Company Registration Number: 00959082

PHOENIX LIFE CA LIMITED
(formerly Sun Life Assurance Company of Canada (U.K.) Limited)

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2024

PHOENIX LIFE CA LIMITED

CONTENTS

PHOENIX LIFE CA LIMITED

STRATEGIC REPORT

The directors present the strategic report, their report and the financial statements of Phoenix Life CA Limited (formerly Sun Life Assurance Company of Canada (U.K.) Limited) (the company) for the year ended 31 December 2024.

The financial statements of the company for the year ended 31 December 2024 have been prepared in accordance with UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006.

Principal activities

The principal activities of the company are the provision of life assurance and pension products in the United Kingdom (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 Phoenix Group).

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

All Phoenix Group life company entities operate under the governance and risk management frameworks of the Group. The company, Phoenix Life Limited, ReAssure limited, ReAssure Life Limited, Standard Life Assurance Limited and Phoenix Life Assurance Limited (together “the life companies”) operate joint Boards of directors (the Board), 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, which is the UK’s largest long-term savings and retirement business. With around £290 billion of assets under administration in total, the Group offers c. 12 million customers a range of products through our trusted pensions, savings and life insurance brands. Our purpose is to help people secure a life of possibilities; from our customers, colleagues and investors to wider society, and our mission is to help everyone achieve the retirement they want and stay with them for the whole journey. The 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.

Corporate activity

<u>Change of name and rebranding</u>

Following the sale of SLF of Canada UK Limited and its subsidiaries, including the company, by Sun Life Financial Inc. to the Phoenix Group on 3 April 2023, the company continued to use the Sun Life brand in the UK under licence. In November 2024, the company was renamed Phoenix Life CA Limited, and a rebranding exercise to existing brands of the Group was completed ahead of the expiry of the licence to use the Sun Life brand in the UK in March 2025. This included the rebranding of the company’s life and pension plans to Phoenix Life and annuities in payment to Standard Life.

<u>Transitional services agreement (TSA) exit</u>

As part of the acquisition of the company by the Phoenix Group, a TSA was executed to allow certain services provided to the company by the Sun Life Financial Inc. group of companies to continue on a transitional basis. This relationship is subject to dedicated oversight and governance and there has been regular engagement through governance meetings and various workstreams to ensure the orderly migration or cessation of the services provided. The company exited these services at the end of the TSA on 3 January 2025 with the exception of one service relating to the servicing of small blocks of business that has been extended under provisions within the TSA. A plan is being defined to exit this remaining service.

<u>Climate change: activity in the year and future developments</u>

Climate change remains one of the greatest global challenges faced today. As a member of a purpose-led group, the company aims to play its part in delivering a net zero economy whilst delivering good outcomes for its customers Our actions are either directly or indirectly aligned with this goal. The primary drivers for our actions are to reduce customers’ exposure to climate-related risk and to help them take advantage of the opportunities presented by the net zero transition.

The company also recognises that nature loss and degradation is a material financial risk to its customers and the company is taking action to understand and address its dependencies and impacts on nature across its business.

Corporate activity (continued)

Climate change: activity in the year and future developments (continued)

We are scaling up our actions to drive wider system change and we strive to use our position of influence to bring about positive change in our investee companies. That's why we remain invested in high emitting sectors including oil and gas. We call this our 'engagement first' approach. In parallel we are on a journey to decarbonise our own operations and supplier base.

As part of the Group, the company has identified and assessed the impact of climate-related risks and opportunities on the business, strategy, and financial planning over short-, medium-, and long-term horizons. We have committed to being net zero by 2050 across our investment portfolio, operations and supplier base and have set near-term targets to help us to navigate our progress to meet our net zero ambition.

In 2023 the Group published its Net Zero Transition Plan which sets out its strategy in detail and the actions that the Group will take across the three core pillars: Invest, Engage and Lead to deliver our net zero targets. The application of the Net Zero Transition Plan is set by Group but considers its subsidiary companies, including the company, in their plan. The company continues to support the Group strategy on climate and build on the publicly disclosed climate metrics reported in its Task Force on Climate-related Financial Disclosures (TCFD) entity climate report under the Financial Conduct Authority (FCA) Environmental, Social & Governance (ESG) Sourcebook for the year ended 31 December 2023, released in June 2024. The regulatory deadline for publication of the company's TCFD entity climate report for the year ended 31 December 2024 is June 2025.

The company seeks to follow and apply the strategy, risk management, and climate governance framework set by the Group to ensure it can contribute and help support the Group to meet its Climate and Sustainability targets. The Group's understanding of climate and wider sustainability risks continues to evolve as new risks emerge, with nature increasing in its importance. As the Group looks to take steps to address nature risk, the Group framework in place for climate is expected to extend to consider climate and nature risks together.

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.

Regulatory developments

Solvency II as modified by the PRA's 2024 reforms (Solvency UK), came into full effect for the year ended 31 December 2024 following further changes from 2023 based on consultation feedback. The company continues to monitor changes in the regulatory environment and feedback on consultations both via the Group and industry bodies.

Key performance indicators (KPIs)

The results of the company for the year, as set out on page 26, show an IFRS profit for the financial year of £41.9 million (2023: £78.4 million). The total IFRS equity of the company at the year end was £151.4 million (2023: £154.9 million) and IFRS adjusted shareholders' equity, comprising total equity and the CSM (net of tax) was £265.3 million (2023: £275.1 million). IFRS adjusted shareholders' equity provides a more meaningful measure of the value generated by the company, including the value held in the contractual service margin (CSM) for insurance contracts.

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 2024 the company's Solvency II[1] own funds and excess of own funds over solvency capital requirement (SCR) were £296.7 million (2023: £297.0 million) and £130.8 million (2023: £122.8 million) respectively.

Dividends paid

The payment of dividends to Group is a strategic objective as 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 of £45 million were paid to the parent company during the year (2023: £103 million). The directors do not recommend the payment of a final dividend.

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[1] In the UK, Solvency II as modified by the PRA's 2024 reforms became effective from 31 December 2024. Solvency UK has been referred to in this document except for where referring to our Alternative Performance Measures, where we refer to Solvency II in line with the current PRA guidance and consistent with the name of the prudential regime in the PRA policy manual.

KPIs (continued)

Customer satisfaction score

The 2024 customer satisfaction score for the company was 97% (2023: 94%). This measure is based on a survey of 1,000 customers conducted on the company's behalf by Ipsos MORI, in response to the question, "thinking about the experience you received from us, would you recommend us to others?".

Speed of pension transfer payouts

This is a recognised industry measure, and the pensions transfer performance has contributed to the Group earning an accreditation with STAR, which is the industry initiative to improve pension transfers for customers. From July 2024 the company began to report on the speed of pension transfer payouts in line with the wider Phoenix Group criteria, and the average speed of pension transfer payouts was 13.7 calendar days across pension to pension and pension to annuity transfers, compared to the industry average of 11.9 days.

Financial ombudsman service (FOS) overturn rate

This is an independent view of how the company is handling complaints. The 2024 FOS overturn rate was 49% (2023: 36%), which is higher than the industry average of 35% and the Decumulation, Life and Pensions category average of 40%.

Operations

During the year the company has maintained a closed book of long-term life and pension and protection products.

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

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.

Directors' duties under Section 172 of the Companies Act

Section 172 of the Companies Act 2006 (Section 172) 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 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 most relevant to the company and its relationships with each are as follows. Please note that consideration of some stakeholder matters is undertaken at Group level. Where this is the case, such consideration is disclosed in the Group's annual report and accounts and accordingly the company has not reported on these matters in these individual financial statements.

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STRATEGIC REPORT (continued)

Directors' duties under Section 172 of the Companies Act (continued)

Strategic priorities key		
Optimise our in-force business	Grow organically and through mergers and acquisitions	Enhance our operating model and culture

Key stakeholder groups		
Customers	Suppliers	Colleagues
Our customers are individual life, pension and annuity policyholders within a closed book of business. The Board recognises its responsibility and duty to oversee the success of the company for all its customers.	We depend on our outsourced service providers (OSPs) to deliver the highest standards of service and continually promote good outcomes for all our customers. The Board understands that the quality of relationships we maintain and develop with our OSPs is core to the Group achieving its purpose of helping people secure a life of possibilities.	Our colleagues, engaged via Group service company arrangements 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.

Link to strategic priorities		
How has the Board engaged with and had oversight of stakeholder views during the year?		
The Board sought to understand whether customer needs were being met through consideration of regular reports on customer service, customer satisfaction and complaints. During the year, there were specific updates on the approach to consumer understanding and support, analysis on customer complaints, the ongoing post-acquisition integration of the company within the wider Group. The Board monitored the impact of the Group's change agenda, including resource required to maintain focus, and the potential impact on, customer outcomes.	The Board received regular reports from management on ongoing customer service performance and outsourced services. Relationships with OSPs were monitored via regular updates to the Board. The Board reviewed the outputs of operational resilience assessment activity, whose scope included a review of the company's OSPs. Bespoke updates on specific OSPs were provided to the Board during the year.	The Board monitored colleague-related matters throughout the year via the regular operational updates provided by management, with particular focus on the impact on colleagues of ongoing post-acquisition integration activity. The Board considered the forward-looking performance metrics proposed for the Group's Annual Incentive Plan with respect to customer performance.

The Board's role in promoting positive stakeholder relationships		
The Board holds management to account throughout the year, ensuring due care and attention is given to good customer outcomes and needs, especially in the context of ongoing data and platform migration work and projects to grow and develop the Group.	The Board monitors the performance of its OSPs to ensure Phoenix Group is able to provide the best customer outcomes to deliver its operational and financial targets. Positive relationships with OSPs are vital to the success of both parties.	The Group Board is responsible for setting cultural tone for all Group colleagues. However, the Board monitors engagement and other relevant colleague-related matters in recognition of their role in the ongoing success of the company.

Directors' duties under Section 172 of the Companies Act (continued)

Key stakeholder groups		
Community	Investors	Government, trade bodies & regulators
The most significant way in which we impact the community is through the investment decisions we make. The Board understands the value of building trust and inspiring confidence through sustainable and responsible investment. The Group also encourages all colleagues to support our local communities through volunteering.	The company's sole shareholder is Phoenix Life CA Holdings Limited. As a Phoenix Group company, the ultimate shareholder is Phoenix Group Holdings plc. The Board recognises the role it plays in driving growth to help the Group meet the needs of its customers.	The company is regulated by the Prudential Regulation Authority (PRA) and the FCA. The Board acknowledges the importance of maintaining positive relationships with the company's regulators to enable good outcomes for its customers.

Link to strategic priorities		
How has the Board engaged with and had oversight of stakeholder views during the year?		
The Board received regular reporting on its sustainable investments which is a core focus of its Board Investment Committee. The Board contributed towards development of the Group's Sustainability Strategy and Stewardship Policy for 2024 and beyond. The Board considered and provided feedback in relation to the company's 2023 Climate Report, in particular with respect to simplifying such reporting in future.	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 both the Group Chief Executive Officer (CEO) and Group Chief Financial Officer (CFO) were members of the Board, which further strengthened the link between the company and the Group. Updates on the Group Board's activity were provided within their regular reporting. During the year, the Board approved the payment of a dividend to the Group.	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 next phase of the FCA's Consumer Duty for closed products, including an additional meeting focused solely on readiness ahead of the 1 August 2024 go live date. At the request of the regulators, certain Board directors have met with representatives on a formal basis. The Board received feedback on the external interactions with Government and trade / industry bodies by the life companies CEO and the CEO, savings & retirement. The FCA attended sessions with the Board during the year.

The Board's role in promoting positive stakeholder relationships		
The Board, through its Investment Committee, monitors investment performance against agreed strategy within the wider parameters of the Group's Sustainability Strategy.	The Board maintains strong links with the Group through regular reporting and interaction with the Group Board and its committees and vice versa.	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 the company and the Group.

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STRATEGIC REPORT (continued)

Directors' duties under Section 172 of the Companies Act (continued)

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.

Example key Board decision	**With-Profits Bonus Recommendations**
Link to strategic priorities	**How the Board reached its decision**
	Consideration of section 172 matters The Board considered recommendations from the With-Profits Committee in relation to bonuses payable on its with-profits business. In doing so, it noted that the With-Profits Committee had satisfied itself that the recommendations continued to ensure the fair treatment of policyholders. It also acknowledged the likely consequences of the changes to bonus rates over the long term and how the impact of market changes would continue to be managed. As part of its deliberations, the Board noted the opinion of the With-Profits Actuary, which indicated support for the proposal and confirmed that the methods used to determine the bonuses were in line with the Principles and Practices of Financial Management, thereby ensuring high levels of business conduct were maintained.
Outcome	Following due consideration of the matters set out in Section 172 and the recommendation of the With-Profits Committee and advice of the With-Profits Actuary, the Board approved the bonus recommendations to apply from 1 April 2024.

Example key Board decision	**Consumer Duty implementation for closed products**
Link to strategic priorities	**How the Board reached its decision**
	Consideration of section 172 matters Alongside monitoring ongoing compliance with the FCA's Consumer Duty in respect of open products which was implemented in 2023, during 2024 the Board closely tracked the company's progress toward achieving compliance with the same in respect of closed products. This included receiving regular update reports and attending a standalone education session on the progress of the Group's Consumer Duty programme. As a final step it considered evidence to support the company's compliance with the Duty ahead of the 1 August 2024 go-live date. The Board reviewed work undertaken in relation each of the key dimensions of Consumer Duty, which included: how high priority actions had been addressed; how it would be embedded into business as usual activity; readiness of third party and outsourced service providers; a summary of an independent review of Customer Outcomes Monitoring; and a delivery roadmap for additional measures. It also sought specific assurance from management that appropriate funding was available to ensure delivery of product simplification activity associated with Consumer Duty compliance.
Outcome	Following due consideration of the matters set out in Section 172 and evidence presented, the Board approved a Defined Statement of Compliance in relation to closed book products and position against the specified target outcomes.

Directors' duties under Section 172 of the Companies Act (continued)

Example key Board decision	**Adoption of an Independent Governance Committee**
Link to strategic priorities	**How the Board reached its decision**
	Consideration of section 172 matters As part of the ongoing integration of the company's business into that of Phoenix Group, the Board reviewed arrangements in respect of oversight of the company's customers in contract-based schemes with group personal pension arrangements and the proposed adoption of the existing Phoenix Independent Governance Committee (IGC). In considering the proposal, the Board noted that now the company was part of the larger Phoenix Group, it was expected that the company would become aligned to existing Phoenix IGC arrangements and the criteria for determining the business that fell within scope. Doing so would ensure that the interests of the company's customers would continue to be appropriately overseen and high levels of business conduct were maintained.
Outcome	Following due consideration of the matters set out in Section 172, the Board approved the incorporation of the company's group personal pension arrangements into the scope of the Phoenix IGC.

Example key Board decision	**Payment of dividend**
Link to strategic priorities	**How the Board reached its decision**
	Consideration of section 172 matters The Board received a paper setting out in detail the company's actual and projected solvency and liquidity position, to enable it to assess the resources available for distributions to the Group. When considering the proposal, the Board paid due regard to the long-term impact of the decision, specifically in the context of capital and liquidity affordability. The Board also received comprehensive Line 2 assurance from the Risk function as to the appropriateness of the proposals. The Board recognised the importance of being able to provide assurance to the PRA as to its sound and prudent management of the company's business and noted that the proposals had taken into consideration the company's Consumer Duty and Solvency II obligations.
Outcome	Following due consideration of the matters set out in Section 172, the Board approved the payment of a dividend to the Group.

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, enabling the Board to pay due regard to such matters.

Business relationships with partners / suppliers

The service companies within the Group are the principal leads on maintaining relationships with suppliers with respect to their contractual obligations. In accordance with the PRA's Supervisory Statement SS2/21, the Board has oversight of the relationship with OSPs with respect to their delivery of services to customers. The Board's schedule of matters reserved includes the responsibility for monitoring the performance of management service provider contracts (including services contracted with OSPs).

Energy and carbon reporting

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

Risk management

Risk management framework

The company adopts the Phoenix Group's Risk Management Framework (RMF) and has a system of governance that embeds clear ownership of risk. The RMF supports the identification, measurement, assessment, management and reporting of risks within approved risk appetites. The Group has an established 'three lines of defence' model. Management (Line 1) is responsible for risk ownership and maintaining effective processes, procedures and controls; the Risk Function (Line 2) provides independent oversight and challenge; and Internal Audit (Line 3) provides objective assurance.

Periodic review of the RMF is an integral part of the system of governance in the Group and, in 2024, the Group adopted ways to further promote individual accountability. In 2025, the Group will look for further opportunities to streamline and augment the framework, including technology solutions that might help further simplify its operation across the Group. Any changes the Group choose to make will be considerate of the 2024 Corporate Governance Code in helping the Board to assess the effectiveness of the RMF.

All Non-Executive Directors receive an induction to the RMF from the Group CRO as part of their onboarding.

The components of the Group's RMF are outlined in the Strategic Report of the Group's Annual Report and Accounts 2024.

Risk environment

The Group continues to operate in an uncertain risk environment with multiple external factors requiring navigation to enable the Group to deliver on its strategic priorities.

Adverse market movements can impact the Group's capital, solvency, profitability and liquidity position, and influence the certainty and timing of future cash flows and long-term investment performance for shareholders and customers. Regular monitoring of market risk exposures in accordance with the Group Market Risk Policy supported by a hedging strategy helps to reduce the sensitivity of the Solvency II balance sheet to market shocks.

Regional conflicts, an uncertain political landscape and increased global economic fragmentation increase the risk of disruption to global supply chains and impacts to financial markets and the economy. The Group's Stress and Scenario Testing programme continues to consider a range of adverse circumstances to inform the Group, and its life companies of the actions needed to respond to external events and further enhance operational and financial resilience.

Bringing the business together into an efficient single Group-wide operating model is dependent upon execution of the Group's migration, transformation and cost efficiency programmes. The Group has prioritised these initiatives underpinned by strengthened governance to support controlled execution and delivery of intended benefits.

Severe disruption or failure of important business services exposes the Group to increased risk of harm to its strategic priorities, customer outcomes and, if prolonged, increased operating costs. The Group continues to implement measures to improve and embed operational resilience in-house and with its OSPs and critical third-party suppliers. This includes exploring opportunities arising from emerging technologies whilst ensuring the Group sustains appropriate focus on the Group's cyber defence capabilities.

Principal risks and uncertainties

A principal risk is a risk or combination of risks that could seriously affect the strategic objectives, future performance, or reputation of the Group, including risks that may threaten the Group's business model, solvency or liquidity.

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 2024. All seven Group principal risks are relevant to the company and are outlined in the sections that follow.

During 2024, 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; Sustainability; Operational; and Strategic. Sources of these risks, and an explanation of

Risk management (continued)

actions taken to manage risk exposures during the year are outlined in more detail in notes 27 and 28 of the financial statements.

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 and property markets, changes in interest rates, widening of credit spreads and the risk of corporate defaults.

The With-Profits fund is strong financially (i.e. the assets within the funds are sufficient for meeting its liabilities and capital requirements without requiring capital support from the company) and the risks, such as annuitant longevity and meeting policyholder guarantees, are unlikely to have a material adverse impact on the owners. Any losses arising in the With-Profits fund are, in the first instance, absorbed by reducing the discretionary benefits paid to policyholders. The company regularly tests the fund's capacity to absorb losses in this way. If there is a material risk that this capacity may become exhausted then a range of management actions may be taken to reduce the level of risk, including more closely matching assets and liabilities or reinsuring mortality, morbidity or 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 PRA. The Capital Management Framework is detailed in note 27.

Strategic risk – Strategic execution

1. The Group's, including the company, ability to meet its external obligations is adversely impacted by failure to execute key strategic programmes

Impact	Mitigating actions
Execution of migrations, transformation and cost efficiency programmes is essential to bringing the business together into an efficient single Group-wide operating model. In some cases, the Group, and the company, is reliant on its strategic partnerships with third parties to deliver these changes. These include, but are not limited to, investment management services, custody and fund accounting services and customer administration. Failure to prioritise and have the right capability and capacity (internally or at the third party) to deliver and execute these programmes on time and within agreed costs could negatively impact benefits assumed in the Group's business plan. It could also cause significant disruption to the operation of necessary business processes and controls; and the Group, including the company, is exposed to the risk of failing to deliver good outcomes for its customers, should failures occur in key programmes relevant to its products, propositions or service delivery	Throughout 2024, the Group has continued to enhance its Change Management Framework with strengthened governance to support the safe and controlled mobilisation and delivery of change. The Group has deprioritised some of its change initiatives to maintain focus on delivering the key programmes that support a single Group-wide operating model; and the Group have enhanced risk monitoring and contingency planning. The Supplier Management Model also has robust governance and engagement arrangements to manage relationships with the Group's strategic partners. This includes change prioritisation, capability and capacity planning. The Group continues to invest in its operating model to further strengthen the capability required to deliver and execute change effectively. Risk appetite, policies and standards for guarding against increased risk of potential harm to customer outcomes are embedded in the Risk Management Framework. As part of the work on Consumer Duty, this includes enhanced customer experience metrics and outcomes monitoring.

Risk management (continued)

Strategic risk – Geopolitical instability

2. The Group, including the company, is impacted by changes in customer behaviour, economic or political conditions including wider geopolitical instability

Impact	Mitigating actions
The Group's strategic priorities are adversely impacted by changing customer behaviours resulting from changes in the political landscape, employment trends and rising cost of living anxieties; and changing customer expectations on product simplicity and technology-based service solutions. The Group and the company, is exposed to disruption from geopolitical instability that could impact the profitability of products, the value and quality of investments and resilience of the Group's operating model. Escalation of regional conflicts and increasing protectionist policies can result in increased cyber-attacks, drive inflationary pressures due to global policy changes and supply-chain disruption, and impact the macroeconomic environment which may impact the balance sheet and new business.	The Group, and the company, has a continuous programme of customer research, customer outcomes monitoring and fair value assessments that were augmented as part of the Group's response to Consumer Duty. The Group continues to explore innovative solutions to improve and simplify the customer experience. This includes partnering with innovative start-ups, and providing user experience and technical delivery insight for product and service offerings. The Group continues to monitor activity in the global environment. It regularly explores the impacts of potential scenarios informed by its annual stress testing programme. This supports ongoing assessment of business model resilience and effectiveness of the potential courses of actions available to respond to events. Further information on operational resilience is provided in the resilience principal risk category below.

Sustainability risk

3. The Group, including the company, fails to understand and respond to risks associated with climate change and other ESG factors

Impact	Mitigating actions
The Group does not effectively manage material sustainability risks which could impede its ability to meet external commitments, including those in its Net Zero Transition Plan, and undermine its reputation. Climate risk is significant for both the Group and its customers. To reduce the physical impacts of climate risk, the global economy needs to transition to a low carbon economy. Whilst the Group is on track to meet its 2025 targets under most scenarios, there is a risk of not meeting its 2030 targets. The Group is taking direct action but meeting its ambition to be a net zero business by 2050 is becoming increasingly dependent on action by governments and the wider economy. Anti-climate headwinds in major economies are being monitored by Executive and Board Committees as they are likely to impact global progress in relation to climate change in the medium to long term, which makes the Group less certain about its ability to achieve its 2030 targets.	The Group has a clear sustainability strategy in place which includes its response to climate change. This policy is reviewed and refreshed annually. Climate change risk is integrated in the Group's RMF. The company leverages qualitative and quantitative scenario analysis to assess its risk exposure and has put in place a set of key sustainability risk metrics which are regularly monitored. There is ongoing focus on climate risk assessment by research and professional bodies. The Group also engages in constructive dialogue with both investee companies and asset management partners. The Group continues to engage with policymakers and market participants to inform its approach and actively drive the wider system change needed to address systemic climate and sustainability risks. In the short term, anti-climate headwinds are not expected to materially impact the company's management of investment portfolios as sustainability expectations are incorporated within investment management agreements.

Risk management (continued)

Operational risk – Resilience

4. The Group, including the company, or its partners are not sufficiently resilient

Impact	Mitigating actions
Severe disruption or failure in the provision of important business services, exposes the Group to increased risk of harm to strategic priorities, including delivering good customer outcomes. This increases the risk of reputational damage, regulatory censure and, if prolonged, increased operating costs.	The Group's Supplier Management Model has robust governance and engagement arrangements to manage relationships with its strategic partners and suppliers; and its Operational Resilience Framework is designed to prevent intolerable harm, and support compliance with the regulatory outcomes.
Such disruptions could occur in-house or at one or more of the Group's strategic partners or third parties on whom the Group and company is reliant for services, and can be triggered by a range of factors (such as cyber, geopolitical or environmental).	The Group has implemented solutions to further protect customers from harm in the event of severe but plausible scenarios. The Group is also continually exploring ways to strengthen its cyber security, IT disaster, recovery capabilities and to better equip the incident response teams.
	The company continues to work closely with its outsource partners, third and fourth party suppliers to ensure alignment of risk appetite on impact tolerances for operational resilience.
	The Group regularly reviews important business services to ensure the approved levels of resilience are maintained.

Operational risk – Regulatory and legislative environment

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

Impact	Mitigating actions
Changes in the regulatory or legislative environment could impact the products the Group writes, its distribution channels and the Group's capital requirements.	The Group operates a Regulatory Change Management Framework to ensure effective oversight of all regulatory developments.
Material new regulatory change or late identification of new regulations can compromise execution of key change programmes essential to the Group's strategic priorities which could negatively impact customer outcomes, the balance sheet and cause reputational damage.	The Framework ensures that there is proactive horizon scanning; awareness of and ownership for any change required at an early stage; that an impact assessment is completed; and appropriate governance is in place to oversee the execution of the change.
Incoming Solvency UK looks to better align prudential regulations with the UK's regulatory objectives post-Brexit. The Group expects further post-implementation guidance as the PRA evaluates the outcomes in 2025, the impact of further guidance on the balance sheet is uncertain.	The Group regularly engages with regulators and policymakers to listen and contribute to discussions on a wide range of matters, including those that could have market-wide and systemic risks. We will continue to monitor developments across the political and regulatory environment during 2025 and use its voice and experience to influence thinking.
	Sensitivity testing and scenario analysis of the Group's business model and balance sheet is used to consider potential strategies to respond to changes in regulations.
	In its 2023 Annual Report, the Group recognised the significant undertaking to achieve compliance with IFRS 17. During 2024, the Group continued its Finance transformation programme to further improve its IFRS 17 processes and investment will continue in 2025.

Risk management (continued)

Operational Risk – People

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	Mitigating actions
The Group requires talented, diverse and engaged people with the right skills and capabilities to deliver the strategy. In 2024, the Group transitioned to a new operating model aligned to business operations, supported by fully integrated finance, risk, human resources and change functions. Uncertainties emanating from this and any future refinements to the operating model, may increase the risk of unplanned losses in critical skills and corporate knowledge. There is a risk that it will be harder to recruit the right capability for specialised or business critical roles in a competitive market. This could increase the risk of disruption to business and customer processes and could adversely impact the delivery of critical business change programmes (such as migrations or transformation).	There is ongoing monitoring of the capability and capacity required to support key programme delivery and to ensure the operating environment remains stable. To attract and retain colleagues from all backgrounds, the Group has created a shared sense of purpose and commitment to its strategy. The Group offers competitive terms and conditions, benefits, and flexibility to foster colleague engagement which is monitored regularly through employee engagement surveys that track colleague sentiment and enable prompt intervention on areas of concern.

Financial markets risk

7. The Group, including the company, is exposed to adverse movements in the value of assets or liabilities caused by economic forces, downgrades or counterparty failures

Impact	Mitigating actions
Adverse market movements, downgrades and deterioration in the creditworthiness or default of investments, derivatives or banking counterparties can affect certainty and timing of future cash flows and long-term investment performance for the company and its customers. It increases the risk of immediate financial loss, and / or reduced capital, solvency, and liquidity positions that could affect meeting the strategic priorities.	The company has a well-defined risk appetite with appropriate risk limits and undertakes regular monitoring activities in relation to its market and credit risk exposures. It closely monitors and manages its excess capital position, and makes use of hedging, strategic asset allocation, portfolio trading and reinsurance to limit the risk sensitivity of the Solvency II balance sheet and surplus to market movements. The Group regularly monitors its counterparty exposures and has specific limits in place relating to individual counterparties, sector concentration, geographies and asset class. The Group operates a suite of controls over customer funds to ensure exposure to market risk is maintained within the customer's risk appetite. These controls include monitoring of investment manager and external fund performance, reviewing customer funds and making changes as required to manage market and investment risk.

On behalf of the Board

DocuSigned by:

Lindsey Hayden-Carey

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L Hayden-Carey
For and on behalf of Pearl Group Secretariat Services Limited
Company Secretary
14 May 2025

The company is incorporated in England and Wales. Its registration number is 00959082 and its registered office is 1 Wythall Green Way, Wythall, Birmingham, B47 6WG.

Corporate governance

The company adheres to the PRA's Supervisory Statement SS5/16, which sets out the principles as to how a PRA-regulated firm, such as the company, should govern itself if it is not a listed company and does not, therefore, fall within the remit of the UK Corporate Governance Code (the Code).

Within the guidelines of SS5/16, 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 a framework through which the Board is able to demonstrate that it runs the company with sound governance at its heart.

This framework is assessed, reviewed and challenged by the Board on at least an annual basis with evidence focusing on the following points. The findings of the review for 2024 are set out below. 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 each June for the Board to debate and challenge the strategy for the company and input to the overall Group strategy debate. The Chair of the company (or designated representative) is invited to attend the Group strategy sessions to provide the Board's feedback. A more refined view, developed into an Annual Operating Plan, is created for review and sign off at the beginning 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 to ensure that the more strategic items have sufficient time for review and challenge. During the year, the Board gave considerable focus and challenge to the implementation of the FCA's New Consumer Duty in relation to its closed products. Associated with this, the Board had significant input into how customer outcomes were assessed via metrics designed to understand the extent to which customers: • feel listened to; • are supported; • trust the business; • are able to understand and make informed decisions; • feel their needs are recognised; and • feel secure about the future. Further key matters discussed and challenged at the Board during the year were: liquidity headroom and the risks and opportunities associated with its management; the response to the PRA relating to its Supervisory Statement on Funded Reinsurance; the Group's Sustainability Strategy; and approval of a dividend payment to the Group.

Corporate governance (continued)

Aspect of Governance	Demonstrated by
Culture of risk awareness and ethical behaviour	The company operates within the overall Group RMF. As part of this, 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 during the year to the Risk Committee. The dashboard considers 15 specific objectives across Purpose, Psychological Safety and Diversity & Inclusion, Governance & Controls and Leadership with assessments based on a variety of inputs, including 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 CEO and their direct reports who are also Senior Management Function Holders). This ensures that these objectives promote an effective culture of risk awareness and ethical behaviour. In the same way, the Board was also engaged in the review of any bespoke remuneration plans for business units, and the targets to be included in the Group's Annual Incentive Plan with respect to customer performance, in advance of their consideration by the Group Remuneration Committee.
Risk appetite, risk management and internal controls	As described above, 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 (CRO) have access to the Chair of the Board and the Audit Committee to raise any concerns directly. In addition, the CRO has direct access to the Chair of the Risk Committee. 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	Board skills and associated succession planning are subject to annual review to ensure there is an appropriate mix of skills among the non-executive Board members. Our non-executive Board members are considered to have the required knowledge to effectively challenge management and to undertake their duties appropriately. In 2024, one new non-executive director was appointed, with Karin Cooke joining the Board on 1 May 2024. Non-executive directors, Amanda Bowe and Nick Poyntz-Wright, retired on 30 April 2024 and 31 December 2024 respectively. During 2024, there were also a number of executive director changes. Katherine Garner stepped down and Andy Briggs, Arlene Cairns and Rakesh Thakrar were appointed to the Board on 1 April 2024. Andy Curran and Brid Meaney were appointed on 9 April 2024 and 16 April 2024 respectively. Rakesh Thakrar and Brid Meaney then stepped down from the Board on 31 July 2024 and 19 August 2024 respectively. As a result of these changes, at the end of 2024 the Board comprised 6 non-executive directors (including the Chair) and 3 executive directors. Current Chair, John Lister, was considered independent on appointment to the role in 2021. There is a division of responsibility between the non-executive Chair, who is responsible for the leadership and effective operation of the Board, and the CEO, who is responsible to the Board for the overall management and operation of the company.

Corporate governance (continued)

Aspect of Governance	Demonstrated by
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. 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 have 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 Board is provided with regular education sessions to support any gaps in knowledge and to promote continuous professional development. During 2024, the Board received deep dives on the following topics: • Proposition Development Process; • New Consumer Duty: Approach to Consumer Understanding and Support; • Matching Adjustment Assumptions Attestation; • IFRS17; • Capital Quality Methodology; • Solvency II Reforms; • Ongoing development of strategic pension partnership arrangements; and • Pensions & Savings.
Board time and resource	The Board met for nine scheduled Board meetings in 2024, either in person or via video conference. A further six out of cycle meetings were held: one to consider the company's Solvency and Financial Condition Report and Solvency II Pillar 3 reporting prior to regulatory submission; one to consider the 2024 Annual Operating Plan; one to approve the appointment of the company's external auditor; one to approve the 2024 half year Solvency II results; one to review the response to Supervisory Statement 5/24; and one to consider the 2025 strategic financial business plan. 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. The Board Nomination Committee undertakes a review of the estimated time commitment required by a non-executive director to support the company's activities on an annual basis. For 2024, this was completed at its March meeting. Should a non-executive director be considering an additional external commitment, this is reviewed by the Board Nomination Committee and Board in advance, during which time it is confirmed that the time commitment required will not impact their availability for company matters.

Corporate governance (continued)

Aspect of Governance	Demonstrated by
Management information and transparency	Each Board meeting includes a formal CEO and other company officer reporting, together with other key MI reports (which includes Customer Treatment, Customer Complaints, Financial and Operational Capacity MI), as well as reports from the Board's committees. The Group CEO is also CEO of the company, further strengthening the link, through management representation, between the Group and life company Boards.
Succession planning	The performance of the CEO and their direct reports is considered at least annually in private sessions facilitated by the Group HR director with the non-executive directors during which more informal discussions on succession planning may take place. During 2024, the Board Nomination Committee considered non-executive director succession planning matters with particular reference to the forthcoming retirements of three Board members in late 2024 and in 2025. This review incorporated a skills audit exercise to support long term succession planning. The Board formally reviewed its Succession Policy in November 2024.
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 CEO).
Subsidiary boards	Within the scope of Board updates, there is the flexibility to consider the activities of the company's subsidiary company and a summary update of any activity of that subsidiary is provided on a six-monthly basis where appropriate. The Group CEO is an executive director of both the company and the Group, as was the Group CFO until he stepped down as a director of the company during the year. In the case of each individual, conflicts of interest were assessed for each agenda item and, where appropriate, they were recused from decision making at the meeting. The Phoenix life companies (of which the company is one) Board Matters Reserved clearly state those matters which are in the gift of the Board and those which require Group oversight, in support of balancing the obligations of the company within the context of the wider Group.
Board committees	The terms of reference of the committees of the Board of the company 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. Board Committee terms of reference have been assessed against activity undertaken and amended during the course of the year, as appropriate, to ensure corporate governance arrangements remained aligned to the Group operating model.

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 28 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 27 and 28 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.

The Annual Operating Plan sets out three year forecasts under base and stress scenario projections using a variety of stress scenarios and was approved by the Board on 21 November 2024.

The plausible downside scenario projections reflect the impact of market disruption over the forecast period, assuming a stress duration of one year from December 2024. The projection uses the below stress calibrations:

- 15bps increase in gilts spread rise
- 85bps increase in Credit – A rated 15 year
- 25bps increase in RPI inflation – 10 year
- GBP 5% up vs EUR on exchange GBP vs Euro
- GBP 10% up vs USD on exchange GBP vs USD
- One notch credit quality downgrade on 10% shareholder liquid / illiquid assets (excluding UK sovereign)
- 15% reduction in equities
- 17.5% reduction in commercial property

For the three year forecast period to which the downside scenario was applied, at all times the company is anticipated to maintain sufficient headroom to meet its Capital Management Policy (CMP) buffer over and above the SCR.

Stress testing has additionally been carried out against a market down 1-in-10, severe downside and other non-economic scenarios. The projections demonstrated that excess capital over the CMP would remain in the company under all scenarios at the scenario low points over the three year forecast period.

The company's CMP is set annually and was last approved by the Board in October 2024. The company's existing CMP buffer and calibrations remain robust and appropriate.

The company is anticipated to be able to meet headroom of liquid assets over projected cash flows including internally imposed liquidity buffers under base conditions, and also under a combined 1 in 200 stress scenario, supporting cash generation in the going concern period assessed up to 30 June 2026. Liquidity is considered to be adequate to meet liabilities as they fall due.

As a result of this review, the directors believe the company has adequate resources to continue in operational existence over the going concern period assessed up to 30 June 2026. 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	(resigned 30 April 2024)
A D Briggs	(appointed 1 April 2024)
A Cairns	(appointed 1 April 2024)
K A Cook	(appointed 1 May 2024)
I A Craston	
A B Curran	(appointed 9 April 2024, resigned 8 May 2025)
K A Garner	(resigned 1 April 2024)
J S Gill	
R Harris	
T W Harris	
J R Lister	
B M Meaney	(appointed 16 April 2024, resigned 19 August 2024)
M J Muir	(appointed 1 January 2025)
N H Poyntz-Wright	(resigned 31 December 2024)
R K Thakrar	(appointed 1 April 2024, resigned 31 July 2024)

Secretary

M F Hobbs acted as secretary until 1 April 2024. Pearl Group Secretariat Services Limited acted as secretary for the remainder of the year.

Matters disclosed in the strategic report

The strategic report covers future developments and any dividends paid.

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 have 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.

Auditor appointment

On 16 August 2024, Ernst & Young LLP resigned as auditors having reached the maximum period of service for an auditor of a Public Interest Entity under the mandatory auditor rotation requirements for another life company within the Group. In accordance with section 485 of the Companies Act 2006, KPMG LLP were 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. The appointment of KPMG LLP as auditor of the company was approved by the Board.

In accordance with section 487 of the Companies Act 2006, KPMG 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:
Lindsey Hayden-Carey
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L Hayden-Carey
For and on behalf of Pearl Group Secretariat Services Limited
Company Secretary

14 May 2025

PHOENIX LIFE CA LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the strategic report, the directors' report and the financial statements (together "the financial statements") in accordance with applicable UK law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK-adopted International Accounting Standards (IAS) and applicable law.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable, relevant and reliable;
- State whether they have been prepared in accordance with IAS;
- Assess the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF

PHOENIX LIFE CA LIMITED

1 Our opinion is unmodified

We have audited the financial statements of Phoenix Life CA Limited ("the company") for the year ended 31 December 2024 which comprise the income statement, statement of comprehensive income, statement of changes in equity, balance sheet, cash flow statement, and the related notes, including the accounting policies in notes (a) to (w).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2024 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 are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 7 October 2024. The period of total uninterrupted engagement is for the one financial year ended 31 December 2024. We have fulfilled our ethical responsibilities under, and we remain independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including 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. We summarise below the key audit matter in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

Key audit matter

Valuation of insurance contract liabilities, 2024: estimate of present value of future cash flows amounting to £3,626 million. Refer to pages 31 - 33 (accounting policies) and pages 56 - 80 (financial disclosures).

The risk	Our response
Subjective valuation The valuation of insurance contract liabilities is an inherently subjective area, requiring management judgement in the setting of key assumptions. The longevity, expense and discount rate assumptions involve the greatest level of subjectivity. A small change in these assumptions can have a significant impact on the estimates of future cash flows. **Longevity assumptions** Longevity assumptions have two main components: mortality base assumptions and the rate of mortality improvements. The changing trends in longevity and emerging medical trends mean there is a high level of uncertainty in the assumptions. This uncertainty is heightened due to the potential medium and long-term impacts of COVID-19, pressures on the NHS and the economic outlook. There is also a high degree of expert judgement in the investigation period for experience analysis, the use of industry experience and weighting when determining the base assumption, and the choice of CMI model used to derive the longevity assumptions.	We performed the tests below rather than seeking to rely on any of the company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. We used our own actuarial specialists to assist us in performing procedures over methodology choice and assumptions in this area. Our procedures to address the risk included: **Control design and implementation:** Testing of the design and implementation of key controls over the valuation process, including the setting of assumptions, for insurance contract liabilities. **Methodology choice:** Assessing the appropriateness of the methodology for selecting assumptions by applying our understanding of developments in the business and expectations derived from market experience, including consideration of the effects of uncertain economic conditions on policyholder longevity and credit risk.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF PHOENIX LIFE CA LIMITED (continued)

2 Key audit matters: our assessment of risks of material misstatement (continued)

The risk (continued)	Our response (continued)
Expense assumptions Judgement is required in setting the maintenance expense assumption which is based on management's long-term view of the expected future costs of administering the underlying policies and is also informed by expected inflation in costs and the allocation between cost centres and determination of costs that are directly attributable to the maintenance of insurance contracts. **Discount rate methodology including allowance for credit defaults and targeted asset mix** The company's current discount rates for its annuity portfolios are derived by applying an illiquidity premium to the risk-free rate. This illiquidity premium is determined based on the yield of a reference asset portfolio which has been adjusted for risks that are not present in the related insurance liabilities, in particular the risk of credit default. The credit risk deduction methodology is judgmental and small changes in this can have a significant impact on the present value of future cash flows. The assumptions surrounding this deduction require significant judgement and there is a risk that actual default experience and anticipated trends are not appropriately reflected. This is particularly significant during the current uncertain economic conditions of higher market interest rates and higher inflation. In addition, the reference portfolio is derived from a targeted asset mix, the selection of which is judgemental requiring consideration of current and future asset portfolios. There is a risk that errors in the calculation of the illiquidity premium could result in material misstatements in the valuation of insurance contract liabilities due to the complexity of the calculation and the reliance on complete and accurate asset data. **Policyholder data and asset data** There is a risk that incomplete data is used in the calculation of liabilities resulting from an error in the transfer of aggregate data from the policy administration systems into model point files used to value the liabilities in the actuarial models. In addition, there is a risk that inaccurate asset data is used to calculate the discount rates. **Estimation uncertainty** The effect of these matters is that, as part of our risk assessment, we determined that the valuation of insurance contract liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements disclose the sensitivities (notes 27 and 28) estimated by the company.	**Accounting analysis:** Assessing whether management's proposed methodology for determining the discount rate, and in particular the credit deductions and reference portfolios which underpin it, is consistent with the requirements of IFRS 17. **Historical comparisons:** Evaluating the longevity base assumptions used in the valuation of the liabilities by comparing to historic mortality experience. **Benchmarking assumptions:** Assessing longevity improvement assumptions against industry data on expected future mortality rate improvements and industry historical mortality improvement rates and assessing the appropriateness of the credit risk assumptions by comparing to industry practice and our expectations derived from market experience. **Test of detail**: • Evaluating whether the expense assumptions reflect the expected future costs of administering the underlying policies by considering the historical accuracy of management's forecast expenses, analysing the allocations of the forecast costs to directly attributable maintenance expenses with reference to the historical allocations and future plans; • Performing a full independent recalculation of illiquidity premium; • Evaluating the appropriateness of the discount rate assumption by deriving an independent reasonable range for the credit default allowance using a cost of capital approach which utilises market observable data; • Testing the completeness of data used in the valuation of insurance contract liabilities by reconciling the data from the policy administration systems to the data used in the actuarial models; • For a sample of assets, validating the accuracy of the asset data used to project the cashflows in deriving the yield on the calculation of the current discount rate. **Assessing transparency:** Considering whether the disclosures in relation to the assumptions used in the calculation of the valuation of insurance contract liabilities are compliant with the relevant accounting requirements and appropriately represent the sensitivities of these assumptions to alternative scenarios and inputs. **Our results** We found the resulting estimate of the valuation of insurance contract liabilities to be acceptable.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £4.6 million determined with reference to the benchmark of the company's IFRS adjusted shareholders' equity (shareholders' equity adjusted for the CSM net of tax), of which it represents 1.7%. Adjusting the company's IFRS shareholders' equity for CSM net of tax reflects the deferral of day 1 gains on annuity contracts, and so measures the ongoing value of the policies written to date and is a measure of solvency. We therefore consider IFRS adjusted shareholders' equity to be the most appropriate benchmark.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% of materiality of the financial statements as a whole, which equates to £3.0 million. We applied this percentage in our determination of performance materiality based on our expectation of an increased level of identified misstatements and driven by the level of change within the business and the potential for that to impact the control environment during the period.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.2 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

In addition, we applied a higher materiality for certain balances relating to the unit-linked business in the balance sheet, income statement and related notes, in accordance with FRC Practice Note 20 The Audit of Insurers in the United Kingdom. This is because changes in these balances are offset by changes in related balances such that the impact on the profit attributable to the shareholder is eliminated. For unit-linked assets and corresponding unit-linked liabilities, we applied materiality of £24.2 million determined with reference to a benchmark of total unit-linked assets, of which it represents 0.8%. Performance materiality was set at 65% of materiality which equates to £15.7 million. We applied this percentage in our determination of performance materiality based on our expectation of an increased level of identified misstatements and driven by the level of change within the business and the potential for that to impact the control environment during this period. We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.2 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The scope of the audit work performed was fully substantive as we did not rely upon the Company's internal control over financial reporting.

4 Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the company's available financial resources over this period were:

- Adverse impacts arising from fluctuations or negative trends in the economic environment including, but not limited to, interest rates and inflation, wider credit spreads, defaults and property price movements which affect regulatory capital solvency coverage ratios, liquidity ratios, and valuation of insurance contract liabilities; and
- Severely adverse policyholder lapse or claims experience.

We also considered less predictable but realistic second order impacts, such as political or policy changes as well as failure of counterparties who have transactions with the company (such as banks and reinsurers), which could result in a reduction of available financial resources.

We considered whether these risks could plausibly affect the liquidity and solvency in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of financial resources indicated by the company's financial forecasts.

We considered whether the going concern disclosure in note (a) to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks and related stress tests.

4 Going concern (continued)

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related 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 going concern period; and
- we found the going concern disclosure in note (a) to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the company will continue in operation.

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, Audit Committee, and Risk Committee minutes.
- Considering remuneration incentive schemes and performance targets for management.
- Using analytical procedures to identify any unusual or unexpected relationships.
- Inspecting correspondence with regulators to identify instances or suspected instances of fraud.
- Reviewing the audit misstatements from prior period to identify fraud risk factors.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit and solvency targets, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and exercise bias in accounting estimates and judgements such as the valuation of insurance contract liabilities.

We do not believe there is a fraud risk related to revenue because there is limited management judgement involved in the recognition and measurement of revenue streams.

We identified a fraud risk related to insurance contract liabilities. Further detail in respect of insurance contract liabilities is set out in the key audit matter disclosures in section 2 of this report.

We also performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included, but were not limited to, those posted by unauthorised personnel, those posted to seldom used accounts and which are linked to an estimate, those posted to cash accounts by users who usually do not post to cash accounts, and those which include unusual words in the description were identified as unusual or unexpected in our risk assessment procedures.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

5 Fraud and breaches of laws and regulations – ability to detect (continued)

As the company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies' legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the company's license to operate. We identified the following areas as those most likely to have such effect: regulatory capital and liquidity requirements, conduct regulation and certain aspects of company legislation recognising the financial and regulated nature of the company's activities.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the Audit Committee matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

<u>Context of the ability of the audit to detect fraud or breaches of law or regulation</u>

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal controls. Our audit procedures are designed to detect material misstatements. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6 We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF

PHOENIX LIFE CA LIMITED (continued)

7 We have nothing to report on the other matters on which we are required to report by exception (continued)

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 19, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

9 The purpose of our audit work and to whom we owe our responsibilities

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

S. Zaidi

Shozab Zaidi (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
14 May 2025

PHOENIX LIFE CA LIMITED

INCOME STATEMENT
For the year ended 31 December 2024

	Notes	2024 £'000	2023 £'000
Insurance revenue	1	**239,085**	253,633
Insurance service expenses	2	**(173,456)**	(203,759)
Insurance service result before reinsurance contracts held		**65,629**	49,874
Allocation of reinsurance premium	3	**(175,639)**	(181,417)
Amounts recovered from reinsurers	3	**153,016**	181,203
Net expense from reinsurance contracts held		**(22,623)**	(214)
Insurance service result		**43,006**	49,660
Investment return	4	**402,691**	517,974
Insurance finance (expense)	5	**(212,358)**	(367,460)
Reinsurance finance (expense) / income	6	**(3,090)**	35,800
Change in investment contract liabilities	29	**(175,954)**	(147,365)
Net investment result		**11,289**	38,949
Fee and commission income	7	**27,734**	29,051
Change in deferred income liability	31	**453**	(233)
Investment contract claims		**(1,615)**	(2,133)
Commissions		**(40)**	(35)
Change in deferred acquisition costs	15	**(251)**	420
Administrative and other expenses	8	**(25,919)**	(13,975)
Other revenue and expenses		**362**	13,095
Profit before tax		**54,657**	101,704
Tax attributable to policyholder's returns		**(7,368)**	(9,270)
Profit before tax attributable to shareholder's profits		**47,289**	92,434
Total tax (charge)	13	**(12,713)**	(23,340)
Less: tax attributable to policyholders' returns		**7,368**	9,270
Tax attributable to shareholder's profits		**(5,345)**	(14,070)
Profit for the year		**41,944**	78,364

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

PHOENIX LIFE CA LIMITED

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2024

	Notes	2024 £'000	2023 £'000
Profit for the year		**41,944**	78,364
Other comprehensive (loss) / income arising in the year:			
Items that will not be reclassified subsequently to income:			
Actuarial (loss) / gain on pension schemes	12(h)	**(587)**	181
Deferred tax on actuarial (loss) / gain on pension schemes	22	**147**	(45)
Other comprehensive (loss) / income net of tax		**(440)**	136
Total comprehensive income for the year		**41,504**	78,500

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

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2024

	Notes	Share capital £'000	Capital contribution £'000	Retained earnings £'000	Total £'000
At 1 January 2023		22,500	50,566	106,297	179,363
Profit for the year		-	-	78,364	78,364
Other comprehensive income		-	-	136	136
Dividend	14	-	-	(103,000)	(103,000)
At 31 December 2023		22,500	50,566	81,797	154,863
Profit for the year		**-**	**-**	**41,944**	**41,944**
Other comprehensive (loss)		**-**	**-**	**(440)**	**(440)**
Dividend	14	**-**	**-**	**(45,000)**	**(45,000)**
At 31 December 2024		**22,500**	**50,566**	**78,301**	**151,367**

PHOENIX LIFE CA LIMITED

BALANCE SHEET
At 31 December 2024

	Notes	**2024** **£'000**	2023 £'000
ASSETS			
Surplus assets in the staff pension scheme	12(b)	**15,125**	16,674
Reimbursement rights in staff pension scheme	12(c)	**1,667**	1,763
Deferred acquisition costs	15	**1,060**	1,311
Right-of-use assets	16	**94**	283
Investment property	17	**243,895**	259,400
Investment in subsidiary undertakings	18	**542**	511
Other financial assets	19	**6,693,209**	7,179,011
Reinsurance contract assets	26	**18,643**	28,396
Deferred tax assets	22	**30,355**	35,206
Current tax assets		**4,752**	5,229
Other receivables	23	**40,520**	21,810
Prepayments and accrued income	24	**34,599**	36,337
Cash and cash equivalents		**124,330**	121,738
Total assets		**7,208,791**	7,707,669
Equity attributable to equity shareholder of the company			
Called up share capital	25	**22,500**	22,500
Capital contribution		**50,566**	50,566
Retained earnings		**78,301**	81,797
Total equity		**151,367**	154,863
LIABILITIES			
Deficit in staff pension scheme	12(b)	**1,398**	1,608
Insurance contract liabilities	26	**4,000,836**	4,353,722
Reinsurance contract liabilities	26	**52,668**	37,292
Investment claims received but not yet settled		**13,231**	17,722
Investment contract liabilities	29	**2,899,341**	3,030,400
Provisions for other risks and charges	30	**3,273**	4,560
Deferred income liability	31	**1,943**	2,396
Deferred tax liability	22	**14,651**	6,756
Other payables	32	**70,083**	98,350
Total liabilities		**7,057,424**	7,552,806
Total equity and liabilities		**7,208,791**	7,707,669

The financial statements of Phoenix Life CA Limited (registered number 00959082) on pages 26 to 99 were approved by the Board and authorised for issue. They were signed on its behalf by:

DocuSigned by:

AD52068E2615406...

A Cairns
Director

14 May 2025

PHOENIX LIFE CA LIMITED

CASH FLOW STATEMENT
For the year ended 31 December 2024

	2024 £'000	2023 £'000
OPERATING ACTIVITIES		
Cash received from policyholders – insurance contracts	**37,683**	48,637
Cash received from policyholders – investment contracts	**6,733**	5,973
Risk reinsurance – net payments to reinsurers	**(393)**	(58,687)
Cash paid to policyholders – insurance contracts	**(517,845)**	(500,517)
Cash paid to policyholders – investment contracts	**(293,711)**	(274,355)
Commissions paid	**(41)**	(44)
Cash paid to service providers	**(60,221)**	(37,724)
Pension contributions paid by employer	**(127)**	(126)
Rental income	**12,496**	13,617
Interest received	**12,877**	13,595
Introduction fees received from third party annuity provider	**1,375**	1,183
Investment income on fixed interest securities	**70,825**	119,700
Investment income on equities and unit trusts	**113,644**	128,978
Amounts received in respect of derivative contracts	**8,744**	10,003
Net sales of investments	**655,095**	634,163
Cash from operations	**47,134**	104,396
Taxes paid	**657**	(17,725)
Net cash from operating activities	**47,791**	86,671
INVESTING ACTIVITIES		
Dividends received	**-**	152
Net cash from investing activities	**-**	152
FINANCING ACTIVITIES		
Dividends paid	**(45,000)**	(103,000)
Payment of lease liabilities	**(199)**	(200)
Net cash (used in) financing activities	**(45,199)**	(103,200)
Net increase / (decrease) in cash and cash equivalents	**2,592**	(16,377)
Cash and cash equivalents at beginning of the year	**121,738**	138,115
Cash and cash equivalents at end of the year	**124,330**	121,738

ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements for the year ended 31 December 2024, set out on pages 26 to 99 were authorised by the Board for issue on 7 May 2025.

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

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

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

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

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

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 and stress scenario projections. The plausible downside scenario projected market stress reflecting tighter credit conditions, a deep recession driven by a further short-term increase in inflation, falls in equities, properties, increased interest rates and credit spreads, a UK sovereign downgrade and credit asset downgrades during 2025. The projections demonstrated that excess capital would remain in the company under the plausible downside scenario, supporting cash generation in the going concern period to 30 June 2026, 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.

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

(b) Changes in accounting policies

New, amended and revised IFRS

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

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

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

- IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures' (amendments effective for reporting periods beginning on or after 1 January 2026). The amendments address specific matters identified during the post-implementation review of the classification and measurement requirements of IFRS 9 and are narrow in scope. The company does not expect that the adoption of these amendments will have any impact on the financial statements

- IFRS 18 'Presentation and Disclosures in Financial Statements' (effective 1 January 2027) replaces IAS 1 'Presentation of Financial Statements' and aims to provide greater consistency in the presentation of income and cash flow statements and more disaggregated information. The company expects there to be minor presentational changes only as a result of applying this new standard.

There were no other changes to the company's accounting policies during 2024.

(c) Use of judgements, estimates and assumptions

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

Critical accounting judgements

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

Key sources of estimation uncertainty

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

Source of uncertainty	Nature of uncertainty	Relevant accounting policy or note
Insurance contract assumptions and measurement	The valuation of insurance contract liabilities is sensitive to the assumptions which have been applied in their calculation. Economic assumptions are set taking into account market conditions as at the valuation date. Non-economic assumptions, such as future expenses, longevity and mortality are set based on past experience, market practice, regulations and expectations about future trends. The impact of climate risk on assumptions is a source of uncertainty but no specific adjustments have been made to the assumptions for this risk.	Accounting policy (e) Note 26 Insurance contract liabilities Note 27 Management of insurance and other non-financial risk
Staff pension schemes	The valuation of pension scheme liabilities is sensitive to the assumptions which have been applied in their calculation. Economic assumptions are set taking into account market conditions as at the valuation date. Non-economic assumptions, such as longevity and mortality are set based on past experience, market practice, regulations and expectations about future trends.	Accounting policy (k) Note 12 Staff pension schemes
Fair value of financial assets and liabilities	Financial instruments valued where valuation techniques are based on observable market data, including market sentiment regarding the effect of climate risk, 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. 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. The details of this sensitivity analysis are included in note 19.	Accounting policy (q) Note 19 Other financial assets
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. These valuations are in accordance with the Royal Institute of Chartered Surveyors (RICS) guidelines. Management makes an assessment to determine if these valuations will be adopted and if any valuation adjustments are required.	Accounting policy (n) Note 17 Investment property

(d) Contract classification

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

(d) Contract classification (continued)

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

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

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

Certain unit-linked contracts include optional insurance rider benefits which transfer insurance risk. For contracts for which the insurance rider benefits are material, the whole of the contract is classified as an insurance contract.

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

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

Measurement

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

Insurance revenue

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

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

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

Claims and investment components

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

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

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

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

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

Bonuses

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

Policyholder liabilities

The company has a variety of insurance contracts that include life, health, critical illness insurance sold to individuals and groups, annuities, and unit-linked products with and without guarantees. The company also holds reinsurance contracts that transfer longevity, mortality and other risks. Insurance contracts and investment contracts with discretionary participating features are determined in accordance with IFRS 17 and are included within insurance contract liabilities.

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

CSM amortisation

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

For insurance contracts, the number of coverage units in a group is the quantity of insurance contract services provided by the insurance contracts in the group, determined by considering, for each contract, the quantity of the benefits provided under a contract and its expected coverage period. For most groups, the number of coverage units is primarily based on amounts payable on death in each month; for annuities, the sum of monthly outgo is used; and for guaranteed annuity options (GAOs), the sum of monthly pre-vesting unit fund, monthly future cashflows and annuity payments vested since the current reporting period is used.

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

Risk mitigation option

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

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

(f) Non-profit investment contracts

Amounts received / paid

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

Deferred income liability

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

(f) Non-profit investment contracts (continued)

Deferred acquisition costs

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

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

Financial liabilities

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

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

(g) Expenses

Expenses recognised in the income statement comprise:

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

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

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

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

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

(h) Investment return and expenses

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

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

Dividends are included as investment income on the date that the shares become quoted ex-dividend.

(h) Investment return and expenses (continued)

Rental income from investment property is recognised in the income statement 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.

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

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

(i) Insurance finance income or expenses

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

(j) Lease contracts

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

Right-of-use assets

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

Lease liabilities

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

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

Lease term

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

(k) Pension costs

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

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

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

(k) Pension costs (continued)

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

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

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

The company was a participating employer under an approved master trust with Aegon UK plc until 30 September 2024 and thereafter with Phoenix Group Master Trust provided by Standard Life Assurance Limited. Employer contributions were paid on a monthly basis as a percentage of each employee’s pensionable salary to Aegon UK plc until 30 September 2024 and thereafter are paid to Standard Life Assurance Limited. The costs are charged to the income statement in the year in which they are payable.

(l) Taxation

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

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. The tax rates used are those that have been enacted or substantively enacted by the balance sheet date.

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

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

(m) Dividends

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

(n) Investment property

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

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

(o) Investment in subsidiary undertakings

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

(p) Recognition and derecognition of financial instruments

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

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

(q) Financial assets

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

Amortised cost

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

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

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

Fair value through profit or loss

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

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

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

(r) Impairment of financial assets

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

For these in-scope financial assets at the reporting date, either a lifetime ECL (the credit loss expected within the lifetime of the financial asset) or a 12-month ECL (the credit loss expected on the financial asset within 12 months from the reporting

(r) Impairment of financial assets (continued)

date) is provided for, depending on an assessment of whether the credit risk associated with the specific asset has increased significantly since initial recognition.

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

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

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

(s) Cash and cash equivalents

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

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

(t) Collateral in respect of over-the-counter (OTC) derivatives

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

(u) Deposits received from reinsurer

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

(v) Provisions

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

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

(w) Foreign currencies

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

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

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

PHOENIX LIFE CA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. INSURANCE REVENUE

	2024 £'000	2023 £'000
Expected claims and benefits	**177,174**	184,750
Expected directly attributable expenses	**20,725**	24,960
Risk adjustment for the risk expired	**7,107**	10,494
CSM recognised for services provided	**34,179**	33,550
Policyholder tax charges	**(100)**	(121)
	239,085	253,633

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

2. INSURANCE SERVICE EXPENSES

	2024 £'000	2023 £'000
Incurred claims and benefits	**(150,500)**	(179,133)
Incurred directly attributable expenses	**(22,956)**	(24,626)
	(173,456)	(203,759)

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

3. NET INCOME OR EXPENSE FROM REINSURANCE CONTRACTS HELD

	2024 £'000	2023 £'000
Allocation of reinsurance premiums paid:		
Changes in amounts recoverable for claims and other expenses incurred	**(156,521)**	(167,592)
Risk adjustment for the risk expired	**(3,968)**	(5,599)
CSM recognised for services provided	**(15,150)**	(12,526)
Changes related to past services	**-**	4,300
	(175,639)	(181,417)
Amounts recovered from reinsurers for incurred claims:		
Claims and benefits recovered	**147,034**	156,128
Directly attributable expenses recovered	**5,982**	8,003
Changes related to future services	**-**	17,072
	153,016	181,203
	(22,623)	(214)

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

4. INVESTMENT RETURN

	2024 £'000	2023 £'000
Investment income:		
Income from financial assets at fair value through profit or loss	**222,879**	247,784
Income from subsidiary undertakings	**-**	152
Rental income from investment property (note 17)	**12,711**	12,540
Net return on pension schemes (note 12(g))	**774**	752
	236,364	261,228
Net gains / (losses) on the realisation of investments:		
Financial assets at fair value through profit or loss	**173,053**	(69,895)
Investment property (note 17)	**290**	2,475
	173,343	(67,420)
Net unrealised (losses) / gains on investments:		
Financial assets at fair value through profit or loss	**15,831**	357,143
Investment property (note 17)	**(22,878)**	(33,019)
Investments in group undertakings (note 18)	**31**	42
	(7,016)	324,166
Total investment return	**402,691**	517,974

5. INSURANCE FINANCE INCOME / (EXPENSE)

	2024 £'000	2023 £'000
Changes in fair value of underlying items of contracts with direct participating features	**(226,796)**	(201,535)
Unwind of discount on FCF	**(81,685)**	(88,517)
Interest accreted on the CSM	**230**	4,110
Effect of changes in interest rates and other financial assumptions	**95,183**	(38,904)
Effect of changes to FCF at current rates less locked in rates	**710**	(42,614)
	(212,358)	(367,460)

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

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

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

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

The impact of the company's use of the risk mitigation option, as described in note 26, was to recognise £17.6 million (2023: £3.7 million) more insurance finance income and expense. Without the use of the risk mitigation option, the CSM would have increased by this amount. Noting that the risk mitigation adjustment made cannot exceed the movement in hedged liabilities, even if the movement in hedging assets is greater.

6. REINSURANCE FINANCE (EXPENSE) / INCOME

	2024 £'000	2023 £'000
Interest accreted on the CSM	**2,430**	1,092
Unwind of discount on FCF	**72,231**	78,524
Effect of changes in interest rates and other financial assumptions	**(80,516)**	(86,709)
Effect of changes to FCF at current rates less locked in rates	**2,765**	42,893
	(3,090)	35,800

7. FEE AND COMMISSION INCOME

	2024 £'000	2023 £'000
Fees from non-profit investment contracts:		
Asset based fees	**24,299**	25,600
Premium based fees	**2,060**	2,268
Introduction fees from third party annuity provider	**1,375**	1,183
	27,734	29,051

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

8. ADMINISTRATIVE AND OTHER EXPENSES

	2024 £'000	2023 £'000
Administrative expenses	**(13,231)**	(1,464)
Investment management expenses	**(13,072)**	(13,594)
Interest paid	**(9)**	(18)
Change in onerous contracts provision (note 30)	**393**	1,101
	(25,919)	(13,975)

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

On 3 April 2023, the company was acquired by the Phoenix Group. One the same day, the expense indemnity agreement between the company and its former parent undertaking, Sun Life Assurance Company of Canada (SLACC), was terminated giving rise to income of £17.9 million which is included within administrative expenses.

9. AUDITOR'S REMUNERATION

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

	2024 £'000	2023 £'000
Audit services:		
Fees payable to the company's auditor for the audit of the company's annual accounts	**(1,450)**	(906)
Non-audit services:		
Other services pursuant to legislation, including the audit of the regulatory return	**(290)**	(256)
Total Fees	**(1,740)**	(1,162)

9. AUDITOR'S REMUNERATION (continued)

Audit fees for 2024 are included within the monthly service charge from PGMS, audit fees for 2023 are included within the monthly service charge from Phoenix Group CA Services Limited, as detailed in note 8.

10. EMPLOYEE NUMBERS AND COSTS

The company has no direct employees. The contractual relationship with all employees was held by fellow subsidiary undertaking, Phoenix Group CA Services Limited, until 30 September 2024 and thereafter was held with PGMS.

11. KEY MANAGEMENT REMUNERATION

The company considers that only directors of the company meet the definition of key management. The non-executive directors that resigned on 30 September 2023, and the executive director that resigned on 1 April 2024 were employed by a fellow subsidiary undertaking, Phoenix Group CA Services Limited. The directors appointed from 1 October 2023 onwards, were employed by fellow group undertakings, PGMS or ReAssure UK Services Limited. 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. No such allocation in respect of the services of these directors was made in 2023.

	2024	2023
	£'000	£'000
Remuneration	**(324)**	(1,301)
Amounts receivable (excluding shares) under long-term incentive programmes	**(190)**	(331)
Contributions to money purchase pension plans	**(4)**	(9)
	(518)	(1,641)

The number of directors who:

	No.	No.
Accrue benefits under a money purchase pension scheme	**2**	1
Exercised share options during the year	**2**	-

Highest paid director:

	£'000	£'000
Remuneration	**(77)**	(965)
Amounts receivable (excluding shares) under long-term incentive programme	**-**	(331)
Contributions to money purchase pension schemes	**(2)**	(9)

During the year to 31 December 2024 key management personnel and their close family members contributed £47 thousand to pensions and savings products sold by the Group and transferred out £285 thousand of investments. At 31 December 2024, the total value of their investments in Group pensions and savings products was £3,156 thousand.

12. STAFF PENSION SCHEMES

The company operates two pension schemes, as outlined below.

Main scheme (approved)

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

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

12. STAFF PENSION SCHEMES (continued)

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

Unfunded scheme (unapproved)

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

Full actuarial valuations for funding purposes are not required for the unfunded plan. The most recent actuarial valuation for accounting purposes was carried out by Hymans Robertson LLP as at 31 December 2024. The scheme has no assets. The value of the liabilities was £1.4 million (2023: £1.6 million).

The company paid contributions of £0.1 million into the scheme during 2024 (2023: £0.1 million), which met the benefits paid out of the scheme during those respective years.

There is no current service cost (2023: £nil) for the scheme as there are no current employees in the scheme (2023: nil).

Master trust

The company was a participating employer of an approved master trust arrangement with Aegon UK plc until 30 September 2024 and thereafter with Phoenix Group Master Trust provided by Standard Life Assurance Limited. These are non-contributory defined contribution plans with employer contributions paid on a monthly basis as a percentage of each employee's pensionable salary.

Members can elect to pay into the scheme. If they choose to do this, then the company will match payments up to 2% of their pensionable salary. This is in addition to the standard employer contribution rate of 10%, 8% until 30 September 2024.

Risk exposure

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

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

(a) Principal assumptions

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

	2024	2023
Inflation assumption	**3.20%**	3.10%
Rate of increase in pensions in payment	**3.10%**	3.05%
Discount rate	**5.55%**	4.60%
Rate of revaluation of deferred pensions	**2.20%**	2.15%

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

The mortality assumptions used in the valuation of the company's defined benefit pension scheme liabilities have been selected to reflect the characteristics and experience of the membership of these schemes. The assumptions include an allowance for future mortality improvement, based on the actuarial profession's 2023 projection table with no weight on 2020 or 2021 experience, and with a long-term annual improvement rate of 1.50% tapering at older ages. The mortality assumptions, before adjustment for future mortality improvements, are consistent with those used in the most recent full actuarial valuation for funding purposes as at 31 December 2022. The table below shows the expected longevity at age 65 based on these mortality assumptions.

12. STAFF PENSION SCHEMES (continued)

	2024	2023
Longevity at age 65 for current pensioners:		
Men	**22.6 years**	22.6 years
Women	**24.5 years**	24.4 years
Longevity at age 65 for future pensioners (currently aged 45):		
Men	**23.1 years**	23.1 years
Women	**26.1 years**	26.1 years

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

	Change in assumption	**Impact on liabilities**	
		Main scheme	Unfunded scheme
Discount rate	Decrease by 0.25%	Increase by £7.2m	Increase by £0.0m
Life expectancy	Decrease by 1 year	Decrease by £(6.3)m	Decrease by £(0.1)m
Rate of inflation	Increase by 0.25%	Increase by £5.3m	Increase by £0.0m

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

(b) Assets in the scheme

	Value at 31 December 2024 £'000	2023 £'000
Main scheme		
Debt instruments	**28,579**	36,298
Cash and cash equivalents	**7,578**	3,938
Qualifying insurance contracts	**230,930**	256,842
Total market value of assets	**267,087**	297,078
Present value of scheme liabilities	**(251,962)**	(280,404)
Surplus in the scheme	**15,125**	16,674
Related deferred tax liability (note 22)	**(3,750)**	(4,169)
Net pension asset	**11,375**	12,505

The majority of debt instruments have quoted prices in active markets. Of the debt security assets, 99.68% (2023: 99.72%) of these assets are in investment grade bonds and 99.98% (2023: 99.85%) are rated AA and above.

Unfunded scheme		
Present value of scheme liabilities	**(1,398)**	(1,608)
Deficit in the scheme	**(1,398)**	(1,608)
Related deferred tax asset (note 22)	**347**	402
Net pension liability	**(1,051)**	(1,206)

12. STAFF PENSION SCHEMES (continued)

(c) Reimbursement rights in the scheme

	Value at 31 December	
	2024	2023
	£'000	£'000
Main scheme		
Market value of reimbursement rights	**1,667**	1,763
Related deferred tax liability (note 22)	**(413)**	(441)
Net market value of reimbursement rights	**1,254**	1,322

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

(d) Reconciliation of present value of scheme liabilities

	Main scheme		Unfunded scheme	
	2024	2023	**2024**	2023
	£'000	£'000	**£'000**	£'000
At 1 January	**280,404**	286,769	**1,608**	1,805
Interest cost	**12,899**	13,252	**74**	83
Gain on settlement	**(283)**	-	**-**	-
Benefits paid	**(15,047)**	(14,280)	**(127)**	(126)
Actuarial (gain) – demographic assumptions	**(626)**	(4,899)	**(6)**	(109)
Actuarial loss / (gain) – experience	**2,071**	(4,015)	**(44)**	(71)
Actuarial (gain) / loss – financial assumptions	**(27,456)**	3,577	**(107)**	26
At 31 December	**251,962**	280,404	**1,398**	1,608

The weighted average duration of the defined benefit scheme liabilities at the end of the reporting period is 11.7 years (2023: 12.8 years).

(e) Reconciliation of fair value of scheme assets

	Main scheme		Unfunded scheme	
	2024	2023	**2024**	2023
	£'000	£'000	**£'000**	£'000
At 1 January	**297,078**	302,476	**-**	-
Interest income	**13,666**	13,998	**-**	-
Return on scheme assets less interest income	**(26,749)**	(5,285)	**-**	-
Administration costs	**(1,476)**	-	**-**	-
Effect of settlement	**(556)**	-	**-**	-
Benefits paid	**(14,876)**	(14,111)	**(127)**	(126)
Contributions paid by employer	**-**	-	**127**	126
At 31 December	**267,087**	297,078	**-**	-

The actual return on the assets in the main scheme in the year was a loss of £(13.1) million (2023: gain of £8.7 million).

12. STAFF PENSION SCHEMES (continued)

(f) Reconciliation of reimbursement rights

	Main scheme	
	2024	2023
	£'000	£'000
At 1 January	**1,763**	1,868
Interest income	**81**	89
Actuarial loss	**(6)**	(25)
Benefits paid	**(171)**	(169)
At 31 December	**1,667**	1,763

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

	Main scheme		Unfunded scheme	
	2024	2023	**2024**	2023
	£'000	£'000	**£'000**	£'000
Net income / (interest) on net defined benefit asset / (liability)	**767**	746	**(74)**	(83)
Net income on reimbursement rights	**81**	89	**-**	-
Net return	**848**	835	**(74)**	(83)

(h) Amounts charged to expenses

	Main scheme	
	2024	2023
	£'000	£'000
Administration costs	**(1,476)**	-
Settlement of net defined benefit asset	**(273)**	-
Net return	**(1,749)**	-

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

	Main scheme		Unfunded scheme	
	2024	2023	**2024**	2023
	£'000	£'000	**£'000**	£'000
Return on scheme assets less interest income	**(26,749)**	(5,285)	**-**	-
Experience (loss) / gain arising on the scheme liabilities	**(2,071)**	4,015	**44**	71
Changes in demographic assumptions	**626**	4,899	**6**	109
Changes in assumptions underlying the present value of the scheme liabilities	**27,456**	(3,577)	**107**	(26)
Actuarial loss on reimbursement rights	**(6)**	(25)	**-**	-
Actuarial (loss) / gain in pension plan	**(744)**	27	**157**	154

12. STAFF PENSION SCHEMES (continued)

(j) Movement in surplus during the year

	Main scheme		Unfunded scheme	
	2024	2023	**2024**	2023
	£'000	£'000	**£'000**	£'000
Surplus / (deficit) in scheme at 1 January	**16,674**	15,707	**(1,608)**	(1,805)
Movement in year:				
Contributions paid by employer	**-**	-	**127**	126
Administration costs	**(1,476)**	-	**-**	-
Gain on settlement	**(273)**	-	**-**	-
Benefits in respect of reimbursement rights	**171**	169	**-**	-
Net income / (interest) on net defined benefit asset / (liability)	**767**	746	**(74)**	(83)
Actuarial (loss) / gain	**(738)**	52	**157**	154
Surplus / (deficit) in scheme at 31 December	**15,125**	16,674	**(1,398)**	(1,608)

13. TAXATION

UK corporation tax has been charged in the income statement on assessable income, based on the legislation as it applies to life assurance companies. For 2024, the tax rate of 20% is applied to I-E income and a rate of 25% is applied to the trade profits not covered by losses. Under UK adopted IAS, deferred tax is calculated using rates substantively enacted by the balance sheet date and as such, differing rates of tax between 20% and 25% have been taken into account in the closing deferred tax balances depending on the enacted rate in force at the projected time of utilisation.

The Organisation for Economic Co-operation and Development introduced Global Anti-Base Erosion Model Rules (Pillar Two) to ensure multinational enterprises pay a minimum level of tax (15%) on the income arising in each of the jurisdictions where they operate. During 2023, the UK has enacted tax legislation in respect of Pillar Two and the company, as a subsidiary of the Group, was within the scope of the rules from 1 January 2024.

(a) Tax charged to the income statement

	2024	2023
	£'000	£'000
Current taxation:		
UK corporation tax at 25.00% (2023: 23.52%)	**1,397**	12,973
Overseas tax	**608**	847
Adjustments in respect of prior periods	**(2,185)**	(868)
	(180)	12,952

	2024	2023
	£'000	£'000
Deferred taxation:		
Origination and reversal of temporary differences	**10,101**	14,167
Adjustments in respect of prior periods	**2,792**	765
Tax rate change	**-**	1,300
Change in the value of losses recognised	**-**	(5,844)
	12,893	10,388
Total tax charge	**12,713**	23,340

13. TAXATION (continued)

(b) Factors affecting the charge for the year

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

	2024 £'000	2023 £'000
Profit before tax	**54,657**	101,704
Profit before tax multiplied by the standard UK corporation tax rate of 25.00% (2023: 23.52%)	**13,664**	23,921
Effects of:		
Overseas tax	**608**	847
Adjustments in respect of prior periods	**607**	(103)
Tax rate change	**-**	1,300
Change in the value of losses recognised	**-**	(5,844)
UK tax basis for the taxation of life business	**(2,122)**	3,219
Other	**(44)**	-
Total tax charge	**12,713**	23,340
Attributable to:		
Policyholders	**7,368**	9,270
Shareholder	**5,345**	14,070
Total tax charge	**12,713**	23,340

14. DIVIDENDS

	2024 £'000	2023 £'000
Ordinary shares:		
Interim dividend paid = 200.0p (2023: 457.8p) per £1 ordinary share	**45,000**	103,000

15. DEFERRED ACQUISITION COSTS

	2024 £'000	2023 £'000
At 1 January	**1,311**	891
Amortisation charged to the income statement	**(251)**	(183)
Charge in the year	**-**	603
At 31 December	**1,060**	1,311

Included in the carrying values above, £0.2 million (2023: £0.2 million) is expected to be amortised within 12 months of the balance sheet date and is classified as current. The balance relates entirely to acquisition costs arising from non-profit investment contracts.

16. RIGHT-OF-USE ASSETS

	2024 **£'000**	2023 £'000
Land and buildings:		
At 1 January	**283**	-
Depreciation charged to the income statement	**(188)**	(189)
Lease modifications	**(1)**	472
At 31 December	**94**	283

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

17. INVESTMENT PROPERTY

	2024 **£'000**	2023 £'000
Fair value at 1 January	**259,400**	294,900
Purchase and capital expenditure	**9,930**	1,580
Disposal	**(2,847)**	(6,536)
Change in fair value (note 4)	**(22,588)**	(30,544)
Fair value at 31 December	**243,895**	259,400

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

The property portfolio is managed by a specialist fund manager, Aberdeen Asset Managers Limited, who employ an independent third-party specialist valuation agent, Savills (UK) Limited. All land and buildings were valued as at 31 December 2024.

Property is valued in accordance with the Royal Institution of Chartered Surveyors' (RICS) Valuation – Global Standards, incorporating the International Valuation Standards, effective from 31 January 2022 and, where applicable, with the UK National Supplement effective 1 May 2024 (together the RICS Red Book).

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

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

As at 31 December 2024, there were four properties under offer with a total value of £42.2 million. The sale of two of these properties completed in January 2025 with a further sale completing in February 2025, realising the expected sale prices of £34.6 million.

	2024 **£'000**	2023 £'000
Rental income from investment property	**12,711**	12,540
Operating expenses from income producing investment property	**(2,672)**	(1,444)
Operating expenses from non-income producing investment property	**(621)**	(2,269)
Net income from investment properties	**9,418**	8,827

18. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

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

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

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

	Cost £'000	Revaluation £'000	Fair value £'000
At 1 January 2023	2,310	(1,841)	469
Change in year	-	42	42
At 31 December 2023	2,310	(1,799)	511
Change in year	**-**	**31**	**31**
At 31 December 2024	**2,310**	**(1,768)**	**542**

During the year, the company received dividends of £nil from Barnwood Properties Limited (2023: £0.2 million), resulting in a write down in value of £nil (2023: £0.2 million) included in the change in year above.

19. OTHER FINANCIAL ASSETS

(i) Financial assets at fair value

	2024 £'000	2023 £'000
Financial assets mandatorily held at fair value through profit or loss:		
Shares and other variable yield securities, including holdings in collective investment schemes	**4,157,834**	4,310,513
Debt and other fixed income securities	**2,518,478**	2,827,652
Derivative financial assets	**16,897**	40,846
Total financial assets at fair value	**6,693,209**	7,179,011

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

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

	2024 £'000	2023 £'000
Within one year	**184**	3,339
In more than one year	**-**	184
Total	**184**	3,523

(ii) Determination of fair values and fair values hierarchy

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

19. OTHER FINANCIAL ASSETS (continued)

Quoted market prices in active markets – 'level 1'

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

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

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

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

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

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

Assets are categorised as level 3 where fair value is based on valuation techniques that require one or more significant unobservable inputs. These unobservable inputs reflect the company's expectations about the assumptions market participants would use in pricing the asset or liability. The company closely monitors the valuation of assets in markets that have become less liquid. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. Market inputs are used where possible, however where it is determined that there is no active market, fair value is determined based on cash flow models with gilt yield curves and credit spreads from the Merrill Lynch Non-Gilt Index as key inputs, and adjusted by a margin for illiquidity. Whilst such valuations are sensitive to estimates, adjustment to one or more of the assumptions would generally not change the fair value significantly.

Level 3 assets include illiquid bonds and property investments.

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

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets at 31 December 2024				
Shares and other variable yield securities	4,157,834	-	-	4,157,834
Debt and other fixed income securities	768,430	1,463,748	286,300	2,518,478
Derivative financial assets	3,723	13,174	-	16,897
Investment property	-	-	243,895	243,895
	4,929,987	1,476,922	530,195	6,937,104

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Liabilities at 31 December 2024				
Deposits received from reinsurer (note 26)	1,460,338	-	-	1,460,338
Investment contract liabilities – unit-linked (note 29)	2,599,975	164,502	130,114	2,894,591
Derivative liabilities (note 32)	-	44,976	-	44,976
	4,060,313	209,478	130,114	4,399,905

During the year, the level applied to private debt securities, within debt and other fixed income securities, has been updated to align with Phoenix Group practice recording these assets as level 3, previously level 2.

19. OTHER FINANCIAL ASSETS (continued)

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

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

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

	Debt and other fixed income securities £'000	**Investment property £'000**
Opening balances at 1 January 2024	5,902	259,400
Transfers into level 3	**299,302**	-
Gains and (losses) recognised in profit or loss	**(15,326)**	**(22,588)**
Purchases / increases in the year	**11,235**	**9,930**
Disposals / reductions in the year	**(14,813)**	**(2,847)**
Closing balances at 31 December 2024	**286,300**	**243,895**

During the year, £299.3 million of debt and other fixed income securities were transferred to level 3, to align with Phoenix Group policies relating to significance of unobservable inputs.

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

	Valuation technique	**Significant inputs**	**Key unobservable input value 2024**	2023
Investment property	RICS valuation	Expected market rent / sq ft	**£18.24**	£16.85
		Capitalisation rate	**6.05%**	5.78%
Debt and other fixed income securities	Discounted cash flow model	Credit spread	**150.4bps**	130.3bps

19. OTHER FINANCIAL ASSETS (continued)

	2024 £'000	2023 £'000
Sensitivities of asset valuations		
Investment property		
5% increase in market rent	**14,155**	12,400
5% decrease in market rent	**(12,895)**	(12,000)
25bps increase in yield	**(11,845)**	(13,700)
25bps decrease in yield	**12,205**	15,200
Debt and other fixed income securities		
65bps increase in credit spread	**(12,401)**	(332)
65bps decrease in credit spread	**11,376**	372

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

For the year to 31 December 2024, there have been no transfers between fair value hierarchy levels 1 and 2.

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

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

Transfers into and out of level 3 are detailed in the table above. The transfers arose as a result of alignment to Phoenix Group levelling for private debt securities.

20. ASSETS HELD TO COVER LINKED LIABILITIES

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

	2024 £'000	2023 £'000
Investment property	**220,148**	234,889
Financial assets at fair value through profit or loss:		
Shares and other variable yield securities and units in unit trusts	**4,074,982**	4,226,433
Debt and other fixed income securities	**545,450**	590,665
Cash and cash equivalents	**57,650**	51,793
Investment income due and accrued	**8,057**	9,662
Other receivables	**-**	241
Other payables:		
Other liabilities	**(4,627)**	(5,839)
Current tax liabilities	**(930)**	(487)
Deferred tax liabilities	**(21,795)**	(16,715)
	4,878,935	5,090,642

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

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

20. ASSETS HELD TO COVER LINKED LIABILITIES (continued)

	2024 **£'000**	2023 £'000
Insurance contract liabilities	**1,984,344**	2,064,296
Investment contract liabilities (note 29)	**2,894,591**	3,026,346
	4,878,935	5,090,642

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

21. ASSETS HELD TO COVER WITH-PROFITS LIABILITIES

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

	2024 **£'000**	2023 £'000
Investment property	**23,747**	24,511
Financial assets at fair value through profit or loss:		
Shares and other variable yield securities and units in unit trusts	**82,363**	83,594
Debt and other fixed income securities	**153,860**	181,776
Cash and cash equivalents	**6,405**	8,816
Investment income due and accrued	**2,209**	2,494
Current tax assets	**94**	77
Deferred tax assets	**16,387**	16,370
Other receivables	**7,607**	9,851
Other payables:		
Derivative liabilities	**(7,212)**	(8,331)
Other liabilities	**(1,358)**	(1,807)
	284,102	317,351

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

The liabilities associated with the assets above are as follows:

	2024 **£'000**	2023 £'000
Insurance contract liabilities	**284,102**	317,351

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

22. DEFERRED TAX

Deferred tax balances comprise:

	2024 **£'000**	2023 £'000
Deferred tax assets	**30,355**	35,206
Deferred tax liabilities	**(14,651)**	(6,756)
Net deferred tax asset	**15,704**	28,450

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

22. DEFERRED TAX (continued)

	Long-term insurance contracts £'000	Tax losses carried forward £'000	Unrealised (gain) / loss on investments £'000	Other timing differences £'000	Staff pension schemes £'000	Total £'000
At 1 January 2023	337	44,845	(11,617)	9,261	(3,943)	38,883
(Charged) / credited to the income statement	(49)	(3,531)	(5,828)	(760)	(220)	(10,388)
(Charged) / credited to equity	-	-	-	-	(45)	(45)
At 31 December 2023	288	41,314	(17,445)	8,501	(4,208)	28,450
(Charged) / credited to the income statement	**(55)**	**(9,285)**	**(2,782)**	**(1,016)**	**245**	**(12,893)**
(Charged) / credited to equity					**147**	**147**
At 31 December 2024	**233**	**32,029**	**(20,227)**	**7,485**	**(3,816)**	**15,704**

Deferred tax assets are recognised where the company has accumulated trade losses, loan relationship deficits, excess management expenses and deductible temporary differences and it is more likely than not that future profits and gains will be available against which the asset can be utilised. Losses and deductible temporary differences have been valued based on the latest IFRS 17 management projections of future profits and gains. The company has no unrecognised tax losses relating to trade losses or capital losses in either the current or prior year. The utilisation of trade losses, loan relationship deficits and excess management expenses is not time limited. The company has also recognised deferred tax assets where there are temporary differences which will result in a future tax deduction.

23. OTHER RECEIVABLES

	2024 £'000	2023 £'000
Amounts due from parent undertaking	**187**	-
Amounts due from subsidiary undertaking	**6**	-
Margins in respect of derivative holdings	**29,560**	10,389
Other debtors	**10,767**	11,421
	40,520	21,810
Current – within one year	**40,451**	21,741
Non-current – in more than one year	**69**	69
	40,520	21,810

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

24. PREPAYMENTS AND ACCRUED INCOME

	2024 £'000	2023 £'000
Accrued interest	**31,664**	33,927
Prepayments	**2,935**	2,410
	34,599	36,337

24. PREPAYMENTS AND ACCRUED INCOME (continued)

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

25. SHARE CAPITAL

	2024 £'000	2023 £'000
Allotted and fully paid:		
22.5 million (2023: 22.5 million) ordinary shares of £1 each	**22,500**	22,500

26. INSURANCE CONTRACT LIABILITIES

Measurement

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

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

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

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

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

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

Level of aggregation

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

The company has established portfolios, which distinguish between:

- Insurance contracts issued and reinsurance contracts held;
- With-profits and non-profit insurance contracts; and
- Unit-linked and conventional insurance contracts.

Measurement of insurance contracts

Groups of insurance contracts are recognised and measured as the total of the following measurement components:

- FCF which is comprised of:
  - The present value of future cash flows (including provision for financial risk);
  - The risk adjustment for non-financial risk; and

26. INSURANCE CONTRACT LIABILITIES (continued)

- A CSM, representing the unearned profit that will be recognised in profit or loss as insurance contract services are provided.

Initial measurement - present value of future cash flows

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

Initial measurement - risk adjustment

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

Initial measurement - CSM

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

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

Initial measurement – onerous contracts

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

Initial measurement – with-profits contracts

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

Initial measurement – unit-linked contracts

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

Subsequent measurement - FCF

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

26. INSURANCE CONTRACT LIABILITIES (continued)

Subsequent measurement - CSM

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

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

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

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

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

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

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

Assumptions

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

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

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

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

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

Mortality assumptions have been set based on experience excluding experience from 2020 and 2021 due to significant excess mortality compared to previous years due to Covid-19. It still remains unclear how Covid-19 will impact future mortality rates, and there are reasons why it could either increase or decrease longer term rates. Due to this uncertainty

26. INSURANCE CONTRACT LIABILITIES (continued)

no additional adjustments, other than excluding 2020 and 2021 experience, have been made to assumptions in respect of the expected impact of Covid-19.

	2024	2023
Mortality Assumptions: [(1)]		
With-profits life	**85% AMC00 / 65% AFC00**	85% AMC00 / 65% AFC00
Non-profit life	**70% AMC00 / 65% AFC00**	70% AMC00 / 65% AFC00
Non-profit pensions (in deferment) – former Confederation Life policies [(2)]	**75% AMC00 / 75% AFC00**	75% AMC00 / 75% AFC00
Non-profit pensions – other policies	**60% AMC00 / 50% AFC00**	60% AMC00 / 50% AFC00
GAOs (post exercise of option)	**Modified PM(F)A08(c=2008)**	Modified PM(F)A08(c=2008)
Immediate annuities	**Modified PM(F)A08(c=2008)**	Modified PM(F)A08(c=2008)

	2024	2023
Expenses (premium-paying / paid-up): [(3)]		
With-profits life	**£146.54 / £128.96**	£148.22 / £85.86
Non-profit life	**£71.79 / £56.74**	£82.79 / £68.07
Non-profit pensions	**£84.57 / £65.50**	£83.78 / £65.13
GAO	**£85.20 / £66.13**	£94.47 / £75.82
Non-profit immediate annuities	**n/a / £35.59**	n/a / £32.66

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

The resulting expectations of life for sample ages as at the valuation date are: 20.3 (males, age 65); 12.6 (males, age 75); 23.2 (females, age 65); and 14.5 (females, age 75).

(2) Mortality improvements apply from 2024 onwards in-line with post exercise of option assumptions in (1).

(3) The expense assumptions shown are as at 30 June 2025 and 30 June 2024 for the 2024 and 2023 valuations respectively and include both overhead and outsourcer expenses for all business.

Risk adjustment for non-financial risk

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

Current discount rate

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

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

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

26. INSURANCE CONTRACT LIABILITIES (continued)

variability around these defaults. The approach to determining unexpected defaults is based on a percentage of spread, less the expected default allowance.

A bottom-up approach is used for conventional life contracts, where the discount rate is determined as the risk-free yield curve, adjusted for differences in liquidity characteristics of the liabilities by adding an illiquidity premium.

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

	1 year	**5 years**	**10 years**	**20 years**	**30 years**
Discount rates 2024					
Unit-linked life and pension, conventional life	**4.46%**	**4.04%**	**4.07%**	**4.30%**	**4.23%**
Conventional non-profit life	**4.66%**	**4.24%**	**4.27%**	**4.50%**	**4.43%**
Annuities	**6.13%**	**5.72%**	**5.75%**	**5.98%**	**5.91%**
GAO [(1)]	**5.55%**	**5.13%**	**5.16%**	**5.39%**	**5.32%**

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

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

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

	2024	2023
Illiquidity premiums:		
Annuities	**1.68%**	1.64%
GAO	**1.09%**	1.09%
Conventional Life	**0.20%**	0.80%

Inflation

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

26. INSURANCE CONTRACT LIABILITIES (continued)

Liability analysis

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

Liability analysis – 2024	Gross £'000	Reinsurance £'000	Net £'000
With-profits insurance contracts	284,102	-	284,102
Non-profit insurance contracts	1,497,948	44,119	1,542,067
Unit-linked insurance contracts	2,218,786	(10,094)	2,208,692
Total insurance liabilities	4,000,836	34,025	4,034,861

Insurance contracts issued	With-profits £'000	Non-profit £'000	Unit-linked £'000	Total £'000
Estimate of present value of future cash flows	284,102	1,277,520	2,064,458	3,626,080
Risk adjustment	-	37,864	18,574	56,438
CSM	-	182,564	135,754	318,318
Insurance contract liabilities	284,102	1,497,948	2,218,786	4,000,836

Reinsurance contracts held	With-profits £'000	Non-profit £'000	Unit-linked £'000	Total £'000
Reinsurers' share of provisions	-	(1,216,747)	(7,915)	(1,224,662)
Deposit back liability due to reinsurer	-	1,460,338	-	1,460,338
Estimate of present value of future cash flows	-	243,591	(7,915)	235,676
Risk adjustment	-	(34,696)	(537)	(35,233)
CSM	-	(164,776)	(1,642)	(166,418)
Reinsurance contracts held	-	44,119	(10,094)	34,025
Reinsurance contract assets	-	(8,549)	(10,094)	(18,643)
Reinsurance contract liabilities	-	52,668	-	52,668
Reinsurance contracts held	-	44,119	(10,094)	34,025

26. INSURANCE CONTRACT LIABILITIES (continued)

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

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

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

26. INSURANCE CONTRACT LIABILITIES (continued)

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

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

With-profits insurance contracts:

	Liability for remaining coverage £'000	**Liability for incurred claims £'000**	**Total £'000**
At 1 January 2024	**301,777**	**15,574**	**317,351**
Insurance service result	**-**	**-**	**-**
Insurance finance (income) / expenses	**(2,288)**	**833**	**(1,455)**
Premiums received	**2,877**	**-**	**2,877**
Claims paid	**-**	**(34,692)**	**(34,692)**
Other expenses paid	**-**	**21**	**21**
Cash flows	**2,877**	**(34,671)**	**(31,794)**
Investment components	**(30,223)**	**30,223**	**-**
At 31 December 2024	**272,143**	**11,959**	**284,102**

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

26. INSURANCE CONTRACT LIABILITIES (continued)

Non-profit insurance contracts:

	Liability for remaining coverage £'000	**Liability for incurred claims £'000**	**Total £'000**
At 1 January 2024	**1,663,800**	**15,226**	**1,679,026**
Insurance revenue	**(173,685)**	**-**	**(173,685)**
Incurred claims and benefits	**-**	**142,713**	**142,713**
Incurred directly attributable expenses	**-**	**3,385**	**3,385**
Insurance service expenses	**-**	**146,098**	**146,098**
Insurance service result	**(173,685)**	**146,098**	**(27,587)**
Insurance finance (income) / expenses	**(1,029)**	**618**	**(411)**
Premiums received	**3,169**	**-**	**3,169**
Claims paid	**-**	**(153,528)**	**(153,528)**
Other expenses paid	**-**	**(2,721)**	**(2,721)**
Cash flows	**3,169**	**(156,249)**	**(153,080)**
Investment components	**(6,918)**	**6,918**	**-**
At 31 December 2024	**1,485,337**	**12,611**	**1,497,948**

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

26. INSURANCE CONTRACT LIABILITIES (continued)

Unit-linked insurance contracts:

	Liability for remaining coverage £'000	**Liability for incurred claims £'000**	**Total £'000**
At 1 January 2024	**2,296,020**	**61,325**	**2,357,345**
Insurance revenue	**(65,400)**	**-**	**(65,400)**
Incurred claims and benefits	**-**	**7,787**	**7,787**
Incurred directly attributable expenses	**-**	**19,571**	**19,571**
Insurance service expenses	**-**	**27,358**	**27,358**
Insurance service result	**(65,400)**	**27,358**	**(38,042)**
Insurance finance expenses	**211,324**	**2,900**	**214,224**
Premiums received	**35,106**	**-**	**35,106**
Claims paid	**-**	**(330,408)**	**(330,408)**
Other expenses paid	**-**	**(19,439)**	**(19,439)**
Cash flows	**35,106**	**(349,847)**	**(314,741)**
Investment components	**(294,099)**	**294,099**	**-**
At 31 December 2024	**2,182,951**	**35,835**	**2,218,786**

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

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NOTES TO THE FINANCIAL STATEMENTS (continued)

26. INSURANCE CONTRACT LIABILITIES (continued)

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

With-profits insurance contracts:

	Estimates of the present value of future cash flows £'000	**Risk adjustment £'000**	**CSM £'000**	**Total £'000**
At 1 January 2024	**317,351**	**-**	**-**	**317,351**
Insurance service result	**-**	**-**	**-**	**-**
Insurance finance (income)	**(1,455)**	**-**	**-**	**(1,455)**
Total changes in the income statement	**(1,455)**	**-**	**-**	**(1,455)**
Premiums received	**2,877**	**-**	**-**	**2,877**
Claims paid	**(34,692)**	**-**	**-**	**(34,692)**
Other insurance expenses paid	**21**	**-**	**-**	**21**
Total cash flows	**(31,794)**	**-**	**-**	**(31,794)**
At 31 December 2024	**284,102**	**-**	**-**	**284,102**

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

26. INSURANCE CONTRACT LIABILITIES (continued)

Non-profit insurance contracts:

	Estimates of the present value of future cash flows £'000	Risk adjustment £'000	CSM £'000	Total £'000
At 1 January 2024	1,445,655	40,909	192,462	1,679,026
CSM recognised for services provided	-	-	(17,581)	(17,581)
Risk adjustment for the risk expired	-	(4,034)	-	(4,034)
Experience adjustments	(3,221)	-	-	(3,221)
Total changes related to current service	(3,221)	(4,034)	(17,581)	(24,836)
Change in estimates that adjust CSM	(6,767)	1,831	4,936	-
Total changes related to future service	(6,767)	1,831	4,936	-
Experience adjustments	(2,751)	-	-	(2,751)
Total changes related to past service	(2,751)	-	-	(2,751)
Insurance service result	(12,739)	(2,203)	(12,645)	(27,587)
Insurance finance (income) / expenses	(2,316)	(842)	2,747	(411)
Total changes in the income statement	(15,055)	(3,045)	(9,898)	(27,998)
Premiums received	3,169	-	-	3,169
Claims paid	(153,528)	-	-	(153,528)
Other expenses paid	(2,721)	-	-	(2,721)
Total cash flows	(153,080)	-	-	(153,080)
At 31 December 2024	1,277,520	37,864	182,564	1,497,948

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

26. INSURANCE CONTRACT LIABILITIES (continued)

Non-profit insurance contracts:

	Estimates of the present value of future cash flows £'000	Risk adjustment £'000	CSM £'000	Total £'000
At 1 January 2023	1,544,426	57,095	93,796	1,695,317
CSM recognised for services provided	-	-	(15,327)	(15,327)
Risk adjustment for the risk expired	-	(5,040)	-	(5,040)
Experience adjustments	(2,111)	-	-	(2,111)
Total changes related to current service	(2,111)	(5,040)	(15,327)	(22,478)
Change in estimates that adjust CSM	(79,961)	(32,758)	112,719	-
Total changes related to future service	(79,961)	(32,758)	112,719	-
Insurance service result	(82,072)	(37,798)	97,392	(22,478)
Insurance finance expenses	143,360	21,612	1,274	166,246
Total changes in the income statement	61,288	(16,186)	98,666	143,768
Premiums received	4,771	-	-	4,771
Claims paid	(161,133)	-	-	(161,133)
Other expenses paid	(3,697)	-	-	(3,697)
Total cash flows	(160,059)	-	-	(160,059)
At 31 December 2023	1,445,655	40,909	192,462	1,679,026

26. INSURANCE CONTRACT LIABILITIES (continued)

Unit-linked insurance contracts:

	Estimates of the present value of future cash flows £'000	Risk adjustment £'000	CSM £'000	Total £'000
At 1 January 2024	**2,195,155**	**26,155**	**136,035**	**2,357,345**
CSM recognised for services provided	-	-	(16,598)	(16,598)
Risk adjustment for the risk expired	-	(3,073)	-	(3,073)
Experience adjustments	1,778	-	-	1,778
Total changes related to current service	1,778	(3,073)	(16,598)	(17,893)
Change in estimates that adjust CSM	(13,618)	(5,677)	19,295	-
Total changes related to future service	(13,618)	(5,677)	19,295	-
Experience adjustments	(20,149)	-	-	(20,149)
Total changes related to past service	(20,149)	-	-	(20,149)
Insurance service result	(31,989)	(8,750)	2,697	(38,042)
Insurance finance (income) / expenses	216,033	1,169	(2,978)	214,224
Total changes in the income statement	184,044	(7,581)	(281)	176,182
Premiums received	35,106	-	-	35,106
Claims paid	(330,408)	-	-	(330,408)
Other expenses paid	(19,439)	-	-	(19,439)
Total cash flows	(314,741)	-	-	(314,741)
At 31 December 2024	**2,064,458**	**18,574**	**135,754**	**2,218,786**

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

26. INSURANCE CONTRACT LIABILITIES (continued)

Unit-linked insurance contracts:

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

26. INSURANCE CONTRACT LIABILITIES (continued)

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

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

With-profits reinsurance contracts:

	Reinsurance asset for remaining coverage £'000	**Reinsurance asset for incurred claims £'000**	**Total £'000**
At 1 January 2024	**(1)**	**1**	**-**
Allocation of reinsurance premiums	**(4)**	**-**	**(4)**
Claims and benefits recovered	**-**	**4**	**4**
Amounts recovered from reinsurers	**-**	**4**	**4**
Net income / (expense) from reinsurance contracts held	**(4)**	**4**	**-**
Reinsurance finance (expense)	**(17)**	**-**	**(17)**
Premiums paid	**22**	**-**	**22**
Claims and other expenses recovered	**-**	**(5)**	**(5)**
Cash flows	**22**	**(5)**	**17**
At 31 December 2024	**-**	**-**	**-**

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

26. INSURANCE CONTRACT LIABILITIES (continued)

Non-profit reinsurance contracts:

	Reinsurance asset for remaining coverage £'000	Reinsurance asset for incurred claims £'000	Total £'000
At 1 January 2024	(32,340)	4,733	(27,607)
Claims and benefits recoverable	(144,306)	-	(144,306)
Directly attributable expenses recoverable	(5,809)	-	(5,809)
Risk adjustment for the risk expired	(3,790)	-	(3,790)
CSM recognised for services provided	(14,753)	-	(14,753)
Allocation of reinsurance premiums	(168,658)	-	(168,658)
Claims recovered	-	141,803	141,803
Directly attributable expenses recovered	-	5,982	5,982
Amounts recovered from reinsurers	-	147,785	147,785
Net income / (expense) from reinsurance contracts held	(168,658)	147,785	(20,873)
Reinsurance finance (expense)	(3,133)	-	(3,133)
Premiums paid	63	-	63
Asset for remaining coverage cash flows	154,394	-	154,394
Claims and other expenses recovered	-	(146,963)	(146,963)
Cash flows	154,457	(146,963)	7,494
At 31 December 2024	(49,674)	5,555	(44,119)

26. INSURANCE CONTRACT LIABILITIES (continued)

Non-profit reinsurance contracts:

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

26. INSURANCE CONTRACT LIABILITIES (continued)

Unit-linked reinsurance contracts:

	Reinsurance asset for remaining coverage £'000	Reinsurance asset for incurred claims £'000	Total £'000
At 1 January 2024	**2,614**	**16,097**	**18,711**
Claims and benefits recoverable	(6,402)	-	(6,402)
Risk adjustment for the risk expired	(178)	-	(178)
CSM recognised for services provided	(397)	-	(397)
Allocation of reinsurance premiums	(6,977)	-	(6,977)
Claims recoverable	-	5,227	5,227
Amounts recovered from reinsurers	-	5,227	5,227
Net income / (expense) from reinsurance contracts held	(6,977)	5,227	(1,750)
Reinsurance finance income	60	-	60
Premiums paid	9,751	-	9,751
Claims and other expenses recovered	-	(16,678)	(16,678)
Cash flows	9,751	(16,678)	(6,927)
At 31 December 2024	**5,448**	**4,646**	**10,094**

26. INSURANCE CONTRACT LIABILITIES (continued)

Unit-linked reinsurance contracts:

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

26. INSURANCE CONTRACT LIABILITIES (continued)

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

With-profits reinsurance contracts:

	Estimates of the present value of future cash flows £'000	**Risk adjustment £'000**	**CSM £'000**	**Total £'000**
At 1 January 2024	-	-	-	-
Experience adjustments	-	-	-	-
Total changes related to current service	-	-	-	-
Net income / (expense) from reinsurance contracts held	-	-	-	-
Reinsurance finance (expense)	**(17)**	-	-	**(17)**
Total changes in the income statement	**(17)**	-	-	**(17)**
Premiums paid	**22**	-	-	**22**
Claims and other expenses recovered	**(5)**	-	-	**(5)**
Cash flows	**17**	-	-	**17**
At 31 December 2024	-	-	-	-

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

26. INSURANCE CONTRACT LIABILITIES (continued)

Non-profit reinsurance contracts:

	Estimates of the present value of future cash flows £'000	Risk adjustment £'000	CSM £'000	Total £'000
At 1 January 2024	**(234,579)**	**37,114**	**169,858**	**(27,607)**
CSM recognised for services provided	**-**	**-**	**(14,753)**	**(14,753)**
Risk adjustment for the risk expired	**-**	**(3,790)**	**-**	**(3,790)**
Experience adjustments	**(2,330)**	**-**	**-**	**(2,330)**
Total changes related to current service	**(2,330)**	**(3,790)**	**(14,753)**	**(20,873)**
Changes in estimates that adjust the CSM	**(8,578)**	**1,357**	**7,221**	**-**
Total changes related to future service	**(8,578)**	**1,357**	**7,221**	**-**
Net (expense) from reinsurance contracts held	**(10,908)**	**(2,433)**	**(7,532)**	**(20,873)**
Reinsurance finance income / (expense)	**(5,598)**	**15**	**2,450**	**(3,133)**
Total changes in the income statement	**(16,506)**	**(2,418)**	**(5,082)**	**(24,006)**
Premiums paid	**63**	**-**	**-**	**63**
Asset for remaining coverage cash flows	**154,394**	**-**	**-**	**154,394**
Claims and other expenses recovered	**(146,963)**	**-**	**-**	**(146,963)**
Cash flows	**7,494**	**-**	**-**	**7,494**
At 31 December 2024	**(243,591)**	**34,696**	**164,776**	**(44,119)**

26. INSURANCE CONTRACT LIABILITIES (continued)

Non-profit reinsurance contracts:

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

26. INSURANCE CONTRACT LIABILITIES (continued)

Unit-linked reinsurance contracts:

	Estimates of the present value of future cash flows £'000	Risk adjustment £'000	CSM £'000	Total £'000
At 1 January 2024	**19,779**	**648**	**(1,716)**	**18,711**
CSM recognised for services provided	-	-	(397)	(397)
Risk adjustment for the risk expired	-	(178)	-	(178)
Experience adjustments	(1,175)	-	-	(1,175)
Total changes related to current service	(1,175)	(178)	(397)	(1,750)
Changes in estimates that adjust the CSM	(3,819)	44	3,775	-
Total changes related to future service	(3,819)	44	3,775	-
Net income / (expense) from reinsurance contracts held	(4,994)	(134)	3,378	(1,750)
Reinsurance finance income / (expense)	57	23	(20)	60
Total changes in the income statement	(4,937)	(111)	3,358	(1,690)
Premiums paid	9,751	-	-	9,751
Claims and other expenses recovered	(16,678)	-	-	(16,678)
Cash flows	(6,927)	-	-	(6,927)
At 31 December 2024	**7,915**	**537**	**1,642**	**10,094**

26. INSURANCE CONTRACT LIABILITIES (continued)

Unit-linked reinsurance contracts:

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

Expectation of when CSM will be recognised in profit or loss

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

	Insurance contracts issued		**Reinsurance contracts held**	
	2024 £'000	2023 £'000	**2024 £'000**	2023 £'000
Less than 1 year	**30,525**	34,086	**(11,905)**	(11,435)
1 - 2 years	**27,532**	29,665	**(11,201)**	(10,714)
2 - 3 years	**25,301**	26,586	**(10,881)**	(10,227)
3 - 4 years	**23,050**	24,183	**(10,353)**	(10,061)
4 - 5 years	**20,722**	21,860	**(9,534)**	(9,639)
Over 5 years	**191,188**	192,117	**(112,544)**	(116,066)
Total	**318,318**	328,497	**(166,418)**	(168,142)

27. MANAGEMENT OF INSURANCE AND OTHER NON-FINANCIAL RISK

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 references 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. Withdrawals of capital are required to be in line with the dividend policy approved by the Board. The dividend policy considers the capital and liquidity positions relative to risk appetite, as well as wider requirements such as distributable reserves.

Solvency II (SII) external capital requirement

The company's capital is managed on a SII basis. A SII assessment involves valuation in line with SII principles of the company's own funds and a risk-based assessment of the company's 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 fund are restricted and can only be included in eligible own funds up to the value of the SCR they are used to support.

Eligible own funds

The company's total eligible own funds as at the year end was £296.7 million (2023: £297.0 million), as shown below.

Eligible own funds – 2024	With-Profits £'000	Non-profit £'000	Total £'000
Total shareholder's funds	-	151,367	151,367
Adjustments onto a solvency basis	2,049	144,133	146,182
Net assets on a solvency basis	2,049	295,500	297,549
Adjustments to own funds (1)	(855)	-	(855)
Total available own funds	1,194	295,500	296,694
SCR	1,194	164,748	165,942
Excess of own funds over solvency capital requirement	-	130,752	130,752

27. MANAGEMENT OF INSURANCE AND OTHER NON-FINANCIAL RISK (continued)

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

[1] Adjustment for restricted excess surplus in the With-Profits fund.

Own funds sensitivities

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

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

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

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

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

Provision for guarantees and options

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

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

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

(i) With-profits business

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

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

27. MANAGEMENT OF INSURANCE AND OTHER NON-FINANCIAL RISK (continued)

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

- GAOs – The With-Profits fund has contracts that contain GAOs, where the policyholder has the option to take the policy benefits in the form of an annuity based on guaranteed conversion rates. The liability for this guarantee has been calculated using a deterministic model. The insurance liability would increase in the event of falling interest rates. The reserve as at 31 December 2024 was £2.3 million (2023: £1.4 million).

(ii) Non-profit business

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

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

- GAOs (former Confederation Life policies) – Provision for these guarantees is based on a risk neutral stochastic model and amounted to FCF of £29.9 million (2023: FCF of £60.7 million) at the year end.

- Other GAOs – Provision for these guarantees is based on a prudent deterministic model and amounted to £0.9 million (2023: £1.5 million).

- Guaranteed unit price on certain products – Certain unit-linked pension products provide policyholders with a guaranteed unit price at retirement or death. The investment management strategy for these funds is designed to mitigate the costs of the guarantee. An amount of £3.1 million (2023: £5.3 million) was held as the insurance liability to cover the cost of guarantees on the existing fund and future switch ins.

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

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

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

Sources of insurance risk

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

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

(i) Mortality and morbidity

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

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

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

27. MANAGEMENT OF INSURANCE AND OTHER NON-FINANCIAL RISK (continued)

(ii) Longevity

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

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

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

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

(iii) Persistency

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

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

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

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

(iv) Expenses

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

Governance expenses are carefully managed and policy administration outsourcing arrangements are secured on variable terms.

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

Concentration of insurance risk

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

27. MANAGEMENT OF INSURANCE AND OTHER NON-FINANCIAL RISK (continued)

Objectives and policies for mitigating insurance risk

Insurance risks are managed by monitoring the company's exposure against pre-defined appetite limits. If a risk is moving out of appetite, the company can choose to mitigate it via reinsurance in the case of longevity, mortality and morbidity risks, or by taking other risk reducing actions.

This is supported by additional 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. Risks that are deemed to be financially significant are reviewed for pricing and reporting purposes.

For expense risk, the company is allocated a proportion of total Group expenses.

The company's liabilities under insurance contracts are detailed in note 26, which also covers the risks arising on specific contracts and how these are mitigated.

Sensitivity analyses

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

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

	Impact on profit (before tax)		Impact on equity		Impact on CSM	
	2024	2023	**2024**	2023	**2024**	2023
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Mortality / morbidity:						
5% increase for insurance contracts	**32**	19	**30**	18	**(2,024)**	(2,003)
Longevity:						
5% reduction in mortality for annuity contracts	**(450)**	(388)	**(394)**	(339)	**(2,116)**	(2,990)
Persistency:						
10% decrease in persistency	**48**	47	**45**	45	**(3,540)**	(3,130)
10% increase in persistency	**(50)**	(51)	**(48)**	(48)	**3,834**	3,409
Expenses:						
5% increase in maintenance expenses	**462**	435	**347**	326	**(4,906)**	(6,024)

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

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

Customer risk

Customer risk is defined as the risk of financial failure, reputational loss, loss of earnings, and / or value arising from inappropriate or poor customer treatment (including poor advice). It can arise as a result of:

- Customer outcomes: The risk that decisions, actions or behaviours individually or collectively result in a failure to act to deliver good outcomes for our customers.

27. MANAGEMENT OF INSURANCE AND OTHER NON-FINANCIAL RISK (continued)

- Customer transformation: The risk that 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.

The Group has both a conduct risk appetite, to focus on behaviours within the business, and a customer risk appetite to focus on achieving good customer outcomes (both of which apply to the company). The behaviours and standards all colleagues are expected to achieve are detailed in the Group Code of Conduct. For customers, what represents a good outcome is articulated in the customer standards and supporting business unit processes.

In addition, the Group conduct strategy, which overarches the risk universe and all risk policies, is designed to help the Group meet its aim of helping people secure a lifetime of possibilities. It seeks to do this by putting customers at the heart of its strategy and decision making, achieving good customer outcomes and preventing foreseeable harm.

The company also has a suite of customer polices which set out the key customer risks and control objectives in place to mitigate them. The customer risks for the Group, and of the company, are regularly reported to management oversight committees.

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 business:

- indirect exposures through 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 colleagues, 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 company 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.

The company also has a set of operational risk policies that set out the nature of the risk exposure and minimum control standards in place to control the risk.

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.

28. MANAGEMENT OF FINANCIAL RISK

Financial risk management objectives

The use of financial instruments naturally exposes the company to the risks associated with them. These comprise mainly market risk (including interest rate risk, equity and property risk, and currency risk), credit risk and financial soundness risk (including liquidity and funding risk, capital management risk, and tax risk).

28. MANAGEMENT OF FINANCIAL RISK (continued)

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 Chief Investment Officer, the With-Profits 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 help customers secure a life of possibilities, including meeting the FCA's expectations under Consumer Duty.

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, unit-linked business and non-linked business.

Market risk

Market risk is defined as the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

The company is mainly exposed to market risks as a result of:

- the mismatch between liability profiles and the related asset investment portfolios;
- the investment of assets held to meet regulatory capital and solvency requirements;
- the investment of surplus assets; 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 shareholder 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 funds 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, geographical region and credit rating are used where relevant to reduce concentration risk among the assets held.

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

- the need to invest assets supporting with-profits business in a manner consistent with the with-profits policyholders' reasonable expectations and Principals and Practices of Financial Management (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 with-profits policyholders may expect that equity market risk will be taken on their behalf, and derivative instruments may be used to manage these risks.

Markets retain the potential to be volatile particularly given geopolitical instability, with escalation of regional conflicts and increasing protectionist policies able to result in increased inflationary pressures due to global policy changes and supply chain disruption. More detail is covered within the principal risks section within the Group Annual Report and Accounts.

(i) Interest rate and inflation risk

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

28. MANAGEMENT OF FINANCIAL RISK (continued)

The main financial assets held by the company which give rise to interest rate risk are primarily from investments in fixed interest securities and liability guarantees. Insurance and investment contract liabilities exposed to interest rate risk principally comprise non-linked liabilities. Derivative financial instruments are also subject to interest rate risk..

There is a risk of loss in the With-Profits fund from increasing interest rates, which is entirely attributable to with-profits policyholders. A matching strategy is in place for interest rate movements, making interest rate risk very low. However, in the event of a significant loss, there is a risk that the fund may not be able to meet its liabilities to policyholders. In this scenario, if the fund were still not able to meet its liabilities to policyholders, the company would be required to provide support to the fund from the non-profit business.

Exposure to interest rate risk is evaluated at least quarterly by conducting a scenario-based analysis for the principal interest rate sensitive lines of business. Procedures for the less sensitive or less material liabilities are less rigorous, although most lines of business are reviewed at least annually. The analysis evaluates the duration gap between assets and policyholder liabilities to ensure that gaps are within policy limits.

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

(ii) Equity and property price risk

The company is exposed to the risk of reductions in the valuation of equities (or changes in the volatility) or property investments which could result in reductions in asset values and losses for policyholders or shareholders. In this context, equity assets should be taken to includes shares, equity derivatives, equity collectives and unlisted equities. Property assets include direct property investment, shares in property companies, property collectives and structured property assets.

Equity and property price risk is primarily borne in respect of assets held in the With-Profits fund or unit-linked funds. For unit-linked funds, this risk is borne by policyholders and asset movements directly impact unit prices and hence policy values. For the With-Profits fund, policyholders' future bonuses will be impacted by the investment returns achieved and hence the price risk. 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 Consumer Duty. 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. 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 hedging program in place.

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

(iii) Currency risk

Currency risk is the risk that changes in the value of currencies could lead to reductions in asset values which may result in losses for policyholders and shareholders. It is not considered material for the company.

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

(iv) Policyholder investment outcomes risk

The company provides unit-linked investment propositions where policyholder assets are exposed to market risk. The company operates a suite of controls over customer funds to ensure exposure to market risks is maintained within the customer's risk appetite. These controls include monitoring of investment manager and external fund performance, reviewing customer funds and making changes as required to manage market and investment risk.

28. MANAGEMENT OF FINANCIAL RISK (continued)

(v) Concentration of market risks

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

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

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

(vi) Sensitivity analyses

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

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

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

	Impact on profit (before tax)		Impact on equity		Impact on CSM	
	2024	2023	**2024**	2023	**2024**	2023
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Interest rate sensitivity						
Liabilities:						
1% increase in interest rates [1]	**1,914**	1,489	**2,123**	1,781	**4,408**	865
1% decrease in interest rates [1]	**(3,276)**	(2,508)	**(3,840)**	(3,348)	**(5,060)**	(2,470)
Assets:						
1% increase in interest rates [1]	**(19,329)**	(17,181)	**(16,602)**	(13,619)		
1% decrease in interest rates [1]	**19,388**	19,664	**15,628**	14,736		
Equity market sensitivity						
Liabilities:						
10% increase in equity prices [2]	**-**	-	**-**	-	**4,509**	1,983
10% decrease in equity prices [2]	**-**	-	**-**	-	**(4,712)**	(2,208)
Assets:						
10% increase in equity prices [2]	**3,386**	3,422	**2,439**	2,327		
10% decrease in equity prices [2]	**(3,324)**	(3,637)	**(2,511)**	(2,548)		

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

(2) Represents the percentage change in equity markets.

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

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

28. MANAGEMENT OF FINANCIAL RISK (continued)

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

Credit risk

Credit risk is the risk of loss or of adverse change in the financial situation resulting from counterparty failure to meet financial obligations or fluctuations in the credit standing of issuers of securities, counterparties, or any debtors to which the company is exposed.

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 and reinsurance agreements.

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

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 industry, credit rating, asset class and country). The company manages the level of credit risk it accepts through an established Group Credit Risk Policy and Group Credit Limit and Counterparty Framework that includes the use of credit risk tolerances and limits.

Additional controls for illiquid asset concentration risk are set out via specific risk limits within the framework. Credit risk on derivatives and securities lending is mitigated through the use of collateral with appropriate haircuts.

The table below shows the credit ratings for the company's debt securities (listed and unlisted) as at the year end. The company primarily uses an internal proprietary ratings system of a third party manager, Sun Life Capital Management (Canada) Inc. (SLC). SLC undertakes independent credit analysis having regard to external ratings and other information to generate a security's rating. Where a rating is not available from this source, a waterfall of the external credit rating agencies is used. Standard & Poor's ratings are used if available, otherwise Moody's where available, then Fitch. If no rating is available, the asset is classed as unrated. The use of SLC ratings is expected to continue until the company aligns to the practices used by the rest of the Phoenix Group.

	Externally rated £'000	Internally rated £'000	Total £'000
At 31 December 2024			
AAA	**55,656**	**-**	**55,656**
AA	**1,035,999**	**17,390**	**1,053,389**
A	**603,830**	**153,928**	**757,758**
BBB	**408,004**	**214,332**	**622,336**
Below BBB	**10,676**	**18,663**	**29,339**
Debt and other fixed income securities at fair value (note 19)	**2,114,165**	**404,313**	**2,518,478**
AA	**1,417,688**	**-**	**1,417,688**
A	**8,625**	**-**	**8,625**
Reinsurers' share of insurance contract liabilities (note 26)	**1,426,313**	**-**	**1,426,313**

28. MANAGEMENT OF FINANCIAL RISK (continued)

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

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 framework 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 exposure to an array of illiquid credit assets such as local authority loans, social housing, infrastructure and commercial real estate, with the aim of achieving greater diversification and investment returns, consistent with the investment strategy approved by the Board.

The impact of non-government debt securities including 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 and return. Similarly, the value of derivatives that the company holds takes into account the full changes in swap spreads.

<u>Concentration of credit risk</u>

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 Group Credit Limit and Counterparty Framework contained within the Group Credit Risk Policy. Investment guidelines are designed to prevent unacceptable concentration of credit risk by ensuring adequate diversification at counterparty, sector and below investment grade level.

The company is also exposed to concentration of credit risk with outsourced service providers. The company operates a policy to manage outsourcer service counterparty exposures and the impact from default is reviewed regularly by executive committees as well as through stress and scenario testing.

<u>Reinsurance</u>

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 annuity business of the company has been reinsured with the Bermuda branch of Sun Life Assurance Company of Canada Inc. with assets deposited back to the company i.e. there has been a risk transfer based on the performance of assets and liabilities and it is expected that an annual experience rating refund will be transferred between companies.

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 credit focused committees.

28. MANAGEMENT OF FINANCIAL RISK (continued)

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 and OTC derivatives. Management monitors the market value of the collateral received, requests additional collateral when needed and performs an impairment valuation when impairment indicators exist. The deposit back arrangement for reinsured annuities forms the company's largest collateral by value as reflected in note 26.

Collateral in respect of OTC derivatives, is received from the counterparty if the contract is in-the-money (i.e. is an asset of the company) and over any agreed minimum threshold and posted to the counterparty if the contract is out-of-the-money (i.e. is a liability of the company) and over any agreed minimum threshold. Collateral is held in the form of cash or debt securities. The fair value of cash received and posted as collateral in respect of derivative contracts at 31 December 2024 was £nil (2023: £12.8 million) and £30.0 million (2023: £8.2 million) respectively. In addition, £46.7 million (2023: £63.8 million) of debt securities were posted as collateral and remain recognised in the balance sheet. There were £nil debt securities received as collateral that were not recognised in the balance sheet (2023: £nil). Transactions are conducted under terms and conditions that are in accordance with general market conventions.

Climate risk

The company is exposed to market and credit risk related to the transition to a low carbon economy, and the physical impacts resulting from climate change which could result in long-term market, credit, insurance, reputation, proposition and operational implications. As such, this risk is treated as a component of the cross-cutting sustainability risk in the Group's 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 risk metrics and establishing appropriate governance and risk management processes. The Group has adopted a proactive approach towards combatting climate change, with key net-zero targets. Further details on these targets and on managing the related climate change risks are provided in the climate report and TCFD within the Group's Annual Report and Accounts.

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 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 obligation to policy liabilities, and to meet margin calls under its hedging strategies.

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 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 risk appetite of less than a 1 in 200 chance 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 severe, but plausible scenarios;
- effective liquidity portfolio management including early warning indicators; and
- liquidity risk contingency planning.

Liquidity forecasts showing headroom against liquidity buffers across a range of time horizons is monitored across all funds and any segregated liquidity pools on a monthly basis. In the event of a liquidity shortfall, either current or projected, this would be managed in line with the Contingency Liquidity Plan where contingent management actions would be considered. In addition, the company performs regular reviews of its liquidity risks and monitors risk indicators, to define minimum liquid

28. MANAGEMENT OF FINANCIAL RISK (continued)

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 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 below as due within one year, the company does not expect these amounts to all 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.

A significant proportion of the company's financial assets are held in gilts, cash, 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, and throughout periods of market volatility.

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

	Within 1 year or on demand £'000	**1 - 2 years £'000**	**2 - 3 years £'000**	**3 - 4 years £'000**	**4 - 5 years £'000**	**Over 5 years £'000**	**Gross nominal outflow £'000**
Financial liabilities at 31 December 2024							
Non-profit investment contract liabilities	**2,899,341**	**-**	**-**	**-**	**-**	**-**	**2,899,341**
Investment claims received but not yet settled	**13,231**	**-**	**-**	**-**	**-**	**-**	**13,231**
Derivative liabilities	**1,743**	**1,083**	**-**	**667**	**99**	**95,894**	**99,486**
Other payables	**25,107**	**-**	**-**	**-**	**-**	**-**	**25,107**
	2,939,422	**1,083**	**-**	**667**	**99**	**95,894**	**3,037,165**

Gross nominal outflows shown above are the same as the carrying amounts except for derivative liabilities for which the carrying amount is £45.0 million.

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

28. MANAGEMENT OF FINANCIAL RISK (continued)

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

	Within 1 year or on demand £'000	**1 – 2 years £'000**	**2 – 3 years £'000**	**3 – 4 years £'000**	**4 – 5 years £'000**	**Over 5 years £'000**	**Total £'000**
Insurance liabilities at 31 December 2024							
With-profits insurance contracts	**160,449**	**8,259**	**1,855**	**5,993**	**6,799**	**100,747**	**284,102**
Non-profit insurance contracts	**157,879**	**131,315**	**118,946**	**107,375**	**96,563**	**665,442**	**1,277,520**
Unit-linked insurance contracts	**2,049,345**	**(1,187)**	**575**	**682**	**1,206**	**13,837**	**2,064,458**
	2,367,673	**138,387**	**121,376**	**114,050**	**104,568**	**780,026**	**3,626,080**
Reinsurers' share	**(147,510)**	**(127,447)**	**(115,412)**	**(103,880)**	**(93,360)**	**(637,053)**	**(1,224,662)**
Deposit back liability to reinsurer	**1,460,338**	**-**	**-**	**-**	**-**	**-**	**1,460,338**
	3,680,501	**10,940**	**5,964**	**10,170**	**11,208**	**142,973**	**3,861,756**

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

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

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

28. MANAGEMENT OF FINANCIAL RISK (continued)

Financial assets at 31 December 2024	**No contractual maturity £'000**	**Within 1 year £'000**	**1 - 2 years £'000**	**2 - 3 years £'000**	**3 - 4 years £'000**	**4 - 5 years £'000**	**Over 5 years £'000**	**Gross nominal inflow £'000**
Shares and other variable yield securities	**4,157,834**	**-**	**-**	**-**	**-**	**-**	**-**	**4,157,834**
Debt and other fixed income securities	**-**	**483,533**	**163,579**	**159,010**	**86,063**	**114,896**	**1,675,738**	**2,682,819**
Cash and cash equivalents	**29,445**	**94,885**	**-**	**-**	**-**	**-**	**-**	**124,330**
Derivative assets	**-**	**4,007**	**4,012**	**566**	**6,928**	**-**	**3,429**	**18,942**
	4,187,279	**582,425**	**167,591**	**159,576**	**92,991**	**114,896**	**1,679,167**	**6,983,925**

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

Gross nominal outflows shown above are the same as the carrying amounts except for debt and other fixed income securities, and derivative assets for which the carrying amounts are £2,518.5 million and £16.9 million respectively.

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

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

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

Financial soundness: Capital management risk

Capital management risk is defined as the risk of reductions in earnings and / or value, through financial or reputational loss, due to a failure 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 27 gives more detail on how capital and capital management risk are managed.

28. MANAGEMENT OF FINANCIAL RISK (continued)

Financial soundness: Tax risk

Tax risk is defined as the risk of reductions in earnings and / or value, through financial or reputational loss, due to an unforeseen tax cost, or by the inappropriate reporting and disclosure of information in relation to taxation. Potential causes of tax risk are:

- 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.

There are tax consequences associated with other risks and these are considered as part of the evaluation of those risks. For example, a crystallisation of market risk may result in lower projected future profits which may in turn result in reduced deferred tax assets and reduced benefit from loss absorbing capacity of deferred taxes in the SCR.

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.

29. INVESTMENT CONTRACT LIABILITIES

	2024 **£'000**	2023 £'000
Non-profit investment contract liabilities – unit-linked	**2,894,591**	3,026,346
Non-profit investment contract liabilities – non-linked	**4,750**	4,054
	2,899,341	3,030,400

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

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

	2024 **£'000**	2023 £'000
At 1 January	**3,030,400**	3,175,620
Deposits received from policyholders	**7,111**	6,892
Payments made to policyholders	**(287,765)**	(271,609)
Fees deducted	**(26,359)**	(27,868)
Change in non-profit investment contract liabilities	**175,954**	147,365
At 31 December	**2,899,341**	3,030,400

30. PROVISIONS FOR OTHER RISKS AND CHARGES

	Onerous contract provision £'000	Other £'000	Total £'000
Balance at 1 January 2023	3,464	3,871	7,335
(Released) in year	(1,101)	(1,671)	(2,772)
Utilised in year	-	(3)	(3)
Balance at 31 December 2023	2,363	2,197	4,560
(Released) in year	**(393)**	**(894)**	**(1,287)**
Utilised in year	**-**	**-**	**-**
Balance at 31 December 2024	**1,970**	**1,303**	**3,273**

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

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

31. DEFERRED INCOME LIABILITY

	2024 £'000	2023 £'000
At 1 January	**2,396**	2,163
Amortisation credited to the income statement	**(453)**	(456)
Charge in the year	**-**	689
At 31 December	**1,943**	2,396

Included in the carrying values above, £0.4 million (2023: £0.3 million) is expected to be amortised within 12 months of the balance sheet date and is classified as current. The balance relates entirely to front end fees arising from non-profit investment contracts.

32. OTHER PAYABLES

	2024 £'000	2023 £'000
Policyholders	**3,719**	6,355
Other		
Amounts owed to other group undertakings	**4,830**	3,443
Amounts owed to parent undertaking – group relief	**-**	11,226
Derivative liabilities (note 19)	**44,976**	55,380
Collateral received	**3,658**	4,375
Lease liabilities	**99**	290
Accrued expenses	**5,181**	3,763
Prepaid property income	**2,529**	2,742
Investment trades awaiting settlement	**-**	5,146
Other	**5,091**	5,630
	66,364	91,995
	70,083	98,350
Current – within one year	**26,813**	42,871
Non-current – in more than one year	**43,270**	55,479
	70,083	98,350

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

33. LEASE COMMITMENTS

Maturity analysis – contractual undiscounted cash flows

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

	Land and buildings	
	2024 £'000	2023 £'000
Within one year	**99**	207
Between one and five years	**-**	99
	99	306

34. RELATED PARTY TRANSACTIONS

The following transactions were entered into with related parties.

	2024 £'000	2023 £'000
Other group undertakings		
Purchase of management and administrative services	**21,120**	26,798
Purchase of investment management services	**-**	1,642
Purchase of asset-liability management services	**-**	106

Management and administrative services were provided by a fellow subsidiary undertaking, Phoenix Group CA Services Limited until 30 September 2024 and thereafter were provided by another fellow subsidiary undertaking PGMS. Neither Phoenix Group CA Services Limited nor PGMS charge a mark-up on the services that they provide and seek to recover all costs incurred by way of a monthly service charge.

34. RELATED PARTY TRANSACTIONS (continued)

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

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

Key management remuneration

Details of key management remuneration are provided in note 11.

Dividends

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

Amounts due from / to group undertakings

The company had receivable and payable balances with group undertakings as shown in notes 23 and 32

Reinsurance

The company has reinsured its annuity business and, until 3 April 2023, the GAOs attached to unit-linked contracts with former related group undertakings in Bermuda and Canada. In order to limit counterparty credit exposure, the reinsurer is required to deposit back investments under the treaties. The liability to repay the deposits is detailed in note 26. On 3 April 2023, the company recaptured the reinsurance treaty relating to the GAO business and the deposit back liability to the reinsurer relating to the annuity business is no longer disclosed as a related party balance after this date.

Prior to 3 April 2023, outward reinsurance premiums to former group undertakings amounted to £0.5 million and amounts received from former group undertakings relating to reinsured benefits paid amounted to £39.4 million. In accordance with the treaties, the company recognised expense allowances of £3.5 million.

35. FINANCIAL COMMITMENTS

The company has a number of on-going contracts for the provision of outsourcer services, the most significant of which are shown below with the estimated cost for 2025.

	2025 expected cost £'000
State Street Bank and Trust Company	**2,289**
Diligenta Limited	**7,766**
Equiniti, Paymaster (1836) Limited	**1,211**
Towers Watson Limited	**2,825**

The company is also committed to purchase private debt securities with payments falling due as detailed in note 19 on page 50.

36. PARENT COMPANIES

The company's immediate parent company is Phoenix Life CA Holdings Limited (formerly SLF of Canada UK Limited), a company incorporated in the UK.

The company's ultimate parent company and controlling party is Phoenix Group Holdings plc, a company incorporated in the UK. Copies of the Phoenix Group Holdings plc consolidated financial statements can be obtained from their company website at www.thephoenixgroup.com.