PEARL GROUP MANAGEMENT SERVICES LIMITED

Company Registration Number: 3588063

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

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The Strategic report and the Directors' report summarise the Company's activities, its financial performance and its financial position together with any factors likely to affect its future development. In addition, the Strategic report discusses the principal risks and uncertainties the Company faces.

Strategic report

The Directors present the strategic report, the Directors' report and the financial statements of Pearl Group Management Services Limited ('the Company') for the year ended 31 December 2020.

The Company is incorporated in the United Kingdom as a private limited company which is limited by shares. Its registration number is 3588063 and its registered office is 1 Wythall Green Way, Wythall, Birmingham B47 6WG.

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006.

Business review

Principal activities

The principal activity of the Company is the provision of management services, including governance and policy administration services, to the life assurance and group companies within the Phoenix Group. This will continue to be the principal activity for the foreseeable future.

The Company carries out the management services under arm's length, per policy based, Management Services Agreements ('MSA'). The Company has outsourced some of the services it provides under the MSAs to third parties. All business is written in the UK.

Principal risks and uncertainties

The company is exposed to a number of risks from its provision of services to the Life Assurance and Group companies within the Phoenix Group. The Phoenix Group applies a consistent methodology for the identification, assessment, management and reporting of risk that includes a high level framework for the management of key risks within each business unit.

The key risks to which the Company is exposed are expense risk, liquidity risk, legislative and regulatory risk, VAT risk, credit risk, risk of outsourcer failure and operational risk. Further information on risk management can be found in note 26.

Going Concern

In considering whether it is appropriate to prepare the financial statements on a going concern basis the directors have considered the expected future performance and cashflows of the business, including consideration of the impact of the Covid-19 pandemic on the UK life insurance market to which the Company is exposed.

The comprehensive income statement for 2020 financial year shows a total comprehensive loss of £6,800k. The loss primarily reflects a re-phasing of income from the Life Company under the revised MSA agreement.

The Directors' going concern assessment has been performed by taking into account the impact of severe stress scenarios including unexpected material costs increases and reduction in income on the cashflows of the company. Under these scenarios, which the directors consider to be of very low likelihood, the Company can still meet liabilities its as they fall due. The Directors' assessment covered the period up to 31 December 2022.

Therefore the Directors are satisfied that the Company will be able to meet liabilities as they fall due and that it is appropriate to adopt the going concern basis of preparation for the financial statements.

Covid-19

The unfolding of the Covid-19 pandemic crisis exposes the Company to heightened operational and financial risks. Given the unprecedented nature of this event, there is significant uncertainty of its long term financial consequences. To mitigate macroeconomic risks, governments throughout the world have promised financial support to the economy at an unprecedented scale.

The temporary social distancing regulations introduced by the governments to counter the wider spread of the pandemic has resulted in widespread closure of offices, schools, restaurants, shops and other social places throughout the world, impacting the Company and its outsourced service providers ("OSPs")' operational capacity.

The Company has considered below the impact the pandemic has had over the operations and business of the Company and its ability to continue in operations. Operational impacts are being carefully managed through initiation of the Phoenix Group's business continuity arrangements, including focus on providing home working capability with appropriate controls and prioritising activities to focus on delivery of critical services to customers.

The Company carries the risk that the OSPs used by the Company will no longer be able to provide the agreed services at an agreed cost and under the agreed timeframe. The Company manages this risk through established governance and relationship meetings together with daily updates from key OSPs on their business continuity arrangements. In addition, controls are in place with key OSPs to enable electronic sign off whilst remote working is in place.

Whilst the Company continues to monitor the operational impacts, management consider there are no significant operational issues that impair the Company's ability to continue in operations for the foreseeable future. The Company had £14.8m of cash and cash equivalents at 31 December 2020 (2019:£104.8m).The Company's liquidity position is monitored daily and regular reviews are undertaken to identify cash flow requirements.

Management consider there are no significant financial impacts that impair the Company's ability to continue in operations up to the period ending 31 December 2022 as at the date of approval of the financial statements.

Key Performance Indicators ('KPIs')

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

Result before tax, Result after tax and total comprehensive income

As at 31 December 2020, the Company reported a loss before tax of £8,031K (2019: profit of £13,469K), a loss after tax of £6,426K (2019: profit of £ 10,538K) and total comprehensive loss of £6,800K (2019: profit of £10,789K).

Dividends

During the year, the Company issued dividends amounting to £NIL (2019: £27,292K).

Cash flows

Cash flows are monitored closely by the business to ensure that all liabilities can be met as they fall due. In 2020, operations absorbed cash of £2,715K (2019: cash generated of £21,255K) and cash and cash equivalents decreased by £89,990K (2019: decreased by £ 283K), principally as a result of a reclassification of holdings in a collective investment scheme, where a change in the terms from a fixed to a variable unit price means the asset no longer meets the definition of cash and cash equivalents.

Employees

The Company is committed to providing equal opportunities to all employees irrespective of their sex, age, sexual orientation, marital status, religion, race or disability. It is the Company's policy to give positive consideration to disabled persons with respect to applications for employment, training, career development and promotion, having regards to each individual's particular aptitudes and abilities.

Corporate activities

During 2020, corporate activity by the ultimate parent company, Phoenix Group Holding Plc, notably its acquisition of Reassure Group Plc and its subsidiaries resulted in an increase in the company's income of £6,835k which is treated as pass through income as well as an increase in operating of expenses of £1,250k treated as pass through expenses from Reassure UK Services Limited. The Company is compensated for additional services provided as a consequence of corporate activity through amendments to existing MSAs between the Company and the life assurance and group companies.

During 2018, Phoenix Group announced its intention to move to a single outsourcer platform and as a result a further 2 million of the Group's policies will be transferred to Diligenta Limited by 31 December 2021. A provision of £76,000K was recognised in 2018 for the expected cost of the platform migration. The provision has since been reassessed and has subsequently increased by a further £12.3m. The total amount of provision utilized in 2020 was £35,147K, (2019: £14,904K). The remaining costs are borne 80% by Life companies in the Phoenix Group with 20% retained by the company.

As part of the Groups programme to integrate the Standard Life Assurance business it has extended its operating model across the Group for services provided from the Service Companies to other Group entities. This included a renegotiation of the existing MSA and the implementation of a new, second, MSA between Standard Life Assets & Employees Limited and Life Company commencing on 1 January 2020. The introduction of the new MSA transferred expense risk from the Life Company to the Service Company, in line with the existing concepts. The MSAs are priced on a per policy basis based on an end state operating model and policy volume as at 2023 and as such glidepath payments will be received to cover additional expenses over and above the end state.

Stakeholder engagement

The Board considers the following key stakeholders:

Customers

Without our customers the Phoenix Group would not exist. The Group's core purpose is centered on our customers (existing and potential), helping them to secure a life of possibilities. The board has paid due regard to the Group's customers and each paper presented to the Board must include consideration of any impact arising from proposals contained therein on customers.

Colleagues

Our colleagues glue our Group values together, working to achieve our strategic priorities in our pursuit of the Phoenix purpose.

Employment services are provided by the Group's Service Companies. Decisions likely to impact employees within the Phoenix Group are taken by the Board of Phoenix Group Holdings plc and its Board Committees. The Service Companies do not make decisions relating to employee remuneration.

Suppliers

The Group's suppliers, including service providers and partners, are key to our overall success and the achievement of the Group's strategic objectives. The relationships maintained with our suppliers, strategic or otherwise is of vital importance in our drive to achieve the Group's overall purpose. The Service Companies are principal leads on maintaining relationships with suppliers.

Communities

The Group's local communities and community partnerships enable our business to operate in regional areas across Europe. These communities comprise our colleagues, customers, suppliers and many other stakeholders. The Group understands the importance of building trust and inspiring confidence through community engagement and partnerships. The directors of the Company, by virtue of their positions within the Group are engaged with Group wide socially responsible activity. Further information about such activities can be found in the Phoenix Group Holdings plc annual report and accounts.

Government, trade bodies and regulators

Relationships with the Government, trade bodies and regulators is of vital importance, without which we could not provide services for our customers and utilise opportunities for growth. The Company is regulated by the Financial Conduct Authority and is subject to close and continuous supervision from its regulator. This includes a programme of regular meetings between board members and the regulator. The Senior Managers & Certification Regime, which clearly documents those individuals within the business who are decisions makers, requires that there is an annual review of their fitness and propriety.

Section 172 Statement

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

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

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

An example of how the board considered relevant matters set out in section 172 is set out in the table below, demonstrating how the board of Pearl Group Management Services Limited has carried out its duty under section 172 of the Companies Act 2006.

KEY BOARD DECISION	Approval of the YE19 Annual Report and Accounts
STRATEGIC IMPORTANCE	**CONSIDERATION OF S172 MATTERS**
Managing our capital position	When reviewing the Company's annual report and accounts (including the going concern statement contained therein), the board also considered the long term sustainability of the Company, and the impact of declaring the business as a going concern, by reviewing sensitivity analyses relating to its ability to meets its obligation as they fall due and the bearing of changes made to the Management Services Agreement (to enhance its durability) on the Company in light of its importance in governing the Company's relationship with the Life Companies in the Phoenix Group. When approving the Company's YE19 Annual Report and Accounts, the directors also considered the need to maintain a reputation for high standards of business conduct by producing clear and understandable accounts (including the contents of the strategic report, directors' report and financial statements), approved through robust governance procedures, noting that such information may be relied upon by its stakeholders, in particular the auditors.
OUTCOME	Following due consideration of the matters set out in section 172, the Board approved the Company's YE19 annual report and accounts.

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

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On behalf of the Board

A Kassimiotis

Director

23 April 2021

Directors' report

Going concern

The Strategic report and the Directors' report summarise the Company's activities, its financial performance and its financial position together with any factors likely to affect its future development. In addition, the Strategic report discusses the principal risks and uncertainties it faces including the potential impact of Covid-19. Notes 25 and 26 to the financial statements summarise the Company's capital management and risk objectives and policies together with its financial risks.

The Directors have followed the UK Financial Reporting Council's *"Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks"* (issued April 2016) when performing their going concern assessment. As part of their comprehensive assessment of whether the Company is a going concern, the Directors have prepared cash flow and solvency forecasts for the Company for the period ending 31 December 2022 and considered the potential impact of the Covid-19 pandemic.

As a result of this review, the Directors have a reasonable expectation that the Company has adequate resources to continue operating up to the period ending 31 December 2022. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Statement on business relationships

Business relationships with customers

The Board is provided with regular updates providing visibility of the measures used to determine fairness and customer experience for Lifetime Mortgage customers. The reporting pack covers all key areas of a lifetime mortgage product lifecycle.

Board papers require authors to consider and report on matters which will impact on customers so that these are made explicit when decisions are required.

Business relationships with Partners/Suppliers

The "Service Companies" within Phoenix Group Holdings plc are the principal leads on maintaining relationships with suppliers. During the course of 2020 the Board regularly received Material Outsourcer Reports on a variety of issues including the relationship and performance of all strategic partners and the actions being taken by management to address emerging issues.

In addition, the management committees support the Board oversight of the relationships. Supplier oversight is managed through a defined model operated throughout the group.

"Service Company Boards" - Pearl Group Management Services Limited, Pearl Group Services Limited, Standard Life Assets and Employee Services Limited (together the 'Service Companies')

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.

Directors

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

A Kassimiotis

P K Lane – Resigned on 28 February 2021

R B F Seaman

R K Thakrar

Secretary

Pearl Group Secretariat Services Limited

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 auditors

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 auditors are unaware, and each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act 2006.

Re-appointment of auditors

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

On behalf of the Board

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A Kassimiotis

Director

23 April 2021

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' report and the Company financial statements ('the financial statements') in accordance with the applicable United Kingdom 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 international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- state that the Company has complied with international accounting standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PEARL GROUP MANAGEMENT SERVICES LIMITED

Opinion

We have audited the financial statements of Pearl Group Management Services Limited for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 31, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

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

Basis for opinion

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

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

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period up until 31 December 2022.

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the risk of management override of internal control and by assuming accounting provisions to be fraud risks.

Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved use of data analytics into our testing of manual journals, including segregation of duties. We tested specific transactions back to source documentation, ensuring appropriate authorisation of those transactions.

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

Use of our report

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

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Ernst & Young LLP.
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April 26, 2021 | 11:54:53 BST

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

Statement of comprehensive income
for the year ended 31 December 2020

	Notes	2020 £'000	*Restated 2019 £'000
Fees and commission Income	3	210,801	229,075
Net Investment Income	4	1,579	3,145
Total revenue		212,380	232,220
Total Income		212,380	232,220
Administrative expenses	5	(220,284)	(217,275)
Total operating expenses		(220,284)	(217,275)
(Loss) / profit before finance costs and tax		(7,904)	14,945
Finance costs	8	(127)	(1,476)
(Loss) / profit for the year before tax		(8,031)	13,469
Tax credit/(charge)	9	1,605	(2,931)
(Loss) / profit for the year attributable to owners		(6,426)	10,538
Other comprehensive income:			
Fair value (loss)/gains on revaluation	19	(462)	251
Deferred tax credit on revaluation of property	9	88	-
Total other comprehensive loss		(374)	251
Total comprehensive (loss)/profit for the year attributable to owners		(6,800)	10,789

*See note 1(c) for further information.

Statement of financial position - asset
as at 31 December 2020

	Notes	As at 31 December 2020 £'000	As at 31 December 2019 £'000
Non-current assets			
Investment in Subsidiaries	18	6,289	6,289
Property, plant and equipment	19	23,633	30,886
Loans and receivables	20	-	51,474
Deferred tax assets	14	6,368	5,802
Total non-current assets		36,290	94,451
Current assets			
Loans and receivables	20	51,474	-
Other receivables	21	79,887	74,146
Collective Investment scheme	23	81,611	-
Cash and cash equivalents	22	14,796	104,786
Total current assets		227,768	178,932
Total assets		264,058	273,383

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

	Notes	As at 31 December 2020 £'000	As at 31 December 2019 £'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	11	38,613	38,613
Capital contribution reserve	12	8,263	8,263
Revaluation reserve	19	4,690	5,152
Retained earnings		27,820	33,402
Total equity		79,386	85,430
Liabilities			
Non-current liabilities			
Long-term provisions	13	11,455	56,461
Accruals and deferred income	15	62,705	67,105
Lease liabilities	16	3,534	4,165
Total non-current liabilities		77,694	127,731
Current liabilities			
Short-term provisions	13	27,034	6,395
Accruals and deferred income	15	66,153	36,892
Lease liabilities	16	855	3,950
Other payables	17	12,936	12,985
Total current liabilities		106,978	60,222
Total liabilities		184,672	187,953
Total equity and liabilities		264,058	273,383

On behalf of the Board

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A Kassimiotis
Director

23 April 2021

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

	Share capital (note 11) £'000	Capital contribution reserve £'000	Revaluation reserves (note19) £'000	Retained earnings £'000	Total £'000
At 1 January 2020	38,613	8,263	5,152	33,402	85,430
Loss for the year	-	-	-	(6,426)	(6,426)
Other comprehensive loss for the year	-	-	(462)	88	(374)
Total comprehensive loss for the year	-	-	(462)	(6,338)	(6,800)
Current tax charge on share schemes	-	-	-	98	98
Deferred tax charge on share schemes	-	-	-	658	658
At 31 December 2020	38,613	8,263	4,690	27,820	79,386

	Share capital (note 11) £'000	Capital contribution reserve £'000	Revaluation reserves (note 19) £'000	Retained earnings £'000	Total £'000
At 1 January 2019	38,613	13,263	4,906	49,845	106,627
Profit for the year	-	-	-	10,538	10,538
Other comprehensive income for the year	-	-	251	-	251
Total comprehensive income for the year	-	-	251	10,538	10,789
Return of capital contribution	-	(5,000)	-	-	(5,000)
Current tax credit on share schemes	-	-	-	118	118
Deferred tax credit on share schemes	-	-	-	188	188
Amortisation of revaluation reserve	-	-	(5)	5	-
Dividends paid on ordinary shares (note 10)	-	-	-	(27,292)	(27,292)
At 31 December 2019	38,613	8,263	5,152	33,402	85,430

Statement of cash flows
for the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Cash flows from operating activities			
Cash (absorbed)/generated from operations	24	(2,715)	21,255
Taxation paid		(3,015)	-
Net cash flows from operating activities		(5,730)	21,255
Cash flows from investing activities			
Purchase of property plant and equipment		-	(1,239)
Transfer to collective investment schemes	23	(81,611)	-
Interest received from group companies	4	1,204	2,213
Net cash flows from investing activities		(80,407)	974
Cash flows from financing activities			
Ordinary share dividends paid		-	(10,000)
Capital contribution paid		-	(5,000)
Interest paid		-	(1,232)
Payment of lease liabilities	16	(3,726)	(6,036)
Lease interest paid	16	(127)	(244)
Net cash flows from financing activities		(3,853)	(22,512)
Net decrease in cash and cash equivalents		(89,990)	(283)
Cash and cash equivalents at the beginning of the year		104,786	105,069
Cash and cash equivalents at the end of the year		14,796	104,786

Supplementary disclosures on cash flow from financing activities

	2020 £000	2019 £000
Interest received	1,204	2,213
Interest paid	-	(1,232)
Lease Interest paid	(127)	(244)

On 14 December 2020, the Liquidity fund invested in by the Company and classified as a cash equivalent in 2019 changed its terms from a fixed to a variable unit price fund. The balance invested in this fund was therefore prospectively reclassified as an investment in a collective investment scheme for year ended 31 December 2020 (see note 23).

Notes to the financial statements

1. Accounting Policies

(a) Basis of preparation

The financial statements for the year ended 31 December 2020, set out on pages 12 to 42, were authorised by the Board of Directors for issue on 23 April 2021.

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

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

The financial statements are standalone financial statements and the exemption in paragraph 4 of IFRS 10 *Consolidated Financial Statements* and section 401 of the Companies Act 2006, have been used not to present consolidated financial statements. The results of the Company are consolidated into the accounts of the Company's ultimate parent, Phoenix Group Holdings Plc, a company incorporated in England and Wales.

The Directors have followed the UK Financial Reporting Council's "Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks" (issued April 2017) when performing their going concern assessment. As part of their comprehensive assessment of whether the Company is a going concern, the Directors considered the possible impacts of the Covid-19 pandemic on the operational capacity and liquidity of the Company for a period up to 31 December 2022. The liquidity assessment considered the ability to meet liabilities as they fall due under a base case and a severe stress scenario.

As a result of this review, the Directors believe the Company has adequate resources to continue to meet liabilities as they fall due up to the period 31 December 2022. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Statement of compliance

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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

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

(b) Changes to accounting policies

The accounting policies applied in these financial statements is the same as those applied in the last annual financial statements.

A number of new standards are effective from 1 January 2020 but they do not have a material effect on the Company's financial statements.

(c) Restatement of prior period information

The 2019 comparatives in the Statement of Comprehensive Income have been restated to reflect a presentational change in respect of dividends paid. The 2019 financial statements previously showed dividends paid (£27,292k) within the 'Other comprehensive income'. This has now been removed from 'Other comprehensive income', as the correct treatment is to present these within the Statement of Changes in Equity.

(d) Critical accounting estimates and judgements

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

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the Company's business that typically require such estimates are the impairment tests for investments in subsidiaries, income taxes, recognition of provisions, impairment of financial assets, property valuation and share-based payments.

Impairment of investments in subsidiaries
Investments in subsidiaries are subject to regular impairment reviews. Impairments of investments in subsidiaries are measured at the difference between the carrying value of a particular asset and its estimated recoverable amount. Impairments are recognised in the statement of comprehensive income in the period in which they occur. The Company's policy in relation to impairment testing of investments in subsidiaries is detailed in accounting policy (g).

Income taxes
Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which the losses can be relieved. The UK taxation regime applies separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a capital or trading nature may affect the recognition of deferred tax assets.

The accounting policy for income taxes (both current and deferred taxes) is discussed in more detail in accounting policy (d).

Provisions
The accounting policy for provisions is discussed in accounting policy (l).

Fair value of financial assets
The accounting policy for fair value of financial assets is discussed in accounting policy (h).

Impairment of financial assets
The impairment provisions for financial assets disclosed in note (h) are based on assumptions about risk of default and expected loss rates. The company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the company's past history and existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see note (h).

Property valuation
The accounting policy for property, plant and equipment is discussed in accounting policy (f). Further detail is also provided in note 19.

Share-based payments
The accounting policy for share-based payments is discussed in accounting policy (o).

(d) Income tax
Income tax comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised in the statement of changes in equity, in which case it is recognised in this statement.

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

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

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

(e) Employee benefits
The Company is a participating employer in the PGL pension scheme which has a defined contribution section and a dormant defined benefit section.

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income as and when incurred.

Defined benefit plans

No net defined benefit cost or cash contributions of the PGL scheme are borne by the Company as it is the policy of the Phoenix Group for these to be borne by the sponsoring employer for the PGL scheme, Phoenix Group Holdings (No.1) Limited, a Group entity.

(f) Property, plant and equipment

Owner-occupied property is stated at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment. The property is revalued on a quarterly basis.
Owner-occupied property is depreciated over its estimated useful life, which is taken as 50 years, except where the residual value is greater than its carrying value in which case no depreciation is charged to profit or loss. Land is not depreciated.

A revaluation surplus is recorded in Other Comprehensive Income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Plant and equipment is stated at cost less accumulated depreciation. Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of the assets. The useful lives of the fixtures, fittings and equipment have been estimated as 2-5 years.

(g) Investment in subsidiaries

Investments in shares in subsidiaries are carried in the statement of financial position at cost less impairment.

At each reporting date, the Company assesses whether there are any indications of impairment or reversal of impairment. When such indications exist, an impairment test is carried out by comparing the carrying value of the investment against the estimate of the recoverable amount, which represents the higher of value in use or fair value less costs of disposal. Impairments and reversal of impairments are recognised as income or an expense in the statement of comprehensive income in the period in which they occur.

(h) Financial assets

Classification of Financial assets

Financial assets are measured at amortised cost where they have:

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

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

Financial assets measured at amortised cost are included in Note 20 Loans and receivables, Note 21 Other receivables and Note 22 Cash and cash equivalents.

Impairment of financial assets

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

The Company measures loss allowances which have low credit risk using the 12-month Expected Credit Loss (ECL). Interest revenue is recognised on a gross basis. A simplified approach is used to determine the loss allowances for other receivables as these are always measured at an amount equal to lifetime ECLs. See Note 26 for detail of how the Company assesses whether the credit risk of a financial asset has increased since initial recognition and when estimating ECLs.

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

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

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

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

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity term of three months or less at the date of placement. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are deducted from cash and cash equivalents for the purpose of the statement of cash flows.

(j) Collective Investment scheme

Collective investment schemes are designated at fair value through profit or loss and accordingly are stated in the Statement of Financial Position at fair value. They are designated at fair value through profit or loss because they are managed and evaluated on a fair value basis in accordance with the Company's stated risk management policies

(k) Leases

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

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

This policy applies to contracts entered into or amended after 1 January 2019.

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

Under IFRS 16 an exemption permits that right-of-use assets and lease liabilities do not need to be recognised in respect of short term leases of property that have a lease term of 12 months or less or for leases of low value assets, including IT equipment. The Company has applied this exemption and recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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

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

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

(l) Provisions and contingent liabilities

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

(m) Dividends

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

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

(n) Income recognition

Fee and commission income

Fee and commission income relates to the following:

- policy administration fees, project fees, pass through fees and corporate fess which are recognised as the services are provided; and
- other fees, which are recognised as the services are provided.

Fee income received for the indemnity of future risks is treated as deferred income in the period in which it is received and recognised as revenue either in line with actual costs incurred (as these costs are considered to best reflect the rendering of services) or as a result of a reduction in the assumed level of future risks. The deferred income relating to the profit share agreement is recognised on a straight line basis over the duration of the agreement, 5 years.

Net investment income

Net investment income comprises interest on cash and cash equivalents, dividends on collective investment schemes and fair value gains and losses on collective investment schemes.

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

Dividend income is recognised as income in the Statement of comprehensive income on the date the right to receive payments is established, which in the case of listed securities is the ex-dividend date.

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

(o) Expense recognition

Share-based payments

Equity-settled share-based payments to employees and others providing services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 27.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Phoenix Group Holdings ('PGH'), the Company's ultimate parent company estimate of equity instruments that will eventually vest. At each period end, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is charged or credited to equity.

Finance costs

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

(p) Share capital and capital contributions

Ordinary share capital

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

Capital contributions

Capital contributions received by the Company and which contain no agreement for their repayment are recognised directly in the statement of changes in equity as a distributable reserve.

(q) Events after the reporting period

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

2. Financial Information

The financial statements for the year ended 31 December 2020, set out on pages 12 to 42 were authorised by the Board of Directors for issue on 23 April 2021.

In preparing the financial statements, the Company has adopted the following standards, interpretations and amendments which have been issued by the International Accounting Standards Board ('IASB') and have been adopted for use by the EU:

- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Amendments clarify the definition of material and how it should be applied.
- Amendments to the References to the Conceptual Framework in IFRS Standards.

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

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

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

- IAS 16 Property, Plant and Equipment (1 January 2022): The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, such sales proceeds and related costs should be recognised in profit or loss. These amendments do not currently have any impact on the Company.

- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (1 January 2022): The amendments specify which costs a company includes when assessing whether a contract will be loss-making. These amendments are not expected to have a significant impact on the Company.

- Annual Improvements Cycle 2018 – 2020 (1 January 2022): Minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases. These amendments do not currently have any impact on the Company.

- Classification of Liabilities as Current and Non-current (Amendments to IAS 1 Presentation of Financial Statements) (2023). The amendments clarify rather than change existing requirements and aim to assist entities in determining whether debt and other liabilities with an uncertain settlement date should be classed as current or non-current. It is currently not expected that there will be any reclassifications as a result of this clarification.

Of the amendments to standards listed above IFRS 16 Leases has been endorsed by the EU.

On 31 January 2020, the UK left the EU and consequently EFRAG will no longer endorse IFRSs for use in the UK. Legislation is in place to onshore and freeze EU-adopted IFRSs and from 1 January 2021 the Company will apply

UK-adopted International Accounting Standards. The powers to endorse and adopt IFRSs will be delegated by the Secretary of State to the UK Endorsement Board once the draft statutory instrument, which was laid before Parliament on 1 February 2020, is approved.

The following amendments to standards listed above have been endorsed for use in the UK by the Secretary of State:

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

3. Fees and commissions

	2020	2019
	£'000	£'000
Policy administration fees	105,123	115,299
Project fees	23,642	32,038
Pass through fees	37,081	39,145
Corporate fees	34,916	32,646
Movement in deferred income (note 15)	7,600	5,679
Other income	2,439	4,268
Total fees and commissions	210,801	229,075

Project related income is allocated between the Company, PGS and SLAESL which are fellow subsidiaries, in accordance with a pre-defined governance framework.

4. Net investment income

	2020	2019
	£'000	£'000
Net interest income	1,579	3,145
	1,579	3,145

Net Interest income includes interest of £1,204K (2019: £2,213K) on loans to Group.

5. Administrative expenses

		2020	2019
		£'000	£'000
Employee costs		112,655	103,203
Outsourcing expenses		83,101	83,171
Depreciation of property plant and equipment	19	6,094	5,979
Operating lease rentals	28	883	1,174
Other		17,551	23,748
		220,284	217,275

Other operating expenses include contractor and professional fees incurred predominantly for project work.

Project related costs are allocated between the Company, PGS and SLAESL, which are fellow subsidiaries, in accordance with a pre-defined governance framework.

Staff costs and overheads are allocated between the Company, PGS and SLAESL, which are fellow subsidiaries.

Employee costs	**2020**	**2019**
	£'000	£'000
Wages and salaries	94,344	86,681
Social security contributions	12,187	11,352
Other Pension Costs	6,124	5,170
	112,655	103,203

	2020	2019
Average number of persons employed	872	837

6. Directors' remuneration

	2020	**2019**
	£000	£000
Salaries and short term benefits	242	300
Remuneration (executive and non-executive Directors remuneration excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	242	300
Contributions to money purchase pension schemes	14	20

	2020	**2019**
	Number	Number
Number of Directors who:		
are members of a money purchase pension scheme	4	4
have exercised share options during the year	3	3

	2020	**2019**
	£000	£000
Highest paid Director's remuneration	93	111
Contribution to money purchase pension scheme	1	1

The highest paid director has exercised share options during the year. The Directors are employed by the Company or PGS, a fellow group entity. The total compensation paid to the Directors of the Company relates to services to the Company, regardless of which entity within the Phoenix Group has paid the compensation.

7. Auditor's remuneration

	2020	**2019**
	£000	£000
Audit of the Company's financial statements	132	132
Audit Related Assurance Services	3	3
	135	135

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

8. Finance costs

	2020	2019
	£'000	£'000
Interest expense		
Interest on lease liabilities	127	244
On borrowings at amortised costs	-	1,232
	127	1,476

Interest expense includes interest of £Nil (2019: £1232K) on loans from Group entities.

9. Tax (credit)/charge

Current year tax (credit)/charge

	2020	2019
	£'000	**£'000**
Current tax:		
UK Corporation tax	(1,292)	3,585
Adjustment in respect of prior years	(493)	(39)
Total current tax	(1,785)	3,546
Deferred tax:		
Origination and reversal of temporary differences	740	(828)
Adjustment in respect of prior years	11	38
Change in the rate of UK corporation tax	(571)	175
Total deferred tax	180	(615)
Total tax (credit)/charge	(1,605)	2,931

Tax (credited) to other comprehensive income

	£'000	£'000
Deferred tax credit on revaluation of property	(88)	-
	(88)	-

Reconciliation of tax (credit)/charge

	2020	2019
	£'000	£'000
(Loss)/Profit for the year before tax	(8,031)	13,469
Tax at standard UK rate of 19%	(1,526)	2,559
Disallowable expenses	23	75
Adjustment to tax charge in respect of prior years	(482)	(1)
Deferred tax rate change	(571)	175
Share based remuneration	951	171
Recognition of previously unrecognised deferred tax asset	-	(48)
Total tax (credit)/charge for the year	(1,605)	2,931

10. Dividends on ordinary shares

	2020 £'000	2019 £'000
Dividend Paid	-	27,292
	-	27,292

11. Share capital

	2020 £'000	2019 £'000
Authorised:		
100,000K (2019: 100,000K) Ordinary shares of £1 each	100,000	100,000
Issued and fully paid equity shares:		
Ordinary shares of £1 each	38,613	38,613

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

12. Capital contribution

	2020 £'000	2019 £'000
As at 1 January	8,263	13,263
Returned on capital contribution	-	(5,000)
As at 31 December	8,263	8,263

During the year, the company returned capital contributions of £Nil (2019:£5,000K). Whilst the expense arising from equity-settled transactions is recorded in the statement of comprehensive income, in accordance with IFRS 2 the corresponding credit entry is classified as a capital contribution received from PGH within equity. However this capital contribution is immediately offset by a corresponding management recharge of equivalent value (note 27).

13. Provisions

	Strategic review of outsourcing relationships	Leasehold properties	Other	Total
	£'000	£'000	£'000	£'000
At 1 January 2020	57,641	3,415	1,800	62,856
Additions in the year	12,350	-	-	12,350
Utilised during the year	(35,147)	-	-	(35,147)
Released during the year	-	(1,570)	-	(1,570)
At 31 December 2020	34,844	1,845	1,800	38,489
Amount due for settlement within 12 months	23,619	1,615	1,800	27,034
Amount due for settlement after 12 months	11,225	230	-	11,455

Strategic review of Outsourcing Relationship – (Project Scott)

On 29 November 2018, Phoenix Group announced its intention to move to a single outsourcer platform and as a result a further 2 million of the Group's policies will be transferred to Diligenta Limited by 31 December 2021. A provision of £76,000K was recognised in 2018 for the expected cost of the platform migration, of which £35,147K was utilised during 2020 (2019: £14,904K). In 2020, the provision increased by £12,350K as a result of an updated signed Change control note with Diligenta, and revised estimates for the Milliman, Capita Exit assistance and expected redundancy costs.

Leasehold Properties

In respect of St Vincent Street. Glasgow a claim has been submitted by the Landlords in the amount of £1,669K. This is currently under negotiation. In addition we are in negotiation with Royal London and their contributing to the overall dilapidations claim is likely to be £55K, therefore we will anticipate the provision to be held at £1,615K.

Other Provisions

Other provisions include £1,800K (2019: £1,800K) in respect of costs relating to the migration of policies to an alternative outsourcer.

14. Tax assets and liabilities

	2020	2019
	£'000	£'000
Deferred Tax		
The balances at 31 December comprises:		
Deferred tax assets	6,368	5,802
	6,368	5,802

Movement in deferred tax assets and liabilities

Year ended 31 December 2020

	At 1 January £'000	Recognised in income statement £'000	Recognised in other comprehensive income £'000	Recognised in equity £'000	At 31 December £'000
Share schemes	3,735	(198)	-	658	4,195
Unrealised gains on property	(259)	146	88	-	(25)
Accelerated capital allowances	2,326	(128)	-	-	2,198
	5,802	(180)	88	658	6,368

Year ended 31 December 2019

	At 1 January £'000	Recognised in the Income statement £'000	Recognised inequity £'000	At 31 December £'000
Share schemes	2,399	1,149	187	3,735
Unrealised gains on property	(259)	-	-	(259)
Accelerated capital allowances	2,860	(534)	-	2,326
	5,000	615	187	5,802

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

Following the cancellation of the planned tax rate reduction from 19% to 17% announced in the March 2020 Budget, deferred tax assets and liabilities, where provided, are reflected at the rate of 19%.

Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.

15. Accruals and deferred income

	2020 £'000	2019 £'000
Deferred income	62,705	70,305
Accruals	66,153	33,692
	128,858	103,997
Amount due for settlement before 12 months	66,153	36,892
Amount due for settlement after 12 months	62,705	67,105

The following table details the change in deferred income:

	2020 £'000	2019 £'000
At 1 January	70,305	75,984
Movement during the year	(7,600)	(5,679)
At 31 December	62,705	70,305

The Company renegotiated MSAs with PLL to harmonise the contract terms, structures and charging basis of the previous MSAs with effect from 31 December 2015. As part of the harmonisation, the Company accepted certain risks on behalf of PLL, which related to particular blocks of business, in exchange for the receipt of a one-off payment The fee income was deferred and is being recognised in line with associated costs as and when they arise or as a result of a reduction in the assumed level of risk. The timing of recognition is therefore uncertain. As at 31 December 2020, the remaining deferred income liability in this regard was £62,705K (2019: £67,105K) and during the year, £4,400K (2019: £2,480K) was recognised as income.

Remaining performance obligations
As of 31 December 2020 the aggregate amount of the remaining deferred income is £62,705K and the entity will recognise this revenue as future costs are incurred, the timing of which is uncertain.

As a result of the MSA harmonisation, a component of the MSA agreement related to a profit share arrangement between the Company and PGS, a fellow subsidiary, where PGS transferred £16,000,000 cash to the Company during 2016. This is recognised on a straight line basis in the income statement over the duration of the agreement, 5 years. During the year, £3,200K (2019: £3,200K) was recognised as income resulting in a balance of £NIL as the profit share was fully utilised (2019: £3,200K).

16. Lease liabilities

	2020 £'000	2019 £'000
As at 1 January	8,115	14,151
Interest on lease liabilities	127	244
Lease payments	(3,853)	(6,280)
As at 31 December	4,389	8,115
Amounts due after 12 months	3,534	4,165

Maturity analysis – contractual undiscounted cash flows

	£'000	£'000
Not later than one year	1,010	5,126
Later than one year and no later than five years	3,615	4,041
Later than five years	-	584

Lease liabilities relate to St. Vincent Street, Glasgow and Juxon House, London. St. Vincent Street was occupied by Capita and Royal London. The lease expired in December 2020. There are no exit clauses in the lease. The lease is based on current market value and is reviewed twice yearly in each year of the term. The current rental figure was revised in June 2018.

Juxon House is currently occupied by Phoenix Group. The lease for Juxon House was renewed on 26 January 2015. The lease expires in July 2025 but the company has an option to break on 30 July 2020. The lease is based on current market value and was subject to a review in July 2020, however the review was not initiated by the Landlords and as such an accrual of £50K would be recognised in Q1 2021.

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

The principal cash outflow for leases for the year ended 31 December 2020 is £3,726K (2019 £ 6,036K) and interest amounted to £127k (2019: £244k).

17. Other payables

	2020 £'000	2019 £'000
Amounts owed to Group companies	12,117	10,975
Other payables	819	2,010
	12,936	12,985

18. Investment in subsidiaries

	2020 £'000	2019 £'000
At 1 January and 31 December	6,289	6,289
	6,289	6,289

There was no impairment in the value of investment in subsidiaries during 2020 or 2019.

The subsidiaries of the Company are:

	Country of incorporation and principal place of operation	Class of shares held (wholly-owned unless otherwise indicated)
PGMS (Ireland) Holdings	Goodbody Secretarial Limited, International Financial Services Centre, 25/28 North Wall Quay, Dublin 1, Ireland	Ordinary shares of £1
PGMS (Glasgow) Limited	Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH.	Ordinary shares of £1
Alba Life Trustees Limited	Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH.	Ordinary shares of £1
Phoenix SCP Pensions Trustees Limited	1 Wythall Green Way, Wythall, Birmingham, B47 6WG, England	Ordinary shares of £1
Phoenix SCP Trustees Limited	301 St Vincent Street, Glasgow, G2 5HN	Ordinary shares of £1
Phoenix Life Pension Trust Limited	1 Wythall Green Way, Wythall, Birmingham, B47 6WG, England	Ordinary shares of £1
Phoenix Pension Scheme (Trustees) Limited	1 Wythall Green Way, Wythall, Birmingham, B47 6WG, England	Ordinary shares of £1
Phoenix Pensions Trustee Services Limited	1 Wythall Green Way, Wythall, Birmingham, B47 6WG, England	Ordinary shares of £1
PGMS (Ireland) Limited (subsidiary of PGMS (Ireland) Holdings)	Goodbody Secretarial Limited, International Financial Services Centre, 25/28 North Wall Quay, Dublin 1, Ireland	Ordinary shares of £1

19. Property, plant and equipment

	Owner occupied property	Property right of use asset	Plant and equipment	Total
	2020	2020	2020	2020
	£000	£000	£000	£000
Cost or valuation				
1 January 2020	18,500	13,933	5,091	37,524
Revaluation Loss	(1,400)	-	-	(1,400)
31 December 2020	17,100	13,933	5,091	36,124
1 January 2020	-	(4,908)	(1,730)	(6,638)
Depreciation (note 5)	(241)	(4,908)	(945)	(6,094)
Fair value gains on revaluation	241	-	-	241
31 December 2020	-	(9,816)	(2,675)	(12,491)
Carrying amount	17,100	4,117	2,416	23,633

	Owner occupied property	Property right of use asset	Plant and equipment	Total
	2019	2020	2019	2019
	£000	£000	£000	£000
Cost or valuation				
1 January 2019	18,500	13,933	5,186	37,619
Additions	-	-	1,239	1,239
Fully Depreciated Assets	-	-	(1,334)	(1,334)
31 December 2019	18,500	13,933	5,091	37,524
1 January 2019	-	-	(2,244)	(2,244)
Depreciation (note 5)	(251)	(4,908)	(820)	(5,979)
Elimination of fully depreciated asset	-	-	1,334	1,334
Fair value gains on revaluation	251	-	-	251
31 December 2019	-	(4,908)	(1,730)	(6,638)
Carrying amount	18,500	9,025	3,361	30,886

The useful lives of plant and equipment have been taken as 5-10 years for fixtures and fittings and 3-5 years for computer equipment. Owner-occupied property has an estimated useful life of 50 years. Land is not depreciated.

Jones Lang LaSalle Limited, an accredited independent valuer completed a valuation of the owner occupied property at 31 December 2020, on an open market basis in accordance with the Royal Institution of Chartered Surveyors' requirements, which is deemed to equate to fair value. The fair value measurement for the land and buildings of £17,100K has been categorised as level 3 based on the non-observable inputs to the valuation technique used.

The following table shows reconciliation from the opening to the closing fair values for the level 3 land and buildings at valuation:

	2020	**2019**
	£000	£000
At 1 January	18,500	18,500
Revaluation Loss	(1,400)	-
Depreciation recognised in profit or loss	(241)	(251)
Fair value gains on revaluation	241	251
At 31 December	17,100	18,500

The fair value of the land and buildings at valuation was derived using the investment method supported by comparable evidence. The significant non-observable inputs used in the valuation are expected rental value per square foot and capitalisation rate. The fair value of the land and buildings valuation would increase/(decrease) if the expected rental value per square foot were higher/(lower) and the capitalisation rate were to be lower/(higher).

If the owner occupied property was recognised at historical cost less accumulated depreciation, its carrying amount would have been approximately £12,912K at 31 December 2020, (2019: £13,148K).

Unrealised gains of £4,690K (2019: £ 5,152K) are held in the Revaluation Reserve within the Statement of Changes in Equity. During the year, £462K was transferred from the revaluation reserve to Other Comprehensive income to offset against the revaluation loss recognised in the Statement of Comprehensive Income. The accumulated depreciation during the year and the fair value gain on revaluation of £241k was taken directly to the Income Statement.

In 2019, the revaluation gain of £251K was recognised in Other Comprehensive Income. Revaluation Reserve is not distributable. A movement in the Revaluation Reserve of £Nil (2019: £5K) has been transferred to retained earnings, being that part of the depreciation charge in respect of the revaluation uplift on the asset. The additional depreciation is systematically treated as realised over the estimated remaining life of the asset.

20. Loans and receivables

	2020	**2019**	**2020**	**2019**
	£'000	£'000	£'000	£'000
	Carrying Value	Carrying Value	Fair Value	Fair Value
Loans to Group entities at amortised cost:				
Pearl Life Holdings Limited	51,474	51,474	52,036	51,474
	51,474	51,474	52,036	51,474
Repayable within 12 months	51,474	-		
Repayable after 12 months	-	51,474		

The loan balance of £ 51,474K (2019: £ 51,474K) to PLHL is repayable on 31 December 2021 and incur interest at a rate of 6 month LIBOR plus 1.75%. Interest is settled bi-annually.

Determination of fair value and fair value hierarchy of loans and receivables

Loans and receivables are categorised as Level 3 financial instruments. The fair value of loans and receivables with no external market is determined by internally developed discounted cash flow models using a risk adjusted discount rate corroborated with external market data where possible.

There were no level 1 or level 2 loans and receivables in 2020 or 2019.

There were no fair value gains or losses recognised in other comprehensive income.

21. Other receivables

	2020	2019
	£'000	£'000
Prepayment	4,568	4,452
Amounts due from related parties	71,725	67,239
Other receivables	3,594	2,455
	79,887	74,146

Amounts owed by Group Companies include the reimbursement for a proportion of costs totalling £27,876,000 (2019: £46,395,000) which has been provided for under the Strategic review of Outsourcing relationship provision (note 13).

22. Cash and cash equivalents

	2020	2019
	£'000	£'000
Bank and cash balances	14,796	104,786
	14,796	104,786

The carrying amounts of cash and cash equivalents are not materially different from their fair values.

23. Collective Investment scheme

	2020	2019
	£'000	£'000
Collective Investment scheme	81,611	-
	81,611	-

On 14 December 2020, the Liquidity fund invested in by the Company and classified as a cash equivalent in 2019 changed its terms from a fixed to a variable unit price fund. The balance invested in this fund was therefore prospectively reclassified as an investment in a collective investment scheme for year ended 31 December 2020.

The total cash out flow from the collective investment schemes was £81,611K (2019: Nil).

Structured entities

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

The Company has determined that its investments in Collective investment schemes as presented on the face of the Statement of Financial Position are structured entities. These investments are in liquidity funds (specifically a Short Term Variable Net Asset Value Money Market fund) which are held for the purpose of managing liquidity and are managed together with the Company's cash and cash equivalents.

The Company's holdings in these investments are subject to the terms and conditions of the fund's prospectus and are susceptible to market price risk arising from uncertainties about future values. The Company can withdraw assets from the fund at any time on a T+0 basis. The assets of the fund are invested with the aim to preserve capital whilst providing a return in line with prevailing short term money market interest rates by investing in assets that can be readily purchased and sold in normal market conditions, thus maintaining a high degree of liquidity.

The fund is managed by Aberdeen Standard Investments, which is a related party of the Company. The fund manager is compensated by the fund for their services. Such compensation is calculated as a percentage of the Net Asset Value of the fund and is reflected in the valuation of the fund.

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

The Company's maximum exposure to loss to the interests presented above is the carrying amount of the Company's investments. Once the Company has disposed of its shares or units in a fund, it ceases to be exposed to any risk from that fund.

Fair value methodology

The Company's interests in collective investment schemes are held at fair value through profit or loss in accordance with accounting policy (j). Any change in fair value is included in the Statement of comprehensive income in 'net investment income'.

The fair value of collective investment schemes is measured by reference to published bid prices. These instruments are generally considered to be quoted in an active market and are therefore categorised as level 1 instruments within the fair value hierarchy.

All the Company's collective investment schemes have been valued using standard market pricing sources.

24. Cash flows

Cash flows from operating activities

	2020	**2019**
	£'000	£'000
Loss / (profit) for the year before tax	(8,031)	13,469
Non-cash movements in loss / (profit) for the year before tax		
Depreciation of property, plant and equipment (note 19)	6,094	5,979
Revaluation of owner occupied property (note 19)	698	(251)
Interest expense on borrowings	-	1,232
Interest on lease liabilities (note 16)	127	244
Interest income on loans to Group entities	(1,204)	(2,213)
Changes in operating assets and liabilities:		
(Increase)/Decrease in other assets	(3,461)	62,001
Increase /(Decrease) in other liabilities	3,062	(59,206)
Cash (absorbed)/generated from operations	(2,715)	21,255

25. Capital management

The Company's capital comprises share capital and reserves. At 31 December 2020, total capital was £79,386K, (2019: £85,430K). The movement in capital during the year comprises total comprehensive loss of £6,800K (2019: profit of £10,789K).

In 2020, tax charge £756K (2019: tax credit of £306K) relating to share schemes was posted to capital, £98K (2019: £118K) related to current tax charge on share schemes and £658K (2019: tax credit of £188K) related to deferred tax charge on share schemes.

The Company is regulated by the FCA and must maintain capital of £20K (2019: £20K). The Company's capital is monitored by the Directors and managed on an on-going basis. The Directors are responsible for ensuring that the Company maintains an appropriate level of capital to enable it to meet liabilities arising from reasonably foreseeable extreme events. The Company has implemented a system of regular reviews to monitor the level of capital in the short to medium term taking account of the anticipated future developments of the Company. At 31 December 2020, it had an excess over its regulatory capital requirements of £79,366K (2019: £85,410K).

The Directors have prepared cash flow forecasts for the Company for the foreseeable future. The cash flow forecasts indicate that the Company is able to meet its obligations as and when they fall due for the foreseeable future.

26. Risk management

On 31 December 2015, the Company agreed a revised MSA with PLL. Under this agreement, the Company entered into further risk buyouts relating to regulatory change and expense risk. The Company received a cash consideration for accepting these risks.

At the time of the risk transfers, the consideration was determined to be adequate to meet the foreseeable costs of the risks crystallising and continues to be at 31 December 2020. The risks are assessed as part of the following items:

Expense risk

The Company carries the risk of reducing its expenses in line with fee income from per policy based management services agreements.

To mitigate expense risk the company outsources policy administration services for a per policy based fee. The total cost of outsourced policy administration runs off in line with policy run off. The Company manages incremental expense risk through a focus on cost reduction initiatives across the business as a part of the annual operating plan.

Liquidity risk

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

Key components of the monitoring framework include daily monitoring of cash flows and regular reviews with the parent company, IHL, to identify cash flow requirements.

Management has considered the impact of Covid-19 on the Company's liquidity risk, which continues to be deminimis, since the Company hold its funds in highly liquid, readily available cash funds which exposed to only minimal changes in value. 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.

Legislative and regulatory risk

The Company is subject to regulation by the FCA. The FCA has broad regulatory powers dealing with all aspects of financial services including, amongst other things, the authority to grant and, in specific circumstances, to vary or cancel permissions to carry out particular activities. Phoenix Group has processes in place to keep up to date with latest FCA guidelines and regulation. Phoenix Group is also responsible for treating its customers fairly and adheres to FCA guidelines in respect of this.

VAT risk

Decisions of the Court of Justice of the European Union ("CJEU") meant that VAT would have likely become due on certain Outsourcer fees, such as claims handling/policy administrations services, in the absence of the UK's decision to leave the European Union ("EU"). This would give rise to additional expenses for the business.

After 31 December 2020, UK courts can now depart from judgements of the CJEU and it is felt unlikely that VAT will now be imposed on Outsourcer fees on the basis of EU case law. The risk cannot be said to have subsided completely, however, as the UK Government could legislate to impose VAT unilaterally, although no Government in recent times has indicated any wish to restrict the relevant VAT exemption in accordance with the CJEU judgements.

Credit risk

The table below details the credit quality of the Company's financial assets, as well as the Company's maximum exposure to credit risk by credit risk rating grades. Management has considered the impact of Covid-19 on the credit quality of the Company's financial assets and has concluded that the credit risk rating grades below are not impacted.

Credit risk management practices

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

Category	Description	Basis for recognising ECL
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12m ECL
Doubtful	There has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit impaired
In default	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

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

31/12/2020	Note	External Credit rating	Internal Credit rating	12m or Lifetime ECL?	Gross carrying amount	Loss Allowance	Net carrying amount
					£'000	£'000	£'000
Loans and receivables	20	N/A	Performing	12m ECL	51,474	-	51,474
Intercompany receivables	21	N/A	Performing	12m ECL	71,725	-	71,725
Other receivables	21	N/A	Performing	Lifetime ECL (simplified approach)	3,593	-	3,593
Cash and cash equivalent	22	AAA	N/A	12m ECL	14,796	-	14,796
Collective Investment scheme	23	AAA	N/A	12m ECL	81,611	-	81,611

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

Loans and receivables - The Company is exposed to credit risk relating to loans and receivables from other Group Companies, which are considered low risk. The Company assesses whether there has been a significant increase in credit risk since initial recognition by assessing whether there has been any historic defaults, by reviewing the going concern assessment of the borrower, the long term stability of the Phoenix Group and the ability of the Parent Company to prevent a default by providing a capital or cash injection.

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

Other receivables - The Company's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty including historic loss experiences and current market conditions. For each new counterparty, the Company also analyses the creditworthiness before the Company's standard payment terms and conditions are offered. The Company also reviews external ratings, if they are available, and financial statements.

Cash and cash equivalents - The Company's cash and cash equivalents are held with bank and financial institution counterparties, which have AAA investment grade ratings. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties and there being no history of default.

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

Collective investment schemes (note 23) - The Company's collective investment schemes represent investments in a fund which has an investment grade rating and a positive outlook. The Company therefore considers that its collective investment schemes have low credit risk based on the external credit rating of the counterparty and there being no history of default.

Sensitivity analysis

The Company is exposed to market risk in respect of its holdings in collective investment schemes (note i). The table that follows illustrate the sensitivity of profit after tax and equity to reasonably possible variations in the unit price at the reporting date.

	2020	**2019**
	Effect on profit after tax and equity	Effect on profit after tax and equity
	£000	£000
0.20% increase in unit price	163	-
0.20% decrease in unit price	(163)	-

Risk of outsourcer failure

The Company carries the risk that the outsourcers are no longer able to commit to providing the agreed services at the agreed costs. The risk of outsourcers becoming insolvent is continually monitored closely by the Operational Governance Team and considered to be minimal.

Operational risk

The Company has legal title to a number of portfolios of residential mortgages. The economic exposures to the returns on the investments are with PLL, through its fully owned subsidiaries, PER1L, PER3L and PER4L. Administration of these portfolios has been outsourced to Link Mortgage Services Limited. However, the Company retains the ultimate liability for the administration, including all 'Treating Customers Fairly' ('TCF') requirements. In order to mitigate the risk of losses arising from legacy defects, the Company has received an unlimited indemnity from Impala Holdings Limited ('IHL'), its immediate parent company, against such losses until such time as the Company ceases to hold legal title.

The temporary social distancing regulations introduced by governments to counter the wider spread of the Covid-19 pandemic has resulted in widespread closure of offices, schools, restaurants, shops and other social places throughout the world, impacting the Company and its outsourced service providers' ("OSPs") operational capacity.

This is being carefully managed by the Phoenix Group through initiation of business continuity arrangements, including focus on providing home working capability with appropriate controls and prioritising activities to focus on delivery of critical services to customers.

MSA Risk

The Company will face the following risk as a result of the new MSA Agreement commencing on 1 January 2020;

Direct Expense Synergies Glidepath

As the MSA commenced on 1st January 2020 there will be a gap between The Company's income and expenses over this time. The final expense synergies will not be achieved until the end of 2022 as a result to mitigate this risk a series of 'glidepath' payments have been included within the MSA.

27. Share based payment

Equity-settled share-based payments to employees and others providing services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions.

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

	2020	2019
	£'000	£'000
Share-based payment expense		
The expense recognised for employee services receivable during the year is as follows:		
Expense arising from equity-settled share-based payment transactions	6,659	6,339

Whilst the expense arising from equity-settled transactions is recorded in the statement of comprehensive income, in accordance with IFRS 2 the corresponding credit entry is classified as a capital contribution received from PGH within equity.

Share-based payment schemes in issue

Long-Term Incentive Plan ('LTIP')

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

Assuming no good leavers or other events which would trigger early vesting rights, the 2018 and 2019 LTIP awards are subject to performance conditions tied to the Company's performance in respect of cumulative cash generation, return on Adjusted Shareholder Solvency II Own Funds and Total Shareholder Return ('TSR'). The 2020 LTIP awards are subject to performance conditions tied to the Company's performance in respect of net operating cash receipts, return on shareholder value, persistency and TSR.

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

2020 LTIP awards were granted on 13 March 2020 and are expected to vest on 13 March 2023. The 2017 LTIP awards vested on 24 March 2020. The 2018 awards will vest on 21 March 2021 and the 2019 awards will vest on 11 March 2022. The number of shares for all outstanding LTIP awards was increased in July 2018 to take account of the impact of the 2018 Group rights issue.

The fair value of these awards is estimated at the average share price in the three days preceding the date of grant, taking into account the terms and conditions upon which the instruments were granted. The fair value of the 2018, 2019 and 2020 LTIP awards is adjusted in respect of the TSR performance condition which is deemed to be a 'market condition'. The fair value of the 2018, 2019 and 2020 TSR elements of the LTIP awards has been calculated using a Monte Carlo model. The inputs to this model are shown below:

	2020 TSR performance condition	2019 TSR performance condition	2018 TSR performance condition – March grant
Share price (£)	5.86	6.94	7.10
Expected term (years)	3.0	3.0	3.0
Expected volatility (%)	20	20	20
Risk-free interest rate (%)	0.28	0.74	0.96
Expected dividend yield (%)	Dividends are received by holders of the awards therefore no adjustment to fair value is required.		

LTIP Buy Out awards were granted to the Group Chief Executive Officer in 2019, and finalised in 2020, following forfeiture of a proportion of his long-term incentive awards held with Aviva that had been awarded in March 2017 and May 2018. The Aviva March 2017 LTIP vested on 27 March 2020 with a performance outturn of 50%. The Aviva May 2018 LTIP is due to vest on 26 March 2021.

On 14 August 2020, LTIP awards were granted to certain senior management employees. The vesting periods and performance conditions for these awards are linked to the core 2018, 2019 and 2020 LTIP awards.

On 21 December 2018 LTIP awards were granted to certain employees under the terms of the new PGH plc scheme rules. There are discreet vesting periods for these awards and the second tranche of awards vested on 27 March 2020. The remaining awards vest on 28 March 2021. These grants of shares are conditional on the employees remaining in employment with the Group for the vesting period.

Each year, the Group issues a Chairman's share award under the terms of the LTIP which is granted to a small number of employees in recognition of their outstanding contribution in the previous year. On 13 March 2020, awards were granted and are expected to vest on 13 March 2023. The 2017 awards vested on 24 March 2020. The 2018 and 2019 awards are expected to vest on 21 March 2021 and 11 March 2022 respectively. These grants of shares are conditional on the employees remaining in employment with the Group for the vesting period and achieving an established minimum performance grading. Good leavers will be able to, at the discretion of the Remuneration Committee, exercise their full award at vesting.

Deferred bonus share scheme (DBSS)

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

The 2020 DBSS was granted on 13 March 2020 and is expected to vest on 13 March 2023. The 2017 DBSS awards vested during the year. The 2018 awards are expected to vest on 15 March 2021 and the 2019 awards are expected to vest on 11 March 2022.

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

Sharesave scheme

The sharesave scheme allows participating employees to save up to £500 each month for the UK scheme and up to €500 per month for the Irish scheme over a period of either three or five years. The 2020 sharesave options were granted on 8 April 2020.

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

Following the scheme of arrangement, participants in the Old PGH sharesave plan exchanged their options over Old PGH shares for equivalent options over PGH plc ordinary shares. All sharesave options were increased in November 2016 and again in July 2018 following the Group's rights issues and the exercise price of these awards was also amended as a result of these issues.

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

The following information was relevant in the determination of the fair value of the 2016 to 2020 UK sharesave options:

	2020 sharesave	2019 sharesave	2018 sharesave	2017 sharesave	2016 sharesave
Share price (£)	5.66	6.80	7.69	7.47	8.89
Exercise price (£) (revised)	4.97	5.61	5.63	5.67	5.75
Expected life (years)	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25	3.25 and 5.25
Risk-free rate (%) based on UK Government Gilts commensurate with the expected term of the award	0.5 (for 3.25 year scheme) and 0.5 (for 5.25 year scheme	1.0 (for 3.25 year scheme) and 1.1 (for 5.25 year scheme	1.0 (for 3.25 year scheme) and 1.1 (for 5.25 year scheme)	0.2 (for 3.25 year scheme) and 0.4 (for 5.25 year scheme)	0.6 (for 3.25 year scheme) and 1.0 (for 5.25 year scheme)
Expected volatility (%) based on the share price volatility to date	30.0	30.0	30.0	30.0	30.0
Dividend yield (%)	8.2	6.8	6.5	6.3	6.0

Share Incentive Plan

The Group operates two share Incentive Plan (‘SIP’) open to UK and Irish employees which allows participating employees to purchase ‘Partnership shares’ in the Company through monthly contributions. In respect of the UK SIP, the contributions are limited to the lower of £150 per month and 10% gross monthly salary. In 2019 the matching element of the UK SIP was amended to give the employee one ‘Matching share’ for each ‘Partnership share’ purchased limited to £50. Contributions above £50 are not matched. The Irish SIP, which was launched in 2019, gives the employee 1.4 ‘Matching shares’ for each ‘Partnership share’ purchased. For this plan monthly contributions are limited to the lower of €40 per month and 7.5% of gross monthly salary.

The fair value of the Matching shares granted is estimated as the share price at date of grant, taking into account terms and conditions upon which the instruments were granted. At 31 December 2020, 113,202 matching shares (including unrestricted shares) were conditionally awarded to employees (2019: 17,395).

Movement in the year

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

	LTIP Schemes	SAYE Schemes	Deferred BSP
Outstanding at 1 January 2020	3,604,227	1,272,750	717,875
PGH Transfer to PGMS	13,532	22,333	-
PGS Transfer to PGMS	-	3,191	-
Granted during the year	1,545,167	1,102,758	408,630
Forfeited during the year	(902,266)	(362,857)	-
Exercise during the year	(615,676)	(400,390)	(180,861)
Outstanding at 31 December 2020	3,644,984	1,637,785	945,644

	LTIP Schemes	SAYE Schemes	Deferred BSP
Outstanding at 1 January 2019	3,155,728	1,225,528	616,098
Granted during the year	1,103,469	454,630	280,285
Forfeited during the year	(495,314)	(125,976)	-
Exercise during the year	(159,656)	(281,432)	(178,508)
Outstanding at 31 December 2019	3,604,227	1,272,750	717,875

The weighted average fair value of options granted during the year was £4.17 (2019: £4.10). The weighted average share price at the date of exercise for the rewards exercised is £6.79 (2019: £6.81). The weighted average remaining contractual life for the rewards outstanding as at 31 December 2020 is 5.7 years (2019: 5 years).

28. Operating leases

Operating lease rentals charged within administrative expenses amounted to £883K (2019: £1,174K).

29. Related party transactions

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

The Company provides management services to fellow subsidiaries within the Phoenix Group, in the form of staff and other services, under management services agreements. The income received by the Company for the year ended 31 December 2020, amounted to £214,075K, (2019: £233,809K). The Company also received a fee of £16,000K from PGS in 2016 as part of the profit share arrangement, this was fully utilized in 2020 resulting in a balance of £nil (2019: £3,200K).

During the year, the Company incurred costs with Reassure UK Services Limited of £1,250K, PLL of £833K and Sun Life Limited £392K.

The Company incurred interest on loans from fellow subsidiaries of £1,204K, (2019: £1,232K) and charged interest on loans to fellow subsidiaries of £nil (2019: £2,213K). During the year dividend amounting to £nil was settled (2019: £27,292K). The company returned capital contributions of £nil (2019: £5,000k) to Impala Holdings Limited.

At 31 December 2020, the Company held legal title to a number of portfolios of residential, equity release mortgages with a total fair value of £1.005bn (2019: £1.018bn) which it administers on behalf of PLL and its fully owned subsidiaries, PER1L, PER3L and PER4L. However, the economic exposure to the returns on the investment resides with PLL and any losses arising from legacy risk is mitigated by the receipt of a guarantee from IHL.

	2020	2019
	£'000	£'000
Amount due from related parties		
Loans due from fellow subsidiaries	51,474	51,474
Other amounts due from parent	1,243	652
Other amounts due from fellow subsidiaries	70,482	66,587
Amount due to related parties		
Other amounts due to fellow subsidiaries	12,117	10,975

At 31 December 2020, an amount of £2,281K is receivable from fellow subsidiaries in respect of group relief, 2019 was payable (2019: £2,615K).

The Collective investment scheme (note 23) is managed by Aberdeen Standard Investment (ASI) and ASI is a related party of the Group, due to its substantial shareholding in Phoenix Group Holdings Plc

Key management compensation

The total compensation payable to employees classified as key management, which comprises the Directors, is disclosed in note 6.

Payments made to Directors of the Company's parent companies amounted to £6,744K (2019: £5,176K) principally comprising remuneration and other benefits.

During the year to 31 December 2020, key management personnel and their close family members contributed £37K (2019: £23K) to Pensions and Savings products sold by the Group. At 31 December 2020, the total value of key management personnel’s investments in Group Pensions and Savings products was £825K (2019: £645K).

Dividends paid by the ultimate parent company to key management during the year amounted to £53,235 (2019: £42,143).

Parent and ultimate parent entity

Information on the Company’s parent and ultimate parent is given in note 31.

30. Events after the balance sheet date

On 3 March 2021, an increase from the current 19% UK corporation tax rate to 25%, effective from 1 April 2023, was announced in the Budget. As a result of the rate increase, the net deferred tax asset in existence at the end of 2020 is expected to increase in value by approximately £693K to £7,061K.

31. Other information

The Company’s principal place of business is the United Kingdom. The Company’s immediate parent is Impala Holdings Limited and its ultimate parent is Phoenix Group Holdings Plc, a company incorporated in England and Wales. A copy of the financial statements of Phoenix Group Holdings Plc can be obtained from the Company Secretary, 100 St Paul's Churchyard, London, EC4M 8BU or www.thephoenixgroup.com.