SUNLIFE LIMITED

Company Registration Number: 5460862

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

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Strategic report

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

The financial statements of the Company for the year ended 31 December 2023 have been prepared in accordance with UK adopted international accounting standards.

Business review

Principal activities

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

Climate change: activity in the year and future developments

Climate change is one of the greatest global challenges we face today. As a purpose-led organisation we believe that we have a responsibility to society to help address the climate emergency and play a leading role in supporting the transition to a net zero economy for the benefit of all our stakeholders. That's why, as a Group, we have committed to being net zero by 2050 across our investment portfolio, operations and supply chain. We have also set stretching interim targets for 2025 and 2030 to ensure that we remain on track. Our climate ambition is to optimise value for our customers and play a key role in delivering a net zero economy.

In May 2023 the Group published its inaugural Net Zero Transition Plan which marked an important step in its journey towards net zero. It outlines the actions being undertaken to become net zero by 2050 and to achieve its interim targets. The application of the Net Zero Transition Plan is set by Group but considers its subsidiary companies including the Company in their plan. During 2023 the Group also became a signatory to the UK Stewardship code and published its inaugural Stewardship Report. This report expands on climate change and looks to provide greater clarity on the Group's position towards ESG (Environmental, Social & Governance) emerging themes.

In parallel with our work to address climate change, the Group is on a journey to improve our understanding of our exposure to nature-related impacts, dependencies and risks, and to identify possible investment opportunities. We recognise that managing nature risk and opportunity is critical in ensuring our long-term sustainability as a business, and serving the best interests of our customers. In May 2023 the Group signed the Finance for Biodiversity Pledge and Foundation, which includes five commitments for signatories: collaboration and knowledge sharing, engaging with companies, assessing impact, setting targets and reporting publicly. The Group also joined Nature Action 100, a global investor engagement initiative focused on driving greater corporate ambition and action to reverse nature and biodiversity loss.

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

More information can be found in the Group's Annual Report and Accounts and standalone Sustainability Report in line with the Task Force on Climate-related Financial Disclosures recommendations.

Financial performance

The results of the Company for the year are shown in the Statement of comprehensive income on page 14. The profit before tax was £20.5m (2022: £16.8m).

Dividends totalling £15.8m were paid to the parent company during the year (2022: £32.5m).

Key Performance Indicators ('KPIs')

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

Capital resources

As the Company is regulated by the FCA, it regularly reviews and forecasts its adjusted net asset position as determined by Chapter 13 of IPRU (INV). At 31 December 2023, the Company had an excess over its regulatory capital requirements of £27.8m (2022: £28.3m).

Profits after taxation and distributable reserves

For the year ended 31 December 2023 the Company reported a profit after taxation of £15.7m (2022: £13.6m). As at 31 December 2023, the Company had distributable reserves amounting to £25.3m (2022: £25.4m).

Cash flows

Cash flows are monitored closely by the business to ensure that all liabilities can be met as they fall due. In 2023, operations generated cash of £29.0m (2022: £9.0m) and cash and cash equivalents totalled £48.8m (2022: £41.9m) as at 31 December 2023.

Section 172 Statement

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

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

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

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

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

Key Stakeholder Groups	Link to strategic priorities	How has the Board has engaged with and had oversight of stakeholder views during the year?	The Board's role in promoting positive stakeholder relationships
Customers - Our customers span a range of products and services, from individual life insurance, to equity release services. The Board recognises its responsibility and duty to oversee the success of the Company for all its customers.	• Optimise our inforce business; and • Grow organically.	• The Board sought to understand whether customer needs were being met through consideration of regular reports on customer service, customer satisfaction and complaints. • The Board considered and approved an update to the SLL logo to keep the brand feeling contemporary and relevant, optimise its use across digital media and also increase its appeal to the wider community.	The Board holds management to account throughout the year, ensuring due care and attention is given to customer outcomes and needs.
Suppliers and Strategic Partners - We depend on our outsourced service providers (OSPs) and strategic partners to help us to deliver the highest standards in relation to the products and services we offer and continually promote good outcomes for all our customers. The Board understands that the quality of relationships we maintain and develop with our OSPs and strategic partners is core to the Company achieving its purpose of helping people secure a life of possibilities.	• Optimise our in force business; and • Enhance our operating model and culture.	• The Board received regular reports from management on ongoing customer service performance and outsourced services, including operational resilience. • Relationships with outsourced service providers and strategic partners were monitored via regular updates to the Board.	The Board monitors the performance of its OSPs and strategic partners to ensure SLL is able to provide the best customer outcomes to deliver its operational and financial targets. Positive relationships with OSPs and strategic partners are vital to the success of both parties.

Colleagues - Our colleagues are integral to the Company's success. The Board supports the Group's ambition for a champion-led culture to reach its purpose and achieve its strategy.	• Grow organically; and • Enhance our operating model and culture.	• The Board monitored colleague-related matters throughout the year via the regular operational updates provided by management.	The Group Board is responsible for setting cultural tone for all Group colleagues. However, the SLL Board monitors engagement and other relevant colleague-related matters in recognition of their role in the ongoing success of the Company.
Community - The most significant way in which we impact the community is through the way in which we carry out our business. The Board understands the value of building trust and inspiring confidence within the community. For example, the Company is proud to support the British Heart Foundation.	• Optimise our in-force business; • Grow organically; and • Enhance our operating model and culture.	• The Board oversaw development and implementation of the Company's strategy, including how sustainability could continue to be implemented in a meaningful way.	The Board monitors performance against agreed strategy within the wider parameters of the Phoenix Group-wide Strategy.
Investors – Our sole shareholder is Phoenix Life Limited. As a Phoenix Group company, our ultimate shareholder is Phoenix Group Holdings plc (PGH). The Board recognises the role it plays in driving growth to help the Group meet the needs of its customers.	• Optimise our in-force business; • Grow organically; and • Enhance our operating model and culture.	• The governance framework within the Board operates is designed to facilitate good information flows between and robust decision-making at all levels within the Group. • During the year, the Board approved the payment of a dividend.	The Board maintains strong links with its ultimate parent, PGH, through regular reporting and interaction with the SLL Board and its committees and vice versa.
Government, trade bodies & regulators - Our business is regulated by the Financial Conduct Authority (FCA). The Board acknowledges the importance of maintaining positive relationships with the Company's regulator to enable good outcomes for its customers.	• Grow organically; and • Enhance our operating model and culture.	• The Board received updates on management's interactions with regulators and any feedback received from those bodies. • The Board considered regular updates in relation to the Group's preparation for implementation of the FCA's new Consumer Duty. • Board directors meet with the regulators as required from time to time. • The Board receives regular Regulatory Reports, outlining key developments and matters to the extent they are relevant to SLL.	As the guardian of the Company, (ensuring robust governance, controls and risk management) the Board is responsible for holding management to account for day to day compliance with regulation and legislation; ensuring transparent communication of such compliance to maintain trust in Phoenix.

Key board decisions

The pages that follow contain examples of key decisions of the Board, their alignment to the Group's strategy, how the Board reached its decision (including consideration of matters set out in Section 172; the interests of stakeholders; related risks and opportunities; and challenges it faced) and the outcome of those considerations. The examples shown are provided to demonstrate how the Directors of the Company have carried out their duties under Section 172 of the Act.

Key Board Decision	YE22 Annual Accounts
Link to strategic priorities	**How the Board reached its decision**
Optimising our in-force business.	CONSIDERATION OF S172 MATTERS As part of the year end accounts approval process, the Board considered whether the expectation that the Company would continue in operational existence for the foreseeable future was appropriate. The Board considered supporting paperwork presented by the Finance team, together with the outcome of an external audit for the accounts, including assessments relating to the impact of market uncertainty. Such consideration enabled the Board to reach a decision to approve the YE22 accounts, within which a going concern statement was included. The long-term impact of the decision to approve the YE22 accounts therefore included the potential reliance of those reading the accounts on the going concern statement which the Board considered to be relevant and accurate.
Outcome	Following due consideration of the matters set out in section 172, and in particular the likely consequences of any decisions in the long term and the desire for the Company to maintain a reputation for high standards of business conduct, the Board approved the YE22 accounts.
Key Board Decision	**Capital Management Policy and Dividend**
Link to strategic priorities	**How the Board reached its decision**
Optimising our in-force business; and **Grow organically.**	CONSIDERATION OF S172 MATTERS The Board received a paper setting out the Company's actual and projected solvency and liquidity position, to enable it to assess the resources available for a distribution to the Company's sole shareholder, Phoenix Life Limited. As part of the process to consider the dividend proposal, the Board reviewed changes to the Company's Capital Management Policy made in order to reflect budgeted business volumes, alongside the most recent lapse assumptions and contractual commitments. The Board noted that the proposed changes would allow the Company to remain robustly capitalised following the payment of any dividend. As part of its ongoing oversight of the business, the Company's regulator sets a minimum capital requirement which must be maintained. In considering the dividend proposal, the Board ensured that this minimum requirement was adequately met and further protected by an additional capital buffer. This, together with consideration of the long term consequences of the proposal, ensured that the Company's customers, strategic partners and employees were not adversely impacted by any decision to pay a dividend.
Outcome	Following due consideration of the matters set out in section 172, the Board approved both the revised Capital Management Policy and the payment of a £15.8m dividend to the Company's sole shareholder, Phoenix Life Limited.

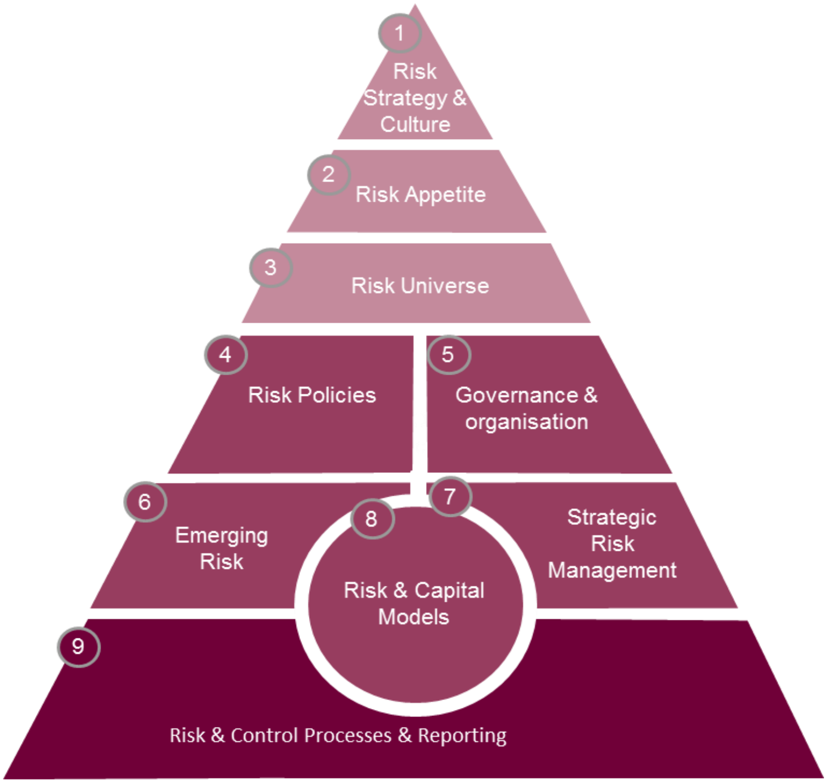
Key Board Decision	**SunLife Logo Update**
Link to strategic priorities	**How the Board reached its decision**
Enhance our operating model and culture.	CONSIDERATION OF S172 MATTERS The Board was asked to consider a proposal to update the current SunLife logo, which had been in use for approximately eight years. The Board recognised the need to update the logo in order to keep the brand feeling contemporary and relevant, and to optimise its use within digital media. As part of the decision-making process, the Board considered the financial impact of the proposed change, which was determined to be relatively small and was not expected to impact the Company in the long term. The directors also noted the action taken to protect the new logo as a trademark of the Company, which would ensure its proper use by authorised parties only and provide customers with continuing assurance that they were dealing with a business they could trust. Further, the proposed changes supported the Company's brand positioning of simplicity, which aligned to customer expectation in dealings with the Company.
Outcome	Following due consideration of the matters set out in section 172, the Board approved the new logo for SunLife Limited.
Key Board Decision	**Third Party Contract Extensions**
Link to strategic priorities	**How the Board reached its decision**
Enhance our operating model and culture.	CONSIDERATION OF S172 MATTERS The Board was asked to consider extension of a number of existing contractual arrangements for marketing, print and communications and lead generation and decide whether these should be renewed for a further term. On each occasion, they considered the financial impact of the proposed extensions, determining that they would not impact the Company in the long term. It also recognised that the proposed extensions would continue to provide a valuable mechanism to support SunLife growth. Specifically in respect of the lead generation arrangement, the Board noted that key customer metrics would continue to be monitored. In terms of ensuring high standards of business conduct continued to be met, the directors considered any risks associated with each renewal and where such were identified, how these would be managed.
Outcome	Following due consideration of the matters set out in section 172, the Board approved each of the proposals and delegated authority to the Company's Chief Executive to conclude negotiations.

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

Principal risks and uncertainties

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

The nine components of the Group's RMF are illustrated in the diagram below. Further details on each component are outlined in the Strategic Report of the Group's Annual Report and Accounts 2023.



The principal risks and uncertainties facing the Company are:

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

The risks noted above are discussed further in note 23.

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

26 March 2024

Directors' report

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

Corporate governance

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

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

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

Going concern

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

The Directors have followed the UK Financial Reporting Council's *"Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks" (issued April 2016)* when performing their going concern assessment. As part of their comprehensive assessment of whether the Company is a going concern, the Directors have considered cash flow and solvency forecasts for the Company for the period to 31 March 2025.

As a result of this review, the Directors believe the Company has adequate resources to continue in operational existence over the going concern period assessed up to 31 March 2025. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Directors

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

B Curran	(resigned 1 April 2023)
D Miller	
N Poyntz-Wright	
M Screeton	
C Williams	(appointed 1 April 2023)

Secretary

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

Matters disclosed in strategic report

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

Statement on Business Relationships

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

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

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

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

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

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

On behalf of the Board

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

26 March 2024

Statement of Directors' responsibilities

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

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

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

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

Independent auditor's report to the members of SunLife Limited

Opinion

We have audited the financial statements of Sunlife Limited for the year ended 31 December 2023 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 27, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period until 31 March 2025.

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to the reporting framework (UK adopted international accounting standards and the Companies Act 2006) and the relevant direct tax regulation in the United Kingdom. In addition, the Company is required to comply with laws and regulations relating to its operations, including health and safety, employees, anti-bribery and corruption and General Data Protection Regulation ('GDPR').
- We understood how the Company is complying with those frameworks by making inquiries with those charged with governance, internal audit and management to understand how the Company maintains and communicates its policies and procedures in these areas and corroborated this by reviewing supporting documentation. We also reviewed correspondence with relevant authorities.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address the risks identified by the entity and to prevent or detect fraud.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making inquiry of those charged with governance, management and internal audit for their awareness of any non-compliance of laws and regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers, inquiring about the Company's method of enforcing and monitoring compliance with such policies and inspecting significant correspondences with the regulators.

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

Use of our report

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

DocuSigned by:

Ernst & Young LLP

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Satty Khangura (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

28 March 2024

Statement of comprehensive income
for the year ended 31 December 2023

	Notes	2023 £000	2022 £000
Revenue	3	86,759	73,719
Interest income		2,006	457
Administrative expenses	4	(68,247)	(57,339)
Profit for the year before finance costs and tax		20,518	16,837
Finance costs	5	(31)	(33)
Profit for the year before tax		20,487	16,804
Tax charge	8	(4,800)	(3,204)
Profit for the year		15,687	13,600
Other comprehensive income		-	-
Total comprehensive income for the year		15,687	13,600

Statement of financial position
as at 31 December 2023

	Notes	As at 31 December 2023 £000	As at 31 December 2022 £000
Assets			
Property, plant and equipment	10	1,699	1,722
Deferred tax asset	11	105	56
Prepayments and accrued income	12	5,146	4,952
Contract assets	13	5,661	5,403
Other receivables	14	-	4,450
Cash and cash equivalents	15	48,796	41,856
Total assets		61,407	58,439
Liabilities			
Provisions	16	16,080	17,218
Accruals and deferred income	17	9,255	5,311
Lease liabilities	18	1,757	1,846
Other payables	19	4,026	3,662
Total liabilities		31,118	28,037
Equity			
Share capital	20	5,000	5,000
Retained earnings		25,289	25,402
Total equity		30,289	30,402
Total equity and liabilities		61,407	58,439

On behalf of the Board

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M Screeton
Director

26 March 2024

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

	Share capital (note 20) £000	Retained earnings £000	Total £000
At 1 January 2023	5,000	25,402	30,402
Profit for the year	-	15,687	15,687
Total comprehensive income for the year	-	15,687	15,687
Dividends paid on ordinary shares (note 9)	-	(15,800)	(15,800)
At 31 December 2023	5,000	25,289	30,289

Of the above, £25.3m (2022: £25.4m) is considered distributable.

	Share capital (note 20) £000	Retained earnings £000	Total £000
At 1 January 2022	5,000	44,302	49,302
Profit for the year	-	13,600	13,600
Total comprehensive income for the year	-	13,600	13,600
Dividends paid on ordinary shares (note 9)	-	(32,500)	(32,500)
At 31 December 2022	5,000	25,402	30,402

Statement of cash flows
for the year ended 31 December 2023

	Notes	2023 £000	2022 £000
Cash flows from operating activities			
Cash generated from operations	21	28,951	8,987
Tax paid		(5,714)	(379)
Net cash flows from operating activities		23,237	8,608
Cash flows from financing activities			
Ordinary share dividends paid	9	(15,800)	(32,500)
Interest paid	5	(31)	(33)
Repayment of principal lease liabilities	18	(466)	(442)
Net cash flows from financing activities		(16,297)	(32,975)
Net increase / (decrease) in cash and cash equivalents		6,940	(24,367)
Cash and cash equivalents at the beginning of the year		41,856	66,223
Cash and cash equivalents at the end of the year	15	48,796	41,856

Supplementary disclosures on cash flow from operating activities

	2023 £000	2022 £000
Interest received	2,006	457

Notes to the financial statements

1. Accounting policies

(a) Basis of preparation

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

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

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

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

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

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the going concern period assessed up to 31 March 2025. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Climate change

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

Statement of compliance

The financial statements of the Company for the year ended 31 December 2023 have been prepared in accordance with UK adopted international accounting standards.

(b) Critical accounting estimates and judgements

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

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

(c) Income tax

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

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

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

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

(d) Financial assets
Financial assets are measured at amortised cost where they have:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(h) Provisions and contingent liabilities

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

(i) Dividends

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

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

(j) Revenue recognition

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

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

(k) Interest income

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

(l) Share capital

Ordinary share capital

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

(m) Events after the reporting period

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

(n) Expense recognition

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

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

2. Financial information

The financial statements for the year ended 31 December 2023, set out on pages 14 to 33, were authorised by the Board of Directors for issue on 26 March 2024.

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

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

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

- Classification of Liabilities as Current and Non-current Liabilities with Covenants (Amendments to IAS 1 Presentation of Financial Statements) (1 January 2024): The initial amendments clarify, rather than change, existing requirements and aim to assist entities in determining whether debt and other liabilities with an uncertain settlement date should be classed as current or non-current. It is currently not expected that there will be any reclassifications as a result of this clarification.
  Further amendments were subsequently made which specify that covenants of loan arrangements which an entity must comply with only after the reporting date would not affect classification of a liability as current or non-current at the reporting date. However, those covenants that an entity is required to comply with on or before the reporting date would affect classification as current or non-current, even if the covenant is only assessed after the entity's reporting date. The amendments also introduce additional disclosure requirements. When an entity classifies a liability arising from a loan arrangement as non-current and that liability is subject to the covenants which an entity is required to comply with within twelve months of the reporting date, the entity shall disclose information in the notes that enables users of financial statements to understand the risk that the liability could become repayable within twelve months of the reporting period.
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16 Leases) (1 January 2024): The amendments relate to how a seller-lessee accounts for variable lease payments that arise in a sale and leaseback transaction. On initial recognition, the seller-lessee is required to include variable lease payments when measuring a lease liability arising from a sale-and-leaseback transaction. After initial recognition, they are required to apply the general requirements for subsequent accounting of the lease liability such that no gain or loss relating to the retained right of use is recognised. Seller-lessees are required to reassess and potentially restate sale-and-leaseback transactions entered into since the implementation.
- Supplier Finance Arrangements (Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures) (1 January 2024): The amendments add a disclosure objective to IAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, IFRS 7 was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk.

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

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

- Classification of Liabilities as Current and Non-current (Amendments to IAS 1);
- Non-current Liabilities with Covenants (Amendments to IAS 1); and
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16 Leases).

3. Revenue

	2023	2022
	£000	£000
Revenue from contracts with customers		
Business manufactured within PLL	85,043	72,275
Third party business	1,716	1,444
	86,759	73,719

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

The performance obligation in respect of these contracts is satisfied upon completion of the service. The consideration amount for certain contracts with third parties is variable and has been estimated using the expected value method, using lapse, funeral redemption and mortality assumptions based on historical experience. The amount of variable consideration included within third party business above is £258,000 (2022: £210,000).

4. Administrative expenses

	2023	2022
	£000	£000
Employee costs	8,427	6,534
Other operating expenses	48,048	40,748
Movement in provisions	11,275	9,674
Operating lease rentals	3	1
Depreciation on right-of-use asset (note 10)	494	382
	68,247	57,339

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

Other operating expenses consists of costs for advertising & promotion and IT supplier services.

Employee costs comprise:

	2023	2022
	£000	£000
Wages and salaries (including termination benefits)	6,958	5,335
Social security contributions	738	628
Other pension costs	731	571
	8,427	6,534

	2023	2022
	Number	Number
Average number of persons employed	116	100

5. Finance costs

	2023	2022
	£'000	£'000
Interest expense on lease liabilities	31	33

6. Directors' remuneration

	2023 £000	2022 £000
Remuneration (executive and non-executive Directors remuneration excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	653	757
Share option schemes and other long-term benefits	463	311

	2023 Number	2022 Number
Number of Directors accruing retirement benefits under:		
- a money purchase pension scheme	2	1
Number of Directors who had exercised share options during the year	-	-

	2023 £000	2022 £000
Highest paid Director:		
Remuneration	486	370
Long term benefits	210	114

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

7. Auditor's remuneration

The remuneration of the auditors of the Company in respect of the audit of the financial statements was £32,000 (2022: £30,000). In addition, audit related assurance services of £5,000 were incurred during the year (2022: £5,000).

8. Tax charge

Current year tax charge

	2023 £000	2022 £000
Current tax:		
UK Corporation tax	4,830	3,186
Adjustment in respect of prior years	19	18
Total current tax	4,849	3,204
Deferred tax		
Origination and reversal of temporary differences	20	7
Change in rate of UK Corporation tax	-	(7)
Adjustment in respect of prior years	(69)	-
Total deferred tax	(49)	-
Total tax charge	4,800	3,204

Reconciliation of tax charge

	2023 £000	2022 £000
Profit before tax	20,487	16,804
Tax at standard UK rate of 23.5% (2022: 19.0%)	4,814	3,193
Adjustment in respect of prior years	(50)	18
Deferred tax rate change	-	(7)
Share based remuneration	36	-
Total tax charge for the year	4,800	3,204

9. Dividends on ordinary shares

	2023 £000	2022 £000
Final dividend for 2023 at 316p (2022: 650p) per share	15,800	32,500

10. Property, plant and equipment

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

Property - right of use assets

	2023 £000	2022 £000
As at 1 January	1,722	2,004
Additions	377	-
Adjustments to leasehold property provision (note 16)	94	100
Depreciation expense (note 4)	(494)	(382)
As at 31 December	1,699	1,722

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

11. Tax assets and liabilities

	2023 £000	2022 £000
Deferred tax asset	105	56

Movement in deferred tax asset
Year ended 31 December 2023

	At 1 January £000	Prior year adjustments £000	Recognised in the Statement of comprehensive income £000	At 31 December £000
Provisions and other temporary differences	34	29	-	63
Accelerated capital allowances	22	-	(3)	19
Share schemes	-	40	(17)	23
	56	69	(20)	105

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

The UK corporation tax rate increased from 19% to 25% with effect from 1 April 2023. This was enacted on 10 June 2021. Deferred tax assets and liabilities, where provided, are reflected using hybrid rates determined by reference to the tax rate in force when the deferred tax items are released.

12. Prepayments and accrued income

	2023	2022
	£000	£000
Prepayments	1,149	1,011
Accrued Income	3,997	3,941
	5,146	4,952
Amount recoverable after 12 months	-	-

13. Contract assets

	2023	2022
	£000	£000
As at 1 January	5,403	5,193
New contract assets recognised	935	921
Contract assets derecognised	(677)	(711)
As at 31 December	5,661	5,403
Amount recoverable after 12 months	5,381	5,123

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

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

14. Other Receivables

	2023	2022
	£000	£000
Amounts due from parent company	-	4,450
	-	4,450
Amounts recoverable after 12 months	-	-

15. Cash and cash equivalents

	2023	2022
	£000	£000
Bank and cash balances	9,904	9,249
Short term deposits	38,892	32,607
	48,796	41,856

16. Provisions

	Commission clawback	Leasehold property	Gift Card	Other	2023 Total
	£000	£000	£000	£000	£000
At 1 January 2023	14,506	594	1,888	230	17,218
Additions in the year	29,811	-	11,181	21	41,013
Adjustment through ROU asset	-	94	-	-	94
Released in the year	(598)	-	-	-	(598)
Utilised during the year	(30,167)	-	(11,295)	(185)	(41,647)
At 31 December 2023	13,552	688	1,774	66	16,080

The commission clawback provision represents the expected future clawback of commission income as a result of assumed lapses of policies or associated benefits. The lapse assumptions are based on historical experience for appropriate lines of business, reflecting the maturity of each policy at 31 December 2023.

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

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

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

17. Accruals and deferred income

	2023	2022
	£000	£000
Accrued expenses	9,255	5,311
Amount due for settlement after 12 months	-	-

18. Lease liabilities

	2023	2022
	£000	£000
As at 1 January	1,846	2,288
Additions	377	-
Interest expense (note 5)	31	33
Payments	(497)	(475)
As at 31 December	1,757	1,846
Amount due after 12 months	1,182	1,397

Payments of £497,000 (2022: £475,000) consist of principal repayments of £466,000 (2022: £442,000) and interest expense of £31,000 (2022: £33,000).

Maturity analysis – contractual undiscounted cash flows

	2023	2022
	£000	£000
Not later than one year	596	474
Later than one year and no later than five years	1,193	1,413
	1,789	1,887

Lease commitments are in respect of Redcliff Quay which is office space leased by the Company. The leases commenced in March 2017 and expire in March 2027.

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

The total cash outflow for leases (including the cash outflow for low value leases) for the year ended 31 December 2023 was £500,000 (2022: £476,000).

19. Other payables

	2023 £000	2022 £000
Amounts due to parent company	1,121	-
Amounts due to fellow group companies	1,940	2,718
Other payables	965	944
	4,026	3,662
Amount due for settlement after 12 months	-	-

20. Share capital

	2023 £000	2022 £000
Authorised: 5,000,100 (2022: 5,000,100) ordinary shares of £1 each	5,000	5,000
Issued and fully paid: 5,000,002 (2022: 5,000,002) ordinary shares of £1 each	5,000	5,000

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

21. Cash flows

Cash flows from operating activities	2023 £000	2022 £000
Profit for the year before tax	20,487	16,804
Non-cash movements in profit for the year before tax		
Change in provisions	(1,138)	(7,157)
Depreciation of right of use asset	494	382
Interest on lease liabilities	31	33
Changes in operating assets and liabilities		
Change in other assets	3,527	815
Change in other liabilities	5,550	(1,890)
Cash generated from operations	28,951	8,987

The cash flow has been prepared using the indirect method.

22. Capital management

The Company’s capital comprises share capital and reserves. At 31 December 2023, total capital was £30,289,000 (2022: £30,402,000).

The Company is regulated by the FCA and is subject to regulatory capital regulations that specify the minimum amount of capital that must be held. The Company manages capital in accordance with these rules and has embedded in its processes the necessary tests to ensure continuous and full compliance with such regulations. The Company monitored and maintained net assets in excess of its regulatory capital throughout the period. At 31 December 2023, the amount of capital that the Company was required to hold was £2,528,000 (2022: £2,068,000) and the excess capital over that required was £27,761,000 (2022: £28,334,000).

The company produces a five year financial forecast as part of the Phoenix Group annual planning process, which was presented to the Company's Board in November 2023. This showed a positive profitability and maintenance of net assets of the company significantly in excess of the minimum capital requirements over the period.

23. Risk management

The Phoenix Group Risk Management Framework ("RMF") sets out the high-level arrangements for risk management, control and assurance within Phoenix Group and its subsidiaries. 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 2023 Annual Report and Accounts. It is designed to provide a structured approach for identifying, assessing, controlling and monitoring financial and non-financial risks within Phoenix Group companies, which includes the Company.

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

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

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

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

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

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

Capital management risk
Capital management is discussed in note 22.

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

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

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

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

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

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

Credit risk

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

Credit risk management practices

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

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

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

Financial Assets	**Note**	**External credit rating**	**Internal credit rating**	**ECL recognition**	**Gross carrying amount £000**	**Loss Allowance £000**	**Net carrying amount £000**
Contract assets	13	N/A	Performing	Lifetime ECL (simplified approach)	5,661	-	5,661
Cash and cash equivalents: Bank and cash balances	15	BBB	Performing	12 month ECL	9,904	-	9,904
Cash and cash equivalents: Short term deposits	15	AAA	Performing	12 month ECL	38,892	-	38,892

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

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

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

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

24. Share Based Payments

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

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

Share-based payment expense

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

	2023	2022
	£'000	£'000
Expense arising from equity-settled share-based payment transactions	27	36

Long-Term Incentive Plan ('LTIP')

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

Assuming no good leavers or other events which would trigger early vesting rights, the 2021, 2022 and 2023 LTIP awards are subject to performance conditions tied to the Group's performance in respect of net operating cash receipts, return on shareholder value, persistency and total shareholder return ('TSR'). The 2022 and 2023 LTIP also included a performance condition tied to the Group's performance on decarbonisation.

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

2023 LTIP awards were granted on 17 March 2023 and are expected to vest on 17 March 2026. The 2020 LTIP awards vested on 13 March 2023. The 2021 awards will vest on 12 March 2024 and the 2022 awards will vest on 18 March 2025. The number of shares for all outstanding.

The fair value of these awards is estimated at the average share price in the three days preceding the date of grant, taking into account the terms and conditions upon which the instruments were granted. The fair value of the LTIP awards is adjusted in respect of the TSR performance condition which is deemed to be a 'market condition'. The fair value of the 2021, 2022 and 2023 TSR elements of the LTIP awards has been calculated using a Monte Carlo model. The inputs to this model are shown below:
The inputs to this model are shown below:

	2023 TSR performance condition	2022 TSR performance condition	2021 TSR performance condition
Share price (£)	559.0	639.0	738.6
Expected term (years)	2.8	2.8	3.0
Expected volatility (%)	23	31	30
Risk-free interest rate (%)	3.31	1.21	0.14
Expected dividend yield (%)	Dividends are received by holders of the awards therefore no adjustment to fair value is required		

No Sunlife contracted employees were awarded LTIPs in 2023.

Each year, the Group issues a Chair's share award under the terms of the LTIP which is granted to a small number of employees in recognition of their outstanding contribution in the previous year. The awards are granted on the same dates as the core 2021, 2022 and 2023 LTIP awards. These grants of shares are conditional on the employees remaining in employment with the Group for the vesting period and achieving an established minimum good/good performance grading. Good leavers will be able to, at the discretion of the Remuneration Committee, exercise their full award at vesting.

Deferred Bonus Share Scheme ('DBSS')

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

The 2023 DBSS was granted on 17 March 2023 and is expected to vest on 17 March 2026. The 2020 DBSS awards vested on 13 March 2023. The 2021 awards are expected to vest on 12 March 2024 and the 2022 awards are expected to vest on 18 March 2025.

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

There were no Sunlife contracted employees were awarded DBSS in 2023.

Sharesave scheme

The sharesave scheme allows participating employees to save up to £500 each month for the UK scheme. The 2023 sharesave options were granted on 25 October 2023.

Under the sharesave arrangement, participants remaining in the Group's employment at the end of the three or five-year saving period are entitled to use their savings to purchase shares at a 20% discounted exercise price which is calculated using a three-day average share price immediately before invitations are issued to employees. Employees leaving the Group for certain reasons are able to use their savings to purchase shares if they leave prior to the end of their three or five-year period.

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

The following information was relevant in the determination of the fair value of the 2019 to 2023 UK sharesave options:

	2023 Sharesave	2022 Sharesave	2021 Sharesave	2020 Sharesave	2019 Sharesave
Share price (£)	4.448	6.142	7.486	5.664	6.800
Exercise price (£) (Revised)	3.780	5.090	5.890	4.970	5.610
Expected life (years)	3.10 and 5.10	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25
Risk-free rate (%) – based on UK government gilts commensurate with the expected term of the award	4.7 (for 3.10 year scheme) and 4.5 (for 5.10 year scheme)	2.0 (for 3.25 year scheme) and 1.9 (for 5.25 year scheme)	0.5 (for 3.25 year scheme) and 0.7 (for 5.25 year scheme)	0.5 (for 3.25 year scheme) and 0.5 (for 5.25 year scheme)	1.0 (for 3.25 year scheme) and 1.1 (for 5.25 year scheme)
Expected volatility (%) based on the Company's share price volatility to date	23.0	30.0	30.0	30.0	30.0
Dividend yield (%)	11.5	8.0	6.3	8.2	6.8

Movements in the year

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

	Number of share options 2023		
	LTIP	Sharesave	DBSS
Outstanding at the beginning of the year	9,584	64,858	17,512
Granted during the year	1,725	36,456	2,064
Forfeited during the year	(690)	(7,419)	-
Cancelled during the year	-	(9,066)	-
Exercised during the year	-	(12,794)	(11,144)
Outstanding at the end of the year	**10,619**	**72,035**	**8,432**

	Number of share options 2022		
	LTIP	Sharesave	DBSS
Outstanding at the beginning of the year	9,282	62,412	35,656
Granted during the year	1,729	22,418	-
Forfeited/cancelled during the year	-	(3,265)	-
Exercised during the year	(1,735)	(16,707)	(20,035)
Dividends on vested awards	308		1,891
Outstanding at the end of the year	**9,584**	**64,858**	**17,512**

The weighted average fair value of options granted during the year was £0.86 (2022: £1.19).

The weighted average share price at the date of exercise for the rewards exercised is £5.46 (2022: £6.13).

The weighted average remaining contractual life for the awards outstanding as at 31 December 2023 is 3.0 years (2022: 2.41 years).

25. Related party transactions

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

Administration
Phoenix Group Management Services Limited ("PGMS"), a fellow group company, provided administration services to the Company. The charge made to the Company for the year ended 31 December 2023 amounted to £970,000 (2022: £1,044,000) and at the end of the year £281,000 was payable (2022: £212,000 payable).

Transactions with PLL
Commission received from PLL for the year ended 31 December 2023 amounted to £99,382,000 (2022: £77,503,000). Commission paid to PLL for the year ended 31 December 2023 amounted to £nil (2022: £14,000).

Amounts receivable from PLL at the end of the year amounted to £nil (2022: £4,450,000). Amounts payable to PLL at the end of the year amounted to £1,121,000 (2022: £nil).

The Company has a provision for commission clawback payable to PLL at 31 December 2023 of £12,413,000 (2022: £13,300,000).

During the year ended 31 December 2023, the Company made payments totaling £225,000 (2022: £36,000) to PLL as reimbursement for VAT liabilities settled by PLL on behalf of the Company. The company received £nil (2022: £135,000) from PLL for VAT partial exemption refunds.

During the year ended 31 December 2023, the Company paid dividends to PLL of £15,800,000 (2022: £32,500,000).

Amounts due to / from fellow group companies
At 31 December 2023, an amount of £1,640,000 was payable to (2022: £2,507,000 receivable from) fellow group companies in respect of group tax relief. An amount of £19,000 (2022: £nil) was payable to fellow group companies in respect of an outstanding settlement for a prior year tax adjustment.

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

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

	2023 £'000	2022 £'000
Key management personnel and their close family members transactions with Pensions and Savings products sold by the Group:		
Contributions in the year	6	-
Disinvestments in the year	34	-
Value of investments at year end	2,354	2,243

26. Contingent liabilities

In the normal course of business, the Company is exposed to certain legal issues, which involve litigation and arbitration. At 31 December 2023, the Company had no known contingent liabilities.

27. Other information

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