STANDARD LIFE LIFETIME MORTGAGES LIMITED

Scotland Registration Number: SC193441

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

Contents **Page**

Strategic report

The Directors present the strategic report, their report and the audited financial statements of Standard Life Lifetime Mortgages Limited (the Company) for the year ended 31 December 2020.

The financial statements of the Company for the year ended 31 December 2020 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Business review

Principal activities

The principal activity of the Company is to operate as a mortgage provider for equity release products. The Company ceased lending to new customers during 2006 and since then has operated a closed book of loans. The Company has an agreement with Computershare under which it is provided with administration and operational services for an agreed service charge. The Company is domiciled in the UK where all its business activities take place.

Strategy

The Company's closed mortgage book is funded by Standard Life Assurance Limited ('SLAL'), and such funding is not sourced from wholesale markets. The equity release products were originally priced to include the risk of falls in house prices therefore loan to value (LTV) ratios remain low. The objective of the Company is to realise the value in the mortgage book through an orderly run off. No future changes in activity are envisaged.

Key performance indicators

The Company's performance is measured and monitored by the Board with particular regard paid for the following key performance indicators (KPIs):

KPI	2020	2019	Definition, method of calculation and analysis
Profit after tax (PAT) £'000	**458**	**492**	PAT = profit after tax for the year attributable to equity holders per the Income Statement. This KPI measures the dividend paying capacity of the Company. The reduction in PAT is a reflection of a lower loan book revenue during the year.
Return on equity (ROE)	**6%**	**7%**	ROE = PAT divided by shareholders' equity at the beginning of the year. This KPI measures the return on equity capital being generated for the immediate parent company SLAL. The reduction in ROE is a reflection of the increased retained earnings year on year and the reduction in earnings.
Interest margin (IM)	**3.32%**	**3.33%**	IM = Net interest income as a % of average total assets during the year. This KPI indicates how much income the Company is generating on its lending activities. The slight decrease in IM is a reflection of assets decreasing faster than interest income.

Strategic report *continued*

Directors' duties

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

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

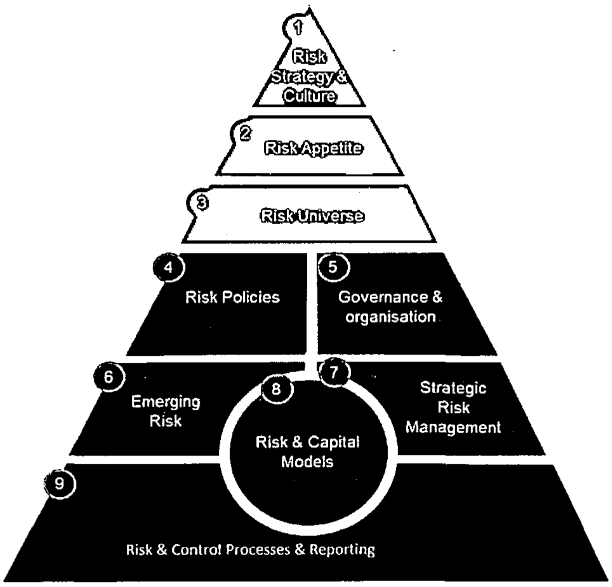
During the year, the directors of Standard Life Lifetime Mortgages Limited have applied section 172 of the Companies Act 2006 in a manner consistent with the overall purpose, values and strategic priorities of the Phoenix Group. When considering issues of strategic importance, and making key decisions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

Examples of how the Directors consider the matters under s172 of the Companies Act (as applicable) are set out below:

Area of consideration	**Demonstrating this in practice**
Long-term Decisions	Whilst overall strategy is set out by the wider Group, the Board meets quarterly to review strategic matters within its remit. The Board reviews the financial performance of the Company on a quarterly basis via metrics included in the governance packs.
Employees	The Company does not have any employees. Employment services are provided by Service Companies within the Phoenix Group. Any decisions likely to impact employees within the Phoenix Group are taken by the Phoenix Group Holdings plc Board and its Committees. During the year. Phoenix Group Holdings plc maintained a policy of informing and involving employees on matters which concern them and in the achievement of its business goals.
Business relationships with customers	Customer matters are key for the Board and play a significant part of the rationale for decision making that takes place. Board papers require authors to consider and report on matters which will impact on customers so that these are made explicit when decisions are required. The Board reviews the governance pack on a quarterly basis, including customer complaint statistics, and individual cases where relevant, in order to monitor the relationship with customers.
Business relationships with suppliers	Computershare, a key supplier, is responsible for the day to day management and oversight of our customers and the Service Companies within the Phoenix Group are responsible for the day to day management and oversight of our other suppliers. The Board reviews the performance and service levels of key suppliers on a quarterly basis with specific measures in respect of customers.
Impact on the community and environment	The Phoenix Group has a long-standing tradition for investing in its local community, including programs which support local charities and their initiatives. Further information can be found within the Phoenix Group annual report and accounts.
Reputation for high standard of business conduct	Being regulated by the Financial Conduct Authority (the "Regulator"), the Company has strict rules and guidelines which must be adhered to regarding conduct, ethics and responsibilities. The Senior Managers & Certification Regime, which clearly documents those individuals within the business who are decision makers, requires that there is an annual review of their fitness and propriety.
Acting fairly between members of the company.	Whilst not having external shareholders, the Board is required to link in with the activity of the Phoenix Group Board, the ultimate shareholder, on matters such as strategic direction and financial performance. Any matters requiring escalation to shareholders and the Company's or Phoenix Group's Board is appropriately managed.

Risk Management Framework
The Company adopts the Phoenix Group's Risk Management Framework (RMF). The Phoenix Group's RMF embeds proactive and effective risk management. It seeks to ensure that risks are identified and managed effectively and that the Phoenix Group is appropriately rewarded for the risks it takes.

The nine components of the harmonised RMF are illustrated in the diagram below. Further details on each component are outlined in the Strategic Report of the Phoenix Group's Annual Report and Accounts 2020.



Principal risks and uncertainties
During 2020, for the purposes of managing risks of the Company, including those impacting the Company's financial assets and financial liabilities, the Company considered the following Risk Universe categories: Financial Soundness; Market; Credit; elements of Insurance; Operational; Customer; and Strategic. Sources of these risks, and an explanation of actions taken to manage risk exposures during the year, are outlined in note 15.

COVID-19
COVID-19 has resulted in an unprecedented global crisis which has challenged each and every one of us as we undertake our day-to-day lives. The measures taken to reinforce the Company's resilience have ensured we have continued to provide services to customers throughout these uncertain times. COVID-19 has not affected the Company's ability to continue as a going concern. The Company's key priorities throughout the pandemic have been to support and ensure the safety of our colleagues, customers and of the communities in which we operate while protecting the long-term value of the Company.

COVID-19 has created short-term and potential long-term financial consequences for the Company, and there is potential for the Company's strategic objectives to be adversely impacted by the pandemic.

Management has considered the Company's risk of liquidity issues arising as a result of Covid-19 which continues to be de-minimis. At 31 March 2021, net current assets exceeded net current liabilities by £1,674k (unaudited). The Company's debt obligations are directly linked to its cash receipts from customers. Its other expected cash out flows are in relation to its operating expenses. The cash held by the Company is more than sufficient to cover operating expenses.

The Company's capital resources continue to meet its regulatory capital requirements, with an excess over regulatory capital requirement of £8,378k (unaudited) at 31 March 2021 compared to £8,278k at 31 December 2020. The Company's financial forecasts show the risk of the Company breaching its regulatory capital requirements is de minimis.

The Company remains strong and resilient, and the assets available to meet its liabilities are far in excess of its regulatory capital and capital policy.

On behalf of the Board

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Stephen Percival, Director

29 April 2021

Directors' report

The Company operates as a mortgage provider for equity release products, incorporated in Scotland, Its registration number is SC193441 and its registered office is Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH. It is a wholly owned subsidiary of SLAL.

Results and dividend
The Company recorded a profit after tax of £458k (2019: £492k) which has been transferred to retained earnings. The Directors do not recommend the payment of a dividend in respect of 2020 (2019: £nil).

Going Concern
The Strategic report and Directors' report summarise the Company's activities, its financial performance and financial position together with any factors likely to affect its future development. In addition, they discuss the principal risks and uncertainties it faces. Note 15 to the financial statements summarise the Company's capital management and risk objectives and policies together with its financial risks.

The Board has followed the UK Financial Reporting Council's "*Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks (April 2016)*" when performing their going concern assessment. To this end, the Board has undertaken a review of solvency, liquidity and cash flow projections under normal and stressed conditions. The Board has considered the impact of the Covid-19 pandemic on the UK residential property market to which the Company is exposed.

As set out in the strategic report, the Board do not consider that the COVID-19 pandemic has impacted the Company's ability to continue as a going concern.

The Company's short term liabilities and expenses can be met from the current cash reserves, £1,805k (unaudited) at 31 March 2021. The Company has longer term liabilities in the form of two loans from the parent company SLAL (for details refer to note 7 of the financial statements). As these loans are repayable upon receipt of cash inflows from settlement of mortgage loans to customers they do not represent a risk to the liquidity of the Company.

As a result of this review, the Directors believe the Company has adequate resources to continue in operational existence over the going concern period assessed up to 30 June 2022. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

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

Ciaran McGuigan (resigned 1 February 2021)
Samuel Lever (appointed 1 February 2021)
Stephen Percival

Our people
The staff who manage the affairs of the Company are employed by Standard Life Assets and Employee Services Limited ('SLAESL'), Pearl Group Management Services Ltd ('PGMS') and Pearl Group Services Limited ('PGS'), however costs are not recharged to the Company.

The Company is subject to the Senior Manager and Certification Regime following its extension on 9 December 2019. The requirements for the Company have been embedded within the existing processes of the Phoenix Group and the Company was in full compliance on that date and up to the date of this report.

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

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

Statement on Business Relationships

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

New propositions and/or any strategic or business changes with the potential to impact on customers are dealt with as matters reserved for the Board to ensure appropriate consideration customer treatment.

The Lifetime Mortgage product was reviewed, along with other Group Equity Release Mortgage (ERM) products, to ensure that it was operating as per customer expectations, to identify any risk of poor customer outcomes and to put in place an appropriate governance framework, should any actions have been required as an outcome of the Review. However, no material concerns were reported with the only minor recommendation being to align with other Group ERM products, only permitting further advances for property improvements in cases of financial hardship.

Business relationships with partners and suppliers
The Service Companies within the Phoenix Group are the principal leads on maintaining relationships with suppliers. However, Computershare and Standard Life Assets and Employees Limited (key suppliers for the Company), are responsible for the day to day management and oversight of the Company's customers and the Board monitors their performance, during the year, accordingly.

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

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

Disclosure of information to auditor

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

Re-appointment of auditor
In accordance with section 487 of the Companies Act 2006, the Company's auditor, 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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Stephen Percival, Director

29 April 2021

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under the law the Directors have elected to prepare those statements in accordance with international accounting standards ('IFRS') in conformity with the requirements of the Companies Act 2006. Under company law, the Directors must not approve the financial statements unless they are satisfied that they 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 International 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 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 Auditors' report to the members of Standard Life Lifetime Mortgages Limited

Opinion

We have audited the financial statements of Standard Life Lifetime Mortgages Limited for the year ended 31 December 2020 which comprise the Statement of comprehensive income, Statement of financial position, Statement of changes in equity, Statement of cash flows and the related notes 1 to 18, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

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

Basis for opinion

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

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

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the period to 30 June 2022.

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

Other information

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

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

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

We have nothing to report in this regard.

Independent Auditors' report to the members of Standard Life Lifetime Mortgages Limited

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 7, 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 the Companies Act 2006, tax legislation and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included the permissions and supervisory requirements of the Financial Conduct Authority ('FCA').

Independent Auditors' report to the members of Standard Life Lifetime Mortgages Limited

  - We understood how the Company is complying with those frameworks by making enquiries of management and those responsible for legal and compliance matters;
  - Reviewing correspondence between the Company and UK regulatory bodies; reviewing minutes of the Board meetings and evaluating whether the reporting to the Board provided a robust framework for the Directors to monitor compliance; and
  - Understanding the process by which the financial statements are produced and the process by which those charged with governance approve the financial statements prior to issuance.

- Based on this understanding we designed out audit procedures to identify non-compliance with such laws and regulations. Our procedures included the following:

  - Making enquiries of senior management for their awareness of any non-compliance of laws or regulations;
  - Reviewing Board minutes;
  - Inspecting significant correspondence with the regulatory authorities; and
  - Making enquiries of those charged with governance.

  We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by considering both the risks inherent in the business and the processes and associated controls over financial reporting, specifically income recognition and the assessment of impairment. Our assessment of the Company's control environment included reviewing the International Standard on Assurance Engagements (ISAE) 3402 report produced in respect of the Company's service organisation as well as management's assessment of that report's conclusions as they impact the Company's financial reporting process. We also considered the impact of COVID-19 on the Company's control environment. We designed and carried out a suite of tests to address the identified risks, including testing a sample of journal entries.

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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Giles Watson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds
29 April 2021

Statement of comprehensive income
for the year ended 31 December 2020

	Note	2020 £'000s	2019 £'000s
Net interest income	4	608	655
Other operating expenses	5	(43)	(48)
Total operating expenses		(43)	(48)
Profit for the year before tax		565	607
Tax charge	6	(107)	(115)
Profit for the year		458	492

Statement of financial position
as at 31 December 2020

	Note	As at 31 December 2020	As at 31 December 2019
		£000s	£000s
ASSETS			
Loans and deposits	7	17,259	18,167
		17,259	18,167
Current tax receivable	9	4	-
Other receivables	10	-	32
Cash and cash equivalents	11	708	480
Total assets		17,971	18,679
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	12	250	250
Retained earnings		8,208	7,750
Total equity		8,458	8,000
Financial liabilities			
Other financial liabilities	13	9,403	10,564
Current tax payable	9	-	7
Other payables	14	110	108
Total liabilities		9,513	10,679
Total equity and liabilities		17,971	18,679

On behalf of the Board

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Stephen Percival, Director
29 April 2021

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

	Share capital (note 12) £000s	Retained earnings £000s	Total £000s
At 1 January 2020	250	7,750	8,000
Profit for the year	-	458	458
Total comprehensive income for the year	250	8,208	8,458
At 31 December 2020	250	8,208	8,458

	Share capital (note 12) £000s	Retained earnings £000s	Total £000s
At 1 January 2019	250	7,258	7,508
Profit for the year	-	492	492
Total comprehensive income for the year	250	7,750	8,000
At 31 December 2019	250	7,750	8,000

Statement of cash flows
for the year ended 31 December 2020

	Note	2020 £000s	2019 £000s
Cash flows from operating activities			
Profit before tax		565	607
Adjusted for non-cash movements			
Net interest income	4	(608)	(655)
Net increase in operating assets and liabilities			
Changes in operating assets			
Receipts from loans and advances to customers		878	2,036
Interest received		1,177	1,272
Decrease / (increase) in other financial and other assets		32	(35)
		2,087	3,273
Changes in operating liabilities			
Repayment of loans from parent company		(362)	(836)
Drawdowns of loans and advances to customers		-	(12)
Interest paid		(1,338)	(2,165)
Increase / (decrease) in other liabilities		2	(10)
		(1,698)	(3,023)
Taxation paid		(118)	(96)
Net cash flows generated from operating activities		228	106
Net increase in cash and cash equivalents		228	106
Cash and cash equivalents at the beginning of the year		48	374
Cash and cash equivalents at the end of the year	11	70	480

Notes to the Financial Statements

1. Basis of preparation

The financial statements for the year ended 31 December 2020, set out on pages 11 to 32, were authorised by the Board of Directors for issue on 21 April 2021.

The financial statements have been prepared on a historical cost basis except for those financial assets that have been measured at fair value.

The principal accounting policies set out below have been consistently applied to all financial reporting periods presented in these financial statements, unless otherwise stated.

The Company has made presentational changes to the financial statements in order to improve the comparability with the other companies within the Group. This has resulted in a number of changes to comparative amounts relating to the order items have been presented and how items have been described. The summary of accounting policies set out in note 2 to the financial statements has also been revised to align with other companies in the Group. These changes are revisions to wording only, and no accounting policy changes have been made.

Going concern
The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 4.

The Strategic report and the Directors' report summarise the Company's activities, its financial performance and its financial position together with any factors likely to affect its future development. In addition, it discusses the principal risks and uncertainties it faces, including the potential impact of Covid-19. Note 15 to the financial statements summarises the Company's capital management and risk management objectives and policies together with its financial risks.

The Directors have followed the UK Financial Reporting Council's "Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks" (issued April 2016) when performing their going concern assessment. As part of their comprehensive assessment of whether the Company is a going concern, the Directors considered the possible impacts of the Covid-19 pandemic on the solvency, liquidity and cash flow of the Company. Specifically, the Directors have taken note of the fact the business continues to operate uninterrupted throughout the lockdown period, the net current asset position of £1,674k (unaudited) which is predominately held in cash and the of £8,378k (unaudited) capital surplus position of the Company as at 31 March 2021.

As a result of this review, the Directors believe the Company has adequate resources to continue in operational existence for the period up to 30 June 2022. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

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

Statement of compliance
The financial statements of the Company for the year ended 31 December 2020 have been prepared in accordance with international accounting standards ('IFRS') in conformity with the requirements of the Companies Act 2006.

2. Accounting Policies

(a) Critical accounting estimates and judgement in applying accounting policies

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Disclosures of judgements made by management in applying the Company's accounting policies include those that have the most significant effect on the amounts that are recognised in the Company's financial statements. Disclosures of estimates and associated assumptions include those that have a significant risk of resulting in a material change to the carrying value of assets and liabilities within the next year. 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.

Financial statement area	Critical judgements in applying accounting policies	Related notes
Loans and advances to customers	**Expected life of mortgage lending** The valuation of assets or liabilities measured at amortised cost is calculated using the effective interest method. The effective interest rate method (the EIR) implies an interest rate which discounts the future forecast cash flows of an asset over its expected life back to its carrying value. The expected life of mortgage lending is determined on experience data and management judgement.	7

Financial statement area	Critical accounting estimates and assumptions	Related notes
Loans and advances to customers	**Impairment of financial assets** The impairment provisions for financial assets disclosed in note 15 are based on assumptions about risk of default and expected loss rates. The company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the company's past history and existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see accounting policy (d) Impairment of financial assets.	7

(b) Interest income and interest expense

For all financial instruments measured at amortised cost, interest income is recognised as income in the Statement of comprehensive income as it accrues using the effective interest method.

Charges in relation to provision of loans are accounted for using the effective interest method where they are directly attributable to the acquisition of that loan. Charges not regarded as integral to the overall return on financial instruments are recognised on an accruals basis according to when the relevant service is provided or on the performance of a significant act.

(c) Administrative expenses

Administrative expenses are recognised on an accruals basis.

(d) Income tax

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

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

Deferred tax is provided for on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. 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.

The tax charge is analysed between tax that is payable in respect of policyholders' returns and tax that is payable on owners' returns. This allocation is calculated based on an assessment of the effective rate of tax that is applicable to owners for the year. Deferred tax assets and liabilities taxed at policyholder rates are not offset against deferred tax assets or liabilities taxed at shareholder rates due to restrictions in place in life tax legislation.

(e) Financial instruments

(e)(i) 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 financials assets are carried at amortised cost, using the effective interest method.

The measurement of credit impairment is based on the three-stage expected credit loss model see accounting policy (d). Financial assets measured at amortised cost are included in note 8.

The Company measures all of its financial liabilities at amortised cost.

(e)(ii) Loans and receivables and financial liabilities at amortised cost

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Deposits with credit institutions, loans and advances to customers and other financial asset balances are classified as loans and receivables. Debt securities in issue, loans from parent undertaking and other financial liabilities are classified as financial liabilities. Both loans and receivables are measured as described in accounting policy (d).

(e)(iii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and liability simultaneously.

(e)(iv) Loans from parent undertaking

Loans from the parent undertaking are classified as financial liabilities and are measured at fair value at the date of the issuance (being proceeds net of directly associated issue costs) and subsequently measured at amortised cost using the EIR method (see accounting policy (b)).

(e)(v) Derecognition of financial assets and financial liabilities

Derecognition is the point at which the Company removes an asset or liability from the statement of financial position.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where the rights to receive cash flows from the asset have expired. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

(f) Impairment of financial assets

The Company applies a three-stage approach to measuring expected credit losses (ECLs) for financial assets measured at amortised cost.

Financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

Stage 1: For credit exposures for which there has not been a significant increase in credit risk since initial recognition, the Company provides for credit losses that result from default events 'that are possible' within the next 12 months ('12 month ECL'). Interest revenue is recognised on a gross basis.

Stage 2: For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognised by the Company for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default ('Lifetime ECL'). Interest revenue is recognised on a gross basis.

Stage 3: If the financial asset becomes 'credit-impaired' (following significant financial difficulty of issuer/borrower, or a default/breach of a covenant), the Company will recognise a lifetime ECL as in (2) above and interest revenue is calculated by applying the EIR to the amortised cost (gross carrying amount net of loss allowance).

The loss allowance reduces the carrying value of the financial asset and is reassessed at each reporting date.

Measurement of ECLs

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

1) 12 month ECLs are calculated by multiplying the probability of a default occurring in the next 12 months with the lifetime ECLs that would result from that default, regardless of when those losses occur. Therefore 12 month ECLs represent an asset's lifetime ECLs that are expected to arise from default events that are possible within the 12 month period following origination of the asset, or from each reporting date for that asset.
2) Lifetime ECLs are the PV of ECLs that arise if a borrower defaults on its obligation at any point throughout the term of the lender's financial asset. This requires the Company to consider all possible default events during the term of the financial asset in the analysis. Lifetime ECLs are calculated based on a weighted average of the ECLs, with the weightings being based on the respective probabilities of default. ECLs are recognised using a provision for doubtful debts account in the income statement.

As the Company operates a closed book of mortgage business with a low loan to value ratio, credit risk is therefore considered small and the impact of IFRS9 implementation has been minimal. No significant changes to estimation techniques or assumptions were made during the reporting period.

(g) Receivables

Receivables are recognised when due and measured on initial recognition at the fair value of the amount receivable. Subsequent to initial recognition, these receivables are measured at amortised cost using the effective interest method.

(h) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits, money held at call and short notice with banks and any highly liquid investments with less than 3 months to maturity from the date of acquisition. Cash and cash equivalents are categorised for measurement purposes as loans and receivables and are therefore measured at amortised cost.

(i) Share capital

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. An instrument is classified as an equity instrument when there is no contractual obligation to deliver cash or other assets to another entity on terms that may be unfavourable. The difference between the proceeds received on issue of the shares and the nominal value of the shares issued is recorded in the share premium reserve. Incremental costs directly attributable to the issue of new equity instruments are shown as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments in a business combination are excluded in the cost of acquisition.

(j) Provisions and contingent liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Contingent liabilities are possible obligations of the Company of which timing and amount are subject to significant uncertainty. Contingent liabilities are not recognised on the statement of financial position but are disclosed, unless they are considered remote. If such an obligation becomes probable and the amount can be measured reliably it is no longer considered contingent and is recognised as a liability.

Contingent assets are disclosed if the inflow of economic benefits is probable, but not virtually certain.

(k) Payables

Payables are recognised when due and are measured on initial recognition at the fair value of the consideration payable. Subsequent to initial recognition, these payables are measured at amortised cost using the EIR method.

(l) Dividends

Final dividends on share capital classified as equity instruments are recognised in equity when they have been approved by shareholders. Interim dividends on these shares are recognised in equity in the period in which they are paid.

3. New and amended accounting standards

Effect of Brexit
On 31 January 2020, the UK left the EU and consequently EFRAG will no longer endorse IFRSs for use in the UK. Legislation is in place to onshore and freeze EU-adopted IFRSs and from 1 January 2021 the Company will apply UK-adopted International Accounting Standards. The powers to endorse and adopt IFRSs will be delegated by the Secretary of State to the UK Endorsement Board once the draft statutory instrument, which was laid before Parliament on 1 February 2020, is approved. The following amendments to standards listed above have been endorsed for use in the UK by the Secretary of State:

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16); and
- Amendments to IFR4 Insurance Contracts – deferral of IFRS 9 Financial Instruments.

Adoption of New Accounting Pronouncements in 2020
In preparing the financial statements, the Company has adopted the following standards, interpretations and amendments which have been issued by the International Accounting Standards Board ('IASB') and have been adopted for use by the EU:

- Amendments to IFRS 3 Business Combinations: The amendments have revised the definition of a business and aim to assist companies to determine whether an acquisition is of a business or a group of assets. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. The Company has not undertaken any business combinations within the scope of these amendments.
- Interest Rate Benchmark Reform (Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures): The amendments have arisen following the phasing out of interest-rate benchmarks such as interbank offered rates ('IBOR'). Specific hedge accounting requirements have been modified to provide relief from potential effects of the uncertainty caused by IBOR reform. In addition, these amendments require entities to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. There has been no impact on the Company as a result of these amendments as it does not adopt IFRS hedge accounting.
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Amendments clarify the definition of material and how it should be applied; and Amendments to the Conceptual Framework in IFRS Standards. These new and amended standards do not currently have any impact on the Company

New Accounting Pronouncements Not Yet Effective
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.

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

Other new or amended accounting standards issued by the IASB are not considered to have a significant impact on the Company's financial statements or accounting policies.

4. Net interest income

	2020 £000s	2019 £000s
Interest Income		
Mortgage interest income	1,147	1,221
Interest expense		
Interest expense on intercompany loan from parent	(539)	(566)
	608	655

5. Other operating expenses

	2020 £000s	2019 £000s
Administrative and operational expenses	43	48
	43	48

The operating expenses consist of service charges paid to Computershare Limited, for the provision of administrative and operational services to the Company.

The staff who manage the affairs of the Company are employed by Standard Life Assets and Employee Services Limited ('SLAESL'), Pearl Group Management Services Limited ('PGMS') and Pearl Group Services Limited ('PGS').
During 2020, due to the expansion of the Phoenix Group and the small size of the Company, costs incurred in managing the Company were apportioned amongst the larger entities within the Group.
Auditors' remuneration in respect of the audit of the Company's financial statements amounted to £20k (2019: £20k) and was borne by the parent company SLAL.

6. Tax charge

Current year tax charge

	2020 £000s	2019 £000s
Current tax:		
UK Corporation tax	107	115
Total current tax	107	115

Reconciliation of tax charge

	2020 £000s	2019 £000s
Profit for the year before tax	565	607
Tax at standard UK rate of 19% (2019: 19%)	107	115
Total tax charge	107	115

7. Loans and deposits

	2020 £000s	2019 £000s
Loans and advances to customers		
Loans secured by mortgages	17,259	18,167
Total loans and deposits	17,259	18,167

Loans and advances to customers are shown inclusive of accrued interest and net of impairment losses.

All loans and advances to customers are denominated in sterling, fully secured on residential property, and are at fixed rates of interest.

All loans and advances are recoverable from the sale of the property on the death of the customer or if the customer moves into long term care and therefore have no fixed maturity.

8. Fair value

(a) Fair value of financial assets and liabilities carried at amortised cost

The table below presents estimated fair values of assets and liabilities whose carrying value does not approximate fair value. Fair values of assets and liabilities are based on observable market inputs where available, or are estimated using other valuation techniques.

	Fair value 2020 £'000	Book value 2020 £'000	Fair value 2019 £'000	Book value 2019 £'000
Financial assets				
Loans and advances to customers	22,058	17,259	22,823	18,167
Total Financial assets	**22,058**	**17,259**	**22,823**	**18,167**
Financial liabilities				
Loans from parent undertaking:				
- Variable rate loan – 3 month LIBOR	869	869	1,669	1,669
- Fixed rate loan – 5.90%	12,604	8,534	11,554	8,895
Total financial liabilities	**13,492**	**9,403**	**13,223**	**10,564**

(b) Determination of the fair value hierarchy

To provide further information on the approach used to determine and measure the fair value of certain assets and liabilities, the following fair value hierarchy categorisation has been used:

Level 1: Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Fair values measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: Fair values measured using inputs that are not based on observable market data (unobservable inputs).

For loans and advances to customers and the fixed rate loan from parent undertaking, the estimated fair value represents the discounted amount of estimated future cash flows expected to be received/paid. Expected cash flows are discounted at current market rates to determine fair value and are deemed to be Level 2 (2019: Level 2). The carrying value of all other financial assets and liabilities approximate their fair value.

9. Tax assets and liabilities

	2020 £000s	2019 £000s
Current Tax		
Current tax payable	-	7
Current tax recoverable	4	-
	4	7

All amounts are denominated in sterling and are expected to be settled within 12 months.

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

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. No deferred tax assets or liabilities are recognised at 31 December 2020 – no impact is therefore expected to the balance sheet from the announcement.

10. Other receivables

	2020 £000s	2019 £000s
Amounts due from related parties	-	32
	-	32

All amounts are denominated in sterling and are expected to be settled within 12 months.

11. Cash and cash equivalents

	2020 £000s	2019 £000s
Bank and cash balances	708	480
Total cash and cash equivalents	**708**	**480**

Cash in hand is non-interest bearing. All other cash and cash equivalents are subject to variable interest rates.

12. Share capital

	2020 Number	2020 £000s	2019 Number	2019 £000s
Issued share capital				
Share Capital	250,000	250	250,000	250
	250,000	250	250,000	250

All shares are owned by the immediate parent undertaking, SLAL.

13. Other financial liabilities

	2020 £000s	2019 £000s
Variable rate loan-3 month Libor	869	1,669
Fixed rate loan- 5.9%	8,534	8,895
Loans from parent undertaking	9,403	10,564

The loan advances provided from SLAL to the Company are used to fund loans to customers under mortgage agreements. Under the terms of the fixed rate agreement with SLAL there is no fixed date for repayment of the outstanding amount. Under the terms of the variable rate agreement, also with SLAL, it is repayable in line with repayments received from customers under the mortgage agreements. All amounts due to the parent company are denominated in sterling.

14. Other payables

	2020 £000s	2019 £000s
Group relief payable	107	108
Amounts due to related parties	3	-
	110	108

All amounts are denominated in sterling and are expected to be settled within 12 months.

15. Risk management

(a) Overview

Risk Management Framework
The Group's RMF embeds proactive and effective risk management across the Phoenix Group. It seeks to ensure that all material risks are identified, assessed, controlled, monitored, managed within approved risk appetites and reported through agreed governance routes in line with delegated authorities. A diagram showing the nine elements of the Group's RMF is presented within the Company's strategic report, with further detail included in the Group's 2020 Annual Report and Accounts.

Risk Universe
The Group's Risk Universe (applicable to the Company) summarises the comprehensive set of risks to which the Company is exposed. The risk profile of each is an assessment of the impact and likelihood of those risks crystallising and the Company failing to achieve its strategic objectives. Changes in the risk profile are influenced by the commercial, economic and non-economic environment and are identified, assessed, managed, monitored and reported through the Group's RMF processes.

There are three levels of Risk Universe categories; the highest is Level 1 and includes:

Level 1 category	Definition
Strategic risk	A possible source of loss that might arise from the pursuit of an unsuccessful business plan; this source of loss can be to the shareholders and / or to the policyholders, and may drive reputational damage which could further impact the Group's ability to meet its strategic objectives.
Financial soundness	The risk of financial failure, reputational loss, loss of earnings and/or value arising from a lack of liquidity, funding or capital, and/or the inappropriate recording, reporting and disclosure of financial, taxation and regulatory information.
Market risk	The risk of reductions in earnings and/or value, through financial or reputational loss, from unfavourable movements. The risk typically arises from exposure to equity, property and fixed income asset classes and the impact of interest rates, inflation rates and currency exchange rates.
Credit risk	The risk of reductions in earnings and/or value, through financial or reputational loss, as a result of the default of a counterparty or an associate of such a counterparty to a financial transaction (i.e. failure to honour their financial obligations, or failing to perform them in a timely manner), whether on or off balance sheet.
Insurance risk	The risk of reductions in earnings and/or value, through financial or reputational loss, due to fluctuations in the timing, frequency and severity of insured/underwritten events and to fluctuations in the timing and amount of claim settlements. This includes fluctuations in profits due to customer behaviour.
Customer risk	The risk of reductions in expected earnings and/or value to the Company or customers, through financial, reputational or operational losses as a result of not treating customers fairly or inappropriate/poor customer treatment (including poor advice).
Operational risk	The risk of reductions in earnings and/or value, through financial or reputation loss, from inadequate or failed internal processes and systems, or from people related or external events.

The Company has also defined a more granular categorisation for Level 2 risks. This helps to further explain our attitude to these risks.

(b) Strategic risk

Strategic risks threaten the achievement of the Company and Group strategy through poor strategic decision-making, implementation or response to changing circumstances. The Company recognises that core strategic activity brings with it exposure to strategic risk. However, the Company seeks to proactively review, manage and control these exposures.

The Company's strategy and business plan are exposed to external events that could prevent or impact the achievement of the strategy; events relating to how the strategy and business plan are executed; and events that arise as a consequence of following the specific strategy chosen. The identification and assessment of strategic risks is an integrated part of the RMF. Strategic Risk should be considered in parallel with the Risk Universe as each of the risks within the Risk Universe can impact the Group and Company's strategy.

A Strategic Risk Policy is maintained and reported against regularly, with a particular focus on risk management, stakeholder management, corporate activity and overall reporting against the Company and Group's strategic ambitions.

(c) Financial risks

The use of financial instruments naturally exposes the Company to the risks associated with them which comprise mainly financial soundness risk, market risk, and credit risk. Financial soundness is a broad risk category encompassing liquidity and funding risk, capital management risk and tax risk.

A Group-wide project is underway to enhance our approach to managing the financial risks of climate change including embedding climate risk considerations within the Group's Risk Management Framework, which will meet the requirements of the PRA's Supervisory Statement 3/19. The Group's disclosures in line with the Task Force for Climate-related Financial Disclosures (TCFD), including planned future activity across each of the TCFD focus areas, are outlined within the Group's 2020 Annual Report and Accounts.

(d) Financial Soundness: Liquidity and funding risk

Liquidity risk in its broadest sense can be defined as failure to maintain adequate levels of financial resources to meet short-term obligations as they fall due. Funding risk relates to the potential inability to raise additional capital or liquidity when required in order to maintain the resilience of the balance sheet. The Company has exposure to liquidity risk as a result of any failure to meet its short-term cash flow requirements, to meet its obligations to policy liabilities and the operating requirements of its subsidiaries.

The Board has defined a number of governance objectives and principles and the liquidity risk framework is designed to ensure that:

- Liquidity risk is managed in a manner consistent with the Board's strategic objectives, risk appetite and Principles and Practices of Financial Management ("PPFM");
- Cash flows are appropriately managed and the reputation of the Company and the Group are safeguarded; and
- Appropriate information on liquidity risk is available to those making decisions.

The Company's liquidity risk management strategy is based on a very low risk appetite of having insufficient liquid or tangible assets to meet financial obligations as they fall due.

A significant proportion of the Company's financial assets are held in cash which the Company considers sufficient to meet the liabilities as they fall due.

As a result of the policies and processes established with the objective of managing exposure to liquidity risk, the Company expects to be able to manage liquidity risk on an ongoing basis, despite the effect of the COVID-19 pandemic.

(e) Contractual undiscounted maturities

The following table provides a maturity analysis showing the remaining contractual maturities of the Company's undiscounted financial liabilities and associated interest.

As at 31 December 2020	Within one year £'000s	No defined maturity £'000s	Total £'000s
Assets:			
Loans and advances to customers	-	17,259	17,259
Cash and cash equivalents	708	-	708
	708	**17,259**	**17,967**
Liabilities:			
Loans from parent undertaking	-	**9,403**	**9,403**
As at 31 December 2019			
Assets:			
Loans and advances to customers	-	18,167	18,167
Cash and cash equivalents	480	-	480
Other financial assets	32	-	32
	512	**18,167**	**18,679**
Liabilities:			
Loans from parent undertaking	-	10,564	10,564
	-	**10,564**	**10,564**

There is no defined maturity as the nature of the mortgage arrangement is such that the loans are repayable upon death, or the customer selling their property to enter long term care.

Assets available to meet liabilities as they fall due are cash and cash equivalents and loans and advances to customers.

(f) Financial Soundness: Capital management risk

Capital management risk is defined as the failure of the Company to maintain sufficient capital to provide appropriate security for stakeholders and meet all regulatory capital requirements whilst not retaining unnecessary capital. The Company has exposure to capital management risk through the regulatory capital requirements mandated by the Financial Conduct Authority (FCA).

Capital management policies and objectives
Managing capital is the on-going process of determining and maintaining the quantity and quality of capital appropriate for the Company and ensuring such capital is deployed in a manner consistent with the expectations of our stakeholders. For these purposes, the Company consider our key stakeholders to be the providers of capital and the FCA.

The primary objective of capital management in the Company is to ensure that capital is, and will continue to be, adequate to maintain the required level of safety and stability of the Company and hence to provide an appropriate degree of security to our stakeholders.

The capital requirements of the Company are routinely forecast on a periodic basis, and the requirements are assessed against forecast available capital requirements. Capital plans are ultimately subject to approval by the Board.

Regulatory capital
The Company undertakes mortgage provision business in the UK and is regulated by the FCA. The FCA specifies rules and guidance for the minimum level of capital required to meet regulatory requirements. The FCA requires all mortgage provision companies to maintain Capital Resources (CR) in excess of their Capital Resources Requirement (CRR). CR includes the assets in excess of liabilities, valued on a regulatory basis, and certain other components of capital.

Capital requirement
Based on the Company's regulatory return at 31 December 2020, the Company had available capital resources of £8,458k (2019: £8,000k) and a CRR of £180k (2019: £188k).

The Company has not breached any regulatory capital requirements at any time during the year.

(g) Financial Soundness: Tax risk

Tax risk is defined as the risk of financial or reputational loss arising from a lack of liquidity, funding or capital due to an unforeseen tax cost, or by the inappropriate reporting and disclosure of information in relation to taxation. The Company has exposure to tax risk through the annual statutory and regulatory reporting and through the processing of policyholder tax requirements. Tax risk is managed by maintaining an appropriately-staffed tax team who have the qualifications and experience to make judgements on tax issues, augmented by advise from external specialists where required.

(h) Market risk

Market risk is defined as the risk of reductions in earnings and/or value, through financial or reputational loss, from unfavourable market movements. The main elements of market risk to which the Company is exposed are property risk and interest rate risk which are discussed below.

(h)(i) Property risk

Property risk is the risk of adverse property market movements. The Company is exposed to property risk as the loans and advances are repayable from the sale of the property. This risk is mitigated as the equity release products were originally priced to include the risk of falls in house prices therefore loan to value (LTV) ratios remain low. On an ongoing basis the finance team monitor LTV ratios taking into account movements in house price valuations and assess the loans for impairment under the expected credit loss approach as detailed within the credit risk section below.

(h)(ii) Interest rate risk

Interest rate risk is the risk that arises from exposures to changes in the shape and level of yield curves which could result in financial loss due to the value of financial assets and liabilities, or the cash flows relating to these, fluctuating by different amounts.

The main financial assets held by the Company which give rise to interest rate risk are loans and deposits, cash and cash equivalents.

The Company is exposed to fair value interest rate risk on its fixed rate lending to customers, part of which is funded by variable rate borrowings. The directors monitor this risk and whether or not to mitigate it through the use of interest rate swaps. The result of interest rate sensitivity analysis on an accounting basis for +/- 100 basis points scenarios based on the year end statement of financial position, and the risk exposures in existence at that date, is given below (a positive number represents a positive impact to the income statement). It should be noted that

The Bank of England base rate prevailing at 31 December 2020 was 10 basis points (2019: 75 bps) and therefore the sensitivity to a fall in rates has been limited to 10 basis points (2019: 75 bps).

The interest rate profile of financial assets and liabilities is as follows:

As at 31 December 2020	Variable rate £'000s	Fixed rate £'000s	Non-interest bearing £'000s	Total £'000s
Assets:				
Loans and advances to customers	-	17,259	-	17,259
Cash and cash equivalents	708	-	-	708
	708	**17,259**	-	17,967
Liabilities:				
Loan from parent undertaking	869	8,534	-	9,403
Other liabilities	-	-	110	110
	869	**8,534**	**110**	**9,513**
Interest sensitivity gap	**(161)**	**8,725**	**(110)**	**8,454**
As at 31 December 2019				
Assets:				
Loans and advances to customers	-	18,167	-	18,167
Cash and cash equivalents	480	-	-	480
Other financial assets			32	32
	480	**18,167**	**32**	**18,679**
Liabilities:				
Loan from parent undertaking	1,669	8,895	-	10,564
Other financial liabilities	-	-	108	108
	1,669	**8,895**	**108**	**10,672**
Interest sensitivity gap	**(1,189)**	**9,272**	**(76)**	**8,607**

All variable rate financial assets and liabilities re-price in a period of less than three months. All fixed rate financial assets re-price in five years or more. The non-interest bearing financial assets and liabilities relate to short-term debtors and creditors which do not have a defined interest rate.

(h)(iii) Sensitivity analysis – market risk

	+100 basis points £'000s	-10 basis points £'000s
At 31 December 2020		
Impact on profit after tax	7	(1)
	£'000s	**£'000s**
At 31 December 2019		
Impact on profit after tax	5	(4)

Limitations

The sensitivity analysis represents the post-tax impact on profits at the reporting date that the specified changes in assumptions would have if they had persisted throughout the year. The sensitivity will vary with time, both due to changes in market conditions and the changes in the actual statement of financial position mix, this mix being actively managed. This sensitivity analysis is non-linear and larger or smaller impacts should not be derived from these results.

The Company considers this to be representative of risk exposure during the reporting period. However these sensitivities are hypothetical and should not be considered to be predictive of future performance.

(i) Strategy in using financial instruments

Financial instruments comprise the majority of the Company's assets and liabilities. The Company does not trade in financial instruments. The key financial risk arises in relation to interest rate risk on fixed rate loans and advances to customers. This risk arises due to sensitivity to changes in interest rates as interest rates paid on part of the funding are variable whilst interest rates received on loans and advances are fixed. The Company's policies are set out in the accounting policies with the following disclosures made in respect of the financial instruments.

(j) Reconciliation by category of financial instruments

The following tables reconcile the Company's financial instruments by IFRS 9 category to the line items presented in the statement of financial position.

All financial assets are as follows:

	2020 £'000s	2019 £'000s
Loans and advances to customers	17,259	18,167
Cash and cash equivalents	708	480
Other financial assets	4	32
Total financial assets	**17,971**	**18,679**

All financial liabilities are categorised as held at amortised cost as follows:

	2020 £'000s	2019 £'000s
Loans from parent undertaking	9,403	10,564
Total financial liabilities	**9,403**	**10,564**

(k) Credit risk

Credit risk is defined as the risk of reductions in earnings and/or value, through financial or reputational loss, as a result of the default of a counterparty or an associate of such a counterparty to a financial transaction (i.e. failure to honour their financial obligations, or failing to perform them in a timely manner), whether on or off balance sheet.

The Company's credit risk exposure mainly arises from its investments in loans and receivables. Concentrations of credit risk are managed by setting maximum exposure limits to types of financial instruments and counterparties.

The limits are established using the following controls:

Financial instrument with credit risk exposure	Control
Cash and cash equivalents	Maximum counterparty exposure limits are set with reference to internal credit assessments.
Loans and receivables	The Company operates a closed book of business and does not make new loans. There are therefore no controls required with respect to credit exposures on loans.
Other financial instruments	Appropriate limits are set for other financial instruments to which the Company may have exposure at certain times, for example, commission terms paid to intermediaries.

Credit risk management

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

Category	Description	Basis for recognising ECL
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12 month 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 tables below details the credit quality of the Company's financial assets, as well as the Company's maximum exposure to credit risk by credit risk rating grades:

31 December 2020	**Note**	**External credit rating**	**Internal credit rating**	**12 month ECL or lifetime ECL?**	**Gross carrying amount £'000**	**Loss allowance £'000s**	**Net carrying amount £'000s**
Loans and advances to customers	7	N/A	Performing	12m ECL	17,259	-	17,259
Cash and cash equivalents	11	A	N/A	12m ECL	708	-	708
Total					**17,967**	-	**17,967**
31 December 2019							
Loans and advances to customers	7	N/A	Performing	12m ECL	18,167	-	18,167
Cash and cash equivalents	11	A	N/A	12m ECL	480	-	480
Total					**18,647**	-	**18,647**

At each reporting date, the Company assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

A significant increase in credit risk can arise following:

- Changes in general economic and/or market conditions; and
- Expected delays in payments.

The principal credit risk to the Company is that proceeds from the sale of the borrower's property upon death or entry into long-term care will not cover the outstanding loan amount. This risk is mitigated by the credit policies on origination of the loans, which included setting maximum initial LTV ratios and the holding of a first charge over the property on which the loan is granted.

Concentrations of credit risk

Due to the nature of the Company's business and the extent of its activities, management is of the opinion that there are no significant concentrations of credit risk in terms of geographical areas, customer or industry groups, or any other areas. All asset counterparties are domiciled in the UK.

Credit exposure of financial assets that are neither past due nor impaired

The financial assets of the Company that are neither past due nor impaired at the Statement of financial position date are classified according to external rating agencies credit ratings of the counterparties. The Company's assets which are placed with external counterparties are its holdings in cash and cash equivalents, which have a credit rating of A. All exposures to loans and advances to customers are internally rated.

Credit exposure to financial assets that are past due or impaired

Assets are deemed to be past due when a counterparty has failed to make a payment when contractually due. At 31 December 2020 the Company did not have other assets which were deemed to be past due but not impaired (2019: £nil).

At 31 December 2020 the Company did not hold any assets considered to be impaired amounted (2019: £nil).

(l) Elements of Insurance risk

Insurance is managed by analysing experience and using statistical data to make certain assumptions on the risks associated with the policy during the year that it is in force. Assumptions that are deemed to be financially significant are reviewed at least annually for pricing and reporting purposes. In analysing insurance risk exposures, the Company considers:

- Historic experience of relevant demographic and expense risks;
- The potential for future experience to differ from that expected or observed historically;
- The financial impact of variance in expectations; and
- Other factors relevant to their specific markets, for example, obligations to treat customers fairly.

Reinsurance or other risk transfer mechanisms are used to manage risk exposures and are taken into account in the Company's assessment of insurance risk exposures.

(l)(i) Elements of insurance expense risk
The main elements of insurance risk that give rise to the Company's exposure are discussed below:

Longevity
The Company defines longevity risk as the risk that its customers live longer than expected. This may arise from current experience differing from that expected, or the rate of improvement in mortality being greater than anticipated. This risk is relevant for contracts where payments are made until the death of the policyholder, for example, annuities.

The Company is exposed to longevity risk due to the nature of the equity release product where by loans and advances are repayable on death (unless there has been a move into long term care or repayment due to the sale of the property). The risk to the Company is that the rise in value of an outstanding loan increases above the property valuation for the property on which the loan is secured. The risk may arise from current experience differing from expected. The Company has mitigated longevity risk through minimum customer age and maximum LTV credit policies on origination. On an annual basis the finance team monitor LTV ratios taking into account expected longevity and movements in house price valuations. The risk is considered minimal as the Company is managing a closed book of business and LTVs remaining low.

Experience can vary as a result of statistical uncertainty or as a consequence of systemic (and previously unexpected) changes in the life expectancy of the insured portfolio. The profitability of such business will reduce should policyholders live longer than expected and reported profits will be impacted as and when such variances are recognised in liabilities.

(m) Customer risk

Customer risk is defined as the risk of reductions in expected earnings and/or value to the Company or customers, through financial, reputational or operational losses as a result of not treating customers fairly or inappropriate/poor customer treatment (including poor advice). It can arise as a result of:

- **Customer Treatment:** Failure to have a customer centric culture which drives appropriate behaviours and decisions leading to customer interactions and outcomes which meet or exceed reasonable customer and regulator expectations and which take account of potential customer vulnerability.
- **Customer Transformation:** The design, governance and oversight of Strategic Customer Transformation Activity in retained functions and service providers, fails to deliver on reasonable customer expectations, taking account of the Phoenix Group customer treatment risk appetites and regulatory requirements.
- **Product and Propositions:** Failure to design and/or manage products/propositions appropriately, or failure of the manufacturer to ensure that products/ propositions are distributed to the appropriate target market, perform as intended and in line with the expectations set. This element of customer risk is minimal in respect of the Company.

- **Sales and Distribution:** Inappropriate (unclear, unfair or misleading) financial promotions, sales practices and/or distribution agreements resulting in poor customer outcomes leading to reputational, financial and/or operational detriment. This element of customer risk is minimal in respect of the Company.

Risk capital requirement for customer risk is assessed using the Company's PRA approved Internal Model which is calibrated to withstand a stress event to a 99.5% confidence level over a one-year period. The methodology is based on scenarios assessed by experts within the business. From a qualitative perspective, the customer risks for the Group, and of the Company, are regularly reported to management oversight committees.

The Group's Conduct Risk Appetite (which applies to the Company), sets the boundaries within which the Company expect customer outcomes to be managed. In addition, the Group Conduct Risk Framework ('CRF'; applies to the Company), which overarches our Risk Universe and all risk policies, consists of a set of outcomes, intents and standards for all Group staff to follow to ensures that we have embedded and effective controls in place across our business activities to detect where our customers are at risk of poor outcome, minimise conduct risks, and respond with timely and appropriate mitigating actions.

The Company also has a suite of customer polices which set out the key customer risks and minimum control standards in place to mitigate them.

(n) Operational risk

Operational Risk is defined as the risk of reductions in earnings and/or value, through financial or reputation loss, from inadequate or failed internal processes and systems, or from people related or external events.

Operational risk arises due to failures in one or more of the following aspects of our business:

- indirect exposures through our outsourcing service providers (OSPs) and suppliers;
- direct exposures through internal practices, actions or omissions;
- external threats from individuals or groups focused on malicious or criminal activities, or on external events occurring which are not within the Company's control; and
- negligence, mal-practice or failure of employees, or suppliers to follow good practice in delivering operational processes and practices.

It is accepted that it is neither possible, appropriate nor cost effective to eliminate operational risks from the business as operational risk is inherent in any operating environment particularly given the regulatory framework under which the Company operates. As such the Company will tolerate a degree of operational risk subject to appropriate and proportionate levels of control around the identification, management and reporting of such risks.

16. Related parties

(a) Transactions with related parties

In the normal course of business, the Company enters into transactions with related parties that relate to the provision of mortgage business. The Company also has transactions with SLAESL, a fellow subsidiary which provide employment of staff and provision of services, in addition it recharges service costs paid to Computershare Limited, for the provision of administrative and operational services to the Company.

	2020 £'000s	2019 £'000s
Expenses:		
Interest on loan from parent	539	566
Service cost recharge from SLAESL	43	48
Total expenses	**582**	**614**
Group relief movement	2	-

(b) Balances due from/to related parties

	2020 £'000s	2019 £'000s
Due to related parties:		
Ultimate parent	107	105
Parent	9,403	10,564
Fellow subsidiary	3	3
Total due to related parties	**9,513**	**10,672**
Due from related parties:		
Fellow subsidiary	-	32
Total due from related parties	**-**	**32**

(c) Transactions with key management personnel

	2020 £'000s	2019 £'000s
Key Management personnel and their close family members:		
Contributions to Pensions and Savings products sold by Group in the year	-	45
Value of investment in Pensions and Savings products sold by the Group at year end	-	303

17. Events after reporting period

There are no noted events after the reporting period.

18. Ultimate parent undertaking and controlling party

The immediate parent is Standard Life Assurance Limited, a company incorporated and resident in Scotland. The Company's ultimate parent company is Phoenix Group Holdings plc, a company incorporated and resident in England and Wales.