SAGA SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 JANUARY 2023

SAGA SERVICES LIMITED
Company information

Directors:	J Hopes (Chair)	
	S Kingshott (CEO)	
	K G Gibbs	
	J R Lister	
	P E Rowland	
	S McGuinness	(appointed 19 July 2022)
	J Quin	(resigned 16 May 2022)
	E A Sutherland	(resigned 16 May 2022)
	C A Melvin	(resigned 31 March 2022)
Secretary:	V Haynes	(resigned 16 May 2022)
	N Koning	(appointed 16 May 2022)
Registered Office:	Enbrook Park, Folkestone, Kent CT20 3SE	
Company Registration no:	00732602	
Auditor:	KPMG LLP, 15 Canada Square, London E14 5GL	

SAGA SERVICES LIMITED

The Directors submit the Annual Report and the audited Financial Statements of Saga Services Limited ("the Company") for the year ended 31 January 2023.

Strategic Report

Review of Business Developments and Principal Activity

Saga Services Limited is an indirectly held subsidiary of Saga plc. Saga plc and its subsidiaries are collectively referred to as the Saga plc Group (the "Group").

The principal activity of the Company is the provision of insurance intermediary services to people aged fifty and over. The Company is regulated by the Financial Conduct Authority ("FCA").

The Company's key financial and other performance indicators during the year were as follows:

	2023 £'000	2022 £'000	Change %
Turnover	176,703	180,149	(1.9)
Net operating expenses	(112,085)	(116,594)	3.9
Profit before taxation	64,618	63,555	1.7
Expense ratio	63.4%	64.7%	

Turnover for the year to 31 January 2023 was £176,703,000 (2022: £180,149,000), down 1.9% on the previous year, predominately driven by a decrease in Motor revenue of £14.6m (16.6%), and Home revenue of £2.6m (4.3%). This is largely due to a decline in new business volumes caused by maintaining a disciplined approach to pricing following the introduction of the FCA market study pricing rules which had some impact on our competitiveness. This downside was partially offset by an improvement in Travel sales which increased by £11.3m (204.7%) primarily due to strong new business performance following increased confidence in the travel market as the industry rebuilds following COVID-19.

The expense ratio (defined as the amount of turnover expended on operating costs) has decreased to 63.4% (2022: 64.7%) reflecting a reduction in management recharges from other Group companies and lower marketing acquisition costs due to lower volumes of price comparison website new business sales.

The profit before taxation for the year amounts to £64,618,000 (2022: £63,555,000). After taxation, a profit of £52,190,000 (2022: £51,984,000) has been transferred to reserves. Dividends on ordinary shares paid to Saga Group Limited amounted to £75,000,000 (2022: £75,000,000).

The rate of consumer price inflation has increased significantly during the period, with this impacting on many products and services for businesses and individuals across the United Kingdom, including the general insurance market. The Company has reflected a forward view of inflation into its pricing, including within the three-year fixed-price "Saga plus" product. In the year to 31 January 2023, 710,000 three-year fixed-price policies were sold (2022: 755,000).

Strategic Report (continued)

The implementation of the FCA market study from 1 January 2022 and consequently the equalisation of pricing between new business and renewals has led to an improvement in new business margins, partially offset by a reduction in new business policies sold, and a reduction in renewal profits due to lower renewal margins across the home and motor products.

In the first half of 2022/23, a range of new motor insurance products were introduced to respond to the cost-of-living crisis and the changing nature of driving. These included a new lower-cost standard one-year policy alongside electric vehicle and multi-car products.

Risk Management Framework

The business currently operates within the Saga plc Group's enterprise risk management framework that facilitates the timely and effective management of all material risk exposures. Saga's insurance segment is also establishing its own risk framework that will supplement that of the Saga plc Group and further meet the specific needs of the regulatory environment in which the Company operates. The delivery of the new framework is expected to commence in the second half of 2023/24. Risk management plays a crucial role in the Company's formation of strategy and decision making against clearly articulated appetite statements set by the Board.

Risk information is used to support and inform the decision-making process and is subject to continuous review and improvement so that it remains fit for purpose. The principal risks facing the business have been grouped into the following categories:

Competitive Risk
The Company continues to operate in highly competitive markets with increasing numbers of competitors recognising that the over 50's is an attractive market segment. This could lead to increased price competition, competitor innovation and proposition with the impact of reduced margins or market share. These risks are managed through the provision of products and services that are targeted to the needs of our customers, promotion of our brand, continuing efforts to improve operational efficiency, and focus on customer service, quality and value for money.

The market-wide increased inflationary environment is expected to result in increased levels of customer turnover within the general insurance market, which may lead to increased new business and lower renewal sales. Inflation is also expected to reduce margins on three-year fixed-price product sales, albeit this has been prospectively priced into the proposition.

Regulatory Risk
The Company is required to comply with the regulations of the FCA. A failure to comply with these regulations could cause the Company to incur fines or other sanctions that could affect its reputation, trading position and/or license to operate. The Company works closely with the regulator to ensure compliance with regulations.

During the reported period, Saga implemented the FCA Policy requirements for general insurance pricing to address the difference between new business and renewal pricing for motor and home policies, which came into effect on 1 January 2022. We believe these changes are positive for consumers as a whole and encourage more focus on service and claims handlings as prices become more aligned across the industry.

Risk Management Framework (continued)

In July 2022, the FCA published its Policy Statement 'A New Consumer Duty', which incorporates new consumer protection standards in retail financial services, designed to raise overall customer outcomes and to encourage firms to 'get it right first time'. It is supported through a set of rules and four customer outcomes and is the cornerstone of the FCA's three-year strategy. The new rules come into force on 31 July 2023. Saga is well positioned to meet these new standards, building upon customer-orientated working practices already embedded and operating to good effect.

Third Party Risk
The Company relies upon several key third parties to deliver services to customers. The key external third-party dependencies are mainly in respect of IT, insurance underwriting capacity and claims administration. Failure in one or more of these third-party dependencies presents the risk of reputational damage, loss of systems availability or other material business disruption. Within the Saga plc Group, external third parties are subject to regular oversight and auditing to ensure they are delivering the expected outcomes and performing in line with contractual service level agreements ("SLA"). Furthermore, third parties are subject to a formal and ongoing due diligence process that helps to ensure they are not likely to materially increase the risk to the business, its operations or its customers.

Operational Risk
Whilst there are risks from our ongoing re-platforming onto Guidewire (the Company's insurance broking, policy administration and billing platform), we continue to strengthen our change risk governance to ensure that all significant change is carried out with the management of risk at the forefront of all go-live decisions, with close oversight from the Board for the most material changes.

There is also the risk that errors in data modelling lead to material pricing issues that have significant financial impact and/or customer harm. The Company mitigates this with Market study controls and other insurance pricing governance..

Other key operational risks the Company faces include the risk of a cyber-attack and breach of the Data Protection Act 2018. Saga plc Group operate an effective set of information security controls to protect against cyber risk, which are also subject to external testing and compliance with ISO 27001. The business also works closely with the Data Protection Officer to maintain an appropriate set of controls to meet its data protection obligations. This involves establishing senior data ownership accountabilities within the Company's executive team, prioritisation of projects to improve effective data management, coupled with simplification of the technology landscape and strengthening of the data privacy team capabilities.

The remaining key operational risk relates to inadequate colleague capability, capacity, or cultural shift to deliver our strategy. Saga as a whole has been continuing with the deployment of its people strategy to ensure the recruitment and retention of the right calibre of colleague. Our colleagues are essential to the Company being able to deliver exceptional customer outcomes.

Risk Management Framework (continued)

Inflation and Cost of Living Crisis
During 2022, the United Kingdom has seen an acceleration of inflation driven by heightened global economic and political uncertainty following COVID-19, the Russian invasion of Ukraine, and disrupted global supply chains. The Bank of England and the UK Government have responded with various changes, including increases to the base rate of interest. Inflation has led to increased prices for consumers and therefore reduced financial flexibility for many households and in particular those on fixed incomes such as pensions.

Inflation has also led to significant market wide increases to insurance premiums during the year. Insurance cost pressures include shortages of vehicles, materials and car hire availability, combined within increased staff and long-term care costs. The Company has passed on these cost pressures into its product pricing and continues to closely manage and forecast future cost inflation trends.

Intra-Group Risk
The Company is part of the Saga plc Group of companies and therefore has some exposure to risks that may materialise in other companies within the Saga plc Group. Management work closely with colleagues across the Group, providing input into and oversight of the reporting, management, and mitigation of material risks, the development and ongoing management of its operational resilience arrangements and plans to respond to significant disruption events. This is aligned with the Group's overarching business resilience planning.

As a guarantor of the Group's corporate bonds, revolving credit facility ("RCF") and a loan facility with Saga plc Chairman Sir Roger De Haan, the Company is exposed to the risk that it would assume some of the debt obligation if the Group became unable to meet its debt commitments. The Group's corporate bonds of £150m and £250m are due to be repaid in May 2024 and July 2026 respectively. Alongside other Saga plc Group companies, the Company also provides a super security to the Trustees of the Saga Pension Scheme, which ranks before any liabilities under the Group's bank facilities.

The Company regularly assesses its exposure to intra-group contagion risks and has detailed plans in place to mitigate the impact to the Company from such exposures. The Company's assessment of Going Concern and intra-group contagion is detailed further within note 2b on page 21.

Saga Brand and Relevance
The Company relies upon the Saga brand to market and sell its products and therefore has exposure to the risk that the Saga brand and its products do not appeal sufficiently to our target customer group, resulting in loss of appeal and market share, such that competitors gain market share and customer volume continues to decline.

The Company as part of the Saga plc Group is delivering the next phase of the brand campaign in addition to continuous monitoring of metrics.

Environmental, Social & Governance ('ESG')
The Company as part of the Saga Group has the increasing risk that increasing regulation surrounding ESG, coupled with industry and societal pressure leaves the Company trailing its peers, causing reputational, customer and financial impacts.

A Head of ESG was appointed by Saga plc Group to develop Saga's ESG strategy, to embed ESG and ESG risk identification and management across the Group. Saga has undertaken a stakeholder engagement exercise and materiality assessment to identify priority future activities.

Section 172 (1) statement - Duty to promote the success of the company

The Directors have had regard for the matters set out in section 172(1)(a)-(f) of the Companies Act 2006 when performing their duty under section 172. The Directors consider that they have acted in good faith in the way that would be most likely to promote the success of the Company for the benefit of its members as a whole, while also considering the broad range of stakeholders who interact with and are impacted by our business.

The matters the Directors must have regard to, amongst others, are as follows:

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

The Directors also consider other factors in their decision-making process, including the Company's purpose, values and strategy. The Company's values are aligned to those of the broader Saga plc Group, which are Precision Pace, Empathy, Curiosity and Collaboration. These values shape the behaviours needed to successfully deliver the Company's strategy and ensure fulfilment of the Company's purpose of delivering exceptional experiences everyday whilst being a driver of positive change in its markets and communities.

The decision-making process also needs to consider a balance of interests of key stakeholders including shareholders, customers, colleagues, partners, suppliers, regulators and the communities in which the Company operates. This is achieved by engaging with stakeholders during the year through a variety of means.

Below are some examples but not an exhaustive list of how the Directors have had regard to the matters specifically set out in section 172 when discharging their duties, and the effect of that on certain decisions taken.

<u>Strategic planning and financial performance management</u>

The Board delegates responsibility for the day-to-day running of the Company to the executive directors and their management teams. The Board is responsible for providing overall direction for management, deciding on strategic priorities and setting values and standards.

The Company's five-year plan which is based on its strategy and a set of assumptions and modelled scenarios, consists of commercial and operational performance projections, capital and cash flow forecasts, and is reviewed and approved by the Board in an annual process. The Company's performance is measured by the Board against the five-year plan during the year, variances to that plan are investigated and understood and appropriate action is taken to ensure the ongoing financial success of the Company.

Section 172 (1) statement (continued)

Colleague engagement

As part of the Saga plc Group, the Company carried out regular colleague surveys during the year that cover a wide variety of areas including working practices, career development, reward, health and wellbeing, and company strategy, values and purpose. These surveys provide the Directors with information about its colleagues' views and opinions, so it can continue to take appropriate actions to ensure the continued engagement of its colleagues. During the reporting period, the Group achieved its highest response rate to date of 94% and saw a significant improvement in engagement from 7.7 in November 2021 to 8.0 in May 2022 which has been maintained throughout the year and in the most recent survey in November 2022.

The Company also keeps colleagues informed and connected via Workplace, a single, mobile-first internal communications platform that enables colleagues to share their feedback and ideas, and for their voices to be heard, encouraging an open culture.

Customer outcomes

The Directors consider customers to be at the core of the business, and everything the business does is aimed at creating exceptional experiences for them every day. Management seeks an in-depth understanding of customer behaviour and preferences, and design differentiated products that are tailored to their needs, provided alongside exceptional service. This creates value for the customers and serves to drive longer and deeper relationships with them.

The Company aims to maintain an honest dialogue with its customers, through customer telephone support, social media, the Saga Magazine and customer opinion panels. In January 2023 the new Saga Media business launched Saga Exceptional (www.exceptional.com) a website with expert resource for our customers, enabling them to learn more about their passions and support them in their quest for experiences and connections; with the aim of becoming the global number one consumer advice brand for people over 50. The Board receives regular reports from management based on customer insights and feedback and reviews NPS scores. Customer-facing colleagues are also invited to Board meetings to present details of customer experiences.

Customer outcomes are monitored through direct reporting to the Board and through risk and compliance governance committees, to ensure they are aligned with the expectations of the Company's regulators. The Directors track and monitor management's performance in relation to the fair treatment of the Company's customers and potential customers.

Partners and suppliers

Partners and suppliers are carefully selected to support the management's ability to deliver exceptional experiences every day, aligned to the interests of the Company's customers, and to complement the Company's in-house capabilities with certain specialist skills, knowledge or capital. In turn, those partners and suppliers benefit from access to the Company's colleagues, brand and deep customer insight. The Company aims to build mutually beneficial, long-term relationships with all key suppliers. The Board is kept informed of any changes to supplier risk management through liaison with the various risk forums operated within the wider Group.

Section 172 (1) statement (continued)

Environment and Social

Part of the Saga plc Group's purpose is to be a driver of positive change, seeking to understand and carefully consider the impacts of our operations. As a Group we have deepened our understanding of the environmental, social and governance matters material to our business and stakeholders, and alignment with Taskforce on Climate-Related Financial Disclosures, which can be found in the Saga plc Group's annual report and accounts at the following location: (https://corporate.saga.co.uk/investors/results-reports-presentations/).

By order of the Board

N. Koning

N Koning
Secretary

Enbrook Park
Folkestone
Kent
CT20 3SE

8 June 2023

The Directors submit the Directors' Report of the Company for the year ended 31 January 2023.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

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 the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company, cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

Directors

The Directors, who served throughout the year and up to the date of this report (except as noted), were as follows:

J Hopes (Chair)	
S Kingshott (CEO)	
K G Gibbs	
J R Lister	
P E Rowland	
S McGuinness	(appointed 19 July 2022)
J Quin	(resigned 16 May 2022)
E A Sutherland	(resigned 16 May 2022)
C A Melvin	(resigned 31 March 2022)

Employee involvement

During the year the Company has maintained the practice of keeping employees informed about current activities and progress by various methods including our interactive online communications platform which enables and encourages colleagues to share their feedback and ideas. Employee participation and involvement is encouraged.

Employment of disabled persons

It is the policy of the Company to develop a working environment and to offer terms and conditions of service to provide disabled persons, with the appropriate skills and qualifications, equal opportunities to seek and maintain employment with the Company. It is the Company's policy to retain in employment, whenever practicable, employees who become disabled and give all such employees equal consideration for training and career development to enable them to fulfil their promotion potential.

Political donations

The Company has not made any political donations during the year.

Going concern

The Company's business activities, together with the factors likely to affect its future development and performance and its exposure to risk and its management of these risks are described on pages 3-5. The Company's assessment of going concern is included within note 2b of the financial statements.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and accordingly, the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Disclosure of information to the auditors

Each current Director has made enquiries of their fellow Directors and the Company's auditor and taken all the steps that they are obliged to take as a Director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Relevant audit information is that information needed by the auditor in connection with preparing the report. So far as each Director approving this report is aware, and based on the above steps, there is no relevant audit information of which the auditor is unaware.

Auditors

In accordance with section 487(2) of the Companies Act 2006, the Auditor KPMG LLP is deemed re-appointed.

By order of the Board

N. Koning

N Koning
Secretary

Enbrook Park
Folkestone
Kent
CT20 3SE

8 June 2023

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SAGA SERVICES LIMITED

Opinion

We have audited the financial statements of Saga Services Limited ("the Company") for the year ended 31 January 2023 which comprise the Income Statement, Balance Sheet, Statement of Changes in Equity, and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 January 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least 13 months from the date of approval of the financial statements ("the going concern period"), a period which includes the maturity of £150m of Saga plc, the Company's ultimate parent, senior bonds in May 2024.

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

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

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the Audit, Risk and Compliance Committee and other members of management and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and Audit, Risk and Compliance Committee minutes.
- Considering remuneration incentive schemes and performance targets for directors and senior management.
- Using analytical procedures to identify any unusual or unexpected relationships.

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

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue is not complex in nature and there is no significant management judgement or estimation involved in the recording of revenue transactions.

We did not identify any additional fraud risks.

To address the pervasive risk as it relates to management's override, we performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior management, those including key words based on our risk criteria, those posted to unusual accounts or seldom used accounts, those posted or approved by leavers, those posted or approved by unauthorised users, those posted at the end of the period and post-closing entries, journals posted with little or no description or ID, unusual journal entries posted to either cash or borrowings and unusual entries to deposits or loans accounts.
- Assessing whether the judgements made in making accounting estimates are indicative of potential bias.

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

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

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

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

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

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

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of Company's license to operate. We identified the following areas as those most likely to have such an effect: liquidity, conduct and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form regulated primarily by the Financial Conduct Authority (FCA). Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SAGA SERVICES LIMITED (continued)

Strategic report and Directors' report

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 9, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SAGA SERVICES LIMITED (continued)

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

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.

Timothy Butchart (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
Canary Wharf
London
E14 5GL

8 June 2023

SAGA SERVICES LIMITED
Income statement for the year ended 31 January 2023

	Note	2023	2022
		£'000	£'000
Turnover	3	176,703	180,149
Staff costs	7	(42,274)	(37,103)
Depreciation, amortisation and loss on disposal	4	(5,730)	(5,859)
Other operating charges	5	(64,081)	(73,632)
Profit on ordinary activities before taxation profit	4	64,618	63,555
Taxation	9	(12,428)	(11,571)
Profit for the financial year		52,190	51,984

There are no other items of comprehensive income other than those included above in the income statement. Accordingly the profit for the financial year is also total comprehensive income for the year.

Notes 1 to 26 form an integral part of these financial statements.

SAGA SERVICES LIMITED
Balance sheet as at 31 January 2023

	Note	2023 £'000	2022 £'000
Fixed assets			
Intangible assets	11	32,511	31,601
Tangible assets	12	767	815
		33,278	32,416
Current assets			
Debtors – amounts falling due after more than one year	13	66,463	71,674
Debtors – amounts falling due within one year	13	181,612	192,365
Cash at bank and in hand	14	18,161	24,131
		266,236	288,170
Creditors – amounts falling due within one year	15	(179,778)	(178,376)
Net current assets		86,458	109,794
Total assets less current liabilities		119,736	142,210
Creditors – amounts falling due after more than one year	16	(2,003)	(1,529)
Provisions for liabilities	17	(5,345)	(5,483)
Net assets		112,388	135,198
Capital and reserves	19		
Called up share capital		2,100	2,100
Capital contribution reserve		1,563	1,563
Retained earnings		108,725	131,535
Shareholder's funds		112,388	135,198

Signed for and on behalf of the Board by:

S Kingshott
Director
8 June 2023

Company Registration no: 00732602

Notes 1 to 26 form an integral part of these financial statements.

SAGA SERVICES LIMITED
Statement of changes in equity for the year ended 31 January 2023

	Called-up Share Capital £'000	Capital Contribution Reserve £'000	Retained Earnings £'000	Other Reserves £'000	Total Equity £'000
At 1 February 2021	2,100	1,563	154,551	-	158,214
Profit for the financial year	-	-	51,984	-	51,984
Dividends paid	-	-	(75,000)	-	(75,000)
At 31 January 2022	2,100	1,563	131,535	-	135,198
Profit for the financial year	-	-	52,190	-	52,190
Dividends paid	-	-	(75,000)	-	(75,000)
At 31 January 2023	2,100	1,563	108,725	-	112,388

Notes 1 to 26 form an integral part of these financial statements.

1. General information

Saga Services Limited (the "Company") is a company incorporated and domiciled in the UK (Company No. 00732602) with a Registered Office; Enbrook Park, Sandgate, Folkestone, Kent CT20 3SE.

2. Significant Accounting policies

a) Basis of preparation

These financial statements are prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"), in accordance with applicable accounting standards and on a going concern basis. The Directors have reviewed the appropriateness of the going concern basis in preparing the financial statements, particularly in light of the risk of intra-group contagion, details of which are included in note 2(b). Based on those assumptions, the Directors have concluded that it remains appropriate to adopt the going concern basis in preparing the financial statements.

The Company's financial statements are presented in sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

The consolidated financial statements of Saga plc, within which this Company is included, can be obtained from the address given in note 25.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 "Share Based Payment" because the share based payment arrangement concerns the instruments of another group entity.

b) the requirements of IFRS 7 "Financial Instruments: Disclosures".

c) the requirements of paragraphs 91 to 99 of IFRS 13 "Fair Value Measurement".

d) the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 "Revenue from Contracts with Customers".

e) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 "Leases".

f) the requirement in paragraph 38 of IAS 1 "Presentation of Financial Statements" to present comparative information in respect of:

    i) paragraph 79(a)(iv) of IAS 1;
    ii) paragraph 73(c) of IAS 16 "Property, Plant and Equipment"; and
    iii) paragraph 118(e) of IAS 38 "Intangible assets".

2. Significant Accounting policies (continued)

a) Basis of preparation (continued)

g) the requirements of paragraphs 10(d), 16, 38A, 38B-D, 111 and 134-136 of IAS 1 "Presentation of Financial Statements".

h) the requirements of IAS 7 "Statement of Cash Flows".

i) the requirements of paragraphs 30 and 31 of IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors".

j) the requirements of paragraph 17 of IAS 24 "Related Party Disclosures".

k) the requirements in IAS 24 "Related Party Disclosures" to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

b) Going concern

The Directors have considered the appropriateness of the going concern basis of preparation for the financial statements prepared to 31 January 2023 and in doing so have considered a range of possible scenarios that may impact on the Company, including the Saga plc Group's ('Group') maturity of £150m of senior bonds in May 2024 as well as other risks and uncertainties.

The Company's business activities, together with the factors likely to affect its future development and performance, its exposure to risk and its management of these risks, are described on pages 3-5. The Directors believe that the Company is well-placed to successfully manage its business risks.

The Directors have reviewed a range of risks and inputs for the Company, this review included:

1. Warning and quantification of the principal risks and uncertainties (PRUs) facing the business, this has been supported by the Risk, Internal Audit and Finance functions and includes a range of activities, such as risk identification, assessment, mitigation design and effectiveness testing, incident reporting, audit and stress testing.
2. *Long-and-short term planning information: incorporating annual five-year plans, budgets and intra-*year forecasts of profitability and cash flow. Alongside these, the Company monitors and quantifies financial risks and opportunities as they arise, with planning information including specific consideration of the impact of the market study into general insurance pricing.
3. Compliance monitoring across various regulatory bodies, and particularly the FCA.
4. Any cross-company trading relationships, guarantees and potential impact on these from PRUs facing the wider Saga plc Group.
5. Management information detailing recent actual trading performance against previous periods and budgeted performance levels.

2. Significant Accounting policies (continued)

b) Going concern (continued)

The Company continues to perform well and remains highly cash generative having successfully navigated the challenges of the COVID-19 pandemic and acceleration of inflation in recent years. The Company's five-year plan shows stable performance, with further improvements from continued investment in the business over the plan horizon.

As disclosed in note 22 to the financial statements, the Company acts as a guarantor to the Group's £150 million and £250 million senior unsecured bonds due May 2024 and May 2026 respectively, the undrawn £50m loan facility with Sir Roger De Haan, the undrawn revolving credit facility of the Group, and provides a super security for the Saga Pension Scheme. In addition to this, as part of the Saga plc Group, the Company is also partly dependent on the provision of some shared back-office infrastructure such as IT, internal audit, tax, treasury and payroll. The Company is therefore exposed to the fortunes of the Saga plc Group.

Over the past three years, the Group has undertaken a series of transactions to restructure its operations and capital structure, in order to strengthen the Group's balance sheet and reduce debt. To increase liquidity and consistent with its strategy of reducing debt, in the Autumn of 2022, the Group commenced a sale process for its underwriting business, Acromas Insurance Company Limited (AICL). This process is ongoing and the Group aims for this sale process to be concluded within 2023. AICL provides underwriting capacity for a significant proportion of the Company's motor product sales, and whilst the outcome and structure of the proposed sale cannot be known at this stage it is planned that AICL would continue to provide capacity on the Company's motor product panel. The Directors have considered the risks to the Company from the proposed transaction and have plans in place to manage the potential outcomes.

The Directors have considered a range of downside sensitivities and actions taken by the Group. The Group has considered both a lower and higher case trading scenario which considered various downside stresses on the financial position of the Group. The assessment included consideration of a £50m loan facility with Sir Roger De Haan, under the terms of which, if the sale of AICL is not completed prior to the end of 2023, the Group will, from 1 January 2024 be able to borrow up to £50m to fund any liquidity needs, including repayment of the 2024 bonds. Further details on the stress-testing and actions taken for the Group are contained in note 2.1 (page 143) of the Saga plc Annual Report and Accounts. From these considerations the Directors have a reasonable expectation that potential stresses on the Group will not undermine the going concern basis of preparation for the Company.

Noting that it is not possible to predict accurately all possible future risks to the Company, based on the analysis performed, the Directors have a reasonable expectation that the Company will continue to meet its liabilities as they fall due for a period of at least 13months from the date of approval of the financial statements. The Directors have therefore deemed it appropriate to prepare the financial statements to 31 January 2023 on a going concern basis.

2. Significant Accounting policies (continued)

c) Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year, that are not readily apparent from other sources. All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and predictions of future events and actions. Actual results may therefore differ from those estimates. Below sets out those items the Company considers susceptible to changes in critical estimates and assumptions together with the relevant accounting policy.

Revenue recognition – three-year fixed-price insurance policies

The stand-alone selling price of the option to fix within the Company's three-year fixed-price insurance policies has been estimated using the expected cost plus a margin approach as set out in paragraph 79 (b) of IFRS 15.

An allowance has also been made for the likelihood that the option will be exercised by factoring in the expected rate of renewal at the first and second renewal dates. The amount of revenue deferred upon initial recognition is therefore reduced to the extent that it is estimated that customers will not exercise the option due to the fact that they either decide not to renew or they make a claim that releases the Company from its obligation to fix the customer price.

2. Significant Accounting policies (continued)

d) Turnover and cost of sales

Revenue is recognised in the income statement in line with the performance obligations. Revenues received in connection with the sale or renewal of insurance policies are recognised at the cover start date of the policy.

Where revenue relates to twelve-month insurance policies with no option to fix the premium at renewal ("annual policies"), performance obligations in accordance with IFRS15 are satisfied when the obligation to arrange insurance for the customer has been satisfied.

Where revenue relates to twelve-month insurance policies with the option to fix the premium over three years ("three-year fixed-price policies"), it is allocated to the performance obligations of the contract, being the arrangement of the insurance in each year and the option to fix the customer price at renewal. The revenue allocated to the option to renew at a fixed price is recognised when either the customer exercises the option at the first and second renewal dates, or sooner if the customer cancels the policy mid-term or makes a claim that releases the Company from its obligation to fix the customer price. The carrying value of the revenue deferred in this instance is recognised within accruals and deferred income in the balance sheet.

Additional revenue may be earned dependent upon the underwriting results of the business insured. This income is recognised when the results of this business can be determined reasonably. Other revenue, including fees for arranging insurance policies, is recognised when the Company's right to receive payment is established.

Premium finance interest earned on instalment sales, and charged under the Consumer Credit Act 1974, where customers choose to pay over a monthly instalment plan instead of one single, upfront payment, is recognised in the income statement over the term of the related agreement using the effective interest method.

2. Significant Accounting policies (continued)

e) Intangible fixed assets

Internally generated intangibles, excluding internally developed software, are not capitalised and the related expenditure is reflected in the income statement in the period in which the expenditure is incurred.

Expenditure on software development activities is capitalised if: (a) the product, or process, is technically and commercially feasible; (b) the Company intends and has the technical ability and sufficient resources to complete development; (c) future economic benefits are probable; and (d) the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved, products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of relevant overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Software intangible assets capitalised as a result of development activities are amortised from the point in time when the asset is available for commercial use.

The cost of intangible fixed assets less their expected residual value is amortised by equal instalments over their useful economic lives. These lives are as follows:

Computer software	3 years
Internally developed software costs	3 - 10 years

Intangible computer software fixed assets are stated at cost less accumulated amortisation and accumulated impairment losses. Such costs include costs directly attributable to making the asset capable of operating as intended. The cost of computer software intangible fixed assets less their expected residual value is amortised by equal instalments over their useful economic lives. Computer software fixed assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for intangible computer software fixed assets are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The carrying values of software intangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

2. Significant Accounting policies (continued)

f) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

The cost of tangible fixed assets less their expected residual value is depreciated by equal instalments over their useful economic lives. These lives are as follows:

Computer hardware	4 - 5 years
Property fixtures and fittings	3 - 5 years

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

A tangible fixed asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

g) Trade and other debtors

Trade debtors include amounts not yet due in respect of insurance premiums and connected income where the policyholder has elected to pay in instalments over the term of the policy. They are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost, using the effective interest rate method. Provision for impairment is made through profit or loss when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Amounts due from group undertakings are classified as debtors. They have no fixed date of payment and are payable on demand. The amounts due from group undertakings are disclosed at fair value.

h) Cash at bank and in hand

Cash at bank and in hand in the balance sheet comprise cash and deposits with a maturity of three months or less from their inception date.

2. Significant Accounting policies (continued)

i) Trade and other creditors

Trade and other creditors are initially recognised at fair value, and where the time value of money is material, subsequently measured at amortised cost using the effective interest method. They represent liabilities to pay for goods or services that have been received or supplied in the normal course of business, invoiced by the supplier before the year end, but for which payment has not yet been made. Insurance creditors generally have 45-90 day terms, following the due date of the receivable from customers which can be either paid upfront or by instalment over the policy period.

Amounts due to group undertakings are classified as loans and borrowings. They have no fixed date of payment and are payable on demand. The amounts owed to group undertakings are disclosed at fair value.

j) Pension benefits

The Company makes contributions to the Saga Pension Scheme, a defined benefit pension scheme (the 'Scheme'). Contributions are made on the advice of actuaries for funding of retirement benefits in order to build up reserves for participating employees during the employee's working life to pay a pension after retirement.

The Company's employees are members of a group wide defined benefit pension plan. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer, which is another member of the Group. The Company then recognises a cost equal to its contribution payable for the period.

The Scheme was closed to future accrual on 31 October 2021, with all members moving from active to deferred status. In its place, the Group launched a new defined contribution pension scheme arrangement, operated as a master trust.

k) Income taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

2. Significant Accounting policies (continued)

k) Income taxes (continued)

Deferred tax (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been substantively enacted or fully enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is dealt with in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

l) Financial instruments

i) Financial assets

On initial recognition, a financial asset is classified as either Amortised Cost; Fair Value Through Other Comprehensive Income (FVOCI) – debt investment; FVOCI – equity investment; or Fair Value through Profit and loss (FVTPL). The classification of financial assets is based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The Company measures all financial assets at fair value at each reporting date, other than those instruments measured at amortised cost.

The Company's financial assets at amortised cost include amounts due from group undertakings and trade debtors. The Company does not hold any financial assets classified as fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVTPL).

2. Significant Accounting policies (continued)

l) Financial instruments (continued)

i) Financial assets (continued)

Financial Assets at Amortised Cost

Initial Recognition

A financial asset is classified at amortised cost (plus any directly attributable transaction costs) if it meets both of the following conditions and is not elected to be designated as a FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent Measurement

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see (ii) below). Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss as they are incurred. Any gain or loss on derecognition is recognised in profit or loss immediately.

Derecognition

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or when the Company has transferred substantially all the risks and rewards relating to the asset to a third party.

ii) Impairment of financial assets

The expected credit loss ('ECL') impairment model applies to financial assets measured at amortised cost and debt investments at FVOCI.

The Company measures loss allowances at an amount equal to 12-month ECLs, except for trade receivables and contract assets that result from transactions within the scope of IFRS 15.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

2. Significant Accounting policies (continued)

l) Financial instruments (continued)

ii) Impairment of financial assets (continued)

Measurement of ECLs

ECLs are measured as a probability-weighted estimate of credit losses. Credit losses are measured as the probability of default in conjunction with the present value of the Company's exposure. Loss allowances for ECLs on financial assets measured at amortised cost are recognised as a provision in the balance sheet with a corresponding charge to the income statement.

iii) Financial liabilities

Initial recognition and measurement

All financial liabilities are classified as financial liabilities at amortised cost on initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, and loans and borrowings.

Subsequent measurement

After initial recognition, interest bearing loans and borrowings and other payables are subsequently measured at amortised cost using the effective interest rate ('EIR') method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

Derecognition

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

2. Significant Accounting policies (continued)

m) Provisions for liabilities

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

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

n) Leases

Payments associated with short-term leases of equipment and all leases of low-value assets are expensed in profit or loss as incurred in line with the exemption allowed under paragraph 6 of IFRS 16. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

2. Significant Accounting policies (continued)

o) Share-based payments

Saga plc, the ultimate parent company of the Saga plc Group, provides benefits to employees of the Company (including Directors) in the form of long-term incentives whereby employees render services in consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions is measured at fair value and is recognised as an expense over the relevant vesting period, ending on the date on which the employee becomes fully entitled to any award.

In valuing equity settled transactions, assessment is made of any vesting conditions to categorise these into market performance conditions, non-market performance conditions and service conditions.

Where the equity settled transactions have market performance conditions (that is, performance which is directly or indirectly linked to the share price of Saga plc), the fair value of the award is assessed at the time of grant and is not changed, regardless of the actual level of vesting achieved, except where an employee ceases to be employed prior to the vesting date.

For service conditions and non-market performance conditions, the fair value of the award is assessed at the time of grant and is reassessed at each reporting date to reflect updated expectations for the level of vesting. No expense is recognised for awards that ultimately do not vest.

3. Turnover

Turnover primarily comprises revenues receivable in connection with the sale or renewal of insurance policies and additional revenues that are linked to the results of our underwriting panel. Premium finance interest earned on instalment sales, and charged under the Consumer Credit Act 1974, is recognised in the income statement over the term of the related agreement using the effective interest method. All business is carried out in the United Kingdom, the Channel Islands and the Isle of Man.

	2023 £'000	2022 £'000
Motor broking	73,378	88,010
Home broking	57,600	60,205
Other insurance broking	45,725	31,934
	176,703	180,149

4. Profit on ordinary activities before taxation

This is stated after charging:	2023 £'000	2022 £'000
Depreciation of owned tangible fixed assets (see note 12)	386	490
Amortisation of intangible fixed assets (see note 11)	5,344	5,272
Loss on disposal of fixed assets	-	97
Auditor's remuneration – audit of the financial statements	294	235

Any fees paid to the Company's auditor, KPMG LLP, for services other than the statutory audit of the Company are not disclosed in these financial statements since the consolidated financial statements of the ultimate parent undertaking, Saga plc, are required to disclose non-audit fees on a consolidated basis.

5. Other operating charges

	2023 £'000	2022 £'000
Marketing expenses	25,149	28,240
Management recharges	13,930	22,983
Other expenses	25,002	22,409
	64,081	73,632

6. Directors' remuneration

	2023 £'000	2022 £'000
Aggregate remuneration in respect of qualifying services	984	506

	2023	2022
Members of defined benefit pension scheme:	-	1

Among the Directors remunerated by the Company, the amounts paid in respect of the highest paid Director were as follows:

	2023 £'000	2022 £'000
Aggregate remuneration in respect of qualifying services	686	161

7. Staff costs

	2023 £'000	2022 £'000
Wages and salaries	36,172	32,305
Social security costs	3,992	3,064
Pension costs	2,110	1,734
	42,274	37,103

The average monthly number of employees during the year was as follows:	2023 No.	2022 No.
Sales & marketing	705	634
Operations	251	238
Administration and management	341	265
	1,297	1,137

8. Pension benefits

The Company's employees are members of a group wide defined benefit pension plan, the Saga Pension Scheme. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer, which is another member of the Group. The Company then recognises a cost equal to its contribution payable for the period.

The Scheme was closed to future accrual on 31 October 2021, with all members moving from active to deferred status. In its place, the Group launched a new defined contribution pension scheme arrangement, operated as a master trust.

The IAS 19 deficit (gross of deferred taxation) of the Scheme on the Saga plc balance sheet at 31 January 2023 was £12.1 million (2022: £1.1 million surplus).

Further details of the Scheme can be found in the financial statements of the ultimate parent company, Saga plc.

9. Taxation

	2023 £'000	2022 £'000
Current tax		
UK corporation tax at 19.00% (2022: 19.00 %)	12,106	12,137
Adjustments in respect of prior years	(175)	(237)
Total current tax	11,931	11,900
Deferred tax		
Origination and reversal of timing differences	226	(62)
Adjustments in respect of prior years	271	142
Effect of tax rate change on opening balance	-	(409)
Total deferred tax	497	(329)
Total tax expense in the income statement	12,428	11,571

	2023 £'000	2022 £'000
Reconciliation of Total Tax Charge:-		
Pre-tax profit at 19.00% (2022: 19.00 %)	12,277	12,075
Permanent differences	-	-
Adjustments in respect of prior years	96	(95)
Effect of tax rate change on opening balance	-	(409)
Rate change adjustment on temporary differences	55	-
Total tax expense in the income statement	12,428	11,571

On 3 March 2021, it was announced that the corporation tax rate will increase from 19% to 25% from 1 April 2023. This increase was substantively enacted on 24 May 2021. As a result, the closing deferred tax balances at the statement of financial position date have been reflected at 25%.

10. Dividend

A dividend of £35.71 per share (2022: £35.71) has been paid during the year at a cost of £75,000,000 (2022: £75,000,000).

11. Intangible fixed assets

	Software
Cost	£'000
At 1 February 2022	58,065
Additions	6,254
Disposals	-
At 31 January 2023	64,319
Amortisation	
At 1 February 2022	26,464
Charge for period	5,344
Disposals	-
At 31 January 2023	31,808
Net book amounts	
At 31 January 2023	32,511
At 31 January 2022	31,601

The net book value of software at 31 January 2023 includes internally generated software of £30,447,000 (2022: £25,956,000) relating to the Company's Guidewire platform. Software additions in the year include internally generated software of £5,792,000 (2022: £3,108,000) largely relating to the Company's Guidewire platform and product proposition enhancements. Guidewire is the Company's insurance broking, policy administration and billing platform. The Guidewire platform has an expected useful economic life of 10 years, with 5 years of phase one expenditure remaining at 31 January 2023. Implementation and the commencement of amortisation of the Guidewire platform is on a phased basis, based on product re-platforming, and began in the year ended 31 January 2019.

There were no disposals during the year, in 2021/22 the Group disposed of assets with a net book value of £94,000 and the loss arising on disposal was £94,000.

12. Tangible fixed assets

Cost	Fixtures and fittings £'000	Computer hardware £'000	Total £'000
At 1 February 2022	102	1,842	1,944
Additions	-	338	338
Disposals	-	-	-
At 31 January 2023	102	2,180	2,282
Depreciation			
At 1 February 2022	98	1,031	1,129
Charge for year	1	385	386
Disposals	-	-	-
At 31 January 2023	99	1,416	1,515
Net book amounts			
At 31 January 2023	3	764	767
At 31 January 2022	4	811	815

There were no disposals during the year, in 2021/22 the Group disposed of assets with a net book value of £3,000 and the loss arising on disposal was £3,000.

13. Debtors

	2023	2022
Due after more than one year	£'000	£'000
Amounts due from fellow group undertakings	65,253	69,967
Deferred taxation	1,210	1,707
	66,463	71,674

	2023	2022
Due within one year	£'000	£'000
Trade debtors	93,044	90,657
Amounts due from fellow group undertakings	77,625	89,292
Prepayments and accrued income	10,873	12,416
Other taxes and social security	70	-
	181,612	192,365

Deferred taxation comprises excess depreciation over capital allowances of £968,000 (2022: £1,444,000) and short-term timing differences of £242,000 (2022: £263,000).

14. Cash at bank and in hand

	2023	2022
	£'000	£'000
Cash at bank and in hand	18,161	24,131

The Company is required to comply with the Adequate Resources requirements of Threshold Condition 2.4 of the FCA Handbook. The Company undertakes a rigorous assessment against the requirements of this condition on at least an annual basis and holds an appropriate amount of liquid capital in respect of the insurance distribution business. Cash at bank and in hand includes £5,658,000 (2022: £6,748,000) held in this respect. This is recognised as unavailable cash within both the Company's and the Saga plc Group's consolidated financial statements. In addition at 31 January 2022, the Company held a further £5,000,000 cash as temporary additional liquidity to mitigate against exposure to COVID-19 related risks in other Group entities, this was removed during the year to 31 January 2023.

15. Creditors – amounts falling due within one year

	2023	2022
	£'000	£'000
Bank overdraft	247	229
Trade creditors	107,318	98,628
Amounts due to fellow group undertakings	46,679	47,140
Other creditors	150	431
Accruals and deferred income	25,384	31,948
	179,778	178,376

16. Creditors – amounts falling due after more than one year

	2023	2022
	£'000	£'000
Accruals and deferred income	2,003	1,529

17. Provision for liabilities

	PMI provision	Other provisions	Total
	£,000	£,000	£,000
Balance at 1 February 2022	778	4,705	5,483
Utilised during the year	(778)	(3,542)	(4,320)
Released unutilised during the year	-	(599)	(599)
Charge for the year	-	4,781	4,781
Balance at 31 January 2023	-	5,345	5,345

In 2020/21, COVID-19 had led to a high level of disruption to private medical inpatient appointments, with appointments and operations being delayed and rescheduled into 2021/22. This led to a provision being recognised at 31 January 2022 relating to the underwriting performance of the private medical insurance (PMI) product due to the higher level of claims cost incurred during the year and the liability to the underwriter that this gave rise to at 31 January 2022.

The other provisions relate to payments that the Company may be obliged to make, either as a result of cancellations occurring during the statutory cooling off period or future mid-term policy cancellations. In addition, management recognise a provision for areas where there is a probable requirement to remedy errors that have had an adverse impact on customer outcomes. In such cases, management quantified a best estimate for this provision based on a range of outcomes, using internal information and data wherever possible.

18. Contingent liabilities

In addition to the matters set out in Note 17 regarding provisions in relation to customer remediation and redress, the Company is regulated and required to comply with a large number of laws and regulations. The Company is part of a Group that operates a system of risk management and internal control that is designed to minimise the risk of non-compliance with such laws and regulations. However, failure to comply with such laws or regulations once discovered could result in litigation from affected parties and/ or regulatory sanction. While the outcome of any such matters cannot be predicted with certainty, the Directors believe that their ultimate outcome will not have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

19. Called up share capital

	2023	2022
	£'000	£'000
Allotted, called up and fully paid		
2,100,000 ordinary shares of £1 each	2,100	2,100

The capital contribution reserve is in respect of contributions from the ultimate parent company, Saga plc, in relation to share-based awards made by it to the Company's employees (see note 21). Further information can be found in the financial statements of Saga plc.

Retained earnings represent cumulative profit or losses, net of dividends and other adjustments.

20. Related party transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries in the Saga plc Group of companies.

21. Share-based payments

Saga plc, the ultimate parent of the Saga plc Group, uses equity-settled share plans to grant options and shares to the Company's Directors and employees. Equity-settled share-based payments issued to the Company's employees are measured at fair value and that this value is expensed over the vesting period.

Share options are granted under the Saga plc Long-Term Incentive Plan ('LTIP') and Restricted Share Plan ('RSP').

21. Share-based payments (continued)

The LTIP is a discretionary executive share plan. Under the LTIP, the Saga plc Board may, within certain limits and subject to applicable performance conditions, grant options over shares in Saga plc. Up to 31 January 2017, these options are 50% linked to a non-market vesting condition, EPS, and 50% linked to a market vesting condition, TSR. From 1 February 2017 to 31 January 2018, these options are 60% linked to non-market vesting conditions (30% linked to basic EPS and 30% linked to organic EPS) and 40% linked to a market vesting condition, TSR. From 1 February 2018, these options are 60% linked to non-market vesting conditions (30% linked to organic EPS and 30% linked to ROCE) and 40% linked to a market vesting condition, TSR. From 1 February 2019, these options are 75% linked to non-market vesting conditions (50% linked to operational and strategic measures and 25% linked to ROCE) and 25% linked to a market vesting condition, TSR. The fair value of the options has been calculated using a Black-Scholes valuation.

The RSP is a discretionary executive share plan under which the Board may grant options over shares in Saga plc.

The table below summarises the movements in the number of share options outstanding for the employees of the Company and their weighted average exercise price:

	RSP	LTIP
Outstanding at 1 February 2022	113,453	47,910
Granted during the year	323,949	-
Forfeited during the year	(21,024)	(40,775)
Exercised during the year	-	(2,290)
Outstanding at 31 January 2023	416,378	4,845
Exercise price	£nil	£nil
Exercisable at 31 January 2023	-	4,845
Average remaining contractual life	2.0 years	0.0 years
Average fair value at grant	£1.94	£9.56

Details of the information relevant in determining the fair value of options granted is available in the financial statements of Saga plc.

22. Cross company guarantees

The Company is a joint guarantor along with Saga plc and Saga Mid Co Limited, fellow group undertakings, of the following Saga plc Group debt facilities:

	Maturity date	2023 £m	2022 £m
3.375% Corporate bond	May 2024	150	150
5.5% Corporate bond	July 2026	250	250
£50m Revolving credit facility	May 2025	-	-

At 31 January 2023 the principal, accrued interest, guarantees and other facilities outstanding on the revolving credit facility and bonds was £402.0 million (2022: £402.5 million).

The Company has provided a super security to the Trustees of the Saga Pension Scheme, which ranks before any liabilities under the Group's debt facilities detailed above. The value of the security is capped at £47.5 million.

23. Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

For the purposes of the Company's capital management, capital comprises total equity of £112.4 million (2022: £135.2 million) as shown on the balance sheet. The Company has complied with externally imposed capital requirements during the year.

The Company's regulated insurance distribution business is based in the UK and is regulated by the Financial Conduct Authority. The Company is required to comply with the Capital resources requirements of MIPRU 4.2 of the FCA Handbook. The Minimum Regulatory Capital requirement at 31 January 2023 was £4.4 million (2022: £4.4 million).

24. Post balance sheet events

Since the year end, the Directors have declared a dividend of £28.57 per share at a cost of £60,000,000.

On 3 April 2023 the Group agreed a £50m unsecured loan facility with Sir Roger De Haan. This facility can be drawn, on 30 days' notice to fund any liquidity needs, from 1 January 2024 and terminates on 30 June 2025. The Company is a joint guarantor for this facility along with Saga plc and Saga Mid Co Limited.

25. Ultimate parent undertaking

The immediate parent undertaking is Saga Group Limited, a company which is registered in England and Wales. The Company is wholly owned by Saga Group Limited.

In respect of the year ended 31 January 2023, Saga plc is the parent company of the smallest group of which the Company is a member and for which group financial statements are prepared.

A copy of the financial statements of Saga plc for the year ended 31 January 2023 may be obtained from the corporate website www.corporate.saga.co.uk or from the Company Secretary, Saga plc, Enbrook Park, Folkestone, Kent, CT20 3SE.

26. Ultimate controlling party

The Directors consider the ultimate controlling party to be Saga plc.