreads	(4)	(18)
100bp narrowing of credit spreads	4	19
100bp increase in interest rates	(118)	(86)
100bp decrease in interest rates	174	99
10% increase in equity and property prices	(70)	(73)
10% decrease in equity and property prices	62	63
Insurance sensitivities		
5% increase in assurance mortality	(65)	(58)
5% decrease in assurance mortality	65	58
5% increase in annuitant longevity	(121)	(101)
5% decrease in annuitant longevity	121	101
10% increase in lapse rates	(11)	(12)
10% decrease in lapse rates	11	11

Limitations
The financial impact of certain risks is non-linear and consequently the sensitivity of other events may differ from expectations based on those presented above. Correlations between the different risks and/or other factors may mean that experience would differ from that expected if more than one risk event occurred simultaneously. The analysis has been assessed as at the reporting date. The results of the mortality sensitivity analysis have been based on instantaneous change in the mortality assumption at all ages, rather than considering gradual changes in mortality rates.

41. Commitments

	2020 £m	2019 £m
To subscribe to private equity funds and other unlisted assets	320	199
For repairs, maintenance or enhancements of investment property	8	3
	328	202

42. 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 apart from transfers of long term business.

Reinsurance accepted and ceded
The Company acts as both the reinsurer and the cedant in reinsurance transactions with Phoenix Life Assurance Limited ("PLAL"), a fellow group company.

	2020 £m	2019 £m
Reinsurance accepted from fellow subsidiaries:		
Policyholder claims	2	1
Annual management charges payable to group companies	15	16
Share of investment contract liabilities	1,603	1,596
Reinsurance ceded to fellow subsidiaries:		
Claims	10	12
Share of reinsurance assets	147	141

Transactions with Group pension schemes

On 19 December 2016, the Company entered into a "Buy-In" agreement with the PGL Pension Scheme ("PGLPS"), a fellow subsidiary of the Group. On 1 March 2019 the Company entered into another such "Buy-In" with PGLPS.

The 2019 "Buy-in" with PGLPS covered the pensioner and deferred members of the Scheme remaining after the 2016 "Buy-in". On 12 April 2019, the Company executed a longevity swap with Hannover Re, covering 85% of the longevity risk.

On 17 November 2020, the Company entered into a Commitment Agreement with the Pearl Pension Scheme ("the Scheme"), a related party of the Company, to complete a series of four "Buy-ins" that are scheduled to be executed each year up to 31 December 2023. On this day, the first "Buy-in" of 25% of the Scheme's pensioner in-payment and deferred member liabilities was completed. On the same day, the Company executed a longevity swap with Reinsurance Group of America ("RGA"), covering 100% of the longevity risk. The Company assumed additional insurance contract liabilities of £724m and recognised a premium of £735m. The transaction contributed £12m to the profit before tax for the year.

	2020 £m	2019 £m
Premiums	735	1,128
Claims	81	69
Change in insurance contract liabilities	886	1,029
Share of insurance contract liabilities	2,970	2,084
Effect of "Buy-ins" in the year		
Change in insurance contract liabilities	757	990
Contribution to profit before tax	12	138
Premium receivable at year end	-	13

Other transactions with related party companies	2020 £m	2019 £m
Income earned from related parties		
Dividends received from subsidiaries	11	-
Rebate income received from subsidiaries	11	13
Interest received from subsidiaries	76	66
Interest received from parent	5	5
Dividends received from associate	10	16
Expenses charged by related parties		
Investment management services provided by subsidiaries	17	14
Commission charged by subsidiary	128	94
Management services provided by fellow subsidiary	179	182
Investment management services provided by other related parties	18	28

Amounts due from related parties		
Debt securities due from subsidiaries	3,168	2,584
Loans due from subsidiaries	-	10
Other amounts due from subsidiaries	16	9
Amounts due from fellow subsidiaries	24	26
Loans due from parent	202	197
	3,410	2,826

Amounts due to related parties		
Amounts due to subsidiaries: ERM related	3,042	2,488
Amounts due to subsidiaries: Other	20	18
Provisions due to fellow subsidiaries	26	42
Other amounts due to fellow subsidiaries	27	14
Amounts due to other related parties	5	7
	3,120	2,569

Where financial instruments arising from transactions with related parties are offset in the statement of financial position the net position is presented in the tables above.

Subsidiaries
Phoenix Unit Trust Managers Limited provides investment management services to the Company, under an investment management agreement. This agreement contains rebate provisions under which rebate income is payable to the Company.

SunLife Limited ("SLL") distributes protection products manufactured by the Company in return for a commission. The Company received a dividend of £11m from SLL in the period (2019: £nil). In the prior year, the Company received a return of capital contribution of £10m from SLL.

Note 24 gives details of the transfer of the beneficial interest in certain ERM mortgage loans to strategic wholly owned subsidiaries.

Fellow subsidiaries
PGMS, PGS and PGMSI provide management services to the Company, in the form of staff and other services. The provision for strategic review of outsourcing relationships (note 35) is also due to PGMS.

Other related parties
Amounts disclosed as transactions with other related parties consist of transactions with Standard Life Aberdeen plc ("SLA"). As part of the acquisition of Standard Life Assurance Limited by the Phoenix Group in 2018, SLA took a 19.98% equity stake in the enlarged Phoenix Group, and therefore became a related party of the Company from that date. As a result of the acquisition of ReAssure Limited, SLA's interest in the Company was diluted to 14.42%, but remains a related party of the Company. SLA provides investment management services to the Company.

Transactions with associate
Further details of transactions with the Company's associate are given in note 20.

Transactions with the immediate parent company PLHL
Further details of loans receivable from PLHL are given in notes 21 and 24.

Dividends totalling £200m were paid to PLHL during the year (2019: £300m). Capital contributions received from PLHL are disclosed in note 31.

Transfers of business
Details of the 2018 and 2019 transfers of business from ALAC are given in note 4.

Transactions with key management personnel
The compensation payable to employees classified as key management, which comprises the Directors, is disclosed in note 12. Other transactions are disclosed below:

	2020 £000	2019 £000
Key management personnel and their close family members transactions with Pensions and Savings products sold by the Group:		
Contributions in the year	160	14
Value of investments at year end	1,293	565

43. Listing of subsidiaries

The subsidiaries of the Company held for strategic purposes and measured at cost less impairment are as follows:

Company name	Country of incorporation and principal place of operation	Type of holding (all wholly owned)
Britannic Finance Limited	England and Wales	Ordinary shares of £1
Britannic Money Investment Services Limited	England and Wales	Ordinary shares of £1
Cityfourinc (unlimited)	England and Wales	Ordinary & Preference shares of £1
Phoenix ULA Limited (Formerly Pearl ULA Limited)	England and Wales	Ordinary shares of £1
Phoenix ER1 Limited	England and Wales	Ordinary shares of £1
Phoenix ER3 Limited	England and Wales	Ordinary shares of £1
Phoenix ER4 Limited	England and Wales	Ordinary shares of £1
Phoenix ER5 Limited	England and Wales	Ordinary shares of £1
Phoenix ER6 Limited	England and Wales	Ordinary shares of £1
Phoenix SPV1 Limited	England and Wales	Ordinary shares of £1
Phoenix SPV2 Limited	England and Wales	Ordinary shares of £1
Phoenix SPV3 Limited	England and Wales	Ordinary shares of £1
Phoenix SPV4 Limited	England and Wales	Ordinary shares of £1
Phoenix Unit Trust Managers Limited	England and Wales	Ordinary shares of £1
Scottish Mutual Nominees Limited	Scotland	Ordinary shares of £1
Scottish Mutual Pension Funds Investment Limited	Scotland	Ordinary shares of £1
SunLife Limited	England and Wales	Ordinary shares of £1
The Phoenix Life SCP Institution	Scotland	Unlimited without share capital

Subsidiaries incorporated in England and Wales have the registered office address 1 Wythall Green Way, Wythall, Birmingham, B47 6WG.

Subsidiaries incorporated in Scotland have the registered office address Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH.

The subsidiaries of the Company held for investment purposes and measured at fair value are as follows:

Company Name	**Country of incorporation and principal place of operation**	**Type and % of holding**	**Address**
ASI Phoenix Global Private Equity III LP (Pool A)	Scotland	Limited Partnership, 70.6%	7
ASI Phoenix Global Private Equity III LP (Pool B)	Scotland	Limited Partnership, 70.6%	7
ASI Financial Equity Fund A Inc	England and Wales	OEIC, sub fund, 80.74%	3
Janus Henderson Diversified Growth Fund	England and Wales	OEIC, sub fund, 61.94%	2
Janus Henderson Global Funds - Janus Henderson Institutional Overseas Bond Fund	England and Wales	OEIC, sub fund, 86.09%	2
Janus Henderson Institutional Mainstream UK Equity Trust	England and Wales	Unit Trust, 62.57%	2
Janus Henderson Strategic Investment Funds - Janus Henderson Institutional Japan Index Opportunities Fund	England and Wales	OEIC, sub fund, 66.07%	2
Janus Henderson Strategic Investment Funds - Janus Henderson Institutional North American Index Opportunities Fund	England and Wales	OEIC, sub fund, 71.75%	2
Janus Henderson Strategic Investment Funds - Janus Henderson Institutional Asia Pacific ex Japan Index Opportunities Fund	England and Wales	OEIC, sub fund, 71.99%	2
Janus Henderson Institutional High Alpha UK Equity Fund	England and Wales	Unit Trust, 63.25%	2
PUTM Bothwell Short Duration Credit Fund	England and Wales	Unit Trust, 100%	1
PUTM Bothwell Floating Rate ABS Fund	England and Wales	Unit Trust, 60.61%	1
PUTM Bothwell Global Credit Fund	England and Wales	Unit Trust, 77.41%	1
PUTM Bothwell Asia Pacific (Excluding Japan) Fund	England and Wales	Unit Trust, 78.86%	1
PUTM Bothwell Emerging Market Debt Unconstrained Fund	England and Wales	Unit Trust, 77.48%	1
PUTM Bothwell Emerging Markets Equity Fund	England and Wales	Unit Trust, 78.69%	1
PUTM Bothwell European Credit Fund	England and Wales	Unit Trust, 80.97%	1
PUTM Bothwell Europe Fund	England and Wales	Unit Trust, 80.67%	1
PUTM Bothwell Global Bond Fund	England and Wales	Unit Trust, 99.97%	1
PUTM Bothwell Index-Linked Sterling Hedged Fund	England and Wales	Unit Trust, 100%	1
PUTM Bothwell Japan Tracker Fund	England and Wales	Unit Trust, 80.3%	1
PUTM Bothwell Long Gilt Sterling Hedged Fund	England and Wales	Unit Trust, 100%	1
PUTM Bothwell North America Fund	England and Wales	Unit Trust, 77.22%	1
PUTM Bothwell Sterling Government Bond Fund	England and Wales	Unit Trust, 96.53%	1
PUTM Bothwell Euro Sovereign Fund	England and Wales	Unit Trust, 85.95%	1
PUTM Bothwell Sub-Sovereign A Fund	England and Wales	Unit Trust, 63.16%	1
PUTM Bothwell Sterling Credit Fund	England and Wales	Unit Trust, 72.19%	1
PUTM Bothwell Tactical Asset Allocation Fund	England and Wales	Unit Trust, 69.8%	1
PUTM Bothwell UK All Share Listed Equity Fund	England and Wales	Unit Trust, 47.49%	1
PUTM Bothwell UK Equity Income Fund	England and Wales	Unit Trust, 99.94%	1
PUTM Bothwell Ultra Short Duration Fund	England and Wales	Unit Trust, 72.22%	1
PUTM UK All-Share Index Unit Trust	England and Wales	Unit Trust, 99.85%	1
PUTM European Unit Trust	England and Wales	Unit Trust, 99.34%	1
PUTM Far Eastern Unit Trust	England and Wales	Unit Trust, 99.48%	1
PUTM UK Stock Market Fund (Series 3)	England and Wales	Unit Trust, 99.99%	1
PUTM UK Stock Market Fund	England and Wales	Unit Trust, 100%	1
PUTM UK Equity Unit Trust	England and Wales	Unit Trust, 99.86%	1

Company Name	Country of incorporation and principal place of operation	Type and % of holding	Address
Ignis Private Equity Fund LP	Cayman Islands	Limited Partnership, 100%	6
Ignis Strategic Credit Fund LP	Cayman Islands	Limited Partnership, 100%	6
Ignis Strategic Solutions Funds plc – Systematic Strategies Fund	Republic of Ireland	OEIC, sub fund, 67.92%	5
Janus Henderson Institutional UK Equity Tracker Trust	England and Wales	Unit Trust, 99.71%	2
Aberdeen Standard Liquidity Fund (Lux) - Seabury Sterling Liquidity 3 Fund	Republic of Ireland	UCITS, sub fund , 68.38%	8
PUTM ACS UK All Share Listed Equity Fund	England and Wales	Unit Trust, 47.09%	1
PUTM ACS European ex UK Fund	England and Wales	Unit Trust, 98.9%	1
PUTM ACS Japan Equity Fund	England and Wales	Unit Trust, 98.81%	1
PUTM ACS North American Fund	England and Wales	Unit Trust, 98.62%	1

All investments in unit trusts are held in Authorised unit trusts.

Registered office addresses

1. 1 Wythall Green Way, Wythall, Birmingham, B47 6WG
2. 201 Bishopsgate, London, EC2M 3AE
3. Bow Bells House, 1 Bread Street, London, EC4M 9HH
4. 7 Newgate Street, London, EC1A 7NX
5. 25/28 North Wall Quay, Dublin 1, Dublin, Republic of Ireland
6. Ugland House, Grand Cayman, KY1-1104, Cayman Islands
7. 1 George Street, Edinburgh, EH2 2LL, United Kingdom
8. 70 Sir Rogerson's Quay, Dublin 2, Republic of Ireland

44. Events after the reporting date

On 8 February 2021, the Company gave notice to Noteholders that it will redeem £200m 7.25% undated subordinated notes in full on 25 March 2021 (see note 33). The notes will be redeemed at their principal amount, together with interest accrued to 25 March 2021. The redemption of the notes will be financed by the maturity proceeds of the £202m inter-company loan to Pearl Life Holdings Limited (see note 21).

45. Ultimate parent and ultimate controlling party

The Company's immediate parent is Pearl Life Holdings Limited and its ultimate parent and ultimate controlling party is Phoenix Group Holdings plc, a company incorporated in England and Wales. Copies of the Phoenix Group Holdings plc consolidated financial statements can be obtained from their company website, www.thephoenixgroup.com.