# Zurich Assurance Ltd
## Reports and Financial Statements
## 31 December 2022

Company registration number: 02456671

# Zurich Assurance Ltd (company registration number 02456671)
## Strategic Report

The directors present the strategic report of Zurich Assurance Ltd (the "Company") for the year ended 31 December 2022.

### Principal Activity

The principal activity of the Company is the provision of long-term insurance business carried out in the United Kingdom. The Company is a limited company domiciled and incorporated in England and Wales. The registered office is Unity Place, 1 Carfax Close, Swindon, Wiltshire, SN1 1AP. The Company also has overseas branches in Hong Kong and the Isle of Man as well as a run-off portfolio business in Malta, all of which are no longer open to new business.

### Business Model and Objectives

The Company's vision is to 'be the best at protecting lives and loved ones', through offering products and services that meet UK customers' evolving protection needs. The Board of Directors (the "Board") collectively directs the Company's affairs to achieve this and to meet the appropriate interests of its shareholder and relevant stakeholders. The Board has frameworks in place to ensure that the Company's culture, strategy and values align with this purpose. The Board sets its target culture statement annually based on its strategic purpose and values. The Company's target culture is to be the most customer centric insurer that does the right thing to ensure good customer outcomes, while enhancing the Company's long-term value to its shareholders through the sustainable and compliant delivery of financial performance targets, all within a framework of prudent and effective controls.

The Board holds an annual strategy event and monitors the implementation of its strategy throughout the year. The Company's strategy is communicated to the wider organisation through all-employee in person and virtual meetings presented by the UK and Company CEOs as well as wider Executive management, supported by ongoing email communications from the corporate communications team. These messages are also communicated throughout the year in divisional leadership meetings.

The Board values openness, transparency, integrity, and commitment to fostering a culture that enables employees to speak up freely and openly. In line with the Zurich Code of Conduct, the Company is committed to providing employees with the ability to confidentially report their concerns. The Board receives regular updates on 'speaking up incidents', and has a dedicated director appointed as a 'whistleblowing champion'. Zurich also has an independent third-party whistleblowing hotline to enable employees to make anonymous disclosures via phone calls or the web, at any hour of the day, every day of the year.

### Business Environment/Trends

Despite a contraction in GDP of 0.5% during December 2022, the UK economy is faring better than recently forecast. The month-on-month growth in October and November 2022 means output was stagnant across Q4 2022, relative to Q3 2022. As such, the economy avoided a technical recession in the second half of 2022. Across the year-ended 31 December 2022, output is estimated to have grown by 4.0%, down from 7.6% growth in 2021.

The impacts felt from high inflation and high interest rates mean the economy is expected to return to contraction in the early months of 2023, experiencing a recession across the first half of 2023 before returning to growth in the second half of the year. During 2023, the UK economy is expected to contract by 1.3%.

Inflation on the Consumer Price Index now seems to have peaked, dropping for a third consecutive month in January 2023. Price pressures are expected to subside over the course of 2023. Though this will be welcome news for households, it should be noted that inflation remains considerably elevated compared to historic averages. As pandemic-related savings decline, consumers are beginning to reign in discretionary spending by shopping around for cheaper insurance policies or cancelling altogether.

In the Bank of England ("BoE") February 2023 meeting, the Monetary Policy Committee voted to increase the bank rate by a further 50 basis points to 4.0%, the highest since November 2008. While the BoE is now thought to be close to the end of the current tightening cycle, rising rates are having an impact on the mortgage market.

**Business Environment/Trends (continued)**

The latest figures from the BoE showed mortgage approvals fell for a fifth consecutive month in January 2023, standing well below the 2022 monthly average. Despite the current economic pressures in the market, and following the upheaval to the mortgage market following the mini-Budget in September 2022, advisers are maintaining Retail Protection sales, with total market Annualised Premium Equivalent holding up in Q4 2022 compared with Q3 2022. Mortgage related term life was down marginally however suggesting that declines in mortgage approvals may begin to feed through to the Retail Protection market.

The UK labour market remained challenging during the three months to November 2022, with the unemployment rate standing at 3.7%, a small quarterly increase of 0.2 percentage points compared to the previous three-month period. A lack of workers available in the economy is one of the major drivers of nominal wage growth at present. Both total (including bonuses) and regular pay (excluding bonuses) grew at an annual rate of 6.4% in the three months to November 2022. However, due to the elevated levels of inflation, real pay fell by 2.6% year-on-year for both categories, underlining the squeeze on living standards that consumers currently face.

In the middle of April 2020, at the height of the COVID-19 pandemic there were almost 12,000 excess deaths a week recorded in England and Wales. Since then excess deaths have fallen but remain above pre-pandemic levels. Although there have been some periods of lower than average deaths since the outbreak of the pandemic, in late 2022 and early 2023, excess deaths were elevated for a number of weeks. The excess deaths figure for the week ending January 13, 2023 was the highest since February 2021. Not all of these deaths are attributed to COVID-19, with deaths from non-COVID causes in the UK in 2021 and 2022 also higher than would be expected. More research is being conducted to understand the causes of this persistence in excess deaths but multiple factors are likely to be contributing, such as early flu, the impact of disrupted care during the pandemic, and the acute crisis in the NHS.

Following the news in March 2023 about Silicon Valley Bank and Signature Bank in the US, and Credit Suisse in Switzerland, the banking situation appears to be stabilising following the liquidity backstops put in place by the Federal Reserve Board and Swiss National Bank. Whilst the failed US banks and the concerns about Credit Suisse are not reflective of the wider market, risk remains, with outcomes partly driven by investor sentiment and the behaviour of depositors. The Company's exposure to both the US banks and Credit Suisse is minimal. The decision was taken to reduce ZAL's exposure to Credit Suisse bonds, realising a loss of c. £3m.

The above information is accurate at the time of writing but due to ongoing developments, may not reflect the situation at the time of reading.

**Business Strategy**

In pursuit of the refreshed vision to 'be best at protecting lives and loved ones', the Company made significant progress in the execution of strategic plans across all business areas in 2022. Many of the strategic initiatives that were shaped and started in 2020 and 2021 came into effect this year, delivering good outcomes for customers, people, and communities. This is evidenced in the recognition from the market, with the business winning several prestigious industry awards in 2022.

The Company's strategy is to build scale in Individual and Group Protection markets. At the same time, the business pursues opportunities in the Longevity swap markets and manages its In Force portfolio for positive customer outcomes and value.

The Retail Protection business has delivered a step-change in transformation across Proposition Development, Operations, and Distribution. Three new products were launched in 2022, including Standalone Critical Illness, Family Income Cover and Joint Life Second Death Term Assurance, allowing the business to close gaps in the existing portfolio. Further innovation is ongoing with the aim to take differentiated value-added services and propositions to market in 2023. The business also completed the significant undertaking of insourcing retail protection

**Business Strategy (continued)**

operations from Capita this year, who retain the contract for the substantial In Force business. This provides the business with opportunities to create a truly compelling Retail Protection customer experience, evidenced by a noticeable improvement on the transactional Net Promoter Score ("tNPS"). The short to medium term focus is now on improvements to processes and working practices that will deliver an enhanced experience for customers and brokers and thus better support the business's ambition to lead the market on the quality of product, service, and value offering. Within distribution, an organisation restructure was concluded in June 2022, building critical skills and capabilities that have led to an increase in efficiency and advisor engagement. This has helped to drive a marked uplift in new business volumes and deliver a business mix that is reflective of the strategy.

2022 saw a strong trading performance from the Zurich Corporate Risk business. The Zurich Access Portal was launched in August 2022 following a short pilot phase, allowing the business to expand significantly in the SME segment across all broker tiers while enhancing the capability to secure Preferred Partner Agreements ("PPAs").

The In Force business also saw a strong performance, exceeding on all key metrics. Successful delivery of customer experience improvements alongside regulatory requirements resulted in improved service, positive customer feedback and the continuation of a positive tNPS trend. The business continues to focus on improving retention, primarily through increased customer centricity.

The Longevity business continued to deliver on its business plan and develop its pipeline by evidencing strong execution.

The leadership of the business continued to support employee wellbeing which has resulted in high-employee engagement scores. In November 2022, the majority of the business moved into the new Unity Place office in Swindon with further teams due to move in early 2023. The shift has provided the Life business with additional momentum and opportunities to create a highly engaged team.

*Incorporation of Climate Change into Business Strategy and Planning*

As a large Life Insurer, the Company has a strategically important role in supporting efforts to transition to a low-carbon economy. This requires an understanding of how climate-related impacts could affect the business, strategy, and financial plans in the short, medium and long-term.

Zurich Insurance Group Ltd ("ZIG") set the sustainability strategy and goals for all Zurich entities. Aligned to this the UK businesses have set supporting targets. The UK businesses manage sustainability actions to support the overarching ZIG group strategy. The Company is an active contributor to the UK sustainability actions through its responsible investment strategy as well as contributing to the wider sustainability strategy, where possible, as discussed below.

The ZIG group refreshed their sustainability strategy for 2023 with three new central themes; People Sustainability, Planet Sustainability and Customer Sustainability. These three new interlocking themes are all underpinned by strategic enablers; Data & Innovation, Partnerships & Advocacy, and Culture & Learning. The aim of the refreshed framework is to solidify Customer Sustainability at the core, grow people and planet positive solutions for our customers through innovative underwriting and claims, and grow the positive impact of the assets in which we invest through responsible investment.

The 'UK Sustainability Dashboard' has been updated to show progress against these new themes and the timings of the Corporate Responsibility and Sustainability Committee ("CR&SC") meetings will be aligned to the revised Sustainability Risk Committee ("SRC") to support the UK Chief Sustainability Officer ("CSO") with their responsibilities in relation to sustainability. Key metrics from Claims and Underwriting have also been incorporated into the dashboard. These metrics reflect our role as an insurer, providing sustainable solutions to our customers.

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**Business Strategy (continued)**

*Incorporation of Climate Change into Business Strategy and Planning (continued)*

As part of the 2022 Own Risk Self Assessment ("ORSA") it was identified that the Company is exposed to short term market impacts under a disorderly and sudden transition to a greener economy. The potential reputational damage, as a result of late action, is the highest impact risk to the Company. These reputational impacts would be expected to translate into lower new business and higher lapses, having a material impact on the Company's long-term profitability. After the initial shock, solvency would be expected to gradually recover due to lower new business and higher net investment income. The structures in place to manage sustainability set out to mitigate such a scenario.

Recognising the contagion risk from the ZIG group and its partners, the UK strategy for 2022-2025 is to both support the goals and ambitions of the ZIG group for science-based emissions reduction targets and to be the leading UK sustainable insurer by delivering on its targets in respect of People Sustainability, Planet Sustainability and Customer Sustainability.

Management actions have been identified to further develop the climate risk framework and to integrate with the wider risk management framework, supported by continuing propositional development, to ensure that the Company's propositions continue to meet evolving customer needs in uncertain times and further strengthening of the control environment to keep the business operating safely.

In terms of managed funds, we are mindful that the application of sustainable and climate related investment has to operate within the performance and risk objectives that the policyholder is expecting. Balance sheet investments need to be managed in line with the Group's policy on climate and sustainability which is clearly articulated to stakeholders.

The Company has considered the impact of climate change across a number of areas, predominantly in respect of the valuation of financial instruments and insurance and investment contracts. Many of the effects arising from climate change will be longer term in nature, with an inherent level of uncertainty, and have been assessed as having a limited effect on the financial statements for the 2022 reporting year.

**Future Outlook**

In 2023 and beyond, the focus will be on improvements and innovation across the business. The business will continue to direct strategy execution across five themes which are further underpinned by five strategic priorities. The highly disciplined strategy remains relevant for the emerging macro economic climate and will support the business in achieving and sustaining a leading position in chosen markets.

<u>Five themes</u>

- Excel at and improve the customer experience
- Accelerate the pathway to greater sustainability
- Develop future capabilities, strategic skills, and a winning culture
- Diversify market access and revenue
- Simplify the business and digitise core operations

<u>Five strategic priorities</u>

- Grow profitably in strategic market sectors
- Close product gaps and innovate in value-added services, expanding the distribution footprint
- Increase focus on and enhance unit-cost trajectory across all businesses
- Enhance customer and broker experience to facilitate both new sales and retention
- Deliver key regulatory requirements

### Business Review

| | 2022<br>£'m | 2021<br>£'m |
|---|---|---|
| Investment return | (2,910) | 2,838 |
| Impact from technical provisions (before impact from interest rates and changes in demographic assumptions) | 2,326 | (2,530) |
| Impact from interest rates on technical provisions | 533 | 171 |
| Impact from changes in demographic assumptions | (71) | (117) |
| Net operating expenses | (271) | (271) |
| Tax credit / (charge) | 279 | (96) |
| Other | 4 | (1) |
| **Loss for the financial year** | **(110)** | **(6)** |

The loss for the year before taxation was **£139m** (2021: Loss of £8m). The balance on the profit and loss account transferred from reserves at the end of the year was **£110m** (2021: transferred from reserves £6m).

The loss in 2022 is primarily driven by the impact of the investment market volatility experienced during the year. Drivers include a steep rise in gilt yields, the impact from credit spreads, the volatility of global equity and property markets, and the rapid rise in the rate of inflation. The result of this volatility was a reduction of £1,861m in realised gains on investments (2022: £289m realised gain; 2021: £2,150m realised gain) as well as significant unrealised losses on investments of £3,793m (2021: £134m unrealised gain). Overall the investment return in 2022 was £(2,910)m (2021: £2,838m) - see note 2 for details on investment income and gains/losses.

The adverse impact from the investment return is largely offset by movements in the technical provisions - particularly within the unit-linked portfolio. Interest credited from policyholders of £1,981m (2021: interest credited to policyholders of £(3,009)m), fee income and other expenses of £331m (2021: £490m) and the impact from the changes in interest rates of £533m are partially offset by the impact from changes in demographic assumptions of £(71)m (2021: £(117)m) - see note 21 for further details on the movements in the technical provisions. Net operating expenses of £271m have remained consistent with the prior year (2021: £271m). The £279m tax credit (2021: £96m tax charge) is also driven by the investment market volatility, and also offsets the impact from the investment return. The loss before taxation of £139m (2021: loss of £8m) excludes the nominal tax credit of £28m (2021: £2m) calculated at the Company's effective tax rate.

Premium levels remained broadly consistent with the prior year, with growth in gross premiums driven by sales within the protection businesses. The £37m growth in gross premiums has then resulted in higher premiums ceded to reinsurers. Death claims in the protection businesses reduced in 2022 with the adverse experience from COVID-19 in the first quarter of 2021 not repeated in 2022.

### Financial Key Performance Indicators

| Shareholder's pre-tax loss from long-term business | Solvency Capital Requirement ratio | Gross Written Premiums | Total Assets |
|---|---|---|---|
| £133m<br>(2021: £8m) | 168%<br>(2021: 127%) | £1,062m<br>(2021: £1,025m) | £25,699m<br>(2021: £31,678m) |

<u>Shareholder's pre-tax loss from long-term business</u>
The increase in the pre-tax loss from the long-term business reflects the impacts of volatile financial markets experienced during 2022. These impacts have caused significant unrealised investment losses, which have been largely offset by an interest rate driven reduction in the long-term business provision and by a reduction in interest credited to linked policyholders

### Financial Key Performance Indicators (continued)

Solvency Capital Requirement ("SCR") ratio
The Company has a SCR ratio which is in line with Solvency II ("SII") requirements and the Company's own upper target capital level. During the period no dividend was paid by the Company (2021: £100m). The Company received a capital injection of £50m from ZIG in June 2022. In recognition of the pension risk that ZAL is exposed to a capital add-on is held in the Solvency Capital Requirement. Following confirmation from the Prudential Regulation Authority ("PRA") this has reduced by £213m in the period. Additional information on the Company's capital management is shown in note 22.

Gross Written Premiums ("GWP")
Overall total GWP has grown by 4% year-on-year, including strong sales of Corporate Protection business as well as continued growth in the Retail Protection and Longevity Swap businesses.

Total assets
Total assets have decreased by £5,979m during 2022, driven by the decreases in assets held to cover linked liabilities (£4,112m decrease) and in debt and other fixed-income securities (£1,111m decrease). These decreases are as a result of the impact from volatile financial markets during 2022, with reductions in global equity indices, higher gilt yields and the impact from credit spreads.

### Non-Financial Key Performance Indicators

| Policies / Scheme members | Transactional Net Promoter Score | Scope 1 + 2 Greenhouse Gas Emissions |
|---|---|---|
| 3.4 million | +55 | 3,740 t CO2e |
| (2021: 3.3 million) | (2021: +48) | (2020: 3,799 t CO2e) |

Policies
Year-on-year increases in the total number of policies are in-line with the Company's growth strategy and is evidenced by new business wins during 2022 and favourable lapse rates, partially offset by the expected run off of the back book.

Transactional Net Promoter Score
A comprehensive customer NPS programme is in place across all major product lines which encompasses both transactional tNPS and relationship rNPS touchpoints. The NPS programme obtains feedback from customers on their experiences with the Company throughout the customer lifecycle and is actively used to drive improvements in the customer experience. The seven-point improvement in tNPS is an indication of high customer and distributor satisfaction.

Greenhouse gas emissions
The figures for Scope 1 and 2 emissions are calculated based on science-based emissions reduction targets for our Group's operations. These represent verified emissions for 2021. Further details of our targets and actions taken are included within the Non-Financial Information Statement on page 13.

### Duty to Promote Success of the Company

Section 172 ("s172") of the Companies Act 2006 requires 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 for 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 of ZIG and is subject to policies and governance arrangements set by the ZIG group, as well as local statutory and regulatory requirements. The Board derives its collective authority by

### Duty to Promote Success of the Company (continued)

direct delegation from its shareholder. Its key purpose is to ensure the Company's prosperity by collectively directing the Company's affairs while meeting the appropriate interests of its shareholder and relevant stakeholders.

The Board's principal aim is to ensure the fair treatment of the Company's customers, while enhancing the Company's long-term value to its shareholder through the sustainable and compliant 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 financial year, the Board has considered this duty when making decisions, including the:

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

As a wholly owned subsidiary of the ZIG group, the Company has only one member and therefore the Board do not need to consider the fairness between members.

Long term decisions

The Board 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 growth and sustainability. 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.

An example is the approval of a number of longevity swap transactions throughout 2022. The Board considered the interests of stakeholders and the Company's strategy & risk appetite in its decision-making process, aided by papers presented at meetings. The transactions were deemed to be beneficial to all key stakeholders.

Policies around anti-bribery and corruption

In accordance with the Companies Act section 414CB, the Company is covered by the UK Financial Crime policy, including Anti-Bribery and Corruption. The content for guidance documents and local standards is driven by the content of ZIG group policies, with the inclusion of UK specific legislation and regulations. The Fraud and Financial Crime Risk Management Framework is supported by policies, protocols, standards, guidance, and procedures that ensure a robust control environment. Documentation is subject to annual review and the Board is kept informed through quarterly reporting on key matters and any changes to the regulatory landscape.

Stakeholder engagement

The UK Corporate Affairs team are responsible for external engagement and social media and provide a weekly update to senior management on stakeholder engagement across the UK, together with details on governmental consultation and inquiries. The Company has an established policy of communicating with employees regularly through all employee emails and workplace updates to promote its commitment to risk management, compliance, good conduct, social responsibility, diversity and inclusion, and maintaining employee wellbeing.

The Company's pension policyholders are represented through the Zurich Governance Advisory Arrangement to ensure that their interests are being considered individually and collectively. Papers submitted to the Board and/or

### Duty to Promote Success of the Company (continued)

Committees indicate that, where appropriate, customer interests have been considered and inform on what action has been taken.

The Board considers the interests of stakeholders as part of its overall long-term business objectives. The following table sets out details of key stakeholder engagement undertaken by the Company during 2022.

<table>
<tr><td>Employees</td><td>As the Company does not have any direct employees, a management charge is made to the Company from the UK employing entity, Zurich Employment Services Limited, in respect of employees who work on behalf of the Life business. The principal disclosures in respect of these staff, including the approach to employee engagement, appear in the annual report and accounts of Zurich Employment Services Limited, Unity Place, 1 Carfax Close, Swindon, Wiltshire, United Kingdom, SN1 1AP.<br><br>The following summarises how the Board considered employees in its deliberations:<ul><li>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.</li><li>The Chair of the Board has the role of 'whistleblowing champion', ensuring the integrity and effectiveness of the Company's whistleblowing policies and procedures. The Board receives regular reports on 'speaking up' incidents.</li><li>The Board's annual calendar includes a strategy event where a cross-section of employees are invited to present and provide updates on current matters or areas of focus to the Board.</li><li>The Nomination and Remuneration Committee is responsible for succession planning and focuses on the performance of executives and key employees outside of the executive. It ensures that a talent pipeline is in place, and engagement is encouraged with those individuals through presenting at Board and Committee meetings, the strategy event, and deep dives on the Board's areas of focus.</li><li>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. It also regularly seeks feedback and updates from senior management on morale and wellbeing.</li><li>The Wellbeing hub provides a range of resources and tools to help employees keep active, healthy, and safe.</li></ul></td></tr>
<tr><td>Customers</td><td>The Company ensures that it is well informed about customer outcomes and customer sentiment about its propositions. This includes ensuring mechanisms are adequate in respect to vulnerable customers.<br><br>The following summarises how the Board considered customers in its deliberations:<ul><li>All customer propositions are reviewed regularly, to ensure they continue to support the delivery of good customer outcomes, and that proposed changes do not cause harm to customers.</li><li>Existing propositions for long-term insurance products are enhanced and new propositions are developed and offered from time to time to customers.</li><li>A comprehensive customer NPS programme is in place across all major product lines which encompasses tNPS touchpoints. The NPS programme obtains feedback from customers on their experiences with the Company throughout the customer lifecycle and is actively used to drive improvements in the customer experience.</li></ul></td></tr>
</table>

**Duty to Promote Success of the Company (continued)**

| | |
|---|---|
| | • An executive management customer committee oversees the delivery of good customer outcomes and reports to the Board. During 2022, this committee met regularly to coordinate a systematic approach to addressing customer issues.<br>• The Board's annual learning and development event in 2022 included a deep dive on customer research, customer journeys, and customer experience standards.<br><br>Under the FCA's new Consumer Duty, to be implemented by July 2023, for open products and services and by July 2024 for closed books, the Board is expected to adopt an enhanced role in monitoring the delivery of customer outcomes to ensure the firm's products and services meet and remain compliant with the new Consumer Duty standards. A Board-level Consumer Duty Champion has been appointed (Heather Lauder – Independent Non-Executive Director) to ensure that Consumer Duty is discussed regularly and raised in all relevant Board discussions.<br><br>The Board and the Risk Committee receive regular reports on the arrangements put in place to support vulnerable customers. As a result of ongoing monitoring of customer outcomes and feedback, the Company identified and delivered several improvements to products which have enhanced the overall customer experience. Examples of this are the review and update of the Company's vulnerable customer policy, enhancement of the vulnerable customer training programme and assessment of capabilities for monitoring vulnerable customer outcomes. |
| Suppliers | Zurich expects all its business partners to embrace high standards of ethical and business conduct.<br><br>The following summarises how the Board considered suppliers in its deliberations:<br>• The ZIG group operates in a global sourcing environment, endeavouring to work with third parties and suppliers who operate responsibly, share the ZIG group's values, and adhere to the spirit of the ZIG group's code of conduct. The ZIG group's commitment to respect human rights is part of this code of conduct, which all Zurich employees are committed to following.<br>• Our recruitment process includes robust checks throughout the on-boarding journey, to ensure we do not employ individuals that are facing, or are involved in, enforced servitude. Our annual code of conduct training is completed by all Zurich staff and includes content around fair and compliant conduct, including the protection of human rights.<br>• Employees directly involved with on-boarding and management of suppliers receive additional UK supplier management training and are made aware of how to report any concerns.<br>• Oversight of suppliers is the responsibility of the UK Chief Operating Officer. A governance framework is in place to support the supply management lifecycle and to ensure effective and efficient management of our suppliers. The framework ensures that a rigorous and diligent process is followed during the procurement process, whereby the third parties structure, operations, culture, human resources, supplier and customer relationships and future outlook are assessed.<br>• The Company reviews and publishes its annual Modern Slavery Act statement, outlining how it mitigates the risk of slavery and human trafficking within its business and its supply chains. As part of this process, the Company has in place a Modern Slavery and Human Trafficking Policy, which seeks to identify and manage such risks.<br>• An integral aspect of Zurich's sustainability is our Supplier Code of Conduct (the "Code"), in which it provides clear guidance to ensure that our suppliers act in a manner that is compatible with our own ambitions. The Code sets out the environmental, social and ethical standards expected of our suppliers. |
| Communities | The Company believes in contributing positively to society and in having a positive impact on the communities in which it operates. |

**Duty to Promote Success of the Company (continued)**

| | |
|---|---|
| | The following summarises how the Board considered communities in its deliberations:<br>• The UK Public Affairs team strives 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 or support on any external engagement activity.<br>• The Company holds membership of, and the Public Affairs Team works closely with, industry bodies such as the Association of British Insurers ("ABI"), and Confederation of British Industry ("CBI") to ensure that it is coordinated and effective in influencing the public policy agenda.<br>• 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.<br>• The Company is committed to diversity and inclusion and Zurich UK is signed up to the Race At Work Charter, an initiative designed to improve outcomes for Black, Asian and Minority Ethnic employees in the UK.<br>• Zurich Community Trust's ("ZCT") Strategic Funding programmes focus on challenging social issues and support the most vulnerable in society. These programmes are wholly funded by the annual donation made to ZCT by the Zurich UK businesses. For 2022, the Company donation was £1m. |
| Regulators | Positive engagement with regulators ensures high business standards are maintained and customers are protected.<br><br>The following summarises how the Board considered regulators in its deliberations:<br>• The Company maintains an open relationship with the PRA and the Financial Conduct Authority ("FCA"), which includes regular dialogue and complying with all regulatory reporting requirements, in addition to providing regular management information to the PRA.<br>• The Board receives regular updates on the Company's interactions with regulators including forthcoming changes to regulatory requirements.<br><br>The Company routinely provides copies of the Board, Risk and Audit Committee meeting papers to the PRA and responds to any ad hoc requests for information from regulatory bodies when required. |
| Sustainability | The UK CSO is responsible for Sustainability, which is at the centre of the ZIG group and Company's ambition to be known as one of the most responsible and impactful businesses in the world.<br><br>The following summarises how the Board considered sustainability in its deliberations:<br>• The Board Risk Committee ("BRC") has oversight of the financial risks of climate change, with accountability being documented within the Terms of Reference and climate change occurring as a standing agenda item at each quarterly meeting.<br>• The BRC assists the Board in carrying out its responsibilities in relation to the oversight of risk management in accordance with law and regulations.<br>• The UK CSO is responsible for climate change, and the BRC has approved a formal governance framework which includes a SRC (which convenes on a quarterly basis). This ensures the reporting and oversight of relevant management information in line with the ZIG group's Sustainability Strategy.<br><br>The ZIG group measures its sustainability commitments thoroughly and these approaches are embedded throughout the organisation. |

**Task Force on Climate-Related Financial Disclosures ("TCFD") Summary Report**

Climate change is perhaps the most complex risk facing society today, being inter-generational, international, and interdependent. As a global insurer, the ZIG group faces risks from climate change, and within the UK. The Company, as the ZIG group's Life insurance provider in the UK, recognises that it faces these same risks.

This information statement provides a summary of where to find the relevant commentary in respect of the Company's 2022 response to the recommendations of the TCFD within these financial statements.

| TCFD Theme | Location of disclosures | Page reference |
|---|---|---|
| **Governance** | | |
| Describe the Board's oversight of climate-related risks and opportunities | Governance section of Directors' Report | Page 22 |
| Describe management's role in assessing and managing climate-related risks | Governance section of Directors' Report | Pages 22-23 |
| **Strategy** | | |
| Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long-term | Business Strategy | Pages 3-4 |
| Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning | Business Strategy | Pages 18 and 22 |
| Describe the potential impact of different scenarios, including a 2°C scenario, on the organisation's businesses, strategy, and financial planning | Business Strategy | Pages 3-4 |
| **Risks and opportunities** | | |
| Describe the organisation's processes for identifying and assessing climate-related risks | Principle Risks and Uncertainties | Page 18 |
| Describe the organisation's processes for managing climate-related risks | Principle Risks and Uncertainties | Page 18 |
| Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management | Principle Risks and Uncertainties | Page 18 |
| **Metrics and targets** | | |
| Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process | TCFD Summary Report | Page 11-12 |
| Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas ("GHG") emissions, and the related risks | SECR Statement | Pages 12-13 |
| Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets | TCFD Summary Report | Page 11-12 |

**Task Force on Climate-Related Financial Disclosures ("TCFD") Summary Report (continued)**

Climate-related metrics and targets

*Emissions*

The Company measures its operational carbon footprint (Scopes 1, 2 and selected Scope 3), including its emissions intensity per full time employee. Energy and carbon emissions are measured and managed at a UK level rather than an entity level. The details are included within the Streamlined Energy & Carbon Reporting statement.

For our operations, we have set the following science-based emissions reduction targets at a ZIG group level:

- Reduce absolute emissions by 50% by 2025 (against 2019 baseline)
- Reduce absolute emissions by 70% by 2029 (against 2019 baseline)
- Net-zero operational emissions by 2030 (and maintain our carbon neutrality along the way)

In 2021, the UK has agreed a country specific emissions reduction target to support the Group's overall emission reduction targets.

- Reduce absolute emissions by 51% by 2025 (against 2019 baseline)
- Reduce absolute emissions 70% by 2029 (against 2019 baseline)

Throughout 2022 we have made significant progress to reduce our operational footprint goals through the new sustainable office space in Swindon, achieving 100% renewable energy in all UK offices, reductions in air travel-related emissions and an increase in hybrid/electric fleet vehicles.

The Zurich UK entities' 2019 science-based targets set their baseline emissions at 18,012 metric tons. In 2021, emissions were 5,441 metric tons. The global pandemic along with ongoing initiatives, such as, building efficiency measures, purchasing renewable power, electrifying the car fleet and paper reductions, have contributed to the 70% reduction.

For our supply chain, we have set the following engagement targets at a ZIG group level:

- 75% of our managed procurement spend with suppliers that have science-based emissions reduction targets by 2025 and net zero targets by 2030.

To monitor progress on the UK's supply chain targets, reporting is being developed for inclusion within the dashboard.

*Carbon price*
In 2021 an internal price on all our operational emissions was introduced. Our internal carbon price is set by ZIG group at USD 15 per ton in 2021 and is subject to annual increases.

*Responsible investing*
The Company has invested c.£167 million in Green Assets as at 31 December 2022; this represents c.6.5% of the shareholder investment assets (c.£2.6 billion). The number of securities the Company invested in green assets increased during 2022. However, given the decrease in market value of securities following the interest rate rises the value of these assets has declined.

To achieve the goal of net zero investment portfolios by 2050, we expect the Company will have to offset the carbon emissions which cannot be avoided.

**Streamlined Energy & Carbon Reporting (SECR) statement**

The section below fulfils the requirements of the UK Streamlined Energy and Carbon Reporting ("SECR") framework, including ZIG group's operational energy and carbon emissions. Validated Energy and Carbon emissions data is not available until mid-year. As such, the UK energy use and associated GHG emissions are reported based on the latest validated position, using 2021 data with comparatives for the 2020 position.

### Streamlined Energy & Carbon Reporting (SECR) statement (continued)

UK sustainability is managed across all Zurich UK 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. Similar disclosures are included within Zurich Employment Services Limited, Zurich Management Services Limited, Zurich Financial Services (UKISA) Limited ("UKISA") and Zurich Holdings UK Limited.

| UNITED KINGDOM | 2021 | 2020 *(restated)* | 2020 *(previously reported)* |
|---|---|---|---|
| Scope 1 emissions [t CO2e] | 3,624 | 2,919 | 2,278 |
| Scope 2 emissions [t CO2e] | 116 | 880 | 968 |
| Scope 3 emissions [t CO2e] | 1,701 | 3,268 | 2,689 |
| **Total emissions [t CO2e]** | **5,441** | **7,067** | **5,935** |
| Zurich UK Employees (Full Time Equivalent (FTE)) | 4,329 | 4,239 | 4,239 |
| **Total emissions per FTE [t CO2e / FTE]** | **1.26** | **1.67** | **1.40** |
| Total energy [MWh] | 10,092 | 11,671 | 11,671 |
| Total energy per FTE [MWh / FTE] | 2.33 | 2.75 | 2.75 |

*Notes:*
Scope 1: onsite heating and car fleet emissions (direct emissions).
Scope 2: purchased electricity, heat, steam, and cooling (indirect emissions).
Scope 3: air, car rental and rail, as well as other fuel and energy related emissions not included in scope 1 or 2. Following the science-based emissions target setting process this also includes strategic data centres, employee commuting, waste, and printed paper.

During the audit of 2021 emissions data, data quality improvements were identified. This has led to a restatement of the 2020 emissions figures to reflect the availability of better quality data. The actions detailed below explain the movements year-on-year.

In addition to the above, Scope 3 emissions in respect of homeworking are estimated at **2,197t CO2e**. This is Zurich's assessment of the impact of employees working from home, utilising the base case estimates within the EcoAct White paper and office usage data. The UK Grid emissions are compiled from the UK government publication of conversation data.

### *Methodology*

Zurich reports in line with the Greenhouse Gas Protocol's operational control boundary and has set targets in line with the Science Based Target Initiative guidelines. Ernst & Young LLP have verified the emissions data and provided reasonable assurance over the data produced by ZIG group. It publicly discloses its ZIG group environmental performance data on Zurich.com/sustainability/sustainable-operations. Environmental reporting is supported by its global network of environmental managers, as well as its suppliers. It uses central reporting software to support data collection and reporting. Zurich's global environmental management system is based on ISO14001.

In March 2021, Zurich publicly announced new science-based emissions reduction targets for the ZIG group's operations. As part of the target setting process, it has reset its emissions baseline to include additional sources of emissions, creating new footholds to influence environmental impacts in these areas. In addition to emissions reported from its fleet, facilities, and business travel, it has added emissions from employee commuting, outsourced strategic data centers, printed paper, and waste.

ZIG group report scope 2 on both location-based and market-based methodologies. This information is published and publicly available. Scope 2 details in the table above use market-based methodology. Location-based information is available at a ZIG group level.

**Streamlined Energy & Carbon Reporting (SECR) statement (continued)**

***Actions taken during the year being presented***

During 2021/22, actions taken to support climate goals continued to be significantly impacted by the COVID-19 pandemic, however the Company continues to implement initiatives to move towards its environmental goals. A summary of actions taken during 2021 is provided below.

UK facilities emissions
To help reduce Zurich's energy consumption and facilities emissions, the Company continues to implement a number of initiatives including:

- Monitoring its EV charging points at UK locations; identifying and documenting $CO_2e$ savings.
- Focusing on releasing vacant space.
- Introducing more efficient lighting, utilising intelligent controls, movement detectors, and replacing lighting with more efficient lamps where possible. Reviewing the lighting controls and heating and cooling plants at each building so they only operate during office hours.
- Maintaining building temperatures of 22°C +/- 2°C.
- Requiring all building and engineering projects to include a sustainability case.
- Purchasing certified renewable electricity – in 2021 the Company successfully achieved 92% renewable electricity across all its leased premises, covering both offices where it is and is not responsible for the energy supply. Zurich achieved this by lobbying its landlords to change their supply.
- Continued its 'Hybrid Working' arrangements, which aims to promote a more effective working environment focused on better teamwork and sharing of resource and equipment. This allows Zurich employees to work in an 'agile' way by working from a variety of locations, including their home (which is further reinforced by Zurich's FlexWork programme). These initiatives have allowed the Company to continue to reduce its office space.
- Changed its facilities management provider, resulting in a significantly increased focus on sustainability built into the contract, including a minimum target spend with Social Enterprises, more sustainable food, and a dedicated Responsibility Manager (appointed by the supplier) to drive sustainability activity.

UK business travel emissions
The pandemic has continued to have a dramatic effect on business travel.

A change to the Company's fleet arrangement in 2020 has provided improved hybrid/electric vehicle options to a broader range of employees, resulting in an increase in uptake, including 152 new electric vehicles. In 2021, 222 of its 979-car fleet were fully electric, while a further 48 were hybrids and 201 were plug-in hybrids.

**Principal Risks and Uncertainties**

The Company is exposed to financial risks through its issue of insurance and investment contracts and the use of financial instruments. The principal financial risks are detailed below.

Underwriting risk

Underwriting risk is the inherent uncertainty regarding the occurrence, amount, or timing of insurance liabilities. The Company is exposed to the following underwriting risks:

- Mortality – actual policyholder death experience is higher than expected
- Morbidity/Disability – policyholder health-related claims are higher than expected
- Longevity – annuitants living longer than expected
- Lapse – policyholder behaviour in discontinuing or reducing contributions or withdrawing benefits prior to the maturity of contracts is different to that expected
- Expense - expenses incurred in acquiring and administering policies are higher than expected
- Catastrophe - policyholder health and death related claims from a large-scale event

**Principal Risks and Uncertainties (continued)**

Underwriting risk (continued)

The Company writes these risks in line with its strategic objectives and manages underwriting risk through the use of reinsurance, its product approval process, product design and the use of product features such as reviewable charges and underwriting individual protection business at the point of application.

The Company has a system of regular monitoring which reports on the mortality, longevity, morbidity, lapse and expense experience of the business. This is used to help determine the rates at which new business is accepted and the value of the Company's technical provisions. In addition to monitoring business experience, the Company regularly assesses whether its underwriting risk exposures are in line with its expectations and its risk appetite.

Overall, given the long-term nature of the policies, the directors remain comfortable with the current best estimate mortality view, although the Company recognises the need to closely monitor this as the medium and longer term mortality impacts of COVID-19 emerge.

Market risk

Market risk is the risk associated with the Company's assets and liabilities where their value or cash flow depends on financial markets; this includes the market value of the Company's balance sheet positions and future earnings on contracts linked to the market value of the unit-linked assets.

The risks associated with market risk include:
- Equity price risk - The fluctuation in the value of assets or liabilities resulting from changes in equity prices.
- Property price risk - The fluctuation in the value of assets or liabilities resulting from changes in property prices.
- Interest rate risk - The fluctuation in the value of assets or liabilities resulting from changes in interest rates, including changes in the shape of yield curves.
- Credit spread risk - The fluctuation in the value of assets or liabilities resulting from widening of credit spreads.
- Currency exchange rate risk - The fluctuation in the value of assets or liabilities resulting from currency exchange rate movements.

The Company uses a variety of risk mitigation techniques to effectively manage market risks. This includes the use of derivatives, unit matching (i.e. liquidating units invested in the unit-linked funds so that expected future unit-related profits are not exposed to market risk), limiting the Company's exposure to lower credit quality assets, and specifying portfolio mandates which include target asset durations and range limits. In addition, the Company has implemented the use of the Volatility Adjustment which has the effect of reducing the sensitivity of the balance sheet to exaggerated movements in credit spreads that would otherwise not be reflected in liability valuations.

The risk mitigation techniques used have reduced the impact of Market volatility seen over 2022.

Although equity risk is limited and largely mitigated there is still a resulting impact on capital from equity movements.

Credit risk

Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfil their financial obligations. The Company's exposure to credit risk is derived from the following main categories of assets:

- Cash and cash equivalents
- Reinsurance assets

**Principal Risks and Uncertainties (continued)**

Credit risk (continued)

- Receivables
- Derivatives

The Company manages credit risk by limiting exposure to risk sectors, using counterparty limits and requiring the counterparty to post collateral when the derivative position is beyond an agreed threshold.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal, compliance, customer conduct and cyber risks.

The Company's exposure to operational risk is mitigated by a system of internal control activities, capital, corporate internal insurance programmes and its business continuity planning process.

The Company has rolled out an Internal Controls Integrated Framework, which is seen as a key enabler to assuring the design and effectiveness of the Company's control environment for operational resilience and outsourcing.

The company quantifies its exposure to operational risk as part of its SCR.

Liquidity risk

Liquidity risk is the risk the Company may have insufficient liquid financial resources to meet its obligations when they fall due or would have to incur excessive costs to do so. The Company manages liquidity risk by forecasting liquidity requirements, identifying potential shortfalls significantly in advance of their due date, and by ensuring it holds enough liquid assets under a range of scenarios.

A liquidity governance framework is in place to monitor liquidity in the short, medium, and long term. This ensures there are always appropriate liquidity levels, including under stress scenarios. This framework monitors liquidity risk by considering the amount, availability and speed at which assets can be accessed and includes daily liquidity monitoring.

While operational liquidity risk is inherent to the nature of the business that the Company operates, it is also in the nature of long-term insurance that the Company has large volumes of assets which are either liquid or generate steady liquidity. While small amounts of liquidity risk are unavoidable, the Board's requirement is for the Company to ensure sufficient liquidity to meet all forecast cash outflows in the short and medium term.

Liquidity risk capital is not included in the Standard Formula as a capital requirement to cover liquidity would be ineffective and that is appropriate to cover liquidity risk by an explicit liquidity risk management policy within the overall risk management framework. The Company's liquidity risk is mitigated through the liquidity risk framework, with oversight from the Asset and Liability Management Investment Committee.

Pension risk

Pension scheme risk is the risk of financial loss from changes in the assets or liabilities of a staff pension scheme.

The Company does not have direct pension scheme risk. Pension scheme risk arises in the Company through its association with the pension schemes which are sponsored by the ultimate UK parent company, Zurich Financial Services (UKISA) Limited.

**Principal Risks and Uncertainties (continued)**

Business risk

The Company has processes in place to regularly monitor its performance against its business plan. These monitoring activities allow the directors of the Company to take mitigating action where appropriate. These risks are identified by the Company through its strategic risk assessment process with mitigating actions monitored by the BRC.

The directors recognise the potential impact of external economic conditions and the changing market landscape on both customers and the Company. Emerging risks and changing customer needs have been identified to ensure delivery on the promises made to customers. The Company benefits from a growing customer base, strong distribution partnerships, and the strength of the Zurich brand. As such, the directors believe the Company is well positioned to cope with the uncertainty in the business environment and take advantage of any opportunities which may arise.

The Company has well established business continuity plans and operational resilience that include the ability to continue operating remotely with no significant impact on service levels. The Company has also implemented an Operational Resilience programme to ensure it meets the new PRA and FCA regulatory requirements relating to Operational resilience, with a focus on driving the right outcome for the business and customers. Additionally, the Company has worked with its outsourcers to ensure they too could continue to operate under these changed circumstances, thereby providing a service that enables the Company to continue to operate effectively.

The Company has regular solvency monitoring processes and protocols in place, including an agreement to receive financial support from ZIG group should this be required. As such, the directors believe the Company is well positioned to assess and adjust to any changes in circumstances as they may arise.

The above information regarding current and possible future impacts of the external environment to the Company is accurate at the time of writing but as a result of the ongoing situation may not reflect the developed situation at the time of reading.

Further information on the Company's exposure to all these risks can be found in note 29.

Group risk

Group risk is the risk of loss resulting from the failure of a ZIG group company as a going concern, or from the failure of a ZIG group company to provide key outsourced services as required by the Company.

These can be broadly categorised as:

- Operational outsourcing risk – the risks associated with the failure of shared services or functions outsourced to other parts of the ZIG group;
- Brand and reputational risk – the risk that an event occurs elsewhere in the ZIG group which generates negative publicity that adversely impacts the business; and
- Risks relating to intra-group reinsurance.

The Company has intra-group agreements in place for all outsourcing placed with group companies that is categorised as critical or important. Monitoring of all outsourcing arrangements is undertaken by the designated outsourcing contract owners. The Board receive an annual update on the current list of critical and important outsourcing arrangements.

The Board recognises that there are significant advantages to being part of a well-capitalised international group that outweigh potential group risks, and monitors its exposure to group risk through its risk appetite.

Given the Company's business model, potential group risk exposures are largely unavoidable and the purchase of financial mitigation for this risk is not commercially realistic. In accordance with the Board's risk strategy, group risk

**Principal Risks and Uncertainties (continued)**

Group risk (continued)

will continue to be taken on a well informed and conscious basis. The Board recognises that the consequential risks arising from the failure of a ZIG group entity to provide services are identified and considered both within Executive Management's functional oversight processes and within the Company's approaches for operational risk, credit risk and stress testing.

Climate related risk

The Company continues to develop its response to the risks posed by climate change to its own operating model, as well as implications for both the insurance industry as a whole and to society. The Company's climate risk framework and approach is being developed in accordance with the requirements set out in supervisory statement 3/19 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change' as well as responding to the external developments that have impacted such areas as pricing and modelling assumptions, as well as the brand and reputation risks to the business.

Climate risk is managed by delivering on climate related targets and commitments. The Company continues to manage customer expectations on climate, balancing numerous evolving risks with its' responsibilities to maintain an appropriate range of funds for investment. A refresh of the Company's climate risks was developed to identify the longer term impacts of climate change risk on the business. The Company is exposed to climate risks through its direct (shareholder) and indirect (policyholder and pension scheme) investments. As the Company is part of the ZIG group, its ESG investment policy follows the Group ESG approach.

The Company carried out a climate change scenario analysis which was included in the 2022 ORSA. The scenario focused on the risks to the Company of a disorderly transition to a low-carbon economy, as well as the current political and geopolitical environment. The scenarios predict Initial shocks, albeit not severe, however with mitigating action having been taken by the Company Board, the predictions suggest a recovery in solvency would take place.

Activity on the Company's sustainability goals, including climate change will continue in 2023 and beyond. The Company's climate change risk management will continue to evolve through updates to the Company's climate change risk assessment; monitoring and developments to the Company's climate change risk appetite; further development of climate risk scenarios; and through work on the Company and Zurich UK public disclosures on climate change risk in response to regulatory developments.

**Going Concern**

The directors are satisfied that the Company can continue to use the going concern basis in preparing the financial statements.

In making this assessment the directors have considered:

- The Company's projected cash flows, profit and loss position, and solvency position;
- The resilience of the Company's solvency surplus through various scenario analyses (including a climate change scenario);
- Relevant economic and external considerations;
- The credit rating of the Company's ultimate parent and principal re-insurance counterparty; and
- The Company's liquidity position.

**Going Concern (continued)**

In addition, the Company has measures in place to regularly monitor the solvency position and an agreement is in place to receive financial support from another ZIG group company, Zurich Insurance Company Ltd should this be required.

As a result of this review, the directors believe the Company has adequate resources to continue in operational existence over the going concern period assessed up to 31 March 2024. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

The Strategic Report was approved by the Board on 31 March 2023 and was signed on its behalf by:

On behalf of the Board
Secretary:
For and on behalf of Zurich Corporate Secretary (UK) Limited

The directors present their report and the audited financial statements for the year ended 31 December 2022.

### Dividends

No interim dividend was paid during the year (2021: £100m). The directors do not recommend the payment of a final dividend for the year (2021: £nil).

### Directors

The directors who held office during the year and up to the date of signing were:

| | |
|---|---|
| T.J. Bailey | |
| P. Bishop * | |
| C.S. Fairclough * | (resigned 30 June 2022) |
| A.R.D. Koslowski | **Chief Executive Officer** |
| H.L. Lauder * | |
| H.A. Pickford | |
| J.C. Platt * | **Chair** |
| P.M. Shaw* | (appointed 9 June 2022) |
| J. Temes | |

* Independent non-executive directors

There have been no appointments or resignations between the end of the financial year and date of signing the financial statements.

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 at the date of this Directors' Report.

### Principal Risks and Uncertainties, Future Outlook and Overseas Branches

The directors have elected to include details of the Company's purpose and leadership, risk management, principal risks and uncertainties, the future outlook, stakeholder relationships and details of overseas branches as required by regulations made under section 416(4) of the Companies Act 2006, within the Strategic Report as permitted by section 414C (11) of the Companies Act 2006.

### Charitable Donations

The Company supports the charitable activities of Zurich Community Trust (UK) Limited ("ZCT") and in 2022, the Company donated £1m to ZCT (2021: £1m).

### Independent Auditors

The auditor, Ernst & Young LLP ("EY") have indicated their willingness to continue in office.

### Governance

For the year ended 31 December 2022 the Company has applied the Wates Corporate Governance Principles for Large Private Companies published by the Financial Reporting Council in December 2018.

### Governance (continued)

Board composition

On 31 December 2022, the Board consisted of four Independent Non-Executive Directors ("INEDs") and four Executive/Shareholder Representative Directors which meets composition requirements set by the ZIG group and guidance issued by the PRA. The size and composition of the Board is appropriate to the nature of the business and is diverse with an appropriate balance of skills, knowledge and experience allowing effective independent challenge and decision making.

When appointing members to the Board, consideration is given to the director's competency, capacity, experience, gender, and diversity of thought in accordance with the expectations of the Board's Diversity Policy. The Board uses committees as a method of expanding their work, increasing their efficiency, and discussing important issues in detail. Certain responsibilities have been delegated to the Audit Committee, BRC, and Nomination & Remuneration Committee. The Board maintains oversight of the operation of these committees and sets a Terms of Reference for each which is reviewed and updated annually. The roles of Chair and CEO are separate, with an INED appointed as Chair of the Board and all Committees to ensure that independence of decision-making is effectively maintained with the independent Chair having a further casting vote.

The Nomination & Remuneration Committee is responsible for identifying and nominating appointments to the Board. This Committee ensures that candidates are selected based on merit, in line with the Board's Diversity Policy and assessed against objective criteria. Once a director is appointed to the Board, an induction programme is completed which is tailored to the individual needs and makes sure they are equipped to perform their duties effectively with ongoing development and training. A skills matrix is in place and reviewed and updated annually by the Board allowing members to identify skills and areas for individual and collective development.

The Governance Advisory Arrangement ("GAA") is an advisory committee to the Board. The Board has oversight of the GAA, comprising of independent members and a UK representative, which meets on a quarterly basis to evaluate whether customers are receiving value for money through workplace pension schemes. The Board is provided with updates on the workplace governance activities on a quarterly basis. The Company has appointed PTL Governance Limited to operate its GAA and is responsible for ensuring that the GAA acts in accordance with its Terms of Reference.

Risk governance

The Board promotes the long-term sustainable success of the business by establishing the oversight for the identification and mitigation of risks. The BRC considers risk appetite quarterly to ensure that the Company's activities remain within its approved appetite. In addition, the BRC considers, on an annual basis, whether the risk appetite remains appropriate for the future strategy of the Company.

The Company maintains an ORSA which is reviewed and approved on an annual basis. This is a rigorous risk management framework designed to promptly identify, measure, manage, report, and monitor all risk types and associated risks affecting the achievement of strategic, operational, and financial objectives. The Company's current three-year business plan and strategy is aligned to its ORSA, which helps inform the Board that the longer-term business is being considered.

As part of the Audit Committee responsibilities, internal controls from a financial and a risk perspective are considered and where any failings have been identified, appropriate mitigants are put in place. However, if any failings are of a significant level, the matter will be escalated to the Board for guidance and/or oversight.

The regular meetings between the respective Chairs and senior management take place during the meeting cycle to ensure that the appropriate level of information is maintained. The respective Chairs discuss the quarterly agendas with senior management and the Company Secretary to ensure that, where necessary, matters other than standing quarterly and annual items are discussed at meetings.

**Governance (continued)**

Risk governance (continued)

*UK Board oversight and monitoring of climate-related risks*

The Company's governance structure supports a stakeholder-inclusive approach. As we believe sustainability needs to be embedded in the existing business to optimise our impact, it is treated as an integral part of our governing system.

For Zurich Assurance Ltd, the UK regulated primary risk carrier for the UK market providing Life insurance products including protection and pensions, the BRC has oversight of climate change risk and sustainability as documented within the Terms of Reference. At each quarterly meeting climate change and sustainability is a standing agenda item.

The BRC is authorised by the Board and exists to assist the Board in carrying out its responsibilities in relation to the oversight of risk management in accordance with law and regulations. The BRC's remit includes understanding and assessing the financial risks from climate change that affect the firm. To assist the BRC in effectively being able to address and oversee these risks within the firm's overall business strategy and risk appetite, training is undertaken to ensure ongoing development of expertise.

Throughout the year sustainability and climate-related issues have been highlighted to the Board including at the Board Summer School which in 2022 included a sustainability deep dive. Updates include the increasing regulation around climate change and sustainability, the growing risk of greenwashing, as well as external policy updates. Results and feedback from the BoE on their Climate Biennial Exploratory Scenario ("CBES") and their illustrations of possible paths for climate policy and global warming were also highlighted to the Board and the potential impacts and risks captured in the CBES scenarios will be considered in the ORSA scenario.

The UK Sustainability Dashboard has been developed and is updated and shared with the Board quarterly to show progress against the UK sustainability targets. It is now the basis for the BRC to challenge the effectiveness of sustainability activities to meet our targets and for the BRC to consider the level of ambition in the UK.

*Management's role in assessing and managing climate-related risks*

The BRC continue to ensure a formal governance framework is used. The framework includes a pan-UK SRC, to ensure reporting and oversight of relevant management information in line with the Company's UK Sustainability Strategy. In 2022 the SRC revised its format and Terms of Reference. The SRC supports the CSO with their responsibilities in relation to climate change. The committee has two aims: to manage the risks associated with sustainability that Zurich UK are exposed to and to provide a second line monitoring of progression against Zurich's UK sustainability strategy. The committee is an advisory management committee with no decision-making authority, comprised of members of the UK Executive team or a direct report, along with the Head of UK Public Affairs and Sustainability. The SRC meets every quarter with meetings scheduled to ensure timely reporting and escalation to the Board.

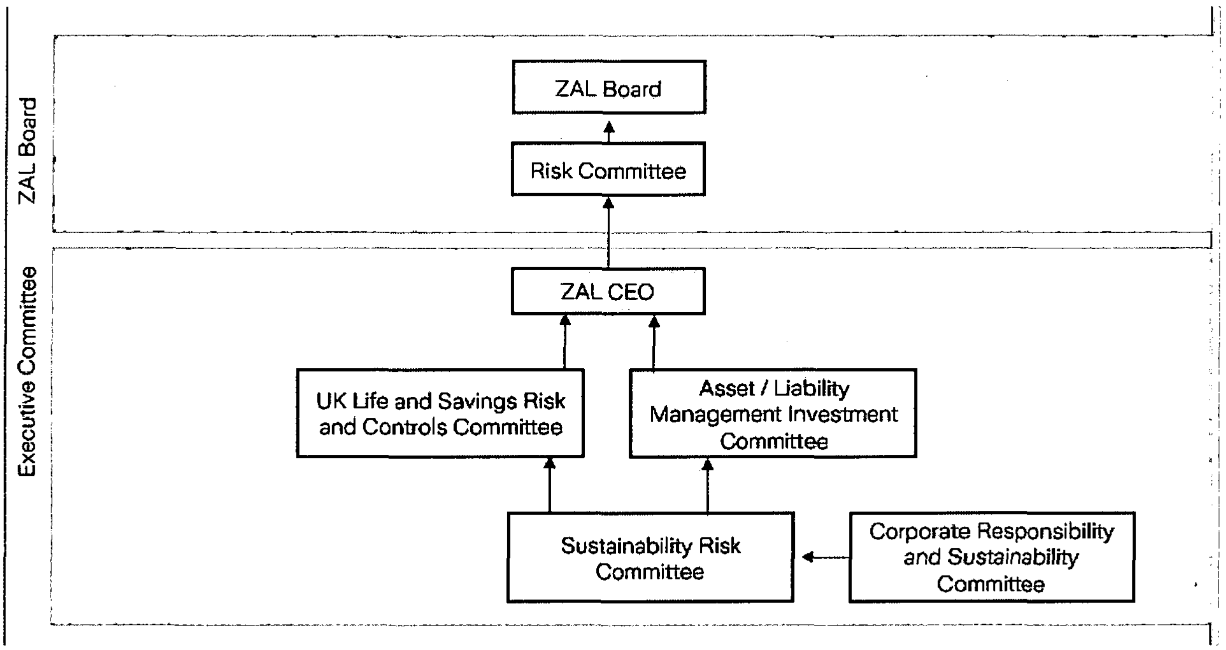
The UK Sustainability Dashboard is now the basis for the BRC to challenge the effectiveness of sustainability activities to meet our targets and for the BRC to consider the level of ambition in the UK.

The CR&SC was reformatted in 2022 with a new Terms of Reference. The CR&SC is a first line committee that supports the UK CSO with their responsibilities in relation to the Company's UK sustainability strategy. The committee assists the UK CSO in enabling the ZAL Board to provide oversight on sustainability matters and provides advice and counsel to the UK CSO to enable the them to make decisions within their responsibility for the UK Sustainability strategy. The committee is an advisory management committee with no decision-making authority, comprised of members of the various functions of the Business and market facing units.

The following diagram shows the governance framework for managing and overseeing climate risks within the UK. Within this governance framework, clear escalation routes exist to ensure the effective oversight of sustainability risks.

**Governance (continued)**

Risk governance (continued)




### Statement of Directors' Responsibilities

The following statement sets out the responsibilities of the directors in relation to the financial statements of the Company. The report of the auditors, shown on pages 26 to 37, sets out their responsibilities in relation to the financial statements.

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

Accountability

The Board and individual directors have a clear understanding of their responsibilities under statute, regulation, and internal governance. The Board derives its collective authority by direct delegation from its shareholder. The collective responsibility of the Board is to ensure the Company's prosperity by collectively directing the Company's affairs while meeting the appropriate interests of its shareholder and relevant stakeholders. The Board's principal aim is to ensure the fair treatment of the Company's customers while enhancing the Company's long-term value to its shareholder through the sustainable and compliant delivery of financial performance targets and the fair treatment of its customers, within a framework of prudent and effective controls.

The Company has been subject to the Senior Managers & Certification Regime since December 2018 and the Board has approved its Management Responsibility Map which sets out the responsibilities of the Board as a whole and contains Statements of Responsibilities for all individuals with Senior Manager Function responsibility for the Company. As a Solvency II firm, the Company maintains a Solvency II policy inventory which includes policies for, but not limited to; Risk Management; Capital Management; Internal Controls; Outsourcing and Business Continuity.

The Board of Directors acknowledges its responsibility for complying in all material respects in accordance with the rules issued by the PRA and the Solvency II regulations. The Board is satisfied:

**Statement of Directors' Responsibilities (continued)**

Accountability (continued)

a. *Throughout the 2022 financial year, the Company complied in all material respects with the applicable requirements of the PRA Rules and the Solvency II regulations; and*
b. It is reasonable to believe the Company has continued to comply subsequently and that it will continue to comply in future.

Integrity of information

Board and Committee papers are circulated in good time and are reviewed by Executive members prior to circulation to ensure that information is accurate, clear, and comprehensive. All papers specify the purpose of the paper and contain clear and concise executive summaries for further effectiveness and to enhance Board decision-making.

Directors' remuneration committee objectives

The Company has a Nomination & Remuneration Committee and as part of its remit will consider proposed remuneration packages for new senior manager appointments. The Committee's primary objective is to set remuneration at a level that is consistent with, and promotes, sound and effective risk management and does not encourage risk taking that exceeds the ZIG group's risk appetite. At least on an annual basis, the remuneration of senior managers with responsibility for the Company is reviewed.

The Committee maintains oversight of adherence to the Zurich Remuneration Rules and oversight of adherence to the guidelines in Supervisory Statement 10/16 "Solvency II: Remuneration Requirements". The Company has adopted its own Remuneration Policy Addendum which is considered and approved on an annual basis. The UK Head of HR is a standing invitee to Nomination & Remuneration Committee meetings and presents separate reports, containing performance and remuneration data, during the year which will confirm alignment with the appropriate ZIG group policy.

Company law

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 applicable law and United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard ("FRS") 101. 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 year. 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 Directors' Responsibilities (continued)

Company law (continued)

So far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware.

The directors have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The directors consider that they have pursued the actions necessary to meet their responsibilities as set out in this statement.

On behalf of the Board

Secretary:..........................

Name: HICOA ANAW

For and on behalf of Zurich Corporate Secretary (UK) Limited

### Opinion

We have audited the financial statements of Zurich Assurance Limited (the 'Company') for the year ended 31 December 2022 which comprise the Balance Sheet, the Profit and Loss Account, the Statement of Comprehensive Income, the Statement of Changes in Equity, and the related notes 1 to 31 (except for note 22 which is marked as unaudited) including summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

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

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

### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining a copy of the financial position report prepared by management which assesses the liquidity, future cashflows and solvency position for a period of 12 months to 31 March 2024;
- Corroborating the information in the assessment where relevant to support our conclusion;
- Critically reviewing the assumptions used in the assessment and challenging whether the downside scenarios used by management were appropriate;
- Performing our own sensitivity analysis over management's cashflow and solvency forecasts;
- Assessing the agreement with Zurich Insurance Group for the provision of additional funding were the solvency level to fall below a set threshold;
- Performing enquiries of management and those charged with governance to identify risks or events that may impact the Company's ability to continue as a going concern. We also reviewed management's assessment approved by the Board, minutes of meetings of the Board and its committees, review of correspondence with regulators and made enquiries as to the impacts of the Russia -Ukraine war and volatility of the macro-economic environment, including inflation, on the business; and

### Conclusions relating to going concern (continued)

- Assessing the appropriateness of the going concern disclosures by comparing the disclosures with management's assessment and for compliance with the relevant reporting requirements.

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 12 months to 31 March 2024, being at least twelve months from the date when the financial statements are authorised for issue.

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

### Overview of our audit approach

| | |
|---|---|
| Key audit matters | • Valuation of the long term business provision, comprising the following risk areas:<br>o Actuarial Assumptions;<br>o Actuarial Modelling; and<br>o Actuarial Data.<br>• Valuation of complex and illiquid financial instruments (including infrastructure debt) |
| Materiality | • Overall materiality of £9.4m which represents 2% of net assets. |

### An overview of the scope of our audit

The financial statements of the Company include a UK regulated life insurance company and 3 non-UK operations.

#### *Tailoring the scope*

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, the potential change of climate change and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by audit engagement team

In assessing the risk of material misstatement, we identified four reporting components of the Company. Of the four components, we performed an audit of the complete financial information of two components ("full scope components") which were selected based on their size or risk characteristics. The full scope components are the UK regulated life insurance company and the Hong Kong branch. In respect of the remaining two components, we performed audit procedures on specific accounts that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

For the current year, the full scope components contributed 97% of the net assets at the Company level.

### Involvement with component teams

In establishing our overall approach to the Company audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction.

Of the two full scope components, audit procedures were performed on one of these directly by the primary audit team, EY UK, whilst audit procedures on the other full scope component, the Hong Kong branch were performed by the component audit team, EY Hong Kong. We determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Company as a whole. We provided detailed audit instructions to EY Hong Kong which included guidance on areas of focus, including the relevant risks of material misstatement, and set out the information required to be reported to us. We held discussions with the component team throughout the audit and reviewed their key working papers. This, together with the additional procedures performed at Company level, gave us appropriate evidence for our opinion on the Company financial statements.

### Climate change

Stakeholders are increasingly interested in how climate change will impact companies. The Company has explained the most significant risks from climate change on its operations in the Business Review section on page 5 of the strategic report. This forms part of the "Other information" rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the Company's business and any consequential material impact on its financial statements

As explained in the basis of preparation note on page 44 management have assessed climate change risks as having a limited effect on accounting judgments and estimates for the current period. The basis of preparation note sets out the company's consideration of the impact of climate change across a number of areas, predominantly in respect of the valuation of financial instruments, and insurance and investment contract liabilities.

These disclosure also explain where governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK GAAP.

Our audit effort in considering climate change was focused on challenging management's risk assessment of the impact of climate risk, physical and transition, their climate commitments and the effects of material climate risk disclosed on page 18 and the significant judgements and estimates as disclosed in the basis of preparation note and whether these have been appropriately reflected in the valuation of asset and liabilities, and their resulting conclusion that there was limited effect from climate change on balances in the financial statements and the adequacy of the Company's disclosures in the basis of preparation note to explain their rationale.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

**Valuation of the Long-term Business Provision (£4,040 million; 2021: £5,545 million)**

*Refer to Critical accounting estimates (page 48); Accounting policies (page 44) and note 21 (page 79) to the financial statements*

We considered the valuation of the long-term business provision to be a significant risk for the Company. Specifically, we considered the actuarial assumptions and modelling that are applied, as these involve complex and significant judgments about future events, both internal and external to the business, for which small changes can result in a material impact to the resultant valuation. Additionally, the valuation process is reliant upon the accuracy and completeness of the data.

We have split the risks relating to the valuation of the long-term business provision into the following component parts:

- Actuarial Assumptions;
- Actuarial Modelling; and
- Actuarial data.

The specific audit procedures performed to address the significant risk are set out below. In addition, we assessed management's analysis of movements in the long-term business provision.

| Risk Area | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Actuarial Assumptions**<br><br>Economic assumptions are set by management taking into account market conditions as at the valuation date and generally require a relatively lower degree of judgement. In contrast, non-economic assumptions are set based on past experience as well as future expectations.<br><br>Expert judgement is required to assess if the assumptions derived from experience data are reflective of the future. Such an assessment is highly subjective.<br><br>The non-economic assumptions that we consider to have the most | With support from our actuarial team, we have:<br><br>- Obtained an understanding, and tested the design of key controls over management's process for setting and updating key actuarial assumptions;<br>- Challenged and assessed whether the methodology and assumptions applied are appropriate based on our knowledge of the industry standards and regulatory and financial reporting requirements;<br>- Understood the process by which management | We determined that the actuarial assumptions used by management are reasonable based on the analysis of the experience to date (including specific consideration of the impact of COVID-19), industry practice and the financial and regulatory requirements. |

**Key audit matters (continued)**

| Risk Area | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| significant impact on the valuation of long-term business provisions are Persistency, Mortality, Longevity, Morbidity, and per policy expense loadings.<br><br>The risk to Actuarial Assumptions has increased in the current year given the current high inflationary environment, so have also given special consideration to the inflation assumption. | performed the experience analysis and undertook procedures to test the robustness of the analysis and consequent reliability as a basis for setting assumptions;<br>- Challenged and assessed management's decisions on the inclusion or exclusion of data relating to COVID-19 when setting individual assumptions, including longevity, mortality, morbidity and persistency;<br>- Challenged and assessed ZAL's inflation methodology in light of recent changes in market rates of inflation;<br>- Benchmarked the significant assumptions against those of other comparable industry participants; and<br>- Performed procedures to test that the assumptions used in the year end valuation are consistent with the approved assumptions,<br>- Reviewed the Analysis of Change in long-term business provision to ensure impacts of assumptions are in line with our expectation;<br>- For experience data used in the assumption setting process, we obtained an understanding of the process to ensure the accurate and complete experience data is being input into the assumption setting process and assessed the design adequacy of the relevant controls; and<br>- For experience data, we selected a sample of significant data inputs to the assumption setting process and traced | |

**Key audit matters (continued)**

| Risk Area | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| | these back to source systems to assess completeness and accuracy of the data, and assessed the reasonableness of the period over which the data is sourced. | |
| **Actuarial Modelling**<br><br>We consider the integrity and appropriateness of models to be critical to the valuation of long-term business provisions.<br><br>Over £3.0 billion of the £3.9 billion (gross of reinsurance) of long-term business provisions are modelled using the core actuarial modelling system.<br><br>The risk to Actuarial Modelling has decreased in the current year as there has been limited model change in the current year. | We have assessed the governance process around model change and approval and have tested the design effectiveness of management's key model change controls.<br><br>For liabilities modelled in the core actuarial modelling system:<br><br>- In the previous year, for those portfolios which we determined to have higher model risk, we baselined the models using our own independent models;<br>- In the current year, applying the knowledge obtained and using our own independent, models developed in the previous year, we performed substantive testing on each material line item of change in the Analysis of Change ('AoC') of the long-term business provision;<br>- We determined that any unexplained movement were sufficiently small to not materially impact the value of the long-term business provision;<br>- Using our own independent challenger models and actual policyholder data we created our own expectation of movements in the long-term business provision;<br>- We have then corroborated any differences between our expected value and ZAL's | We determined that the models used are appropriate and that changes to the models are appropriate. |

**Key audit matters (continued)**

| Risk Area | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| | result to within an acceptable tolerance. | |
| **Actuarial Data**<br><br>The data held on policy administration systems ('the policyholder data') is a key input into the valuation process.<br><br>The valuation of long-term business provisions is therefore reliant upon the accuracy and completeness of the policyholder data used.<br><br>There is a risk that the policyholder data is inappropriately removed / amended or otherwise manipulated prior to inclusion in the models to determine the valuation of the long-term business provision.<br><br>There has been no change to our risk assessment of. this risk from the prior year. | To obtain sufficient audit evidence to assess the integrity of policyholder data we performed the following procedures:<br><br>- We obtained an understanding of the policyholder data flow from the policy administration systems (PAS) to the primary actuarial valuation system and assessed the design; adequacy of relevant controls;<br>- We substantively tested a sample of policyholder data removed at different data transformation stages to ensure it was appropriate to do so;<br>- For policyholder data, we identified and tested those data attributes that, if an error occurred, would result in a potentially material effect on the actuarial liabilities;<br>- We agreed these key data attributes in a sample of policies from the model point files back to the source system;<br>- We tested a sample of transactions from the source system and associated policy documentation back to the model point files used in the calculation of actuarial liabilities;<br>- We also utilized a data analytics tool to identify potential policyholder data anomalies and outliers, and to compare trends in the | We determined based on our audit work that the data used for the actuarial model inputs is materially complete and accurate. |

**Key audit matters (continued)**

| Risk Area | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| | movement of policyholder data; | |

**Valuation of non-unit linked level 3 investments (£138 million; 2020: £110 million)**

*Refer to Critical accounting estimates (page 48); Accounting policies (page 44) and note 14 (page 67) to the financial statements*

| Risk Area | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| Level 3 instruments are, by definition, not traded on a liquid market with a readily observable independent market prices and instead are valued using models and other approaches which are subject to judgement. As such the risk is that inappropriate judgements as to the inputs (including future cash flow estimates and applied discount rates) and method of valuation are made, giving rise to inaccurate valuations. This risk is significant given the material nature of the underlying balance. Valuations are performed via Mark to Model (MTM) approach for infrastructure debt, asset manager price for mortgage based securities and Net asset value approach for investment in unlisted fund. The level 3 investments consists of Private Infrastructure Debt amounting to £83 million (2021: £98 million), mortgage based securities of £19 million (2021: £20 million) and investment in unlisted funds amounting to £35million (2021: £20 million). | We have performed following procedures on the complex and illiquid assets, including walkthroughs, test of design effectiveness of controls and substantive testing on relevant assertions :<br>- **Infrastructure Debt:** We evaluated the methodology, inputs and assumptions used for a sample of MTM infrastructure debt, by comparing key inputs and parameters to published market benchmarks to confirm that key valuation inputs were consistent with industry norms and our understanding of the asset type;<br>- Engaged our internal specialist to independently recalculate a sample of infrastructure debt modelled valuations to assess their reasonableness;<br>- We also assessed the credit rating of the counterparties to assess the credit worthiness and impact on valuation.<br>- **Investment in Unlisted Funds**: We obtained net asset valuation (NAV) | Based on our procedures performed on these illiquid and complex financial investments, including modelled infrastructure debt securities, we are satisfied that the valuation of these assets is reasonable. |

**Key audit matters (continued)**

| Risk Area | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| There has been no change to our risk assessment of this risk from the prior year. | statements provided by third party custodian/ administrator in respect of fund structures and compared them with management's valuations. We have performed procedures to ensure NAV continues to be an appropriate proxy of fair value; and<br>- **Mortgaged Backed Securities:** We assessed the fair value of mortgage-based securities versus independent pricing source (i.e. Bloomberg). | |

**Our application of materiality**

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

**Materiality**

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Company to be £9.8 million (2021: £10.1 million), which is 2% of the closing net assets. We believe that the use of net assets as the basis for assessing materiality is most appropriate given that it represents the residual interest that can be ascribed to shareholders after policyholder assets and corresponding liabilities have been accounted for. We also note that net assets correlates with key Company performance metrics such as Solvency II capital requirements and Own Funds.

During the course of our audit, we reassessed initial materiality of £9.8 million and updated it to £9.4 million due to decrease in the Company's net assets between the interim and year end.

**Performance materiality**

*The application of materiality is at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% of our planning materiality, namely £7.1m (2021: £5.05 m). We have increased percentage of performance materiality to 75% (2021: 50%) because of outcome of first year audit and our experience indicates that there is lower risk of misstatements both corrected and uncorrected.

### Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £471,000 (2021: £504,000), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### Other information

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

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

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

We have nothing to report in this regard.

### Opinions on other matters prescribed by the Companies Act 2006

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

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

### Matters on which we are required to report by exception

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

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

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

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibilities for the audit of the financial statements (continued)**

- o Testing the appropriateness of journal entries recorded in the general ledger, with a focus on manual journals and evaluating the business rationale for those journals posted outside the normal course of business.

- We designed our audit procedures to identify non-compliance with both direct and other laws and regulations. Our procedures involved: making enquiries of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, enquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, enquiring about the Company's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and PRA.

- The Company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

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

**Other matters we are required to address**

- Following the recommendation from the audit committee we were appointed by the Company on 4 October 2021 to audit the financial statements for the year ending 31 December 2021 and subsequent financial periods.

  The period of total uninterrupted engagement including previous renewals and reappointments is 2 years, covering the years ending 31 December 2021 to 31 December 2022.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

- The audit opinion is consistent with the additional report to the audit committee.

**Use of our report**

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

Jonathan Bell (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
31 March 2023

### Responsibilities of directors (continued)

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

### Auditor's responsibilities for the audit of the financial statements

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

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

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

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the direct laws and regulations related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

- We understood how the Company is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and UK regulatory bodies; reviewed minutes of the Board and its Committees; and gained an understanding of the Company's approach to governance, demonstrated by the Board's approval of the Company's governance framework and the Board's review of the Company's risk management framework and internal control processes.

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. Where fraud risk, including the risk of management override, was considered to be higher, we performed audit procedures to address each identified risk. These procedures included:

    - Reviewing estimates for evidence of management bias. The fraud risk, including management override, was considered to be higher within the valuation of long-term business provisions, specifically on actuarial assumptions as these involve significant judgments. Supported by our actuarial team, we assessed if there were any indicators of management bias in the valuation of these provisions.

# Zurich Assurance Ltd
## Profit and Loss Account

**For the year ended 31 December 2022**

| **Technical account - Long-term business** | *Notes* | **2022** | 2021 |
|---|---|---|---|
| | | **£ m** | £ m |
| **Earned premiums, net of reinsurance** | | | |
| Gross premiums written | *1* | **1,062** | 1,025 |
| Outward reinsurance premiums | | **(637)** | (587) |
| | | **425** | 438 |
| **Investment income** | *2* | **926** | 2,744 |
| **Unrealised gains on investment** | *2* | **-** | 134 |
| **Other technical income, net of reinsurance** | *3* | **78** | 63 |
| **Claims incurred, net of reinsurance** | | | |
| Claims paid | | | |
| - gross amount | | **(1,788)** | (1,916) |
| - reinsurers' share | | **494** | 487 |
| | | **(1,294)** | (1,429) |
| Change in provisions for claims - gross amount | | **21** | 35 |
| | | **(1,273)** | (1,394) |
| **Change in other technical provisions, net of reinsurance** | | | |
| Long-term business provision, net of reinsurance | | | |
| - gross amount | *21* | **1,557** | 14 |
| - reinsurers' share | *21* | **(840)** | 120 |
| | | **717** | 134 |
| Other technical provisions, net of reinsurance | | | |
| Technical provisions for linked liabilities | | | |
| - insurance contracts | *21* | **1,947** | 40 |
| - investment contracts | *21* | **900** | (1,763) |
| | | **2,847** | (1,723) |
| | | **3,564** | (1,589) |
| **Net operating expenses** | *5* | **(271)** | (271) |
| **Investment expenses and charges** | *2* | **(43)** | (40) |
| **Unrealised losses on investment** | *2* | **(3,793)** | - |
| **Tax credit/ (charge) attributable to the long-term business** | *9* | **278** | (96) |
| **Transfers from the fund for future appropriations** | *20* | **4** | 5 |
| | | **(3,825)** | (402) |
| **Balance on the technical account – long-term business** | | **(105)** | (6) |

All amounts above are in respect of continuing operations.

# Zurich Assurance Ltd
## Profit and Loss Account (continued)

**For the year ended 31 December 2022**

**Non-technical account**

| | Notes | 2022 | 2021 |
|---|---|---|---|
| | | **£ m** | £ m |
| **Balance on the long-term business technical account** | | **(105)** | (6) |
| **Tax charge attributable to balance on long-term business technical account** | *9* | **(28)** | (2) |
| **Shareholder's pre-tax loss from long-term business** | | **(133)** | (8) |
| Depreciation and amortisation | *12* | **(2)** | (3) |
| Impairment of Right of Use Assets | *12* | **(2)** | - |
| Other income | *3* | **-** | 4 |
| Other charges | *3* | **(2)** | (1) |
| **Loss on ordinary activities before taxation** | | **(139)** | (8) |
| **Tax on Loss on ordinary activities** | | | |
| Tax credit/(charge) | 9 | **279** | (96) |
| Tax attributable to the long-term business | 9 | **(278)** | 96 |
| Tax credit attributable to balance on long-term business technical account | 9 | **28** | 2 |
| **Loss for the financial year** | | **(110)** | (6) |

All amounts above are in respect of continuing operations.

# Zurich Assurance Ltd
## Statement of Comprehensive Income

**For the year ended 31 December 2022**

| | *Notes* | **2022** | 2021 |
|---|---|---|---|
| | | **£ m** | £ m |
| Loss for the financial year | | **(110)** | (6) |
| Items that will not be reclassified to profit and loss: | | | |
| Revaluation of subsidiaries | *11* | **(2)** | - |
| Total comprehensive expense for the year | | **(112)** | (6) |

All amounts above are in respect of continuing operations.

# Zurich Assurance Ltd

## Balance Sheet

**At 31 December 2022**

| | Notes | 2022 | 2021 |
|---|---|---|---|
| **Assets** | | **£ m** | £ m |
| **Investments** | | | |
| Land and buildings | *10* | **3** | 4 |
| Investments in group undertakings | *11* | **29** | 31 |
| Right of Use Assets | *12* | **24** | 7 |
| Finance Lease Receivables | | **1** | 1 |
| Financial investments | *13,14* | **3,047** | 4,179 |
| | | **3,104** | 4,222 |
| **Assets held to cover linked liabilities** | *15* | **20,219** | 24,331 |
| **Reinsurers' share of technical provisions** | | | |
| Long-term business provision | *21* | **1,605** | 2,445 |
| Technical provision for linked liabilities | *21* | **14** | 17 |
| | | **1,619** | 2,462 |
| **Debtors** | | | |
| Debtors arising out of direct insurance operations | | | |
| - policyholders | *16* | **146** | 119 |
| - intermediaries | *16* | **8** | 8 |
| Debtors arising out of reinsurance operations | *16* | **33** | 27 |
| Other debtors | *16* | **147** | 76 |
| | | **334** | 230 |
| **Other assets** | | | |
| Tangible assets | *17* | **19** | 27 |
| Cash at bank and in hand | | **141** | 152 |
| | | **160** | 179 |
| **Prepayments and accrued income** | | | |
| Accrued interest and rent | *18* | **30** | 29 |
| Deferred acquisition costs | *18* | **228** | 224 |
| Other prepayments and accrued income | *18* | **5** | 1 |
| | | **263** | 254 |
| **Total Assets** | | **25,699** | 31,678 |

# Zurich Assurance Ltd

## Balance Sheet (continued)

| At 31 December 2022 | Notes | 2022 | 2021 |
|---|---|---|---|
| **Liabilities** | | **£ m** | £ m |
| **Capital and reserves** | | | |
| Called up share capital | 19 | **356** | 306 |
| Revaluation reserve | | **29** | 31 |
| Capital reserve | | **75** | 75 |
| Profit and loss account | | **13** | 123 |
| **Shareholder's funds – equity interests** | | **473** | 535 |
| **Fund for future appropriations** | 20 | **33** | 37 |
| **Technical provisions** | | | |
| Long-term business provision | 21 | **3,988** | 5,545 |
| Claims outstanding | | **330** | 309 |
| | | **4,318** | 5,854 |
| **Technical provisions for linked liabilities** | 21 | **20,459** | 24,615 |
| **Provisions for other risks** | | | |
| Deferred tax | 23 | **-** | 216 |
| Other provisions | 24 | **7** | 8 |
| | | **7** | 224 |
| **Unit-Linked Lease Liabilities** | 25 | **76** | 77 |
| **Lease Liabilities** | | **27** | 10 |
| **Creditors** | | | |
| Creditors arising out of direct insurance operations | 26 | **171** | 151 |
| Creditors arising out of reinsurance operations | 26 | **23** | 29 |
| Amounts owed to credit institutions | 27 | **-** | 27 |
| Other creditors including taxation and social security | 26 | **79** | 69 |
| | | **273** | 276 |
| **Accruals and deferred income** | 28 | **33** | 50 |
| **Total Liabilities and Equity** | | **25,699** | 31,678 |

The financial statements on pages 38 to 97 were approved by the Board on 31 March 2023 and were signed on its behalf by:

**A Koslowski**
**Chief Executive Officer**

# Zurich Assurance Ltd

## Statement of Changes in Equity

| For the year ended 31 December 2022 | Called up share capital | Revaluation Reserve | Capital Reserve | Profit and Loss Account | Shareholder's funds - equity interests |
|---|---|---|---|---|---|
| | £ m | £ m | £ m | £ m | £ m |
| Opening balance at 1 January 2021 | 306 | 31 | 75 | 229 | **641** |
| Loss for the financial year | - | - | - | (6) | **(6)** |
| Total comprehensive expense | - | - | - | (6) | **(6)** |
| Dividend paid on ordinary shares | - | - | - | (100) | **(100)** |
| Balance at 31 December 2021 | 306 | 31 | 75 | 123 | **535** |
| Loss for the financial year | - | - | - | (110) | **(110)** |
| Revaluation of subsidiaries | - | (2) | - | - | **(2)** |
| Total comprehensive expense | - | (2) | - | (110) | **(112)** |
| Issue of new share capital | 50 | - | - | - | **50** |
| **Balance at 31 December 2022** | **356** | **29** | **75** | **13** | **473** |

**Revaluation reserve**
This reserve represents the revaluation of the Company's investments in group undertakings.

**Capital reserve**
This reserve represents capital contributions received from the Company's immediate parent company, Eagle Star Holdings Limited, with no obligation to repay.

### Basis of presentation

These financial statements are prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"), under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance companies.

International Financial Reporting Standards ("IFRS") 17 is not compatible with Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. An amendment to FRS 101 has been made whereby insurance companies will no longer be permitted to apply FRS 101 from the effective date of IFRS 17. Following the adoption of IFRS 17 and as approved by the Audit Committee on 31 March 2022 the Company will make the transition to UK endorsed IFRS ("IFRS") from 1 January 2023. This will result in additional disclosures, notably, the publication of a cashflow statement as required by IAS 7: Statement of Cash Flows and the IAS 24: Related Party Disclosures requirement to disclose key management personnel compensation.

The financial statements have been prepared under the historical cost convention, with the exception of land and buildings, investment in group undertakings, financial investments and assets held to cover linked liabilities which have been measured at fair value.

In the preparation of these financial statements, the Company has considered the impact of climate change across a number of areas, predominantly in respect of the valuation of financial instruments and insurance and investment contracts.

The majority of the Company's financial assets are held at fair value and use quoted market prices or observable market inputs in their valuation, thereby considering the climate risk priced in by the market. Further details on the climate risk impact is included in the Accounting Policy Information relating to Investments and Technical provisions.

Many of the effects arising from climate change will be longer term in nature, with an inherent level of uncertainty. These longer term impacts have been assessed as having a limited effect on accounting judgments and estimates in the current period.

The Company recognise that government and societal responses to climate change risks are still developing and the future impact cannot be predicted.

After making reasonable enquiries, the directors are satisfied that the Company can continue to use the going concern basis in preparing the financial statements. In making this assessment the directors have considered the projected cash flows, profit and loss and solvency projections of the Company, along with relevant economic and external factors, credit ratings and liquidity considerations, which show that the Company has sufficient resources to meet its liabilities as they fall due. In addition, the Company has measures in place to regularly monitor the solvency position and an agreement in place to receive financial support from ZIG group should this be required. The directors have also performed sensitivity analyses (including a climate change scenario) based on the key risks of the Company, none of these sensitivities indicated that the Company would have insufficient resources to meet its liabilities as they fall due for the foreseeable future.

The Company has taken advantage of the exemptions contained within section 401 of the Companies Act and has not produced consolidated financial statements for the year ended 31 December 2022, since it is a wholly-owned subsidiary undertaking of a parent company that is established under the law of a non-UK state, which prepares consolidated financial statements in which the Company and its subsidiaries are included.

The principal accounting policies have been set out below. These accounting policies have been consistently applied to both years presented, unless otherwise stated below.

***New accounting standards and amendments to published accounting standards***

There are no amendments to accounting standards, or International Financial Reporting Interpretations Committee interpretations that are effective for the year ended 31 December 2022 that have a material impact on the Company's financial statements.

***Standards, amendments and interpretations issued that are not yet effective or adopted***

IFRS 17 Insurance contracts (effective 1 January 2023) provides comprehensive guidance on accounting for insurance contracts and investment contracts with discretionary participation features, and will have an impact on accounting for insurance contracts and the presentation of insurance revenue and an insurance service result.

IFRS 17 introduces different measurement approaches for the insurance contract liabilities. For non-participating or indirect participating products the Company will apply a building block approach ("BBA") and for direct participating products, including unit-linked products, the Company will apply a variable fee approach ("VFA"). A simplification available for short term business, known as the Premium Allocation Approach ("PAA"), has not been applied as all business undertaken by the Company is deemed to be long term.

For BBA and VFA contracts, IFRS 17 requires the Company to recognise the release of profits over time through the calculation of a Risk Adjustment ("RA"), a Contractual Service Margin ("CSM") and/or Loss Component ("LC"). The RA is an allowance for the cost of uncertainty arising from non-financial risk. The CSM represents as yet unrecognised (future) expected profits from In Force contracts. The LC represents all expected future losses on In Force contracts. All three of these elements are calculated for distinguishable groups of contracts. The balance sheet insurance liabilities will be composed of the present value of future cash flows ("PVFCF"), RA and any CSM.

IFRS 17 affects the presentation of revenue from insurance contracts, which no longer includes gross written premium or investment components. The insurance revenue and insurance service expenses will be presented gross of reinsurance, with the reinsurance result included separately in the insurance service result. Reinsurance held will be accounted for under the BBA. The insurance liabilities are subject to discounting with the unwind of the discount on insurance liabilities forming part of the insurance finance income or expenses, which will be presented separately to the insurance service result.

The Company will apply bottom-up discount rates for all life insurance contracts, which are constructed using risk-free rates. Risk-free rates are based on overnight index swap rates in the relevant currency, either GBP for the Company's UK denominated liabilities or USD for the liabilities of the Hong Kong branch. Whenever the duration of the insurance liabilities exceeds the liquid part of the yield curve in the respective currency (the last liquid point), the risk-free interest rate is extrapolated to converge towards a long-term rate (the ultimate forward rate) using widely accepted extrapolation techniques (Smith-Wilson algorithm). For UK non-linked business an illiquidity premium is also applied. The illiquidity premium is determined by reference to observable market spreads for illiquid instruments (e.g. corporate debt) adequately corrected to remove credit risk.

The Company will calculate how much CSM to recognise at the end of the reporting period based on the coverage units. The coverage units provide a measurement of the service provided to the contracts in that group - the recognition varies over time due to the size of the benefits and term of the policies (and actuarial expectations of these). The Company has determined that the benefits in-force are considered as the main driver for determining coverage units for insurance service.

IFRS 17 applies retrospectively and the Company has determined the transition approaches to be applied depending on availability of reasonable and supportable historic information. Business written prior to 2016 will apply the Fair Value approach, and business written in 2016 and later will apply the Fully Retrospective Approach. The transition approach affects the measurement of the CSM on initial adoption of IFRS 17:

- Fully Retrospective Approach - the CSM is based on initial assumptions when groups of contracts were incepted and rolled forward to the date of transition as if IFRS 17 had always been applied.
- Fair Value Approach – is a forward-looking approach for deriving balances at the transition date by comparing the price required to transfer a liability (or sell an asset) between market participants with the IFRS17 liabilities. The market assessment includes the compensation / profit margin a market participant would demand for taking on the liability. The Company has calibrated the Fair Value for unit linked bonds and pensions to an appropriate market transaction.

***Standards, amendments and interpretations issued that are not yet effective or adopted (continued)***

Preliminary effects of the transition to IFRS 17 as at 1 January 2023
As part of the 2023 reports and accounts, the Company will report 2022 comparatives, restated to comply with IFRS 17. This will include the restated Income Statement for the period ended 31 December 2022 and Balance Sheet at 31 December 2022.

At transition date, 1 January 2023, the Company classified, recognised and measured its In Force business according to the selected transition approaches. The Company derecognised previously reported technical provisions, that do not exist under IFRS 17 and recognised any resulting net difference in equity.

The Company also reclassified all rights and obligations arising from portfolios of insurance contracts, such as;

- insurance contract liabilities and investment contracts with discretionary participation features liabilities;
- insurance-related receivables or payables and;
- insurance acquisition cash flows, to be presented as insurance contract assets/liabilities. Portfolios of insurance contracts issued are presented separately from portfolios of reinsurance contracts held.

The new reporting rules will not affect the Company's business activities, model or strategy. The adoption of the new standards is expected to have the following financial impacts for the Company:

- Economic earnings from contracts are unaffected by IFRS 17. IFRS 17 impacts the timing of the recognition of accounting profits. Profit signatures for long-term contracts will reflect a different treatment of economic and operating variances.
- Net Asset Value is expected to be lower on transition to IFRS 17, mainly due to the recognition of future profits (CSM) and risk adjustment which increase insurance liabilities.
- A clearer visibility of the contribution from new business written during the period to future profits, and of the profit emergence from long term portfolios.

Accounting standard exemption in relation to IFRS 9 Financial Instruments
IFRS 9 is the International Accounting Standards Board ("IASB")'s replacement of IAS 39: Financial Instruments: Recognition and Measurement and introduces a classification and measurement concept for financial assets that is based on the contractual cash flow characteristics and the holding intent. Under IFRS 9, all equity securities and fund investments will be measured at fair value through the profit or loss. Debt instruments held in the Company's with-profits portfolios will continue to be measured at fair value through profit or loss. Other debt instruments held outside of the Company's with profits portfolios and currently accounted for as fair value through the profit and loss will be measured at fair value through other comprehensive income, where the characteristics of the contractual cash flows are solely payments of principal and interest ("SPPI") on the principal amounts outstanding, with the exception of a small number of loans that will be measured at amortised cost due to holding intent.

IFRS 9 incorporates an expected credit loss ("ECL") impairment model, new hedge accounting requirements and enhanced disclosures in the financial statements.

The Company, as an insurer, has elected to apply the temporary exemption to defer the implementation of IFRS 9 until the new insurance standard IFRS 17 becomes effective. The Company qualifies for the exemption as an insurer with activity predominately connected with insurance. The total carrying amount of liabilities connected with insurance, which includes liabilities under IFRS 4: Insurance Contracts of **£13,573m** (2021: £17,082m) and investment contract liabilities measured at fair value under IAS 39 of **£10,857m** (2021: £13,062m), for the year ended 31 December 2022 is equivalent to **95%** (2021: 95%) of total liabilities. As a result, the Company will continue to apply existing financial instruments requirements in IAS39.

As required by the amendment to IFRS 4 relating to the deferral of IFRS 9 implementation, the table below shows the fair value at the end of the year and change in fair value during the year for the two groups of financial assets:

- Financial assets with contractual terms that give rise to cash flows that are SPPI, excluding those measured at fair value through profit or loss ("FVTPL"), on the grounds that they are managed on a fair value basis; and
- All other financial assets.

***Standards, amendments and interpretations issued that are not yet effective or adopted (continued)***

Accounting standard exemption in relation to IFRS 9 Financial Instruments (continued)

| At 31 December 2022 | Financial assets with contractual cash flows that meet SPPI criteria, excluding those measured at FVTPL | | | |
|---|---|---|---|---|
| | Opening value | Net additions / (disposals) | Increase / (decrease) in fair value | **Closing value** |
| | £ m | £ m | £ m | **£ m** |
| Other loans[1] | - | - | - | **-** |
| Insurance debtors and other short term receivables | 46 | (19) | - | **27** |
| | 46 | (19) | - | **27** |

| At 31 December 2022 | All other financial assets | | | |
|---|---|---|---|---|
| | Opening fair value | Net additions / (disposals) | Increase / (decrease) in fair value | **Closing fair value** |
| | £ m | £ m | £ m | **£ m** |
| Shares and other variable yield securities and units in unit trusts | 212 | (2) | (15) | **195** |
| Debt securities and other fixed-income securities | 3,872 | 38 | (1,149) | **2,761** |
| Derivative financial instruments | (4) | 29 | (15) | **10** |
| | 4,080 | 65 | (1,179) | **2,966** |
| **Total** | **4,126** | **46** | **(1,179)** | **2,993** |

Upon adoption of IFRS 9, a forward looking ECL approach will apply to other loans and insurance debtors and other short-term receivables that are not accounted for at fair value through profit or loss, which takes account of the credit rating of such balances. All balances that meet the SPPI criteria are unrated but there is limited history of non-payment. The closing values are considered to be materially the same as fair value.

At initial recognition of a debt instrument, a loss allowance is recognized for expected credit losses resulting from default events within the next 12 months after the reporting date (12-month ECL). Such instruments are classified as Stage 1. In the event of a significant increase in credit risk ("SICR") since initial recognition, IFRS 9 requires the ECL allowance to be measured at an amount equal to lifetime expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). Such instruments are referred to as Stage 2.

The Company will apply the simplified approach for receivables from policyholders and other receivables that are allocated to Stage 2 unless individually impaired. Financial assets that have become credit-impaired are allocated to Stage 3 based on similar principles as are applied under IAS 39 to determine whether ECL has been incurred.

***Summary of FRS 101 exemptions adopted***

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

- The requirement of IAS 1 Presentation of Financial Statements to present comparative information, in accordance with FRS 101 paragraph 8(f), in respect of the reconciliation of the carrying amount at the beginning and end of the period as required by IAS 16 Property, Plant and Equipment paragraph 73(e),
- The requirements of 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 and amendments for the financial year in accordance with FRS 101 paragraph 8(i).
- The requirements of IAS 24 Related Party Disclosures paragraph 17 in accordance with FRS 101 paragraph 8(j) to disclose key management personnel compensation.
- 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) and with regard to paragraph 7(b).
- The disclosure requirements of IFRS 15 Revenue from contracts with customers, paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 in accordance with FRS 101 paragraph 8(eA) in respect of disaggregating revenue and qualitative and quantitative information on changes to contract assets and liabilities.
- The disclosure requirements of IFRS 16 Leases paragraphs 52, 58 and 94-97 in accordance with FRS 101 paragraph 8(eB) in respect of lease disclosure notes and maturity analyses.

**Critical accounting estimates**

The preparation of financial statements requires the Company to select accounting policies and make estimates and assumptions.

In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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.

**a) Investments**

Where investments are unquoted or prices are not available from reliable and reputable third party pricing providers the valuations can be subject to significant judgment, especially when the fair value is determined based on at least one significant unobservable input parameter; such items are classified within level 3 of the fair value hierarchy.

See notes 13 and 14 for further information regarding the estimate of fair value.

**Critical accounting estimates (continued)**

**b) Insurance contracts and investment contracts with discretionary participation features ("DPF")**
The technical provisions for insurance contracts and investment contracts with DPF contain a number of assumptions regarding mortality or longevity, lapses, surrenders, expenses, discount rates and investment returns. These assumptions can vary by product type and are determined with reference to past experience adjusted for new trends, current market conditions and future expectations. As such the liabilities for insurance contracts and investment contracts with DPF may not represent the ultimate amounts paid out to policyholders.

Deferred policy acquisition costs are deferred only to the extent that they are recoverable from future policy income which also depends on the above assumptions. Recoverability is tested at contract inception and subsequently on a regular basis with reference to current expectations of future profits or margins.

See notes 21 and 29 for further information on the reserves and their sensitivity to assumptions.

**c) Technical and other provisions**
The Company has recognised a number of provisions for future potential costs to the business in respect of remediation and complaints. These provisions have been based on our current view of the redress we anticipate being paid on known issues and complaints.

See note 21 for further information on provisions.

**Contract classification**

Long-term business contracts issued by the Company fall into the following classes:

- Insurance contracts (long and short duration)
- Investment contracts with discretionary participation features
- Unit-linked investment contracts

Insurance contracts are contracts under which the Company accepts significant insurance risk from policyholders by agreeing to compensate them if a specified uncertain future event (the insured event) adversely affects them. Insurance contracts transfer significant insurance risk at the inception of the contract. A contract which exposes the issuer to financial risk without significant insurance risk is not an insurance contract.

Long-term business contracts that are not classified as insurance are deemed to be financial instruments and are classified as investment contracts.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. However, investment contracts are reclassified as insurance contracts after inception if insurance risk becomes significant.

Some insurance and investment contracts contain DPF. DPF are the contractual right to receive, as a supplement to guaranteed benefits, additional benefits:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Company; and
- that are contractually based on:
  - the performance of a specified pool of contracts or a specified type of contract,
  - realised and/or unrealised investment returns on a specified pool of assets held by the Company, or
  - the profit or loss of the Company, fund or other entity that issues the contract.

**Contract classification (continued)**

The Company's contracts with DPF are participating with-profits contracts.

The Company accepts and transfers longevity risk on its longevity swap transactions with pension scheme trustees, and the associated reinsurance contracts with reinsurers. Such contracts are classified as insurance contracts within the scope of IFRS 4 where significant insurance risk is transferred. The value of longevity swap arrangements are determined with reference to the present value of expected future cash flows receivable and payable from each counterparty to the swap arrangements. The premiums recognised are the risk fees charged, and the claims recognised are the fixed leg payments less the floating leg payments with each respective counterparty to the swap arrangement.

**Insurance contracts and investment contracts with DPF**

Insurance contracts and investment contracts with DPF are accounted for under IFRS 4. For non-profit contracts accounting policies consistent with those adopted previously under existing accounting practices (PRA/Solvency I) are used. For with-profits contracts the liability is calculated in accordance with the Solvency II regulatory regime with an adjustment for the policyholder's share of any excess assets.

**a) Premiums**
Premiums for long duration contracts are accounted for when due for payment. For unit-linked business the due date is taken as the date that the associated technical provisions are established.

Premiums for short duration contracts are accounted for when written. The unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the balance sheet date and are accounted for within technical provisions.

**b) Claims**
Maturities and annuities are included in the technical account when due for payment. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included in the calculation of technical provisions. Death claims are accounted for when notified.

Claims incurred include related internal and external claims handling costs.

Bonuses charged to the long-term business technical account in a given year comprise new reversionary and interim bonuses declared in respect of that year which are provided within the calculation of the long-term business provision. Interim and terminal bonuses paid out to policyholders are included within claims paid.

**c) Deferred acquisition costs**
The costs of acquiring new business, other than for with-profits business, which are incurred during the financial year, but where the benefit of such costs will be obtained in subsequent accounting periods, are deferred if not already recovered or to the extent that they are recoverable out of margins in future matching revenues. In respect of insurance contracts, acquisition costs comprise all direct and indirect costs incurred in writing new contracts.

Deferred acquisition costs are included in the balance sheet as an asset and amortised over a period which is consistent with the assessment of the expected pattern of receipt of future revenue margins for each product type.

Impairment reviews are carried out annually or more frequently if circumstances exist that indicate the likelihood of impairment. The carrying values are adjusted to recoverable amounts and any resulting impairment losses are charged to the long-term business technical account.

**Unit-linked investment contracts**

Unit-linked investment contract premiums received are treated as a financial liability, claims are treated as a reduction in a financial liability and hence premiums and claims on unit-linked investment contracts are taken directly to the balance sheet. The investment return, the related change in the value of the liabilities, policy fees and expenses relating to unit-linked investment contracts are recorded in the profit and loss account.

### Unit-linked investment contracts (continued)

**a) Policy fees**
Policy fees comprise fees and charges for administering contracts, investment management fees and an element of origination fees that relates to the current year and are included within "Other technical income, net of reinsurance".

Fees are recognised in the period in which they are charged unless they relate to services to be provided in future periods in which case they are deferred and recognised as income over the expected term of the contract as the services are provided.

**b) Investment contract liabilities**
Financial liabilities in respect of unit-linked investment contracts are carried in the balance sheet as "Technical provisions for linked liabilities" in accordance with IAS 39.

**c) Deferred acquisition costs**
The costs of acquiring new unit-linked investment contracts, including commissions and other incremental expenses directly related to the issuance of each new contract are deferred and amortised in line with the rendering of service obligations over the expected contract period. The deferred acquisition costs are tested for recoverability at each reporting date. The carrying values are adjusted to recoverable amounts and any resulting impairment losses are charged to the long-term business technical account.

### Reinsurance

Long-term business ceded to reinsurers is accounted for as insurance contracts provided that significant insurance risk is transferred.

Reinsurance premiums on long duration contracts and short duration contracts are accounted for when due for payment.

Reinsurance recoveries are accounted for in the same period as the related claim. Where the contract allows for the right of offset these are accounted for net. The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. Gains and losses on reinsurance are recognised on inception.

If a reinsurance asset is impaired, the Company reduces the carrying amount accordingly and recognises the impairment loss in the profit and loss. A reinsurance asset is impaired if there is objective evidence that, as a result of an event that occurred after initial recognition of the reinsurance asset, the Company may not receive all amounts due under the term contract, and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

The Company receives collateral in the form of non-cash assets in respect of its reinsurance arrangements. This collateral is not recognised in the balance sheet unless the counterparty to the arrangement defaults on its obligations under the relevant agreement.

### Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised investment gains and losses. It also includes investment expenses and charges and interest payable.

Interest income on debt securities and other fixed-income securities, loans secured by mortgages, other loans and deposits with credit institutions is recognised using the effective interest method.

Rental income from investment property is recognised on a straight-line basis over the lease term and included in net investment income along with rental operating expenses for investment property recognised on an accrual basis.

**Investment return (continued)**

The investment return arising in relation to investments which are directly connected with the carrying on of long-term business is recorded in the long-term business technical account. The investment return arising in relation to all other investments is dealt with in the non-technical account.

Dividends are included as investment income on the date that the shares become quoted ex-dividend. Rents and interest income and expenses are included on an accruals basis.

Realised gains and losses on investments are calculated as the difference between net sales proceeds and purchase price.

Unrealised gains and losses on investments recognised in the year represent the difference between the fair value at the balance sheet date and their purchase price or, if they have previously been fair valued, their fair value at the last balance sheet date. The movement in unrealised gains and losses recognised in the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

For a summary of investment return, please refer to note 2.

**Expenses**

Net operating expenses charged in the long-term business technical account comprise acquisition costs, change in deferred acquisition costs and administrative expenses.

Administrative expenses are charged to the profit and loss account when incurred.

Rental expenses under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

**Taxation**

The Company is liable to United Kingdom corporation tax on the basis applicable to a life assurance company and the provision for current taxation is charged in the profit and loss account. The Company is also subject to foreign taxation in respect of its overseas branch operations and overseas investments.

The balance on the long-term business technical account is computed on an after tax basis reflecting the taxation applicable to long-term business operations. In the non-technical account, the balance transferred from the long-term business technical account is grossed-up by the taxation attributable to profits from long-term business at the Company's effective rate of corporation tax.

Provision is made for deferred tax liabilities and deferred tax assets, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account. Deferred tax is calculated at the rates at which it is expected that the tax will arise.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of comprehensive income.

**Investments**

**a) Land and buildings**
Freehold and leasehold land and buildings held as investment properties are measured at fair value as permitted by IAS 40 Investment Property ("IAS 40"). Changes in fair value are recorded in the profit and loss account.

**b) Investment in subsidiary undertakings**
The Company's interests in subsidiary undertakings are measured at Fair Value through Other Comprehensive Income. Fair value has been arrived at by reference to discounted future cash flows or net asset value depending on which is most appropriate for each undertaking.

**Investments (continued)**

**c) Right of Use Assets**
The Company recognises a right of use asset and a lease liability at the lease commencement date. The asset is calculated as the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received and including any allowance for dilapidations.

Where a sub-lease has been deemed to be a finance lease receivable, the carrying amount has been derecognised from the underlying asset.

If a Right of Use Asset is determined to be impaired, the impairment is immediately recorded, therefore reducing the carrying amount of the asset. Its subsequent measurement is calculated as the carrying amount immediately after the impairment transaction, minus any subsequent accumulated amortisation.

**d) Assets held to cover linked liabilities**
Freehold land and buildings held to cover linked liabilities are all investment properties and are measured at fair value as permitted by IAS 40 and changes in fair value are recorded in the profit and loss account.

The value of financial investments held to cover linked liabilities, including debt securities and other fixed-income securities, shares (other than shares in subsidiary undertakings) and other variable yield securities, are based on quoted prices. All financial investments held to cover linked liabilities are held at fair value and categorised as FVTPL.

**e) Financial investments**
The Company classifies financial investments into the following classes specified by IAS 39:

- derivative financial instruments held for trading;
- financial assets designated at FVTPL on initial recognition;
- available-for-sale financial assets designated as such upon initial recognition; and
- loans and other receivables.

To be consistent with the Companies Act requirements of valuing investments in group undertakings at fair value, shares in group undertakings are the only assets that are categorised as available-for-sale financial assets, and loans to group undertakings are designated as available-for-sale on initial recognition.

All financial investments are classified as FVTPL unless they are classified as loans and other receivables. The classification reflects the purpose for which investments were acquired or originated.

Where the fair value category is used, this reflects the Company's strategy to manage its financial investments acquired to cover its long-term liabilities. These financial investments are managed and their performance is evaluated by the Company on a fair value basis.

All regular way purchases and sales of financial investments are recognised on the trade date i.e. the date the Company commits to purchase or sell the investments. Such purchases or sales of financial investments are those under a contract whose terms require the delivery of assets within the time frame established generally by regulation or convention in the market place concerned.

British government securities that are sold under an agreement to repurchase at a fixed price are recognised on the balance sheet and are recorded at their fair value. The obligation to repurchase is shown as a liability in amounts owed to credit institutions.

Financial assets designated at FVTPL are initially recognised at fair value, being the consideration paid for the acquisition of the investments, excluding all transaction costs. Subsequent to initial recognition, these investments are measured at fair value. Fair value adjustments are recorded in the profit and loss account.

Derivative financial instruments held for trading are recognised at fair value and fair value adjustments are recorded in the profit and loss account.

**Investments (continued)**

Fair values for investments are based on quoted prices on the balance sheet date, determined from independent sources including recognised external pricing services, broker or dealer price quotations, and prices provided by valuation agents. The use of quoted market prices and market inputs to fair value is assumed to include current information and knowledge regarding the effect of climate risk.

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investments. All transaction costs directly attributable to the acquisition are also included in the cost of the investments.

Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method. Gains and losses are recognised in the profit and loss account when the investments are sold or impaired, as well as through the amortisation process.

An impairment on loans is recognised when there is evidence to support an indication of significant financial difficulty or default. It is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred).

A financial asset is derecognised where the rights to receive cash flows from the asset have expired; the Company retains the right to receive cash flows from the asset but has assumed to pay them in full without material delay to a third party under a 'pass-through' arrangement; or the Company has transferred its rights to receive cash flows from the asset and has transferred substantially all the risks and rewards of the asset, or has transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the assets.

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

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a currently enforceable legal right to set off the recognised amounts and there is the ability and intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**Property, Plant and Equipment**

**a) Land and Asset under construction**
Land and asset under construction were recorded at initial cost as permitted by IAS 16 Property, Plant and Equipment ("IAS 16"). These assets were held at cost up until the construction was completed and subsequently sold. Following completion of the sale and leaseback the asset has been classed as a Right-of-Use Asset and accounted for under the requirements of IFRS 16: Leases.

**b) Leasehold improvements**
Leasehold improvements are included at cost. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Leasehold improvements are depreciated on a straight line basis over their estimated useful lives as follows:

- Leasehold improvements, plant and machinery, fixtures, fittings and equipment
  - over a maximum period of 5 years
- Other office furniture included in fixtures, fittings and equipment
  - over 10 years

The depreciation charge is included in administrative expenses.

**Fund for future appropriations**

The fund for future appropriations represents the amounts in the participating ring fenced funds for which the allocation to participating policyholders and the shareholder has not been determined at the balance sheet date.

Surpluses arising from the Company's participating business, as a result of the annual actuarial investigation, are subject to appropriation by the directors to the participating policyholders by way of bonuses and to the shareholder.

### Technical provisions

**a) Insurance contracts and investment contracts with DPF**

The long-term business provision for non-profit contracts, which includes the non-unit liabilities in respect of linked business, is determined in accordance with IFRS 4, with due regard given to the now withdrawn Association of British Insurers Statement of Recommended Practice, where not contradicting the requirements of IFRS 4. For non-profit contracts accounting policies consistent with those adopted previously under existing accounting practices (PRA/Solvency I) are used.

The long-term business provision for with-profits contracts is calculated as the Best Estimate Liabilities ("BEL") in accordance with the Solvency II regulatory regime, plus the policyholder's share of any excess of assets over BEL. The BEL is a stochastic valuation which includes provision for vested and future bonuses at rates consistent with the Company's Principles and Practices of Financial Management and expected future investment returns.

Both valuation methods allow for all projected future premiums and costs of administration. For short duration contracts technical provisions include unearned premiums which are those proportions of the premiums written in a year that relate to periods of risk after the balance sheet date. Additionally, technical provisions include an allowance for incurred but not reported claims and claims in payment. Claims in payment are an allowance for claims currently within the deferred period, claims past commencement awaiting decision and claims in appeal. The allowance for claims in payment is composed of the discounted values of the expected annual amounts of claims, allowing for any escalation in payment, and future administration expenses.

Technical provisions for linked liabilities are determined by reference to the value of assets held to provide linked benefits to the relevant policyholders.

Technical provisions are accrued based on past insurable events so will not be impacted by any future impact of climate change.

**b) Unit-linked investment contracts**

Unit-linked investment contract liabilities are initially recognised at FVTPL. The fair value excludes any transaction costs directly attributable to the issue of the contract. After initial recognition they are carried at a value determined by reference to the fair value of assets held to provide linked benefits to the relevant policyholders. This value represents an amount equivalent to the fair value of the contract liability.

### Outstanding claims

Outstanding claims are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date.

### Foreign currencies

The functional currency of the Company is pounds Sterling. Monetary assets and liabilities denominated in foreign currencies are re-measured into Sterling at rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the actual rate of exchange prevailing on the date of the transaction.

Items in the profit and loss account arising from foreign currency operations (including branch operations) are re-measured using the average rate of exchange for the period. Exchange differences are taken to the technical account and non-technical account as appropriate and form part of the fair value of the underlying asset as part of the valuation process.

### Lease liabilities

Lease liabilities are calculated by discounting the minimum lease payments at the Company's incremental borrowing rate as of the initial IFRS 16: Leases application date or the lease commencement date.

### 1 Particulars of business

| Gross premiums written: | 2022 | 2021 |
|---|---|---|
| | **£m** | £m |
| Participating contracts | **5** | 5 |
| Non-participating contracts | **925** | 875 |
| Linked contracts | **132** | 145 |
| **Total gross premiums written** | **1,062** | 1,025 |
| **Comprising:** | | |
| Individual contracts | **741** | 720 |
| Group contracts | **321** | 305 |
| | **1,062** | 1,025 |
| **Comprising:** | | |
| Regular Premiums | **1,020** | 966 |
| Single Premiums | **42** | 59 |
| | **1,062** | 1,025 |
| **Geographical analysis of gross premiums written:** | | |
| United Kingdom | **1,038** | 1,002 |
| Other Europe | **4** | 3 |
| Asia | **20** | 20 |
| | **1,062** | 1,025 |

**Assets of the long-term funds:**
The total assets representing the long-term funds amounted to **£25,451m** (2021: £31,310m).

### 2 Investment return summary

| | Technical Account | | Non-technical Account | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | **£ m** | £ m | **£ m** | £ m |
| Income from investment properties | **103** | 99 | - | - |
| Service charge income | **1** | 1 | - | - |
| Dividend income from group undertakings | **3** | 4 | - | - |
| Income from financial investments: | | | | |
| - Interest income from loans and receivables | **2** | 1 | - | - |
| - Income from financial investments at fair value through profit or loss | **528** | 489 | - | 3 |
| Net gains on the realisation of investments | **289** | 2,150 | - | 1 |
| Total investment income | **926** | 2,744 | - | 4 |
| Net unrealised (losses)/gains on investments | **(3,793)** | 134 | - | - |
| Investment management expenses | **(43)** | (40) | - | - |
| Depreciation and amortisation | - | - | **(2)** | (3) |
| Total investment expenses and charges, including interest | **(43)** | (40) | **(2)** | (3) |
| Total investment return | **(2,910)** | 2,838 | **(2)** | 1 |

Income from investment properties includes rental income of **£120m** (2021: £117m) and is net of property expenses of **£17m** (2021: £18m).

Dividend income from group undertakings is from financial assets classified as available-for-sale.

All of the net gains and losses arising on investments during the year are in respect of financial investments, classified at fair value through profit or loss, and property, other than noted above.

Included in the above is **£2,963m loss** (2021: £2,295m gain) in respect of assets designated as fair value through profit or loss on initial recognition and **£13m loss** (2021: £11m loss) in respect of assets held for trading.

The investment return arising in relation to investments which are directly connected with the carrying on of long-term business is credited to the long-term business technical account. This investment return arises both on investments of the long-term business funds and investments attributable to the shareholder.

Investment income includes dividends on equities.

Depreciation is charged on the Company's Right of Use assets on a straight line basis over the life of the asset.

### 3 Other income and charges

Technical account – long-term business

*Other technical income, net of reinsurance of* **£78m** *(2021: £63m) relates primarily to fees for policy* administration and asset management services arising from unit-linked investment contracts.

Non-technical account

Other income is **£nil** (2021: £4m).

Other charges of **£2m** (2021: £1m) relates to shareholder fund expenses.

### 4 Claims paid

Included within claims paid are interim and terminal bonuses of **£33m** (2021: £32m) paid out to policyholders on claims.

In addition, new reversionary and interim bonuses declared of **£6m** (2021: £6m) are provided within the calculation of the long-term business provision.

### 5 Net operating expenses

Net operating expenses compromise:

| | 2022 | 2021 |
|---|---|---|
| | **£ m** | £ m |
| Acquisition costs | **145** | 154 |
| Change in deferred acquisition costs | **(4)** | (19) |
| Administrative expenses | **130** | 136 |
| | **271** | 271 |

Net operating expenses include:

| | 2022 | 2021 |
|---|---|---|
| | **£ m** | £ m |
| Commissions | **128** | 132 |
| Depreciation of Unit-Linked Right of Use Assets | **1** | 1 |
| Interest on Unit-Linked Lease Liabilities | **1** | 3 |

### 6 Auditors' remuneration

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

| | 2022 | 2021 |
|---|---|---|
| | **£ m** | £ m |
| Audit Services: | | |
| Fees payable to the Company's auditors and its associates for the audit of the Company's financial statements | **1** | 1 |
| Fees payable to the Company's auditors for other services: | | |
| - Audit-related assurance services | **1** | 1 |
| Total | **2** | 2 |

### 7 Employee information

Employees in the UK working on behalf of the Company are predominantly employed by Zurich Employment Services Limited ("ZES"). These employees may work on behalf of any of the UK Life businesses. During 2022 and 2021, management charges were made to the Company, which included staff costs. The element of these charges relating to these costs cannot be separately ascertained therefore no disclosure has been made for staff numbers and costs. .

**Share-based payments**
The group has adopted various share-based compensation and cash incentive plans to attract, retain and motivate executives and employees. The plans are designed to reward employees for their contribution to the performance of the ZIG group and to encourage employee share ownership. Share-based compensation plans include plans under which shares and options to purchase shares, based on the performance of the businesses, are awarded. Share-based plans are based on the provision of shares in the ultimate parent, ZIG. The ZIG group encourages employees to own shares of ZIG and has set up a framework based on the implementation of either share options and/or performance share programs. Actual plans are tailored to meet local market requirements.

The explanations below give an overview of the plans of the ZIG group.

**a) Share-based compensation plans for employees**
Share Incentive Plan
The ZIG group operates a profit-sharing element of the Share Incentive Plan ("Reward Shares") which was launched in 2004 with annual share allocations being made in May each year subject to business performance. The awards are based on the performance of the participating employee's business unit for the year, subject to a maximum award of 5% of participant's base salary (before any flexible benefit adjustments) or £3,600.

Partnership Share Scheme
As part of the approved Share Incentive Plan, a Partnership Shares element of this plan was launched in 2003. This plan was terminated in 2007. A revised Partnership Share Scheme was launched in March 2013. Participants also benefit from making the deductions from their gross salary up to a maximum of £1,800 or 10% of their gross earnings.

Dividend Shares Scheme
A Dividend Reinvest scheme was introduced in March 2014 to allow employees to purchase shares with their dividend payments from Partnership Shares and Reward Shares.

**b) Share-based compensation plans for executives**
The ZIG group operates a long-term incentive plan ("LTIP") for selected executives. This plan comprises the allocation of a target number of performance shares with the vesting of these performance shares being subject to the achievement of specific financial performance goals. The number of target shares is calculated as a percentage of annual base salary of each participant.

Performance shares allocated each year will vest after a period of three years following the year of allocation with the actual level of vesting between 0 and 200% of the target shares allocated, depending on the achievement of pre-defined performance criteria. The performance criteria used to determine the level of vesting are the Group's return on shareholders' equity ("ROE"), the position of its relative total shareholder return ("TSR") measured against an international peer group of insurance companies, and the achievement of cash remittance targets.

The vesting level of target shares depends on the achievement of pre-defined performance criteria over a three-year performance period. The three pre-defined performance criteria are each assessed over a period of three consecutive financial years starting in the year of allocation. Effective from 1 January 2014, to further align the participants with the interests of the shareholders, the target shares are credited with dividend equivalent shares during the vesting period to compensate participants in LTIP for dividends paid to shareholders. On the vesting date, the ownership of the shares is transferred to the participant less any tax and national insurance deductions the individual is liable for.

### 8 Directors remuneration

**1 director** (2021: 1 director) did not receive remuneration in respect of their services to the Company. The remuneration of the remaining **8 directors** (2021: 8 directors) are paid directly by a ZIG group company and is reported to the extent that it is recharged as an expense to the Company, which reflects their services to the Company.

| | **2022** | 2021 |
|---|---|---|
| | **£'000** | £'000 |
| Aggregate remuneration | **1,682** | 1,583 |
| Aggregate remuneration - highest paid director | **557** | 602 |

Directors' remuneration includes fees, performance related pay, benefits, bonuses and an accrual in respect of deferred bonuses which may become payable in future years.

Of the **8 directors** (2021: 8 directors) who received remuneration in respect of their services to the Company during the year:

- **No directors** (2021: No directors) accrued benefits under a defined benefit scheme.
- **3 directors** (2021: 3 directors) are members of long-term incentive schemes.
- **3 directors** (2021: 3 directors) accrued benefits under a defined contribution scheme. The aggregate value of company contributions paid, or treated as paid, in respect of this defined contribution scheme for the directors in the year was **£14,579** (2021: £11,222).

The value of the highest paid director's accrued annual pension benefits at 31 December 2022 was **£nil** (2021: £nil). The highest paid director **did not** accrue benefits under a defined benefit scheme during the year (2021: did not accrue). The highest paid director **did** accrue benefits under a defined contribution scheme during the year (2021: did accrue). The aggregate value of company contributions paid, or treated as paid, in respect of that defined contribution scheme for that director in the year was **£2,976** (2021: £2,900). The highest paid director **did not** exercise options over shares in ZIG in the year (2021: did exercise share options). The highest paid director **is a member** of a long-term incentive scheme (2021: was a member). The highest paid director **has not changed** during the course of the year (2021: has changed).

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

## 9 Taxation

| | Technical Account | | Non-technical Account | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | **£ m** | £ m | **£ m** | £ m |
| Current Tax | | | | |
| - Tax attributable to the balance on the long-term business technical account | **-** | - | **(28)** | (2) |
| - UK corporation tax | **4** | 45 | **(1)** | - |
| - Overseas tax | **9** | 5 | **-** | - |
| - Adjustments in respect of prior years | **-** | (1) | **-** | - |
| Total Current Tax | **13** | 49 | **(29)** | (2) |
| | | | | |
| Deferred Tax | | | | |
| - Origination and reversal of temporary differences | **(291)** | 52 | **-** | - |
| - Impact of change in tax rate | **-** | (5) | **-** | - |
| Total Deferred Tax | **(291)** | 47 | **-** | - |
| | | | | |
| Tax on loss on ordinary activities | **(278)** | 96 | **(29)** | (2) |

UK corporation tax in the technical account has been calculated at rates between 19% and 25% (2021: 19% and 25%) in accordance with the rates applicable to the long-term business of a life insurance company.

**Factors affecting the tax credit for the year**
It was announced in the budget on 3 March 2021 that the corporation tax rate will increase to 25% with effect from 1 April 2023. This was substantively enacted on 24 May 2021 and there has been minimal impact on the deferred tax calculation in 2022 due to the 2021 closing balance sheet position already taking this rate change into account.

The tax assessed for the year for the non-technical account is reconciled to the effective rate of corporation tax in the UK of **19%** (2021: 19%). The analysis is shown below:

| | Non-technical Account | |
|---|---|---|
| | **2022** | 2021 |
| | **£ m** | £ m |
| Loss on ordinary activities before tax | **(139)** | (8) |
| Loss on ordinary activities multiplied by the applicable rate of corporation tax in the UK of 19% (2020: 19%) | **(26)** | (1) |
| Non-taxable income | **(1)** | (1) |
| Withholding tax recovery | **-** | - |
| Prior year adjustments | **(2)** | - |
| Fixed asset timing difference | **-** | - |
| Current tax charge for the period | **(29)** | (2) |

### 10 Land and buildings

| | 2022 | 2021 |
|---|---|---|
| | £ m | £ m |
| **Investment properties** | | |
| At fair value | 3 | 4 |
| At cost | 2 | 3 |

| **Investment properties** | **£ m** |
|---|---|
| Opening balance at 1 January 2022 | **4** |
| Disposals | **(1)** |
| Closing balance at 31 December 2022 | **3** |

Land and buildings held as investment properties are freehold.

Land and buildings are valued at 'Fair Value' which is the price that would be received to sell an asset, or paid to transfer a liability, in an ordinary transaction between market participants at the measured date. This discounts 'Hope Value' which is an increase in value because of potential planning and development. This is specifically discounted here if land and property does not have a legal planning consent. The majority of properties being revalued are on an annual basis by Bidwells LLP and Savills (UK) Limited.

The valuations are undertaken in accordance with the RICS Valuation – Global Standards 2022 (incorporating the International Valuation Standards 2022) and the 2017 UK National Supplement (the "Red Book"), by independent valuers who have the relevant qualifications and experience. The date of the last valuation for land and buildings was 31 December 2022.

Rental income of **£0.03m** (2021: £0.1m) was generated from land and buildings and direct operating expenses of **£0.1m** (2021: £0.1m) arose on these land and buildings.

There are no restrictions in place on the realisability of investment property.

### 11 Investment in group undertakings

| | 2022 | 2021 |
|---|---|---|
| | £ m | £ m |
| Shares in group undertakings | 29 | 31 |
| Total investments in group undertakings at fair value | 29 | 31 |
| Total investments in group undertakings at cost | 2 | 2 |

Total investments in group undertakings includes a subsidiary undertaking in a net liability position of **£2m** (2021: £1m). This subsidiary has been written down to nil, but a liability has been recognised in other creditors representing the future liability to the Company (see note 26), its other subsidiary undertakings are in net asset positions totalling **£29m** (2021: £31m).

Included within those in a net asset position is Access Franchise Management Limited ("AFM") with a carrying value of **£29m** (2021: £31m).

The Company's investments in its subsidiary undertakings at 31 December 2022 are shown in note 31 and are carried at their fair value and are classified as available-for sale under IAS 39.

During the year no subsidiary was dissolved (2021: no subsidiary was dissolved).

### 12 Right of Use Assets

| | 2022 | 2021 |
|---|---|---|
| | **£ m** | £ m |
| **Cost** | | |
| **Balance at 1 January** | **31** | 59 |
| Additions | **20** | 1 |
| De-recognition | **-** | (1) |
| Remeasurement | **-** | (28) |
| **Closing balance at 31 December** | **51** | 31 |
| **Accumulated Depreciation** | | |
| **Balance at 1 January** | **(24)** | (40) |
| Remeasurement | **1** | 20 |
| Depreciation charge for the year | **(2)** | (4) |
| Impairment | **(2)** | - |
| **Closing balance at 31 December** | **(27)** | (24) |
| **Net Book Value at 31 December** | **24** | 7 |

**Impairment**
Two floors of the Swindon Tri Centre 2 property have been vacant, available for sub-lease and marketed since 1 October 2022, but the expectation is that there will be no future sub-lease income. On this basis, an impairment charge of £1.4m was recognised in 2022 representing the full carrying value of the two vacated floors. The carrying value of the remaining Right of Use Asset at 31 December 2022 was £3.7m.

The entire office space at Tri Centre 1 was vacated as a result of the move into Unity Place and, as such, an impairment charge of £0.7m was recognised in 2022. The carrying value at 31 December 2022 was £nil.

**Extension options**
Some leases held by the Company contain extension options exercisable by the Company. The Company assesses at lease commencement, and then reassesses when circumstances change, whether it is reasonably certain to exercise the extension options.

Exit strategies are underway across the portfolio of leases, and the new Swindon office, Unity Place, lease that commenced on 21 December 2022 has replaced the previous Swindon office lease at Tri Centre 1 which ended 8 January 2023. Further details on the commitment via the sale and leaseback of the new building are included in note 30.

**13 Financial investments**

| | **2022** | 2021 |
|---|---|---|
| | **£ m** | £ m |
| **At carrying value** | | |
| Shares and other variable yield securities and units in unit trusts | **196** | 212 |
| Debt securities and other fixed-income securities | **2,761** | 3,872 |
| Other loans | **52** | 48 |
| Deposits with credit institutions | **27** | 46 |
| Derivative financial instruments | **11** | 1 |
| Total financial investments at carrying value | **3,047** | 4,179 |
| **At cost** | | |
| Shares and other variable yield securities and units in unit trusts | **187** | 186 |
| Debt securities and other fixed-income securities | **3,755** | 3,817 |
| Other loans | **52** | 48 |
| Deposits with credit institutions | **27** | 46 |
| Total financial investments at cost | **4,021** | 4,097 |

**£336m** (2021: £414m) of the above carrying value are current, and **£2,711m** (2021: £3,765m) are non-current.

Within other financial instruments of **£3,047m** (2021: £4,179m), **£2,802m** (2021: £3,882m) are listed investments included at fair value as shown in the table below:

| | **2022** | 2021 |
|---|---|---|
| | **£ m** | £ m |
| Shares and other variable yield securities and units in unit trusts | **135** | 163 |
| Debt securities and other fixed-income securities | **2,667** | 3,719 |
| Total listed investments at fair value | **2,802** | 3,882 |

Within other financial instruments of **£3,047m** (2021: £4,179m), **£265m** (2021: £452m) are investments attributable to the shareholder including:

| | **2022** | 2021 |
|---|---|---|
| | **£ m** | £ m |
| Debt securities and other fixed-income securities | **244** | 443 |
| Deposits with credit institutions | **10** | 8 |
| Derivative financial instruments | **11** | 1 |
| Total | **265** | 452 |

**13 Financial investments (continued)**

Other loans include loans secured on policies of **£52m** (2021: £48m).

Included within debt securities and other fixed-income securities are British government securities amounting to **£nil** (2021: £27m) which are subject to sale and repurchase agreements.

Financial investments are classified as follows:

| | **2022** | 2021 |
|---|---|---|
| | **£m** | £m |
| Fair value through profit or loss – upon initial recognition | **2,957** | 4,084 |
| Fair value through profit or loss – held for trading | **11** | 1 |
| Deposits with credit institutions | **27** | 46 |
| Loans and receivables at amortised cost | **52** | 48 |
| Total financial investments | **3,047** | 4,179 |

For loans and receivables at amortised cost the carrying value is a reasonable approximation of fair value.

**14 Fair value measurements**

Depending on the valuation techniques used and whether the underlying assumptions are based on observable data, financial instruments carried at fair value are classified under the following three levels:

**Level 1** – This category includes financial assets and liabilities for which fair values are determined directly from unadjusted current quoted prices traded in active markets. Included in level 1 are listed shares, other variable yield securities and units in unit trusts.

**Level 2** – This category includes financial assets and liabilities for which fair values are determined using valuation techniques, for which all significant inputs are based on observable market data.

Financial assets and liabilities included in level 2 are:

- **Shares and other variable yield securities and units in unit trusts:**
  The fair value is based on asset prices obtained from external providers and the Company has limited access to the inputs and assumptions used. The data used by the price providers, as inputs to instrument specific price evaluation models, will include available recent trade data for the specific security or similar securities, spreads, dealer quotes, relevant sector or market indices, foreign exchange rates to the Company's reporting currency where applicable and appropriate interest rates.
- **Debt securities and other fixed-income securities:**
  The fair value is based on asset prices obtained from external providers and the Company has limited access to the inputs and assumptions used. The data used by the price providers is the same as shares and other variable yield securities and units in unit trusts. While the majority of these debt securities may qualify for level 1 classification based on ordinary transactions in identical instruments, it has been assumed that such instruments would predominantly be valued based on a mix of observable inputs.
- **Other loans (unit-linked business):**
  The balance relates to deposits with credit institutions due within less than one year where the fair value is not materially different from the current carrying value.
- **Derivatives:**
  Over-the-counter derivative financial instruments are valued using third party valuation services or by a group company using internal models. The fair values are determined using dealer price quotations, discounted cash flow models and option pricing models, which use various inputs including current market and contractual prices for underlying instruments, relevant index values, foreign exchange rates and forward interest rates. Such instruments are classified within level 2 as the inputs used in pricing models are generally observable or derived from market observable data.

**14 Fair value measurements (continued)**

- **Amounts due on gilt sale and repurchase agreements:**
  The Company is party to repurchase agreements, the elements of which are fixed rate loans made to the Company and British government securities, which the Company is under obligation to repurchase. The fair value measurement of the British government securities is as described above for fixed-income securities. The fair value measurement of the loans equals their carrying value as the impact of discounting is not significant.
- **Technical provisions for linked investment contract liabilities, net of reinsurance:**
  The fair value excludes any transaction costs directly attributable to the issue of the contract. After initial recognition they are carried at a value determined by reference to the fair value of assets held to provide linked benefits to the relevant policyholders. This value represents an amount equivalent to the fair value of the contract liability.

**Level 3** – This category includes financial assets and liabilities for which fair values are determined using valuation techniques for which at least one of the significant inputs is not based on observable market data. In circumstances where there is little, if any, market activity for a certain instrument, a valuer is required to develop internal valuation inputs based on the best available information.

Financial assets and liabilities included in level 3 are:

- **Investment in group undertakings:**
  The Company's interests in subsidiary undertakings are included at their fair values. The directors have arrived at the fair value by reference to discounted future cash flows or net asset value depending on which is most appropriate for each undertaking.
- **Shares and other variable yield securities and units in unit trusts:**
  Included under level 3 is a collective investment fund held at fair value based on asset prices obtained from the external fund manager.
- **Debt securities and other fixed-income securities:**
  Included under level 3 are certain asset backed securities for which very limited market activity is currently observed and the fair value is determined on the same basis as similar assets in level 2. The Company has invested in a portfolio of infrastructure loans, which are included at fair value. Fair value is arrived at through discounting the known cash flows by an appropriate discount rate, which gives consideration to prevailing market rate plus an idiosyncratic spread relating to the risk of the investment.

The fair value hierarchy is reviewed at the end of each reporting period to determine whether significant transfers between levels have occurred.

Total gains/losses in profit or loss on assets not yet sold included in the tables below are recognised in the profit and loss account, within unrealised gains on investments.

Total gains/losses in profit or loss on assets sold included in the tables below are recognised in the profit and loss account, within investment income.

The fair value hierarchy is reviewed mid-year and at year end to determine whether significant transfers between levels have occurred. Transfers between levels mainly arise as a result of changes in market activity and observability of the inputs to the valuation techniques used to determine the fair value of certain instruments.

The following tables present the Company's financial assets and liabilities that are measured at fair value at 31 December 2022, shown separately for non-linked business and unit-linked business.

**14 Fair value measurements (continued)**

| **Non-linked business at 31 December 2022** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| | **£ m** | **£ m** | **£ m** | **£ m** |
| **Assets** | | | | |
| Investment in group undertakings | - | - | **29** | **29** |
| Shares and other variable yield securities and units in unit trusts | **151** | **9** | **35** | **195** |
| Debt securities and other fixed-income securities | - | **2,660** | **101** | **2,761** |
| Derivative assets | - | **11** | - | **11** |
| **Total assets** | **151** | **2,680** | **165** | **2,996** |
| | | | | |
| **Liabilities** | | | | |
| Derivative liabilities | - | **1** | - | **1** |
| Creditors designated at fair value | - | - | **2** | **2** |
| **Total liabilities** | - | **1** | **2** | **3** |

| **Non-linked business at 31 December 2021** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| | **£ m** | **£ m** | **£ m** | **£ m** |
| **Assets** | | | | |
| Investment in group undertakings | - | - | 31 | 31 |
| Shares and other variable yield securities and units in unit trusts | 181 | 11 | 20 | 212 |
| Debt securities and other fixed-income securities | - | 3,754 | 118 | 3,872 |
| Derivative assets | - | 1 | - | 1 |
| **Total assets** | 181 | 3,766 | 169 | 4,116 |
| | | | | |
| **Liabilities** | | | | |
| Amounts due on gilt sale and repurchase agreements | - | 27 | - | 27 |
| Derivative liabilities | - | 4 | - | 4 |
| Creditors designated at fair value | - | - | 1 | 1 |
| **Total liabilities** | - | 31 | 1 | 32 |

Included within assets held to cover linked liabilities are investments in land and buildings of **£1,796m** (2021: £2,293m). These are excluded from the tables below as the Company has applied an FRS 101 exemption relating to IFRS 13 as shown on page 36. Additionally, current assets of **£335m** (2021: £260m) have been excluded from the tables above as these are held at historical cost.

Technical provisions for linked insurance contracts of **£9,602m** (2021: £11,553m) are excluded from the tables below as they are accounted for under IFRS 4 and not measured at fair value.

The following tables present the changes in the Company's level 3 non-linked and unit-linked assets and liabilities for the year ended 31 December 2022.

**14 Fair value measurements (continued)**

| Unit-linked business at 31 December 2022 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | £ m | £ m | £ m | £ m |
| **Assets** | | | | |
| *Shares and other variable yield securities and units in unit trusts* | **15,543** | **14** | **4** | **15,561** |
| Debt securities and other fixed-income securities | **-** | **2,222** | **17** | **2,239** |
| Other loans | **-** | **288** | **-** | **288** |
| Derivative assets | **-** | **2** | **-** | **2** |
| **Total assets** | **15,543** | **2,526** | **21** | **18,090** |
| **Liabilities** | | | | |
| Technical provisions for linked investment contract liabilities, net of reinsurance | **-** | **10,857** | **-** | **10,857** |
| Derivative liabilities | **-** | **1** | **-** | **1** |
| **Total liabilities** | **-** | **10,858** | **-** | **10,858** |

| Unit-linked business at 31 December 2021 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | £ m | £ m | £ m | £ m |
| **Assets** | | | | |
| Shares and other variable yield securities and units in unit trusts | 18,997 | 17 | 5 | 19,019 |
| Debt securities and other fixed-income securities | - | 2,379 | 21 | 2,400 |
| Other loans | - | 359 | - | 359 |
| Derivative assets | - | - | - | - |
| **Total assets** | 18,997 | 2,755 | 26 | 21,778 |
| **Liabilities** | | | | |
| Technical provisions for linked investment contract liabilities, net of reinsurance | - | 13,062 | - | 13,062 |
| **Total liabilities** | - | 13,062 | - | 13,062 |

**14 Fair value measurements (continued)**

| Non-linked business - Level 3 | Investments in group undertakings | Shares | Debt Securities | Total |
|---|---|---|---|---|
| | £ m | £ m | £ m | £ m |
| **Opening at 1 January 2022** | **31** | **20** | **118** | **169** |
| Total gains/losses in profit or loss: | | | | |
| - assets not yet sold | **(2)** | **2** | **(14)** | **(14)** |
| Purchases | **-** | **13** | **15** | **28** |
| Settlements / Sales | **-** | **-** | **(18)** | **(18)** |
| **At 31 December 2022** | **29** | **35** | **101** | **165** |
| **Opening at 1 January 2021** | 31 | - | 110 | 141 |
| Total gains/losses in profit or loss: | | | | |
| - assets not yet sold | - | - | (2) | (2) |
| Purchases | - | 16 | 27 | 43 |
| Settlements / Sales | - | (6) | (17) | (23) |
| Transfers into Level 3 | - | 10 | - | 10 |
| At 31 December 2021 | 31 | 20 | 118 | 169 |

| Unit-linked business - Level 3 | Shares | Debt Securities | Total |
|---|---|---|---|
| | £ m | £ m | £ m |
| **Opening at 1 January 2022** | **5** | **21** | **26** |
| Total gains/losses in profit or loss: | | | |
| - assets not yet sold | **(3)** | **(3)** | **(6)** |
| - assets sold | **(1)** | **-** | **(1)** |
| Settlements / Sales | **(2)** | **(1)** | **(3)** |
| Transfers into Level 3 | **5** | **-** | **5** |
| **At 31 December 2022** | **4** | **17** | **21** |
| **Opening at 1 January 2021** | - | 12 | 12 |
| Total gains/losses in profit or loss: | | | |
| Purchases | - | 5 | 5 |
| Settlements / Sales | (6) | (4) | (10) |
| Transfers into Level 3 | 11 | 8 | 19 |
| At 31 December 2021 | 5 | 21 | 26 |

### 14 Fair value measurements (continued)

**Sensitivity of fair values reported for Level 3 instruments to changes to key assumptions:**

- **Investment in group undertakings:**
  The value of one subsidiary (AFM) is driven by the assessment of future income. Future income is calculated by projecting the expected future income stream on a best estimate basis over the lifetime of the contracts and discounting at a rate of **4.7% p.a.** (2021: 1.3% p.a.). The key assumption that affects the capitalised value is the persistency rate. A capitalisation factor of **7.2** (2021: 7.5) has been used in the calculation, with the appropriate range being considered to be 6 to 8. If a capitalisation factor of 8 had been used, the value of AFM would have been **£23m** (2021: £29m) as at 31 December. There are no other material sensitivities around the fair value of each of the Company's interests in subsidiary undertakings.
- **Shares and other variable yield securities and units in unit trusts:**
  *There is no material sensitivity around the fair value of shares and other yield securities and units in unit* trusts.
- **Debt securities and other fixed-income securities:**
  This asset category includes asset-backed securities and real estate loans.

The key assumptions driving the valuation of these investments include discount rates and credit spread rates. The effect on reported fair values of using alternative values for each of these assumptions, while the other key assumptions remain unchanged, is disclosed in the table below.

| | Less favourable values (relative change) | Decrease in reported fair value | More favourable values (relative change) | Increase in reported fair value |
|---|---|---|---|---|
| | | £m | | £m |
| **Key assumptions** | | | | |
| Discount rates | +100bps | (6) | -100bps | 7 |
| Spread rates | +100bps | (8) | -100bps | 9 |

The sensitivity analysis is intended to reflect the uncertainty inherent in the valuation of these investments under current market conditions. 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 fair value of these investments. Any management actions that may be taken to mitigate the inherent risks are not reflected in this analysis.

The table above gives the impact on fair value of the assets excluding the Assets held for index-linked and unit-linked contracts. Any change in the fair value of the Assets held for index-linked and unit-linked contracts will be offset by the movement within the technical provisions, so no material direct impact on the basic own funds.

### 15 Assets held to cover linked liabilities

The market value of investments held to cover linked liabilities was **£20,219m** (2021: £24,331m). The cost of investments held to cover linked liabilities was **£17,605m** (2021: £18,858m).

The difference between assets held to cover linked liabilities and the associated technical provisions, net of the reinsurers' share of technical provisions for linked liabilities, primarily represents amounts in respect of income tax and other charges which are not disclosed explicitly as linked liabilities in the Company's balance sheet.

**£16,328m** (2021: £19,784m) of the assets held to cover linked liabilities are current, and **£3,891m** (2021: £4,547m) are non-current.

Land and buildings are valued on the highest and best use basis, with the majority of properties being revalued on a monthly basis by Jones Lang Laselle and CBRE. The valuations are undertaken in accordance with the RICS Valuation – Global Standards 2022 (incorporating the International Valuation Standards) and the UK National Supplement 2018 (the "Red Book"), by independent valuers who have the relevant qualifications and experience. The date of the last valuation for land and buildings was 31 December 2022.

## 16 Debtors

**Debtors arising out of direct insurance operations**
Within Debtors arising out of direct insurance operations – policyholders, a balance of **£nil** (2021: £nil) is due from another group company, and **£nil** (2021: £nil) of this falls due after more than one year.

**£154m** (2021: £127m) of the Debtors arising out of direct insurance operations are current, and **£nil** (2021: £nil) are non-current.

**£31m** (2021: £25m) of the Debtors arising out of direct insurance operations were past due but not impaired. The ageing analysis of these past due amounts is as follows:

| | 2022 | 2021 |
|---|---|---|
| | £ m | £ m |
| 30 days | **11** | 9 |
| 31 to 90 days | **11** | 7 |
| 91 to 120 days | **1** | 3 |
| 121 to 180 days | **3** | 2 |
| 181 to 365 days | **4** | 3 |
| Over 365 days | **1** | 1 |
| | **31** | 25 |

**Debtors arising out of reinsurance operations**
All Debtors arising out of reinsurance operations are **current** (2021: current).

**£nil** (2021: £nil) of the Debtors arising out of reinsurance operations were past due but not impaired.

| Other debtors | 2022 | 2021 |
|---|---|---|
| | £ m | £ m |
| Amounts owed by group companies | - | 2 |
| Amounts owed by subsidiary companies | - | - |
| Current taxation | **32** | 31 |
| Deferred tax asset | **98** | 24 |
| Outstanding interest | - | 1 |
| Other | **17** | 18 |
| | **147** | 76 |

Amounts owed by subsidiary and group companies are unsecured, interest free and have no fixed date of repayment.

The recognition of the deferred tax asset of £98m (2021: £24m) is supported by the Company's projected taxable investment return and profit / loss position.

All other amounts included in Other debtors are **current** (2021: current).

If the Company considers a debt to be impaired, a provision for bad debt is made. The balances have been reviewed and no adjustment has been required.

### 17 Tangible assets

| | Land | Assets under construction | Leasehold Improvements | Total |
|---|---|---|---|---|
| | **£ m** | **£ m** | **£ m** | **£ m** |
| Opening cost at 1 January 2022 | **1** | **22** | **9** | **32** |
| Additions | **-** | **11** | **14** | **25** |
| Disposals | **(1)** | **(33)** | **(3)** | **(37)** |
| **Cost at 31 December 2022** | **-** | **-** | **20** | **20** |
| Opening accumulated depreciation at 1 January 2022 | - | - | 5 | 5 |
| Elimination in respect of disposals | - | - | (4) | (4) |
| **Accumulated depreciation at 31 December 2022** | **-** | **-** | **1** | **1** |
| **Net book value at 31 December 2022** | **-** | **-** | **19** | **19** |
| **Net book value at 31 December 2021** | 1 | 22 | 4 | 27 |

**Property, plant and equipment under construction**
On 15 July 2020 the Company purchased land from Swindon Borough Council ("SBC") and contracted to build a new office premises, as well as entering into a Sale and Leaseback Agreement with SBC to buy back the building following formal completion. The sale of the land and building to SBC took place on 21 December 2022 and at this date the buyer took possession with tenants in situ and control of the asset. The sale of the asset cleared the capitalized costs for the land and buildings from the Balance Sheet.

## 18 Prepayments and accrued income

### Accrued interest and rent
All accrued interest and rent is **current** (2021: current).

| Deferred acquisition costs | 2022 | 2021 |
|---|---|---|
| | £ m | £ m |
| On insurance contracts | 213 | 200 |
| On unit-linked investment contracts | 15 | 24 |
| **Closing balance at 31 December** | **228** | 224 |

| Development of deferred acquisition costs – insurance contracts | 2022 |
|---|---|
| | £ m |
| **Opening balance at 1 January** | **200** |
| Additions | **70** |
| Interest | **14** |
| Amortisation | **(71)** |
| **Closing balance at 31 December** | **213** |

| Development of deferred acquisition costs – unit-linked investment contracts | 2022 |
|---|---|
| | £ m |
| **Opening balance at 1 January** | **24** |
| Amortisation and impairment | **(9)** |
| **Closing balance at 31 December** | **15** |

### Other prepayments and accrued income
All other prepayments and accrued income are **current** (2021: current).

## 19 Shareholder's funds – equity interests

| Called up share capital | |
|---|---|
| | £ m |
| Allotted, issued and fully paid: | |
| **At 31 December 2022: 356,236,734 Ordinary shares of £1 each** | **356** |
| At 31 December 2021: 306,131,734 Ordinary shares of £1 each | 306 |

| Dividends | | |
|---|---|---|
| | 2022 | 2021 |
| | £ m | £ m |
| **Equity - Ordinary shares** | | |
| Interim dividend: nil (2021: 32.67p) per £1 share | - | 100 |

### 19 Shareholder's funds – equity interests (continued)

**Revaluation reserve**
This reserve represents the revaluation of the Company's investments in group undertakings.

**Capital reserve**
This reserve represents capital contributions received from the Company's immediate parent company, Eagle Star Holdings Limited, with no obligation to repay.

### 20 Fund for future appropriations

The movement on the fund for future appropriations in the year is set out below:

| | £ m |
|---|---|
| Opening balance at 1 January 2021 | 42 |
| Transfer to the technical account from the fund for future appropriations in the year | (5) |
| Closing balance at 31 Dec 2021 | 37 |
| Transfer to the technical account to the fund for future appropriations in the year | (4) |
| **Closing balance at 31 Dec 2022** | **33** |

The movement on the fund for future appropriations includes **£4m** (2021: £5m) transferred from the 90:10 with-profits fund to the shareholder fund.

### 21 Technical provisions

**Unit-linked contracts**
Technical provisions for linked liabilities ("TPLL") are determined by reference to the value of assets held to provide linked benefits to the relevant policyholders. Additional technical provisions arising in respect of linked contracts are held within the long-term business provision ("LTBP").

**Participating contracts**
For with-profits contracts (also referred to as contracts with discretionary participation features) the provision is calculated in accordance with the Solvency II regulatory regime, based on the best estimate liability which is calculated using a realistic calculation plus the policyholders' share of any excess of assets over liabilities. Provision is made for estimated future reversionary, interim and terminal bonus payments in a manner consistent with the Company's Principles and Practices of Financial Management. The liability includes an allowance for the time and intrinsic value of options and guarantees granted to policyholders and for possible future management actions.

The best estimate liabilities are based on the aggregate value of policy asset shares reflecting the premiums, investment return, expenses and charges applied to each policy.

Allowance is also made for policy related liabilities such as guarantees, options and future bonuses calculated using a stochastic model simulating future investment returns, asset mix and bonuses. The total with-profits liability is set at least equal to the realistic value of assets less an adjustment to the extent that the excess of assets over best estimate liabilities includes an amount that may subsequently be attributed to the shareholder. The adjustment is to remove from liabilities any shareholder's share of future distributions. This amount is retained within the Fund for Future Appropriations until a surplus emerges. An adjustment is also made to the liabilities to remove the value of future profits on non-profits business that have been included in the realistic value of assets.

Economic scenarios are taken from a proprietary economic scenario generator. This model provides future economic scenarios using a model of future investment returns and volatility. Expected asset returns and volatility have been calibrated to ensure consistency with market values at an appropriate term for our anticipated liability profile. Swap rates are used as the risk-free rate in the scenario calibration.

### 21 Technical provisions (continued)

Correlations are important in modelling the cost of guarantees and options. The less correlated the assets in a portfolio, the lower the risk as the portfolio will be more diverse. The lower the risk of a portfolio, the lower the expected cost of any guarantees and options.

A reduction in risk free rates would reduce the impact of discounting on the LTBP, resulting in an increased provision. The cost of guarantees will be higher with lower risk-free rates or higher investment volatility.

The mortality and persistency assumptions used to calculate the LTBP are based on current experience. In setting the rates the experience data is grouped by similar product types to ensure it is sufficiently credible. To make this estimate the Company investigates the experience over the previous four years for both mortality and persistency. Allowance is made for future mortality improvements if this is prudent. The results of these investigations are compared to the current assumptions. 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.

The assumptions are set with reference to relevant industry information in particular mortality assumptions are set with reference to the standard tables provided by the Continuous Mortality Investigation ("CMI") Bureau and a CMI projections model. These tables are based on industry-wide experience and wider population experience. The Company sets the percentage assumption based on its own studies.

The most significant mortality assumptions are as follows:

| | **2022** | 2021 |
|---|---|---|
| Conventional whole of life | **54% AMC00 / 91% AFC00** | 54% AMC00 / 91% AFC00 |
| Conventional pension | **62% AMC00 / 62% AFC00** | 62% AMC00 / 62% AFC00 |
| Guaranteed Annuity | **72% PMA16 (Core)** | 72% PMA08 (Core) |
| Options post vesting | **81% PFA16 (Core)** | 78% PFA08(Core) |

Mortality improvements for guaranteed annuity options post vesting assume the CMI 2021 model with a long-term rate of improvement of **1.75%** for males and **1.5%** for females (2021: CMI 2018 model with a long-term rate of improvement of 1.75% per annum for males and 1.5% for females).

If a lower mortality rate were assumed to apply, the LTBP would increase in respect of annuities and decrease in respect of assurances.

Most conventional pension contracts include the option to purchase an annuity at a guaranteed rate. These options are valued using the stochastic model and have a value to the extent that the guaranteed annuity rate provides a benefit greater than the cash liability value. The key factors in determining the value of the guarantee are the interest rate, mortality rate and take-up rate. The take-up rate assumption varies from **48%** to **80%**, depending on product type and assumed retirement year, if guarantees are in the money and **0%** otherwise (2021: between 47% to 80%, if guarantees are in the money and 0% otherwise).

The changes in non-economic assumptions in 2022 caused a **£0.1m** increase in the LTBP for with-profits business, net of reinsurance (2021: £3.7m).

Most unitised with-profits contracts include a guarantee that no market value reduction factor will apply on death or at the contract's intended end date. This is the maturity date for life contracts, typically every 10 years for bonds and the retirement date for pensions.

In calculating the realistic liabilities, account has also been taken of future management actions. The most significant of these are changes to the future bonus assumptions.

### 21 Technical provisions (continued)

The expense charges to the 90:10 with-profits fund are set at a fixed level for individual business, with adjustments for movements in the Average Weekly Earnings Index, and for group business are based on the actual cost of administering existing contracts including allowance for future inflation. For all business actual investment expenses are charged to the fund.

The charges to the 100:0 with-profits fund are in accordance with the charges in the contract and any excess or shortfall of expenses is charged to the Non-Profit or Defined Charge Participating fund.

**Other contracts**
For conventional business in the Non-Profit or Defined Charge Participating funds, the valuation has been carried out using a gross premium method, apart from on the Hong Kong branch business where a net premium method has been used. For non-Hong Kong business an explicit allowance for future expenses is included in the liability.

| Change in other technical provisions, net of reinsurance | **2022** | 2021 |
|---|---|---|
| | **£ m** | £ m |
| Long-term business provision | **717** | 134 |
| Technical provision for linked liabilities | **2,847** | (1,723) |
| **Total** | **3,564** | (1,589) |

Some products contain options and guarantees. The most significant are contracts containing the option to purchase an annuity at a guaranteed rate. These options are valued to the extent that the guaranteed annuity rate provides a benefit greater than the cash liability value. The key factors in determining the value of the guarantee are the interest rate, mortality rate and take-up rate. The take-up rate is **95%** (2021: 95%). A 0.25% reduction in interest rates would result in a **£0.1m** (2021: £0.4m) increase in guarantee provisions. A 5% lightening of mortality would result in a **£0.1m** (2021: £0.3m) increase in guarantee provisions.

Non-profit liabilities are discounted using the market yield on matching assets, reduced by a margin for prudence.

For mortality the Company establishes its best estimate using the same investigation as described in the section on with-profits contracts. For morbidity, the Company annually investigates its critical illness experience over the previous four calendar years. 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. The assumptions are set with reference to relevant industry and reinsurance information. The mortality and morbidity assumptions used in the valuation are adjusted to include a prudent margin.

No allowance is made for early surrenders or lapses unless it would increase the liabilities, with the exception of certain protection contracts, the most significant of which are term assurances and whole-of-life assurances. On these contracts persistency assumptions are set based on actual experience for the relevant product and duration, with an adjustment for prudence. Experience over the previous four years is used for term assurances and whole-of-life assurances.

For level term assurances, these assumptions vary from a maximum of **8.8%** p.a. (2021: 9.5% p.a.) lapses at early durations to **3.1%** p.a. (2021: 4.1% p.a.) lapses at later durations. For decreasing term assurances, these assumptions vary from a maximum of **11.2%** p.a. (2021: 12.6% p.a.) lapses at early durations to **6.1%** p.a. (2021: 7.3% p.a.) lapses at later durations.

For whole-of-life, the rate depends on duration and age with a maximum of **1.6%** pa lapses at early durations running down to **0.05%** p.a. lapses at later durations (2021: 2.2% reducing to 0.5%).

The changes in persistency assumptions during 2022 resulted in a **£43m** increase in the LTBP for non-profit and linked business net of reinsurance (2021: increase of £87m).

### 21 Technical provisions (continued)

The main assumptions for non-profit and linked business are described below:

| Interest rates | **2022** | 2021 |
|---|---|---|
| Conventional gross | **4.10%** | 1.10% |
| Unitised pension | **3.55%** | 1.10% |
| Conventional net whole-of-life | **2.85%** | 0.90% |
| Other net | **2.85%** | 0.85% |

A reduction in fixed interest yields would reduce the impact of discounting on the LTBP, resulting in an increased provision.

The changes in interest rates during 2022 resulted in a **£533m** decrease in the LTBP for non-profit and linked business net of reinsurance (2021: decrease of £171m).

Mortality tables

The most significant mortality assumptions are as follows:

| | | **2022** | 2021 |
|---|---|---|---|
| Conventional term | Male Non-Smoker | **84% TMNL16 (Core)** | 77% TMNL08 (Core) |
| | Male Smoker | **101% TMSL16 (Core)** | 91% TMSL08 (Core) |
| | Female Non-Smoker | **111% TFNL16 (Core)** | 109% TFNL08 (Core) |
| | Female Smoker | **104% TFSL16 (Core)** | 101% TFSL08 (Core) |
| Conventional whole-of-life | Male Non-Smoker | **84% TMN00 (Core)** | 84% TMN00 (Core) |
| | Male Smoker | **97% TMS00 (Core)** | 97% TMS00 (Core) |
| | Female Non-Smoker | **66% TFN00 (Core)** | 66% TFN00 (Core) |
| | Female Smoker | **82% TFS00 (Core)** | 82% TFS00 (Core) |
| Unitised endowment | Male Non-Smoker | **66% AMC00** | 66% AMC00 |
| | Male Smoker | **199% AMC00** | 199% AMC00 |
| | Female Non-Smoker | **70% AFC00** | 70% AFC00 |
| | Female Smoker | **244% AFC00** | 244% AFC00 |
| Annuities in payment | | **PMA16 (Core) / PFA16 (Core)** | PMA08 (Core) / PFA08 (Core) |

For conventional term business, historic mortality improvements are allowed for using the CMI 2021 model to estimate improvements in mortality up to end of 2022.

For conventional whole-of-life business, mortality improvements assume the CMI 2021 model with a long-term rate of improvement of **2.0%** for male non-smokers, **1.5%** for male smokers, **1.5%** for female non-smokers and **1.0%** for female smokers (2021: CMI 2018 model with a long-term rate of improvement of 2.0% for male non-smokers, 1.5% for male smokers, 1.5% for female non-smokers and 1.0% for female smokers). Mortality improvements have been assumed because, net of reinsurance, this is prudent.

### 21 Technical provisions (continued)

Mortality improvements for guaranteed annuity options post vesting assume the CMI 2021 model with a long-term rate of improvement of **1.75%** for males and **1.5%** for females (2021: CMI 2018 model with a long-term rate of improvement of 1.75% for males and 1.5% for females). The proportion of tables used for annuities in payment ranged from **65%** to **88%** (2021: 66% to 107%) dependent on age and sex.

The changes in mortality assumptions during 2022 resulted in a **£10m** reduction in the LTBP for non-profit and linked business net of reinsurance (2021: increase of £27m).

If a lower mortality rate were assumed to apply, the LTBP for non-profit and linked business would increase in respect of annuities and certain whole-of-life assurances and decrease in respect of other assurances.

**Morbidity**
The most significant morbidity assumptions are the critical illness assumptions on the conventional term product.

There were no changes in the morbidity assumptions in 2022 so no movement in the LTBP for critical illness business net of reinsurance (2021: no change in morbidity assumptions).

If a lower morbidity rate were assumed to apply, the LTBP would decrease.

**Unit growth rate**
Unit growth before charges is assumed to be **3.55%** gross, **2.85%** net (2021: 1.10% gross, 0.85 % net). This is derived from risk free interest rates and no allowance is made for the higher expected return on equities.

**Expenses**
Expense loadings are based on a prudent assessment of the expected cost of administering existing contracts including allowance for future inflation. A significant part of the expected future cost is in respect of services provided by a third party on terms which are guaranteed until early 2026.

For the remainder an expense inflation assumption of **4.0%** per annum (2021: 4.0% per annum) is assumed. We have reviewed the prudence of the 4.0% expense inflation assumption considering the recent increase in current inflation. The 4.0% assumption has been left unchanged as it is a forward-looking, long-term assumption and is compared against an average rate from the long-term inflation yield curve, which has fallen slightly over 2022.

Investment management fees are assumed to be incurred at current percentage rates. Tax relief on expenses for life contracts is assumed to be **20%** (2021: 20%).

The changes in expense assumptions during 2022 resulted in a **£38m** increase in the LTBP for non-profit and linked business net of reinsurance (2021: decrease of £21m).

**Other provisions**
The long-term business provision includes a provision of **£19m** (2021: £23m) for redress for remediation and complaints on a number of contract types, the most significant of which are pensions. The provision is based on our current view of the redress we anticipate being paid on known issues and complaints.

In respect of short duration Group Life and Group Income Protection contracts, the long-term business provision includes a gross provision for unearned premiums of **£178m** (2021: £155m) and related reinsurance of **£20m** (2021: £22m). This represents the proportion of the premiums written in a year that relate to periods of risk after the balance sheet date. Additionally, technical provisions include an allowance for incurred but not reported claims and claims in payment. Claims in payment are an allowance for claims currently within the deferred period, claims past commencement awaiting decision and claims in appeal. The allowance for claims in payment is composed of the discounted values of the expected annual amounts of claims, allowing for any escalation in payment, and future administration expenses.

### 21 Technical provisions (continued)

| Long-term business provision | 2022 | 2021 |
|---|---|---|
| | | |
| Insurance contracts | **3,354** | 4,861 |
| Provision for unearned premiums | **178** | 155 |
| | **3,532** | 5,016 |
| Investment contracts with DPF | **439** | 513 |
| Non-unit reserves on unit-linked investment contracts | **17** | 16 |
| Total | **3,988** | 5,545 |

The majority of the current / non-current split of the long-term business provision can be found in note 29.

Development of long-term business provision – insurance contracts and provision for unearned premiums.

| | **Gross** | **Reinsured** | **Net** |
|---|---|---|---|
| | **£m** | **£ m** | **£ m** |
| **Opening balance at 1 January 2022** | **5,016** | **(2,445)** | **2,571** |
| Premiums | **927** | **(637)** | **290** |
| Claims | **(586)** | **494** | **(92)** |
| Fee income and other expenses | **(387)** | **167** | **(220)** |
| Interest and bonuses credited to policyholders | **(139)** | **(21)** | **(160)** |
| Changes in assumptions | **(1,299)** | **837** | **(462)** |
| **Closing balance at 31 December 2022** | **3,532** | **(1,605)** | **1,927** |

| | **Gross** | **Reinsured** | **Net** |
|---|---|---|---|
| | **£m** | **£ m** | **£ m** |
| Opening balance at 1 January 2021 | 4,992 | (2,325) | 2,667 |
| Premiums | 879 | (587) | 292 |
| Claims | (602) | 487 | (115) |
| Fee income and other expenses | (103) | (99) | (202) |
| Interest and bonuses credited to policyholders | (7) | (10) | (17) |
| Changes in assumptions | (143) | 89 | (54) |
| Closing balance at 31 December 2021 | 5,016 | (2,445) | 2,571 |

The impact from assumption reviews in the tables above are comprised of changes from demographic assumptions of **£43m** for persistency (2021: £87m), **£(10)m** for mortality (2021: £27m) and **£38m** for expenses (2021: £3m); and changes in interest rates of **£(533)m** (2021: £(171)m).

### 21 Technical provisions (continued)

| Technical provisions for linked liabilities | 2022 | 2021 |
|---|---|---|
| | **£m** | £m |
| Linked insurance contracts | **9,602** | 11,553 |
| Linked investment contracts | **10,857** | 13,062 |
| Total | **20,459** | 24,615 |

Development of technical provisions for linked liabilities – linked insurance contracts

| | Gross | Reinsured | Net |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| **Opening balance at 1 January 2022** | **11,553** | **(17)** | **11,536** |
| Premiums | **133** | **-** | **133** |
| Claims | **(1,117)** | **1** | **(1,116)** |
| Fee income and other expenses | **(46)** | **-** | **(46)** |
| Interest credited to policyholders | **(922)** | **2** | **(920)** |
| Changes in assumptions | **1** | **-** | **1** |
| **Closing balance at 31 December 2022** | **9,602** | **(14)** | **9,588** |

| | Gross | Reinsured | Net |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| Opening balance at 1 January 2021 | 11,591 | (16) | 11,575 |
| Premiums | 145 | - | 145 |
| Claims | (1,210) | 1 | (1,209) |
| Fee income and other expenses | (238) | - | (238) |
| Interest credited to policyholders | 1,265 | (2) | 1,263 |
| Changes in assumptions | - | - | - |
| Closing balance at 31 December 2021 | 11,553 | (17) | 11,536 |

## 21 Technical provisions (continued)

Development of technical provisions for linked liabilities – linked investment contracts

| | Gross | Reinsured | Net |
|---|---|---|---|
| | £m | £ m | £ m |
| **Opening balance at 1 January 2022** | **13,062** | **-** | **13,062** |
| Premiums | **71** | **-** | **71** |
| Claims | **(1,311)** | **-** | **(1,311)** |
| Fee income and other expenses | **(65)** | **-** | **(65)** |
| Interest credited to policyholders | **(900)** | **-** | **(900)** |
| **Closing balance at 31 December 2022** | **10,857** | **-** | **10,857** |

| | Gross | Reinsured | Net |
|---|---|---|---|
| | £m | £ m | £ m |
| Opening balance at 1 January 2021 | 12,768 | - | 12,768 |
| Premiums | 82 | - | 82 |
| Claims | (1,500) | - | (1,500) |
| Fee income and other expenses | (50) | - | (50) |
| Interest credited to policyholders | 1,763 | - | 1,763 |
| Closing balance at 31 December 2021 | 13,062 | - | 13,062 |

The table above shows the components of the movement of **£(2,205)m** in linked investment contracts over 2022. For presentation in the profit and loss account, a deposit accounting approach is used on investment contracts where premiums, claims and the corresponding movement in unit reserve are not shown in the profit and loss account. The fee income and other expenses of **£65m** is included in Other technical income, net of reinsurance. The interest credited to policyholder of **£(900)m** is shown as the movement in technical provisions for linked liabilities – investment contracts.

Reinsurers' share of technical provisions
Reinsurers' share of technical provisions for linked liabilities is wholly represented by linked insurance contracts.

The expected maturity profile of non-linked liabilities for insurance contracts, net of reinsurance are within note 29.

## 22 Capital management (unaudited)

The Company complied in all material respects with the applicable requirements of the PRA Rules and the Solvency II regulations. The Solvency II regulations stipulate the capital requirements of the Company which are the Minimum Capital Requirement ("MCR") and the SCR.

### Objectives of capital management

The ZIG group's capital management strategy is to maximize long-term shareholder value by optimising capital allocation while managing the balance sheet at "AA" level and in accordance with regulatory, solvency and rating agency requirements. In particular, the ZIG group endeavours to manage its capital so that it and all of its regulated entities are adequately capitalized in compliance with the relevant regulatory capital adequacy requirements. The ZIG group seeks to minimize constraints to capital fungibility by pooling risk, capital and liquidity centrally as much as possible.

### 22 Capital management (unaudited) (continued)

**Capital management and business planning framework**
The Company endeavours to manage its capital (being the Solvency II own funds) so that it meets regulatory MCR at all times. In addition, the Company's capital management policy is consistent with the ZIG group's capital management policy as set out above.

- The Chief Financial Officer ("CFO") is responsible for managing regulatory solvency within a range in order to avoid unnecessary frequent capital movements to and from the ZIG group. This range reflects legal, regulatory and business considerations.
- The lower end of this range (referred to as the intervention trigger) reflects a safety buffer above the MCR. In the case of a deficiency against the intervention trigger, the CFO proposes corrective actions to the Board and the Group Treasury & Capital Management team ("GTCM"). Corrective actions include requesting capital support from ZIG if deemed appropriate.
- The upper boundary includes an adequate buffer in order to absorb solvency volatility under normal economic conditions. In case of excess capital above the upper solvency boundary, the CFO proposes to the Board and the GTCM team to remit the excess to the shareholder as soon as permissible from a legal, regulatory and business perspective.
- Regulatory solvency is monitored on a regular basis and reported to the regulator at least quarterly.
- The Company has complied with the Solvency II capital requirement throughout the year and capital has been maintained at a level consistent with the Company's objectives.

**Own funds**
The own funds are derived from the excess of assets over liabilities shown on the Solvency II balance sheet. There is a deduction for restricted own fund items in respect of the ring fenced with-profits funds in accordance with the Solvency II regulatory regime.

£1.2m of own funds are within tier one whilst the remaining are in tier three.

All own funds are available:

(i) To meet the Solvency Capital Requirements
(ii) To meet the Minimum Capital Requirement with the exception of the Tier three own funds.

### 22 Capital management (unaudited) (continued)

**Own funds (continued)**

| Composition of Solvency II Own funds | 2022 | 2021 |
|---|---|---|
| | £ m | £ m |
| | (unaudited) | (unaudited) |
| Assets | **24,345** | 30,146 |
| Other Liabilities | **(773)** | (919) |
| Best estimate of liabilities | **(21,933)** | (27,293) |
| Risk Margin | **(255)** | (465) |
| **Solvency II excess of assets over liabilities** | **1,384** | 1,469 |
| Adjustment for restricted own fund items in respect of ring fenced funds | **(111)** | (73) |
| **Total basic own funds after deductions** | **1,273** | 1,396 |

| Reconciliation of Shareholder's funds to Solvency II excess of Assets over Liabilities | 2022 | 2021 |
|---|---|---|
| | £ m | £ m |
| | (unaudited) | (unaudited) |
| Shareholder's funds – equity interests | **474** | 535 |
| Fund for future appropriations | **33** | 37 |
| Difference in gross technical provisions | **2,261** | 2,404 |
| Difference in reinsurers' share of technical provisions | **(1,002)** | (1,174) |
| Assets held for index-linked and unit-linked contracts | **(61)** | (72) |
| Deferred acquisition costs | **(228)** | (224) |
| Deferred front end fees | **16** | 29 |
| Difference in Deferred tax asset and liability | **(125)** | (78) |
| Other | **16** | 12 |
| Solvency II excess of assets over liabilities | **1,384** | 1,469 |

The reconciling differences can be explained by:

- Different valuation bases, assumptions and calculation methodology result in differing levels of gross technical provisions between UK GAAP and Solvency II.
- Reinsurers' share of technical provisions differ as a result of different valuation basis and assumptions used.
- Under Solvency II the economic value for deferred acquisition costs and deferred front end fees are always nil, however under UK GAAP deferred acquisition costs are included in the balance sheet as an asset and deferred front end fees are included in the balance sheet as a liability.
- The differences in the underlying valuation of the assets and liabilities under UK GAAP compared to Solvency II result in deferred tax differences between the two reporting measures.

Restriction to own funds due to ring fenced funds removes the policyholders' share of the surplus in the with-profit funds.

**Capital resource sensitivities**
The most significant sensitivities to capital resource arise from market risk, credit risk and insurance risk, details of which can be seen in note 29.

### 23 Deferred tax asset

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

| | **2022** | 2021 |
|---|---|---|
| | **£ m** | £ m |
| Deferred tax assets (including within Other Debtors – note 16) | **98** | 24 |
| Deferred tax liabilities | **-** | (216) |
| **Net deferred tax asset/ (liability)** | **98** | (192) |

| **Net deferred tax asset (liability) provided in the balance sheet:** | **2022** | 2021 |
|---|---|---|
| | **£ m** | £ m |
| Deferred expenses | **13** | 12 |
| Deferred origination fees | **3** | 6 |
| Accelerated capital allowances | **1** | 2 |
| Losses available for set off against future taxable income | **162** | 25 |
| Unrealised gains on investments | **(81)** | (228) |
| Actuarial liabilities | **-** | (6) |
| Life Tax Regime transitional adjustments | **-** | (3) |
| **Total deferred tax asset/ (liability) at 31 December** | **98** | (192) |

| **Reconciliation of movement in deferred tax:** | |
|---|---|
| | **£m** |
| **Opening deferred liability at 1 January 2022** | **(192)** |
| Deferred tax charge in the technical account | **290** |
| **Deferred tax asset at 31 December 2022** | **98** |

Deferred tax is primarily in respect of the long-term business of the Company.

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The recognition of the deferred tax asset of £98m (2021: £24m) is supported by the Company's projected taxable investment return and profit / loss position. The ability to utilise some of the carried forward losses is limited to 50% of relevant future taxable profits post 1 April 2017. Deferred tax assets of **£0.9m** (2021: £0.9m) have not been recognised in respect of losses amounting to **£3.7m** (2021: £3.7m).

### 24 Other provisions

| | Onerous Property Obligations | Dilapidations | Total |
|---|---|---|---|
| | £m | £ m | £ m |
| **Balance at 1 January 2022** | 6 | 2 | 8 |
| Increase in provision | 4 | - | 4 |
| Release in provision | - | - | - |
| Utilised in the year | (3) | (2) | (5) |
| **Balance at 31 December 2022** | 7 | - | 7 |

Where appropriate these provisions have been discounted and details provided below.

**£1m** (2021: £7m) of other provisions are current, and **£6m** (2021: £1m) are non-current.

**Onerous Property Obligations**
The majority of this provision represents the discounted cost of leased properties, primarily service costs, that are expected to be vacant for more than two years. The discount rate used was **0.98%** (2021: 0.90%). In addition, a provision is established where forecast sub-let income is expected to be less than the property management expenses. The provision takes into account assumptions as to the period the property will remain vacant or, where applicable, the period for which the property expense exceeds rent receivable. The position is regularly reviewed and any changes in circumstances are reflected in the calculation of the provision. It is expected that the provision will be utilised over the period of the leases of 1 to 11 years.

Following the reshaping of the UK Life business portfolio a key action was the partial termination of the Capita contract, relating to our Retail Protection new business. On 14 December 2021 announcements were made to Capita and Zurich staff detailing the proposed changes. A provision relating to property related costs associated with the partial contract termination have been included above and was expected to be utilised in 2022. Due to delays in the construction of Unity Place, space in Tri-Centre 2 was vacated from October 2022 with the remainder of space being vacated during 2023. There is **£2.6m** of property provision remaining at 31 December 2022.

**Dilapidations**
ZAL has exercised the break option of the Swindon office Tri Centre 1 and settled the obligations with the Landlord. Subsequently a temporary extension was agreed until 8 January 2023, but this will not impact the agreed settlement. The provision of £2.1m was utilised in the settlement.

### 25 Unit-linked lease liabilities and lease liabilities

The Company holds lease liabilities within its unit-linked portfolio that are based on ground rent for leasehold investment properties. In addition, the Company maintains leases on properties, currently or previously held for own use.

| | 2022 | 2021 |
|---|---|---|
| | £ m | £ m |
| **Unit-Linked Lease Liabilities - Property** | | |
| **Balance at 1 January** | **77** | 79 |
| Lease payments | **(3)** | (3) |
| Interest in the year | **2** | 3 |
| Remeasurement | **-** | (2) |
| **Closing balance at 31 December** | **76** | 77 |
| | | |
| **Lease Liabilities - Property** | | |
| **Balance at 1 January** | **10** | 24 |
| Lease payments | **(4)** | (5) |
| Additions | **21** | - |
| Remeasurement | **-** | (9) |
| **Closing balance at 31 December** | **27** | 10 |

**Unit-Linked Lease liabilities included in financial statements**

| | 2022 | 2021 |
|---|---|---|
| | £ m | £ m |
| Current | **0** | 1 |
| Non-current | **76** | 76 |
| **Total unit-linked lease liabilities** | **76** | 77 |

**Lease liabilities included in financial statements**

| | 2022 | 2021 |
|---|---|---|
| | £ m | £ m |
| Current | **2** | 3 |
| Non-current | **25** | 7 |
| **Total lease liabilities** | **27** | 10 |

### 26 Creditors

**Creditors arising out of direct insurance operations**
All Creditors arising out of direct insurance operations are **current** (2021: all current).

**Creditors arising out of reinsurance operations**
All Creditors arising out of reinsurance operations are **current** (2021: all current).

### 26 Creditors (continued)

| Other creditors including taxation and social security | 2022 | 2021 |
|---|---|---|
| | **£ m** | £ m |
| Amounts owed to group companies | **39** | 46 |
| Amounts owed to subsidiary companies | **3** | 1 |
| Derivative instruments | **1** | 4 |
| Other | **36** | 18 |
| **Total** | **79** | 69 |

Amounts owed to group companies are unsecured, interest free and have no fixed date of repayment.

No creditors are due more than five years or payable by instalments.

All other amounts included in other creditors including taxation and social security are **current** (2021: current).

Included in other creditors in both years are amounts owed in respect of Eagle Star (Leasing) Limited a subsidiary of the Company for which the Company is ultimately liable.

### 27 Other amounts owed to credit institutions and borrowings

| | 2022 | 2021 |
|---|---|---|
| | **£ m** | £ m |
| Amounts due on gilt sale and repurchase agreements | - | 27 |

All amounts due on gilt sale and repurchase agreements are **current** (2021: current).

Amounts due on gilt sale and repurchase agreements in 2021 related to liabilities arising from the sale of British Government Securities, which the Company was under obligation to repurchase.

Repayment dates on gilt sale and repurchase agreements are variable and the interest rate was 0.38% in 2021.

The fair value of amounts owed to credit institutions and borrowings equals their carrying value as the impact of discounting is not significant.

The Company has no undrawn borrowing facilities. Open gilt agreements at the start of the year were closed out in August 2022.

### 28 Accruals and deferred income

| | 2022 | 2021 |
|---|---|---|
| | **£ m** | £ m |
| Deferred origination fees | **16** | 29 |
| Accrued expenses | **17** | 21 |
| Total | **33** | 50 |

### 28 Accruals and deferred income (continued)

Deferred origination fees relate to unit-linked investment contract holders. These fees are recognised in the period in which they are charged unless they relate to services to be provided in future periods in which case they are deferred and recognised as income over the expected term of the contract as the services are provided.

All accrued expenses are **current** (2021: all current).

### 29 Risk management

Risk management is integral to the Company's strategy and operations. The Company operates a rigorous risk management framework designed to promptly identify, measure, manage, report and monitor all risk types and associated risks that affect the achievement of strategic, operational and financial objectives. This includes reviewing the Company's risk profile against the Board's approved risk appetite, in order to respond to new risks and opportunities and support risk based decision making.

The risk management framework is overseen by the Risk Committee and its purpose is to assist the Board in carrying out its responsibilities in relation to the oversight of risk management by:

- providing oversight and guidance to the Company and its management in relation to risk management and assisting in identifying matters requiring management's attention;
- acting as a focal point for discussion and communication of matters regarding risk management; and
- giving sufficient attention to presented issues and information to determine which areas might require further review, additional attention and escalation.

The Company manages and mitigates the risks identified within the risk assessment process through robust executive management actions as these risks are not able to be managed by setting aside additional capital requirements.

**Underwriting risk**
The Company is exposed to financial risks through its issue of insurance and investment contracts and the use of financial instruments. The principal risks are underwriting risk, market risk, credit risk and liquidity risk. A summary of how each of these risks are managed by the Company is given below.

Underwriting risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities. The risks associated with underwriting risk include mortality risk, longevity risk, morbidity risk, lapse risk, expense risk and catastrophe risk. The Company quantifies underwriting risk as part of its solvency capital requirements. This highlights the Company's material underwriting risks as lapse risk and expense risk.

The Company has in place a regular monitoring system which reports on the mortality, morbidity, lapse and expense experience of the business. This is used to help determine the rates at which new business is accepted. The Company also transacts many of its insurance contracts where the risk rates charged under policies can be reviewed and hence altered in line with experience. In addition to monitoring business experience the Company regularly assesses whether its underwriting risk exposures are in line with its expectations and its risk appetite.

The Company has transacted longevity insurance with a number of pension schemes since 2015. On these trades, the Company has used reinsurance to manage an appropriate amount of longevity risk taken on, with a minority retained; the Company has strong internal expertise, systems, processes and controls to price, execute and operate these contracts efficiently.

The Company uses a number of techniques to mitigate underwriting risk. Details are provided below.

**Reinsurance**
The Company effectively mitigates its morbidity, mortality, longevity and catastrophe risks by reinsuring a substantial part of its underwriting risk both with the ZIG group and with external reinsurers. The morbidity and mortality reinsurance also reduce the lapse risk on retail protection business.

**29 Risk management (continued)**

**Reinsurance (continued)**
The Company's Actuarial Function is responsible for providing an opinion on the appropriateness of the Company's reinsurance arrangements and they concluded that the Company's reinsurance arrangement were appropriate over 2022.

**Underwriting discipline**
Underwriting risks are also mitigated by the Company's underwriting activity, product design and product approval process.

Underwriting discipline is a fundamental part of managing underwriting risk and applies to product design and approval and the underwriting process. When designing certain products, the Company makes use of product features such as reviewable charges which enable the Company to charge an appropriate rate for the risks associated with these policies.

The Company mitigates underwriting risk by underwriting individual protection business at the point of application and claim. The process involves reviewing appropriate policyholder medical information and if required the Company will seek additional information to support the underwriting decision.

The Company mitigates underwriting risk for group protection policies by underwriting both the scheme risk for cover below the automatic acceptance limit and underwriting individual benefit exposures that exceed this at the point of application and claim. The process of scheme underwriting involves; accepting or declining the risk; setting an automatic acceptance limit and the cost of the scheme having reviewed the profile of the group of members being insured.

The total sum at risk, net of reinsurance, is **£19,888m** (2021: £16,817m). Sensitivity to changes in mortality risk is detailed at the end of the note.

The table below shows an analysis of the expected maturity profile of reserves for insurance contracts, net of reinsurance, based on expected cash flows. Reserves for unit-linked insurance contracts amounting to **£9,588m** (2021: £11,536m) respectively, are not included, as policyholders can generally surrender their contracts at any time, at which point the underlying unit-linked assets would be liquidated. Risks from the liquidation of unit-linked assets are largely borne by the policyholders of unit-linked contracts.

| | **2022** | 2021 |
|---|---|---|
| | **£ m** | £ m |
| | **Non-linked** | Non-linked |
| Within one year | **240** | 258 |
| Between one and five years | **163** | 285 |
| Between five and ten years | **51** | 174 |
| After ten years | **1,473** | 1,854 |
| **Total** | **1,927** | 2,571 |

**Embedded derivatives within insurance contracts**
The Company has exposure to a variety of embedded derivatives within its long-term insurance business. These arise from product features offering varying degrees of guaranteed benefits at maturity, death or on early surrender. Examples of embedded derivatives affecting the Company are guaranteed annuity options, guaranteed death benefits and withdrawals free of market value adjustments. These are allowed for in the calculation of the LTBP.

**29 Risk management (continued)**

**Market risk**
Market risk is the risk associated with the Company's assets and liabilities where their value or cash flow depends on financial markets; this includes the market value of the Company's balance sheet positions and future earnings on contracts linked to the market value of the unit-linked assets. The main risks associated with market risk are interest rate risk, credit spread risk, currency exchange rate risk, equity price risk and property price risk.

The Company monitors and controls exposures to market risk by aligning its strategic asset allocation to risk taking capacity, giving consideration to regulatory requirements, liability profiles, liquidity requirements, capital and solvency impacts. The Company's Board, supported by the ALMIC has responsibility for the implementation and on-going monitoring and evaluation of this process and in addition, will from time to time, as appropriate given the above considerations, approve any changes to the strategic asset allocation, including within the with-profits funds.

The Company uses a variety of risk mitigation techniques to effectively manage market risks. The specific risk mitigation technique depends on the risk. For the material market risks the mitigation techniques used are outlined below.

The Company quantifies market risk as part of its solvency capital requirements. This highlights the Company's material market risks as credit spread risk.

**Equity risk**
The Company uses unit matching along with a derivative strategy to mitigate equity risk within its unit-linked business. The derivatives are used to cover any residual risks not covered by unit matching. The combination of unit matching and derivatives protect the expected future profits from policies against movements in equity prices, maintaining the value of the business to the shareholder.

The Company is exposed to a low level of equity risk as the equity derivative strategy does not cover the equity exposure within the Company's Hong Kong branch or the equity exposure within the Company's with-profits funds.

Sensitivity to equity risk is detailed at the end of this note.

**Credit spread risk**
Credit spread risk is mitigated by limiting the Company's investment portfolios exposure to lower credit quality assets.

Debt securities and other fixed-income securities bearing credit risk are **£2,761m** (2021: £3,872m) of which **93.9%** (2021: 95.8%) have a credit rating of BBB or above. Where available external credit rating agencies are used to provide the credit ratings.

The above debt securities and other fixed-income securities contain **£1,215m** (2021: £1,946m) of exposure to government bonds or bonds issued by supranational agencies of which **86.8%** (2021: 90.9%) is issued in the UK, **7.8%** (2021: 5.4%) is issued in the USA and **5.4%** (2021: 3.7%) is issued outside of the UK or USA.

Hybrid securities of **£8m** (2021: £10m) are included within Shares and other variable yield securities and units in unit trusts.

Purchases of floating rate notes are subject to a minimum credit rating of AA-, and limits are set on the amount of any one issue that the Company can hold, to restrict credit risk.

In the case of derivative transactions, the Company controls the credit risk of its outstanding positions with external counterparties through the collateralisation of outstanding positions. Derivatives are typically executed with counterparties rated A- or better to limit credit risk.

### 29 Risk management (continued)

The Company holds collateral in respect of derivative arrangements. The agreements require acceptable collateral to be pledged to the net value of the derivative positions within given transaction tolerances. The Company does not sell or onward lend assets pledged as collateral.

The fair value from derivative trading of collateral receivable is **£1m** (2021: £4m) and of collateral obligations is **£11m** (2021: £1m).

Sensitivity to a widening of credit spreads is detailed at the end of this note.

**Interest rate risk**
The Company mitigates its interest rate risk by specifying fixed interest portfolio mandates which include target asset durations and range limits. Having target asset durations consistent with the liability durations minimises this risk.

Information about maturity dates for those financial assets and/or liabilities exposed to significant interest rate risk is an indicator of the sensitivity of the financial assets and/or liabilities to changes in current interest rates. The maturity profiles of debt securities and other fixed-income securities, deposits with credit institutions, and investment contract liabilities are set out in the tables below.

Debt securities and other fixed-income securities maturity schedule

| | **Fair value through profit or loss** | Fair value through profit or loss |
|---|---|---|
| | **2022** | 2021 |
| | **£ m** | £ m |
| Within one year | **51** | 114 |
| Between one and five years | **527** | 541 |
| Between five and ten years | **847** | 957 |
| After ten years | **1,336** | 2,260 |
| **Total** | **2,761** | 3,872 |

The fair values of debt securities through profit or loss are shown by contract maturity. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or pre-pay certain obligations with or without call or pre-payment penalties.

Deposits with credit institutions maturity information
All deposits with credit institutions have maturity dates of less than one year.

**29 Risk management (continued)**

Investment contracts with discretionary participating features ("DPF") liabilities maturity schedule
The following maturity schedule for investment contracts with DPF liabilities is calculated on an undiscounted basis.

| | **2022** | 2021 |
|---|---|---|
| | **£ m** | £ m |
| Within one year | **95** | 107 |
| Between one and five years | **252** | 273 |
| Between five and ten years | **151** | 154 |
| After ten years | **77** | 77 |
| Total | **575** | 611 |

A maturity analysis for unit-linked investment contracts amounting to **£10,857m** (2021: £13,062m) has not been produced as policyholders can generally surrender their contracts at any time, at which point the underlying unit-linked assets would be liquidated. Risks from the liquidation of unit-linked assets are largely borne by the policyholders of unit-linked contracts.

The Company monitors the impact of reported interest rate movements on a daily basis by assessing the expected changes in the different portfolios. Policyholder liabilities and related assets are closely matched, with the changes in the profit for the year and the fund for future appropriations coming from the impact of yield changes on free assets, including those in the shareholder fund.

Where the Company enters into gilt sale and repurchase agreements and reinvests in securities with variable redemption dates, its practice is to ensure the weighted average life of the securities is significantly shorter than that of the underlying gilt portfolio. This ensures that if redemption dates extend, the average redemption date does not exceed the estimated maturity date of the liabilities.

Sensitivities to changes in interest rate are detailed at the end of this note.

**Credit risk**
Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfil their financial obligations. The Company's exposure to credit risk is derived from the following main categories of assets:

- Cash and cash equivalents
- Reinsurance assets
- Receivables
- Derivatives

The Company is also exposed to credit risk by the use of 'fund reinsurance' to access external funds provided by other life insurers, where the legal form is a reinsurance arrangement but in practice it operates in the same way as a collective investment arrangement. The Company considers the risks associated with these fund links to be very low however it does hold capital for these arrangements under its Solvency II Standard Formula SCR which requires the same treatment as for other reinsurances.

The Company implements credit exposure limits and regularly monitors credit exposures by individual counterparty and related counterparties by the aggregated exposure across various types of credit risk for that counterparty. The limits vary based on the underlying counterparty rating and appropriate benchmarks.

In order to mitigate concentration, settlement and operational risks related to cash and cash equivalents, the Company limits the maximum cash amount that can be deposited with a single counterparty. The Company maintains an authorised list of acceptable cash counterparties based on current ratings and outlook.

**29 Risk management (continued)**

**Credit risk (continued)**
Cash at bank and in hand bearing credit risk is **£141m** (2021: £152m) of which **99.9%** (2021: 99.8%) is held with institutions that have a credit rating of A- or above.

The Company typically cedes new business to authorised reinsurers with a minimum rating of A-. Credit risk is also mitigated by the reinsurers placing collateral. The Company maintains an authorised list of acceptable reinsurance counterparties based on current ratings and outlook, taking the analysis of fundamentals and market indicators into account. Credit risk is also mitigated by the reinsurers placing collateral of acceptable quality.

The Company reports internally on the past due receivable balances and strives to keep the balance of past due positions as low as possible. The Company has a small amount of exposure to intermediaries where commission is paid on policies which are later cancelled, this is managed via the commission claw-back process to further limit the total and length of any exposure. See note 16 for the amounts in Debtors that are past due but not impaired.

To limit credit risk, derivative financial instruments are typically executed with counterparties rated A– or better by an external rating agency. The Company only transacts derivatives with counterparties where a credit support agreement is in place; this mitigates credit exposures from over-the-counter transactions due to close-out netting and requires the counterparty to post collateral when the derivative position is beyond an agreed threshold. Derivative valuation reconciliations and collateral assessments take place on a daily basis to ensure credit risk is minimised.

**Liquidity risk**
Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due or would have to incur excessive costs to do so.

The Company monitors liquidity risk by projecting expected future payments and buys and sells investments, including retaining cash and cash equivalents, with the objective of having sufficient cash to meet payments as they fall due. The amount of cash is managed separately for each unit-linked fund and set at a level that aims to reflect the liquidity of the other investments in the fund.

The Company monitors the impact of financial market volatility on the level of policy surrenders, funds withdrawals and fund switches. In response the Company holds appropriate levels of unencumbered liquidity to meet any potential increases in withdrawals, including withdrawals from unit-linked funds.

A liquidity governance framework is in place to monitor liquidity in the short and long term to ensure there are appropriate liquidity levels at all times. This framework monitors liquidity risk by taking into account the amount, availability and speed at which assets can be accessed and includes daily liquidity monitoring.

Whilst operational liquidity risk is inherent to the nature of the business that the Company operates, it is also in the nature of long-term insurance that the Company has large volumes of assets which are either liquid or generate steady liquidity. While small amounts of liquidity risk are unavoidable, the Board's requirement is for the Company to ensure sufficient liquidity to meet all forecast cash outflows in the short and medium term.

**Pension risk**
Pension scheme risk is the risk of financial loss from changes in the assets or liabilities of a staff pension scheme. The Company does not have direct pension scheme risk.

Employees in the UK working on behalf of the Company are predominantly employed by ZES, a wholly owned subsidiary of UKISA. The employees of ZES mainly participate in a pension scheme which contains both defined benefit and defined contribution sections. The defined benefit sections of the scheme were closed to new entrants in March 2007 and to further accruals from 1 January 2016. The financial position of the pension scheme is recognised in the ZES balance sheet and details of the pension scheme can be found in the ZES financial statements. UKISA, as the pension scheme sponsoring company, is obliged under the scheme rules to procure payment of contributions that the participating employers, including ZES, are required to make into the scheme.

### 29 Risk management (continued)

**Pension risk (continued)**
Pension scheme risk arises in the Company through its association with the pension schemes which are sponsored by another group company, UKISA. Although the Company is not bound by any legal obligation to support the pension scheme, under extreme circumstances there remains a risk that the Company may be required to assist UKISA in securing the funding ZES may be required to make to the pension scheme.

***Risk sensitivities***
The sensitivity analysis below shows the impact on the profit and loss account for the year of reasonably possible changes for each factor.

| | **Impact on Profit and Loss Account** | Impact on Profit and Loss Account |
|---|---|---|
| | **2022** | 2021 |
| | **£ m** | £ m |
| Mortality rate on assurances decreases by 5% | **(5)** | (20) |
| Mortality rate on annuities decreases by 5% | **(3)** | (5) |
| Morbidity rate on assurances decreases by 5% | **4** | 5 |
| Lapse rates on non-linked protection products decreases by 10% | **(13)** | (28) |
| Equities +25% | **(68)** | (100) |
| Equities -25% | **61** | 98 |
| Credit spreads +0.50% | **(20)** | (32) |
| Interest rates +0.50% | **(41)** | (46) |
| Interest rates -0.50% | **58** | 47 |

The impact on shareholder equity from each of these sensitivities would be equal to the impact on the profit and loss account.

The sensitivity to interest rates assumes a parallel shift in interest rates at all durations and then estimates the resulting movement in asset values and valuation assumptions. The sensitivities to interest rate movements occur because the Company matches on a realistic basis rather than a statutory basis, and due to the movement in the value of surplus assets not backing liabilities.

The sensitivity to equity price movements allows for movements in unit-linked assets and liabilities together with any non-linked equity exposures. The sensitivities to equity price movements occur because the Company employs a unit matching and derivative strategy to reduce the impact of equity price risk on future annual management charges arising in respect of unit-linked funds. The movement in the value of these future charges is not immediately recognised, whereas the movement in the unit linked asset shortfall and in the value of the derivatives is recognised in full.

Credit spreads have been determined for debt securities and other fixed-income securities based on the difference in yield compared with UK Government bonds of a similar term for each asset. The sensitivity to credit spreads assumes an increase in spread of 0.50%. For example, for an asset with a spread of 1.00%, the spread would increase to 1.50%. The sensitivity then estimates the resulting movement in asset values and valuation assumptions.

The sensitivity to lapse rates assumes lapse rates reduce by 10% of their current assumption. Lapse rates are only allowed for on certain protection contracts, see note 21. The rise in yields over 2022 is the main factor for the reduction in the lapse and mortality sensitivities compared to end 2021.

### 30 Guarantees and contingent liabilities

The Company has indemnified Zurich Advice Network Limited ("ZAN") from any liability, arising from any claim or complaint relating to any products previously marketed, advised upon or sold (whether directly or indirectly) by ZAN or its predecessor or any of their advisers at any time from 5 June 1997. The fair value is considered negligible as the Company assumes any liability in respect of its own products and therefore the probability of economic transfer being required as a result of this indemnity is considered to be remote.

For the above indemnity, the directors do not consider it necessary to provide for any amounts.

On 18 August 2017, the Company entered into an investment management agreement with Macquarie Financial Products Management Limited, with a further agreement signed on 18 December 2020. Under the terms of the agreement, the Company committed to invest **£200m** (2021: £200m) in a diversified portfolio of infrastructure debt. At 31 December 2022, the amount still available to be drawn down under the agreement was **£73m** (2021: £88m).

On 15 July 2020, the Company purchased land from Swindon Borough Council (SBC) and contracted to build a new office premises. At the same time the Company entered into a Sale and Leaseback Agreement with SBC to buy back the building within 10 days of formal completion. Under the construction contract the total cost for the land and build was anticipated to cost **£40m** (2021: £40m) including VAT. The full £40m was recovered from SBC on 21 December 2022 when the sale and leaseback transaction completed, and a right of use asset and lease liability was established. The present value of the future rent commitment relating to the leaseback of the premises from lease commencement until the first available break option is £21m. The first break option is after 10 years for the flex space and 20 years for the core space.

### 31 Related parties

#### a) Ultimate parent company

The Company's immediate parent company is Eagle Star Holdings Limited and its registered office is Unity Place, 1 Carfax Close, Swindon, SN1 1AP.

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

#### b) Related party transactions

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

Balances with ZIG group undertakings are shown in notes 16 and 26.

### 31 Related parties (continued)

### c) Subsidiary undertakings

The Company's subsidiary undertakings at 31 December 2022 and the particulars of the percentages of nominal value of issued shares then held, are shown below:

| Company | Class of Share Capital | Percentage of nominal value held by the Company |
|---|---|---|
| Access Franchise Management Limited * | Deferred and Ordinary | 100 |
| Eagle Star (Leasing) Limited * | Ordinary | 100 |
| Eagle Star Holding Company of Ireland Unlimited Company * | Ordinary | 100 |
| ES Plympton Nominee 1 Limited (dissolved 21 October 2022) ** | Ordinary | 100 |
| ES Plympton Nominee 2 Limited (dissolved 21 October 2022) ** | Ordinary | 100 |
| Graphene Capital Partners Limited * | Ordinary | 100 |
| Hawkcentral Limited * | Ordinary | 100 |
| Kennet Road 1 UK Limited ** | Ordinary | 100 |
| Kennet Road 2 UK Limited ** | Ordinary | 100 |
| Nearheath Limited * | Ordinary | 100 |
| Plot 8B Buckingway Management Limited | Ordinary | 100 |
| Zurich Pension Trustees Limited * | Deferred and Ordinary | 100 |

The companies listed above are registered at the following addresses:

* Unity Place, 1 Carfax Close, Swindon, SN1 1AP
** One St Peter's Square, Manchester, M2 3DE

### d) Significant holdings in undertakings other than subsidiary undertakings

| Company | Class of Share Capital | Percentage of nominal value held by the Company |
|---|---|---|
| Cambridge Research Park Management Co Limited | Ordinary | 23.00 |
| Plot 6 Buckingway Management Limited | Ordinary | 25.00 |
| Rabone Park Management Company Limited | Ordinary | 42.76 |
| The Parklands (Birmingham) Management Company Limited | Ordinary | 30.56 |

The companies listed in sections c and d are incorporated in England and Wales with the exception of:

- Eagle Star Holding Company of Ireland Unlimited Company which is incorporated in the Republic of Ireland

### 31 Related parties (continued)

#### d) Significant holdings in undertakings other than subsidiary undertakings (continued)

The following companies registered addresses are:

| Company | Registered Address |
|---|---|
| Cambridge Research Park Management Co Limited | 75 King William Street, London, England, EC4N 7BE |
| Eagle Star Holding Company of Ireland Unlimited Company | Zurich House, Frascati Road, Blackrock, Co Dublin, Ireland |
| Plot 6 Buckingway Management Limited | Alacer House Buckingway Business Park, Anderson Road, Swavesey, Cambridge, England, CB24 4UQ |
| Plot 8B Buckingway Management Limited | 6th Floor, 65 Gresham Street, London, EC2V 7NQ |
| Rabone Park Management Company Limited | 10 Wrens Court 48 Victoria Road, Sutton Coldfield, West Midlands, England, B72 1SY |
| The Parklands (Birmingham) Management Company Limited | Redrow House St. Davids Park, Ewloe, Deeside, Clwyd, CH5 3RX |

The principal country in which each of the above named subsidiary undertakings operates is its country of registration or incorporation.

There has been no change in the year in the percentage of nominal value held by the Company, or by its subsidiary undertakings.