

Company Registration No. 01860680 (England and Wales)

**ZURICH FINANCIAL SERVICES (UKISA) LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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ZURICH FINANCIAL SERVICES (UKISA) LIMITED

COMPANY INFORMATION

Directors	T Bailey S M Collinson H A Pickford J Temes C Vink	(Appointed 1 January 2021)
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Secretary	Zurich Corporate Secretary (UK) Limited
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Company number	01860680
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Registered office	The Grange Bishops Cleeve Cheltenham Gloucestershire GL52 8XX
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Independent auditors	PricewaterhouseCoopers LLP 2 Glass Wharf Bristol BS2 0FR
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ZURICH FINANCIAL SERVICES (UKISA) LIMITED

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ZURICH FINANCIAL SERVICES (UKISA) LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

The directors present the strategic report and the audited financial statements for Zurich Financial Services (UKISA) Limited ("the company") for the year ended 31 December 2020.

Review of the business

The principal activity of the company is that of an investment holding company. The company's main source of income is dividends received from its subsidiaries. The company is a limited company domiciled and incorporated in England and Wales. The registered office is The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX.

On 22 January 2020, the company subscribed for 500,000,000 ordinary shares of £0.01 each in Zurich Employment Services Limited ("ZES") for a consideration of £5m.

On 10 March 2020, the company issued 70,000,000 ordinary shares of £1 each to its immediate parent company, Allied Zurich Holdings Limited (the "parent company") for a consideration of £70,000,000 which it subsequently injected into Eagle Star Holdings Limited ("ESH"), through purchase of 70,000,000 ordinary shares of £1, to provide capital support in respect of the solvency position of Zurich Assurance Ltd ("ZAL") as a result of the financial market impact from COVID-19.

On 1 May 2020 the sale of the UK Retail Wealth business, including the company's subsidiary Sterling ISA Managers Limited ("SIML"), to Embark was completed. The announcement of the sale was made on 19 November 2019 and the Change of Control confirmation in respect of this transaction was received from the Financial Conduct Authority ("FCA") on 26 February 2020.

On 15 June 2020, the company subscribed for 2,836,240,032 ordinary shares of £0.01 each in ZES for a consideration of £28,362,400.32.

On 3 July 2020, the company completed a partial repayment totalling £15,000,000, together with accrued interest, on the £21,000,000 loan entered into on 17 December 2019 with Zurich Insurance Company Ltd ("ZIC").

On 28 September 2020, the company received a loan of £42,000,000 from ZIC at an interest rate of 0.28030% with a maturity date of 28 September 2022.

On 30 November 2020, the uncommitted and committed Bilateral Credit Facilities, entered into on 30 November 2017, under which the company has a total borrowing limit of \$1.36bn, being \$1.12bn committed and \$0.24bn uncommitted, were extended and the maturity of the facilities reset to the initial 5 year tenor per the facility agreement.

On 17 December 2020, the company received a dividend of £86,000,000 from ESH.

Key Performance Indicators

The profit for the year before taxation amounted to £186.5m (2019: £24.4m). After taking taxation and distributions paid on subordinated loans into account, the amount transferred to reserves was £151.8m (transferred from reserves 2019: £1.1m).

The company's 2020 profit before taxation mainly represents income from shares in group undertakings, reversals of previous years' impairment of fixed asset investments, offset by amounts written off fixed asset investments, and interest payable on loans from group undertakings.

At 31 December 2020, the company had net assets of £2,153.5m (2019: £1,931.0m) representing principally the value of its investment in group undertakings and cash, net of amounts owed to subsidiary and group undertakings.

Given the nature of the business, the company's directors are of the opinion that no additional key performance indicators are necessary for an understanding of the development, performance and position of the business other than the performance and position shown in the profit and loss, statement of comprehensive income account and balance sheet on pages 15, 16 and 17.

Future Outlook

The directors expect the current activity of the company to continue for the foreseeable future.

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

Principal risks and uncertainties

The principal risks and uncertainties faced by the company are mainly in respect of financial instruments. The company's financial instruments and its exposure to the risks and uncertainties in respect of those financial instruments are summarised in note 14. The directors' note the ongoing impact of both Brexit and COVID-19, and do not expect any material business risks to arise as a result.

Business risk

The UK left the European Union ('EU') on 31 January 2020. A transitional period, during which the UK was no longer a member of the EU but was still subject to EU rules and remained a member of the Customs Union, concluded at 11pm on 31 December 2020. The EU-UK Trade and Cooperation Agreement was agreed and is provisionally applicable from 1 January 2021, causing an underlying level of ongoing uncertainty in the UK of the financial and economic impact from this agreement. The risk to the company as a result of leaving the EU is not considered to be significant as the principal activity of the company does not involve the import or export of goods and services to and from other EU countries.

The directors recognise the possible consequences arising from the ongoing COVID-19 situation and have considered the operational impact on the business. The company has well established business continuity plans and in 2020 implemented remote working for all staff and a full assessment of business-critical processes to ensure operations could continue as normal or with suitable alternatives in place. These plans are still in place in 2021 and as such the directors believe that the company is well positioned to cope with any additional changes in circumstances as they may arise.

The above information regarding the possible impact of COVID-19 on the business relevant to the company is accurate at the time of writing but as a result of ongoing discussions and developments, may not reflect the developed situation at the time of reading.

Duty to promote the success of the company in accordance with s172(1) Companies Act 2006

Section 172 of the Companies Act 2006 requires the Board of Directors (the "Board") to promote the success of the company for the benefit of its members as a whole and, in doing so to have regard to the interests of stakeholders including shareholders, customers, employees, suppliers, regulators and the wider society in which the company operates.

The company is a wholly owned subsidiary entity of Zurich Insurance Group Ltd (the "ZIG Group") and is subject to policies and governance arrangements set by the ZIG Group as well as UK local statutory and regulatory requirements. The Board of Directors derives its collective authority by direct delegation from its shareholder. Its key purpose is to ensure the company's prosperity by collectively directing the company's affairs whilst meeting the appropriate interests of its shareholder and relevant stakeholders.

The Board's principal aim is to enhance the company's long-term value to its shareholder through the sustainable delivery of financial performance targets within a framework of prudent and effective controls.

When making decisions to further the company's strategic purpose, the Board has a duty to promote the success of the Company under s172 of the Companies Act 2006. During the course of the financial year, the Board has given consideration to this duty when making decisions, including the:

- Likely consequences of any decision in the long term;
- Interests of employees;
- Company's business relationships with suppliers, customers, and others;
- Impact of the company's operations on the community and the environment;
- maintaining the company's reputation for high standards of business conduct;

As a wholly owned subsidiary of the ZIG Group the company only has one member and therefore the directors do not need to consider the fairness between members.

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

Duty to promote the success of the company in accordance with s172(1) Companies Act 2006 (continued)

Long term decisions

The Board continually assesses the long term strategy of the company and its long term value to the shareholder. In doing so it considers the interests of stakeholders as part of its overall long-term business objectives and continues to align the company's strategic direction with the shareholder's aspirations. For each matter that is considered by the Board, stakeholders who may be impacted are identified and their interests considered as part of the Board's decision-making process

Interests of employees

As the company does not have any direct employees, a management charge is made to the company from the UK employing entity, ZES, in respect of employees who work on behalf of the Life business within the UK and have a responsibility for the company. The principal disclosures in respect of these staff, including the approach to employee engagement and particularly support provided since the commencement of the COVID-19 pandemic, appear in the financial statement of ZES, The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX.

However, the following summarises how Zurich UK (ZIG Group business conducted within the UK) considered employees in its deliberations:

- The company's employee engagement mechanisms include receiving regular updates on the results of employee surveys to keep fully apprised of employee engagement levels and the quality of leadership across the workforce, as well as a broad range of subjects including collaboration, working conditions, wellbeing, reputation, benefits and rewards, diversity and inclusion and responsible business;
- The company recognised the challenges faced by employees throughout the COVID-19 pandemic and was committed to supporting employees through its Flex Work scheme and Emergency Leave policy and regularly sought feedback and updates from senior management on morale and wellbeing;
- The Wellbeing hub provides a range of resources and tools to help employees keep active, healthy, and safe.

Stakeholder relationships and engagement

Business relationships with suppliers, customers, and others

The principal activity of the company is to act as an investment holding company and is the principal employer of the Zurich Financial Services UK Pension Scheme (the "Pension Scheme") and holds the obligation to procure that the participating employers meet their ongoing funding liabilities to the Pension Scheme. The company also guarantees contributions to the Endsleigh Insurance Services Ltd Pension and Assurance Scheme. The company does not engage directly with the members of the pension schemes, this activity is carried out by the Trustees. Whilst the company does not have a right of veto on the decisions made by the respective Trustees, the company can make recommendations on any proposals submitted.

Business relationship with community

The company believes in contributing positively to society in order to have a positive impact on the communities in which it operates.

- The UK Public Affairs Team is in place which aims to make Zurich an influential and prominent voice in all aspects of the public policy process. Its primary focus is the identification and monitoring of key regulatory and legislative developments, and the communication of these to the wider business to determine whether to lead, drive, or support, on any external engagement activity.
- The ZIG Group has membership in, and the Public Affairs Team works closely with, industry bodies such as the Association of British Insurers, Confederation of British Industry, and TheCityUK to ensure that Zurich is coordinated and effective in influencing the public policy agenda.
- The UK Public Affairs Team provides a weekly internal update on stakeholder engagement across the UK together with details of government consultations and inquiries of relevance to the company.
- There are a wide range of initiatives and activities that Zurich has been involved with engaging with society. A complete description of these activities can be found on www.zurich.co.uk/en/about-us/corporate-responsibility/workplace/diversity-and-inclusion.

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

Duty to promote the success of the company in accordance with s172(1) Companies Act 2006 (continued)

Stakeholder relationships and engagement (continued)

Impact of operations on sustainability

The Head of Public Affairs also holds responsibility for sustainability, which is at the centre of the company, as part of the Group's ambition to be known as one of the most responsible and impactful businesses in the world. The Group aims to be a responsible and sustainable business supporting customers and communities and managing its own environmental, social and governance risks.

The ZIG group has designed a sustainability strategy and the UK has developed its own strategy which is structured on the three themes used by the Group which comprise our internal definition of Sustainability – our 1.5 degree future (supporting the transition to a low carbon economy and managing climate risks); work sustainability (preparing for new ways of working and the skills and solutions needed); and confidence in a digital society (inciting customer resilience against cyber-attacks by enabling confidence in our use of their data).

Sustainability is growing in importance for many of Zurich's stakeholders and the organisations we do business with. The passing of the Social Value Act in 2012 has increased this demand and a number of Zurich's customers now require us to provide information about our corporate responsibility and sustainability activity and targets.

Sustainability commitments are measured thoroughly in order to ensure confidence in what we say we do, and these approaches are embedded throughout the organisation. There are a wide range of initiatives and activities that we have been involved with engaging with environmental issues. A complete description of these activities can be found on www.zurich.co.uk/news-and-insight/sustainability.

Going concern

As at 31 December 2020, the company reported net assets of £2,153.5m evidencing a strong capital position. Liquidity monitoring and management processes continue to indicate that liquid funds will be available to meet liabilities as they fall due for payment.

Forecast performance has been prepared for the next two years and support the ongoing profitability of the company. The company's dividend income from subsidiaries received in March 2021 of £100m is more than sufficient to cover the company's financial commitments in 2021.

In line with the ZIG Group's risk and capital management policy, capital is pooled as much as possible to operationalise its risk diversification and is then allocated to the ZIG group to meet capital needs; there is strong historic evidence of the ZIG Group providing such support to the company.

Notwithstanding this, the company has a total borrowing limit of \$1.44bn in relation to uncommitted and committed Bilateral Credit Facilities as part of \$3.6bn committed and uncommitted bilateral credit facilities provided to the ZIG group.

Taking into account all available information related to the future, including the consideration of the impact of leaving the EU and COVID-19 on the operations of the company, the directors are satisfied that the company has access to adequate resources to enable it to continue in operational existence for the foreseeable future.

On behalf of the Board



Name:.....Helen Pickford.....

Director

Date:...24 June 2021.....

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

The directors present their annual report and financial statements for the year ended 31 December 2020.

Results and dividends

The results for the year are set out on pages 15 and 16.

No interim dividends in respect of ordinary shares of the company were declared or paid during the year (2019: nil). The directors do not propose the payment of a final dividend for the year (2019: nil).

Subsequent events

On 05 January 2021, the company subscribed for 500,000,000 ordinary shares of £0.01 each in ZES for a consideration of £5m.

On 11 January 2021, the company completed a repayment for the remaining balance totalling £6,000,000, together with accrued interest, on the £21,000,000 loan entered into on 17 December 2019 with ZIC.

On 11 January 2021, the company completed an early repayment of £42,000,000, together with accrued interest, on the loan from ZIC entered into on 28 September 2020.

On 11 January 2021, the company provided a loan of £34,000,000 to ZIC at an interest rate of 0.07560% with a maturity date of 31 May 2021.

On 26 March 2021, the company received a dividend of £100,000,000 from ESH.

On 30 March 2021, the company provided a loan of £100,000,000 to ZIC at an interest rate of 0.12450% with a maturity date of 28 June 2021.

On 31 May 2021, the company received the repayment of £34,000,000, together with accrued interest, on the loan to ZIC with a maturity date of 31 May 2021.

On 04 June 2021, the company entered into a new revolving credit facility with access to a \$80m of committed bilateral credit facilities as part of \$200m committed bilateral credit facilities provided to the ZIG group.

On 07 June 2021, the company subscribed for 2,836,240,000 ordinary shares of £0.01 each in ZES for a consideration of £28,362,400.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

T Bailey	(Appointed 1 January 2021)
S M Collinson	
T R Naidu	(Resigned 31 December 2020)
H A Pickford	
J Temes	
C Vink	(Appointed 30 March 2020)

Qualifying third party indemnity provisions

Qualifying third party indemnity provisions (as defined in Section 234(2) of the Companies Act 2006) have been in force for the benefit of directors during the year and remain in force as at the date of this Directors' Report.

Future developments

The directors have elected to include a description of the nature of the company's exposure to financial risk and the future outlook, as required by regulations made under section 416(4) of the Companies Act 2006, within the Strategic Report (see section Future Outlook on page 1) as permitted by section 414C(11) of the Companies Act 2006.

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

Independent auditors

PricewaterhouseCoopers ("PwC") are the current auditors of the company, and in accordance with legal and regulatory requirements, will be resigning as auditors following completion of the audit for the year ended 31 December 2020. Following all appropriate processes and approvals, Ernst & Young ("EY") will be appointed as the company's auditor for the financial year beginning on 1 January 2021.

Employees

Employee relations and involvement

We have a formal consultation body constituted in law, the UK Employee Consultation Board, which goes well beyond legal minimums in terms of engagement and seeking involvement of employees. Along with these groups we have a number of other engagement groups - social committees, wellbeing and D&I groups, Zurich Community Trust committees, as well as our Organisational Health Groups (OHI) in each location and a group to represent Home and Mobile workers. Zurich's aim is to encourage our 'employee's voice' in the topics that interest them.

Zurich has conducted both employee Net Promoter Score and Organisational Health Index surveys in 2020, the feedback from employees in both being discussed in all of our employee forums and used to inform action to improve all aspects of working at Zurich.

In January 2020, the UK Executive Team invited employees to year-start roadshows in all our major locations, covering topics such as business performance, customer stories, our work with Zurich Community Trust (UK) Limited and more. These roadshows also provide employees with a face to face opportunity to ask questions of the Executive team.

The People Hub (a generalist service available to all employees and managers in the UK to gain quick and expert advice on all employee related topics) has focused this year on supporting employees and their managers through COVID-19 by providing advice and guidance particularly concerning welfare and mental health considerations.

Our People Portal which holds all our collateral in respect of employment matters has been through an update this year and we have enhanced this service this year by adding an automated chat facility which helps people find the material they are looking for whenever they log on.

Performance management and reward

Throughout 2020, COVID-19 has had a significant impact on performance management and reward principles across the ZIG group. Focus this year in the UK has therefore been on activity required in these areas.

Earlier in the year we introduced changes to our flexible benefits scheme, taking advantage of the additional lifestyle event implemented by HMRC. These changes allowed employees to amend benefit selections, maximise take home pay and adjust holiday to suit their personal circumstances.

Guidance provided to managers in relation to performance management was focused on ensuring that managers considered employees' personal circumstances during the year when evaluating performance, reducing the possibility of unfair assessment due to time away from work, or changes to working patterns during the year.

As the pandemic has progressed and we have moved to year end activity, the impact of COVID-19 on bonus and salary has been considered. The UK business have confirmed to employees that there will be no budget for salary increases in 2021, an approach that is in line with other parts of the ZIG group and industry peers in the UK. This decision has been made due to the anticipated significant impact of COVID-19 on the 2020 results and the expected ongoing challenging economic environment into 2021. This approach has been discussed and agreed with both consultation bodies in the UK, taking into account feedback from employees as part of the consultation.

Following the introduction of the new approach to performance management in 2019, My Performance Development Cycle, we have implemented the first full cycle in 2020. This has meant a renewed and improved focus on goal setting, ensuring that the organisation's strategic goals are reflected at all levels, as well as making sure that team and individual goals drive the best outcomes for our customers. A leadership goal was introduced for the UK Executive team and additional senior leaders across the business.

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

Employees (continued)

Performance management and reward (continued)

The construct of our Short Term Incentive plan changed slightly, with the creation of management pools under the overall UK pool. These sub pools allow for more consistent evaluation within functions and ensure teams are rewarded consistently, improving motivation and engagement. These changes apply to the UK business with the exception of those working within Group Functions such as compliance, legal and risk.

Employee relationships – company response to COVID-19

COVID-19 has significantly impacted the workplace landscape since early March 2020. From the outset our Zurich UK workforce response has aimed to carefully balance the need to ensure our employees are working safely and are supported in a challenging work and home environment, alongside the need to serve our customers at a critical time for them.

- All employees have continued in their roles in the UK throughout 2020 and furlough has not been used. The UK has taken an approach of encouraging flexibility in working pattern where needed, helping employees to manage their work to the best of their ability whilst also dealing with the demands of childcare or other caring responsibilities and any other pressure created by the change in working environment. All employees had access to two weeks emergency leave in 2020.
- Employees who are shielding or self-isolating continue to be remunerated as normal.
- Physical safety – Our UK employees moved to working from home in early March, and all usual operational activity has continued. Employees have been provided with equipment, where requested, enabling them to successfully work from home (IT equipment, chairs, laptop stands etc). During 2020, where government regulation has allowed, offices have opened and employees have been able to return on a limited basis, adhering to COVID-19 safe guidelines. Priority has been given to employees where there is a welfare need to return to an office environment.
- Mental Health and Wellbeing – employees have been provided with a wide range of support during 2020, focused on supporting employees in areas of financial hardship, dealing with physical challenges of working from home and supporting employees in the emotional challenges that the pandemic has brought for them and their families. Support has drawn on existing resources (Employee Assistance Programme, financial wellbeing provider etc) alongside new interventions (newsletters with wellbeing materials and advice, webinars and podcasts from external providers). All material has been collated in a single 'wellbeing hub' providing employees with an easily accessible pool of resource and external support.
- Communication – During 2020, the company has continued to ensure that there are regular opportunities for communication with employees at all levels and in a variety of formats. During the year the weekly newsletter was changed to a daily update, a COVID-19 Q&A site for employees was established and regular, virtual, all employee and leadership calls were implemented. In addition to these more formal methods, workplace has continued to be used for more informal communication between employees, sharing news, feedback, and support.

Employee share schemes

The company encourages both awareness of ZIG groups financial performance and participation in its success through the Reward Share Scheme (see Zurich Employment Services Limited ("ZES") Annual report and Financial Statements for the year ended 31 December 2020, note 23).

The Reward Share Scheme is an element of a HM Revenue & Customs Approved Share Incentive Plan operated by ZIG group. Shares are allocated in ZIG group based on the business performance of operating units for the year ended 31 December 2020 in which eligible employees worked.

Approach to diversity and inclusion

Our people are Zurich's most important asset. They enable us to achieve our strategy and deliver for our stakeholders. Their varied skills, perspectives and experiences drive innovation and they should reflect the breadth and diversity of our customers, suppliers, business partners, communities and investors across the UK.

We therefore aim to create a workplace where all employees can thrive, in an environment where everyone is treated as equally important. It enables us to attract and retain the best talent, reduces risk, and improves decision making. But we also do it because it is simply the right thing to do, it's part of how we achieve our purpose - to create a brighter future together.

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

Employees (continued)

Approach to diversity and inclusion (continued)

In 2020 we have delivered on this commitment through numerous initiatives, which we capture under five pillars: Leadership, recruitment, development, measurement & reporting, and inclusion. Activities across these pillars are designed to address gender balance, representation of ethnic minorities, inclusion of disabled and LGBT+ employees. Zurich in the UK has employee networks covering each of these characteristics with a combined membership of more than a quarter of employees. In 2020 we have published our pay gaps for each of these areas, along with an action plan designed to reduce each of those gaps. We have also established a UK D&I Council, chaired by the UK CEO, and made up of senior representatives from each of the business areas. This has been put in place in order to make each business area accountable for their diversity and inclusion performance, and in 2021 we will publish targets for gender and ethnicity.

In 2020 Zurich UK renewed its status as 'leader' in the Government's Disability Confident Scheme, and also signed up to the Race at Work charter and the 10,000 Black Interns initiative. We appeared in Working Families Top 30 Employers list and in Stonewall's Global Leaders list. In 2021 we intend to build on these successes, focusing particularly on increasing ethnic minority representation in our organisation and on ensuring that we maintain the upward trajectory of female senior appointments.

Employment of staff with disabilities in the United Kingdom

The ZIG group's policy on recruitment and promotion is based on an individual's ability to do the job. Full and fair consideration is given to experience, qualifications, and overall competence to perform the job. The ZIG group's training functions are equipped to meet any special needs of individuals with disabilities and favourable consideration is given to the modification of facilities and provision of special aids or equipment. The ZIG group have actively worked with an external advisory party, the ENEI (Employee Network for Equality and Inclusion) to ensure support of candidates with a disability is in line with best practice.

The company actively monitors recruitment, development and promotion to ensure ZIG provides career development opportunities to employees with disabilities and the company remains satisfied that policy and practice meets and, in some cases, exceeds statutory requirements.

For those employees who develop a disability during the course of their employment, every effort is made to ensure they remain with the ZIG Group by finding them suitable alternative employment, whether through making appropriate adjustments, retraining or redeployment, or, where this is not possible, financial provision is made for such employees through the operation of long-term sickness cover, and ill health early retirement provision's.

Zurich in the UK has an employee network for disability – the Disability Inclusion Group – which works to promote equal opportunities for all so that employees, customers and other stakeholders, irrespective of disability, find Zurich to be a caring and understanding employer and insurer.

Zurich UK is a Signatory of The Valuable 500 initiative, committing to put disability on the board's agenda. Zurich UK also holds the status of 'leader' in the Government's Disability Confident scheme.

Energy and carbon reporting

Following changes to Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ('SI 2018/1155'), UK energy use and associated greenhouse gas ('GHG') emissions are required to be reported for the first time in 2020.

UK sustainability is managed across all entities with reporting metrics and targets based on UK-wide actions. Extracting this data to an entity level would not provide a clear picture of the emissions or actions taken and so the data provided below is for UK operations as a whole. Similar disclosures are included within our sister entity, Zurich Assurance Ltd.

Environmental data becomes available later in the reporting year, so the data provided represents the 2019 position. This is representative across the industry. In line with requirements, no comparative data is required during the first year of reporting.

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

Energy and carbon reporting (continued)

Our greenhouse gas emissions

UK 2019	
Emissions [metric tons CO2 equivalent (t CO2e)]	
Facilities emissions [t CO2e]	3,088
Travel emissions [t CO2e]	6,172
Scope 1 emissions [t CO2e]	5,415
Scope 2 market based emissions [t CO2e]	1,306
Scope 3 emissions [t CO2e]	2,539
Total emissions [t CO2e]	9,260
Emission intensity [t CO2e per FTE] (Scopes 1 and 2)	2.16

Streamlined energy and carbon reporting

UK 2019	
Energy and Emissions [kilowatt hours (kWh)]	
Energy consumed [kWh]	14,203,529
Total Scope 1 and 2 emissions [t CO2e]	6,721

Methodology

Zurich's environmental reporting methodology follows the GHG protocol Corporate Accounting and Reporting Standard. This standard covers the accounting and reporting of seven GHG covered by the Kyoto Protocol – carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PCFs), sulphur hexafluoride (SF₆) and nitrogen trifluoride (NF₃).

The principles set out in the standard are intended to underpin reporting, to ensure that the information represents a faithful, true and fair account of the company's GHG emissions. Reporting should be relevant, complete, consistent, transparent and accurate.

In calculating energy and carbon usage the following has been included:

Scope 1 – onsite heating and car fleet emissions (direct emissions).

Scope 2 – purchased electricity, heat, steam and cooling (indirect emissions).

Electricity is extrapolated where no actual kWh figures can be obtained. An average kWh per square meter factor is applied to these office locations.

Scope 3 – air, rental and rail, as well as other fuel and energy related emissions not included in scope 1 or 2.

Actions taken during the reporting year

During 2019 significant actions have been undertaken to support the UK Sustainability goals with ongoing plans to achieve 2025 targets across both the UK and worldwide.

Management of climate related risks

ZAL and its subsidiaries completed an Own Risk and Solvency Assessment ("ORSA") as part of regulatory requirements, to provide the firms with a holistic view of their risk profile and potential future solvency impacts. The risks posed by climate change form a significant part of the recent work on emerging risks documented in the 2019 ORSA. The process of identification and assessment of emerging risks alongside the consideration of actions to mitigate the risks is used to assist with decision-making. The ORSA will be updated annually.

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

Energy and carbon reporting (continued)

Encouraging suppliers to improve their environmental sustainability

As part of onboarding new suppliers a due diligence questionnaire is required that includes corporate responsibility and environmental criteria. All third-party contracts must include a section relating to conducting periodic business reviews to monitor that the supplier is operating to our standards, including Corporate Responsibility. Any gaps in these reviews are identified and captured in an action plan with the supplier to drive continuous improvement. In addition, key third parties are reviewed on a quarterly basis using a performance management framework and onsite assessment as appropriate. Environmental performance and credentials are a key consideration when assessing the suitability of third-party arrangements and, increasingly, we are working with third parties that can enhance our corporate responsibility profile.

Reduced travel emissions

Since 2015, Zurich UK has reduced absolute travel emissions by 34% through use of technology by encouraging telephone and video conferencing in place of travel, and stricter travel planning practices. We have also recently installed electric vehicle charging points at our office sites in Fareham and Wolverhampton to encourage hybrid/electric vehicle use whilst there is also work within fleet to investigate how hybrid/electric vehicles can be more attractive to company car users.

Waste minimisation

Given significant reductions in office space, enabled through our Dynamic Working program and FlexWork, waste figures have significantly reduced in the UK. However, we acknowledge by shifting more work to home office environments, we are no longer able to have a comparable measure to historic years. Another contributor to waste reduction was the move to eliminate single-use plastics from all operations. In 2019, the UK eliminated 93% of single-use plastics from operations.

Reduced facilities emissions

To help reduce our energy consumption and facilities emissions, we continue to implement a number of initiatives including:

- Introducing more efficient lighting, utilising intelligent controls, movement detectors and replacing lighting with more efficient lamps where possible
- Replacing old air conditioning equipment and boilers with newer, more efficient systems
- Reviewing the lighting controls and heating and cooling plants at each building so that they only operate during office hours
- Pre-determining the heating controls to maintain a building temperature of 22°C, ±2°C
- Requiring all building and engineering projects to include a sustainability case
- Purchasing certified renewable electricity
- Introducing 'Dynamic Working' in many of our offices, which aims to promote a more effective working environment focused on better teamwork and sharing of resource and equipment. It allows our employees to work in an 'agile' way, allowing them to work from a variety of locations, including their home (which is further reinforced by Zurich's FlexWork program). The introduction of dynamic working and FlexWork has allowed us to reduce our office space and also reduces the commuting miles travelled by our employees.

In the UK, we are delighted that in 2019 our absolute facilities emissions were down by 71% compared to 2015.

Water minimisation

Since 2008, analysis of water consumption at larger sites has been facilitated using a detailed spreadsheet, showing figures based on accurate consumption and occupancy figures for the location. Waterless urinal systems have been installed to those locations that are suitable. In other locations, movement detectors have been installed that trigger the flushing. A programme of works to install tank bags to all WC cisterns that are not dual flush has been successfully completed and flow restrictors have been fitted in all washroom facilities.

Paper reduction

Across the business we have optimised our customer journeys to enhance the information and capabilities available through our websites, reducing the need to apply for many products by paper and we are also able to send more correspondence digitally, further reducing paper use. Indeed, all customer journeys are now designed from a 'mobile first' point of view to react to changing customer demands. This has been accompanied by making many documents which were previously provided in physical format to be digital only once again reducing paper, storage and distribution.

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

Energy and carbon reporting (continued)

New office locations

New office buildings acquired in Glasgow (2018) and Birmingham (2019) have been designed as sustainable and dynamic workspaces, to maximise efficiency and to minimise running costs achieving both a Building Research Establishment Environmental Assessment Method (BREEAM) 'Excellent' rating as well as an Energy Performance Certificate (EPC) 'A' rating. The construction of our new purpose-built facility in Swindon is also aiming for an 'Excellent' BREEAM rating.

It is worth noting that while the data presented relates to 2019, we expect the 2020 equivalents to be significantly different due to the impact of Covid-19 and the majority of staff home-working and travelling less than usual.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

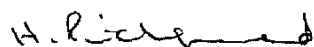
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditors is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditors is aware of that information.

On behalf of the Board



Name:.....Helen Pickford.....

Director

Date:24 June 2021.....

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF ZURICH FINANCIAL SERVICES (UKISA) LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Zurich Financial Services (UKISA) Limited's financial statements:

- give a true and fair view of the state 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2020; the profit and loss account, the statement of comprehensive income, and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to 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 of at least twelve months from when the financial statements are authorised for issue.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

INDEPENDENT AUDITORS' REPORT (CONTINUED) TO THE MEMBERS OF ZURICH FINANCIAL SERVICES (UKISA) LIMITED

Reporting on other information (continued)

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

Auditors' 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 auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to compliance with UK employment and tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries, to manipulate the company's result for the year. Audit procedures performed by the engagement team included:

- identifying and testing journal entries, in particular any journal entries with unexpected account combinations to revenue or expenses
- reviewing Board meeting minutes
- designing audit procedures to incorporate unpredictability around the nature, timing, or extent of our testing
- discussions with the Board, management, internal audit, senior management involved in the Risk and Compliance functions and the Group's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

INDEPENDENT AUDITORS' REPORT (CONTINUED) TO THE MEMBERS OF ZURICH FINANCIAL SERVICES (UKISA) LIMITED

Responsibilities for the financial statements and audit (continued)

Auditors' responsibilities for the audit of the financial statements (continued)

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, 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.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

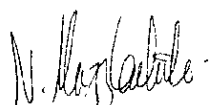
Other reporting required

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Nick Muzzlewhite (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
29 June 2021

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020	2019
		£m	£m
Administrative expenses	8	3.1	3.1
Income from shares in group undertakings	4	86.0	161.1
Operating profit		89.1	164.2
Amounts (written off)/back to fixed asset investments	13	98.8	(118.6)
Loss on disposal of fixed asset investments	13	(0.5)	-
Profit before interest and taxation		187.4	45.6
Other interest receivable and similar income	9	0.0	0.1
Interest payable and similar charges	10	(0.9)	(5.1)
Preference share payments	11	-	(16.2)
Profit before taxation		186.5	24.4
Tax on profit	12	(1.7)	7.6
Profit for the financial year		184.8	32.0

The profit and loss account has been prepared on the basis that all operations are continuing operations.

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £m	2019 £m
Profit for the financial year		184.8	32.0
Items that will not be reclassified to profit or loss:			
Distributions paid on subordinated loans designated as equity	21	(33.2)	(33.1)
Movement in deferred tax relating to the Zurich pension scheme	18	0.2	0.0
Total comprehensive income / (expense) for the financial year		151.8	(1.1)


ZURICH FINANCIAL SERVICES (UKISA) LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2020

	Note	2020 £m	2019 £m
Fixed assets			
Investments:			
Investments in group undertakings	13	2,152.0	1,983.2
Current assets			
Debtors	15	1.7	11.6
Cash at bank and in hand		91.8	8.8
		<u>93.5</u>	<u>20.4</u>
Creditors: amounts falling due within one year			
Creditors	16	(20.2)	(39.8)
Net current (liabilities) / assets		<u>73.3</u>	<u>(19.4)</u>
Total assets less current liabilities		<u>2,225.3</u>	<u>1,963.8</u>
Creditors: amounts falling due after more than one year			
Creditors	16	(42.0)	-
Net assets before provisions		<u>2,183.3</u>	<u>1,963.8</u>
Provisions for liabilities	17	(29.8)	(32.8)
Net assets		<u>2,153.5</u>	<u>1,931.0</u>
Capital and reserves			
Called up share capital	19	1,410.8	1,340.8
Profit and loss account		294.0	142.2
Total equity		<u>1,704.8</u>	<u>1,483.0</u>
Subordinated loans designated as equity	20	448.7	448.0
Capital and reserves attributable to equity holders of the company		<u>2,153.5</u>	<u>1,931.0</u>

The financial statements on pages 15 to 41 were approved by the board of directors and authorised for issue on 24 June 2021 and are signed on its behalf by:



Name: ...Helen Pickford.....
Director

Company Registration No. 01860680

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Called Up Share Capital £m	Capital Reserve £m	Profit & Loss Account £m	Total Shareholder's Funds £m
Balance at 1 January 2019	1,000	190.0	163.3	1,353.3
Year ended 31 December 2019:				
Profit for the financial year	-	-	32.0	32.0
Other comprehensive expense				
Distributions paid on subordinated loans designated as equity	-	-	(33.1)	(33.1)
Actuarial gain/(losses) on Zurich pension scheme after tax	-	-	0.0	0.0
Total comprehensive expense for the year	-	-	(1.1)	(1.1)
Issue of share capital (see note 19)	340.8	-	-	340.8
Transfer to other reserves	-	(190.0)	190.0	-
Preference share buyback	-	-	(210.0)	(210.0)
Balance at 31 December 2019	1,340.8	-	142.2	1,483.0
Year ended 31 December 2020:				
Profit for the financial year	-	-	184.8	184.8
Other comprehensive expense				
Distributions paid on subordinated loans designated as equity	-	-	(33.2)	(33.2)
Actuarial gain/(losses) on Zurich pension scheme after tax	-	-	0.0	0.0
Movement in Deferred Tax Relating to the Pension Scheme	-	-	0.2	0.2
Total comprehensive expense for the year	-	-	151.8	151.8
Issue of share capital (see note 19)	70.0	-	-	70.0
Balance at 31 December 2020	1,410.8	-	294.0	1,704.8

Capital contributions that the company receives from Allied Zurich Holdings Limited (the "parent company") are shown in the capital reserve. The capital reserve of £190.0m was transferred into the profit and loss account during 2019.

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

Company information

Zurich Financial Services (UKISA) Limited is a private company limited by shares incorporated in England and Wales. The registered office is The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX.

1.1 Accounting convention

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in compliance with the Companies Act 2006.

The financial statements have been prepared under the historical cost basis. The principal accounting policies adopted are set out below.

The company has taken advantage of the exemptions contained within section 401 of the Act and has not produced consolidated financial statements for the year ended 31 December 2019, since it is a wholly-owned subsidiary undertaking of a parent company that is not established under the law of an EEA state, which prepares consolidated financial statements in which the company and its subsidiaries are included.

The company has taken the following exemptions in preparing the financial statements:

- The requirements of International Accounting Standard ("IAS") 1 'Presentation of Financial Statements' paragraph 16 regarding an explicit and unreserved statement of compliance with IFRS accounting, in accordance with FRS 101 paragraph 8(g).
- The requirements of IAS 7 'Statement of Cash Flows' in accordance with FRS 101 paragraphs 8(h) and where relevant, 8(g).
- The requirements of IAS 8 'Accounting Policies, Changes in Accounting Estimate and Errors' paragraphs 30 and 31 in respect of new standards, amendments and interpretations issued but not effective for the financial year in accordance with FRS 101 paragraph 8(i).
- The requirements of IAS 24 'Related Party Disclosures' paragraph 17, to disclose key management compensation in accordance with FRS 101 paragraph 8(j).
- The requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to a transaction is wholly owned by such a member, in accordance with FRS 101 paragraph 8(k).
- The disclosure requirements of IFRS 13 'Fair Value Measurement' paragraphs 91 to 99 to the extent they apply to assets and liabilities other than financial instruments in accordance with FRS 101 paragraph 8(e).

1.2 Going concern

The directors are satisfied that the company has adequate resources to continue in operational existence for the foreseeable future, this includes consideration of the impact of COVID-19 on the projected cash flows and profit and loss of the company. As at 31 December 2020, the company reported net current assets of £73.3m. This indicates that the company has sufficient resources and, accordingly, it is appropriate to continue to use the going concern basis in preparing the financial statements.

1.3 Income from shares in group undertakings

Income for shares in group undertakings represents dividend income and is accounted for when paid (for interim dividends) and when declared (for final dividends).

1.4 Administrative expenses

Administrative expenses represent allocations for shared services, legal costs and audit fees and are charged to the profit and loss account on an accruals basis. It also includes movements related to the provision for pension guarantee. Where administrative expenses from prior years are refunded or reversed these are recognised as credits to expenses.

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies (continued)

1.5 Amounts written off fixed asset investments

Amounts written off fixed asset investments occurs where there has been a change in the value of investments in group undertakings. An impairment is recognised when the cost is lower than their recoverable amount; their recoverable amount being the higher of fair value less costs of disposal or value in use. Reversals in previous impairment are limited to the value of deemed cost. Where subsequent impairment reviews show a recoverable amount higher than the impaired cost, previous impairments are reversed.

1.6 Other Interest receivable and similar income

Other Interest receivable and similar income includes interest on loans to subsidiary, loans to other group undertakings and cash balances and is accounted for on an accruals basis.

1.7 Interest payable and similar charges

Interest payable and similar charges includes interest on loans from other group undertakings and is accounted for on an accruals basis.

1.8 Pension costs

The company acts as the principal employer for the Zurich Financial Services UK Pension Scheme ("Zurich Scheme"). The Zurich Scheme comprises of two sections as follows.

ZPen section

The majority of active members in ZPen are employees of either ZES or Zurich UK General Services Limited ("ZUKGS"). In December 2008 ZES and ZUKGS agreed an allocation basis to apportion the underlying assets and liabilities and pension costs for the defined benefit scheme (the "Main Scheme") within ZPen, to be applied from 31 December 2008 onwards. As a result, ZES and ZUKGS have applied defined benefit accounting in their respective accounts, effective from 31 December 2008. After 31 December 2015 the active ZPensionBuilder members became active ZCashBuilder members and with effect from that date these members are not accruing additional years within the ZPensionBuilder section but do still retain the link to their final salary. There is no impact on the company from the ZPen section.

ES executives' section

The company was previously the principal employer of the Zurich Financial Services UK (ES) Executives' Pension Scheme ("Executives' Scheme"). This scheme was transferred into a new ring fenced section of the Zurich Scheme on 28 April 2009. The former scheme was wound up in 2011.

The company continues to apply defined benefit accounting to the ES Executives' section of the Zurich Scheme (previously the Executives' Scheme), which has no active members. Under defined benefit pension accounting, the assets are valued at fair value using current bid prices and liabilities are measured on an actuarial basis using the projected unit method, discounted at a rate equivalent to the current rate of return on high quality corporate bonds of equivalent value and term to the scheme liabilities. An actuarial valuation is obtained at least triennially and updated at the balance sheet date.

Each section of the Zurich scheme has its own ring fenced rules, assets, and liabilities. There is no cross subsidy between the sections.

There is a UK Pension Trustee Board, which is responsible for the governance of the Zurich Scheme. The ongoing funding of the ZPen and ES Executives' Sections is closely monitored by the Trustee Board and a dedicated funding committee is made up of representatives from the Trustee Board and the Zurich Insurance Group Ltd.

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies (continued)

1.9 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.10 Investments

Investments in group undertakings are valued at cost, being deemed cost (the previous carrying amount at the date of transition to FRS 101) or, where there has been an impairment in value, at their recoverable amount being the higher of fair value less costs of disposal or value in use. Consideration was given to the recoverable amounts and any resulting impairments as a result of the COVID-19 pandemic.

1.11 Cash at bank and in hand

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.12 Subordinated loans designated as equity

Subordinated loans classified as equity are initially included in the balance sheet at the value of consideration received, net of unamortised capitalised issue costs and thereafter stated at amortised cost using the effective interest method to allocate all cash flows over the expected life of the debt. The finance charge is recognised as an attribution from profit determined using the effective interest method.

1.13 Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are expressed in Sterling at rates of exchange ruling at the year end. Transactions denominated in foreign currencies are recorded at the actual rate of exchange prevailing on the date of the transaction and any exchange differences are dealt with in the profit and loss account.

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies (continued)

1.14 Financial assets

Financial assets are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets are classified into specified categories. The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

Financial assets are initially measured at fair value plus transaction costs, other than those classified as fair value through profit and loss, which are measured at fair value.

Financial assets at amortised cost

A financial asset is classified and subsequently measured at amortised cost under IFRS 9 if it meets both of the following criteria:

- The asset is held within a business model whose objective is to hold the financial asset in order to collect contractual cash flows (known as the 'hold-to-collect' business model test), and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on a specified date (the 'SPPI' contractual cash flow characteristics test).

Financial assets, intra group receivables and loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses an annual expected loss allowance for all intercompany debtors and intercompany loans. To measure the expected credit losses, intercompany debtors have been grouped based on business area (UK and Group).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies (continued)

1.15 Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Other financial liabilities

IFRS 9 requires all financial liabilities to be measured at amortised cost unless either:

- The financial liability is required to be measured at FVTPL because it is held for trading (e.g. derivatives that have not been designated in a hedging relationship), or
- The entity elects to measure the financial liability at FVTPL (using the fair value option).

Financial liabilities classified as at amortised cost are subsequently measured at amortised cost using the effective interest method. Accrued interest and expenses are calculated using the contractually agreed interest rates applicable to each loan or credit facility agreement and are settled annually in arrears.

Financial liabilities, intra group payables and loans, other payables and bank borrowings that have fixed or determinable payments that are not quoted in an active market are measured at amortised cost using the effective interest method, less any impairment.

The £48m senior debt from ZIC had no issue costs and was therefore held at the value of consideration received.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the company's obligations are discharged, cancelled, or they expire.

1.16 Provisions for liabilities

Provisions represent the best estimates of the future costs to settle the obligations in existence at the statement of financial position date. Provision is provided on the funding agreement with Zurich Financial Services UK Pension Trustee Limited to procure that Zurich Employment Services Limited shall make annual payments to the Zurich Financial Services UK Pension Scheme per the agreed mitigation payments schedule. Cash flows are discounted to present value and movements in the provision are charged to the profit and loss account in the period. Provisions are reversed if it is no longer probable that future costs will be incurred.

2 Adoption of revised standards and changes in accounting policies

The following amendments to Accounting Standards have been implemented for the reporting period ending 31 December 2020, but have no impact on the current or prior period, and no expected impact on future periods.

- Amendments to IFRS 3 – Business definition
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8 – Materiality definition
- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

3. Critical accounting estimates and judgements

In the application of the company's accounting policies, the directors are required to make judgments and use certain estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are outlined below.

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

3. Critical accounting estimates and judgements (continued)

Estimate

Investments in group undertakings

The company makes an estimate of the recoverable value of its material investments in subsidiary undertakings by considering a number of factors including the expected future cashflows and the market consistent embedded value ("MCEV") of assets and liabilities and the discounted new business value ("NBV"). In taking into account these factors, the following estimates and assumptions are made:

For the MCEV calculation:

- A risk-free interest rate is used for discounting and projecting cash flows included within MCEV;
- Mortality assumptions are set with reference to relevant industry and reinsurance information i.e. reference to the standard tables provided by the Continuous Mortality Investigation (CMI) and a CMI projections model;
- Withdrawal or lapse rate assumptions are based on the average rates experienced over the previous two calendar years for all products apart from the whole of life assurances where four calendar years is used. In setting the rates the experience data is grouped by similar product types to ensure it is sufficiently credible. The assumptions are changed to reflect the more recent investigation unless the difference in experience is deemed to be statistically insignificant, in which case the assumptions are left unchanged.

For the NBV calculation:

- The expected future cashflows are based on Plan information provided by the business over a period of 5 years from the year end date;
- Where evidence is available, the future cashflows are restricted based on a historical achievement of new business contributions (inflows) versus Plan; and
- The expected future cashflows are discounted over this period at a rate of 6.36% representing the UK Weighted Average Cost of Capital ("WACC").

Judgements

Non-redeemable cumulative preference shares

In line with IAS 32 'Financial Instruments: Presentation', the company classified the £160.0m non-redeemable cumulative preference shares issued by the company on 19 December 2008 as a financial liability to reflect the contractual obligation to make cash payments. The non-redeemable cumulative preference shares were subject to a buyback transaction on 6 December 2019.

Subordinated loans

In line with IAS 32 'Financial Instruments: Presentation', the company has classified the £450.0m undated subordinated loan as equity to reflect there is no contractual obligation to make cash payments due to the ability of the company to defer the payment of arrears of interest.

Provisions for liabilities - post-employment benefits

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 18 for the disclosures of the ES Executives' section of the Zurich Scheme.

4. Income from shares in group undertakings

	2020 £m	2019 £m
Dividends:		
Eagle Star Holdings Limited	86.0	122.0
Sterling ISA Managers Ltd	-	39.0
Zurich Financial Services (UKISA) Group Services Limited	-	0.1
	<u>86.0</u>	<u>161.1</u>

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

5. Auditors' remuneration

During the year the company obtained the following services from the company's auditors at costs as detailed below:

	2020 £000	2019 £000
Audit Services:		
Auditors' remuneration in respect of audit services	14.0	13.0
	<u>14.0</u>	<u>13.0</u>
Other Services:		
Audit of the company's subsidiaries	967.0	927.0
Audit related assurance services	880.0	719.0
Other services not covered above	-	196.0
	<u>1,847.0</u>	<u>1,842.0</u>

6. Employees

Employees in the UK working on behalf of the company are predominantly employed by ZES and accordingly the company does not incur direct staff or pension costs. The pension costs of the company relate to past employees of the ZIG group. During 2020 and 2019, management charges were made to the company, which included staff costs. The element of these charges relating to these staff costs cannot be separately ascertained therefore no disclosure has been made for staff numbers and costs.

The principal disclosures in respect of these staff appear in the financial statements of ZES, copies of which can be obtained from The Secretary, Zurich Employment Services Limited, The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX.

7. Directors' remuneration

	2020 £m	2019 £m
Remuneration for qualifying services	0.7	0.6

3 directors (2019: 4 directors) did not receive remuneration in respect of their services to the company or any of its subsidiary undertakings. The remuneration of the remaining 2 directors (2019: 2 directors) is in respect of their role as directors of subsidiary undertakings of the company.

Directors' remuneration (none of which are in respect of fees) includes performance related pay, benefits, bonuses and an accrual in respect of deferred bonuses which may become payable in future years.

Of the 2 directors (2019: 2 directors) who received remuneration in respect of their services to the company or any of its subsidiary undertakings during the year:

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 2 (2019: 2).

The number of directors who exercised share options during the year was 1 (2019: nil).

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

7. Directors' remuneration (continued)

The number of directors who are members of the long term incentive schemes during the year was 2 (2019: 2).

Remuneration disclosed above include the following amounts paid to the highest paid director:

	2020 £m	2019 £m
Remuneration for qualifying services	0.7	0.6
Company pension contributions to defined contribution schemes	0.0	0.0
Accrued lump sum at the end of the year	0.0	0.0
	<u>0.7</u>	<u>0.6</u>

The highest paid director did not accrue benefits under a defined benefit scheme (2019: did not accrue benefits). The highest paid director did accrue benefits under a defined contribution scheme (2019: did accrue benefits). The highest paid director did not exercise options over shares in ZIG in the year (2019: did not exercise share options). The highest paid director is a member of a long-term incentive scheme (2019: was a member). The highest paid director has not changed during the course of the year.

No advances or credits granted to any director subsisted during the year. Also, no guarantees on behalf of any director subsisted during the year.

8. Administrative expenses

	2020 £m	2019 £m
Movement in pension guarantee provision (see note 17)	(4.4)	(4.2)
Other costs	1.3	1.1
	<u>(3.1)</u>	<u>(3.1)</u>

The movement in administrative expenses reflects the recognition in the prior year of the pension guarantee provision. Following payment of the 2020 agreed mitigation payment, £4.4m of the provision has been utilised and released in 2020.

9. Other interest receivable and similar income

	2020 £m	2019 £m
Interest receivable on cash at bank	0.0	0.1
	<u>0.0</u>	<u>0.1</u>

10. Interest payable and similar charges

	2020 £m	2019 £m
Interest on loans from fellow group companies	0.8	5.1
Other finance charges	0.1	0.0
	<u>0.9</u>	<u>5.1</u>

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

11. Preference share payments

	2020 £m	2019 £m
Nil% (2019: 10.99%) non-redeemable cumulative preference shares of £nil (2019: £1) each	-	16.2

The buyback transaction on the non-redeemable cumulative preference shares was completed during 2019.

12. Tax on profit

	2020 £m	2019 £m
Current tax		
- UK corporation tax on profit for the year	-	(7.4)
- Adjustments in respect of prior periods	1.5	(0.2)
Total UK current tax	1.5	(7.6)
Deferred tax		
- Impact of change of tax rate	0.2	-
- Adjustments in respect of prior years	(0.0)	-
Total UK deferred tax	0.2	-
Total tax charge/(credit)	1.7	(7.6)

It was announced in the Budget Statement on 11 March 2020 that the UK Corporate Tax rate would remain at 19% rather than reducing to 17% with effect from 1 April 2020 as previously enacted. The 19% rate was substantively enacted on 17 March 2020.

The Budget Statement on 3 March 2021 announced an increase in the main UK Corporation Tax rate from 19% to 25% from 1 April 2023. As this measure was not substantively enacted at the balance sheet date the impact is not reflected in the financial statements for the year ended 31 December 2020.

Updating the deferred tax balances at 31 December 2020 to reflect the rate increase from 1 April 2023 would result in a deferred tax charge to the income statement of approximately £670,835.

The charge/(credit) for the year can be reconciled to the profit/(loss) per the profit and loss account as follows:

	2020 £m	2019 £m
Profit before taxation	186.6	24.4
Expected tax charge based on a corporation tax rate of 19.00%	35.4	4.6
Income not taxable	(19.6)	-
Dividend income not taxable	(16.3)	(30.5)
Interest payments deductible for tax purposes	(6.3)	(6.3)
Expenses not deductible for tax purposes	-	21.7
Preference share payments not deductible for tax purposes	-	3.1
Gain / (Loss) on disposal not subject to tax	0.1	-
Re-measurement of deferred tax - change in tax rate	0.2	-
Tax losses not recognised	6.7	-
Adjustment in respect of prior periods	1.5	(0.2)
Taxation charge/(credit) for the year	1.7	(7.6)

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

13. Investments in group undertakings

	2020 £m	2019 £m
Shares in group undertakings	2,152.0	1,983.2
Cost	2,152.0	1,983.2

The subsidiary undertakings of the company as at 31 December 2020 are set out in note 22.

The directors have considered the value of each of the company's investments in subsidiary undertakings as at 31 December 2020 and are satisfied that the value of each investment is not less than the amount at which it is stated in the balance sheet.

The movement in the year comprises:

	2020 £m
Opening balance at 1 January	1,983.2
Additions	103.4
Disposals	(33.4)
Impairments	98.8
Closing balance at 31 December	2,152.0

Additions

On 23 January 2020 the company subscribed for 500,000,000 ordinary shares of £0.01 each in ZES for a consideration of £5m.

On 12 June 2020, the company subscribed for 2,836,240,032 ordinary shares of £0.01 each in ZES for a consideration of £28.4m.

On 10 March 2020, the company subscribed for 70,000,000 ordinary shares of £1 each in ESH for a consideration of £70m.

Disposals

On 1 May 2020 the sale of the UK Retail Wealth business, including the company's subsidiary SIML, to Embark was completed. SIML's net realisable value at the point of sale was £33.4m. The consideration received was £43.6m, resulting in a gain on disposal of £10.2m. This is offset by the total expected transaction costs of £10.7m leading to a £0.5m loss on disposal shown on the Profit and Loss Account.

Impairments

The value of the company's investments in the following group undertakings was impaired or prior year impairments reversed in the year as follows:

	2020 £m	2019 £m
Zurich Employment Services Limited	33.4	33.4
Zurich Intermediary Group Limited	(0.8)	-
Sterling ISA Managers Limited	-	85.1
Eagle Star Holdings Limited	(131.4)	-
Zurich Financial Services (UKISA) Group Services Limited	-	0.1
	(98.8)	118.6

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

13. Investments in group undertakings (continued)

Impairments (continued)

the impairment review of Eagle Star Holdings Limited performed in Q1 2021 would result in an impairment charge of £270m, primarily as a result of dividend payments, increased future corporation tax rates, and market movements. In the Directors' judgment, these are non-adjusting post balance sheet events, and have not been accounted for in the impairment review performed as at the year end.

14. Financial instruments and financial risk

The company's finances are actively managed to ensure that sufficient funds are available to meet liabilities as they fall due, thus mitigating any liquidity risk that the company faces. As the financial instruments are Sterling denominated and predominantly have a fixed interest rate (LIBOR on the date of the agreement, plus a margin), they carry no exchange rate risk or interest rate risk on cash flows, apart from a small exchange rate risk on the settlement of Swiss Franc denominated invoices to group undertakings.

The LIBOR reform has been considered and it poses no risks for fixed interest rate loans as the interest is fixed at the time when the loan is agreed and is documented as such. In addition, the standard loan template includes a paragraph regarding the LIBOR decommissioning such that the rate can be amended to a replacement rate by reference to market convention.

Until 4 June 2021, the company had access to \$1.36bn as part of \$3.4bn committed and uncommitted bilateral credit facilities provided to the ZIG group. The company entered into a new revolving credit facility and now has access to a \$1.20bn of committed bilateral credit facilities and \$0.24bn of uncommitted bilateral credit facilities as part of \$3.6bn committed and uncommitted bilateral credit facilities provided to the ZIG group.

At 31 December 2020, the company had the following financial liabilities:

	2020 £m	2020 Fixed Interest Rate	2020 Maturity Date	2019 £m	2019 Fixed Interest Rate	2019 Maturity Date
Amounts owed to group undertakings:						
Senior loans	6.0	-	1 Feb 21	21.0	-	1 Feb 21
Senior loans	42.0	-	28 Sep 22	-	-	-
	<u>48.0</u>			<u>21.0</u>		

At 31 December 2020, in addition to the above fixed interest borrowings, the company owed £5.8m (2019: £10.5m) to subsidiary undertakings and £8.3m (2019: £8.3m) to group undertakings for accrued interest and other trading balances.

Trading balances with group undertakings are unsecured, interest free and have no fixed date of repayment.

15. Debtors

	2020 £m	2019 £m
Corporation tax recoverable	1.3	6.6
Amounts owed by group undertakings	0.3	-
Other debtors	0.1	5.0
	<u>1.7</u>	<u>11.6</u>

All amounts in relation to other debtors are current.

At 31 December 2020 the company had unused tax losses of £55.8m (2019: £12.4m) for which no deferred tax asset has been recognised.

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

16. Creditors

	Due within one year		Due after one year	
	2020	2019	2020	2019
	£m	£m	£m	£m
Amounts owed to subsidiary undertakings	5.8	10.5	-	-
Amounts owed to group undertakings	14.3	29.3	42.0	-
Other creditors	0.1	-	-	-
	20.2	39.8	42.0	-

Included within amounts owed to group undertakings in 2020 are loans to the value of £48.0m (2019: £21.0m) from ZIC.

17. Provisions for liabilities

	Post-employment benefits	Pension guarantee	Transaction costs	Total
	£m	£m	£m	£m
At 31 December 2019	-	32.8	-	32.8
Additions to income statement	-	-	1.4	1.4
Additions to the statement of other comprehensive income	-	-	-	-
Amounts utilised	-	(4.4)	-	(4.4)
At 31 December 2020	-	28.4	1.4	29.8

Pension guarantee

The provision is in respect of a funding agreement with Zurich Financial Services UK Pension Trustee Limited to procure that ZES shall make annual payments to the Zurich Financial Services UK Pension Scheme per the agreed mitigation payments schedule. The maximum liability arising under this funding agreement is expected to be in the region of £28.4m, payable annually for a period of 6 years, discounted to present value using a discount rate of -0.053% at 31 December 2020 (2019: 0.619%). £5.0m (2019: £5.0m) of other provisions are current and £23.4m (2019: £27.8m) are non-current.

Transaction costs

The provision is in respect of the transaction cost to finalise the sale of the UK Retail Wealth business, £1.4m.

18. Post-employment benefits

The company acts as the principal employer for the Zurich Financial Services UK Pension Scheme ("Zurich Scheme"). On 28 April 2009 the previous two defined benefit pension schemes, the Main Scheme and the Executives' Scheme, were restructured to create two sections of the Zurich Scheme: the ZPen section and the ES Executives' section. The ZPen section includes the members that existed in the previous Main Scheme as of 28 April 2009. The ES Executives' section consists of the former Executives' Scheme, which was transferred into a new ring fenced section of the Zurich Scheme on 28 April 2009.

ZPen Section

In December 2008 ZES and ZUKGS agreed an allocation basis to apportion the underlying scheme assets and liabilities and deficit reduction contributions for the defined benefit scheme within the ZPen Section, to be applied from 31 December 2008 onwards.

Further information may be found in the annual financial statements of these companies.

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

18. Post-employment benefits (continued)

ES Executives' Section

The company continues to apply defined benefit accounting in respect of the pension scheme arrangements of the ES Executives' Section. The date of the last full actuarial valuation of the ES Executives' Section was 30 June 2019, although the values for the scheme's assets and liabilities are based on updated information provided at 31 December 2020. The valuation of the scheme is carried out by Independent Actuaries. The assets are held separately from those of the company in independently administered funds. There are no active members in the ES Executives' Section.

Principal actuarial assumptions are as follows:

	2020	2019
Rate of increase for pensions in payment	3.5%	3.5%
Discount rate	1.2%	1.8%
Rate of inflation - RPI	3.0%	3.0%
Rate of inflation - CPI	2.0%	2.0%

Mortality rates are based on the standard tables S3PMA_L for males and S3PFA for females. Mortality improvements are allowed through the use of the CMI core projection model issued in 2019, with projections applicable to individual members year of birth with a long-term rate of improvement of 1%.

Reconciliation of present value of Scheme liabilities

	2020 £m	2019 £m
Opening balance at 1 January	(178.2)	(174.2)
Current service cost	-	-
Interest cost	(2.8)	(3.9)
Benefits paid	13.2	9.7
Actuarial experience losses	3.3	0.6
Actuarial (losses)/gains arising from changes in demographic assumptions	7.1	3.9
Actuarial losses arising from changes in financial assumptions	(12.8)	(14.3)
Closing balance at 31 December	(170.2)	(178.2)

Sensitivity analysis of Scheme liabilities

	% Change in assumption	Impact on scheme liabilities
Discount	1% decrease	£0.3m increase
Inflation	1% decrease	£0.2m decrease
Life expectancy	10% increase	£33.4m increase

To illustrate the sensitivity analysis above, a 1% decrease in the discount rate leads to a revised rate of 1.1880%, a reduction of 1.2 basis points.

The effect on the defined benefit obligation shown allows for an alternative value for each assumption while the other actuarial assumptions remain unchanged. The sensitivity analysis is intended to illustrate the inherent uncertainty in the evaluation of the defined benefit obligation under market conditions at the measurement date. Its results cannot be extrapolated due to non-linear effects that changes in the key actuarial assumptions may have on the overall defined benefit obligation. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent the company's view of expected future changes in the defined benefit obligation.

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

18. Post-employment benefits (continued)

Reconciliation of fair value of scheme assets

	2020 £m	2019 £m
Opening balance at 1 January	201.5	187.5
Expected return on scheme assets	3.1	4.2
Benefits paid	(13.2)	(9.7)
Employer contributions	-	-
Actuarial gains/(losses)	21.1	19.5
Closing balance at 31 December	212.5	201.5

Scheme assets do not include any investments in group companies, nor any property occupied by the ZIG group.

The expected rate of return on scheme assets is determined by using the discount rate at the beginning of the year.

The actual return on scheme assets in the year was a gain of £24.2m (2019: £23.7m).

The fair values of the scheme's assets were:

	2020				2019			
	Quoted in active markets ¹	Other ²	Total	% of Total	Quoted in active markets ¹	Other ²	Total	% of Total
	£m	£m	£m		£m	£m	£m	
Equity securities	5.2	31.5	36.7	17.3	3.9	30.3	34.2	17.0
Debt securities	-	167.3	167.3	78.7	-	158.7	158.7	78.7
Real estate	-	7.2	7.2	3.4	-	7.4	7.4	3.7
Cash and cash equivalents	1.3	-	1.3	0.6	1.2	-	1.2	0.6
Total market value of assets	6.5	206.0	212.5		5.1	196.4	201.5	

¹Level 1 assets

²Level 2 and 3 assets

Level 1 assets includes assets and liabilities for which fair values are determined directly from unadjusted current quoted prices resulting from orderly transactions in active markets for identical assets/liabilities.

Level 2 assets includes assets and liabilities for which fair values are determined using significant inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and other observable market inputs.

Level 3 assets includes assets and liabilities for which fair values are determined using valuation techniques with at least one significant input not being based on observable market data. This approach is used only in circumstances when there is little, if any, market activity for a certain instrument, and the Group is required to develop internal valuation inputs based on the best information available about the assumptions that market participants would use when pricing the asset or liability.

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

18. Post-employment benefits (continued)

The assets of the scheme reported in the company were:

	2020 £m	2019 £m
Defined benefit obligation	(170.2)	(178.2)
Plan assets	212.5	201.5
Surplus	42.3	23.3
Recognition of asset ceiling	(42.3)	(23.3)
Reported in balance sheet	-	-

In accordance with the terms of the scheme, the asset ceiling has been applied as any surplus funds will not revert to the company.

Change in irrecoverable surplus

	2020 £m	2019 £m
Irrecoverable surplus at 1 January	(23.3)	(13.3)
Interest cost on irrecoverable surplus	(0.3)	(0.3)
Change in irrecoverable surplus in excess of interest cost	(18.7)	(9.7)
Irrecoverable surplus at 31 December	(42.3)	(23.3)

Analysis of amounts reported in the profit and loss is as follows:

	2020 £m	2019 £m
Current service cost	-	-
Interest cost (see note 10)	2.8	3.9
Interest cost on irrecoverable surplus (see note 10)	0.3	0.3
Expected return on plan assets (see note 10)	(3.1)	(4.2)
Reported in profit and loss account	-	-

Actuarial gains and losses

Cumulative amount of actuarial losses recognised in the Statement of Comprehensive Income:

	2020 £m	2019 £m
Actuarial losses	(11.2)	(11.2)
Deferred tax on actuarial losses	2.1	1.9
	(9.1)	(9.3)

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

18. Post-employment benefits (continued)

Actuarial valuation

The results of the triennial valuation in 2013 showed a deficit of £8.2m, as a consequence of which, and following agreement in August 2014, the company agreed to make contributions under the Recovery Plan of £1.7 million per annum until 31 December 2018 and £0.9 million in the calendar year 2019, to be paid to the Zurich Scheme on or before 30 June in each calendar year to which the payment relates.

The results of the triennial valuation at 30 June 2016 were agreed by the Zurich scheme Trustees in June 2017, valuing the total scheme surplus at £1.6m. In light of the results of this valuation, the Zurich Scheme Trustees agreed with the company that no further contributions would be made under the Recovery Plan previously agreed. This agreement replaces the agreement put in place following the results of the triennial valuation in 2013.

The results of the latest triennial valuation at 30 June 2019 were agreed by the Scheme Trustees on 17 September 2020. This latest valuation showed a surplus of £63m in the ZPen section and a surplus of £1.6m in the ES Executives' section.

Total amount recognised in the statement of comprehensive income – movements

	2020 £m	2019 £m
Experience adjustment on plan assets	21.1	19.5
Experience adjustment on plan liabilities	3.3	0.6
Actuarial gains arising from changes in demographic assumptions	7.1	3.9
Actuarial losses arising from changes in financial assumptions	(12.8)	(14.3)
Movement in recognition of asset ceiling	(18.7)	(9.7)
Amount recognised in the statement of comprehensive income	-	-
Related deferred tax recognised in the statement of comprehensive income	0.2	-
	0.2	-

Analysis of amounts reported in balance sheet is as follows:

	2020 £m	2019 £m
Pension scheme deficit	-	-
Deferred tax asset	-	-
Reported in balance sheet	-	-

The Budget Statement on 3 March 2021 announced an increase in the main UK Corporation Tax rate from 19% to 25% from 1 April 2023. As this measure was not substantively enacted at the balance sheet date the impact is not reflected in the financial statements for the year ended 31 December 2020.

Updating the deferred tax balances at 31 December 2020 to reflect the rate increase from 1 April 2023 would result in a deferred tax charge to £670,835 and a credit to statement of comprehensive income of £670,835.

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

19. Called up share capital

	2020 £m	2019 £m
Allotted, issued, and fully paid: 1,410,800,000 (2019: 1,340,800,000) ordinary shares of £1 (2019: £1) each	1,410.8	1,340.8

The ordinary shares have attached to them full voting, dividend, and capital distribution (including on winding up) rights, they do not confer any rights of redemption.

On 10 March 2020, the company subscribed for 70,000,000 ordinary shares of £1 each in ESH for a consideration of £70m.

20. Subordinated loans designated as equity

	2020 £m	2019 £m
Subordinated loans designated as equity	448.7	448.0

On 2 October 2003 a former subsidiary company, ZFUK, issued £450.0m 6.625% undated subordinated guaranteed bonds. The proceeds, after the deduction of £8.1m in respect of costs associated with the issue, were loaned, in the form of an undated subordinated loan to the company at an interest rate of 7.375%.

The loan is subordinated such that, in the event of a winding-up of the company, there shall be payable in such winding-up on the undated subordinated loan, subject to and after the claims of all creditors and prior to any payments to holders of debt that is expressly designated as ranking junior to the undated subordinated loans, or holders of issued shares at such time in the company, an amount equal to the principal amount of such undated subordinated loan together with interest which has accrued up to, but excluding, the date of repayment.

The undated subordinated loan has been classified as equity because the terms of the agreement mean that the loan is undated, and interest can be deferred indefinitely by the company.

The issue costs on the £450.0m loan are amortised using the effective interest method to allocate all cash flows over the amortisation period, which is the 18 years ending on the interest rate reset date of 2 October 2022. An effective interest rate of 7.56% (2019: 7.56%) was used for the calculation of the amortisation on the loan.

At 31 December 2020, the fair value of the undated subordinated loan was £504.4m (2019: £515.0m). This has been calculated as the present value of future cash flows using a discount rate of 1.41% (2019: 1.96%).

21. Distribution for interest payable on subordinated loans designated as equity

	2020 £m	2019 £m
Distribution on £450.0m subordinated loan at an effective interest rate of 7.38% (2019: 7.38%)	33.2	33.1

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

22. Subsidiaries

Details of the company's direct subsidiaries at 31 December 2020 are as follows:

Name of undertaking	Registered office	Ownership interest (%)	Voting power held (%)	Nature of business
Allied Dunbar Assurance plc	The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX	100	100	Holding company/ previously life insurance company
Concourse Skelmersdale Limited	Cannon Place, 78 Cannon Street, London, EC4N 6AG	100	100	Real estate management
Eagle Star Holdings Limited	The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX	100	100	Holding company
Zurich Employment Services Limited	The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX	100	100	Employing company
Zurich Financial Services (UKISA) Nominees Limited	The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX	100	100	Dormant
Zurich Financial Services UK Pension Trustee Limited	The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX	100	99	Dormant
Zurich Intermediary Group Limited	The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX	100	100	Financial intermediation

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

22. Subsidiaries (continued)

Details of the company's indirect subsidiaries at 31 December 2020 are as follows:

Name of undertaking	Registered office	Ownership interest held by subsidiary undertaking (%)	Voting power held by subsidiary undertaking(%)	Nature of business
Eagle Star Group Services Limited	The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX	100	100	Dormant
Groveswood Property Holdings Limited	The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX	100	100	Ex gratia services
Zurich Assurance Ltd	The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX	100	100	Life insurance
Access Franchise Management Limited	The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX	100	100	Franchise management company
Eagle Star (Leasing) Limited	The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX	100	100	Property company
Eagle Star Holding Company of Ireland Unlimited Company	Zurich House, Frascati Road, Blackrock, Co Dublin, Ireland	100	100	Dormant
ES Plympton Nominee 1 Limited	100 Barbirolli Square, Manchester, Lancashire, M2 3AB	100	100	Property management company
ES Plympton Nominee 2 Limited	100 Barbirolli Square, Manchester, Lancashire, M2 3AB	100	100	Property management company
Graphene Capital Partners Limited	The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX	100	100	Dormant

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

22. Subsidiaries (continued)

Name of undertaking	Registered office	Ownership interest held by subsidiary undertaking (%)	Voting power held by subsidiary undertaking(%)	Nature of business
Hawkcentral Limited	The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX	100	100	Dormant
Kennet Road 1 UK Limited	100 Barbirolli Square, Manchester, Lancashire, M2 3AB	100	100	Property management company
Kennet Road 2 UK Limited	100 Barbirolli Square, Manchester, Lancashire, M2 3AB	100	100	Property management company
Nearheath Limited	The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX	100	100	Dormant
Plot 8B Buckingway Management Limited	6th Floor, 65 Gresham Street, London, EC2V 7NQ	100	100	Property management company
Zurich Pension Trustees Limited	The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX	100	100	Trustee company
Cambridge Research Park Management Co Limited	75 King William Street, London, England, EC4N 7BE	23	23	Real estate management
Plot 6 Buckingway Management Limited	Alacer House Buckingway Business Park, Anderson Road, Swavesey, Cambridge, England, CB24 4UQ	25	25	Property management
Rabone Park Management Company Limited	10 Wrens Court 48 Victoria Road, Sutton Coldfield, West Midlands, England, B72 1SY	42.76	42.76	Property management
The Parklands (Birmingham) Management Company Limited	Redrow House St. Davids Park, Ewloe, Deeside, Clwyd, CH5 3RX	30.56	30.56	Property management
Allied Dunbar Financial Services Limited	The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX	100	100	Dormant

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

22. Subsidiaries (continued)

Name of undertaking	Registered office	Ownership interest held by subsidiary undertaking (%)	Voting power held by subsidiary undertaking(%)	Nature of business
Allied Dunbar Provident plc	The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX	100	100	Dormant
Zurich Advice Network Limited	The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX	100	100	Former advised sales
Zurich Pensions Management Limited	The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX	100	100	Trustee duties - dormant
Employee Services Limited	The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX	100	100	Employing entity

There has been no change in the year in the percentage of nominal value held by the company, or by its subsidiary undertakings, in the subsidiary undertakings listed with the exception of:

- ES (Walsall) Nominee Limited was dissolved in January 2020.
- Eagle Star Estates Limited was dissolved in February 2020.
- Eagle Star Group Holdings Limited was dissolved in April 2020.
- Allied Dunbar Healthcare Marketing was dissolved in May 2020.
- Eagle Star Farms Limited was dissolved in May 2020.
- Sterling ISA Managers Limited was sold in May 2020.
- Sterling ISA Managers (Nominees) Limited was sold in May 2020.
- ES Dudley Nominee 1 Limited was dissolved in September 2020.
- ES Dudley Nominee 2 Limited was dissolved in September 2020.
- ES Ramsgate Nominee 1 Limited was dissolved in September 2020.
- ES Ramsgate Nominee 2 Limited was dissolved in September 2020.

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

23. Controlling party

The parent company of Zurich Finance Services (UKISA) Limited is Allied Zurich Holdings Limited and its registered office is 12 Castle Street, St. Helier, JE2 3RT, Jersey.

Ultimate parent company

The company's ultimate parent company and ultimate controlling party is Zurich Insurance Group Ltd, which is incorporated in Switzerland. Zurich Insurance Group Ltd is the parent company of the largest group of companies, of which the company is a wholly owned subsidiary, for which group financial statements are drawn up.

Copies of the consolidated financial statements of Zurich Insurance Group Ltd can be obtained from the Secretary of that company at the following address:

Mythenquai 2
8002 Zurich
Switzerland

24. Related parties

No contract of significance existed at any time during the year in which a director or key manager was materially interested or which requires disclosure as a related party transaction as defined under IAS 24.

During the year the company made contributions under the Recovery Plan of £nil (2019: £nil) to the ES Executives' Section of the Main Scheme.

Following the subscription of ordinary B class shares in EFS Financial Services Limited during 2018, it is now a related party. EFS Financial Services Limited is a wholly owned subsidiary of Zurich Holdings (UK) Limited.

25. Subsequent events

On 5 January 2021, the company subscribed for 500,000,000 ordinary shares of £0.01 each in ZES for a consideration of £5m.

On 11 January 2021, the company completed a repayment for the remaining balance totalling £6,000,000, together with accrued interest, on the £21,000,000 loan entered into on 17 December 2019 with ZIC.

On 11 January 2021, the company completed an early repayment of £42,000,000, together with accrued interest, on the loan from ZIC entered into on 28 September 2022.

On 11 January 2021, the company provided a loan of £34,000,000 to ZIC at an interest rate of 0.07560% with a maturity date of 31 May 2021.

On 26 March 2021, the company received a dividend of £100,000,000 from ESH.

On 30 March 2021, the company provided a loan of £100,000,000 to ZIC at an interest rate of 0.12450% with a maturity date of 28 June 2021.

On 31 May 2021, the company received the repayment of £34,000,000, together with accrued interest, on the loan to ZIC with a maturity date of 31 May 2021.

On 4 June 2021, the company entered into a new revolving credit facility with access to a \$80m of committed bilateral credit facilities as part of \$200m committed bilateral credit facilities provided to the ZIG group.

On 7 June 2021, the company subscribed for 2,836,240,000 ordinary shares of £0.01 each in ZES for a consideration of £28,362,400.

ZURICH FINANCIAL SERVICES (UKISA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

26. Contingent liabilities

At the balance sheet date the company has a contingent liability in relation to a Deed of Guarantee with Endsleigh Pension Trustee Limited in relation to the Endsleigh Insurance Services Limited Pension and Assurance Scheme to irrevocably and unconditionally guarantee the payment of any present and future obligations under the scheme of contributions by EFS Financial Services Limited. The company has not made any provision for the potential value of these payments as it considers that either EFS Financial Services Limited or its parent company, Zurich Holdings (UK) Limited, would be able to meet these obligations as they fall due. The maximum liability arising under this Deed of Guarantee is expected to be in the region of £41.4m, payable in equal instalments annually for a period of 6 years.