PEARL GROUP HOLDINGS (NO. 2) LIMITED

Company Registration Number: 05282342

STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2022

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Strategic report

The Directors present the Strategic report of Pearl Group Holdings (No. 2) Limited (the 'Company'), for the year ended 31 December 2022.

Principal activities
The principal activity of the Company is that of an investment company. This will continue to be the principal activity for the foreseeable future.

Result and dividends
The results of the Company for the year are shown in the income statement on page 9. The loss before tax was £77.5m (2021: £33.9m), and the loss in other comprehensive income for the year was £128.1m (2021: £175.8m).

No dividends were paid during the current or prior year.

Position as at 31 December 2022
The net assets of the Company at 31 December 2022 were £1.071.1m (2021: £1,411.4m). The movement in the period reflects the total comprehensive loss arising in the period of £190.3m (2021: £202.4m) and a dividend paid of £150.0m (2021: £nil).

Principal risks and uncertainties
The Phoenix Group, of which the Company is a member, 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 principal risks and uncertainties facing the Company are:

- interest rate risk, since the movement in interest rates will impact the value of interest payable and receivable by the Company;
- liquidity risk, 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;
- credit risk, arising from the default of the counterparty to a particular financial asset, with the carrying value of the asset representing the Company's maximum exposure to credit risk.
- longevity risk in the Pearl Group Staff Pension Scheme ('the Scheme'), faster than expected improvements in life expectancy on the pensions of the members of the Scheme.

The Company's exposure to all these risks is monitored by the Directors, who agree policies for managing each of these risks on an ongoing basis.

Key Performance Indicators ('KPIs')
Given the straightforward nature of the business, the Company's Directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

On behalf of the Board

DocuSigned by:
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W Swift
Director
27 September 2023

Directors' report

The Directors present their report and the financial statements of the Company for the year ended 31 December 2022.

The Company is incorporated in England as a private limited company. Its registration number is 05282342 and its Registered Office is 1 Wythall Green Way, Wythall, Birmingham, B47 6WG.

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. Note 20 to the financial statements summarises 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 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 twelve months from the signing date.

The Company's liquidity position is monitored and regular reviews are undertaken to identify cash flow requirements, with the Company having access to an uncommitted intra-group cash-pooling facility. The Company's forecasts show it has access to sufficient liquidity to meet its liabilities as they fall due over the going concern period to 30 September 2024.

One of the Company's subsidiaries, Phoenix Life Assurance Limited ('PLAL'), intends to complete a Part VII transfer of its business into another Phoenix Group company, Phoenix Life Limited, in order to realise further cost and capital synergies. The transfer is expected to happen before the end of 2023 and is subject to regulatory approval. If completed, the transfer is expected to result in the impairment of the Company's investment in PLAL by circa £1.2 billion. As a result, a support facility is in place from the Company's immediate parent, Phoenix Life Holdings Limited, that will be triggered should the Company suffer financial detriment as a result of the transfer and be unable to meet its obligations.

As a result of this review, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for twelve months from the signing date. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Directors

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

K Jones	Appointed 1 November 2022
W Swift	
S Perowne	Resigned 30 March 2022
R Thakrar	Resigned 1 November 2022

Secretary

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

Pearl Group Secretariat Services Limited

Disclosure of indemnity

Qualifying third party and pension scheme indemnity arrangements (as defined in sections 234 and 235 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 they ought to have taken as a Director to make themselves aware of any relevant audit information (as defined) and to establish that the Company's 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.

Statement on Business Relationships

Business relationships with customers
Customer matters are key for the Company and play a significant part of the rationale for decision-making that takes place. Although the Company provides a service mainly for the Phoenix Group, it is the sponsoring employer in respect of the Pearl Group Staff Pension Scheme (the 'Scheme') and works closely with the trustees of the Scheme to ensure that the interests of the Scheme's members are safeguarded.

Business relationships with Partners/Suppliers
The 'Service Companies' within Phoenix Group Holdings plc are the principal leads on maintaining relationships with suppliers.

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.

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

DocuSigned by:
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W Swift
Director
27 September 2023

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic report, 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 the law the Directors have elected to prepare those statements in accordance with UK adopted international accounting standards. Under company law, the Directors must not approve the financial statements unless they are satisfied that they present fairly the financial performance, financial position and cash flows of the Company for the accounting period. A fair presentation of the financial statements in accordance with UK adopted International Financial Reporting Standards ('IFRS') requires the Directors to:

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

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

Independent Auditor's report to the members of Pearl Group Holdings (No. 2) Limited

Opinion

We have audited the financial statements of Pearl Group Holdings (No.2) Limited for the year ended 31 December 2022 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of cash flows, the Statement of changes in equity and the related notes 1 to 23 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:
- give a true and fair view of the company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included assessing management's going concern papers and workings for unreasonable assumptions and conclusions. To evaluate management's assessment of the company's ability to continue to adopt the going concern basis of accounting, we have:

- confirmed our understanding of management's going concern assessment process and obtained management's assessment which covers the period to 30 September 2024.
- reviewed management's assessment of Going Concern approved by the board, minutes of meetings of the board and its committees;
- evaluated management's analysis on the company's assets and liquidity to understand the extent to which the company could meet its future obligations;
- assessed the appropriateness of the going concern disclosures by comparing the disclosures with management's assessment and for compliance with the relevant reporting requirements;
- performed enquiries of management and those charged with governance to identify any risks or events that may impact the company's ability to continue as a going concern.

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 from the date of approval of these financial statements to 30 September 2024.

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, 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 in relation to elements of company law and tax legislation, and the financial reporting framework.

- We understood how the company is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the company and UK regulatory bodies and reviewed minutes of the Board of directors.

- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the controls that the company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud.

- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved making enquiries of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, enquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees and enquiring about the company's methods of enforcing and monitoring compliance with such policies.

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

Use of our report

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

DocuSigned by:
Ernst & Young LLP
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Stuart Wilson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

28 September 2023

Income statement
for the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Revenue			
Investment income	3	164.0	13.5
Total income		164.0	13.5
Administrative expenses	4	(56.3)	(27.4)
Impairment of investment in subsidiaries	16	(150.3)	-
Total operating expenses		(206.6)	(27.4)
Loss before finance costs and tax		(42.6)	(13.9)
Finance costs	8	(34.9)	(20.0)
Loss for the year before tax		(77.5)	(33.9)
Tax credit	9	15.3	7.3
Loss for the year attributable to owners		(62.2)	(26.6)

Statement of comprehensive income
for the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Loss for the year		(62.2)	(26.6)
Other comprehensive income			
Actuarial loss on pension scheme	15	(113.7)	(175.8)
Deferred tax on movement in scheme surplus	9	(14.4)	-
		(128.1)	(175.8)
Total comprehensive loss for the year attributable to owners		(190.3)	(202.4)

1Statement of financial position
as at 31 December 2022

	Notes	2022 £m	2021 £m
Equity attributable to owners			
Share capital	10	806.0	806.0
Capital contribution	11	9.0	9.0
Retained earnings		256.1	596.4
Total equity		1,071.1	1,411.4
Current liabilities			
Borrowings	12	914.4	1,154.1
Accruals	13	3.9	1.6
Amounts due to Group entities		9.3	132.5
Deferred tax liability	14	11.7	-
Current tax	14	1.3	1.3
Total current liabilities		940.6	1,289.5
Total liabilities		940.6	1,289.5
Total equity and liabilities		2,011.7	2,700.9
Non-current assets			
Pension scheme surplus	15	46.7	171.3
Investments in subsidiaries	16	1,915.3	2,065.6
Total non-current assets		1,962.0	2,236.9
Current assets			
Loans and receivables	17	43.0	434.7
Other receivables		0.1	0.1
Financial assets at fair value through profit or loss	18	-	24.5
Amounts due by Group entities		6.6	4.7
Total current assets		49.7	464.0
Total assets		2,011.7	2,700.9

On behalf of the Board

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W Swift
Director
27 September 2023

Statement of cash flows
for the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Cash flows from operating activities			
Cash absorbed by operations	19	(180.1)	(9.0)
Net cash flows used in operating activities		(180.1)	(9.0)
Cash flows from investing activities			
Loans repaid to Group companies		6.4	-
Disposal of financial assets		24.5	101.3
Dividends received	3	150.0	-
Net cash flows from investing activities		180.9	101.3
Cash flows from financing activities			
Loans received from Group entities	12	25.3	-
Repayment of borrowings from Group entities	12	-	(90.0)
Interest paid on borrowings from Group entities		(26.1)	(2.3)
Net cash flows used in financing activities		(0.8)	(92.3)
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the year		-	-
Cash and cash equivalents at the end of the year		-	-

Supplementary disclosures on cash flow from operating activities

		2022 £m	2021 £m
Interest (paid)/received		9.7	8.7

Statement of changes in equity
for the year ended 31 December 2022

	Share capital (note 10) £m	Capital contribution (note 11) £m	Retained earnings £m	Total £m
At 1 January 2022	806.0	9.0	596.4	1,411.4
Loss for the year	-	-	(62.2)	(62.2)
Other comprehensive loss	-	-	(128.1)	(128.1)
Total comprehensive loss for the year	-	-	(190.3)	(190.3)
Dividend paid	-	-	(150.0)	(150.0)
At 31 December 2022	806.0	9.0	256.1	1,071.1

	Share capital (note 10) £m	Capital contribution (note 11) £m	Retained earnings £m	Total £m
At 1 January 2021	806.0	9.0	798.8	1,613.8
Loss for the year	-	-	(26.6)	(26.6)
Other comprehensive loss	-	-	(175.8)	(175.8)
Total comprehensive loss for the year	-	-	(202.4)	(202.4)
At 31 December 2021	806.0	9.0	596.4	1,411.4

Included in retained earnings are reserves of £202.9m (2021: £374.2m) which are considered to be non-distributable.

Notes to the financial statements

1. Accounting policies

(a) Basis of preparation
The financial statements have been prepared on a historical cost basis except for those financial assets and financial liabilities that have been measured at fair value.

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. The liquidity assessment considered the ability to meet liabilities as they fall due under a base case and a severe stress scenario.

The Company's liquidity position is monitored and regular reviews are undertaken to identify cash flow requirements, with the Company having access to an uncommitted intra-group cash-pooling facility. The Company's forecasts show it has access to sufficient liquidity to meet its liabilities as they fall due over the going concern period to 30 September 2024.

One of the Company's subsidiaries, Phoenix Life Assurance Limited ('PLAL'), intends to complete a Part VII transfer of its business into another Phoenix Group company, Phoenix Life Limited, in order to realise further cost and capital synergies. The transfer is expected to happen before the end of 2023 and is subject to regulatory approval. If completed, the transfer is expected to result in the impairment of the Company's investment in PLAL by circa £1.2 billion. As a result, a support facility is in place from the Company's immediate parent, Phoenix Life Holdings Limited, that will be triggered should the Company suffer financial detriment as a result of the transfer and be unable to meet its obligations.

As a result of this review, the Directors believe the Company has adequate resources to continue to meet liabilities as they fall due for the period up to 30 September 2024. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

The financial statements are separate financial statements and the exemptions 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 Company's immediate parent is Phoenix Life Holdings Limited whose Registered Office is 1 Wythall Green Way, Wythall, Birmingham, B47 6WG. The results of the Company are consolidated into the accounts of the Company's ultimate parent Phoenix Group Holdings plc ('PGH plc'), a company incorporated in England and Wales. The registered address of PGH plc is 20 Old Bailey, London, EC4M 7AN.

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

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 £0.1m 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 recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by an international financial reporting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

(b) 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 determination of the fair value of financial assets and liabilities, impairment of investments in subsidiaries and loans to Group entities, income taxes, pension scheme obligations and recognition of pension scheme surplus.

Fair value of financial assets and liabilities
The fair values of financial assets and liabilities are classified and accounted for as set out in accounting policy (g). Where possible, financial assets and liabilities are valued on the basis of listed market prices by reference to quoted market bid prices for assets and offer prices for liabilities, without any deduction for transaction costs. These are categorised as Level 1 financial instruments and do not involve estimates. If prices are not readily determinable, fair value is determined using valuation techniques including pricing models, discounted cash flow techniques or broker quotes. Financial instruments valued where valuation techniques are based on observable market data at the period end are categorised as Level 2 financial instruments. Financial instruments valued where valuation techniques are based on non-observable inputs are categorised as Level 3 financial instruments. Level 2 and Level 3 financial instruments therefore involve the use of estimates. Further details of the estimates are included in notes 17 and 18.

Impairment of investments in subsidiaries and loans to Group entities
Investments in subsidiaries and loans (excluding contingent loans) to Group entities are subject to regular impairment reviews when management are aware of objective evidence of impairment. Impairments of investments in subsidiaries are measured at the difference between the carrying value of a particular asset and its value in use. Impairments on loans are measured as the difference between the carrying value of the loan and the present value of the estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the loans original effective interest rate. Impairments are recognised in the income statement in the period in which they occur. The Company's policy in relation to impairment testing of investments in subsidiaries and loans to Group entities is detailed in accounting policies (f) and (g) respectively.

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).

Pension scheme obligations
The valuation of pension scheme obligations is determined using actuarial valuations that depend upon a number of assumptions, including discount rate, inflation and longevity. External actuarial advice is taken with regard to setting the financial assumptions to be used in the valuation. As defined benefit pension schemes are long-term in nature, such assumptions can be subject to significant uncertainty.

Further details of these estimates and the sensitivity of the defined benefit obligation to key assumptions are provided in note 15. The accounting policy for pension scheme obligations is discussed in more detail in accounting policy (e).

Recognition of pension scheme surplus
A pension scheme surplus can only be recognised to the extent that the sponsoring employer can utilise the asset through a refund of surplus or a reduction in contributions. A refund is available to the Company where it has an unconditional right to a refund on a gradual settlement of liabilities over time until all members have left the scheme. A review of the Trust Deeds of the Company's pension schemes that recognise a surplus has highlighted that the Scheme Trustees are not considered to have the unilateral power to trigger a wind-up of the Scheme and the Trustees' consent is not needed for the sponsoring company to trigger a wind-up. Where the last beneficiary died or left the Scheme, the sponsoring company could close the Scheme and force the Trustees to trigger a wind-up by withholding its consent to continue the Scheme on a closed basis. This view is supported by external legal opinion and is considered to support the recognition of a surplus. Management has determined that the scheme administrator would be subject to a 35% tax charge on a refund and therefore any surplus is reduced by this amount. Further details of the Group's pension schemes are provided in note 15. The accounting policy for the recognition of pension scheme surplus is discussed in more detail in accounting policy (e).

(c) Borrowings
Interest-bearing borrowings are recognised initially at fair value less any attributable transaction costs. The difference between initial cost and the redemption value is amortised through the income statement over the period of the borrowing using the effective interest method.

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

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, except to the extent that it relates to items recognised in the statement of changes in equity, in which case it is recognised in that statement.

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

Defined contribution pension plans
Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Defined benefit pension schemes
The net surplus or deficit (the economic surplus or deficit) in respect of the defined benefit pension scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value and the fair value of any scheme assets is deducted.

As required by IFRIC 14, IAS 19 –The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction to the extent that the economic surplus will be available as a refund, the economic surplus is stated after a provision for tax that would be borne by the scheme administrators when the refund is made. Additionally under IFRIC 14 pension funding contributions are considered to be a minimum funding requirement and, to the extent that the contributions payable will not be available to the Company after they are paid into the scheme, a liability is recognised when the obligation arises. The net defined benefit asset/liability represents the economic surplus net of all adjustments noted above.

The Company determines the net interest expense or income on the net defined benefit asset/liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit asset/liability. The discount rate is the yield at the period end on AA credit rated bonds that have maturity dates approximating to the terms of the Phoenix Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

The movement in the net defined benefit asset/liability is analysed between the service cost, past service cost, curtailments and settlements (all recognised within administrative expenses in the income statement), the net interest cost on the net defined benefit asset/liability, including any reimbursement assets (recognised within net investment income in the income statement), re-measurements of the net defined asset/liability (recognised in other comprehensive income) and employer contributions.

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

The Company assesses at each reporting date whether an investment in a subsidiary or group of investments in subsidiaries is impaired. The Company first assesses whether objective evidence of impairment exists. Evidence of impairment needs to be significant or prolonged to determine that objective evidence of impairment exists. Evidence of impairment is obtained by comparing the carrying value of the investment in the subsidiary with the value in use (Life businesses) and recoverable amount (other holding entities) of the subsidiary.

(g) 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 17 Loans and receivables.

There has been no change in the classification of debt securities and collective investment schemes which continue to be designated at fair value through profit or loss and accordingly are stated in the statement of financial position at fair value.

Impairment of financial assets carried at amortised cost
The Company assesses the expected credit losses associated with its loans and receivables and other receivables 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 20 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.

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

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

(h) 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.

(i) Share capital and capital contributions

Ordinary share capital
The Company has issued ordinary shares which are classified as equity. Incremental external costs that are directly attributable to the issue of these shares are recognised in the statement of changes in equity, net of tax.

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

(j) 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.

Declared dividends are those that are appropriately authorised and are no longer at the discretion of the entity.

(k) Income recognition
Investment income comprises interest, dividends, net expected return on pension scheme assets and fair value gains and losses on financial assets.

Interest income is recognised in the income statement as it accrues using the effective interest method. Dividend income is recognised in the income statement 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 as at fair value through profit or loss are recognised in the income statement. 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.

(l) Finance costs
Interest payable is recognised in the income statement as it accrues and is calculated using the effective interest method.

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

2. Financial information

The financial statements for the year ended 31 December 2022, set out on pages 9 to 31 were authorised by the Board of Directors for issue on 27 September 2023.

In preparing the financial statements, the Company has adopted the following amendments effective from 1 January 2022:

- **Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37):** The amendments clarify that when assessing if a contract is onerous, the cost of fulfilling the contract should include all costs that relate directly to the contract. Such costs should include: the incremental costs of fulling that contract; and an allocation of other costs that relate directly to fulfilling contract.
- **Reference to the Conceptual Framework (Amendments to IFRS 3):** In addition to updating references to the conceptual framework within IFRS 3, the amendments also add a requirement for obligations within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets to determine whether at the acquisition date a present obligation exists as a result of past events.
- **Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16):** The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use. Such sales proceeds and related costs are recognised in profit or loss; and
- **Annual Improvements (2018–2020 Cycle):**
  - Subsidiary as a First-time Adopter (Amendments to IFRS 1);
  - Fees in the '10 per cent' Test for De-recognition of Financial Liabilities (Amendments to IFRS 9);
  - Lease Incentives (Amendments to IFRS 16); and
  - Taxation in Fair Value Measurements (Amendments to IAS 41).

None of the above amendments to standards are considered to have a material effect on these financial statements.

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.

- **Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements) (1 January 2023):** The amendments are intended to assist entities in deciding which accounting policies to disclose in their financial statements and requires an entity to disclose 'material accounting policy information' instead of its 'significant accounting policies'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements. These amendments are not expected to have any impact on the Company.
- **Definition of Accounting Estimates (Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors) (1 January 2023):** The amendments replace the definition of a 'change in accounting estimates' with a definition of 'accounting estimates'. Under the new definition, accounting estimates are 'monetary amounts in financial statements that are subject to measurement uncertainty'. The Board has retained the concept of changes in accounting estimates in the Standard by including a number of clarifications. These amendments are not expected to have any impact on the Company.
- **Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes) (1 January 2023):** The amendments narrow the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The IASB expects that the amendments will reduce diversity in reporting and align the accounting for deferred tax on such transactions with the general principle in IAS 12 of recognising deferred tax for temporary differences. There will potentially be some additional

disclosures required in relation to the Company's leasing arrangements as a result of implementing these amendments.

- **Classification of Liabilities as Current and Non-current (Amendments to IAS 1 Presentation of Financial Statements) (1 January 2024):** 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.
- **Lease Liability in a Sale and Leaseback (Amendments to IFRS 16 Leases) (1 January 2024):** The amendments relate to how a seller-lessee accounts for variable lease payments that arise in a sale and leaseback transaction. On initial recognition, the seller-lessee is required to include variable lease payments when measuring a lease liability arising from a sale-and-leaseback transaction. After initial recognition, they are required to apply the general requirements for subsequent accounting of the lease liability such that no gain or loss relating to the retained right of use is recognised. Seller-lessees are required to reassess and potentially restate sale-and-leaseback transactions entered into since the implementation. These amendments are not expected to have any impact on the Company.

On 31 January 2020, the UK left the EU and effective from 1 January 2021, the European Commission no longer endorses IFRSs for use in the UK. UK legislation provides that all IFRSs that had been endorsed by the EU on or before the 31 December 2020 became UK-adopted international accounting standards. New or amended IFRSs are now endorsed by the UK Endorsement Board following delegation of powers to endorse and adopt IFRSs for the UK by the Secretary of State in May 2021.

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

- **Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);**
- **Definition of Accounting Estimates (Amendments to IAS 8); and**
- **Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).**

None of the above amendments to standards are considered to have a material effect on these financial statements.

3. Investment income

	2022 £m	2021 £m
Investment income		
Interest income on loans and receivables	9.8	8.7
Dividend income	150.0	-
Interest income on financial assets designated at fair value through profit or loss on initial recognition	0.1	-
Net expected return on pension assets (see note 15)	4.1	4.8
Investment income	164.0	13.5

Interest income on loans and receivables includes interest of £9.8m (2021: £8.7m) on loans to Group entities. Dividend income includes cash dividends from subsidiaries of £150.0m (2021: £nil).

4. Administrative expenses

	2022 £m	2021 £m
Service and project costs	41.3	27.4
Pension scheme – past service cost (see note 15)	15.0	-
Administrative expenses	56.3	27.4

Service and project costs include £41.3m (2021: £27.4m) for management services and project costs charged by Pearl Group Services Limited, a subsidiary, Pearl Group Management Services Limited and Standard Life Assets and Employee Services Limited, both fellow subsidiaries.

5. Employee information

The Company has no employees. Services are provided by Pearl Group Management Services Limited, Pearl Group Services Limited and Standard Life Assets and Employee Services Limited.

6. Directors' remuneration

	2022 £	2021 £
Remuneration (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	80,363	99,638
Share-based payments	50,501	66,800
Contributions to money purchase pension schemes	1,729	1,899
Highest paid Directors' remuneration:		
Remuneration (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	50,697	53,910
Share-based payments	43,650	47,300
Contributions to money purchase pension schemes	180	182
Number of Directors who are members of a money purchase pension scheme	3	3
Number of Directors who exercised share options during the year	3	3

The Directors are employed by either Pearl Group Management Services Limited or Pearl Group Services Limited. The total compensation paid to the Directors of the Company relates to qualifying services to the Company, irrespective of which entity within the Phoenix Group ('the Group') has paid the compensation.

For the purposes of this note an apportionment of the total remuneration paid to the Directors of the Company by the Group has been made based on an estimate of the services rendered to the Company.

During the year, the key management personnel and their close family members contributed £37,000 (2021: £441,000) to pensions and savings products sold by the Group. At 31 December 2022, the total value of their investments in Group pensions and savings products was £164,000 (2021: £717,000).

7. Auditor's remuneration

The remuneration of the auditor of the Company included in the financial statements was £0.1m (2021: £0.1m).

8. Finance costs

	2022 £m	2021 £m
Interest expense on borrowings at amortised cost	34.9	20.0

Interest expense on borrowings includes interest of £34.9m (2021: £20.0m) on loans from Group entities.

9. Tax credit

Current year tax credit

	2022 £m	2021 £m
Current tax		
UK Corporation tax	(12.6)	(7.3)
Total current tax	(12.6)	(7.3)
Deferred tax		
Origination and reversal of temporary differences	(2.0)	-
Changes in the rate of UK corporation tax	(0.7)	
Total deferred tax	(2.7)	-
Total tax credit	(15.3)	(7.3)

Tax credit to other comprehensive income

	2022 £m	2021 £m
Deferred tax charge on re-measurement of net defined benefit schemes	14.4	-

Reconciliation of tax credit

	2022 £m	2021 £m
Loss before tax	(77.5)	(33.9)
Tax at standard UK rate of 19.00% (2020: 19.00%)	(14.7)	(6.4)
Non-taxable income and gains	(28.4)	(0.9)
Non-taxable impairment of investments in subsidiaries	28.5	-
Deferred tax rate change	(0.7)	-
Total tax credit for the year	(15.3)	(7.3)

10. Share capital

	2022 £m	2021 £m
Issued and fully paid: 806,000,020 (2021: 806,000,020) ordinary shares of £1 each	806.0	806.0

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

11. Capital contribution

	2022 £m	2021 £m
At 1 January and 31 December	9.0	9.0

The capital contribution reserve has been treated as a distributable reserve with no restrictions.

12. Borrowings

	Carrying value		Fair value	
	2022	2021	2022	2021
	£m	£m	£m	£m
(i) £205.0m loan facility	-	145.3	-	145.3
(ii) £1,211.0m loan facility	914.4	889.1	914.4	889.1
(iii) £198.8m loan facility	-	119.7	-	119.7
Total long-term borrowings	914.4	1,154.1	914.4	1,154.1
Amounts due for settlement within 12 months	914.4	1,154.1		
Amounts due for settlement after 12 months	-	-		

(i) On 27 December 2017, the Company entered into a £205.0m loan facility with Phoenix Life Holdings Limited ('PhLHL'). Under this facility, the Company may draw down up to £205.0m at an interest rate of compounded SONIA plus a margin of 1.0366%. Interest of £3.4m was capitalised during the year (2021: £1.3m).

On 31 December 2022, the maturity date of the loan, the balance of £148.7m due to PhLHL was offset against the Company's loan due from PhLHL – see note 17.

(ii) The Company entered into a facility with Pearl Assurance Group Holdings Limited. Interest accrues at a rate of compounded SONIA plus a margin of 2.0266% and is payable semi-annually on 31 May and 30 November. The facility is repayable on demand.

During the year the Company drew down £25.3m on the facility (2021: £14.6m). Interest of £26.1m was paid during the year (2021: £16.9m).

(iii) On 17 April 2018 the Company entered into a £198.8m facility with PhLHL. Interest on the loan accrued at a rate of compounded SONIA plus a margin of 1.1966% which was capitalised semi-annually on 30 June and 31 December. During 2022, interest of £3.0m was capitalised (2021: £1.6m) and repayment of £nil was made (2021: £90m).

On 31 December 2022, the maturity date of the loan, the balance of £122.7m due to PhLHL was offset against the Company's loan due by PhLHL – see note 17.

Reconciliation of borrowings

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

2022		Cash flow items	Non cash flow items		
	1 Jan 2022	New loans	Interest capitalised	Loans offset	31 Dec 2022
	£m	£m	£m	£m	£m
£205.0m loan facility	145.3	-	3.4	(148.7)	-
£1,211.0m loan facility	889.1	25.3	-	-	914.4
£198.8m loan facility	119.7	-	3.0	(122.7)	-
Total borrowings	1,154.1	25.3	6.4	(271.4)	914.4

2021		Cash flow items		Non cash flow items	
	1 Jan 2021	New loans	Loans repaid	Interest capitalised	31 Dec 2021
	£m	£m	£m	£m	£m
£205.0m loan facility	144.0	-	-	1.3	145.3
£1,211.0m loan facility	874.5	14.6	-	-	889.1
£198.8m loan facility	208.1	-	(90.0)	1.6	119.7
Total borrowings	1,226.6	14.6	(90.0)	2.9	1,154.1

Determination of fair value and fair value hierarchy of long-term borrowings

Long-term borrowings are categorised as Level 3 financial instruments. The fair value of long-term borrowings with no external market is determined by internally developed discounted cash flow models using a risk adjusted discount rate corroborated with external market data where possible.

There were no level 1 or level 2 long-term borrowings in 2022 or 2021.

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

13. Accruals

	2022 £m	2021 £m
Accrued interest on borrowings	3.9	1.6

14. Tax assets and liabilities

	2022 £m	2021 £m
Current tax		
Current tax payable	(1.3)	(1.3)
Deferred tax		
Deferred tax liability	(11.7)	-

	2022 £m	2021 £m
Deferred tax assets have not been recognised in respect of:		
Tax losses carried forward	34.1	34.1

Movement in deferred tax assets and liabilities:

Year ended 31 December 2022

	1 Jan £m	Recognised in the income statement £m	Recognised in other comprehensive income £m	31 Dec £m
Pension scheme surplus	-	2.7	(14.4)	(11.7)
	-	2.7	(14.4)	(11.7)

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

An increase from the current 19% UK corporation tax rate to 25%, effective from 1 April 2023, was announced in the Budget on 3 March 2021, and enacted on 10 June 2021. Accordingly, deferred tax assets and liabilities, where provided, are reflected at rates between 19% and 25% depending on the expected timing of the reversal of the relevant temporary difference.

15. Pension scheme

Scheme details

The Pearl Group Staff Pension Scheme ('the Pearl Scheme') comprises a final salary section, a money purchase section and a hybrid section (a mix of final salary and money purchase). The Pearl Scheme is closed to new members and has no active members.

Defined benefit scheme

The Pearl Scheme is established under, and governed by, the trust deeds and rules and has been funded by payment of contributions to a separately administered trust fund. The Company is the principal employer of the Pearl Scheme and meets the administration expenses of the Pearl Scheme. The Pearl Scheme is administered by a separate trustee company, P.A.T. (Pensions) Limited, which is separate from the Phoenix Group. The trustee company is comprised of four representatives from the Phoenix Group, three member nominated representatives and one independent trustee in accordance with the trustee company's articles of association. The trustee is required by law to act in the interest of all relevant beneficiaries and is responsible for the investment policy with regard to the assets.

To the extent that an economic surplus will be available as a refund, the economic surplus is stated after a provision for tax that would be settled by the scheme administrators when the refund is made.

The valuation has been based on an assessment of the liabilities of the Pearl Scheme as at 31 December 2022, undertaken by independent qualified actuaries. The present values of the defined benefit obligation and the related interest costs have been measured using the projected unit credit method.

A triennial funding valuation of the Pearl Scheme as at 30 June 2021 was completed in 2022 by a qualified actuary. This showed a surplus as at 30 June 2021 of £67.0m, on the agreed technical provisions basis. The funding and IFRS accounting bases of valuation can give rise to different results for a number of reasons. The funding basis of valuation is based on general principles of prudence whereas the accounting valuation is based on best estimates. Discount rates are gilt-based for the funding valuation whereas the rate used for IFRS valuation purposes is based on a yield curve for high quality AA-rated corporate bonds. In addition the values are prepared at different dates which will result in differences arising from changes in market conditions and employer contributions made in the subsequent period.

Pension scheme commitment agreement and buy-in transactions

On 17 November 2020, the Scheme entered into a Commitment Agreement with the Company to complete a series of buy-ins. At the same time, the Scheme completed the first buy-in with Phoenix Life Limited ('PLL') covering 25% of the Scheme's pensioner and deferred member liabilities, transferring the associated risks, including longevity improvement risk, to PLL effective from 30 September 2020.

Two further buy-in transactions were completed in July 2021 and October 2021 covering 35% and 15% respectively of the Scheme's pensioner and deferred member liabilities and the final buy-in transaction was completed in November 2022. Risks, including longevity improvement risk, were transferred to PLL effective from 28 May 2021, 31 August 2021 and 30 September 2022 respectively.

Upon completion of each buy-in transaction the Scheme transferred the following plan assets to PLL:

- In November 2020, £730.7m of plan assets were transferred to PLL in satisfaction of the premium of £734.7m and was net of a £4.0m payment by PLL to the Scheme in respect of members' benefits for October and November 2020;
- In July 2021, £1,049.3m of plan assets were transferred to PLL in satisfaction of the premium of £1,061.3m and a further £12.0m cash payment was paid by the Scheme in August 2021. PLL paid £5.0m to the Scheme in respect of members' benefits for June and July 2021; and
- In October 2021, £433.2m of plan assets were transferred to PLL in satisfaction of the premium of £436.2m and was net of a £2.0m payment by PLL to the Scheme in respect of members' benefits for September and October 2021. A further £1.0m cash payment in respect of the premium was paid by the Scheme in December 2021.
- In November 2022, £556.2m of plan assets were transferred to PLL in satisfaction of the premium of £560.2m and was net of a £4.0m payment by PLL to the Scheme in respect of members' benefits for October and November 2022.

The economic effect of the buy-in transactions in the Scheme is to replace the plan assets transferred with a single line insurance policy reimbursement right asset. The value of this insurance policy at 31 December 2022 was £1,501.3m (2021: £1,680.0m) which includes an amount owed by PLL of £nil (2021: £12.0m).

The Commitment agreement contained provisions under which payments by the Company to the Scheme were required in the event that the Company did not meet the minimum buy-in completion schedule the details of which are as follows:

- Gilts Deficit Recovery Contributions: Contributions calculated as amounts required to reach full funding on a gilts-basis by 30 June 2027. Following the completion of the recent buy-in transactions, the Company has no further obligation to pay these contributions; and
- Contingent Contributions: These represented a new form of security for the trustee. The amount of these contributions was initially capped at £200 million, with the cap running off in line with completion of the buy-ins. Following the completion of the recent buy-in transactions the cap is now £nil (2021: £50 million).

The new agreement also introduced a new form of security provided by the Company to the trustee. The share charges over certain Group entities were replaced by a new surety bond arrangement, whereby two external third-party insurers, each provided £100 million of cover payable to the Scheme following certain trigger events. This cover provided by the surety bond guarantee was fully released upon completion of the final buy-in transaction in November 2022.

No contributions were paid to the Scheme in either the current or prior periods. The Company continues to meet the administrative and non-investment running expenses of the Scheme as set out in the schedule of contributions.

During the year, the Company reached an agreement for the removal of a trustee discretion to pay some pension increases in excess of the 5% cap. The trustee has agreed to give up this discretion in exchange for a single 1.6% uplift for current pensions in payment effective from 1 April 2022 and a 1.3% future increase to eligible benefits of both pension and deferred members. The financial impact of the 1.6% uplift has been to recognise an increase in the defined benefit obligation of £15 million and a past service cost in the income statement.

Summary of amounts recognised in the financial statements

The amounts recognised in the financial statements are as follows:

	Fair Value of Scheme Assets £m	Reimbur-sement rights £m	Defined benefit obligation £m	Provision for tax on the economic surplus available as a refund £m	Total £m
At 1 January 2022	807.3	1,680.0	(2,223.8)	(92.2)	171.3
Interest income/(expense)	16.1	42.9	(52.5)	(2.4)	4.1
Past service cost	-	-	(15.0)	-	(15.0)
Included in profit or loss	16.1	42.9	(67.5)	(2.4)	(10.9)
Re-measurements:					
Return on plan assets excluding amounts included in interest income	(207.4)	(502.8)	-	-	(710.2)
Loss on plan assets resulting from buy-in	-	(189.6)	-	-	(189.6)
Gain from change in demographic assumptions	-	-	3.3	-	3.3
Gain from change in financial assumptions	-	-	805.0	-	805.0
Experience loss	-	-	(116.8)	-	(116.8)
Change in provision for tax on economic surplus available as a refund	-	-	-	94.6	94.6
Included in other comprehensive income	(207.4)	(692.4)	691.5	94.6	(113.7)
Benefit payments	(9.1)	(89.4)	98.5	-	-
Assets transferred as premium for Scheme buy-in	(560.2)	560.2	-	-	-
At 31 December 2022	46.7	1,501.3	(1,501.3)	-	46.7

	Fair Value of Scheme Assets £m	Reimbursement rights £m	Defined benefit obligation £m	Provision for tax on the economic surplus available as a refund £m	Total £m
At 1 January 2021	2,314.8	596.0	(2,384.1)	(184.4)	342.3
Interest income/(expense)	24.8	15.2	(32.6)	(2.6)	4.8
Included in profit or loss	24.8	15.2	(32.6)	(2.6)	4.8
Re-measurements:					
Return on plan assets excluding amounts included in interest income	26.9	(7.5)	-	-	19.4
Loss on plan assets resulting from buy-in	-	(374.8)	-	-	(374.8)
Gain from change in demographic assumptions	-	-	22.3	-	22.3
Gain from change in financial assumptions	-	-	88.7	-	88.7
Experience loss	-	-	(26.2)	-	(26.2)
Change in provision for tax on economic surplus available as a refund	-	-	-	94.8	94.8
Included in other comprehensive income	26.9	(382.3)	84.8	94.8	(175.8)
Benefit payments	(61.7)	(46.4)	108.1	-	-
Assets transferred as premium for Scheme buy-in	(1,497.5)	1,497.5	-	-	-
At 31 December 2021	807.3	1,680.0	(2,223.8)	(92.2)	171.3

Scheme assets

The distribution of the scheme assets at the end of the year was as follows:

	2022 Total £m	2022 Of which not quoted in an active market £m	2021 Total £m	2021 Of which not quoted in an active market £m
Hedging portfolio	-	-	438.4	23.0
Obligations for repayment of stock lending collateral received	-	-	(159.0)	-
Other debt securities	-	-	349.3	-
Properties	4.8	4.8	103.5	103.5
Private equities	4.1	4.1	4.1	4.1
Hedge funds	3.3	3.3	3.7	3.7
Cash and other	34.5	-	67.3	-
	46.7	12.2	807.3	134.3
Insurance policies	1,501.3	1,501.3	1,680.0	1,680.0
Total scheme assets	1,548.0	1,513.5	2,487.3	1,814.3

The actual return on plan assets was a loss of £840.8m (2021: loss of £315.4m).

Defined benefit obligation

The calculation of the defined benefit obligation can be allocated to the scheme's members as follows:

- Deferred scheme members: 40% (2021: 40%)
- Retirees: 60% (2021: 60%)

The weighted average duration of the defined benefit obligation at 31 December 2022 is 13.5 years (2021: 16 years).

Principal assumptions

The principal financial assumptions of the Pearl Scheme are set out below.

	2022 %	2021 %
Rate of increase for pensions in payment (5% per annum or RPI if lower)	3.05	3.20
Rate of increase for deferred pensions (CPI)	2.70	2.70
Discount rate	4.95	2.00
Inflation – RPI	3.30	3.30
Inflation – CPI	2.70	2.70

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

The post-retirement mortality assumptions are in line with a scheme-specific table which was derived from the actual mortality experience in recent years based on the SAPS standard tables for males and for females based on year of use. Future longevity improvements from 1 January 2021 are based on amended CMI 2021 Core Projections (2021: From 1 January 2021 based on amended CMI 2020 Core Projections) and a long-term rate of improvement of 1.5% (2021: 1.7%) per annum for males and 1.2% (2021: 1.2%) per annum for females. Under these assumptions, the average life expectancy from retirement for a member currently aged 40 retiring at age 60 is 29.2 years and 30.5 years for male and female members respectively (2021: 29.8 years and 30.6 years respectively).

A quantitative sensitivity analysis for significant actuarial assumptions is shown below:

Assumptions	Base	Discount rate		Retail Price Index		Life expectancy	
Sensitivity level		25bps increase	25bps decrease	25bps increase	25bps decrease	1 year increase	1 year decrease
	£m	£m	£m	£m	£m	£m	£m
Impact on the defined benefit obligation at 31 December 2022	1,501.3	(39.9)	41.9	25.8	(25.1)	36.7	(36.7)
Impact on the defined benefit obligation at 31 December 2021	2,223.8	(87.2)	93.0	69.5	(68.3)	79.9	(79.6)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the pension asset recognised within the statement of financial position.

16. Investments in subsidiaries

	2022 £m	2021 £m
Cost		
At 1 January and 31 December	2,433.3	2,433.3
Impairment		
At 1 January	(367.7)	(367.7)
Increase on impairment	(150.3)	-
At 31 December	(518.0)	(367.7)
Carrying amount		
At 31 December	1,915.3	2,065.6

Where indicators of impairment have been identified the carrying value of the Company's investments in its subsidiaries has been tested for impairment at the period end. In increase in the impairment provision of £150.3m (2021: £nil) was made to adjust certain investments to their recoverable amount.

The value in use has been used as the recoverable amount. The value in use for subsidiaries which are regulated entities has been determined using Solvency II own funds. For all other subsidiaries, value in use is determined using net assets.

The subsidiaries of the Company at 31 December 2022 were as follows:

	Country of incorporation and principal place of operation	Class of shares held (wholly-owned unless otherwise indicated)
Life insurance companies		
Phoenix Life Assurance Limited	UK	'A' ordinary shares of £0.05 'B' ordinary shares of £1
Non-insurance companies		
London Life Limited	UK	Ordinary shares of £1
Pearl Assurance Group Holdings Limited	UK	Ordinary shares of £1
Pearl Group Services Limited	UK	Ordinary shares of £1
PGS2 Limited	UK	Ordinary shares of £1
Pearl (Covent Garden) Limited	UK	Ordinary shares of £1
Pearl (Martineau Phase 1) Limited	UK	Ordinary shares of £1
Pearl (Martineau Phase 2) Limited	UK	Ordinary shares of £1
Pearl MP Birmingham Limited	UK	Ordinary shares of £1
Pearl (Moor House) Limited	UK	Ordinary shares of £1
Phoenix Group Management Limited	UK	Ordinary shares of £1

All holdings represent 100% of the normal issued share capital, unless stated otherwise.

The registered address of all the subsidiary companies is 1 Wythall Green Way, Wythall, Birmingham, B47 6WG.

17. Loans and receivables

	Carrying value		Fair value	
	2022	2021	2022	2021
	£m	£m	£m	£m
Loans to Group entities at amortised cost				
(i) Cash pooling facility	43.0	-	43.0	-
Amounts due by Group entities				
ii) Loan to Phoenix Life Holdings Limited	-	434.7	-	434.7
Amounts due for settlement within 12 months	43.0	434.7		
Amounts due for settlement after 12 months	-	-		

(i) On 13 September 2022, the Company along with certain fellow subsidiaries, entered into an uncommitted intra-group cash-pooling facility with Phoenix Group Holdings plc ('PGHP'), under which the Company will either borrow funds from, or lend funds to, PGHP. All amounts due under the facility attract interest at SONIA and are repayable on demand. The amounts owed to the Company by PGHP at the commencement of the facility were included within it, and the Company received repayments of £6.4m during 2022. Interest of £0.2m was capitalised during the year.

(ii) On 28 May 2015 the Company granted a loan of £693.5m to Phoenix Life Holdings Limited ('PhLHL'). The loan accrued interest of compounded SONIA plus a margin of 1.0366%. The maturity date of the loan was 31 December 2022. Interest of £9.7m was received under this loan during the year (2021: £8.7m).

On 31 December 2022, the maturity date of the loan, the amount due to the Company under the loan was reduced by the amounts due by the Company to PhLHL under loans advanced by the Company - see note 12. The Company declared a dividend in specie of £150.0m for the outstanding amount, with PhLHL settling the balance of the loan to the Company.

Unless specifically noted above no loans are considered to be past due or impaired.

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 2022 or 2021.

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

18. Financial assets through profit or loss

	2022	2021
	£m	£m
Financial assets at fair value through profit or loss		
Designated upon initial recognition		
Shares in open ended investment companies	-	24.5
Amount recoverable within 12 months	-	24.5

Determination of fair value and fair value hierarchy of financial assets through profit or loss

Shares in open-ended investment companies are categorised as Level 1 financial instruments. The fair value of Level 1 financial instruments traded in active markets (such as publicly traded securities and derivatives) is based on quoted market prices at the period end. The quoted market price used for financial assets is the current bid price on the trade date. If the bid price is unavailable a 'last traded' approach is adopted. For units in unit trusts and shares in open ended investment companies, fair value is by reference to published bid values.

There were no level 2 or 3 financial instruments in 2022 or 2021.

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

19. Cash flows from operating activities

	2022 £m	2021 £m
Loss for the year before tax	(77.5)	(33.9)
Adjustments to reconcile loss for the year to net cash inflow from operating activities:		
Dividends received	(150.0)	-
Interest on loans and receivables	(0.2)	
Net expected return on pension scheme assets	(4.1)	(4.8)
Past service costs	15.0	-
Movements in impairments of investments in subsidiaries	150.3	-
Interest expense on borrowings	34.9	20.0
Changes in operating assets and liabilities	(148.5)	9.7
Cash absorbed by operations	(180.1)	(9.0)

20. Capital and risk management

The Company's capital comprises share capital and all reserves. At 31 December 2022 total capital was £873.7m (2021: £1,411.4m). The decrease in the period reflects the total comprehensive loss arising in the period of £190.3m (2021: £202.4m) and a dividend distribution of £150.0m (2021: £nil).

The Company's capital is monitored by the Directors and managed on an on-going basis via a monthly review process to ensure that it remains positive at all times.

The principal risks and uncertainties facing the Company are:

- Interest rate risk
  The movement in interest rates will impact the value of interest payable and receivable by the Company.

  An increase of 1% in interest rates, with all other variables held constant, would result in a decrease in profit after tax in respect of a full financial year and in equity of £7.1m (2021: £5.5m). A decrease of 1% in interest rates, with all other variables held constant, would result in an increase in profit after tax in respect of a full financial year and in equity of £7.1m (2021: £5.5m).

- Liquidity risk
  Exposure to liquidity risk arises as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements. The following table provides a maturity analysis showing the remaining contractual maturities of the Company's undiscounted financial liabilities and associated interest.

		1 year or less or on demand £m	1-5 years £m	Greater than 5 years £m	Total £m
2022	Borrowings	914.4	-	-	914.4
	Amounts owed to Group entities	9.3	-	-	9.3
	Current tax	1.3	-	-	1.3
2021	Borrowings	1,157.3	-	-	1,157.3
	Amounts owed to Group entities	132.5	-	-	132.5
	Current tax	1.3	-	-	1.3

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

Credit risk management practices

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

Category	Description	Basis for recognising an expected credit loss ('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:

2022	Note	External credit rating	Internal credit rating	12m or lifetime ECL?	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Amounts owed by Group entities		N/A	Performing	12m ECL	6.6	-	6.6
Loans and receivables	17	N/A	Performing	12m ECL	43.0	-	43.0

2021	Note	External credit rating	Internal credit rating	12m or lifetime ECL?	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Amounts owed by Group entities		N/A	Performing	12m ECL	4.7	-	4.7
Loans and receivables	17	N/A	Performing	12m ECL	434.7	-	434.7
Financial assets	18	AAA	Performing	12m ECL	24.5	-	24.5

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, and Amounts owed by Group entities – the Company is exposed to credit risk relating to loans and receivables advanced to other Group Companies, and other amounts owed by Group entities, both of 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.

Financial assets – the Company's financial assets are held in open-ended investment companies, which values are based on quoted market prices at the period end. The Company considers that its financial assets have a low credit risk based on the credit ratings.

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.

The Company's exposure to all these risks is monitored by the Directors, who agree policies for managing each of these risks on an ongoing basis.

21. 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.

In the year ended 31 December 2022 the Company received interest on loans to its parent of £9.7m (2021: £8.7m). Interest paid by the Company on loans due to subsidiaries amounted to £26.1m (2021: £16.9m).

Amounts due to related parties

	2022 £m	2021 £m
Loans due to parent	-	265.0
Loans due to subsidiaries	914.4	889.1
Other amounts due to ultimate parent	-	115.8
Other amounts due to fellow subsidiaries	9.3	16.7

Amounts due by related parties

	2022 £m	2021 £m
Loans due by ultimate parent	43.0	-
Loans due by parent	-	434.7

Key management compensation

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

Parent and ultimate parent entity

Information on the Company's parent and ultimate parent is given in note 23.

22. Events after the reporting date

There were no further subsequent events which require adjustment and / or disclosure in these financial statements.

23. Other information

The Company is a private company limited by shares. The Company's principal place of business is the United Kingdom. The Company's immediate parent is Phoenix Life Holdings Limited and its ultimate parent is Phoenix Group Holdings plc ('PGH plc'), a company incorporated in the United Kingdom. A copy of the financial statements of PGH plc can be obtained from their company website, www.thephoenixgroup.com.