

## **ELECTRONIC TRANSMISSION DISCLAIMER**

**STRICTLY NOT TO BE FORWARDED TO ANY OTHER PERSONS.**

**IMPORTANT:** You must read the following disclaimer before continuing. The following disclaimer applies to this electronic transmission and the attached prospectus dated 3 July 2025 (the “**document**”) relating to Chesnara plc, a company incorporated under the laws of England and Wales with registered number 04947166 (the “**Company**”) and you are therefore advised to read this disclaimer carefully before reading, accessing, reading or making any other use of the attached document. In accessing the attached document, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from the Company or any of its subsidiaries (together with the Company, the “**Group**”) as a result of such access. The attached document has been published in connection with the rights issue (the “**Rights Issue**”) of new ordinary shares of 5 pence each in the capital of the Company (the “**New Ordinary Shares**”) and admission of the New Ordinary Shares (nil paid and fully paid) to the equity shares (commercial companies) category of the Official List maintained by the Financial Conduct Authority (the “**FCA**”) and to London Stock Exchange plc for the New Ordinary Shares to be admitted to trading on its main market for listed securities (“**Admission**”). You acknowledge that this electronic transmission and attached document is confidential and is being furnished to you solely for your information and you agree that you will not forward or deliver the attached document, electronically or otherwise, to any person or reproduce, download or publish the attached document in any manner whatsoever.

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**THE NIL PAID RIGHTS, THE FULLY PAID RIGHTS, THE SHARES REFERRED TO HEREIN AND THE PROVISIONAL ALLOTMENT LETTERS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND MAY NOT BE OFFERED, SOLD, TAKEN UP, EXERCISED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (EXCEPT PURSUANT TO AN APPLICABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE US SECURITIES ACT AND IN COMPLIANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THERE WILL BE NO PUBLIC OFFER OF THE NIL PAID RIGHTS, THE FULLY PAID RIGHTS OR THE SHARES REFERRED TO HEREIN OR THE PROVISIONAL ALLOTMENT LETTERS IN THE UNITED STATES. SUBJECT TO LIMITED EXCEPTIONS, THE RIGHTS ISSUE DESCRIBED IN THIS DOCUMENT IS NOT BEING MADE TO SHAREHOLDERS OR INVESTORS IN THE UNITED STATES.**

Neither the attached document nor any part or copy may be taken or transmitted, directly or indirectly, into Australia, Canada, Japan or the Republic of South Africa or to any national, resident or citizen thereof, or any jurisdiction where such distribution is unlawful.

This electronic transmission, the attached document and the Rights Issue are being distributed only to and directed at: (i) persons in member states of the European Economic Area (“**EEA**”) who are “qualified investors” (“**Qualified Investors**”) within the meaning of article 2(e) of Regulation (EU) 2017/1129 (the “**EU Prospectus Regulation**”); and (ii) persons in the United Kingdom that are “qualified investors” within the meaning of the UK version of the EU Prospectus Regulation which forms part of UK domestic law pursuant to the European Union (Withdrawal) Act 2018 and are persons: (a) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 as amended (the “**Order**”) (investment professionals); (b) who fall within Article 49(2)(a) to (d) of the Order (high net worth companies, unincorporated associations etc.); or (c) to whom they may

otherwise be lawfully distributed (all such persons in (a), (b) and (c) together being referred to as **"Relevant Persons"**).

**Confirmation of Your Representation:** Any person who is not a Qualified Investor or a Relevant Person should not act or rely on the information contained in this electronic transmission and the attached document. If you are in any doubt as to the matters contained in this electronic transmission and the attached document (including whether you fall within the definitions of Qualified Investor or Relevant Person), you should consult an authorised person specialising in advising on investments of the kind contained in this electronic transmission and the attached document. Any investment or investment activity to which this electronic transmission and the attached document relate is available only to Qualified Investors in the EEA and Relevant Persons in the United Kingdom and will be engaged in only with Qualified Investors in the EEA and Relevant Persons in the United Kingdom. By accepting receipt of this electronic transmission and the attached document, each recipient is deemed to confirm, represent and warrant to the Company and RBC Europe Limited ("**RBC**") and ABN AMRO Bank N.V. ("**ABN AMRO**") and Panmure Liberum Limited ("**Panmure Liberum**", and together with RBC and ABN AMRO, the "**Joint Bookrunners**") that they are a Relevant Person or a Qualified Investor. Persons into whose possession the attached document comes should inform themselves about and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of the securities laws of any such jurisdiction.

The attached document has been made available to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Company, the Joint Bookrunners or any of their respective affiliates, directors, officers, employees, advisers or agents accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and any hard copy version. By accessing the linked or attached document, you consent to receiving it in electronic form. Please ensure that your copy is complete. A hard copy of the document will be made available to you only upon request.

You are reminded that the attached document has been made available to you solely on the basis that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this document, electronically or otherwise, to any other person.

**You are responsible for protecting against viruses and other destructive items.** Your receipt of this document via electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

None of the Joint Bookrunners or any of their respective affiliates, directors, officers, or agents accepts any responsibility whatsoever for the contents of the attached document or for any statement made or purported to be made by it, or on its behalf, in connection with the Company or the Rights Issue. Apart from the responsibilities and liabilities, if any, which may be imposed on the Joint Bookrunners by FSMA or the regulatory regime established thereunder or under the regulatory regime of any jurisdiction where exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, none of the Joint Bookrunners accepts any responsibility whatsoever for, or makes any representation or warranty, express or implied, as to, the accuracy, completeness or verification of the contents of the attached document or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the New Ordinary Shares or the Rights Issue and nothing in the attached document will be relied upon as a promise or representation in this respect, whether as to the past or future. Each of the Joint Bookrunners accordingly disclaims, to the fullest extent permitted by applicable law, all and any responsibility or liability, whether arising in tort, contract or otherwise (save as referred to above), which it might otherwise have in respect of the attached document or any such statement.

RBC is authorised by the PRA and regulated in the United Kingdom by the FCA and the PRA. RBC is acting solely for the Company and no one else in connection with this document, the Rights Issue and Admission and will not regard any other person (whether or not a recipient of this document) as a client in connection with this document, the Rights Issue or Admission and will not be responsible to anyone other than the Company for providing the protections afforded to clients of RBC nor for providing advice in relation to this document, the Rights Issue or Admission. Neither RBC nor any of its respective subsidiaries, branches or affiliates owe or accept any duty, liability or

responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of RBC, in connection with this document, the Rights Issue, Admission, the contents of this document or any other transaction, arrangement or other matter referred to in this document.

ABN AMRO is regulated by the European Central Bank in close cooperation with the Dutch Central Bank (*De Nederlandsche Bank*) and the Dutch Authority for the Financial Markets (*Autoriteit Financiële Markten*) in the Netherlands. ABN AMRO is acting solely for the Company and no one else in connection with this document, the Rights Issue and Admission and will not regard any other person (whether or not a recipient of this document) as a client in connection with this document, the Rights Issue or Admission and will not be responsible to anyone other than the Company for providing the protections afforded to clients of ABN AMRO nor for providing advice in relation to this document, the Rights Issue or Admission. Neither ABN AMRO nor any of its respective subsidiaries, branches or affiliates owe or accept any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of ABN AMRO, in connection with this document, the Rights Issue, Admission, the contents of this document or any other transaction, arrangement or other matter referred to in this document.

Panmure Liberum is authorised and regulated in the United Kingdom by the FCA. Panmure Liberum is acting solely for the Company and no one else in connection with this document, the Rights Issue and Admission and will not regard any other person (whether or not a recipient of this document) as a client in connection with this document, the Rights Issue and Admission and will not be responsible to anyone other than the Company for providing the protections afforded to clients of Panmure Liberum nor for providing advice in relation to this document, the Rights Issue and Admission. Neither Panmure Liberum nor any of its respective subsidiaries, branches or affiliates owe or accept any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of Panmure Liberum, in connection with this document, the Rights Issue, the Acquisition, Admission, the contents of this document or any other transaction, arrangement or other matter referred to in this document.

3 July 2025

**THIS DOCUMENT AND ANY ACCOMPANYING DOCUMENTS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION.**

If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank, solicitor, accountant, fund manager or other appropriate independent financial adviser who is authorised under the Financial Services and Markets Act 2000 (as amended) (“FSMA”) if you are resident in the United Kingdom (the “UK”), or, if you are not, from another appropriately authorised independent financial adviser.

This document has been drawn up as part of a simplified prospectus in accordance with Article 14 of the UK version of the Prospectus Regulation (Regulation (EU) 2017/1129), as amended, which is part of UK law by virtue of the European Union (Withdrawal) Act 2018 (the “**UK Prospectus Regulation**”), relating to Chesnara plc (the “Company”) prepared in accordance with the Prospectus Regulation Rules of the Financial Conduct Authority (the “**FCA**”) under Section 73A of FSMA (the “**Prospectus Regulation Rules**”). This document has been approved by the FCA in accordance with Section 85 of FSMA, which will be made available to the public and filed with the FCA in accordance with the Prospectus Regulation Rules.

This prospectus has been approved by the FCA as competent authority under the UK Prospectus Regulation. The FCA only approves this prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the UK Prospectus Regulation and such approval shall not be considered as an endorsement of the issuer that is the subject of this prospectus or of the quality of the securities that are the subject of this prospectus. Investors should make their own assessment as to the suitability of investing in the New Ordinary Shares.

This document together with the documents incorporated into it by reference (as set out in Part XVIII (*Documents Incorporated by Reference*) of this document) will be made available to the public, free of charge, at [www.chesnara.co.uk/investors](http://www.chesnara.co.uk/investors) and at the Company’s registered office at 2nd Floor, Building 4, West Strand Business Park, West Strand Road, Preston, Lancashire, PR1 8UY.

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## **CHESNARA PLC**

*(Incorporated under the Companies Act 1985 and registered in England and Wales with registered number 04947166)*

**10 for 19 Rights Issue of 79,539,337 New Ordinary Shares  
at 176 pence per New Ordinary Share**

***Sponsor, Global Coordinator, Joint Bookrunner and Underwriter***

**RBC EUROPE LIMITED**

***Joint Bookrunner and Underwriter***

**ABN AMRO BANK N.V.**

***Joint Bookrunner***

**PANMURE LIBERUM LIMITED**

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Subject to the restrictions set out below, if you sell or have sold or have otherwise transferred all of your Ordinary Shares (other than ex-rights) held in certificated form before 8.00 a.m. (London time) on 8 July 2025 (the “**Ex-Rights Date**”) please send this document, together with any Provisional Allotment Letter, if and when received, at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee. None of these documents should, however, be sent to any jurisdiction where to do so might constitute a violation of local securities laws or regulations, including but not limited to the United States or any of the Excluded Territories. If you sell or have sold or have otherwise transferred all or some of your Existing Ordinary Shares (other than ex-rights) held in uncertificated form before the Ex-Rights Date, a claim transaction will automatically be generated by Euroclear which, on settlement, will transfer the appropriate number of Nil Paid Rights to the



purchaser or transferee. If you sell or have sold or otherwise transferred only part of your holding of Existing Ordinary Shares (other than ex-rights) held in certificated form before the Ex-Rights Date, you should refer to the instruction regarding split applications in Part VIII (*Terms and Conditions of the Rights Issue*) of this document and in the Provisional Allotment Letter.

**The distribution of this document, the Provisional Allotment Letter and the transfer of Nil Paid Rights, Fully Paid Rights and New Ordinary Shares into jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with any such restrictions may constitute a violation of the securities laws or regulations of such jurisdictions. In particular, subject to certain exceptions, this document, the enclosures and the Provisional Allotment Letter and any other such documents should not be distributed, forwarded to or transmitted in or into the United States or any Excluded Territory.**

**This document does not constitute an invitation or offer to sell or the solicitation of an invitation or an offer to buy New Ordinary Shares or to take up entitlements to Nil Paid Rights or Fully Paid Rights in any jurisdiction in which such offer or solicitation is unlawful.**

The directors of the Company (the “**Directors**”), whose names appear on page 43 of this document, and the Company accept responsibility for the information contained in this document. To the best of the knowledge of the Directors and the Company, the information contained in this document is in accordance with the facts and this document makes no omission likely to affect its import.

**Prospective investors should read the whole of this document, any accompanying document and any documents incorporated by reference prior to making any investment decision. In particular, your attention is drawn to the letter from the Chair of Chesnara plc, which is set out in Part VII (*Letter from the Chair*) of this document. Your attention is also drawn to the risk factors set out in Part II (*Risk Factors*) of this document for a discussion of certain factors which should be taken into account when considering the matters referred to in this document and deciding whether or not to purchase the Nil Paid Rights, the Fully Paid Rights or the New Ordinary Shares.**

The Existing Ordinary Shares are admitted to the equity shares (commercial companies) category of the Official List maintained by the FCA (the “**Official List**”), and to trading on the London Stock Exchange’s main market for listed securities. Applications will be made to the FCA for the New Ordinary Shares to be admitted to listing on the equity shares (commercial companies) category of the Official List and to the London Stock Exchange for the New Ordinary Shares to be admitted to trading on the London Stock Exchange’s main market for listed securities (together “**Admission of the New Ordinary Shares**”). It is expected that the Rights (Nil and Fully Paid) will be admitted to trading on a multi-lateral trading facility of the London Stock Exchange (“**Admission of the Rights (Nil and Fully Paid)**”). It is expected that Admission of the New Ordinary Shares and Admission of the Rights (Nil and Fully Paid) (together “**Admission**”) will become effective at 8.00 a.m. on 8 July 2025, that dealings in the Rights (Nil and Fully Paid) will commence as soon as possible after 8.00 am on that date, and that dealings in the New Ordinary Shares (fully paid) will commence on the London Stock Exchange at the time and date shown in the Expected Timetable of Principal Events set out in this document.

**The latest time and date for acceptance and payment in full under the Rights Issue is 11.00 a.m. on 22 July 2025. The procedures for acceptance and payment are set out in Part VIII (*Terms and Conditions of the Rights Issue*) of this document and (for Qualifying Non-CREST Shareholders other than, subject to certain exceptions, those with registered addresses in the Excluded Territories only) also in the Provisional Allotment Letter.**

Qualifying CREST Shareholders who are CREST sponsored members should refer to their CREST sponsors regarding the action to be taken in connection with this document and the Rights Issue.

RBC Europe Limited (“**RBC**”) is authorised by the PRA and regulated in the United Kingdom by the FCA and the PRA. RBC is acting solely for the Company and no one else in connection with this document, the Rights Issue, the Acquisition and Admission and will not regard any other person (whether or not a recipient of this document) as a client in connection with this document, the Rights Issue, the Acquisition or Admission and will not be responsible to anyone other than the

Company for providing the protections afforded to clients of RBC nor for providing advice in relation to this document, the Rights Issue, the Acquisition or Admission. Neither RBC nor any of its respective subsidiaries, branches or affiliates owe or accept any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of RBC, in connection with this document, the Rights Issue, the Acquisition, Admission, the contents of this document or any other transaction, arrangement or other matter referred to in this document.

ABN AMRO Bank N.V. ("**ABN AMRO**", and together with RBC, the "**Underwriters**") is regulated by the European Central Bank in close cooperation with the Dutch Central Bank (*De Nederlandsche Bank*) and the Dutch Authority for the Financial Markets (*Autoriteit Financiële Markten*) in the Netherlands. ABN AMRO is acting solely for the Company and no one else in connection with this document, the Rights Issue and Admission and will not regard any other person (whether or not a recipient of this document) as a client in connection with this document, the Rights Issue or Admission and will not be responsible to anyone other than the Company for providing the protections afforded to clients of ABN AMRO nor for providing advice in relation to this document, the Rights Issue or Admission. Neither ABN AMRO nor any of its respective subsidiaries, branches or affiliates owe or accept any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of ABN AMRO, in connection with this document, the Rights Issue, Admission, the contents of this document or any other transaction, arrangement or other matter referred to in this document.

Panmure Liberum Limited ("**Panmure Liberum**", and together with RBC and ABN AMRO, the "**Joint Bookrunners**") is authorised and regulated in the United Kingdom by the FCA. Panmure Liberum is acting solely for the Company and no one else in connection with this document, the Rights Issue and Admission and will not regard any other person (whether or not a recipient of this document) as a client in connection with this document, the Rights Issue and Admission and will not be responsible to anyone other than the Company for providing the protections afforded to clients of Panmure Liberum nor for providing advice in relation to this document, the Rights Issue and Admission. Neither Panmure Liberum nor any of its respective subsidiaries, branches or affiliates owe or accept any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of Panmure Liberum, in connection with this document, the Rights Issue, Admission, the contents of this document or any other transaction, arrangement or other matter referred to in this document.

Apart from the responsibilities and liabilities, if any, which may be imposed on the Joint Bookrunners by FSMA or the regulatory regime established under FSMA or under the regulatory regime of any jurisdiction where the exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, none of the Joint Bookrunners nor any of their respective affiliates, directors, officers, employees or advisers assumes any responsibility whatsoever for, or makes any representation or warranty, express or implied, in relation to the contents of this document, including its accuracy, completeness, verification, fairness or sufficiency or regarding the legality of any investment in the Nil Paid Rights, the Fully Paid Rights, or the New Ordinary Shares by any person under the laws applicable to such person or for any other statement made or purported to be made by them or on their behalf in connection with the Company, the Nil Paid Rights, the Fully Paid Rights, the New Ordinary Shares, the Rights Issue or the Acquisition and nothing contained in this document is, or shall be, relied on as a promise or representation in this respect, whether as to the past or the future. Each of the Joint Bookrunners and their respective affiliates, directors, officers, employees and advisers accordingly disclaim, to the fullest extent permitted by applicable law, all and any responsibility and liability whatsoever, whether arising in tort, contract or otherwise, which they might otherwise be found to have in respect of this document or any such statement.

The Rights Issue is fully underwritten by the Underwriters in accordance with the terms and subject to the conditions of the Underwriting Agreement. The Underwriters' obligations under the Underwriting Agreement are conditional upon certain matters being satisfied or not breached prior to Admission. If these conditions are not satisfied or (where permitted) waived by Admission, the Underwriting Agreement will terminate. After Admission, the Underwriters have no right to unilaterally terminate the Underwriting Agreement.

In connection with the Rights Issue, the Joint Bookrunners and any of their affiliates may, in accordance with applicable legal and regulatory provisions, take up a portion of the Nil Paid Rights, the Fully Paid Rights and the New Ordinary Shares as a principal position and in that capacity may

retain, purchase or sell for their own account such securities and related or other securities and instruments and may engage in transactions in relation to the Nil Paid Rights, the Fully Paid Rights, the New Ordinary Shares and/or related securities and instruments for their own account otherwise than in connection with the Rights Issue. Accordingly, references in this document to Nil Paid Rights, Fully Paid Rights and New Ordinary Shares being offered or placed should be read as including any offering or placement of Nil Paid Rights, Fully Paid Rights and New Ordinary Shares to the Joint Bookrunners or any of their affiliates acting in such capacity. In addition, certain of the Joint Bookrunners or their affiliates may enter into financing arrangements (including margin loans) with investors in connection with which such Joint Bookrunners (or their affiliates) may from time to time acquire, hold or dispose of Nil Paid Rights, Fully Paid Rights and New Ordinary Shares. Except as required by applicable law or regulation, the Joint Bookrunners do not propose to make any public disclosure in relation to such transactions.

Further to any contractual obligations that may be in place between the Company and the Underwriters, in the event that the Underwriters or their respective affiliates subscribe for New Ordinary Shares which are not taken up by Qualifying Shareholders, the Underwriters and their respective affiliates may for a limited period co-ordinate disposals of such shares in accordance with applicable law and regulation. Except as required by applicable law or regulation, the Underwriters and their respective affiliates do not propose to make any public disclosure in relation to such transactions.

The Joint Bookrunners and their respective affiliates have from time to time engaged in, and may in the future engage in, various commercial banking, investment banking and financial advisory transactions and services in the ordinary course of their business with the Company. They have received and will receive customary fees and commissions for these transactions and services. Certain of the Joint Bookrunners or their affiliates are, or may in the future be, lenders, and in some cases agents or managers for the lenders, under certain of the Chesnara Group's credit facilities (including the Amended RCF) and other credit arrangements or its affiliates. In their capacity as lenders, such lenders may, in the future, seek a reduction of a loan commitment to the Company or its affiliates, or impose incremental pricing or collateral requirements with respect to such facilities or credit arrangements, in the ordinary course of business. In addition, certain of the Joint Bookrunners or their affiliates that have a lending relationship with the Company may routinely hedge their credit exposure to the Company consistent with their customary risk management policies. A typical hedging strategy would include these Joint Bookrunners or their affiliates hedging such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Company's securities. In the ordinary course of their various business activities, the Joint Bookrunners and their respective affiliates may hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) in the Company and its affiliates for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments.

This document does not constitute an offer to sell or issue, or a solicitation of an offer to buy, Ordinary Shares or to take up entitlements to Nil Paid Rights and/or Fully Paid Rights in any jurisdiction in which such offer or solicitation would be unlawful. All Overseas Shareholders with a registered address in the United States or in any of the Excluded Territories and any person (including, without limitation, a nominee or trustee) who has a contractual or legal obligation to forward this document or any Provisional Allotment Letter, if received, or other document to any jurisdiction outside the United Kingdom should read paragraph 7 of Part VIII (*Terms and Conditions of the Rights Issue*) of this document. Prospective investors must comply with all applicable laws and regulations in force in any applicable jurisdiction, and must obtain any consent, approval or permission required for the purchase, offer or sale of the Nil Paid Rights, Fully Paid Rights and/or New Ordinary Shares under the laws and regulations in force in the jurisdiction to which such prospective investor is subject or in which such prospective investor makes such purchase, offer or sale, and none of the Company, the Joint Bookrunners or their respective employees, agents or representatives will have any responsibility therefor.

No statement in this document or incorporated by reference into this document is intended as a profit forecast or profit estimate for any period and no statement in this document or incorporated by reference into this document should be interpreted to mean that earnings, earnings per share,

revenue growth, net assets or cash flow will necessarily be greater or lesser than those for the relevant preceding financial periods for the Company.

## **NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES**

Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this document is truthful or complete. Any representation to the contrary is a criminal offense.

The securities have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “**U.S. Securities Act**”). The securities are subject to restrictions on transferability and resale and may not be transferred or resold, except as permitted under the U.S. Securities Act pursuant to registration or an exemption therefrom.

## **INFORMATION TO DISTRIBUTORS**

Solely for the purposes of the product governance requirements of Chapter 3 of the FCA Handbook Product Intervention and Product Governance Sourcebook (the “**UK Product Governance Requirements**”), and disclaiming all and any liability, whether arising in tort, contract or otherwise, which any “manufacturer” (for the purposes of the UK Product Governance Requirements) may otherwise have with respect thereto, the New Ordinary Shares have been subject to a product approval process, which has determined that the New Ordinary Shares are: (a) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in Chapter 3 of the FCA Handbook Conduct of Business Sourcebook; and (b) eligible for distribution through all permitted distribution channels (the “**Target Market Assessment**”).

Notwithstanding the Target Market Assessment, “distributors” (for the purposes of the UK Product Governance Requirements) should note that: the price of the New Ordinary Shares may decline and investors could lose all or part of their investment; the New Ordinary Shares offer no guaranteed income and no capital protection; and an investment in the New Ordinary Shares is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. The Target Market Assessment is without prejudice to any contractual, legal or regulatory selling restrictions in relation to the offer of New Ordinary Shares. Furthermore, it is noted that, notwithstanding the Target Market Assessment, the Joint Bookrunners will only procure investors who meet the criteria of professional clients and eligible counterparties.

For the avoidance of doubt, the Target Market Assessment does not constitute: (i) an assessment of suitability or appropriateness for the purposes of Chapters 9A or 10A, respectively, of the FCA Handbook Conduct of Business Sourcebook; or (ii) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to, the New Ordinary Shares. Each distributor is responsible for undertaking its own target market assessment in respect of the New Ordinary Shares and determining appropriate distribution channels.

## **NOTICE TO ALL INVESTORS**

Any reproduction or distribution of this document or the Provisional Allotment Letters, in whole or in part, and any disclosure of its contents or use of any information for any purpose other than in considering an investment in the Nil Paid Rights, the Fully Paid Rights or the New Ordinary Shares is prohibited. By accepting delivery of this document, each offeree of the Nil Paid Rights, the Fully Paid Rights and/or the New Ordinary Shares agrees to the foregoing.

The contents of this document are not to be construed as legal, business or tax advice. Each prospective investor should consult their own legal adviser, financial adviser or tax adviser for legal, financial or tax advice.

None of the Company, the Joint Bookrunners, nor any of their respective representatives, is making any representation to any offeree or purchaser of the New Ordinary Shares regarding the legality of an investment in the New Ordinary Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser. Each prospective investor should consult their own legal adviser, business adviser, financial adviser or tax adviser for legal, financial, business or tax advice in connection with the purchase of the New Ordinary Shares. In making an investment decision, each

investor must rely on their own examination, analysis and enquiry of the Company and the terms of the Rights Issue, including the merits and risks involved.

Investors also acknowledge that: (i) they have not relied on the Joint Bookrunners (or any of their affiliates) in connection with any investigation of the accuracy of any information contained in or incorporated by reference into this document or their investment decision; (ii) they have relied only on the information contained in or incorporated by reference into this document in making their relevant decision; and (iii) no person has been authorised to give any information or to make any representation concerning the Company, any other member of the Chesnara Group, the Nil Paid Rights, Fully Paid Rights, New Ordinary Shares, the Rights Issue or the Acquisition (other than as contained in or incorporated by reference into this document) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company or the Joint Bookrunners (or any of their affiliates).

Neither the delivery of this document nor any acquisition or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this document or that the information in this document is correct at any time after this date.

Capitalised terms have the meanings ascribed to them, and certain technical terms are explained, in Part XIX (*Definitions*) of this document.



## WHERE TO FIND HELP

Part IX (*Questions and Answers regarding the Rights Issue*) of this document answers some of the questions most often asked by Shareholders about rights issues. If you have any further questions, please call MUFG Corporate Markets Customer Support Centre on 0371 664 0321. Calls are charged at the geographic standard rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open between 9.00 am and 5.30 pm, Monday to Friday excluding public holidays in England and Wales. Please note that MUFG Corporate Markets cannot provide any advice on the merits of the Rights Issue or provide financial, legal or tax advice and calls may be recorded and monitored for security and training purposes.

**This document is dated 3 July 2025.**

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## PART I

### SUMMARY

#### 1. INTRODUCTIONS AND WARNINGS

##### 1.1 Details of the issuer

The issuer is Chesnara plc, a public limited company incorporated in England and Wales with registered number 04947166. The registered and head office of the issuer is at 2nd Floor, Building 4, West Strand Business Park, West Strand Road, Preston, Lancashire, PR1 8UY. The issuer's telephone number is +44 (0)1772 972 050 and its Legal Entity Identifier ("LEI") is 213800VFRMBRTSZ3SJ06.

##### 1.2 Details of the securities

On Admission, the New Ordinary Shares will be registered with an ISIN of GB00B00FPT80 and a SEDOL of B00FPT8. The ISIN for the Nil Paid Rights will be GB00BR0W1Q72 and the SEDOL will be BR0W1Q7. The ISIN for the Fully Paid Rights will be GB00BR0W1R89 and the SEDOL will be BR0W1R8. The New Ordinary Shares will be traded on the main market of the London Stock Exchange under the ticker symbol "CSN".

##### 1.3 Details of the competent authority approving this document

This document has been approved by the FCA, as competent authority, with its head office at 12 Endeavour Square, London, E20 1JN and its telephone number is +44 (0)20 7066 1000, in accordance with Regulation (EU) 2017/1129 as it forms part of UK law by virtue of the European Union (Withdrawal) Act 2018 ("EUWA").

##### 1.4 Date of approval of the Prospectus

3 July 2025.

##### 1.5 Warnings

This summary has been prepared in accordance with Article 7 of the UK Prospectus Regulation and should be read as an introduction to this document. Any decision to invest in the Nil Paid Rights, Fully Paid Rights and/or New Ordinary Shares should be based on a consideration of this document as a whole by the investor. If the investor decides to invest in the securities, all or part of their invested capital could be lost. Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only where the summary is misleading, inaccurate or inconsistent when read together with the other parts of this document, or where it does not provide, when read together with the other parts of this document, key information in order to aid in considering whether to invest in the Nil Paid Rights, Fully Paid Rights and/or New Ordinary Shares.

#### 2. KEY INFORMATION ON THE ISSUER

##### 2.1 Who is the issuer of the securities?

2.1.1 *Domicile, legal form, LEI, jurisdiction of incorporation and country of operation:* The Company was incorporated on 29 October 2003 as a public limited company under the company name PINCO 2042 plc, with registered number 04947166. On 22 December 2003, the Company changed its name from PINCO 2042 plc to Chesnara plc. The LEI of the Company is 213800VFRMBRTSZ3SJ06. The Company's domicile is the UK and it operates under the laws of England and Wales.

2.1.2 *Principal Activity:* The Company is a European life and pensions consolidator listed on the London Stock Exchange since 2004. The principal legislation under which the Company operates is the Companies Act 2006 (the "**Companies Act**") and the regulations made thereunder. It administers approximately one million life and pensions policies and operates as Countrywide Assured plc in the UK, the Waard Group and Scildon in the Netherlands, and as Movestic in Sweden.

2.1.3 *Major Shareholders:* Insofar as has been notified to the Company in accordance with Rule 5 of the Disclosure Guidance and Transparency Rules the names of the persons who, directly or indirectly, have an interest in 3% or more of the Company's issued share capital,

and their respective interests, as at 2 July 2025 (being the latest practicable date prior to the date of this document (the “**Latest Practicable Date**”) are as follows:

| <b>Name of shareholder</b>        | <b>Number of Ordinary Shares held</b> | <b>Percentage of total voting rights in Company</b> |
|-----------------------------------|---------------------------------------|-----------------------------------------------------|
| Aberdeen plc                      | 26,410,406                            | 17.48*                                              |
| Columbia Threadneedle Investments | 17,839,143                            | 11.81                                               |
| Hargreaves Lansdown Asset Mgt     | 13,748,381                            | 9.10                                                |
| M&G Investments                   | 8,700,317                             | 5.76                                                |
| Royal London Asset Mgt            | 5,631,863                             | 3.73                                                |
| Janus Henderson Investors         | 5,227,132                             | 3.46                                                |
| Dimensional Fund Advisors         | 4,557,161                             | 3.02                                                |
| Halifax Share Dealing             | 4,532,487                             | 3.00                                                |

\* Of the total Aberdeen plc shareholding of 17.48% (as at 30 May 2025), 8.36% is held by Interactive Investor.

2.1.4 *Key Managing directors:* The Executive Directors are Steven Murray (Group Chief Executive Officer) and Tom Howard (Group Chief Financial Officer).

2.1.5 *Statutory auditor:* Deloitte LLP is the statutory auditor of the Company and is registered to carry out audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales. Its business address is 1 City Square Leeds LS1 2AL, United Kingdom and it has no material interest in the Company or the Chesnara Group.

## 2.2 What is the key financial information regarding the issuer?

### 2.2.1 Selected historical key financial information for the Chesnara Group:

The tables below set out selected historical financial information for the Chesnara Group as at and for the year ended 31 December 2024.

#### **Summary consolidated statement of comprehensive income**

|                                                                    | <b>Year ended<br/>31 December<br/>2024<br/>£m</b> |
|--------------------------------------------------------------------|---------------------------------------------------|
| Total revenue net of investment result                             | 165.5                                             |
| Other operating expenses                                           | (133.6)                                           |
| Financing costs                                                    | (11.1)                                            |
| Profit arising on business combinations and portfolio acquisitions | —                                                 |
| <b>Profit/(loss) before income taxes</b>                           | <b>20.8</b>                                       |
| Income tax credit                                                  | (16.9)                                            |
| <b>Profit/(loss) for the period</b>                                | <b>3.9</b>                                        |
| Foreign exchange translation differences                           | (15.3)                                            |
| Revaluation of pension obligations after tax                       | —                                                 |
| Revaluation of land and building                                   | 0.4                                               |
| <b>Total comprehensive income/(expense) for the period</b>         | <b>(11.0)</b>                                     |

#### **Summary consolidated balance sheet**

|                                                           | <b>Year ended<br/>31 December<br/>2024<br/>£m</b> |
|-----------------------------------------------------------|---------------------------------------------------|
| Intangible assets                                         | 87.2                                              |
| Financial investments                                     | 12,116.7                                          |
| Cash and cash equivalents                                 | 138.0                                             |
| Other assets                                              | 413.2                                             |
| <b>Total assets</b>                                       | <b>12,755.1</b>                                   |
| Insurance contract liabilities                            | 4,099.1                                           |
| Investment contracts at fair value through profit or loss | 6,116.7                                           |

|                          | Year ended<br>31 December<br>2024<br>£m |
|--------------------------|-----------------------------------------|
| Borrowings               | 204.8                                   |
| Other liabilities        | 2,020.1                                 |
| <b>Total Liabilities</b> | <b>12,440.7</b>                         |
| <b>Net assets</b>        | <b>314.4</b>                            |

This financial information has been extracted without material adjustment from the audited consolidated financial statements for the Chesnara Group as at and for the financial year ended 31 December 2024, which has been incorporated by reference in this document.

Shareholders should read the whole of this document and not just rely on the summarised financial information set out in this Summary of this document.

## 2.2.2 Selected historical key financial information for HSBC Life (UK)

The tables below set out selected historical financial information for HSBC Life (UK) as at and for the three financial years ended 31 December 2024, 31 December 2023 and 31 December 2022.

The selected financial information for the years ended 31 December 2024 and 31 December 2023 is extracted from the audited consolidated financial statements of HSBC Life (UK) referred to in Part XIII (*Historical Financial Information of HSBC Life (UK)*) and set out in Appendix 1 (*HSBC Life (UK) Limited's Financial Statements together with the Audit Reports*) of this document.

From 1 January 2023 HSBC Life (UK) adopted IFRS 17 'Insurance Contracts', replacing IFRS 4 'Insurance Contracts', and consequently 2022 comparative financial information was restated within the 31 December 2023 consolidated financial statements.

As such, the selected financial information for the year ended 31 December 2022 is extracted from the unaudited comparative financial information included within the audited consolidated financial statements of HSBC Life (UK) for the year ended 31 December 2023.

The audited financial information for the year ended 31 December 2022 is also referred to in Part XIII (*Historical Financial Information of HSBC Life (UK)*) and set out in Appendix 1 (*HSBC Life (UK) Limited's Financial Statements together with the Audit Reports*) of this document.

### Summary income statement

|                                                                     | Year ended<br>31 December<br>2024<br>(audited)<br>£m | Year ended<br>31 December<br>2023<br>(audited)<br>£m | Year ended<br>31 December<br>2022<br>(restated,<br>unaudited)<br>£m |
|---------------------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|---------------------------------------------------------------------|
| Net Insurance service result                                        | 56.8                                                 | 16.5                                                 | 14.1                                                                |
| Net investment returns                                              | 26.5                                                 | 12.4                                                 | 21.8                                                                |
| Net fees income                                                     | 0.3                                                  | 0.3                                                  | (0.6)                                                               |
| <b>Net operating Income before change in expected credit losses</b> | <b>83.6</b>                                          | <b>29.2</b>                                          | <b>35.3</b>                                                         |
| Credit impairment losses                                            | (0.1)                                                | (2.3)                                                | (0.2)                                                               |
| <b>Net Operating Income</b>                                         | <b>83.5</b>                                          | <b>26.9</b>                                          | <b>35.1</b>                                                         |
| Total operating expenses                                            | 10.2                                                 | 9.4                                                  | 9.9                                                                 |
| <b>Profit before tax</b>                                            | <b>73.3</b>                                          | <b>17.5</b>                                          | <b>25.2</b>                                                         |
| Tax (expense) / credit                                              | 47.4                                                 | 92.2                                                 | 6.4                                                                 |
| <b>Profit/(loss) for the period</b>                                 | <b>25.9</b>                                          | <b>109.7</b>                                         | <b>18.8</b>                                                         |



## Summary statement of financial position

|                                 | Year ended<br>31 December<br>2024<br>(audited)<br>£m | Year ended<br>31 December<br>2023<br>(audited)<br>£m | Year ended<br>31 December<br>2022<br>(restated,<br>unaudited)<br>£m |
|---------------------------------|------------------------------------------------------|------------------------------------------------------|---------------------------------------------------------------------|
| Intangible assets               | —                                                    | —                                                    | —                                                                   |
| Financial investments           | 3,873.2                                              | 3,136.5                                              | 2,659.2                                                             |
| Cash and cash equivalents       | 173.1                                                | 168.5                                                | 154.1                                                               |
| Other assets                    | 243.5                                                | 271.0                                                | 164.0                                                               |
| <b>Total assets</b>             | <b>4,289.9</b>                                       | <b>3,576.0</b>                                       | <b>2,977.4</b>                                                      |
| Insurance contract liabilities  | 3,003.0                                              | 2,330.2                                              | 1,898.5                                                             |
| Investment contract liabilities | 931.4                                                | 852.6                                                | 789.1                                                               |
| Borrowings                      | —                                                    | —                                                    | —                                                                   |
| Other liabilities               | 78.8                                                 | 87.3                                                 | 93.5                                                                |
| <b>Total Liabilities</b>        | <b>4,013.2</b>                                       | <b>3,270.1</b>                                       | <b>2,781.2</b>                                                      |
| <b>Total equity</b>             | <b>276.8</b>                                         | <b>305.9</b>                                         | <b>196.2</b>                                                        |

### 2.2.3 Selected unaudited *pro forma* financial information

The summary selected unaudited *pro forma* financial information set out below has been prepared to illustrate the effect of the Acquisition on the consolidated statement of net assets of the Chesnara Group as if it had completed at 31 December 2024 and on the income statement as if it had completed on 1 January 2024.

The unaudited *pro forma* statement of net assets and the unaudited *pro forma* income statement have been prepared for illustrative purposes only. The hypothetical financial position or results included in the *pro forma* financial information may differ from the Enlarged Group's actual financial position or results.

The unaudited *pro forma* profit before income taxes for the year ended 31 December 2024 is £83.9 million and the unaudited *pro forma* net assets as at 31 December 2024 is £461.1 million.

### 2.3 What are the key risks specific to the issuer?

- Significant and prolonged equity market falls could adversely impact the Chesnara Group's and the Enlarged Group's profitability by reducing the value of managed funds and leading policyholders to switch to lower-margin funds, thereby decreasing management fees and affecting the business, results, financial position, and prospects.
- Fluctuations in currency exchange rates may adversely affect the Chesnara Group's and the Enlarged Group's results of operations and financial condition due to foreign currency exchange risk from international operations impacting financial statements, cash flows, and regulatory capital surplus.
- Expense overruns, cost overruns on major change projects, and unsustainable unit cost growth could impact the Chesnara Group's and the Enlarged Group's profitability, with specific risks related to fixed and semi-fixed expenses, adverse variations in expense levels, and the potential for costs related to ongoing change initiatives exceeding related provisions or not realising anticipated benefits.
- The Chesnara Group relies on counterparties under reinsurance arrangements and any failures of such reinsurance counterparties could subject the Chesnara Group to losses which cannot be recovered.
- The Chesnara Group relies on certain outsourced service providers, particularly, SS&C Technologies Limited ("SS&C"), HCL Insurance BPO Services Limited and Capita Life and Pensions Regulated Services Limited to provide policy administration services and Towers Watson Limited for outsourced actuarial services. Any failure of an outsourced service provider to fulfil their contractual obligations could have a material adverse effect on the

Chesnara Group's and following Completion, the Enlarged Group's business, prospects, financial condition and results of operations.

- Failure to deliver secure IT systems and to combat cyber and other security risks to information and physical sites could lead to loss of reputation, disruptions in business operations and inability to meet contractual obligations and negatively impact the Chesnara Group's and following Completion the Enlarged Group's ability to win future contracts.
- The Chesnara Group and the Enlarged Group may suffer losses due to operational events or business disruptions arising from daily activities, technical or human errors, failed processes, insufficient resources, or external events, which could lead to financial losses, reputational damage, regulatory intervention, or business plan failure.
- Adverse movements in yields on fixed interest securities could result in a mismatch between the portfolios of fixed interest securities and certain insurance contract liabilities, increasing the Chesnara Group's exposure to mismatch losses and potentially having a material adverse effect on the Chesnara Group's business, prospects, financial condition, and results of operations.
- The Chesnara Group's strategy is to acquire insurance and pension companies and portfolios to off-set the natural decline inherent in a largely closed book business as well as to grow the business. Competition, regulatory restrictions and an inability to raise acquisition financing in the future may make it difficult for the Chesnara Group to execute its M&A strategy and future acquisitions and disposals, which could have an adverse effect on the Chesnara Group's ability to sustain growth.
- The Chesnara Group is subject to persistency risk when policyholders cancel contracts or stop paying premiums earlier than expected, leading to potential losses for the Chesnara Group due to lower future management fees, discontinued premiums, and increased exposure to mortality risks.

### **3. KEY INFORMATION ON THE SECURITIES**

#### **3.1 What are the main features of the securities?**

##### **3.1.1 Type, class and ISIN**

Pursuant to the Rights Issue, the Company will issue 79,539,337 New Ordinary Shares. The Rights Issue will be made on the basis of 10 New Ordinary Shares for every 19 Existing Ordinary Shares in the Company. On Admission, the New Ordinary Shares will be registered with an ISIN of GB00B00FPT80 and a SEDOL of B00FPT8 and will be traded on the main market of the London Stock Exchange under the ticker symbol "CSN". The ISIN for the Nil Paid Rights will be GB00BR0W1Q72 and the SEDOL will be BR0W1Q7. The ISIN for the Fully Paid Rights will be GB00BR0W1R89 and the SEDOL will be BR0W1R8.

##### **3.1.2 Currency, denomination and par value of the securities**

The Existing Ordinary Shares are, and on Admission, the New Ordinary Shares will be, denominated in pounds sterling with a par value of 5 pence each. The Nil Paid Rights and Fully Paid Rights will be, on Admission, denominated in pounds sterling.

##### **3.1.3 Number of issued and fully paid securities**

As at the Latest Practicable Date, there were 151,124,742 Existing Ordinary Shares in issue. The Company will issue 79,539,337 New Ordinary Shares pursuant to the Rights Issue. The Rights Issue will be made on the basis of 10 New Ordinary Shares for every 19 Existing Ordinary Shares.

##### **3.1.4 Rights attaching to the securities:**

All New Ordinary Shares will, when issued and fully paid, rank *pari passu* in all respects with the Existing Ordinary Shares, including the right to receive all dividends and other distributions made, paid or declared after the date of issue of the New Ordinary Shares. On a show of hands at general meetings of the Company, every Shareholder who is present in person and every person holding a valid proxy shall have one vote and on a poll every Shareholder present in person or by proxy shall have one vote per New Ordinary Share.

The New Ordinary Shares do not carry any rights to participate in a distribution of capital (including on a winding-up) other than those that exist as a matter of law. The New Ordinary Shares and the Existing Ordinary Shares will rank *pari passu* in all respects.

### **3.1.5 Restrictions of free transferability of securities**

The New Ordinary Shares are freely transferable and there are no restrictions on transfer of the New Ordinary Shares in the UK other than as set out in Article 32 of the Articles of Association which provide that the Board, in its absolute discretion, may refuse to register any transfer of a certificated share over which the Company has a lien or where the instrument of transfer of a certificated share is not: (i) left at the office, or at such other place as the Board may decide, for registration; (ii) accompanied by the relevant share certificate and other evidence reasonably required by the Board to prove title; and (iii) in respect of only one class of shares.

### **3.1.6 Rank of securities in the Company's capital structure in the event of insolvency**

The New Ordinary shares do not carry any rights to participate in a distribution of capital (including on a winding-up) other than those that exist as a matter of law. The New Ordinary Shares and the Existing Ordinary Shares will rank *pari passu* in all respects.

### **3.1.7 Dividend or payout policy:**

The Company's dividend policy is directly influenced by two key factors. The Directors recognise that the Ordinary Shares are predominantly held as a source of predictable and sustainable income. The Directors' primary aim is therefore to provide an attractive yield with steady growth where possible. The Directors' aim to satisfy investor expectations cannot and will not be delivered at the expense of financial security and solvency. As such, dividend capacity is assessed giving full regard to the Group Capital Management Policy which currently prohibits dividends to be declared that would result in Chesnara's Solvency Coverage Ratio falling below 110%.

The Directors make dividend decisions with reference to a range of management information, reports and policies including the Chesnara Group own risk and solvency statement, Chesnara Group business plan, solvency analysis including sensitivities, analysis of historic financial results and the Group Capital Management Policy, and any other factors deemed by the Directors to be relevant at the time.

Supported by the strong financial profile of the Acquisition, there will be a step-up in the Chesnara Group's dividend trajectory. The final FY25 dividend and interim FY26 dividend is expected to be increased by 6%, representing a one-year acceleration in the Chesnara Group's recent historic track record of 3% per annum increases.

## **3.2 Where will the securities be traded?**

Applications will be made to the: (i) FCA for the New Ordinary Shares to be admitted to listing on the equity shares (commercial companies) category of the Official List of the FCA; and (ii) London Stock Exchange for the New Ordinary Shares (fully paid) to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that the Rights (Nil and Fully Paid) will be admitted to trading on a multi-lateral trading facility of the London Stock Exchange. No application has been made or is currently intended to be made for New Ordinary Shares to be admitted to listing or trading on any other exchange.

## **3.3 What are the key risks that are specific to the securities?**

- Prospective investors should be aware that the value of an investment in the Company may go down as well as up and any fluctuations may be material.
- The market value of the New Ordinary Shares, the Nil Paid Rights and/or the Fully Paid Rights could fluctuate substantially and may not always reflect the underlying value or prospects of the Chesnara Group.
- The market price of the Ordinary Shares could be negatively affected by sales of substantial amounts of such Ordinary Shares in the public markets or the perception that these sales could occur.

- The market price of the New Ordinary Shares, the Nil Paid Rights and/or the Fully Paid Rights could be subject to volatility.
- Shareholders who do not (or are not permitted to) acquire New Ordinary Shares in the Rights Issue will experience dilution in their ownership of the Company.

#### **4. KEY INFORMATION ON THE OFFER OF SECURITIES TO THE PUBLIC AND/OR THE ADMISSION TO TRADING ON A REGULATED MARKET**

##### **4.1 Under which conditions and timetable can I invest in this security?**

- 4.1.1 It is expected that Admission will become effective on 8 July 2025 and that dealings in Rights (Nil and Fully Paid) will commence as soon as practicable after 8.00 a.m. on that date. The Company proposes to issue 79,539,337 New Ordinary Shares in connection with the Rights Issue. Pursuant to the Rights Issue, New Ordinary Shares will be offered by way of rights to Qualifying Shareholders on the terms and conditions set out in this document and, in the case of Qualifying Non-CREST Shareholders only, the Provisional Allotment Letter. The offer is to be made at 176 pence per New Ordinary Share, payable in full on acceptance by no later than 11.00 a.m. on 22 July 2025. The Issue Price represents a discount of 40% to the closing price of 293.50 pence per Ordinary Share on the Latest Practicable Date, and a discount of 30.4% to TERP of 252.98 pence per Ordinary Share by reference to the closing price on the same basis. The Rights Issue will be made on the basis of 10 New Ordinary Shares at 176 pence per New Ordinary Share for every 19 Existing Ordinary Shares held at the Record Date (and so in proportion for any other number of Existing Ordinary Shares then held) and otherwise on the terms and conditions as set out in this document and, in the case of Qualifying Non-CREST Shareholders also in the Provisional Allotment Letters.
- 4.1.2 If a Shareholder does not (or is not permitted to) take up the offer of New Ordinary Shares under the Rights Issue, such Shareholder's proportionate ownership and voting interests in the Company will be diluted by up to 34.5% as a result of the Rights Issue. For the purposes of calculating: (i) the number of New Ordinary Shares to be issued pursuant to the Rights Issue; (ii) the specified increases to the Company's issued ordinary share capital resulting from the Rights Issue; and (iii) the specified dilutive effect of the Rights Issue, the issuance of any Ordinary Shares in respect of the vesting or exercise of any awards under the Share-Based Incentive Plans which may occur between the Latest Practicable Date and the completion of the Rights Issue has been disregarded.

##### **4.2 Why is this prospectus being produced?**

This document has been prepared in connection with the Rights Issue to be undertaken by the Company. The Company proposes to issue 79,539,337 New Ordinary Shares as pursuant to the Rights Issue. The Company expects to raise net proceeds of approximately £130 million from the Rights Issue. The aggregate expenses of, or incidental to, the Rights Issue to be borne by the Company are estimated to be approximately £10 million. The Rights Issue is fully underwritten by the Underwriters pursuant to the terms and conditions of the Underwriting Agreement. The Company is undertaking the Rights Issue to raise funds to part finance the Acquisition and intends to use the net proceeds for that purpose. The remainder of the consideration for the Acquisition is expected to be funded from £55 million of existing internal cash resources and a drawdown of £65 million under the Company's Amended and Restated Facility Agreement.

## PART II

### RISK FACTORS

*The Rights Issue and any investment in the New Ordinary Shares (including by acquiring the Nil Paid Rights, the Fully Paid Rights and/or subscribing for the New Ordinary Shares) are subject to a number of risks and uncertainties. Accordingly, Shareholders and prospective investors should carefully consider the factors and risks associated with any investment in Ordinary Shares, the Chesnara Group's businesses and the industry in which it operates, together with all other information contained in this document and all of the information incorporated by reference into this document, including, in particular, the risk factors described below, and their personal circumstances prior to making any investment decision. Some of the following factors relate principally to the Chesnara Group's businesses. Other factors relate principally to the Rights Issue and an investment in the New Ordinary Shares (including by way of a purchase of the Nil Paid Rights or the Fully Paid Rights and/or by way of a subscription for the New Ordinary Shares). The Chesnara Group's businesses, operating results, financial condition and prospects could be materially and adversely affected by any of the risks described below. In such case, the market price of the Nil Paid Rights, the Fully Paid Rights and/or New Ordinary Shares may decline and investors may lose all or part of their investment.*

*The following is not an exhaustive list or explanation of all risks which investors may face when making an investment in the Shares. Additional risks and uncertainties relating to the Chesnara Group that are not currently known to the Chesnara Group, or that it currently deems immaterial, may individually or cumulatively also have a material adverse effect on the Chesnara Group's business, prospects, operating results and financial position and, if any such risk should materialise, the price of the Ordinary Shares (including the Nil Paid Rights and the Fully Paid Rights, if still trading) may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Shares is suitable for them in the light of the information in this document and their personal circumstances. Any investment in the New Ordinary Shares is subject to a number of risks. Shareholders and prospective investors should carefully consider the factors and risks associated with any investment in the New Ordinary Shares and the Chesnara Group's business and the industry in which they operate, together with all other information contained in this document and all of the information incorporated by reference into this document, including, in particular, the risk factors described below.*

*Prospective investors should note that the risks relating to the Chesnara Group, the industry in which they operate and the New Ordinary Shares summarised in Part I (Summary) of this document are the risks that the Directors and the Company believe to be the most essential to an assessment by a prospective investor of whether to make an investment in the New Ordinary Shares. However, as the risks which the Chesnara Group face relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in the section of this document headed "Summary" but also, among other things, the risks and uncertainties described below.*

*Prospective investors should review this document carefully and in its entirety (together with any documents incorporated by reference into it) and consult with their professional advisers before acquiring any New Ordinary Shares. For the avoidance of doubt, nothing in this section constitutes a qualification of the working capital statement contained in paragraph 12 of Part XVII (Additional Information) of this document.*

#### **1. RISKS RELATING TO THE CHESNARA GROUP, THE ENLARGED GROUP AND INDUSTRY IN WHICH CHESNARA OPERATES**

##### **1.1 Significant and prolonged equity market falls could adversely impact the Chesnara Group's and, following Completion, the Enlarged Group's profitability**

A significant proportion of the Chesnara Group's income and, therefore, overall profitability derives from fees received in respect of the management of policyholder and investor funds. Fee levels are generally proportional to the value of funds under management and, as the managed investment funds overall comprise a significant equity content, the Chesnara Group is exposed to the impact of significant and prolonged equity market falls. The Acquisition will increase the indirect exposure of the Chesnara Group to the expected value of future charges, arising from policyholder funds invested in equity markets. There is therefore a risk



that any significant and prolonged fall in the equity markets could have a material adverse impact on the Chesnara Group's and, following Completion, the Enlarged Group's business, results, financial position and prospects.

In addition, depressed equity values may lead to policyholders switching to lower-margin, fixed-interest funds, which again would reduce the fees received in respect of the management of policyholder and investor funds. This could have a material adverse impact on the Chesnara Group's and, following Completion, the Enlarged Group's business, results, financial position and prospects.

**1.2 Fluctuations in currency exchange rates may adversely affect the Chesnara Group's and following Completion, the Enlarged Group's results of operations and financial condition**

The Chesnara Group operates internationally and is exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies through Movestic (the assets and liabilities of which are principally denominated in Swedish Krona), Scildon and the Waard Group (the assets and liabilities of which are principally denominated in Euros). In addition, several business units of the Chesnara Group have indirect exposure to foreign exchange rate movements via exposures within its unit linked funds, and therefore movements in the value of future charges on those funds.

The Chesnara Group's currency risk through its ownership of Movestic, Scildon and the Waard Group is reflected in:

- (a) foreign exchange translation differences arising on the translation into sterling and consolidation of Movestic, Scildon and the Waard Group's financial statements; and
- (b) the impact of adverse exchange rate movements on cash flows between the Company and its foreign subsidiaries.

The effect of exchange rate fluctuations on local operating results could lead to significant fluctuations in the Chesnara Group's, and following Completion, the Enlarged Group's, consolidated financial statements upon translation of the results into sterling. Any adverse foreign currency exchange rate fluctuation may also have a material adverse effect on the Chesnara Group's regulatory capital surplus under Solvency II. The Chesnara Group has a currency hedge in place that provides an offsetting effect to mitigate the impacts of currency risk on its financial results. The derivative instrument in place is required to be renewed by the Chesnara Group on an annual basis in order to maintain the mitigating benefits.

**1.3 Expense overruns, cost overruns on major change projects and unsustainable unit cost growth could impact the Chesnara Group's and following Completion, the Enlarged Group's profitability**

The effective management of expenses in closed life insurance business and the effective pricing of products in respect of open life insurance business are both critical to the Chesnara Group. The Chesnara Group is exposed to the impact of fixed and semi-fixed expenses, in conjunction with a potentially diminishing policy base, on profitability. The Chesnara Group is exposed to the impact of expense levels varying adversely from those assumed in product pricing and consequently this poses a risk to the Chesnara Group and the Enlarged Group following the completion of the Acquisition.

Any significant cost increases against fixed and semi-fixed expenses in the closed part of the Chesnara Group's life business or adverse variations between actual expenses and those estimated at product pricing in the open life business will expose the Chesnara Group and following Completion, the Enlarged Group to losses that could have a material adverse effect on their business, prospects, financial condition and results of operations.

The Chesnara Group has a number of material change initiatives in-flight. There is a risk that the actual costs of completing these projects materially exceed the provision in the accounts, or that the anticipated benefits do not materialise, resulting in adverse impacts on the financial results. The relevant projects include: (i) the UK transition and transformation program which includes the migration of both the operation of Sanlam Life & Pension UK Limited and the individual onshore protection business acquired from Colorado Life to SS&C; (ii) the Chesnara Group's sustainability program and reporting; and (iii) the merger of Scildon and Waard in the Netherlands.



**1.4 Counterparty failures under reinsurance arrangements could subject the Chesnara Group to losses which cannot be recovered**

The Chesnara Group enters into reinsurance arrangements to manage its exposure to underwriting risk. While reinsurance contracts are intended to mitigate losses, they do not discharge the Chesnara Group's liability to policyholders. As a result, the Chesnara Group remains liable to the extent that reinsurers fail to meet their obligations. The nature of reinsurance arrangements means that there is significant concentration and reliance on certain reinsurers and a risk that, in periods of market stress, contagion impacts reinsurers' ability to meet claims. As a result, the Chesnara Group carries significant inherent risk that a reinsurance counterparty will be unable to pay amounts in full when due, which could result in either or both a loss of, or delay in receiving, income owed to the Chesnara Group. A loss of, or delay in receiving, income owed to the Chesnara Group could have a material adverse impact on the Chesnara Group's and following Completion, the Enlarged Group's business, results, financial position and prospects. Key areas where the Chesnara Group and following Completion, the Enlarged Group is exposed to counterparty risk are: (i) reinsurers' share of insurance liabilities; (ii) amounts deposited with reinsurers in relation to investment contracts; (iii) amounts due from reinsurers in respect of claims already paid; and (iv) counterparty risk with respect to its fixed interest security portfolio.

The Acquisition will increase the Chesnara Group's exposure to counterparty failure risk in respect of both the holding of fixed interest securities and amounts due from reinsurers as a result of additional fixed interest asset holdings and a number of live reinsurance contracts. In addition, any default of a reinsurance counterparty could introduce increased strain on the Chesnara Group's Solvency Coverage Ratio, arising from increased regulatory capital requirements, if replacement reinsurance could not be immediately sourced from the point of the reinsurance counterparty's default. This is because the reinsurance being in place acts to reduce capital requirements as a risk mitigating measure.

**1.5 The Chesnara Group and following Completion, the Enlarged Group may suffer losses as a result of outsourced service providers failing to fulfil their contractual obligations**

The operating model of the Chesnara Group's UK life and pensions businesses, particularly in the UK, is heavily dependent on outsourced service providers to fulfil a significant number of their core functions including SS&C as primary outsource partner, HCL Insurance BPO Services Limited ("**HCL**") and Capita Life and Pensions Regulated Services Limited ("**Capita**") to provide policy administration services, and Towers Watson Limited ("**WTW**") which provides outsourced actuarial services. For example, the Chesnara Group relies on SS&C, HCL and Capita to provide policy administration services (and is moving to use SS&C as strategic outsourcing provider going forward). Once the Chesnara Group has transitioned to use SS&C as strategic outsourcing provider, it will be materially reliant on SS&C for policy administration services. In addition, the Chesnara Group uses WTW for outsourced actuarial services. In the event of failure by any of these service providers to fulfil their contractual obligations, in whole or in part, to the requisite standards specified in the contracts, the Chesnara Group and following Completion, the Enlarged Group may suffer losses as their functions degrade, which could have a material adverse effect on the Chesnara Group's and following Completion, the Enlarged Group's business, prospects, financial condition and results of operations.

The Chesnara Group and, following Completion, the Enlarged Group, rely on distribution partners to distribute its products. The Chesnara Group has a diverse and extensive list of partners across the UK, Europe and the rest of the world. Distribution partners are independent of the Chesnara Group and are not committed to recommend or sell the Chesnara Group's products. Distribution partners may also sell competing products. Therefore, the Chesnara Group's, and following Completion, the Enlarged Group's, relationships with its distribution partners are important and the failure, inability or unwillingness of brokers to market the Chesnara Group's and, following Completion, the Enlarged Group's, products could have a material adverse effect on its financial and operational performance

**1.6 Failure to deliver secure IT systems and to combat cyber and other security risks to information and physical sites could adversely affect the ability of the Chesnara Group and following Completion, the Enlarged Group to win future contracts and in the event of a breach of security could lead to business disruption and reputational damage**

The ability of the Chesnara Group and following Completion, the Enlarged Group to deliver secure IT and other information assurance systems designed to protect personal data or customer or company confidential information is a key factor for customers. Despite operating controls that seek to ensure the confidentiality of such information, the Chesnara Group and following Completion, the Enlarged Group, may breach restrictions, regulations (such as the UK Data Protection Act 2018 and the General Data Protection Regulation 2016/679) or may be subject to attack from computer programmes or malicious or hostile third parties that attempt to penetrate their respective network security and misappropriate confidential information.

Due to advances in these programmes, IT capabilities and other developments, there is no guarantee that the Chesnara Group's and, following Completion, the Enlarged Group's security measures will be sufficient to prevent future breaches or cyber-attacks. In addition, the risk of loss of information or data by other means due to a failure to keep it safe at all times and within their custody or control is a risk that cannot be entirely eliminated. Any such breach or compromise of security or a breach of security at a physical site could lead to loss of reputation, disruptions in business operations and inability to meet contractual obligations and negatively impact the Chesnara Group's and, following Completion, the Enlarged Group's ability to win future contracts and as a result have a material adverse effect on their business, prospects, financial condition and results of operations.

**1.7 The Chesnara Group and, following Completion, the Enlarged Group may suffer losses as a result of operational events or business disruption which may arise through daily activities and running of the business.**

Operational events or business disruption may occur internally or through third parties and suppliers, and arise due to technical or human errors, failed internal processes, insufficient personnel resources or external events. The resilience of the Chesnara Group, and following Completion, the Enlarged Group to operational events or business disruption is a key factor for all stakeholders. The Chesnara Group's objective is to minimise exposure to any such events through operating controls, operational resilience testing, business continuity plans and appropriate oversight of any material third parties and suppliers.

Any significant operational event or business disruption could lead to financial losses, poor customer outcomes, reputational damage, regulatory intervention or business plan failure and as a result negatively impact the Chesnara Group's and following Completion, the Enlarged Group's ability to win future contracts.

The Acquisition will increase the scale of the Chesnara Group which may provide additional leverage in operating costs of its UK operations. The transaction and implementation of the Acquisition may bring strategic and operational challenges to the Chesnara Group's UK outsourcing strategy and potential impact to the UK existing transition and transformation programme deliverables.

**1.8 Adverse movements in yields on fixed interest securities could result in a mismatch between the portfolios of fixed interest securities and certain insurance contract liabilities**

The Chesnara Group maintains portfolios of fixed interest securities: (i) in order to match its insurance contract liabilities in terms of yield and cash flow characteristics; and (ii) as an integral part of the investment funds it manages on behalf of policyholders and investors. The Chesnara Group's exposure to movements in yields on fixed interest securities will be increased as a result of the Acquisition. The Chesnara Group, and following Completion, the Enlarged Group will therefore be exposed to the risk of mismatch losses arising from either a failure to match insurance contract liabilities or from the fact that sharp and discrete fixed interest yield movements may not be associated fully and immediately with corresponding changes in actuarial valuation interest rates. The key financial risk in the long term is that proceeds from the Chesnara Group's, and following Completion, the Enlarged Group's financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts, especially those with guaranteed returns. The Acquisition will increase

the size of the Chesnara Group's, fixed interest portfolio, and therefore the significance of the risk. Whether or not the exposures to interest rate changes increases following completion of the Acquisition will depend upon the matching strategies deployed by Chesnara following completion of the Acquisition. If such risks materialise, they may have a material adverse effect on the Chesnara Group's business, prospects, financial condition and results of operations.

**1.9 Competition, regulatory restrictions and an inability to raise acquisition financing in the future may make it difficult for the Chesnara Group to execute its M&A strategy and future acquisitions and disposals, which could have an adverse effect on the Chesnara Group**

The Chesnara Group's strategy includes the disciplined acquisition of insurance and pension companies and portfolios in order to offset the natural decline inherent in a largely closed book business as well as to grow the business and create additional value from scale advantages.

The Chesnara Group's ability to acquire companies and portfolios will depend upon a number of factors, including its ability to identify suitable acquisition opportunities, its ability to consummate acquisitions on favourable terms and the Chesnara Group's ability to obtain financing to make acquisitions and support growth. Additionally the Chesnara Group's ability to obtain required regulatory consents from relevant regulatory authorities for acquisitions, disposals and insurance business transfers under appropriate local law will depend on, amongst other things, the financial condition of the Chesnara Group, the financial implications of any acquisition on the Chesnara Group, the impact of such implications on new and existing policyholders and wider risks to policyholder security as a result of the financial condition of the Chesnara Group.

There are other insurance consolidators as well as a number of other potential purchasers, including other insurance companies, banks, hedge funds and private equity firms, which may result in increased competition (and therefore prices paid) for acquisitions of closed life companies. External factors which influence sector participants' decisions to seek to dispose of their insurance interests could also impact the Chesnara Group's ability to make acquisitions.

In connection with any future acquisitions, the Chesnara Group may experience unforeseen difficulties as it integrates the Target into its existing operations. These difficulties may require significant management attention and financial resources and may also hinder the future M&A strategy should there be any perceived operational limitations or delays on the Chesnara Group's ability to integrate further businesses.

If the Chesnara Group is unable to acquire additional life fund companies and portfolios in line with its strategy in the medium to long term or successfully meet the challenges associated with any future acquisitions or disposals, this could have a material adverse effect on the Chesnara Group's business, results, financial condition and prospects.

**1.10 Lower persistency of some policies could subject the Chesnara Group and, following Completion, the Enlarged Group, to loss of contracts and decrease profitability**

Persistency risk is the risk that the actual experience regarding when a policyholder cancels the contract or discontinues paying new premiums into the contract vary in practice from what was assumed in setting premium level, thereby exposing the Chesnara Group and following Completion, the Enlarged Group, to losses resulting from lower future levels of management fees or from a discontinuation of premiums received and coverage of expenses incurred. In its unit linked business, the Chesnara Group is subject to persistency risk when policyholders cancel contracts or stop paying premiums earlier than expected, leading to potential losses for the Chesnara Group due to lower future management fees and discontinued premiums.

The Acquisition may increase the Chesnara Group's exposure to persistency risk in cases where the expected future fees exceed the anticipated costs. This has a direct impact on the Chesnara Group's and following Completion, the Enlarged Group's future fee income. There remains uncertainty as to whether the Chesnara Group's core assumptions relating to policy persistency will prove to be sufficient, as rates of persistency may be impacted by unexpected or unforeseen events. Changes in persistency could materially affect the financial

results of the Chesnara Group and following Completion, the Enlarged Group and may ultimately affect the trading price of the Ordinary Shares.

**1.11 Higher persistency of some policies could subject the Chesnara Group and following Completion, the Enlarged Group to loss of contracts and decrease profitability**

The Chesnara Group, and following Completion, the Enlarged Group, is subject to potential losses due to increased persistency on certain products. For protection business, for some policies, a reduction in rates of discontinuation compared to assumptions can lead to losses, if contracts have become unprofitable. Similarly, for guaranteed products where the guarantee exceeds current interest rates, a reduction in rates of discontinuation can also lead to losses as the reinvestment of asset cash flows have a lower yield than the guarantee. There remains uncertainty as to whether the Chesnara Group's core assumptions relating to policy persistency in the protection business will prove to be sufficient, as rates of persistency may be impacted by unexpected or unforeseen events. Changes in persistency could materially affect the financial results of the Chesnara Group and following Completion, the Enlarged Group and may ultimately affect the trading price of the Ordinary Shares.

**1.12 Inaccurate data, incorrect assumptions or financial modelling errors may result in the Chesnara Group and following Completion, the Enlarged Group holding insufficient reserves to support their liabilities**

In common with other life insurers, the profitability of the Chesnara Group's business depends on a mix of factors including trends in mortality levels, policy surrender rates, investment performance and impairments, unit cost of administration and new business acquisition expenses. As a consequence, the Chesnara Group needs to make assumptions about a number of factors in determining the pricing of its products and setting reserves, as well as for reporting its capital levels and the results of its long-term business operations. The assumptions that the Chesnara Group makes about future expected levels of mortality and the risks associated therewith are particularly relevant for its business.

The Chesnara Group holds reserves to try to ensure that it has sufficient funds available to pay its liabilities at the time that they fall due. The calculation of the potential liabilities is based on, among other things, assumptions reflecting the Chesnara Group's best estimate at the time, allowing a margin for risk and adverse deviation. The Chesnara Group monitors actual experience as compared with the actuarial assumptions used and it refines its assumptions on the basis of experience. While the Chesnara Group currently considers that the reserves established and capital held in respect of the Chesnara Group's business are sufficiently conservative to meet its obligations to policyholders under a range of potential circumstances, the Chesnara Group's assumptions may prove to be incorrect or inaccurate (whether as a result of miscalculation by the Chesnara Group or changes in factors such as mortality which are outside the Chesnara Group's control). Consequently, the Chesnara Group could be required to establish additional reserves, which could have a material impact on the Chesnara Group's and following Completion, the Enlarged Group's financial position.

Inaccuracies in data held by or on behalf of the Chesnara Group or in projections or assumptions made by the Chesnara Group may: (i) result in the Chesnara Group having to hold a higher level of reserves or a higher level of capital; and/or (ii) have an adverse impact on the Chesnara Group's and following Completion, the Enlarged Group's business, results of operations and financial position.

**1.13 Adverse mortality, morbidity and longevity experience could result in an increase in the number of claims being made, which could materially impact the profitability of the Chesnara Group and following Completion, the Enlarged Group**

The primary insurance activity carried out by the Chesnara Group and the Target comprises the assumption of risks relating to life, accident and health that may arise from an insurable event. As such, the Acquisition will increase the exposure of the Chesnara Group to the uncertainty surrounding the timing and severity of claims under contracts where death or critical illness is the insured risk. Under such contracts, the most significant factors that could increase the overall frequency of claims include epidemics or wide-spread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected and resulting in a materially adverse effect on the profitability of the Chesnara Group and following Completion, the Enlarged Group.

Additionally, the Chesnara Group is exposed to longevity risk through deferred annuity and annuities in payment contracts, mainly affecting its Countrywide Assured and Scildon businesses. The risk is that future mortality experience is lighter than that assumed in longer pay out periods and potential losses. The Target business includes a protection business and therefore has exposure to morbidity and mortality risks. The Chesnara Group and the Target use industry models to estimate future mortality to monitor this risk. For contracts with fixed benefits and fixed future premiums, there are no mitigating terms and conditions that could reduce the insurance risk accepted by the Chesnara Group. Any changes to the original assumptions on which such contracts were priced could have a material adverse effect on the profitability of the Chesnara Group and following Completion, the Enlarged Group.

Where the Chesnara Group has the ability to mitigate the insurance risk through changing charges and premiums, failure to act in a timely manner to changing information could adversely affect the profitability of the Chesnara Group and in the case of a major epidemic it may be impossible to recoup the costs of resulting claims.

Adverse morbidity, mortality and longevity is a risk to the Chesnara Group and following Completion, the Enlarged Group. To the extent that actual mortality or morbidity rates vary from the assumptions underlying product pricing, the Chesnara Group and following Completion, the Enlarged Group will accrue less profit. The Chesnara Group is exposed to mortality and morbidity risk and therefore to fluctuations in the timing, frequency and severity of insured events and their ultimate settlement, relative to the expectations at the time of underwriting, though these risks are materially reduced through reinsurance as detailed at risk factor 1.4 above. Such expectations include those driven by inaccurate pricing, inappropriate underwriting guidelines and terms and conditions and holding inadequate reserves. As such, adverse morbidity, mortality and longevity could have a material adverse effect on the Chesnara Group's and following Completion, the Enlarged Group's business, prospects, financial condition and results of operations.

**1.14 Adverse regulatory and legal changes could hinder the Chesnara Group's and following Completion, the Enlarged Group's ability to operate in certain jurisdictions, which could ultimately impact revenues or lead to loss of market share**

The Chesnara Group and the Target operate in jurisdictions which are currently subject to significant change arising from regulatory and legal requirements. These may either be of a local nature, or of a wider nature, following from EU-based regulation and law.

There is currently uncertainty on issues as to their full impact on the Chesnara Group and following Completion, the Enlarged Group and these include:

- (a) the review of Solvency II regulations being undertaken both by the European Insurance and Occupational Pensions Authority and the European Commission, which have the potential to impact reserving requirements and also the capital that the Chesnara Group needs to hold;
- (b) increasing attention from regulators and industry bodies on ESG (environmental, social and governance) considerations and in particular on having a positive influence on climate change, which will result in additional disclosure requirements and has the potential to influence the decision making of the Chesnara Group regarding both operations and investment strategy;
- (c) regulatory governance and capital requirements also have the potential to make future acquisition decisions dependent upon territory; and
- (d) in recent years the Swedish government has implemented legislative changes which increase pension policyholder's flexibility to transfer their contracts to different providers and restrict the exit fees that providers can charge. This has had the effect of increasing the volume of transfers in the market. As a result of increased exits, Movestic has increased the assumed "transfer out" assumptions, which has reduced the value of in-force business. There remains a risk that the "transfer out" assumption will need to increase further if the longer-term "new normal" persistency levels are out of line with those assumed.



The Chesnara Group and following Completion, the Enlarged Group also face the risk that the Prudential Regulatory Authority (“PRA”), FCA, Finansinspektionen, the Dutch National Bank (“DNB”), the Swedish Financial Services Authority (“SFS”) or another governmental or regulatory body could find it has failed to comply with applicable regulations or has not undertaken corrective action as required which may result in public reprimand and/or monetary fines, adverse publicity for or negative perceptions regarding the Chesnara Group and following Completion, the Enlarged Group, as well as diverting management’s attention from the day-to-day operations of the business. Such insurance laws, regulations, policies and any pursuant action affecting the Chesnara Group and, following Completion, the Enlarged Group could have a material adverse effect on its business, prospects, financial condition and results of operations.

**1.15 The Chesnara Group’s and following Completion, the Enlarged Group’s businesses depend on their ability to attract, train and retain their senior management and highly skilled employees**

The continued success of the Chesnara Group and following Completion, the Enlarged Group depends on its ability to attract, motivate and retain highly skilled managers and finance, actuarial, compliance, IT and customer services personnel. The loss of key personnel from these businesses may have a material adverse effect on their ability to manage the books of the business because it may result in the loss of their technical and management skills, as well as their knowledge of the legacy issues of each business. The inability to attract and/or retain the necessary highly skilled personnel could therefore have a material adverse effect on the Chesnara Group’s and, following Completion, the Enlarged Group’s business, prospects, financial condition and results of operations.

**1.16 Along with many other Dutch life insurers, the Chesnara Group’s Dutch businesses Scildon and Waard are exposed to litigation risk in relation to potential mis-selling of unit-linked products (“Woekerpolis”). Scildon and/or Waard may need to pay compensation (or higher compensation, where already paid) to its customers in relation to Woekerpolis.**

In line with all other life insurance companies operating in the Netherlands, Scildon and parts of the Waard Group was engaged in marketing products (through independent financial advisors) where some features and costs of certain policies were subsequently deemed to lack transparency for customers. The Board is of the opinion that, in almost all cases, the Chesnara Group informed its policyholders in a transparent manner and in line with legislative and regulatory requirements in effect during the term of the policy contracts (including legislative or regulatory changes). While the Chesnara Group has previously provided compensation to those policyholders where it did not act in line with requirements according to its self-assessment, the Chesnara Group remains exposed to future claims under Woekerpolis which may lead to further compensation being paid to customers (or higher compensation, where already paid). Any such claims could have an adverse financial or reputational impact on the Chesnara Group’s business, prospects, financial condition and results of operations. The Chesnara Group has indemnity protections against any future claims settlements arising on the relevant policies within the Waard books, with the indemnities expiring in April 2027, therefore leaving some residual risk exposure of claims on all relevant policies. Over time, the risk of further claims is considered to diminish.

**1.17 The Chesnara Group and following Completion, the Enlarged Group are dependent on the strength of the brand, the brands of the Chesnara Group’s partners and the Chesnara Group’s reputation with customers and agents**

The Chesnara Group’s and following Completion, the Enlarged Group’s results and underlying business model are, to a certain extent, dependent on the strength of its brand and reputation. While the Chesnara Group is well recognised, it is vulnerable to adverse market and customer perception. The Chesnara Group operates in an industry where integrity, customer trust and confidence are paramount. The Chesnara Group and following Completion, the Enlarged Group are exposed to the risk that litigation, employee misconduct, operational failures, the outcome of regulatory investigations, press speculation and negative publicity, disclosure of confidential client information (including the loss or theft of customer data), IT failures or disruption, cyber security breaches and/or inadequate services, amongst others, whether true or not, could impact its brand or reputation. The Chesnara Group’s and following Completion, the Enlarged Group’s brand and reputation could also be affected if



products or services recommended by it (or any of its intermediaries) do not perform as expected (whether or not the expectations are realistic) or in line with the customers' expectations for the product range. Any damage to the Chesnara Group's and following Completion, the Enlarged Group's brand or reputation could cause existing customers or partners to withdraw their business from the Chesnara Group, and potential customers or partners to elect not to do business with the Chesnara Group and could make it more difficult for the Chesnara Group to attract and retain qualified employees. Such damage to the Chesnara Group's brand or reputation could also cause disproportionate damage to the Chesnara Group's and following Completion, the Enlarged Group's business, even if the negative publicity is factually inaccurate or unfounded. Such events, which cannot be readily controlled, could adversely affect the Chesnara Group's and, following Completion, the Enlarged Group's business, prospects, financial condition and results of operations.

**1.18 The Chesnara Group and following Completion, the Enlarged Group are subject to extensive and often inconsistent regulation which may increase costs or impact the business model, and, in the event of a breach of such regulations, result in reputational damage, sanctions or the inability to continue to conduct certain lines of business**

The Chesnara Group currently operates in three regulatory domains, the United Kingdom (regulated by the FCA and PRA), Sweden (regulated by the Swedish Financial Supervisory Authority, *Finansinspektionen*) and the Netherlands (regulated by De Nederlands Bank) and is therefore exposed to inconsistent application of regulatory standards across its divisions, such as the imposition of capital buffers higher than regulatory minimums. The potential consequences of this inconsistency for the Chesnara Group and following Completion, the Enlarged Group are that the efficient and fluid use of capital within the Chesnara Group and following Completion, the Enlarged Group is constrained, or that it creates a non-level playing field with respect to future deal assessments or new business prospects.

In the event of an inadvertent breach of relevant regulation, any regulatory proceedings against the Chesnara Group and, following Completion, the Enlarged Group may result in lengthy and costly investigations and/or proceedings followed by the imposition of a fine or other penalty, including a decision by the regulator that the Chesnara Group and, following Completion, the Enlarged Group is no longer able to continue to conduct certain lines of business. In addition, the Chesnara Group may be exposed to reputational risk as a result of any such investigations and/or proceedings. Such penalties, other sanctions and/or damage to the Chesnara Group's and, following Completion, the Enlarged Group's business and/or reputation could have an adverse effect on its business, prospects, financial condition and results of operations.

**1.19 As a holding company, the Company is dependent upon its subsidiaries to cover operating expenses, debt obligations and the payment of dividends to Shareholders.**

The Chesnara Group's insurance operations are conducted through subsidiaries of the Company, which are subject to the risks discussed elsewhere in this "Risk Factors" section. As a holding company, the Company's principal sources of funds are remittances from subsidiaries, returns on investments it holds, and any amounts that may be raised through the issuance of debt.

Certain of the Company's subsidiaries are, or may become, subject to applicable insurance, foreign exchange and tax laws, rules and regulations and other arrangements that can limit their ability to make remittances and/or require the Company to make capital or liquidity available to those subsidiaries. In some circumstances, this could limit the Company's ability to make available funds held in certain subsidiaries to cover operating expenses of other members of the Chesnara Group or, in the long term, to satisfy its debt obligations and the payment of dividends by the Company in accordance with its dividend policy. If any of these circumstances were to arise, it could have a material adverse financial or reputational impact on the Chesnara Group's business, prospects, financial condition and results of operations.

**1.20 Climate change may have an adverse impact on the Chesnara Group and following Completion, the Enlarged Group**

Given the global focus on climate change as well as the significant momentum in the finance industry, the Chesnara Group is exposed to strategic and reputational risks arising from its

action or inaction in response to climate change as well the regulatory and reputational risks arising from its public disclosures on the matter. If the Chesnara Group does not deliver on its climate change targets, this has the capacity to weaken the Chesnara Group's and following Completion, the Enlarged Group's brand, which in turn could lead to a decline in demand for its services. Any such brand dilution could have a material adverse effect on the Chesnara Group and following Completion, the Enlarged Group.

**1.21 Circumstances may arise which result in the Chesnara Group and following Completion, the Enlarged Group ceasing to write new business in the future**

There are a variety of factors which could result in the Chesnara Group being unable to, or choosing not to, write new business in the future, including, but not limited to, the actions of key personnel, regulatory intervention and/or adverse conditions in the market in which the Chesnara Group operates. These include:

- (a) market competition affecting volumes and hence profitability;
- (b) regulatory changes restricting product features, product charges, distribution practices or increasing costs;
- (c) changes in consumer preferences;
- (d) economic or demographic factors affecting profitability; and
- (e) behaviour of key suppliers, for example, independent financial advisors.

A failure of the Chesnara Group to continue to write new business would have an adverse effect on the longer-term financial position of the Chesnara Group and following Completion, the Enlarged Group in circumstances where the Chesnara Group fails to scale back its cost base to correspond with any such reduction in new business volumes. Similarly, any significant increase in the volume of business written by the Chesnara Group may have an adverse impact on the Chesnara Group's and following Completion, the Enlarged Group's business, results of operations and financial position if the Chesnara Group fails to charge an adequate premium or has insufficient capital to support an increase in its liabilities or fails to scale back its cost base appropriately.

**1.22 The Chesnara Group and following Completion, the Enlarged Group are subject to evolving regimes governing the recovery, resolution or restructuring of insurance companies**

The Chesnara Group and following Completion, the Enlarged Group are subject to regimes governing the recovery, resolution or restructuring of insurance companies and, as the scope and implications of these regimes are still evolving, it is unclear how in future this might affect the Chesnara Group and, following Completion, the Enlarged Group. The PRA has issued a policy statement setting out the rules for PRA-regulated insurers, which includes some of the Chesnara Group's UK subsidiaries, to prepare for an orderly 'solvent exit' as part of their business-as-usual activities. This affects the Chesnara Group's UK business, and will affect the Target business, requiring those entities to prepare analysis to be shared with the PRA. In the Netherlands, the Dutch Insurers Recovery and Resolution Act has already been implemented requiring insurers to maintain preparatory crisis plans for a deteriorating financial position and a full resolution plan.

It remains a possibility that as the regimes governing the recovery, resolution or restructuring of insurance companies evolve, new rules will be implemented which will lead to increased compliance costs for the Chesnara Group. To the extent such compliance costs materially increase, this could have a material adverse impact on the Chesnara Group's and, following Completion, the Enlarged Group's business, results, financial position and prospects.

**1.23 The Chesnara Group and following Completion, the Enlarged Group may be subject to litigation, legal proceedings and/or regulatory investigations in the future (including investigation and intervention by the relevant local prudential or conduct regulators), which could have a material adverse effect on its business and results of operations**

Since the financial crisis, European regulators (including the PRA and the FCA, the SFSA, the DNB and the AFM) have increased their oversight of regulated and authorised entities and have adopted a more direct style of regulation, which means that regulated firms,

including the Company, are facing increasing supervisory scrutiny. The Chesnara Group's regulators have the power to take a range of investigative, disciplinary and enforcement actions, penalties (which can include public censure), restitution, fines and sanctions. They may also make enquiries of the firms they regulate and require such firms to provide information or documents to them.

The Chesnara Group's regulators may take such action or make such enquiries in relation to aspects of the Chesnara Group's or any member of the Chesnara Group's business and operations, including its systems and controls, IT systems, capital requirements, outsourcing functions and permitted investments. Regulatory action may be specific to individuals, the Chesnara Group or any member of the Chesnara Group, or part of more general action in respect of firms that operate in the insurance or financial services industry. The Chesnara Group maintains regular dialogue with its regulators to ensure compliance with applicable regulatory standards. The Chesnara Group, via regular dialogue/meetings, operates in an open and cooperative manner with all of its regulators at all times. In the normal course of its business, the Chesnara Group is engaged in discussions with its regulators in relation to a range of business matters.

The Chesnara Group, the Enlarged Group and/or the members of the Enlarged Group, in line with all other regulated firms, may in the future be subject to legal actions, disputes and regulatory investigations in various contexts, including in the ordinary course of its insurance, investment management and other business operations. These legal actions, disputes and investigations may relate to aspects of business and operations that are specific to the Chesnara Group or a member of the Chesnara Group, or that are common to companies that operate in its markets. Legal actions and disputes may arise under contracts, legislation and regulations (including tax) or from a course of conduct taken by the Chesnara Group or a member of the Chesnara Group and may be class actions. Although management considers that it has made appropriate provision for the costs of litigation and regulatory matters, no assurance can be provided that such provisions are sufficient. Given the large or indeterminate amounts of damages sometimes sought by claimants or regulators, together with other sanctions that might be applicable and the inherent unpredictability of litigation and disputes, it is possible that an outcome could, from time to time, have an adverse effect on the Chesnara Group's and following Completion, the Enlarged Group's reputation, business, results of operations or financial position. However, it is not possible to predict the significance of any proceedings that may be brought against, or any investigations that may be conducted into, the Chesnara Group or any member of the Chesnara Group, nor is it possible to predict with any degree of precision the financial impact of a successful claim, fine or penalty to which the Chesnara Group, the Enlarged Group or any member of the Chesnara Group may become subject. While management considers that its systems, controls and operations are compliant with applicable regulations, given the growth of the Chesnara Group's business since it was established, there is a risk that one or more regulators could consider that the Chesnara Group or any member of the Chesnara Group have failed to fully comply with all relevant regulatory requirements or have not undertaken the appropriate corrective action required.

## **2. RISKS RELATING TO THE ACQUISITION**

### **2.1 The Rights Issue is not conditional upon completion of the Acquisition; if the Rights Issue completes but the Acquisition does not, the proceeds of the Rights Issue will be retained by the Chesnara Group**

It is possible that the Acquisition could cease to be capable of completion, in particular, if a condition precedent to Completion relating to regulatory approval is not satisfied in accordance with the Share Purchase Agreement following Admission and the Rights Issue becoming wholly unconditional. In this case, as the Rights Issue is not conditional upon completion of the Acquisition, the Rights Issue would still be completed, and funds would be raised by the Chesnara Group.

In the unlikely event that the Rights Issue were to proceed but the Acquisition does not complete, the Directors intend to retain the net proceeds of the Rights Issue for use within the following 12 months on the general commercial activities of the Chesnara Group and alternative acquisitions in pursuit of the Chesnara Group's strategy as a consolidator of

closed life and pension funds, currently focusing on the UK and Dutch insurance markets as well as exploring potential opportunities in the wider European insurance market. Failing this,, the Directors will either seek to return the net proceeds of the Rights Issue to Shareholders in a tax efficient and practicable manner or seek Shareholders' approval to continue to hold the net proceeds of the Rights Issue for general corporate purposes. Any such return to Shareholders could carry fiscal costs for certain Shareholders, will have costs for the Chesnara Group and would be subject to applicable securities laws. As a result, in such circumstances, Shareholders may not receive a return in full (or at all) of any amounts invested pursuant to the Rights Issue. This could, in turn, result in the Chesnara Group experiencing negative reactions from the financial markets, its Shareholders and its other stakeholders which could cause the market value of the Ordinary Shares to fall.

## **2.2 Completion of the Acquisition is subject to the satisfaction of certain conditions, which may not be satisfied or waived**

Completion of the Acquisition is subject only to the satisfaction (or waiver, where applicable) of the following conditions:

- (a) the PRA having approved, or being treated as having approved, the acquisition of control of HSBC Life (UK) by Chesnara for the purposes of the Financial Services and Markets Act 2000; and
- (b) Admission having become effective.

There is no guarantee that these conditions will be satisfied. Failure to satisfy either of these conditions may result in the Acquisition not completing. If the Acquisition does not complete, the Chesnara Group will not benefit from the expected benefits of the Acquisition. The Company has agreed to use its best endeavours to take certain actions in connection with the satisfaction of the condition relating to the approval by the PRA. As a result, there is a risk that the Company may incur significant expenditure in connection with, or to satisfy, such condition which will be in addition to the actual costs of the Acquisition and the integration process.

If the condition related to Admission is not satisfied within four Business Days of the date of the Share Purchase Agreement, the Company is required to use best endeavours to seek alternative financing for the Acquisition. Such alternative financing may not be forthcoming or may only be available on terms which are not as advantageous. In such circumstances, the Company may not be able to complete the Acquisition or, if it does complete the Acquisition, it may not be able to not achieve the expected benefits of it. Failure to complete an acquisition could adversely impact the Chesnara Group's reputation as a successful consolidator leading to difficulty in acquiring future targets and an adverse effect on the business and financial condition of the Chesnara Group.

In addition to the risks described above, on termination of the Share Purchase Agreement (other than: (i) as a result of the Seller becoming sanctioned under relevant sanctions legislation; or (ii) having violated or caused the Company to violate certain legislation; or (iii) completion not occurring due to a failure of the Seller to comply with its completion obligations), a non-refundable break payment of £20,000,000 shall become payable by the Company to the Seller within five Business Days. All of these events could cause the market price of the Company's shares to decline.

## **2.3 Only limited and capped warranties and indemnities are provided by the Seller and such warranties are subject to a warranty and indemnity insurance policy ("W&I Policy") which may not cover all of the potential liabilities associated with the Target, which could in turn impact the Chesnara Group's ability to recover in full any losses which it may suffer in respect of a breach of those warranties and/or the indemnities**

The Company has put in the W&I Policy to provide insurance coverage for breach of the warranties and tax covenant given by the Seller in respect of the Target. The W&I Policy is subject to certain customary and specific exclusions and to agreed policy limits. As a result, there is a risk that the Company may not be able to recover amounts in respect of claims brought in respect of breach of the warranties or under the tax covenant.

In addition, the Chesnara Group would be dependent on the financial position of the Seller in the event that it sought to recover amounts in respect of any claims for which the Seller is liable.

In either circumstance mentioned above, if claims arose but losses could not be recovered, this could adversely affect the Enlarged Group's business, prospects, financial condition and results of operations.

**2.4 The Chesnara Group has limited management resources and thus may become distracted or overstretched by the process of integrating and managing the Enlarged Group. There may be unforeseen integration difficulties which could mean that, following completion of the Acquisition, the implementation of the Chesnara Group's strategy may not proceed as expected**

The Chesnara Group has been, and will be, required to devote significant management attention and resources to executing the Acquisition and subsequently integrating the Target into the Chesnara Group's business. While the Chesnara Group has carried out significant planning in respect of the Acquisition, there is a risk that the Chesnara Group may encounter difficulties when seeking to integrate the Target, as a result of differences in management and operation of the Target prior to the Acquisition. If such integration difficulties are significant, this could result in management distraction or overstretch and the deferral of certain planned management actions and adversely affect the Chesnara Group's business, prospects, financial condition and results of operations. Should any of these integration difficulties occur, the Enlarged Group's businesses may not perform in line with management or Shareholder expectations, which could have an adverse effect on the Chesnara Group's business, results, financial condition and prospects.

**2.5 The Chesnara Group may incur higher than expected Acquisition-related costs and integration costs**

The Chesnara Group has incurred and will incur legal, accounting, financing and transaction fees and other costs related to the Acquisition. Some of these costs are payable regardless of whether the Acquisition is completed. The actual costs of the Acquisition and the integration process may exceed those estimated and there may be further additional and unforeseen expenses incurred in connection with the Acquisition or the integration, or in complying with the ongoing United Kingdom company and listing requirements post-Acquisition. In addition, in connection with the Acquisition, the Seller and the Target will enter into the Transitional Services Agreement at Completion pursuant to which the Seller will provide certain services to the Target for an agreed transitional period. If the Seller fails to provide the services to be provided under the Transitional Services Agreement in a timely manner or as required under the agreement, this could extend the agreed transitional period which, under the agreement, would require the Target to pay additional costs. As a result, there is a risk that the actual costs of the Transitional Services Agreement could be higher than expected. Any of the above factors could materially adversely affect the Chesnara Group's results of operations.

**2.6 The value of the Target may be less than the consideration paid**

Prior to completion of the Acquisition, the Company has limited rights to terminate the Acquisition. Accordingly, in the event that there is an adverse event affecting the value of the Target or the value of the Target otherwise declines prior to completion of the Acquisition, the value of the Target purchased by the Chesnara Group may be less than the consideration agreed to be paid and, accordingly, the net assets of the Chesnara Group could be reduced. There can be no assurance that the Company will be able to renegotiate the consideration paid for the Target and the Company may therefore pay an amount in excess of market value for the Target, which could have an adverse effect on the business and financial condition of the Enlarged Group.

**2.7 Risks of executing the Acquisition could cause the market price of Ordinary Shares to decline**

The market price of Ordinary Shares may decline as a result of the Acquisition if, among other reasons, the Chesnara Group does not achieve the expected benefits of the Acquisition as rapidly or to the extent anticipated or at all, the effect of the Acquisition on



Chesnara's financial results is not consistent with the expectations of investors, or Shareholders sell a significant number of Ordinary Shares after completion of the Acquisition.

**2.8 The terms of the financing arrangements of the Enlarged Group may limit its commercial and financial flexibility**

The commercial and financial flexibility of the Enlarged Group will be restricted by certain covenants under the terms of the Amended and Restated Facility Agreement. These covenants include customary restrictions relating to mergers and acquisitions, the granting of security over or disposal of assets, the incurrence of financial indebtedness, guarantees and indemnities, the extension of loans or credit by members of the Enlarged Group and derivative transactions. Any inability to exploit commercial opportunities as a result of such covenants may have a material adverse effect on the Enlarged Group.

**3. RISKS RELATING TO THE ISSUE AND AN INVESTMENT IN THE ORDINARY SHARES**

**3.1 The market price of the Nil Paid Rights, the Fully Paid Rights and/or the Ordinary Shares could be subject to volatility**

The market price of the Nil Paid Rights, the Fully Paid Rights and/or the Ordinary Shares could be subject to significant fluctuations due to a change in sentiment in the market regarding the Nil Paid Rights, the Fully Paid Rights and/or the Ordinary Shares (or securities similar to them), including, in particular, in response to various facts and events, including any regulatory changes affecting the Chesnara Group's operations, variations in the Chesnara Group's operating results and/or business developments of the Chesnara Group and/or its competitors. Stock markets have from time-to-time experienced significant price and volume fluctuations that have affected the market price for securities and which may be unrelated to the Company's operating performance or prospects. Furthermore, the Chesnara Group's operating results and prospects from time to time may be below the expectations of market analysts and investors. Any of these events could result in a decline in the market price of the Nil Paid Rights, the Fully Paid Rights and/or the Ordinary Shares.

**3.2 Shareholders who do not (or are not permitted to) acquire New Ordinary Shares in the Rights Issue will experience dilution in their ownership of the Company**

If a Shareholder does not (or is not permitted to) take up the offer of New Ordinary Shares under the Rights Issue, either because the Shareholder is in the United States, an Excluded Territory or another jurisdiction where their participation is restricted for legal, regulatory and other reasons or because the Shareholder does not respond to the Rights Issue by 11.00 a.m. on 22 July 2025, the expected latest time and date for acceptance and payment in full for that Shareholder's provisional allotment of New Ordinary Shares, and that Shareholder's Nil Paid Rights to acquire New Ordinary Shares lapse, the Shareholder's proportionate ownership and voting interests as well as the percentage that their Ordinary Shares will represent of the total share capital of the Company will be reduced accordingly. If a Shareholder does not (or is not permitted to) take up the offer of New Ordinary Shares under the Rights Issue, such Shareholder's proportionate ownership and voting interests in the Company will be diluted by up to 34.5% as a result of the Rights Issue (disregarding, for these purposes, the issuance of any Ordinary Shares in respect of the vesting or exercise of any awards under the Share-Based Incentive Plans which may occur between the Latest Practicable Date and the completion of the Rights Issue). Even if a Shareholder elects to sell their unexercised Nil Paid Rights, or such Nil Paid Rights are sold on their behalf, the consideration the Shareholder receives may not be sufficient to compensate them fully for the dilution of their percentage ownership of the Company's share capital that may be caused as a result of the Rights Issue.

The Company has made arrangements under which the Joint Bookrunners, within the two Business Day period following the expiration of the latest time and date for acceptance and payment, will endeavour, on behalf of Shareholders that do not take up New Ordinary Shares provisionally allotted, to find buyers for New Ordinary Shares not taken up by Shareholders. If, however, the Joint Bookrunners are unable to find buyers for such New Ordinary Shares or are unable to achieve a specified premium over the Issue Price and the related expenses of procuring such buyers, Shareholders will not receive any compensation for the Nil Paid Rights they have not taken up.

- 3.3 An active trading market for the New Ordinary Shares, Nil Paid Rights and Fully Paid Rights may not develop**
- Application has been made to admit the New Ordinary Shares to listing on the equity shares (commercial companies) category of the Official List and to trading on the London Stock Exchange's main market for listed securities. It is expected that the Rights (Nil and Fully Paid) will be admitted to trading on a multi-lateral trading facility of the London Stock Exchange. It is expected that Admission will become effective on 8 July 2025, that dealings in the Rights (Nil and Fully Paid) will commence on a multi-lateral trading facility of the London Stock Exchange as soon as practicable after 8.00 am on that date and that dealings in the New Ordinary Shares (fully paid) will commence on the London Stock Exchange as soon as practicable after 8.00 am on 23 July 2025. There can be no assurance, however, that an active trading market in Nil Paid Rights, Fully Paid Rights or New Ordinary Shares will develop following their respective Admission dates. In addition, because the trading price of the Nil Paid Rights and the Fully Paid Rights depends on the trading price of the Ordinary Shares, the Nil Paid Rights and the Fully Paid Rights prices may be volatile and subject to the same risks to which the Ordinary Shares are subject.
- 3.4 Admission of the New Ordinary Shares may not occur when expected**
- Admission of the New Ordinary Shares is subject to the approval (and subject to the satisfaction of any conditions on which such approval is expressed) of the FCA and Admission of the New Ordinary Shares will become effective as soon as a dealing notice has been issued by the FCA and the London Stock Exchange has acknowledged that the New Ordinary Shares will be admitted to trading. There can be no guarantee that any conditions to which Admission of the New Ordinary Shares is subject will be met or that the FCA will issue a dealing notice when anticipated.
- 3.5 The market price for the Ordinary Shares may decline below the Issue Price and Shareholders may not be able to sell Ordinary Shares at a favourable price after the Rights Issue**
- The public trading market price of the Ordinary Shares may decline below the Issue Price. Should that occur prior to the latest time and date for acceptance under the Rights Issue, Qualifying Shareholders or renouncees who exercise their rights in the Rights Issue will suffer an immediate loss as a result. Moreover, following the exercise of their rights, Shareholders may not be able to sell their New Ordinary Shares at a price equal to or greater than the Issue Price.
- Although the Chesnara Group has no current plans for a subsequent offering of Ordinary Shares, it is possible that it may decide to undertake such an offering in the future. An additional offering could have an adverse effect on the market price of the Ordinary Shares.
- 3.6 Investors in the Nil Paid Rights, Fully Paid Rights and/or New Ordinary Shares may be subject to exchange rate risk**
- The New Ordinary Shares are, and any dividends to be paid in respect of them will be, denominated in pounds sterling. In addition, the Nil Paid Rights, Fully Paid Rights and/or New Ordinary Shares are priced in pounds sterling. An investment in Nil Paid Rights, Fully Paid Rights and/or New Ordinary Shares by an investor whose principal currency is not pounds sterling exposes the investor to foreign currency exchange rate risk. Any depreciation of pounds sterling in relation to such foreign currency will reduce the value of the investment in the Nil Paid Rights, Fully Paid Rights and/or New Ordinary Shares or any dividends in foreign currency terms.
- 3.7 The Company's ability to pay dividends is not guaranteed**
- Future dividends will be subject to the financial condition of the Chesnara Group and, following the Acquisition, the Enlarged Group. Under UK company law, a company can only pay cash dividends to the extent that it has distributable reserves and cash available for this purpose.
- As a holding company, the Company's ability to pay dividends in the future is affected by a number of factors, principally its ability to receive sufficient dividends from its subsidiaries. The payment of dividends to the Company by its subsidiaries is affected by their financial condition and the existence of sufficient distributable reserves and cash in those subsidiaries.

The ability of its subsidiaries to pay dividends to the Company and its ability to receive distributions from its investments in other entities are subject to applicable local laws and regulatory requirements and other restrictions. These requirements could limit the payment of dividends and distributions to the Company by its subsidiaries, which could in the future restrict the Company's ability to fund its operations or pay a dividend to Shareholders.

**3.8 Overseas Shareholders may not be able to acquire New Ordinary Shares in the Rights Issue or subscribe for future issues of Ordinary Shares**

Securities laws of certain jurisdictions may restrict the Company's ability to allow participation by certain Shareholders in the Rights Issue or any future issue of Ordinary Shares. In particular, and subject to certain exceptions, Shareholders who are located or resident in the United States may not be able to exercise their rights in the Rights Issue or on a future issue of Ordinary Shares, unless a registration statement under the Securities Act is effective with respect to the Ordinary Shares or an exemption from the registration requirements is available thereunder. The New Ordinary Shares are not and will not be registered under the Securities Act and the Company may not file any such registration statements for any future issue of Ordinary Shares, and an exemption to the registration requirements of the Securities Act may not be available in any case. In such an event, Shareholders located or resident, in the United States would be unable to participate in such an issue. Qualifying Shareholders who have a registered address in or who are resident in countries other than the United Kingdom should consult their professional advisers as to whether they require any governmental or other consents, or need to observe any other formalities to enable them to take up their Nil Paid Rights or acquire New Ordinary Shares. Any Shareholder who is not entitled to participate in the Rights Issue or any future issue of Ordinary Shares carried out by the Company will suffer dilution, as described above.

## **PART III**

### **IMPORTANT INFORMATION**

#### **1. DISCLAIMER**

- 1.1 In considering whether to participate in the Rights Issue Shareholders must rely on their own examination, analysis and enquiry of the Company and the terms of the Rights Issue, including the merits and risks involved. None of the Company or the Joint Bookrunners or any of their respective representatives is making any representation to any Shareholder or prospective investor regarding the legality or advisability of an investment in the securities of Chesnara or related or other securities or instruments (including, but not limited, to Nil Paid Rights, Fully Paid Rights, Provisional Allotment Letters and/or New Ordinary Shares) under the laws applicable to such Shareholder or prospective investor. The contents of this document are not to be construed as legal, business, tax or financial advice. Each Shareholder or prospective investor should consult with its, his or her own adviser as to the legal, tax, business, financial and related aspects of participation in the Rights Issue.
- 1.2 Any decision in connection with the Rights Issue should be made solely on the basis of the information contained in or incorporated by reference into this document. Without limitation to the foregoing, reliance should not be placed on any information in any announcements released by Chesnara prior to the date of this document, except to the extent that such information is repeated or incorporated by reference into this document and not superseded or revised.
- 1.3 Apart from the responsibilities and liabilities, if any, which may be imposed on the Joint Bookrunners by FSMA or the regulatory regime established thereunder or under the regulatory regime of any jurisdiction where the exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, the Joint Bookrunners do not accept any responsibility whatsoever for and do not make any representation or warranty, express or implied, in relation to the content of this document, including its accuracy, completeness or verification or in relation to any other statement made or purported to be made by them or on their behalf, in connection with Chesnara, the Nil Paid Rights, the Fully Paid Rights, the New Ordinary Shares, the Rights Issue or the Acquisition and nothing in this document is or shall be relied upon as a promise or representation in this respect, whether as to the past or future. Each of the Joint Bookrunners accordingly disclaims, to the fullest extent permitted by law, all and any liability whatsoever, whether arising in tort, contract or otherwise which it might otherwise be found to have in respect of this document or any such statement.
- 1.4 None of the Joint Bookrunners, their respective affiliates nor any person acting on behalf of any of them accepts any responsibility or obligation to update, review or revise the information in this document or to publish or distribute any information which comes to its attention after the date of this document and the distribution of this document shall not constitute a representation by any of the Joint Bookrunners or any such person, that this document will be updated, reviewed or revised or that any such information will be published or distributed after the date of this document.
- 1.5 Recipients of this document acknowledge that: (i) they have not relied on any of the Joint Bookrunners or any person affiliated with any of the Joint Bookrunners in connection with their investigation of the accuracy of any information contained in or incorporated by reference into this document or their investment decision; (ii) they have relied only on the information contained in or incorporated by reference into this document, and (iii) no person has been authorised to give any information or to make any representation concerning Chesnara, any other member of the Chesnara Group, the New Ordinary Shares, the Nil Paid Rights, the Fully Paid Rights, the Rights Issue or the Acquisition (other than as contained in or incorporated by reference into this document) and, if given or made, any such other information or representation should not be relied upon as having been authorised by Chesnara or the Joint Bookrunners.
- 1.6 The Underwriters may, in accordance with applicable legal and regulatory provisions and subject to the Underwriting Agreement, engage in transactions in relation to the Nil Paid Rights, the Fully Paid Rights, the New Ordinary Shares and/or related instruments for its own

account for the purpose of hedging its commitments under the Underwriting Agreement. Except as required by applicable law or regulation, the Underwriters do not propose to make any public disclosure in relation to such transactions.

- 1.7 No person has been authorised to give any information or make any representations other than those contained in this document or incorporated by reference herein and, if given or made, such information or representations must not be relied upon as having been authorised by Chesnara or by the Joint Bookrunners. Neither Chesnara nor the Joint Bookrunners take any responsibility for, or can provide assurance as to the reliability of, other information that you may be given. Subject to FSMA, the UK Listing Rules, the Disclosure Guidance and Transparency Rules, the Prospectus Regulation Rules and UK MAR, neither the delivery of this document nor any subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Chesnara since the date of this document or that the information in this document is correct as at any time subsequent to its date. Without limitation, the contents of the Chesnara Group's website do not form part of this document.

## **2. FORWARD-LOOKING STATEMENTS**

- 2.1 This document contains or incorporates by reference "forward-looking" statements. All statements other than statements of historical fact included in this document may be forward-looking statements. Generally, words such as "will", "may", "would", "should", "could", "estimates", "continues", "believes", "expects", "aims", "targets", "projects", "intends", "anticipates", "plans", "prepares", "seeks" or, in each case, their negative or other variations or similar or comparable expressions identify forward-looking statements.
- 2.2 These forward-looking statements appear in a number of places throughout this document and/or the information incorporated by reference into this document, and reflect the intentions, beliefs or current expectations of the Board and other members of senior management, as well as assumptions made by them and information currently available to them. Although the Board and other members of senior management believe that these beliefs and assumptions are reasonable, by their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and may be beyond the Company's ability to control or predict. Forward-looking statements are not guarantees of future performance.
- 2.3 The Company's actual performance, operating results, internal rate of return, financial condition, distributions to Shareholders and the development of its financing strategies may differ materially from the impression created by the forward-looking statements contained in this document and/or the information incorporated by reference into this document. In addition, even if the Company's actual performance, operating results, internal rate of return, financial condition, distributions to Shareholders and the development of its financing strategies are consistent with the forward-looking statements contained in this document and/or the information incorporated by reference into this document, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause these differences include, but are not limited to, general economic and business conditions, industry trends, competition, changes in government and other regulation, including in relation to taxation, labour relations and work stoppages, changes in political and economic stability and changes in business strategy or development plans and other risks, including those described in the section of this document headed "Risk Factors". Past performance is no guide to future performance. The price of shares and any income expected from them may go down as well as up and investors may not get back the full amount invested upon disposal of the shares.
- 2.4 Prospective investors should carefully review the section of this document entitled "Risk Factors" for a discussion of factors that could cause the Company's actual results to differ materially from those expected before making an investment decision. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this document and/or the information incorporated by reference into this document may not occur. For the avoidance of doubt, nothing in this document constitutes a qualification of the working capital statement contained in paragraph 12 of Part XVII (*Additional Information*) of this document.



- 2.5 Forward-looking statements contained in this document apply only as at the date of this document. To the extent required by the UK Listing Rules, the Disclosure Guidance and Transparency Rules, the Prospectus Regulation Rules and other applicable regulations, the Company will update or revise the information in this document. Otherwise, the Company undertakes no obligation publicly to update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

**Forward-looking statements contained in this document do not in any way seek to qualify the working capital statement contained in paragraph 12 of Part XVII (Additional Information) of this document.**

### **3. PRESENTATION OF HISTORICAL FINANCIAL INFORMATION**

- 3.1 Unless otherwise stated, the historical financial information which is included in Part XII (*Historical Financial Information of Chesnara plc*), incorporated by reference into this document, was prepared in accordance with the IFRS.
- 3.2 Unless otherwise indicated, the historical financial information which is referred to in Part XIII (*Historical Financial Information of HSBC Life (UK)*) and set out in Appendix 1 (*HSBC Life UK Limited's Financial Statements together with the Audit Reports*), covered by the accountant report in respect of each financial year set out in Appendix 1 (*HSBC Life UK Limited's Financial Statements together with the Audit Reports*), was prepared in accordance with the IFRS.
- 3.3 Each of the Company's, and HSBC Life (UK)'s respective financial year end is the calendar year.
- 3.4 Prospective investors should consult their own professional advisers to gain an understanding of the financial information relating to the to the Company and HSBC Life (UK) contained in this document.

#### **3.5 Financial information incorporated by reference into, or included in, this Prospectus**

The audited consolidated financial statements of the Company as at and for the financial year ended 31 December 2024, together with the auditor report thereon, and the notes thereto have been incorporated by reference into this document, as set out in Part XII (*Historical Financial Information of Chesnara plc*) of this document, as further detailed in Part XVIII (*Documents Incorporated by Reference*) of this document. The words "Chesnara Group" refers to the Company (together with its Subsidiaries) on a consolidated basis.

#### **3.6 Presentation of financial information of HSBC Life (UK)**

The Historical Financial Information relating to HSBC Life (UK) referred to in Part XIII (*Historical Financial Information of HSBC Life (UK)*) and set out in Appendix 1 (*HSBC Life (UK) Limited's Financial Statements together with the Audit Reports*) consists of historical financial information as at and for the financial years ended 31 December 2024, 31 December 2023 and 31 December 2022.

### **4. PRO FORMA FINANCIAL INFORMATION**

- 4.1 In this document, any reference to "pro forma" financial information is to information which has been extracted without material adjustments from the unaudited *pro forma* financial information contained in Part XV (*Unaudited Pro Forma Financial Information for the Enlarged Group and Accountant's Report*) of this document. The unaudited *pro forma* information contained in Part XV (*Unaudited Pro Forma Financial Information for the Enlarged Group and Accountant's Report*) of this document is based on the historical financial information of the Chesnara Group contained in Part XII (*Historical Financial Information of Chesnara plc*) and Part XIII (*Historical Financial Information of HSBC Life (UK)*) of this document, respectively.

### **5. NON-IFRS FINANCIAL MEASURES**

- 5.1 This document contains certain financial measures that are not defined or recognised under IFRS, in particular: "Solvency", "Commercial Cash Generation", "Economic Value (EcV)" and "EcV earnings", all of which are defined below. The Directors believe that each of these

measures provides important supplemental information with respect to the performance of the Chesnara Group's business and operations.

- 5.2 These non-IFRS financial measures are unaudited and are not measures recognised under IFRS or any other internationally accepted accounting principles, and prospective investors should not consider such measures as an alternative to the IFRS measures included in the Chesnara Group's historical financial information contained in Part XII (*Historical Financial Information of Chesnara plc*) of this document.

5.2.1 **Solvency** – Solvency is a fundamental financial measure which is of paramount importance to investors and policyholders. It represents the relationship between the value of the business as measured on a Solvency II basis and the capital the business is required to hold – the Solvency Capital Requirement (SCR). Solvency can be reported as an absolute surplus value or as a ratio.

5.2.2 **Commercial Cash Generation** – Cash generation is used by the Chesnara Group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed. Commercial Cash Generation excludes the impact of technical adjustments and modelling changes; representing the inherent commercial cash generated by the business.

5.2.3 **Economic Value (EcV)** – EcV is a financial metric that is derived from Solvency II Own Funds. It provides a market consistent assessment of the value of existing insurance businesses, plus adjusted net asset value of the non-insurance business within the Chesnara Group. The Company define EcV as Own Funds adjusted for contract boundaries, risk margin and restricted with-profit surpluses. As such, EcV and Own Funds have many common characteristics and tend to be impacted by the same factors.

5.2.4 **EcV earnings** – The principal underlying components of the EcV earnings are: (i) The expected return from existing business (being the effect of the unwind of the rates used to discount the value in-force); (ii) Value added by the writing of new business; (iii) Variations in actual experience from that assumed in the opening valuation; (iv) The impact of restating assumptions underlying the determination of expected cash flows; and (v) The impact of acquisitions.

## 6. ROUNDINGS

6.1.1 Certain data in this document, including financial, statistical, and operating information, has been rounded. As a result of the rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data. Percentages in tables have been rounded and accordingly may not add up to 100%.

6.1.2 In addition, certain percentages presented in the tables in this document reflect calculations based upon the underlying information prior to rounding, and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers

## 7. CURRENCY PRESENTATION AND ABBREVIATIONS

7.1.1 Unless otherwise indicated, all references in this document to "Sterling", "Pounds Sterling", "GBP", "£", or "pence" are to the lawful currency of the United Kingdom. The Company prepares its financial statements in Pounds Sterling.

7.1.2 The abbreviations "£m" or "£ million" represent millions of Pounds Sterling, and references to "pence" and "p" represent pence in Pounds Sterling.

## 8. NO PROFIT FORECASTS OR ESTIMATES

No statement in this document is intended as a profit forecast or estimate and no statement in this document should be interpreted to mean that earnings per share for the most recent, current or future financial years would necessarily match or exceed the historical published earnings per share.

## **9. NO INCORPORATION OF WEBSITE INFORMATION**

Neither the content of Chesnara's website, nor the content of any website accessible from hyperlinks on Chesnara's website, is incorporated into, or forms part of, this document and investors should not rely on them, without prejudice to the documents incorporated by reference into this document which will be made available on Chesnara's website.

## **10. MARKET, ECONOMIC AND INDUSTRY DATA**

10.1.1 Unless the source is otherwise stated, the market, economic and industry data in this document constitute the Directors' estimates, using underlying data from independent third parties. Market data and certain industry data and forecasts included in this document have been obtained from market research, consultant surveys, publicly available information, reports of governmental agencies and industry publications and surveys.

10.1.2 The Company confirms that all third-party data contained in this document has been accurately reproduced and, so far as the Company is aware and able to ascertain from information published by that third-party, no facts have been omitted that would render the reproduced information inaccurate or misleading. Where third-party information has been used in this document, the source of such information has been identified. While industry surveys, publications, consultant surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, the accuracy and completeness of such information is not guaranteed. The Company has not independently verified any of the data from third-party sources, nor has the Company ascertained the underlying economic assumptions relied upon therein. Similarly, industry forecasts and market research, which the Company believes to be reliable based upon the Directors' knowledge of the industry, have not been independently verified. Statements as to the Chesnara Group's market position are based on recently available data.

## **11. TIMES**

All references to time in this document are, unless otherwise stated, references to time in London, United Kingdom.

## **12. NOTICE TO INVESTORS**

### **12.1 *Notice to US Investors***

Subject to certain exceptions, neither this document nor the Provisional Allotment Letter constitutes, or will constitute, or forms part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or acquire, New Ordinary Shares, Nil Paid Rights and/or Fully Paid Rights to any Shareholder who is resident of, the United States.

### **12.2 *Overseas Territories***

Shareholders who have registered addresses in or who are resident in, or who are citizens of, all countries other than the United Kingdom should refer to paragraph 7 of Part VIII (*Terms and Conditions of the Rights Issue*) of this document.

### **12.3 *Notice to all Investors***

12.3.1 Any reproduction or distribution of this document or the Provisional Allotment Letters, in whole or in part, and any disclosure of its contents or use of any information for any purpose other than in considering an investment in the Nil Paid Rights, the Fully Paid Rights or the New Ordinary Shares is prohibited. By accepting delivery of this document, each offeree of the Nil Paid Rights, the Fully Paid Rights and/or the New Ordinary Shares agrees to the foregoing.

12.3.2 The distribution of this document and/or the Provisional Allotment Letters and/or the transfer of the Nil Paid Rights, the Fully Paid Rights and/or the New Ordinary Shares into jurisdictions other than the United Kingdom may be restricted by law. Persons into whom possession these documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any jurisdiction. In particular, such

documents should not be distributed, forwarded to or transmitted in or into the United States or any 'Excluded Territory.

12.3.3 No action has been taken by the Company or by the Joint Bookrunners that would permit an offer of the Nil Paid Rights, the Fully Paid Rights or the New Ordinary Shares or possession or distribution of this document, the Provisional Allotment Letters or any other offering or publicity material in any of the Excluded Territories or in any other jurisdictions where the extension and availability of the Rights Issue would breach any applicable law.

### **13. AVAILABLE INFORMATION**

For so long as any of the Company's securities are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act, the Company will, during any period in which it is not subject to Section 13 or 15(d) under the U.S. Securities Exchange Act of 1934, as amended, nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, make available to any holder or beneficial owner of such restricted securities, or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, upon request the information required to be delivered pursuant to Rule 144A(d)(4) under the U.S. Securities Act.

### **14. ENFORCEMENT OF CIVIL LIABILITIES**

The Company is organized as a public limited company incorporated under the laws of England and Wales. None of the directors or officers is a citizen or resident of the United States. In addition, the majority of the Company's assets and all the assets of the directors and officers are located or resident outside the United States. As a result, it may not be possible for U.S. investors to effect service of process within the United States upon the Company or the directors and officers located or resident outside the United States or to enforce in the U.S. courts or outside the United States judgments obtained against them in U.S. courts or in courts outside the United States, including judgments predicated upon the civil liability provisions of the U.S. federal securities laws or the securities laws of any state or territory within the United States. There is doubt as to the enforceability in England and Wales, whether by original actions or by seeking to enforce judgments of U.S. courts, of claims based on the federal securities laws of the United States. In addition, punitive damages in actions brought in the United States or elsewhere may be unenforceable in England and Wales.

## PART IV

### EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Each of the times and dates in the table below is indicative only and may be subject to change.

|                                                                                                                                                                                                                             | Time and Date (2025 <sup>(1)</sup> , <sup>(2)</sup> ) |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| Record Date                                                                                                                                                                                                                 | 6.00 p.m. on 1 July                                   |
| Announcement of the Rights Issue                                                                                                                                                                                            | 3 July                                                |
| Publication of this document                                                                                                                                                                                                | 3 July                                                |
| Posting of this document                                                                                                                                                                                                    | 4 July                                                |
| Despatch of Provisional Allotment Letters (to Qualifying Non-CREST Shareholders only <sup>(3)</sup> )                                                                                                                       | 4 July                                                |
| Existing Ordinary Shares marked “ex-rights” by the LSE                                                                                                                                                                      | 8.00 a.m. on 8 July                                   |
| <b>Admission of the New Ordinary Shares and admission of, and commencement of dealings in, the Rights (Nil and Fully Paid) on a multi-lateral trading facility of the London Stock Exchange</b>                             | 8 July                                                |
| Nil Paid Rights credited to stock accounts in CREST (Qualifying CREST Shareholders only)                                                                                                                                    | As soon as practicable after 8.00 a.m. on 8 July      |
| Nil Paid Rights and Fully Paid Rights enabled in CREST                                                                                                                                                                      | As soon as practicable after 8.00 a.m. on 8 July      |
| Special Dealing Service open for applications                                                                                                                                                                               | 9 July                                                |
| Dealings carried out in relation to Cashless Take-up or disposal of Nil Paid Rights under the Special Dealing Service                                                                                                       | Daily from 9 July                                     |
| Settlement of dealings in relation to Cashless Take-up or disposal of Nil Paid Rights under the Special Dealing Service                                                                                                     | Trade +2 Settlement cycle                             |
| Latest time and date for receipt of instructions under the Special Dealing Service in respect of Cashless Take-up or disposal of Nil Paid Rights                                                                            | 11.00 a.m. on 16 July                                 |
| Recommended latest time for requesting withdrawal of Nil Paid Rights or Fully Paid Rights from CREST (i.e., if your Nil Paid Rights or Fully Paid Rights are in CREST and you wish to convert them into certificated form). | 4.30 p.m. on 16 July                                  |
| Recommended latest time and date for depositing renounced Provisional Allotment Letters, nil paid or fully paid, into CREST or for dematerialising Nil Paid Rights into a CREST stock account.                              | 3.00 p.m. on 17 July                                  |
| Latest time and date for splitting Provisional Allotment Letters, nil paid or fully paid                                                                                                                                    | 3.00 p.m. on 18 July                                  |
| Latest time and date for acceptance and payment in full and registration of renounced Provisional Allotment Letters                                                                                                         | 11.00 a.m. on 22 July                                 |
| Despatch of cheques in relation to proceeds of disposal of Nil paid Rights under the Special Dealing Service                                                                                                                | 23 July                                               |
| Results of the Rights Issue to be announced through a Regulatory Information Service                                                                                                                                        | By 8.00 a.m. on 23 July                               |
| Dealings in New Ordinary Shares, fully paid, commence on the London Stock Exchange                                                                                                                                          | 8.00 a.m. on 23 July                                  |
| New Ordinary Shares credited to CREST accounts (uncertificated holders only <sup>(4)</sup> )                                                                                                                                | As soon as practicable after 8.00 a.m. on 23 July     |
|                                                                                                                                                                                                                             | By no later than 4 August                             |



Expected date of despatch of definitive share certificates for New Ordinary Shares in certificated form (to Qualifying Non-CREST Shareholders only<sup>(3)</sup>)

CREST accounts credited and cheques despatched in respect of premium payments (if applicable)

By no later than 4 August

Expected date of Completion<sup>(4)</sup>

Early 2026

**Notes:**

1. *The times and dates set out in the expected timetable of principal events above and mentioned throughout this document and in the Provisional Allotment Letter may be adjusted by the Company by announcement through a Regulatory Information Service, in which event details of the new dates will be notified to the FCA and to the LSE and, where appropriate, to Shareholders.*
2. *References to times in this document are to London time unless otherwise stated.*
3. *Subject to certain restrictions relating to Overseas Shareholders. See paragraph 7 of Part VIII (Terms and Conditions of the Rights Issue) of this document.*
4. *Subject to satisfaction or waiver of the conditions set out in the Share Purchase Agreement and summarised in paragraph 9.1.1 of Part XVII (Additional Information) of this document.*

## PART V

### SHARE CAPITAL AND RIGHTS ISSUE STATISTICS

|                                                                                                                                                             |                                                                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|
| Issue Price per New Ordinary Share                                                                                                                          | 176 pence                                                       |
| Basis of Rights Issue                                                                                                                                       | 10 New Ordinary Shares for every<br>19 Existing Ordinary Shares |
| Number of Ordinary Shares in issue at the Latest Practicable Date                                                                                           | 151,124,742                                                     |
| Number of New Ordinary Shares to be provisionally allotted pursuant to the Rights Issue <sup>(1)</sup>                                                      | 79,539,337                                                      |
| Number of Ordinary Shares in issue immediately following the completion of the Rights Issue <sup>(1)</sup>                                                  | 230,664,079                                                     |
| New Ordinary Shares as a percentage of the enlarged issued share capital of the Company immediately following completion of the Rights Issue <sup>(1)</sup> | 34.5%                                                           |
| Estimated gross proceeds of the Rights Issue                                                                                                                | £140 million                                                    |
| Estimated expenses of the Rights Issue <sup>(2)(4)</sup>                                                                                                    | £10 million                                                     |
| Estimated net proceeds of the Rights Issue <sup>(3)</sup>                                                                                                   | £130 million                                                    |

**Notes**

1. On the assumption that no further Ordinary Shares are issued from the date of this document until completion of the Rights Issue other than the New Ordinary Shares. The actual number of New Ordinary Shares to be issued under the Rights Issue will be subject to rounding to eliminate fractions.
2. All expenses are exclusive of any amounts in respect of VAT.
3. Based on the maximum number of New Ordinary Shares being issued under the Rights Issue.
4. No commissions, fees or expenses will be charged to subscribers for New Ordinary Shares by the Company.

## PART VI

### DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

|           |                                                                                                                                           |                                                                                                                                                                                                                          |
|-----------|-------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Directors | Luke Savage<br>Steven Grant Murray<br>Tom Howard<br>Carol Jungmin Hagh<br>Gail Louise Tucker<br>Eamonn Michael Flanagan<br>Samantha Tymms | Chair<br>Group Chief Executive Officer<br>Group Chief Financial Officer<br>Senior Independent Director<br>Independent Non-Executive Director<br>Independent non-Executive Director<br>Independent Non-Executive Director |
|-----------|-------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

*Each of the Directors' business address is the Company's registered address at 2nd Floor, Building 4, West Strand Business Park, West Strand Road, Preston, Lancashire, PR1 8UY and each Director's business telephone number is +44 (0)1772 972 050*

Company Secretary Alastair Lonie of Chesnara plc

Registered Office 2nd Floor,  
Building 4 West Strand,  
Preston,  
PR1 8UY

Sponsor, Global Coordinator,  
Joint Bookrunner and  
Underwriter RBC Europe Limited  
100 Bishopsgate  
London  
EC2N 4AA

Joint Bookrunner and  
Underwriter ABN AMRO Bank N.V.  
Gustav Mahlerlaan 10  
1082 PP Amsterdam  
The Netherlands

Joint Bookrunner Panmure Liberum Limited  
25 Ropemaker Street  
London  
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Legal advisers to the Company  
as to English law Pinsent Masons LLP  
30 Crown Place  
London  
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Legal advisers to the Company  
as to US law Proskauer Rose LLP  
8 Bishopsgate  
London  
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Legal advisers to the Sponsor,  
Joint Bookrunners and  
Underwriters as to English law  
and US law Ashurst LLP  
London Fruit & Wool Exchange  
1 Duval Square  
London  
E1 6PW

Auditor Deloitte LLP  
1 City Square  
Leeds  
LS1 2AL

|                      |                                                                                                           |
|----------------------|-----------------------------------------------------------------------------------------------------------|
| Reporting Accountant | Deloitte LLP<br>1 New Street Square<br>London<br>EC4A 3HQ<br>United Kingdom                               |
| Receiving Agent      | MUFG Corporate Markets<br>Corporate Actions<br>Central Square<br>29 Wellington Street<br>Leeds<br>LS1 4DL |
| Registrar            | MUFG Corporate Markets<br>Central Square<br>29 Wellington Street<br>Leeds<br>LS1 4DL                      |

## PART VII

### LETTER FROM THE CHAIR

*Directors:*

*Luke Savage (Chair)*  
*Steven Grant Murray (Group Chief Executive Officer)*  
*Tom Howard (Group Chief Financial Officer)*  
*Carol Jungmin Hagh (Senior Independent Director)*  
*Gail Louise Tucker (Independent Non-Executive Director)*  
*Eamonn Michael Flanagan (Independent Non-Executive Director)*  
*Samantha Tymms (Independent Non-Executive Director)*

*Registered office:*

2nd Floor, Building 4  
West Strand Business Park  
West Strand Road  
Preston  
Lancashire  
PR1 8UY

3 July 2025

#### **ACQUISITION OF HSBC LIFE (UK) LIMITED AND 10 FOR 19 RIGHTS ISSUE OF 79,539,337 NEW ORDINARY SHARES AT 176 PENCE PER NEW ORDINARY SHARE**

Dear Shareholder,

#### **1. INTRODUCTION**

On 3 July 2025, Chesnara plc ("**Chesnara**" or the "**Company**") and, together with its subsidiaries from time to time, the "**Chesnara Group**") announced that it had reached agreement on the terms of the proposed acquisition (the "**Acquisition**") of HSBC Life (UK) Limited ("**HSBC Life (UK)**") from HSBC Bank plc ("**HSBC Bank**") and intends to finance the proposed acquisition by way of a combination of utilising existing cash resources, drawing down on the Chesnara Group's amended and restated increased revolving credit facility agreement ("**Amended RCF**") and a rights issue of ordinary shares of the Company (the "**Rights Issue**").

The purpose of this document is to provide further details of the Rights Issue and explain why the Directors believe this is in the best interests of the Chesnara Group and its Shareholders.

The HSBC Life (UK) business being acquired focuses on providing investment products through its onshore investment bond offering, and a range of protection products focused on term, critical illness and income protection. The business operates both open and closed portfolios and products are currently distributed through HSBC Bank's internal channels as well as external distributors. As at 31 December 2024, the HSBC Life (UK) business had approximately 454,000 policies, 234 employees, approximately £4 billion of assets under administration and £314 million of Eligible Solvency II Own Funds.

The Acquisition will provide Chesnara with significantly greater scale in the United Kingdom and is a strong fit with the Chesnara Group's stated strategy. The purpose of the Rights Issue is to raise capital to support the Acquisition as part of establishing an optimal financing structure, comprising use of existing cash, drawdown of the Amended RCF and equity from the proposed Rights Issue, to align with the Chesnara Group's financing framework and to support additional M&A in the future.

#### **2. BACKGROUND AND REASONS FOR THE ACQUISITION AND RIGHTS ISSUE**

##### **2.1 Strategy**

Chesnara is a specialist life and pensions consolidator listed on the London Stock Exchange. Chesnara has businesses in the UK, the Netherlands and Sweden. The Chesnara Group's primary focus is consolidating life and pensions businesses in the UK and Netherlands and this is complemented by profitable new business written in the Chesnara Group's business in Sweden, the Netherlands and the UK. The Chesnara Group has completed 14 acquisitions to date, including six in the UK.



The focus of Chesnara is to:

- 2.1.1 act as a consolidator of attractive and value-enhancing life and pensions books, predominantly those that are closed to new business. In this regard, the business has executed a number of closed-book acquisitions from City of Westminster Assurance, Save & Prosper and Direct Line Life. More recently, in 2022, Chesnara acquired Sanlam Life & Pensions UK Limited and in 2023 it agreed to acquire an individual protection portfolio from Colorado Life executed through a 100% reinsurance agreement and subsequent transfer on 23 February 2025. In late 2024, Chesnara reached an agreement with Canada Life to acquire a second, closed portfolio of unit linked bonds and legacy pension business, similarly 100% reinsured, which is expected to transfer to Chesnara at the end of 2025 (subject to the completion of a court-approved transfer);
- 2.1.2 deploy its specialist skills to efficiently and effectively manage in-force policies and deliver for customers, with the strategic objective of maximising value for Shareholders from the existing business. This is achieved, in part, by outsourcing certain activities and closely monitoring the management of policies through a central UK based governance team. This outsourcing model creates a degree of cost variability which is vital to a largely closed-book business whose size is reducing naturally over time and is an approach that provides flexibility to support future acquisitions; and
- 2.1.3 apply its expertise in capital management, regulation and other key areas to support the Chesnara Group's overriding philosophy of "putting the customer first" and therefore achieve good outcomes for customers. This approach safeguards the financial future of customers and supports delivery of a service that meets their needs.

Chesnara has a range of growth opportunities and the Chesnara Group's strategy includes the disciplined acquisition of companies and portfolios, utilising a clear set of acquisition criteria to assess opportunities.

In the UK, Chesnara operates predominantly through Countrywide Assured plc ("**Countrywide Assured**") which was the key operating subsidiary at the time of the listing of Chesnara on the London Stock Exchange in 2004. Countrywide Assured comprises a range of life insurance, pensions and savings products that are largely no longer actively marketed to customers and is therefore substantially closed to new business. New business is predominantly onshore bonds that continue to be written through third-party platforms.

## 2.2 Reasons for the Acquisition

The Directors believe that the Acquisition offers significant financial benefits for Shareholders and is a strong strategic fit for the Chesnara business. In particular:

### 2.2.1 Increased cash generation

With lifetime cash generation in excess of £800 million<sup>1</sup>, achieved through the delivery of future profits and run off of capital requirements over time, the Acquisition is expected to materially enhance the future cash generation of the Chesnara Group. £140 million of cash generation is expected to emerge during the first five years post-acquisition over the period 2025 – 2029, with significant cash generation expected to emerge in future years, enhancing the sustainability and longevity of the Chesnara Group's cash generation.

### 2.2.2 Attractive transaction pricing

The total consideration for the Acquisition is £260 million which represents 83% of HSBC Life (UK)'s Eligible Solvency II Own Funds as at 31 December 2024.

### 2.2.3 Efficient financing structure

Chesnara will fund the Acquisition utilising: (a) £55 million of own cash resources; (b) £65 million from the Chesnara Group's Amended RCF which is currently

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<sup>1</sup> Incremental cash generation arising from the Acquisition is calculated using Chesnara's assumptions and reporting bases on an undiscounted basis.

completely undrawn; and (c) a fully underwritten rights issue to raise £140 million from its Shareholders. The proposed financing structure would have resulted in a leverage ratio of 29% as if the transaction occurred on 31 December 2024 (compared to 31% reported at 2024 year-end), consistent with the Chesnara Group's investment grade rating. In the medium term, the Chesnara Group's leverage ratio is expected to reduce further as Chesnara pays down the Amended RCF.

#### **2.2.4 Robust balance sheet maintained following transaction**

On a *pro forma* basis, if the transaction had occurred on 31 December 2024, the Chesnara Group's Solvency II Surplus would have been £361 million (compared to £327 million reported at 2024 year-end) and the Solvency Coverage Ratio would have been 169% (compared to 203% reported at 2024 year-end), which is above the Chesnara Group's normal operating range of 140% – 160%.

#### **2.2.5 Step-up in dividend**

Supported by the strong financial profile of the Acquisition, there will be a step-up in the Chesnara Group's dividend trajectory. The final FY25 dividend and interim FY26 dividend is expected to be increased by 6%, representing a one-year acceleration in the Chesnara Group's recent historic track record of 3% per annum increases.

#### **2.2.6 Value creation through operating efficiencies and capital optimisation**

The Acquisition is expected to create value for Shareholders through operating efficiencies from the migration of the policy administration of the HSBC Life (UK) policies to Chesnara's strategic outsourcing partner SS&C. This activity will be part of the ongoing migration of the policy administration for Chesnara's UK business from the existing range of outsourced providers to SS&C.

The Acquisition is also expected to enable incremental value creation for Shareholders through management actions and capital synergies including, for example, the Part VII transfer of HSBC Life (UK) to a single UK entity over time, mass lapse reinsurance, FX hedging and capital diversification benefits.

#### **2.2.7 New business opportunity**

The HSBC Life (UK) product suite is complementary and well-aligned to the Chesnara Group's existing products, particularly its open onshore bond. HSBC Life (UK) offers potential to generate further value from new business which the Company will assess carefully over the coming months.

#### **2.2.8 Reinforces Chesnara's position as a leading life and pensions consolidator**

The Acquisition represents the Chesnara Group's largest transaction to date with approximately £4 billion of assets under administration and approximately 454,000 policies being acquired by Chesnara, creating a combined group of approximately £18 billion of total assets under administration and approximately 1.4 million policies. The Acquisition is also expected to result in inclusion in the FTSE 250 and further supports Chesnara's position as one of the leading life and pensions consolidators.

### **2.3 Impact of the Acquisition**

The Acquisition will bring the Chesnara Group an additional approximately £4 billion of assets under administration and approximately 454,000 policies, based on information as at 31 December 2024. This will result in an increase in the Chesnara Group's existing assets to £18 billion and a total of approximately 1.4 million policyholders. The Enlarged Group would be refocused towards the UK, with 55% of the total assets in the UK, 29% in Sweden and 16% in the Netherlands.

In addition, the Enlarged Group would continue to be focused on managing unit-linked products. Of HSBC Life (UK)'s £4 billion of assets 94% are unit-linked meaning that the Enlarged Group's assets under administration would be 89% unit-linked. In terms of products, of the approximately 454,000 policies administered by HSBC Life (UK), 95% of those are

protection policies and 5% are onshore investment bond policies. As a result of the combined 1.4 million policies of the Enlarged Group, 73% would be protection policies, 24% unit-linked, 2% annuities and 1% onshore investment bonds.

The proposed financing mix will maintain the Chesnara Group's capital and balance sheet strength, with the leverage ratio of Enlarged Group expected to be 29% as if the transaction had occurred on 31 December 2024 in line with the Chesnara Group's investment grade rating.

The estimated Solvency II surplus of the Enlarged Group is expected to increase from £327 million to £361 million as if the transaction had occurred on 31 December 2024, with the Solvency II capital coverage ratio decreasing from 203% to 169%, and continuing to be above the Chesnara Group's normal operating range of 140%-160%.

The Directors also expect that the Acquisition has the potential to deliver material incremental value for Shareholders through capital management actions and cost efficiencies underpinned by the migration of the HSBC Life (UK) policies to SS&C, which is Chesnara's strategic policy administration outsourcing partner in the UK.

The financial and other benefits set out above are contingent on completion of the Acquisition and could not be achieved independently.

## **2.4 Reasons for the Rights Issue**

The Directors decided to undertake the Rights Issue to raise capital to support the Acquisition as part of establishing an optimal financing structure, comprising use of existing cash, drawdown of the Amended RCF and net proceeds from the proposed Rights Issue, to align with the Chesnara Group's financing framework and to support additional M&A in the future. The Rights Issue will ensure that, if Qualifying Shareholders (other than, subject to limited exceptions, Shareholders with a registered address in, or resident in, one of the Excluded Territories) subscribe for all of the New Ordinary Shares to which they are entitled, their shareholdings would not be diluted. This means that Shareholders who subscribe for all of the New Ordinary Shares to which they are entitled under the Rights Issue will have the same percentage interest in the Company both before and after the Rights Issue, subject to the rounding down of fractional share entitlements.

## **2.5 Completion of the Acquisition**

Completion of the Acquisition is conditional upon:

2.5.1 the PRA having approved, or being treated as having approved, the acquisition of control of HSBC Life (UK) by Chesnara for the purposes of the Financial Services and Markets Act 2000; and

2.5.2 Admission having become effective.

Completion of the Acquisition is expected in early 2026 following signing and announcement of the Acquisition, subject to customary regulatory approvals.

## **2.6 Transaction documents**

### **2.6.1 Share Purchase Agreement**

The Share Purchase Agreement sets out the terms and conditions applicable to the Acquisition, including the conditions to completion set out above in paragraph 2.5. The completion conditions must be satisfied by the date which is nine months following the date of the Share Purchase Agreement (unless otherwise agreed in writing between the Company and the Seller).

A non-refundable break payment of an amount equal to £20,000,000 shall become payable by the Company if the Share Purchase Agreement terminates other than in certain limited circumstances.

The Share Purchase Agreement also contains the terms by which the £260 million consideration is adjusted, including in respect of any dividends paid by the Target pre-

completion and any capital contributions made by the Seller to the Target pre-completion.

Further details of terms of the Acquisition are included in the summary of the Share Purchase Agreement set out in paragraph 9.1.1 of Part XVII (*Additional Information*) of this document.

#### 2.6.2 Transitional Services Agreement

On signing of the Share Purchase Agreement, the Seller and HSBC Life (UK) have agreed to enter into the Transitional Services Agreement at Completion. Under the terms of the Transitional Services Agreement, the Seller will provide certain time-bound transitional services to the Target for the running of the business of the Target until it can migrate off the Seller's systems and intra-group services.

The Transitional Services Agreement shall expire six months following the date on which the Transitional Services Agreement is entered into (subject to any extension of a service term by HSBC Life (UK) and/or by a decision of the appropriate governance committee to extend a service term). Any such service term extension shall not exceed the first anniversary of the date of commencement of the Transitional Services Agreement.

HSBC Life (UK) shall pay for the services monthly in arrears, and shall be liable to pay for 50% of the directly incurred fees and costs in respect of any relevant third-party consent necessary for the provision of a service line. The Transitional Services Agreement is governed by English law.

### 3. SUMMARY INFORMATION ON CHESNARA

Chesnara is primarily a European life and pensions consolidator, and is the owner of Countrywide Assured, Movestic, Scildon and the Waard Group. Chesnara has been listed on the premium segment on the LSE's main market for listed securities since May 2004.

Key Chesnara Group metrics for the period ended 31 December 2024 were as follows:

- £60 million of Chesnara Group commercial cash generation;
- 203% Group Solvency Coverage Ratio;
- £14 billion of assets under administration (including the impact of the most recent Canada Life Portfolio acquisition, expected to transfer and migrate during 2025); and
- 940,000 policies.

Chesnara has a track record of identifying, completing and integrating acquisitions, as well as delivering growth, strong Shareholder returns and good customer outcomes. As at 31 December 2024, Chesnara had a Group Solvency Coverage Ratio of 203% with a regulatory surplus of £327 million. Chesnara is committed to delivering on its three core strategic objectives, which are:

- maximising value from its existing business;
- acquiring further life and pensions businesses where they satisfy stringent assessment criteria; and
- value enhancement through the writing of profitable new business.

Chesnara's current acquisition strategy is to target opportunities which have historically been predominantly in the UK and the Netherlands which are value accretive and will also consider possible acquisitions in other key geographies, such as Sweden. Opportunities are assessed giving full regard to the following criteria:

- cash generation expectations;
- solvency;
- strategic fit and potential future value accretion; and
- risk profile.

#### 4. SUMMARY INFORMATION ON HSBC LIFE (UK)

The HSBC Life (UK) business being acquired focuses on providing investment products through its onshore investment bond offering, and a range of protection products focused on term, critical illness and income protection. The business operates both open and closed portfolios.

The products are currently distributed through HSBC Bank's internal channels as well as external distributors, and include:

- Onshore investment bonds: life wrapped investment product which provides access to approximately 3,800 funds from over 200 managers.
- Protection: group and individual protection focused on term, critical illness and income protection.
- Trustee investment plan: closed to new business and expected to transfer to HSBC Bank within two years of completion

##### **Integration of portfolios being acquired**

Chesnara intends to apply a disciplined approach to the migration and integration of HSBC Life (UK). An orderly programme of work is expected to be undertaken with the policies migrating from the current outsourced providers to Chesnara's strategic outsourcing partner, SS&C. This activity will form part of the wider ongoing orderly migration project that is already underway and is transferring the policy administration of Chesnara's wider UK business from its existing range of outsourced service providers to SS&C.

#### 5. STRUCTURE, PRINCIPAL TERMS AND USE OF PROCEEDS OF THE RIGHTS ISSUE

Pursuant to the Rights Issue, the Company is proposing to offer 79,539,337 New Ordinary Shares by way of a rights issue to Qualifying Shareholders other than subject to limited exceptions, to Shareholders with a registered address in, or who are resident in, the United States or one of the Excluded Territories. The offer is to be made at 176 pence per New Ordinary Share, payable in full on acceptance by not later than 11.00 a.m. on 22 July 2025. The Company is undertaking the Rights Issue to raise capital to support the Acquisition as part of establishing an optimal financing structure, comprising use of existing cash (£55 million), drawdown of the Amended RCF (£65 million) and net proceeds from the proposed Rights Issue, to align with the Chesnara Group's financing framework and to support additional M&A in the future. The expected gross proceeds of the Rights Issue are £140 million.

If the Rights Issue were to proceed but the Acquisition does not complete, the Directors intend to retain the net proceeds of the Rights Issue for use within the following 12 months on the general commercial activities of the Chesnara Group and alternative acquisitions in pursuit of the Chesnara Group's strategy as a consolidator of closed life and pension funds, currently focusing on the UK and Dutch insurance markets as well as exploring potential opportunities in the wider European insurance market. Failing this, the Directors will either seek to return the net proceeds of the Rights Issue to Shareholders in a tax efficient and practicable manner or seek Shareholders' approval at a general meeting to continue to hold the net proceeds of the Rights Issue for general corporate purposes. The Rights Issue is expected to raise approximately £130 million (net of expenses incurred in connection with the Rights Issue). The Issue Price represents a 40% discount to the Closing Price of 293.50 pence per Ordinary Share on the Latest Practicable Date and a 30.4% discount to the theoretical ex-rights price ("TERP") of 252.98 pence per Ordinary Share calculated by reference to the Closing Price on the Latest Practicable Date.

The Rights Issue will be made on the basis of:

**10 New Ordinary Shares at 176 pence per New Ordinary Share  
for every 19 Existing Ordinary Shares**

held by Qualifying Shareholders on the Record Date.

Entitlements to New Ordinary Shares will be rounded down to the nearest whole number and fractional entitlements will not be allotted to Shareholders but will be aggregated and issued



into the market for the benefit of the Company. Holdings of Existing Ordinary Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlement under the Rights Issue.

The Rights Issue is fully underwritten by the Underwriters pursuant to the Underwriting Agreement. The principal terms of the Underwriting Agreement are summarised at paragraph 9.1.2 of Part XVII (*Additional Information*) of this document.

The Rights Issue will result in 79,539,337 New Ordinary Shares being issued (representing approximately 52.6% of the existing issued share capital and, assuming no additional Ordinary Shares are issued prior to the Rights Issue, approximately 34.5% of the Enlarged Share Capital following completion of the Rights Issue on a fully diluted basis).

The Rights Issue is conditional, among other things, upon:

- The Underwriting Agreement having become unconditional in all respects (save for the condition relating to Admission) and not having been terminated in accordance with its terms prior to Admission; and
- Admission becoming effective by not later than 8.00 a.m. on 8 July 2025 (or such later time and/ or date as the Company may agree with the Global Coordinator).

The New Ordinary Shares, when issued and fully paid, will rank *pari passu* in all respects with the Existing Ordinary Shares, including the right to receive dividends or distributions made, paid or declared after the date of issue of the New Ordinary Shares. Applications will be made to the FCA and to the LSE for the New Ordinary Shares to be admitted to the Official List and to trading on the LSE. It is expected that Admission will occur and that dealings in the Rights (Nil and Fully Paid) on the LSE will commence at 8.00 a.m. on 8 July 2025.

Details of further terms and conditions of the Rights Issue, including the procedure for acceptance and payment and the procedure in respect of rights not taken up, are set out in Part VIII (*Terms and Conditions of the Rights Issue*) of this document and, where relevant, will also be set out in the Provisional Allotment Letter.

Overseas Shareholders should refer to paragraph 7 of Part VIII (*Terms and Conditions of the Rights Issue*) of this document for further information on their ability to participate in the Rights Issue.

## **6. CURRENT TRADING AND PROSPECTS**

The outlook for the current financial year remains consistent with the Board's expectations. The Chesnara Group remains positive on the outlook for further M&A where it remains very active and continues to see a pipeline of opportunities. Chesnara believes it is well placed to execute further value accretive deals for Shareholders.

The Chesnara Group is expecting to announce its interim results on 28 August 2025.

In addition to the Amended and Restated Facilities Agreement, the Chesnara Group has additional financing options available, including, following the shareholder authorities given at the Company's annual general meeting in May 2025, the ability to issue restricted tier 1 (RT1) instruments, which would provide flexibility to refinance existing debt facilities or to give the Chesnara Group the ability to execute on further value enhancing opportunities as they arise. Accordingly, given its positive pipeline of opportunities, the Chesnara Group continues actively to assess all such financing options including the issuance of RT1 instruments.

## **7. DIVIDEND POLICY**

Supported by the strong financial profile of the Acquisition, there will be a step-up in the Chesnara Group's dividend trajectory. The final FY25 dividend and interim FY26 dividend is expected to be increased by 6%, representing a one-year acceleration in the Chesnara Group's recent historic track record of 3% per annum increases.

The FY24 interim dividend was 8.6 pence and final dividend was 16.1 pence resulting in a total dividend of 24.7 pence. Following the rights issue of 79,539,337 Ordinary Shares and a discount of 30.4% to the TERP, the adjusted dividend per share ("**DPS**") for FY24 would have



been 21.3 pence (interim dividend of 7.4 pence and final dividend of 13.9 pence), increasing to 22.3 pence for FY25 (interim dividend of 7.6 pence and final dividend of 14.7) and the interim DPS for FY26 is expected to increase to 8.1, reflecting the one-year acceleration described above.

#### *Overview of bonus factor calculation*

| <b>Metric</b>                                | <b>Value</b> | <b>Key</b> | <b>Calculation</b> |
|----------------------------------------------|--------------|------------|--------------------|
| FY24 weighted average number of shares (WAV) | 151m         | A          | —                  |
| Shares outstanding pre-Rights Issue          | 151m         | B          | —                  |
| Share price (2 July 2025)                    | 293.50p      | C          | —                  |
| Market capitalisation (2 July 2025)          | £444m        | D          | B x C              |
| Rights Issue ratio                           | 10 for 19    | E          | —                  |
| Shares issued from Rights Issue              | 79,539,337   | F          | B x E              |
| Subscription price for New Ordinary Shares   | 176p         | G          | —                  |
| Amount raised (gross proceeds)               | c£140m       | H          | F x G              |
| Market cap post Rights Issue                 | £584m        | I          | D + H              |
| TERP                                         | 252.98p      | J          | I / (B + F)        |
| Bonus factor                                 | 1.16         | K          | C / J              |
| FY24 WAV adjusted for bonus factor           | 175m         | L          | A x K              |
| FY24 dividends                               | £37m         | M          | —                  |
| FY24 DPS (adjusted for bonus factor)         | 21.3p        | N          | M / L              |

#### *Overview of Chesnara Group DPS trajectory*

The Chesnara Group DPS is presented in the table below. Post-transaction assumes that 79,539,337 million New Ordinary Shares are issued pursuant to the Rights Issue with a subscription price representing a discount of 30.4% to TERP. The bonus factor of 1.16 is based on latest share price of 293.50 pence compared to TERP of 252.98 pence. The adjusted FY24 DPS is 21.3 pence after taking into account the bonus factor.

#### **Chesnara Group DPS**

|                         | <b>FY24 actual</b> | <b>FY24 re-stated post-transaction</b> | <b>FY25 post-transaction</b> | <b>Annual change (FY25 vs. FY24)</b> | <b>FY26 post-transaction</b> | <b>Annual change (FY26 vs. FY25)</b> |
|-------------------------|--------------------|----------------------------------------|------------------------------|--------------------------------------|------------------------------|--------------------------------------|
| <b>Interim dividend</b> | 8.6p               | 7.4p                                   | 7.6p                         | +3.0%                                | 8.1p                         | +6.0%                                |
| <b>Final dividend</b>   | 16.1p              | 13.9p                                  | 14.7p                        | +6.0%                                | —                            | —                                    |
| <b>Total dividend</b>   | 24.7p              | 21.3p                                  | 22.3p                        | +5.0%                                | —                            | —                                    |

#### **8. ACTION TO BE TAKEN IN RESPECT OF THE RIGHTS ISSUE**

You will be sent a Provisional Allotment Letter giving you details of your Nil Paid Rights by post on or about 4 July 2025 if you are a Qualifying Non-CREST Shareholder other than, subject to limited exceptions, a Shareholder with a registered address, or who is resident or located (as applicable), one of the Excluded Territories. If you are a Qualifying CREST Shareholder, you will not be sent a Provisional Allotment Letter. Instead, you will receive a credit to your appropriate stock accounts in CREST in respect of Nil Paid Rights, which it is expected will take place as soon as practicable after 8.00 a.m. on 8 July 2025.

If you sell or have sold or otherwise transferred all of your Ordinary Shares held (other than ex-rights) in certificated form before the Ex-Rights Date, please forward this document and any Provisional Allotment Letter, if and when received, at once to the purchaser or transferee or the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee, except that such documents should not be sent to any jurisdiction where to do so might constitute a violation of local securities laws or regulations, including, but not limited to, the Excluded Territories.

If you sell or have sold or otherwise transferred all or some of your Ordinary Shares (other than ex-rights) held in uncertificated form before the Ex-Rights Date, a claim transaction will

automatically be generated by Euroclear which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee.

If you sell or have sold or otherwise transferred only part of your holding of Existing Ordinary Shares (other than ex-rights) held in certificated form before the Ex-Rights Date, you should refer to the instruction regarding split applications in Part VIII (*Terms and Conditions of the Rights Issue*) of this document and in the Provisional Allotment Letter.

**The latest time and date for acceptance and payment in full in respect of the Rights Issue is expected to be 11.00 a.m. on 22 July 2025, unless otherwise announced by the Company. The procedure for acceptance and payment is set out in Part VIII (*Terms and Conditions of the Rights Issue*) of this document and, if applicable, in the Provisional Allotment Letter.**

For Qualifying Non-CREST Shareholders who take up their rights other than, subject to limited exceptions, Shareholders with a registered address, or resident in, one of the Excluded Territories, the New Ordinary Shares will be issued in certificated form and will be represented by definitive share certificates, which are expected to be despatched by not later than 4 August 2025 to the registered address of the person(s) entitled to them.

For Qualifying CREST Shareholders who take up their rights, the Registrar will instruct CREST to credit the stock accounts of the Qualifying CREST Shareholders with their entitlements to New Ordinary Shares. It is expected that this will take place as soon as practicable after 8.00 a.m. on 23 July 2025.

Qualifying Shareholders who are CREST sponsored members should refer to their CREST sponsor regarding the action to be taken in connection with this document and the Rights Issue.

If you are in any doubt as to the action you should take, you should immediately seek your own financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the FSMA or, if you are outside the United Kingdom, by another appropriately authorised independent financial adviser.

## **9. OVERSEAS SHAREHOLDERS**

The distribution of this document, the Provisional Allotment Letter and the Rights Issue to persons who have registered addresses in, or who are resident or ordinarily resident in, or citizens of, or which are corporations, partnerships or other entities created or organised under the laws of countries other than the United Kingdom or to persons who are nominees of, or custodians, trustees or guardians for, persons who are citizens or nationals of, or resident in, countries other than the United Kingdom may be restricted by the laws or regulatory requirements of the relevant jurisdictions.

Any failure to comply with such restrictions may constitute a violation of the securities laws of the relevant jurisdiction. Those persons should consult their professional advisers as to whether they require any governmental or other consents or need to observe any applicable legal requirement or other formalities to enable them to apply for New Ordinary Shares under the Rights Issue.

No action has been or will be taken by the Company, the Joint Bookrunners or any other person, to permit a public offering in any jurisdiction where action for that purpose may be required, other than in the United Kingdom.

Receipt of this document and/or a Provisional Allotment Letter and/or a credit of entitlements to New Ordinary Shares pursuant to the Rights Issue to a stock account in CREST will not constitute an invitation or offer of securities for subscription, sale or purchase in those jurisdictions in which it would be illegal to make such an invitation or offer and, in those circumstances, this document and/or the Provisional Allotment Letter must be treated as sent for information only and should not be copied or redistributed.

Provisional Allotment Letters will not be sent to, and entitlements to New Ordinary Shares pursuant to the Rights Issue will not be credited to stock accounts in CREST of, persons with registered addresses in one of the Excluded Territories or their agent or intermediary, except

where the Company is satisfied that such action would not result in the contravention of any registration or other legal requirement in any jurisdiction.

It is the responsibility of any person (including, without limitation, custodians, agents, nominees and trustees) outside the United Kingdom wishing to apply for New Ordinary Shares under the Rights Issue to satisfy themselves as to the full observance of the laws of any relevant territory in connection therewith, including obtaining any governmental or other consents that may be required, observing any other formalities required to be observed in such territory and paying any issue, transfer or other taxes due in such territory.

#### **10. TAXATION**

Your attention is drawn to Part XVI (*United Kingdom Taxation*) of this document in relation to taxation matters. If you are in any doubt as to your tax position, you should consult your own professional adviser without delay.

#### **11. EMPLOYEE SHARE SCHEMES**

In accordance with the rules of the Share-Based Incentive Plans the number of ordinary shares subject to subsisting awards under such schemes and/or the exercise price (if any) may be adjusted to take account of the issue of New Ordinary Shares pursuant to the Rights Issue. Participants will be informed of any such adjustments in due course.

#### **12. FURTHER INFORMATION**

Your attention is drawn to Part II (*Risk Factors*) of this document and to Part XVII (*Additional Information*) of this document. Investors should read all of the information contained in this document and the information incorporated by reference and not rely on the information summarised in this Part VII (*Letter from the Chair*), including the summarised financial information. If you are a Qualifying Shareholder, and, subject to certain exceptions, unless you have a registered address in, or are resident in, one of the Excluded Territories, your attention is drawn in connection with the Rights Issue to the further information contained in Part VIII (*Terms and Conditions of the Rights Issue*) and Part IX (*Questions and Answers regarding the Rights Issue*) of this document. Shareholders and prospective investors should read the whole of this document and not rely solely on the information set out in this letter.

#### **13. SHAREHOLDER AUTHORISATION**

At the Annual General Meeting of the Company held on 13 May 2025, the resolutions set out in the notice of the Annual General Meeting dated 26 March 2025 were passed by the requisite majorities of Shareholders. The New Ordinary Shares will be allocated and issued pursuant to the authorities granted at that Annual General Meeting. It is therefore not necessary to obtain any further approval from Shareholders to implement the Rights Issue.

#### **14. DIRECTORS' INTENTIONS**

The Board considers that the Rights Issue is in the best interests of the Company and the Shareholders of the Chesnara Group as a whole. Each Director who holds Ordinary Shares, will, to the extent that he or she is able to, take up his or her rights in respect of his or her Ordinary Shares to subscribe for New Ordinary Shares under the Rights Issue, as set out in paragraph 6.5 of Part XVII (*Additional Information*) of this document.

Yours faithfully,

**Luke Savage**  
*Chair*

## PART VIII

### TERMS AND CONDITIONS OF THE RIGHTS ISSUE

#### 1. Introduction

The Company is proposing to raise gross proceeds of approximately £140 million by way of a rights issue of 79,539,337 New Ordinary Shares (the “**Rights Issue**”). Subject to the fulfilment of the conditions of the Underwriting Agreement, the New Ordinary Shares will be offered under the Rights Issue by way of rights at 176 pence per New Ordinary Share (the “**Issue Price**”). This Rights Issue will be on the basis of:

#### **10 New Ordinary Shares for every 19 Existing Ordinary Shares**

held on the Record Date (and so in proportion for any other number of Existing Ordinary Shares then held) and otherwise on the terms and conditions as set out in this document and, in the case of Qualifying Non-CREST Shareholders (other than, subject to limited exceptions, Shareholders with a registered address, or located or resident, in one of the Excluded Territories), the Provisional Allotment Letters.

Times and dates referred to in this Part VIII (*Terms and Conditions of the Rights Issue*) have been included on the basis of the expected timetable for the Rights Issue set out in Part IV (*Expected Timetable of Principal Events*) of this document.

The Issue Price of 176 pence per New Ordinary Share represents a 40% discount to the Closing Price of 293.50 pence per Share on the Latest Practicable Date and a 30.4% discount to TERP of 252.98 pence per Ordinary Share calculated by reference to the Closing Price on the Latest Practicable Date.

Qualifying Shareholders who do not (or who are not permitted to) take up their entitlements to New Ordinary Shares will have their proportionate shareholdings in the Company diluted by approximately 34.5%. For the purposes of calculating: (i) the number of New Ordinary Shares to be issued pursuant to the Rights Issue; (ii) the specified increases to the Company’s issued ordinary share capital resulting from the Rights Issue; and (iii) the specified dilutive effect of the Rights Issue, the issuance of any Ordinary Shares in respect of the vesting or exercise of any awards under the Share-Based Incentive Plans which may occur between the Latest Practicable Date and the completion of the Rights Issue has been disregarded. Those Qualifying Shareholders who take up the New Ordinary Shares provisionally allotted to them in full will, subject to the rounding down and sale of any fractions, retain the same proportionate voting and distribution rights as held by them on the Record Date.

The Nil Paid Rights (also described as New Ordinary Shares, nil paid) are entitlements to acquire the New Ordinary Shares subject to payment of the Issue Price. The Fully Paid Rights (also described as New Ordinary Shares, fully paid) are entitlements to receive the New Ordinary Shares, for which a payment has already been made.

Holdings of Existing Ordinary Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue. Entitlements to New Ordinary Shares will be rounded down to the next lowest whole number (or to zero in the case of shareholders holding fewer than 19 Existing Ordinary Shares on the Record Date) and fractions of New Ordinary Shares will not be allotted to Qualifying Shareholders. Such fractions will be aggregated and, if possible, sold as soon as practicable after the commencement of dealings in the New Ordinary Shares, nil paid. The net proceeds of such sale (after deduction of expenses (including any applicable brokerage fees and commissions and amounts in respect of related VAT)) due to each of the relevant Shareholder(s) of less than £5.00 will be aggregated and will ultimately accrue for the benefit of the Company.

**Overseas Shareholders or any person (including, without limitation, custodians, nominees and trustees) who has a contractual or other legal obligation to forward this document into a jurisdiction other than the UK should consider paragraph 7 below. The offer of New Ordinary Shares under the Rights Issue will not be made into certain territories. Subject to the provisions of paragraph 7 below, Shareholders with**

**a registered address in an Excluded Territory are not being sent this document and will not be sent Provisional Allotment Letters.**

Applications will be made to the FCA and to the LSE for the New Ordinary Shares to be admitted to listing on the equity shares (commercial companies) category of the Official List and to trading on the LSE's main market for listed securities, respectively. It is expected that the Rights (Nil and Fully Paid) will be admitted to trading on a multi-lateral trading facility of the London Stock Exchange. It is expected that Admission will become effective at 8.00 a.m. on 8 July 2025, that dealings in the Rights (Nil and Fully Paid) will commence as soon as possible after 8.00 a.m. on that date, and that dealings in the New Ordinary Shares (fully paid) will commence on the London Stock Exchange at the time and date shown in the Expected Timetable of Principal Events set out in this document.

The Existing Ordinary Shares are already admitted to CREST. No further application for admission to CREST is required for the New Ordinary Shares and all of the New Ordinary Shares when issued and fully paid may be held and transferred by means of CREST. Applications will be made for the Nil Paid Rights and the Fully Paid Rights to be admitted to CREST. Euroclear requires the Company to confirm to it that certain conditions (imposed by the CREST Manual) have been satisfied before Euroclear will admit any security to CREST. It is expected that these conditions will be satisfied, in respect of the Nil Paid Rights and the Fully Paid Rights, on Admission of the Rights (Nil and Fully Paid). As soon as practicable after satisfaction of the conditions, the Company will confirm this to Euroclear.

The International Securities Identification Number ("ISIN") for the New Ordinary Shares will be the same as that of the Existing Ordinary Shares, being GB00B00FPT80. The ISIN for the Nil Paid Rights will be GB00BR0W1Q72 and for the Fully Paid Rights will be GB00BR0W1R89.

None of the New Ordinary Shares are being offered to the public other than pursuant to the Rights Issue. The Company reserves the right to decide not to proceed with the Rights Issue at any time before Admission and the commencement of dealings of the Nil Paid Rights and Fully Paid Rights on a multi-lateral trading facility of the London Stock Exchange.

The Rights Issue is conditional, *inter alia*, upon:

- (i) the Underwriting Agreement having become unconditional in all respects (save for the condition relating to Admission) and not having been terminated in accordance with its terms prior to Admission; and
- (ii) Admission becoming effective by not later than 8.00 a.m. on 8 July 2025 (or such later time and/or date as the Company may agree with the Global Coordinator).

The Rights Issue is fully underwritten by the Underwriters pursuant to the terms and subject to the conditions of the Underwriting Agreement. The Underwriting Agreement is conditional upon certain matters being satisfied prior to Admission. The Underwriting Agreement may be terminated by the Underwriters prior to Admission upon the occurrence of certain specified events, in which case the Rights Issue will not proceed. For the avoidance of doubt, Admission will not proceed in the event the conditions are not satisfied or the Underwriting Agreement is terminated. The Underwriting Agreement is not capable of termination following Admission. The Underwriters may arrange sub-underwriting for some, all or none of the New Ordinary Shares. A summary of certain terms and conditions of the Underwriting Agreement is contained in paragraph 9.1.2 of Part XVII (*Additional Information*) of this document.

The Joint Bookrunners and any of their respective affiliates may engage in trading activity in connection with their roles under the Underwriting Agreement and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for their own account in securities of the Company and related or other securities and instruments (including Shares, Nil Paid Rights and Fully Paid Rights) for the purpose of hedging their underwriting exposure or otherwise. Accordingly, references in this document to Nil Paid Rights, Fully Paid Rights or New Ordinary Shares being issued, offered, subscribed, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or subscription, acquisition, placing or dealing by, the Joint Bookrunners and any of their affiliates acting as investors for their own account. The Underwriters may coordinate a sell down in the event that any underwriting obligation arises as a result of the Rights Issue. Except as required by applicable law or



regulation, none of the Joint Bookrunners proposes to make any public disclosure in relation to such transactions. In addition, certain of the Joint Bookrunners or their affiliates may enter into financing arrangements (including swaps or contracts for differences) with investors in connection with which such Joint Bookrunners (or their affiliates) may from time to time acquire, hold or dispose of Ordinary Shares.

Subject, *inter alia*, to the conditions referred to above being satisfied (other than the condition relating to Admission) and save as provided in paragraph 7 below, it is intended that:

- (i) Provisional Allotment Letters in respect of Nil Paid Rights will be dispatched on 4 July 2025 to Qualifying Non-CREST Shareholders, other than, subject to certain exceptions, to Shareholders with a registered address, or resident or located, in one of the Excluded Territories;
- (ii) the Receiving Agent will instruct Euroclear to credit the appropriate stock accounts of Qualifying CREST Shareholders (other than, subject to certain limited exceptions, Qualifying CREST Shareholders with registered addresses, or who are resident or located, in any of the Excluded Territories) with such Shareholders' entitlements to Nil Paid Rights, as soon as practicable after 8.00 a.m. on 8 July 2025;
- (iii) the Nil Paid Rights and the Fully Paid Rights will be enabled for settlement by Euroclear as soon as practicable after the Company has confirmed to Euroclear that all the conditions for admission of such rights to CREST have been satisfied, which is expected to be as soon as practicable after 8.00 a.m. on 8 July 2025;
- (iv) New Ordinary Shares will be credited to the appropriate stock accounts of the relevant Qualifying CREST Shareholders (or their renounees) who validly take up their rights, as soon as practicable after 8.00 a.m. on 23 July 2025; and
- (v) share certificates for the New Ordinary Shares will be despatched to relevant Qualifying Non- CREST Shareholders or their renounees by not later than 4 August 2025.

The offer will be made to Qualifying Non-CREST Shareholders other than, subject to limited exceptions, to Shareholders with a registered address, or resident or located, in one of the Excluded Territories by way of the Provisional Allotment Letter (as described in step (i) above) and to Qualifying CREST Shareholders other than, subject to limited exceptions, to Shareholders with a registered address, or resident, in one of the Excluded Territories by way of the enablement of the Nil Paid Rights and the Fully Paid Rights (as described in step (iii) above) (such Shareholders' stock accounts having been credited as described in step (ii) above).

The New Ordinary Shares will, when issued and fully paid, rank *pari passu* in all respects with the Existing Ordinary Shares, including the right to receive all dividends or other distributions made, paid or declared after the date of their issue. There will be no restrictions on the free transferability of the New Ordinary Shares save as provided in the Articles. The rights attaching to the New Ordinary Shares are governed by the Articles, a summary of certain provisions of which is set out in paragraph 5 of Part XVII (*Additional Information*) of this document.

All documents, including Provisional Allotment Letters (which constitute temporary documents of title) and cheques and banker's draft posted to, by or from Qualifying Shareholders and/or their transferees or renounee (or their agents, as appropriate) will be posted at their own risk.

Qualifying Shareholders taking up their rights by completing a Provisional Allotment Letter or by sending a Many-To-Many ("**MTM**") instruction to Euroclear will be deemed to have given the representations and warranties set out in paragraph 8 of this Part VIII (*Terms and Conditions of the Rights Issue*), unless the requirement is waived by the Company with the consent of the Underwriters.



## **2. Action to be taken**

**The action to be taken in respect of the New Ordinary Shares depends on whether, at the relevant time, the Nil Paid Rights or the Fully Paid Rights in respect of which action is to be taken are in certificated form (that is, are represented by Provisional Allotment Letters) or are in uncertificated form (that is, are in CREST).**

If you are a Qualifying Non-CREST Shareholder and you do not have a registered address in, and are not located in, any of the Excluded Territories, please refer to paragraphs 3, 5, 6 and 8 to 11 (inclusive) below .

If you are a Qualifying CREST Shareholder and you do not have a registered address in, and are not located in, any of the Excluded Territories, please refer to paragraphs 4, 5, 6 and 8 to 11 (inclusive) below and to the CREST Manual for further information on the CREST procedures referred to below.

If you are a Shareholder with a registered address in, or who is a citizen or resident of, an Excluded Territory or any other jurisdictions where the extension and availability of the Rights Issue would breach any applicable law, or if you are holding Ordinary Shares on behalf of, or for the account or benefit of any person on a non-discretionary basis who is in any such jurisdiction, the offer of New Ordinary Shares is not, subject to certain exceptions, being made to you. Please refer to paragraph 7 below.

**CREST sponsored members should refer to their CREST sponsors, as only their CREST sponsors will be able to take the necessary actions specified below to take up the entitlements or otherwise to deal with the Nil Paid Rights or Fully Paid Rights of CREST sponsored members.**

**All enquiries in relation to the Provisional Allotment Letters should be addressed to the shareholder helpline at MUFG Corporate Markets on 0371 664 0321 (the “Shareholder Helpline”). Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open between 9.00 am – 5.30 pm, Monday to Friday excluding UK public holidays. Please note that MUFG Corporate Markets cannot provide any financial, legal or tax advice and calls may be recorded and monitored for security and training purposes. Action to be taken by Qualifying Non-CREST Shareholders and Qualifying AML Nominee Service Shareholders in relation to the Nil Paid Rights represented by Provisional Allotment Letters**

## **3. Action to be taken by Qualifying Non-CREST Shareholders in relation to Nil Paid Rights represented by Provisional Allotment Letters**

### **3.1 General**

Provisional Allotment Letters are expected to be despatched to Qualifying Non-CREST Shareholders on 4 July 2025. Each Provisional Allotment Letter will set out:

- (i) the holding on the Record Date of Existing Ordinary Shares in certificated form on which a Qualifying Non-CREST Shareholder’s entitlement to New Ordinary Shares has been based;
- (ii) the aggregate number of New Ordinary Shares which have been provisionally allotted to that Qualifying Non-CREST Shareholder with respect to the Existing Ordinary Shares referred to in (i);
- (iii) the amount payable by a Qualifying Non-CREST Shareholder at the Issue Price to take up their entitlement in full;
- (iv) the procedures to be followed if a Qualifying Non-CREST Shareholder wishes to dispose of all or part of their entitlement or to convert all or part of their entitlement into uncertificated form;
- (v) the procedures to be followed if a Qualifying Non-CREST Shareholder wishes to take up all or part of their entitlement;

- (vi) the procedures to be followed if a Qualifying Non-CREST Shareholder who is eligible to use the Special Dealing Service wishes to sell all of their Nil Paid Rights or to effect a Cashless Take-up using the Special Dealing Service; and
- (vii) instructions regarding acceptance and payment, consolidation, splitting and registration of renunciation (where applicable).

On the basis that Provisional Allotment Letters are posted on 4 July 2025, and that dealings in Nil Paid Rights commence on 8 July 2025, the latest time and date for acceptance and payment in full will be 11.00 a.m. on 22 July 2025.

If the Rights Issue is delayed so that Provisional Allotment Letters cannot be despatched on 4 July 2025 or if the timetable for the Rights Issue is otherwise amended, the expected timetable, as set out at the front of this document, will be adjusted accordingly and the revised dates will be set out in the Provisional Allotment Letters and announced through a Regulatory Information Service. All references to times and/or dates in this Part VIII (*Terms and Conditions of the Rights Issue*) should be read as being subject to such adjustment.

### 3.2 Procedure for acceptance and payment

#### 3.2.1 Qualifying Non-CREST Shareholders who wish to take up their entitlement in full

Holders of Provisional Allotment Letters who wish to take up all of their Nil Paid Rights must complete and return the Provisional Allotment Letter, together with a cheque or banker's draft in pounds sterling, made payable to 'MUFG Corporate Markets Re Chesnara Plc Rights Issue A/C' and crossed "A/ C payee only", for the full amount payable on acceptance, in accordance with the instructions printed on the Provisional Allotment Letter, by post or by hand (during normal business hours only) to MUFG Corporate Markets Corporate Actions, Central Square, 29 Wellington Street, Leeds, LS1 4DL so as to arrive as soon as possible and in any event so as to be received by not later than 11.00 a.m. on 22 July 2025. A reply-paid envelope will be enclosed with the Provisional Allotment Letter for this purpose and for use in the UK only. If you post your Provisional Allotment Letter within the UK by first-class post, it is recommended that you allow at least four days for delivery.

Once your Provisional Allotment Letter, duly completed, and payment have been received by the Receiving Agent in accordance with the above, you will have accepted the offer to subscribe for the number of New Ordinary Shares specified on your Provisional Allotment Letter.

#### 3.2.2 Qualifying Non-CREST Shareholders who wish to take up some (but not all) of their entitlement

Holders of Provisional Allotment Letters who wish to take up some but not all of their Nil Paid Rights or Fully Paid Rights (other than by using the Special Dealing Service described in paragraph 3.5 of this Part VIII (*Terms and Conditions of the Rights Issue*)) and wish to sell some or all of those Rights which they do not want to take up should first apply for split Provisional Allotment Letters by completing Form X on the Provisional Allotment Letter and returning it, together with a covering letter stating the number of split Provisional Allotment Letters required and the number of Nil Paid Rights or Fully Paid Rights (if appropriate) to be comprised in each split Provisional Allotment Letter, by post or by hand (during normal business hours only) to MUFG Corporate Markets Corporate Actions Central Square, 29 Wellington Street, Leeds, LS1 4DL by 3.00 p.m. on 18 July 2025, the last date and time for splitting Provisional Allotment Letters. The Provisional Allotment Letter will then be cancelled and exchanged for the split Provisional Allotment Letters required. Such holders of Provisional Allotment Letters should then deliver the split Provisional Allotment Letter representing the rights they wish to take up together with a cheque or banker's draft in pounds sterling for this number of rights, payable to "MUFG Corporate Markets Re Chesnara Plc Rights Issue A/C" and crossed "A/C payee only" by 11.00 a.m. on 22 July 2025, the last date and time for acceptance. The further split Provisional Allotment Letters (representing the New Ordinary Shares the Shareholder does not wish to take up) will be required in order to sell those rights not being taken up.

### **3.2.3 Qualifying Non-CREST Shareholders who wish to take action themselves to dispose of some or all of their Nil Paid Rights**

Any Qualifying Non-CREST Shareholder who is permitted to and wishes to sell all or part of their Nil Paid Rights should contact their stockbroker or bank or other appropriate authorised independent financial adviser to arrange the sale of those Nil Paid Rights in the market. The stockbroker, bank or other authorised independent financial adviser will require the Provisional Allotment Letter to arrange such sale, and you will need to make arrangements with the stockbroker, bank or other authorised independent financial adviser for the completion of the Provisional Allotment Letter and its despatch to the stockbroker, bank or other authorised independent financial adviser. Nil Paid Rights may only be transferred in compliance with applicable securities laws and regulations of all relevant jurisdictions where the rights are not being taken up.

Alternatively, Qualifying Non-CREST Shareholders who wish to take up some of their Rights (other than by using the Special Dealing Service described in paragraph 3.5 of this Part VIII (*Terms and Conditions of the Rights Issue*)), without selling or transferring the remainder, should complete Form X on the original Provisional Allotment Letter and return it, together with a covering letter confirming the number of rights to be taken up and a cheque or banker's draft in pounds sterling to pay for this number of Ordinary Shares, by post or by hand (during normal business hours only) to MUFG Corporate Markets Corporate Actions, Central Square, 29 Wellington Street, Leeds, LS1 4DL. In this case, the Provisional Allotment Letter and payment must be received by MUFG Corporate Markets by 11.00 a.m. on 18 July 2025, the last date and time for splitting Provisional Allotment Letters.

### **3.2.4 Qualifying Non-CREST Shareholders who do not wish to take up their rights at all and do not wish to take action themselves to sell all or any of those rights**

Qualifying Non-CREST Shareholders who do not wish to take up their rights (including rights held on their behalf) at all and who do not wish to take action themselves to sell all or any of those rights do not need to do anything.

If Qualifying Non-CREST Shareholders do not return their Provisional Allotment Letters by 11.00 a.m. on 22 July 2025, the Company has made arrangements under which the Joint Bookrunners will try to find investors to take up such rights. If they do find investors who agree to pay a premium above the Issue Price and the related expenses of procuring those investors (including any applicable brokerage fees and commissions and amounts in respect of related irrecoverable VAT), then Qualifying Non-CREST Shareholders, so entitled will be paid for the amount of that aggregate premium above the Issue Price less related expenses (including any applicable brokerage fees and commissions and amounts in respect of related VAT), so long as the amount in question is at least £5.00, by cheque posted to their address appearing on the register of members of the Company (or to the first-named holder if you hold your Ordinary Shares jointly). No payment will be made of individual amounts of less than £5.00, which will be aggregated and will accrue for the benefit of the Company.

### **3.2.5 Company's discretion as to validity of acceptances**

If payment is not received in full by 11.00 a.m. on 22 July 2025, the provisional allotment will (unless the Company has exercised its right to treat as valid an acceptance, as set out below) be deemed to have been declined and will lapse. The Company may elect, but shall not be obliged, to treat as valid Provisional Allotment Letters and accompanying remittances for the full amount due which are received prior to 11.00 a.m. on 22 July 2025.

The Company may elect, but shall not be obliged to treat as a valid acceptance, the receipt of appropriate remittance by 11.00 a.m. on 22 July 2025, from an authorised person (as defined in the FSMA) specifying the number of New Ordinary Shares to be acquired and containing an undertaking by that person to lodge the relevant Provisional Allotment Letters, duly completed, in due course.

The Company may also (in its sole discretion) treat a Provisional Allotment Letter as valid and binding on the person(s) by whom or on whose behalf it is lodged even if it

is not completed in accordance with the relevant instructions or is not accompanied by a valid power of attorney where required.

The Company reserves the right to treat as invalid any acceptance or purported acceptance of the New Ordinary Shares that appears to the Company to have been executed in, despatched from or that provided an address for delivery of definitive share certificates for New Ordinary Shares in an Excluded Territory unless the Company is satisfied, and subject to approval by the Global Coordinator (acting in good faith) that such action would not result in the contravention of any registration or other legal requirement in any jurisdiction.

The provisions of this paragraph 3.2.5 and any other terms of the Rights Issue relating to Qualifying Non-CREST Shareholders may be waived, varied or modified as regards specific Qualifying Non-CREST Shareholder(s) or on a general basis by the Company, with the agreement of the Global Coordinator.

A Qualifying Non-CREST Shareholder who makes a valid acceptance and payment in accordance with this paragraph 3.2 is deemed to request that the New Ordinary Shares to which they will become entitled be issued to them on the terms and conditions set out in this document and subject to the Articles.

### **3.2.6 Payments**

All payments must be in pounds sterling and made by cheque or banker's draft made payable to MUFG Corporate Markets Re Chesnara Plc Rights Issue A/C" and crossed "A/C payee only". Cheques or banker's drafts must be drawn on a bank or building society or branch of a bank or building society in the UK or Channel Islands which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided by any of those companies or committees and must bear the appropriate sort code in the top right-hand corner. Cheques must be drawn on the personal account to which the Qualifying Non-CREST Shareholder (or their nominee) has sole or joint title to the funds. Third party cheques may not be accepted with the exception of building society cheques or banker's drafts where the building society or bank has inserted details of the name of the account holder and have either added the building society or bank branch stamp on the back of the cheque or draft (as appropriate) or have provided a supporting letter confirming the source of funds. The name of the account holder should be the same as the name of the shareholder shown on page 1 of the Provisional Allotment Letter. Post-dated cheques will not be accepted. Cheques or banker's drafts will be presented for payment upon receipt. No interest will be paid on payments. It is a term of the Rights Issue that cheques shall be honoured on first presentation and the Company may elect to treat as invalid any acceptances in respect of which cheques are not so honoured. Return of a completed Provisional Allotment Letter will constitute a warranty that the cheque will be honoured on first presentation. All documents, cheques and banker's drafts sent through the post will be sent at the risk of the sender. Payments via CHAPS, BACS or electronic transfer will not be accepted.

If the New Ordinary Shares have already been allotted to a Qualifying Non-CREST Shareholder prior to any payment not being so honoured upon first presentation or such acceptances being treated as invalid, the Company may (in its absolute discretion as to manner, timing and terms) make arrangements for the sale of such New Ordinary Shares on behalf of such Qualifying Non-CREST Shareholder and hold the proceeds of sale (net of the Company's reasonable estimate of any loss it has suffered as a result of the same and of the expenses of the sale, including, without limitation, any stamp duty or SDRT payable on the transfer of such New Ordinary Shares, and of all amounts payable by such Qualifying Non-CREST Shareholder pursuant to the terms of the Rights Issue in respect of the acquisition of such New Ordinary Shares) on behalf of such Qualifying Non-CREST Shareholder. Neither the Company nor the Joint Bookrunners nor any other person shall be responsible for, or have any liability for, any loss, expense or damage suffered by such Qualifying Non-CREST Shareholder as a result.

If a cheque or banker's draft sent by a Qualifying Non-CREST Shareholder is drawn for an amount different from that set out in Box 3 of that Qualifying Non-CREST Shareholder's Provisional Allotment Letter, that Shareholder's application shall be treated as an acceptance in respect of such whole number of New Ordinary Shares which could be acquired at the Issue Price with the amount for which the cheque or banker's draft is drawn (and not the amount set out in Box 3 of the Provisional Allotment Letter). Any balance from the amount of the cheque will be retained for the benefit of the Company.

**Holders of Provisional Allotment Letters who wish to take up any of their entitlements must make the representations and warranties set out in paragraph 8 below.**

### 3.3 Money Laundering Regulations

It is a term of the Rights Issue that, to ensure compliance with the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (the "**Money Laundering Regulations**"), the Receiving Agent may require verification of the identity of the beneficial owner by whom or on whose behalf a Provisional Allotment Letter is lodged with payment (which requirements are referred to below as the "verification of identity requirements"). If an application is made by a UK regulated broker or intermediary acting as agent and which is itself subject to the Money Laundering Regulations, any verification of identity requirements is the responsibility of such broker or intermediary and not of the Registrar. In such case, the lodging agent's stamp should be inserted on the Provisional Allotment Letter. The person(s) (the "**acceptor**") who, by lodging a Provisional Allotment Letter with payment, and in accordance with the other terms as described above, accept(s) directly or indirectly, the allotment of the New Ordinary Shares (the "**relevant shares**") comprised in such Provisional Allotment Letter (being the provisional allottee or, in the case of renunciation, the person named in such Provisional Allotment Letter) shall thereby be deemed to agree to provide the Registrar and/or the Company with such information and other evidence as they or either of them may require to satisfy the verification of identity requirements and agree for the Registrar to make a search using a credit reference agency for the purpose of confirming such identity where deemed necessary. A record of the search will be retained.

If the Receiving Agent determines that the verification of identity requirements apply to an acceptance of an allotment and the verification of identity requirements have not been satisfied (which the Receiving Agent shall in its absolute discretion determine) by 11.00 a.m. on 22 July 2025, the Company may, in its absolute discretion, and without prejudice to any other rights of the Company: (i) treat the acceptance as invalid, in which event the application monies will be returned (at the applicant's risk) without interest to the account of the bank or building society on which the relevant cheque or banker's draft was drawn; or (ii) may confirm the allotment of the relevant shares to the acceptor but (notwithstanding any other term of the Rights Issue) such shares will not be issued to them or registered in their name until the verification of identity requirements have been satisfied (which the Receiving Agent shall in its absolute discretion determine). If the acceptance is not treated as invalid and the verification of identity requirements are not satisfied within such period, being not less than seven days after a request for evidence of identity is despatched to the acceptor, as the Company may in its absolute discretion allow, the Company will be entitled to make arrangements (in its absolute discretion as to manner, timing and terms) to sell the relevant shares (and for that purpose the Company will be expressly authorised to act as agent of the acceptor). Any proceeds of sale (net of expenses) of the relevant shares which shall be issued to and registered in the name of the purchaser(s) or an amount equivalent to the original payment, whichever is the lower, will be held by the Company on trust for the acceptor, subject to the requirements of the Money Laundering Regulations. The Receiving Agent is entitled in its absolute discretion to determine whether the verification of identity requirements apply to any acceptor and whether such requirements have been satisfied. Neither the Company, the Joint Bookrunners nor the Receiving Agent will be liable to any person for any loss suffered or incurred as a result of the exercise of any such discretion or as a result of any sale of relevant shares.



**Return of a Provisional Allotment Letter with the appropriate remittance will constitute a warranty from the acceptor that the Money Laundering Regulations will not be breached by acceptance of such remittance and an undertaking to provide promptly to the Registrar such information as may be specified by the Registrar as being required for the purpose of the Money Laundering Regulations. If the verification of identity requirements apply, failure to provide the necessary evidence of identity may result in your acceptance being treated as invalid or in delays in the despatch of a receipted fully paid Provisional Allotment Letter, share certificate or other documents relating to the Rights Issue (as applicable).**

The verification of identity requirements will not usually apply:

- (i) if the acceptor is an organisation required to comply with the Money Laundering Directive 2018/843/EU of the European Parliament and of the Council of 9 July 2018 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing;
- (ii) if the acceptor is a regulated UK broker or intermediary acting as agent and is itself subject to the Money Laundering Regulations;
- (iii) the applicant is a company whose securities are listed on a regulated market subject to specified disclosure obligations;
- (iv) if the acceptor (not being an acceptor who delivers their acceptance in person) makes payment by way of a cheque drawn on an account in the name of such acceptor; or
- (v) if the aggregate subscription price for the relevant shares is less than €15,000 (or its pound sterling equivalent).

Where the verification of identity requirements apply, please note the following as this will assist in satisfying the requirements. Satisfaction of the verification of identity requirements may be facilitated in the following ways:

- (i) if payment is made by cheque or banker's draft in pounds sterling drawn on a branch in the UK of a bank or building society and bears a UK bank sort code number in the top right-hand corner, the following applies. Cheques should be made payable to "MUFG Corporate Markets Re Chesnara Plc Rights Issue A/C" and crossed "A/C payee only". Third party cheques may not be accepted with the exception of building society cheques or banker's drafts where the building society or bank has inserted details of the name of the account holder and have either added the building society or bank branch stamp on the back of the cheque or draft (as applicable) or have provided a supporting letter confirming the source of funds. The name of the account holder should be the same as the name of the shareholder shown on page 1 or page 4 of the Provisional Allotment Letter;
- (ii) if the Provisional Allotment Letter is lodged with payment by an agent which is an organisation of the kind referred to in (a) above or which is subject to anti money-laundering regulation in a country which is a member of the Financial Action Task Force (the non-EU members of which are Argentina, Australia, Brazil, Canada, China, Hong Kong, Iceland, India, Indonesia, Israel, Japan, Korea, Malaysia, Mexico, New Zealand, Norway, the Russian Federation (whose membership has been suspended since 24 February 2023 and continues to be suspended as at the date of this document), Saudi Arabia, Singapore, South Africa, Switzerland, Turkey, the United Kingdom, the United States of America and, by virtue of their membership of the Gulf Co-operation Council, Bahrain, Kuwait, Oman, Qatar and the UAE), the agent should provide written confirmation with the Provisional Allotment Letter that it has that status and a written assurance that it has obtained and recorded evidence of the identity of the persons for whom it acts and that it will on demand make such evidence available to the Registrar or the relevant authority; or
- (iii) if a Provisional Allotment Letter is lodged by hand by the acceptor in person, they should ensure that they have with them evidence of identity bearing their photograph



(for example, their passport) and evidence of their address (for example, a recent bank statement).

In order to confirm the acceptability of any written assurance referred to in (b) above or any other case, the acceptor should contact MUFG Corporate Markets on the Shareholder Helpline on 0371 664 0321 (from within the UK) or on +44371 664 0321 (if calling from outside the UK). Calls may be recorded and monitored for security and training purposes. Please note that the Shareholder Helpline operators cannot provide advice on the merits of the Rights Issue nor give financial, tax, investment or legal advice.

### 3.4 Dealings in Nil Paid Rights

Assuming the Rights Issue becomes unconditional, dealings on the LSE in the Nil Paid Rights are expected to commence at 8.00 a.m. on 8 July 2025. A transfer of Nil Paid Rights can be made by renunciation of the Provisional Allotment Letter in accordance with the instructions printed on it and delivery of the letter to the transferee or to a stockbroker, bank or other appropriate financial adviser. The latest time and date for registration of renunciation of Provisional Allotment Letters, nil paid, is expected to be 11.00 a.m. on 22 July 2025.

### 3.5 Special Dealing Service

#### 3.5.1 Qualifying Non-CREST Shareholders who wish to sell all of their entitlement using the Special Dealing Service

**Qualifying Non-CREST Shareholders who are individuals aged 18 or over (in the case of natural persons) who are resident in the United Kingdom, the Channel Islands or the Isle of Man (or any other country confirmed by MUFG Corporate Markets in writing provided that they have requested at their own exclusive initiative that the Special Dealing Service be provided to them) may elect to use the Special Dealing Service to sell all of the Nil Paid Rights to which they are entitled.** Such Qualifying Non-CREST Shareholders should complete and return the Provisional Allotment Letter in accordance with the instructions printed thereon, by post or by hand (during normal business hours) to MUFG Corporate Markets, Corporate Actions, Central Square, 29 Wellington Street, Leeds, LS1 4DL by no later than 11.00 a.m. on 16 July 2025, being the latest time and date for requesting the sale of Nil Paid Rights through the Special Dealing Service. If you post your Provisional Allotment Letter within the United Kingdom by first-class post, it is recommended that you allow at least four days for delivery.

If a Qualifying Non-CREST Shareholder elects to use the Special Dealing Service to sell all of their Nil Paid Rights or to effect a Cashless Take-up using their Provisional Allotment Letter, they are required to provide the following personal details in respect of the holder of the Provisional Allotment Letter: (i) full name; (ii) nationality; (iii); national client identifier or LEI (if your Ordinary Shares are registered in a corporate name); and (iv) date of birth.

Additionally, when electing to use the Special Dealing Service by returning their Provisional Allotment Letter, all Qualifying Non-CREST Shareholders named in the Provisional Allotment Letter must sign it. Failure to do so will cause MUFG Corporate Markets to reject any instructions electing to use the Special Dealing Service.

If a Qualifying Non-CREST Shareholder does not have a national client identifier or LEI (if their Ordinary Shares are registered in a corporate name), they should include "N/A" in respect of this information so that MUFG Corporate Markets can generate an ID where possible.

Without this information MUFG Corporate Markets may not be able to carry out any instructions electing to use the Special Dealing Service.

For the avoidance of doubt, the Company accepts (and it is a term of the Rights Issue that it shall have) no responsibility or liability whatsoever to shareholders for or in respect of the Special Dealing Service operated by MUFG Corporate Markets and, to the fullest extent permitted by law, disclaims any duty, liability or responsibility whatsoever (whether direct or indirect and whether arising in contract, tort, under statute or otherwise) in respect of such service or its operation.

### **3.5.2 Qualifying Non-CREST Shareholders who wish to effect a Cashless Take-up using the Special Dealing Service**

Qualifying Non-CREST Shareholders who are individuals aged 18 or over (in the case of natural persons) who are resident in the United Kingdom, the Channel Islands or the Isle of Man (or any other country confirmed by MUFG Corporate Markets in writing provided that they have requested at their own exclusive initiative that the Special Dealing Service be provided to them) may elect to use the Special Dealing Service to sell a sufficient number of Nil Paid Rights to raise money to effectuate a Cashless Take-up of their remaining rights through the Special Dealing Service operated by MUFG Corporate Markets.

Any such Qualifying Non-CREST Shareholders who wish to effect a Cashless Take-up should complete and return the Provisional Allotment Letter in accordance with the instructions printed thereon, by post or by hand (during normal business hours only) to MUFG Corporate Markets Corporate Actions, Central Square, 29 Wellington Street, Leeds, LS1 4DL by no later than 11.00 a.m. on 16 July 2025, being the latest time and date for requesting a Cashless Take-up through the Special Dealing Service.

If you post your Provisional Allotment Letter within the United Kingdom by first-class post, it is recommended that you allow at least four Business Days for delivery.

If a Qualifying Non-CREST Shareholder elects to use the Special Dealing Service to sell all of their Nil Paid Rights or to effect a Cashless Take-up using their Provisional Allotment Letter, they are required to provide the following personal details in respect of the holder of the Provisional Allotment Letter: (i) full name; (ii) nationality; (iii) national client identifier or LEI (if your Ordinary Shares are registered in a corporate name); and (iv) date of birth.

Additionally, when electing to use the Special Dealing Service by returning their Provisional Allotment Letter, all Qualifying Non-CREST Shareholders named in the Provisional Allotment Letter must sign it. Failure to do so will cause MUFG Corporate Markets to reject any instructions electing to use the Special Dealing Service.

If a Qualifying Non-CREST Shareholder does not have a national client identifier or LEI (if their Ordinary Shares are registered in a corporate name), they should include "N/A" in respect of this information so that MUFG Corporate Markets can generate an ID where possible.

Without this information MUFG Corporate Markets may not be able to carry out any instructions electing to use the Special Dealing Service.

For the avoidance of doubt, the Company accepts (and it is a term of the Rights Issue that it shall have) no responsibility or liability whatsoever to shareholders for or in respect of the Special Dealing Service operated by MUFG Corporate Markets and, to the fullest extent permitted by law, disclaims any duty, liability or responsibility whatsoever (whether direct or indirect and whether arising in contract, tort, under statute or otherwise) in respect of such service or its operation.

### **3.5.3 Terms of the Special Dealing Service**

By making an election or giving an instruction under the Special Dealing Service, a Qualifying Non-CREST Shareholder will be deemed to have represented, warranted and undertaken that: (a) such Nil Paid Rights will be transferred with full title guarantee and free from liens, charges, or other third-party rights of any kind; (b) he or she and any underlying beneficial owner are entitled to sell the Nil Paid Rights; and (c) the use of the Special Dealing Service by him or her or the sale of the Nil Paid Rights pursuant to the Special Dealing Service does not and will not breach any applicable laws. By giving an instruction under the Special Dealing Service, a Qualifying Non-CREST Shareholder will be deemed to have renounced their Nil Paid Rights, as applicable to their instruction.

MUFG Corporate Markets will charge a commission of 1% of the gross proceeds of any sale of Nil Paid Rights effected using the Special Dealing Service, subject to a minimum of £15 per individual sale. Due to the minimum charge, the Special Dealing

Service may not be cost effective for all Qualifying Non-CREST Shareholders. For example, in relation to Qualifying Non-CREST Shareholders selling a small holding, it is possible that in certain circumstances the administration charge may be more than the value of the sale proceeds.

Qualifying Non-CREST Shareholders should be aware that by returning the Provisional Allotment Letter or electing to use the Special Dealing Service, they will be deemed to be agreeing to the Special Dealing Service Terms and Conditions and make a legally binding agreement with the Registrar on those terms. The Special Dealing Service Terms and Conditions will be set out in a document accompanying the Provisional Allotment Letter. Qualifying Shareholders using such service should note that they will be clients of the Receiving Agent and not of the Company when using this service.

The Special Dealing Service Terms and Conditions will be posted to Qualifying Non-CREST Shareholders together with the Provisional Allotment Letter. A Qualifying Non-CREST Shareholder who is eligible and elects to use the Special Dealing Service, agrees to the terms and conditions of the Rights Issue set out in this document and the Special Dealing Service Terms and Conditions (including how the price for the sale of their Nil Paid Rights is calculated and the commissions that will be deducted from the proceeds of the sale of such Nil Paid Rights). Qualifying Non-CREST Shareholders using the Special Dealing Service should note that they will be clients of MUFG Corporate Markets and not of the Company when using such service. MUFG Corporate Markets' liability to such a Qualifying Non-CREST Shareholder and its responsibility for providing the protections afforded by the UK regulatory regime to clients for whom such services are provided is as set out in the Special Dealing Service Terms and Conditions, and neither MUFG Corporate Markets nor the Company shall have any liability or responsibility to such a person using the Special Dealing Service except as set out in those Special Dealing Service Terms and Conditions. None of the Company, the Underwriters or their agents shall be responsible for any loss, expense or damage (whether actual or alleged) arising from the terms or timing of any sale, any settlement issues arising from any sale, any exercise of discretion in relation to any sale, or any failure to procure any sale, of Nil Paid Rights pursuant to the Special Dealing Service or any other matter relating to the operation of the Special Dealing Service. Any instructions given by a Qualifying Non-CREST Shareholder in respect of use of the Special Dealing Service that have been received by MUFG Corporate Markets may not be cancelled or amended. The Company, MUFG Corporate Markets and/or their agents shall each have discretion to determine the eligibility of Qualifying Shareholders, and may each in their sole discretion interpret instructions on a Provisional Allotment Letter, and none of the Company, the Underwriters, MUFG Corporate Markets or their agents shall be responsible for any loss, expense or damage (whether actual or alleged) arising from any such exercise of discretion.

All remittances will be sent by post, at the risk of the Qualifying Non-CREST Shareholder entitled thereto, to the registered address of the relevant Qualifying Non-CREST Shareholder (or, in the case of joint holders, to the address associated with the relevant account as it appears on the register of Shareholders).

Chesnara, MUFG Corporate Markets and/or their agents cannot offer financial, legal, tax or investment advice on the Special Dealing Service. The Special Dealing Service is an "execution only" service and not a recommendation to buy or sell the Nil Paid Rights. The Special Dealing Service Terms and Conditions apply to the Special Dealing Service. The value of the Ordinary Shares and income from them can fluctuate and when sold, investors may receive less than the original amount invested. Past performance is not a guide to future returns. The Special Dealing Services is provided by MUFG Corporate Markets Trustees (UK) Limited which is authorised by the FCA.

No interest will be payable on any proceeds received from the sale of Nil Paid Rights under the Special Dealing Service.

### 3.6 Dealings in Fully Paid Rights

After acceptance of the provisional allotment and payment in full in accordance with the provisions set out in this document and the Provisional Allotment Letter, the Fully Paid Rights may be transferred by renunciation of the relevant Provisional Allotment Letter and delivering it, by post or by hand (during normal business hours) to MUFG Corporate Markets, by not later than 11.00 a.m. on 22 July 2025. To do this, Qualifying Non-CREST Shareholders will need to have their fully paid Provisional Allotment Letters returned to them after acceptance has been effected by the Receiving Agent. However, fully paid Provisional Allotment Letters will not be returned to Qualifying Non-CREST Shareholders unless their return is requested by ticking the appropriate box on the Provisional Allotment Letter. After 23 July 2025, the New Ordinary Shares will be in registered form and transferable in the usual form (see paragraph 3.11 below), or if they have been issued or converted into uncertificated form, in electronic form under the CREST system.

No dealings in Fully Paid Rights may be effected using the Special Dealing Service.

It should be noted that Qualifying Non-CREST Shareholders who wish to sell their Fully Paid Rights will have to take-up their rights by returning their Provisional Allotment Letter and cheque in the post by following the instructions in paragraph 3.2 above.

### 3.7 Renunciation and Splitting of Provisional Allotment Letters

The Provisional Allotment Letters are fully renounceable (save as required by the laws of certain overseas jurisdictions) and may be split up to 3.00 p.m. on 18 July 2025 nil paid and fully paid.

Qualifying Non-CREST Shareholders who wish to transfer all of their Nil Paid Rights or, after acceptance of the provisional allotment and payment in full, Fully Paid Rights comprised in a Provisional Allotment Letter may (save as required by the laws of certain overseas jurisdictions) renounce such allotment by completing and signing Form X on the Provisional Allotment Letter (if it is not already marked “**Original Duly Renounced**”) and passing the entire Provisional Allotment Letter to their stockbroker or bank or other appropriate financial adviser or to the transferee. Once a Provisional Allotment Letter has been renounced, the letter will become a negotiable instrument in bearer form and the Nil Paid Rights or Fully Paid Rights (as appropriate) comprised in the Provisional Allotment Letter may be transferred by delivery of the Provisional Allotment Letter to the transferee. The latest time and date for registration of renunciation of Provisional Allotment Letters, fully paid, is 11.00 a.m. on 22 July 2025, and after such date the New Ordinary Shares will be in registered form, transferable by written instrument of transfer in the usual common form or, if they have been issued in or converted into uncertificated form, in electronic form under the CREST system. Qualifying Non-CREST Shareholders should note that fully paid Provisional Allotment Letters will not be returned to such Qualifying Non-CREST Shareholders unless their return is requested.

If a holder of a Provisional Allotment Letter wishes to have only some of the New Ordinary Shares registered in their name and to transfer the remainder, or wishes to transfer all the Nil Paid Rights or (if appropriate) Fully Paid Rights but to different persons, they may have the Provisional Allotment Letter split, for which purpose they or their agent must complete and sign Form X on the Provisional Allotment Letter. The Provisional Allotment Letter must then be delivered by post or by hand (during normal business hours only) to MUFG Corporate Markets at MUFG Corporate Markets, Corporate Actions, Central Square, 29 Wellington Street, Leeds, LS1 4DL, by not later than 3.00 p.m. on 18 July 2025, to be cancelled and exchanged for the number of split Provisional Allotment Letters required. The number of split Provisional Allotment Letters required and the number of Nil Paid Rights or (if appropriate) Fully Paid Rights to be comprised in each split letter should be stated in an accompanying letter. Form X on split Provisional Allotment Letters will be marked “Original Duly Renounced” before issue. The aggregate number of Nil Paid Rights or (as appropriate) Fully Paid Rights comprised in the split Provisional Allotment Letters must equal the number of New Ordinary Shares set out in the original Provisional Allotment Letter (less the number of New Ordinary Shares representing rights that the holder wishes to take up if taking up their entitlement in part). The split Provisional Allotment Letter(s) (representing the New

Ordinary Shares the Shareholder does not wish to take up) will be required in order to sell those rights not being taken up.

The Company reserves the right to refuse to register any renunciation in favour of any person in respect of which the Company believes such renunciation may violate applicable legal or regulatory requirements, including (without limitation) any renunciation in the name of any person with an address outside the UK.

Alternatively, Qualifying Non-CREST Shareholders who wish to take up some of their rights, without transferring the remainder, should complete Form X on the original Provisional Allotment Letter and return it, together with a covering letter confirming the number of rights to be taken up and a cheque or banker's draft in pounds sterling to pay for this number of New Ordinary Shares, by post or by hand (during normal business hours only) to MUFG Corporate Markets at MUFG Corporate Markets, Corporate Actions, Central Square, 29 Wellington Street, Leeds, LS1 4DL. In this case, the Provisional Allotment Letter and payment must be received by the Receiving Agent by 11.00 a.m. on 22 July 2025, being the last date and time for acceptance. Once the holder's Provisional Allotment Letter, duly completed, and payment have been received by the Receiving Agent in accordance with the above, the holder will have accepted the offer to subscribe for the number of New Ordinary Shares specified on their Provisional Allotment Letter.

### **3.8 Registration in names of Qualifying Non-CREST Shareholders**

A Qualifying Non-CREST Shareholder who wishes to have all the New Ordinary Shares to which he is entitled registered in their name must accept and make payment for such allotment in accordance with the provisions set out in this document and the Provisional Allotment Letter but need take no further action. A share certificate in respect of the New Ordinary Shares subscribed for is expected to be sent to such Qualifying Shareholders by not later than 4 August 2025.

### **3.9 Registration in names of persons other than originally entitled Qualifying Non-CREST Shareholders**

In order to register Fully Paid Rights in certificated form in the name of someone other than the Qualifying Shareholders(s) originally entitled, the renouncee or their agent(s) must complete Form Y on the Provisional Allotment Letter (unless the renouncee is a CREST member who wishes to hold such New Ordinary Shares in uncertificated form in which case Form X and the CREST Deposit Form must be completed (see paragraph 4 below)) and deliver the entire Provisional Allotment Letter, when fully paid, by post or by hand (during normal business hours only) to MUFG Corporate Markets at MUFG Corporate Markets, Corporate Actions, Central Square, 29 Wellington Street, Leeds, LS1 4DL by not later than the latest time for registration of renunciations, is 11.00 a.m. on 22 July 2025. Registration cannot be effected unless and until the New Ordinary Shares comprised in a Provisional Allotment Letter are fully paid.

The New Ordinary Shares comprised in several renounced Provisional Allotment Letters (duly renounced where applicable) may be registered in the name of one holder (or joint holders) if Form Y on the Provisional Allotment Letter is completed on one Provisional Allotment Letter (the "**Principal Letter**") and all the Provisional Allotment Letters are delivered in one batch. Details of each Provisional Allotment Letter (including the Principal Letter) should be listed in a separate letter. All the Provisional Allotment Letters to be consolidated must be lodged in one batch together.

### **3.10 Deposit of Nil Paid Rights or Fully Paid Rights into CREST**

The Nil Paid Rights or Fully Paid Rights represented by the Provisional Allotment Letter may be converted into uncertificated form, that is, deposited into CREST (whether such conversion arises as a result of a renunciation of those rights or otherwise). Similarly, Nil Paid Rights or Fully Paid Rights held in CREST may be converted into certificated form, that is, withdrawn from CREST. Subject as provided in the next following paragraph or in the Provisional Allotment Letter, normal CREST procedures and timings apply in relation to any such conversion. You are recommended to refer to the CREST Manual for details of such procedures.



The procedure for depositing the Nil Paid Rights represented by the Provisional Allotment Letter into CREST, whether such rights are to be converted into uncertificated form in the name(s) of the person(s) whose name(s) and address appear on page 1 of the Provisional Allotment Letter or in the name of a person or persons to whom the Provisional Allotment Letter has been renounced, is as follows: Form X and the CREST Deposit Form (both on the Provisional Allotment Letter) will need to be completed and the Provisional Allotment Letter deposited with the CREST Courier and Sorting Service (“CCSS”). In addition, the normal CREST Stock Deposit procedures will need to be carried out, except that (a) it will not be necessary to complete and lodge a separate CREST Transfer Form (prescribed under the Stock Transfer Act 1963) with the CCSS and (b) only the whole of the Nil Paid Rights or the Fully Paid Rights represented by the Provisional Allotment Letter may be deposited into CREST. If you wish to deposit only some of the Nil Paid Rights or the Fully Paid Rights represented by the Provisional Allotment Letter into CREST, you must first apply for split Provisional Allotment Letters by following the instructions in paragraph 3.2 above. If the rights represented by more than one Provisional Allotment Letter are to be deposited, the CREST Deposit Form on each Provisional Allotment Letter must be completed and deposited. The Consolidation Listing Form (as defined in the CREST Regulations) must not be used.

A holder of the Nil Paid Rights (or, if appropriate, the Fully Paid Rights) represented by a Provisional Allotment Letter who is proposing to convert those rights into uncertificated form (whether following a renunciation of such rights or otherwise) is recommended to ensure that the conversion procedures are implemented in sufficient time to enable the person holding or acquiring the Nil Paid Rights (or, if appropriate, the Fully Paid Rights) in CREST following the conversion to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 22 July 2025. **In particular, having regard to processing times in CREST and on the part of the Receiving Agent, the latest recommended time for depositing a renounced Provisional Allotment Letter (with Form X and the CREST Deposit Form on the Provisional Allotment Letter duly completed) with the CCSS (to enable the person acquiring the Nil Paid Rights (or, if appropriate, the Fully Paid Rights) in CREST as a result of the conversion to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 22 July 2025) is 3.00 p.m. on 17 July 2025.**

When Form X and the CREST Deposit Form (on the Provisional Allotment Letter) have been completed, the title to the Nil Paid Rights or the Fully Paid Rights represented by the Provisional Allotment Letters will cease to be renounceable or transferable by delivery, and, for the avoidance of doubt, any entries in Form Y will not subsequently be recognised or acted upon by the Receiving Agent. All renunciations or transfers of Nil Paid Rights or Fully Paid Rights must be effected through the CREST system once such Nil Paid Rights or Fully Paid Rights have been deposited into CREST.

CREST sponsored members should contact their CREST sponsor as only their CREST sponsor will be able to take the necessary action to take up the entitlement or otherwise to deal with the Nil Paid Rights or Fully Paid Rights of the CREST sponsored member.

### **3.11 Issue of New Ordinary Shares in Definitive Form**

Definitive share certificates in respect of the New Ordinary Shares to be held in certificated form are expected to be despatched by post by 4 August 2025 at the risk of the persons entitled thereto to Qualifying Non-CREST Shareholders (or their transferees who hold Fully Paid Rights in certificated form), or in the case of joint holdings, to the first-named Shareholders, at their registered address (unless lodging agent details have been completed on the Provisional Allotment Letter).

After despatch of the definitive share certificates, Provisional Allotment Letters will cease to be valid for any purpose whatsoever. Pending despatch of definitive share certificates, instruments of transfer of the New Ordinary Shares will be certified by the Receiving Agent against the register.

#### **4. Action to be taken by Qualifying CREST Shareholders in relation to Nil Paid Rights and Fully Paid Rights in CREST**

##### **4.1 General**

It is expected that each Qualifying CREST Shareholder will receive a credit to their stock account in CREST of their entitlement to Nil Paid Rights as soon as practicable after 8.00 a.m. on 8 July 2025. It is expected that such rights will be enabled shortly thereafter. The CREST stock account to be credited will be an account under the participant ID and member account ID that apply to the Existing Ordinary Shares in uncertificated form held on the Record Date by the Qualifying CREST Shareholder in respect of which the Nil Paid Rights are provisionally allotted. If you sell or transfer, or have sold or otherwise transferred, all or some of your Existing Ordinary Shares (other than ex-rights) held in uncertificated form before the Ex-Rights Date, a claim transaction will automatically be generated by Euroclear which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee.

The maximum number of New Ordinary Shares that a Qualifying CREST Shareholder may take up is that which has been provisionally allotted to that Qualifying CREST Shareholder and for which they receive a credit of entitlement into their stock account in CREST. The minimum number of New Ordinary Shares a Qualifying CREST Shareholder may take up is one.

The Nil Paid Rights will constitute a separate security for the purposes of CREST and can accordingly be transferred, in whole or in part, by means of CREST in the same manner as any other security that is admitted to CREST.

If, for any reason, it is impracticable to credit the stock accounts of Qualifying CREST Shareholders, or to enable the Nil Paid Rights shortly after 8.00 a.m. on 8 July 2025, Provisional Allotment Letters shall, unless the Company determines otherwise, be sent out in substitution for the Nil Paid Rights which have not been so credited or enabled and the expected timetable as set out in this document will be adjusted as appropriate. References to dates and times in this document should be read as subject to any such adjustment. The Company will make an appropriate announcement to a Regulatory Information Service giving details of any revised dates but Qualifying CREST Shareholders may not receive any further written communication.

CREST members who wish to take up their entitlements in respect of or otherwise to transfer Nil Paid Rights or Fully Paid Rights held by them in CREST (including CREST members who wish to effect a Cashless Take-up of their Nil Paid Rights) should refer to the CREST Manual for further information on the CREST procedures referred to below. If you are a CREST sponsored member, you should consult your CREST sponsor if you wish to take up your entitlement as only your CREST sponsor will be able to take the necessary action to take up your entitlements or otherwise to deal with your Nil Paid Rights or Fully Paid Rights (including effecting a Cashless Take-up of Nil Paid Rights).

##### **4.2 Procedure for acceptance and payment**

###### **4.2.1 MTM instructions**

CREST members who wish to take up all or some of their entitlement in respect of Nil Paid Rights in CREST must send (or, if they are CREST sponsored members, procure that their CREST sponsor sends) an MTM instruction to Euroclear that, on its settlement, will have the following effect:

- a) the crediting of a stock account of the Receiving Agent under the participant ID and member account ID specified below, with the number of Nil Paid Rights to be taken up;
- b) the creation of a settlement bank payment obligation (as this term is defined in the CREST Manual), in accordance with the real time gross settlement system (the "RTGS" payment mechanism (as this term is defined in the CREST Manual)), in favour of the RTGS settlement bank of the Receiving Agent in pounds sterling in respect of the full amount payable on acceptance in respect of the Nil Paid Rights referred to in paragraph 4.2.1a) above; and

- c) the crediting of a stock account of the accepting CREST member (being an account under the same participant ID and member account ID as the account from which the Nil Paid Rights are to be debited on settlement of the MTM instruction) of the corresponding number of Fully Paid Rights to which the CREST member is entitled on taking up their Nil Paid Rights referred to in paragraph 4.2.1a) above.

#### 4.2.2 Contents of MTM instructions

The MTM instruction must be properly authenticated in accordance with Euroclear's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- a) the number of Nil Paid Rights to which the acceptance relates;
- b) the participant ID of the accepting CREST member;
- c) the member account ID of the accepting CREST member from which the Nil Paid Rights are to be debited;
- d) the participant ID of the Receiving Agent, in its capacity as a CREST receiving agent. This is 9RA01;
- e) the member account ID of the Receiving Agent, in its capacity as a CREST receiving agent. This is 22781CHE;
- f) the number of Fully Paid Rights that the CREST member is expecting to receive on settlement of the MTM instruction. This must be the same as the number of Nil Paid Rights to which the acceptance relates;
- g) the amount payable by means of the CREST assured payment arrangements on settlement of the MTM instruction. This must be the full amount payable on acceptance in respect of the number of Nil Paid Rights referred to in paragraph 4.2.1a) above;
- h) the intended settlement date. This must be on or before 11.00 a.m. on 22 July 2025;
- i) the Nil Paid Rights ISIN, which is GB00BR0W1Q72;
- j) the Fully Paid Rights ISIN, which is GB00BR0W1R89;
- k) the corporate action number for the Rights Issue. This will be available by viewing the relevant corporate action details in CREST;
- l) a contact name and telephone number in the shared note field; and
- m) a priority of at least 80.

#### 4.2.3 Valid acceptance

An MTM instruction complying with each of the requirements as to authentication and contents set out in paragraph 4.2.2 above will constitute a valid acceptance where either:

- a) the MTM instruction settles by not later than 11.00 a.m. on 22 July 2025; or
- b) at the discretion of the Company:
  - (i) the MTM instruction is received by Euroclear by not later than 11.00 a.m. on 22 July; and
  - (ii) a number of Nil Paid Rights at least equal to the number of Nil Paid Rights inserted in the MTM instruction is credited to the CREST stock member account of the accepting CREST member specified in the MTM instruction at 11.00 a.m. on 22 July 2025; and
  - (iii) the relevant MTM instruction settles by 3.00 p.m. on 22 July 2025 (or such later time and/or date as the Company may determine).

An MTM instruction will be treated as having been received by Euroclear for these purposes at the time at which the instruction is processed by the Network Providers' Communications Host (as this term is defined in the CREST Manual) at Euroclear of the network provider used by the CREST member (or by the CREST sponsored member's CREST sponsor). This will be conclusively determined by the input time stamp applied to the MTM instruction by the Network Providers' Communications Host.

The provisions of this paragraph 4.2.3 and any other terms of the Rights Issue relating to Qualifying CREST Shareholders may be waived, varied or modified as regards specific Qualifying CREST Shareholders or on a general basis by the Company.

#### **4.2.4 Representations, warranties and undertakings of CREST members**

A CREST member or CREST sponsored member who makes, or procures the making of, a valid acceptance in accordance with this paragraph 4.2 represents, warrants and undertakes to the Company and the Joint Bookrunners that he has taken (or procured to be taken), and will take (or will procure to be taken), whatever action is required to be taken by them or by their CREST sponsor (as appropriate) to ensure that the MTM instruction concerned is capable of settlement at 11.00 a.m. on 22 July 2025. In particular, the CREST member or CREST sponsored member represents, warrants and undertakes that, at 11.00 a.m. on 22 July 2025 and at all times thereafter until 3.00 p.m. on 22 July 2025 (or until such later time and date as the Company may determine), there will be sufficient Headroom within the Cap (as those terms are defined in the CREST Manual) in respect of the cash memorandum account to be debited with the amount payable on acceptance to permit the MTM instruction to settle. CREST sponsored members should contact their CREST sponsor if they are in any doubt. Such CREST members or CREST sponsored members taking up entitlements must make the representations and warranties set out in paragraph 8 below.

If there is insufficient Headroom within the Cap (as those terms are defined in the CREST Manual) in respect of the cash memorandum account of a CREST member or CREST sponsored member for such amount to be debited or the CREST member's or CREST sponsored member's acceptance is otherwise treated as invalid and New Ordinary Shares have already been allotted to such CREST member or CREST sponsored member, the Company may (in its absolute discretion as to the manner, timing and terms) make arrangements for the sale of such New Ordinary Shares on behalf of that CREST member or CREST sponsored member and hold the proceeds of sale (net of the Company's reasonable estimate of any loss that it has suffered as a result of the acceptance being treated as invalid and of the expenses of sale, including, without limitation, any stamp duty or SDRT payable on the transfer of such New Ordinary Shares, and of all amounts payable by the CREST member or CREST sponsored member pursuant to the Rights Issue in respect of the acquisition of such New Ordinary Shares) on behalf of such CREST member or CREST sponsored member. Neither the Company nor any other person shall be responsible for, or have any liability for, any loss, expense or damage suffered by such CREST member or CREST sponsored member as a result.

#### **4.2.5 CREST procedures and timings**

CREST members and CREST sponsors (on behalf of CREST sponsored members) should note that Euroclear does not make available special procedures in CREST for any particular corporate action. Normal system timings and limitations will therefore apply in relation to the input of an MTM instruction and its settlement in connection with the Rights Issue. It is the responsibility of the CREST member concerned to take (or, if a CREST sponsored member, to procure that their CREST sponsor takes) the action necessary to ensure that a valid acceptance is received as stated above by 11.00 a.m. on 22 July 2025. In connection with this, CREST members and (where applicable) CREST sponsors are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

#### 4.2.6 CREST members' undertaking to pay

A CREST member or CREST sponsored member who makes a valid acceptance in accordance with the procedures set out in this paragraph 4.2 undertakes to pay to the Receiving Agent, or procure the payment to the Receiving Agent of, the amount payable in pounds sterling on acceptance in accordance with the above procedures or in such other manner as the Receiving Agent may require (it being acknowledged that, where payment is made by means of the RTGS payment mechanism (as defined in the CREST Manual), the creation of a RTGS payment obligation in pounds sterling in favour of the Receiving Agent's RTGS settlement bank (as defined in the CREST Manual) in accordance with the RTGS payment mechanism shall, to the extent of the obligation so created: (i) discharge in full the obligation of the CREST member (or CREST sponsored member) to pay the amount payable on acceptance); and (ii) request that the Fully Paid Rights and/or New Ordinary Shares to which they will become entitled be issued to them on the terms set out in this document and subject to the Articles.

If the payment obligations of the relevant CREST member or CREST sponsored member in relation to such New Ordinary Shares are not discharged in full and such New Ordinary Shares have already been allotted to the CREST member or CREST sponsored member, the Company may (in its absolute discretion as to manner, timing and terms) make arrangements for the sale of such Ordinary Shares on behalf of the CREST member or CREST sponsored member and hold the proceeds of sale (net of the Company's reasonable estimate of any loss it has suffered as a result of the same and of the expenses of the sale, including, without limitation, any stamp duty or SDRT payable on the transfer of such Ordinary Shares, and of all amounts payable by such CREST member or CREST sponsored member pursuant to the terms of the Rights Issue in respect of the acquisition of such Ordinary Shares) or an amount equal to the original payment of the CREST member or CREST sponsored member (whichever is the lower) on behalf of such CREST member or CREST sponsored member. Neither the Company nor the Joint Bookrunners nor any other person shall be responsible for, or have any liability for, any loss, expense or damage suffered by the CREST member or CREST sponsored member as a result.

#### 4.2.7 Company's discretion as to rejection and validity of acceptances

The Company may agree, in its absolute sole discretion (having consulted with the Underwriters), to:

- a) reject any acceptance constituted by an MTM instruction, which is otherwise valid, in the event of breach of any of the representations, warranties and undertakings set out or referred to in this paragraph 4.2. Where an acceptance is made as described in this paragraph 4.2, which is otherwise valid, and the MTM instruction concerned fails to settle by 11.00 a.m. on 22 July 2025 (or by such later time and date as the Company has determined), the Company shall be entitled to assume, for the purposes of its right to reject an acceptance contained in this paragraph 4.2, that there has been a breach of the representations, warranties and undertakings set out or referred to in this paragraph 4.2 unless the Company is aware of any reason outside the control of the CREST member or CREST sponsor (as appropriate) for the failure to settle;
- b) treat as valid (and binding on the CREST member or CREST-sponsored member concerned) an acceptance which does not comply in all respects with the requirements as to validity set out or referred to in this paragraph 4.2;
- c) accept an alternative properly authenticated dematerialised instruction from a CREST member or (where applicable) a CREST sponsor as constituting a valid acceptance in substitution for, or in addition to, an MTM instruction and subject to such further terms and conditions as the Company and the Global Coordinator may determine;
- d) treat a properly authenticated dematerialised instruction (in this paragraph d) (the "**first instruction**") as not constituting a valid acceptance if, at the time at



which the Receiving Agent receives a properly authenticated dematerialised instruction giving details of the first instruction, either the Company or the Receiving Agent has received actual notice from Euroclear of any of the matters specified in Regulation 35(5)(a) of the CREST Regulations in relation to the first instruction. These matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and

- e) accept an alternative instruction or notification from a CREST member or CREST sponsored member or (where applicable) a CREST sponsor, or extend the time for acceptance and/or settlement of an MTM instruction or any alternative instruction or notification, if, for reasons or due to circumstances outside the control of any CREST member or CREST sponsored member or (where applicable) CREST sponsor, the CREST member or CREST-sponsored member is unable validly to take up all or part of their Nil Paid Rights by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or of any part of CREST) or on the part of facilities and/or systems operated by the Receiving Agent in connection with CREST.

#### **4.3 Money Laundering Regulations**

If you hold your Nil Paid Rights in CREST and apply to take up all or part of your entitlement as agent for one or more persons and you are not a UK or EU regulated person or institution (e.g. a UK financial institution), then, irrespective of the value of the application, the Receiving Agent is entitled to take reasonable measures to establish the identity of the person or persons (or the ultimate controller of such person or persons) on whose behalf you are making the application, and any submission of an MTM instruction constitutes agreement for the Receiving Agent to make a search via a credit reference agency where deemed necessary. A record of search results will be retained. You must therefore contact the Receiving Agent before sending any MTM instruction or other instruction so that appropriate measures may be taken.

Submission of an MTM instruction which constitutes, or which may on its settlement constitute, a valid acceptance as described above constitutes a warranty and undertaking by the applicant to provide promptly to the Receiving Agent any information the Receiving Agent may specify as being required for the purposes of the verification of the identity requirements in the Money Laundering Regulations or the FSMA. Pending the provision of such information and other evidence as the Receiving Agent may require to satisfy the verification of identity requirements, the Receiving Agent, having consulted with the Company, may take, or omit to take, such action as it may determine to prevent or delay settlement of the MTM instruction. If such information and other evidence of identity has not been provided within a reasonable time, then the Receiving Agent will not permit the MTM instruction concerned to proceed to settlement but without prejudice to the right of the Company and/or the Joint Bookrunners to take proceedings to recover any loss suffered by any of them as a result of failure by the applicant to provide such information and other evidence.

#### **4.4 Dealings in Nil Paid Rights in CREST**

Assuming the Rights Issue becomes unconditional, dealings in the Nil Paid Rights on the LSE are expected to commence as soon as practicable after 8.00 a.m. on 8 July 2025. A transfer (in whole or in part) of Nil Paid Rights can be made by means of CREST in the same manner as any other security that is admitted to CREST. The Nil Paid Rights are expected to be disabled in CREST after the close of CREST business on 22 July 2025.

#### **4.5 Dealings in Fully Paid Rights in CREST**

After acceptance of the provisional allotment and payment in full in accordance with the provisions set out in this document, the Fully Paid Rights may be transferred by means of CREST in the same manner as any other security that is admitted to CREST. The last time for settlement of any transfer of Fully Paid Rights in CREST is expected to be 11.00 a.m. on 22 July 2025. The Fully Paid Rights are expected to be disabled in CREST after the close of CREST business on 22 July 2025.

From 8.00 a.m. on 23 July 2025, the New Ordinary Shares will be registered in the name(s) of the person(s) entitled to them in the Company's register of members and will be transferable in the usual way (see paragraph 4.7 below).

#### **4.6 Withdrawal of Nil Paid Rights or Fully Paid Rights from CREST**

Nil Paid Rights or Fully Paid Rights held in CREST may be converted into certificated form, that is, withdrawn from CREST. Normal CREST procedures (including timings) apply in relation to any such conversion.

The recommended latest time for receipt by Euroclear of a properly authenticated dematerialised instruction requesting withdrawal of Nil Paid Rights or, if appropriate, Fully Paid Rights from CREST is 4.30 p.m. on 16 July 2025, so as to enable the person acquiring or (as appropriate) holding the Nil Paid Rights or, if appropriate, Fully Paid Rights following the conversion to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 22 July 2025. You are recommended to refer to the CREST Manual for details of such procedures.

#### **4.7 Issue of New Ordinary Shares in CREST**

Fully Paid Rights in CREST are expected to be disabled in CREST after the close of CREST business on 22 July 2025 the latest date for settlement of transfers of Fully Paid Rights in CREST). New Ordinary Shares will be issued to those persons registered as holding Fully Paid Rights in CREST at 5.30 p.m. on the date on which the Fully Paid Rights are disabled. The Receiving Agent will instruct Euroclear to credit the appropriate stock accounts of those persons (under the same participant ID and member account ID that applied to the Fully Paid Rights held by those persons) with their entitlements to New Ordinary Shares with effect as soon as practicable after 8.00 a.m. on 23 July 2025).

#### **4.8 Right to allot/issue in certificated form**

Despite any other provision of this document, the Company reserves the right to allot and/or issue any Nil Paid Rights, Fully Paid Rights or New Ordinary Shares in certificated form if it has first obtained the Global Coordinator's consent. In normal circumstances, this right is only likely to be exercised in the event of an interruption, failure or breakdown of CREST (or of any part of CREST) or on the part of the facilities and/or systems operated by the Receiving Agent in connection with CREST.

### **5. Procedure in respect of Rights not taken up (whether certificated or in CREST) and withdrawal**

#### **5.1 Procedure in respect of New Ordinary Shares not taken up**

If an entitlement to New Ordinary Shares is not validly taken up by 11.00 a.m. on 22 July 2025, in accordance with the procedure laid down for acceptance and payment, then that Provisional Allotment Letter will be deemed to have been declined and will lapse. Subject to the terms and conditions of the Underwriting Agreement, the Joint Bookrunners, acting severally (and not jointly or jointly and severally), will use reasonable endeavours to procure, by not later than 8.00 a.m. on the second Dealing Day after the last date of acceptance of the Rights Issue, subscribers for all (or as many as possible) of those New Ordinary Shares not taken up if a premium over the total of the Issue Price and the expenses of procuring such subscribers (including any applicable brokerage fees and commissions and amounts in respect of VAT) can be obtained.

Notwithstanding the above, the Joint Bookrunners may cease to endeavour to procure any such subscribers if, in their absolute opinion, it is unlikely that any such subscribers can be procured at such a price and by such a time. If and to the extent that subscribers for New Ordinary Shares cannot be procured on the basis outlined above, the relevant New Ordinary Shares (if any) will be subscribed for by the Underwriters, acting severally (and not jointly or jointly and severally) or by sub-underwriters procured by the Underwriters (if any) at the Issue Price pursuant to the terms of the Underwriting Agreement.

New Ordinary Shares for which subscribers are procured on this basis will be re-allotted to such subscribers and the aggregate of any premiums, being any premium over the aggregate of the Issue Price and the expenses of procuring subscribers (including any applicable brokerage fees and commissions and amounts in respect of VAT), if any, will be

paid (without interest) *pro rata* to the relevant provisional allotments not taken up (subject as provided in this paragraph 5.1):

- (i) where the Nil Paid Rights were, at the time they were not taken up, represented by a Provisional Allotment Letter, to the person whose name and address appeared on the Provisional Allotment Letter;
- (ii) where the Nil Paid Rights were, at the time they were not taken up, in uncertificated form, to the person registered by the holder of those Nil Paid Rights at the time of their disablement in CREST; and
- (iii) where an entitlement to New Ordinary Shares was not taken up by an Overseas Shareholder, to that Overseas Shareholder,

save that amounts of less than £5.00 per holding will not be so paid but will be aggregated and ultimately paid to the Company. For the avoidance of doubt, no amounts under (i) to (iii) above will be for the account of the Company other than amounts of less than £5.00 per holding as described above. Holdings of Ordinary Shares in certificated form and uncertificated form will be treated as separate holdings for these purposes. Cheques for the amounts due (if any) will be sent by post, at the risk of the person(s) entitled, to their registered addresses (the registered address of the first-named holder in the case of joint holders), provided that, where any entitlement concerned was held in CREST, the amount due will, unless the Company (in its absolute discretion) otherwise determines, be satisfied by the creation of an assured payment obligation in favour of the relevant CREST member (or CREST sponsored member's) CREST settlement bank in respect of the cash amount concerned in accordance with the CREST payment mechanism.

Any transactions undertaken pursuant to this paragraph 5.1 or paragraph 7.1 below shall be deemed to have been undertaken at the request of the persons entitled to the rights not taken up or other entitlements and neither the Company nor the Joint Bookrunners nor any other person procuring subscribers shall be responsible or have any liability for any loss, expense or damage (whether actual or alleged) arising from the terms or timing of any such acquisition, any decision not to endeavour to procure subscribers or the failure to procure subscribers on the basis so described. The Joint Bookrunners will be entitled to retain any applicable fees and commissions or other benefits received in connection with these arrangements.

It is a term of the Rights Issue that all New Ordinary Shares validly taken up by subscribers under the Rights Issue may be allotted to such subscribers in the event that not all of the New Ordinary Shares offered for subscription under the Rights Issue are taken up.

## 5.2 **Withdrawal rights**

Qualifying Shareholders wishing to exercise statutory withdrawal rights after the issue by the Company of a document supplementing this document must do so by sending a written notice of withdrawal which must include the account number, the full name and address of the person wishing to exercise such right of withdrawal and, if such person is a CREST Member, the participant ID and the member account ID of such CREST Member, in writing to the Receiving Agent at MUFG Corporate Markets, Corporate Actions, Central Square, 29 Wellington Street, Leeds, LS1 4DL, or email to [withdraw@mpms.mufg.co.uk](mailto:withdraw@mpms.mufg.co.uk), so as to be received no later than two Business Days after the date on which the supplementary document is published.

Notice of withdrawal given by any other means or which is deposited with or received by the Receiving Agent after expiry of such period will not constitute a valid withdrawal. Furthermore, the exercise of withdrawal rights will not be permitted after payment in full by the relevant person in respect of their New Ordinary Shares taken up and the allotment of those New Ordinary Shares to such person becoming unconditional, save as required by statute. In such circumstances, Shareholders are advised to consult their professional advisers. Provisional allotments of entitlements to New Ordinary Shares which are the subject of a valid withdrawal notice will be deemed to be declined. Such entitlements to New Ordinary Shares will be subject to the provisions of paragraph 5.1 of this Part VIII (*Terms and Conditions of the Rights Issue*) as if the entitlement had not been validly taken up.

Following the valid exercise of statutory withdrawal rights, application monies will be returned by post to relevant Qualifying Shareholders at their own risk and without interest to the address set out in the Provisional Allotment Letter and/or the Receiving Agent will refund the amount paid by a Qualifying CREST Shareholder by way of a CREST payment, without interest, as applicable within 14 days of such exercise of statutory withdrawal rights. Interest earned on such monies will be retained for the benefit of the Company. The provisions of this paragraph 5.2 are without prejudice to the statutory rights of Qualifying Shareholders. In such event, Qualifying Shareholders are advised to seek independent legal advice. If you have any further questions, please call the Shareholder Helpline on 0371 664 0321. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open between 9 am – 5.30 pm, Monday to Friday excluding public holidays in England and Wales. Please note that MUFG Corporate Markets cannot provide any financial, legal or tax advice and calls may be recorded and monitored for security and training purposes.

## 6. Taxation

The information contained in Part XVI (*United Kingdom Taxation*) of this document is intended only as a general guide to the current tax position in the United Kingdom and Qualifying Shareholders should consult their own tax advisers regarding the tax treatment of the Rights Issue in light of their own circumstances. Shareholders who are in any doubt as to their tax position or who are subject to tax in any other jurisdiction should consult an appropriate professional adviser immediately.

## 7. Overseas Shareholders

### 7.1 General

**This document has been approved by the FCA, being the competent authority in the United Kingdom. The making or acceptance of the proposed offer of Nil Paid Rights, Fully Paid Rights and/or New Ordinary Shares to persons who have registered addresses outside the United Kingdom, or who are resident in, or citizens of, countries other than the United Kingdom may be affected by the laws of the relevant jurisdiction. Those persons should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their rights.**

It is also the responsibility of any person (including, without limitation, custodians, nominees and trustees) receiving this document and/or a Provisional Allotment Letter and/or a credit of Nil Paid Rights to a stock account in CREST and wishing to take up rights under or otherwise participate in the Rights Issue to satisfy themselves as to the full observance of the laws of any relevant territory in connection therewith, including the obtaining of any governmental or other consents which may be required, the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such territories. The comments set out in this paragraph 7 are intended as a general guide only and any Overseas Shareholder who is in doubt as to their position should consult their professional adviser without delay.

Having considered the circumstances, the Directors have formed the view that it is necessary or expedient to restrict (subject to certain exceptions) the ability of persons in the Excluded Territories and the United States, to take up rights to New Ordinary Shares or otherwise participate in the Rights Issue due to the time and costs involved in the registration of this document and/or compliance with the relevant local legal or regulatory requirements in those jurisdictions.

Receipt of this document and/or Provisional Allotment Letter or the crediting of Nil Paid Rights to a stock account in CREST will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this document and/or a Provisional Allotment Letter must be treated as sent for information only and should not be copied or redistributed.

New Ordinary Shares will be provisionally allotted (nil paid) to all Shareholders on the register on the Record Date, including Overseas Shareholders. However, Provisional

Allotment Letters will not be sent to, and Nil Paid Rights will not be credited to CREST accounts of, Shareholders with registered addresses in any of the Excluded Territories or their agent or intermediary, except where the Company is satisfied that such action would not result in the contravention of any registration or other legal requirement in any jurisdiction.

Although Nil Paid Rights will be credited to the CREST accounts of all Qualifying CREST Shareholders, such crediting of Nil Paid Rights does not constitute an offer to Shareholders and, specifically, subject to certain exceptions, no offer is being made to Shareholders: (i) with a registered address, or resident or located, in any of the Excluded Territories; or (ii) in any jurisdiction in which it is unlawful to make or accept an offer to acquire the Ordinary Shares. CREST Shareholders will be entitled to take up rights in the Rights Issue only if such action would not result in the contravention of any registration or other legal requirement in any jurisdiction.

No person receiving a copy of this document and/or a Provisional Allotment Letter and/or receiving a credit of Nil Paid Rights to a stock account in CREST in any territory other than the UK may treat the same as constituting an invitation or offer to them nor should he in any event use the Provisional Allotment Letter or deal in Nil Paid Rights or Fully Paid Rights in CREST unless, in the relevant territory, such an invitation or offer could lawfully be made to them or the Nil Paid Rights and Fully Paid Rights may lawfully be used or dealt with without contravention of any registration or other legal requirements. In such circumstances, this document and the Provisional Allotment Letter are to be treated as sent for information only and should not be copied or redistributed.

Persons (including, without limitation, custodians, nominees and trustees) receiving a copy of this document and/or a Provisional Allotment Letter or whose stock account is credited with Nil Paid Rights or Fully Paid Rights should not, in connection with the Rights Issue, distribute or send the same or transfer Nil Paid Rights or Fully Paid Rights in or into any jurisdiction where to do so would or might contravene local security laws or regulations. If a Provisional Allotment Letter or a credit of Nil Paid Rights or Fully Paid Rights is received by any person in any such territory, or by their agent or nominee, they must not seek to take up the rights referred to in the Provisional Allotment Letter or in this document or renounce the Provisional Allotment Letter or transfer the Nil Paid Rights or Fully Paid Rights unless the Company determines that such actions would not violate applicable legal or regulatory requirements. Any person (including, without limitation, custodians, nominees and trustees) who does forward this document or a Provisional Allotment Letter or transfer Nil Paid Rights or Fully Paid Rights into any such territories (whether pursuant to a contractual or legal obligation or otherwise) should draw the recipient's attention to the contents of this paragraph 7.

Subject to paragraphs 7.3 to 7.5 below, any person (including, without limitation, agents, nominees and trustees) outside the UK wishing to take up their rights under the Rights Issue must satisfy themselves as to full observance of the applicable laws of any relevant territory, including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territories. The comments set out in this paragraph 7 are intended as a general guide only and any Overseas Shareholders who are in any doubt as to their position should consult their professional advisers without delay.

The Company reserves the right with the consent of the Global Coordinator to treat as invalid and will not be bound to allot or issue any New Ordinary Shares in respect of any acceptance or purported acceptance of the offer of New Ordinary Shares which:

- a) appears to the Company or its agents to have been executed, effected or despatched from an Excluded Territory unless the Company is satisfied that such action would not result in the contravention of any registration or other legal requirement; or
- b) in the case of a Provisional Allotment Letter, provides an address for delivery of the share certificates or other statements of entitlement or advice in an Excluded Territory or any other jurisdiction outside the UK in which it would be unlawful to deliver such certificates, statements or advice or if the Company or its agents believe that the same may violate applicable legal or regulatory requirements; or



- c) in the case of a credit of New Ordinary Shares in CREST, to a CREST member or CREST sponsored member whose registered address would be in an Excluded Territory or any other jurisdiction outside the UK in which it would be unlawful to make such a credit or if the Company or its agents believe that the same may violate applicable legal or regulatory requirements.

The attention of Overseas Shareholders with registered addresses in the Excluded Territories is drawn to paragraphs 7.3 to 7.5 below.

The provisions of paragraph 5.1 above will apply to Overseas Shareholders who do not take up New Ordinary Shares provisionally allotted to them or are unable to take up New Ordinary Shares provisionally allotted to them because such action would result in a contravention of applicable law or regulatory requirements. Accordingly, such Shareholders will be treated as Shareholders that have not taken up their entitlement for the purposes of paragraph 5.1. above and the Joint Bookrunners will use reasonable endeavours to procure subscribers for the relevant New Ordinary Shares. The net proceeds of such sales (after deduction of expenses) will be paid to the relevant Shareholders pro-rated to their holdings of Existing Ordinary Shares on the Record Date as soon as practicable after receipt, except that (i) individual amounts of less than £5.00 per holding will not be distributed but will be aggregated and paid to the Company and (ii) amounts in respect of fractions will not be distributed but will be retained for the benefit of the Company. Holdings of Ordinary Shares in certificated and uncertificated form will be treated as separate holdings for these purposes. None of the Company, the Joint Bookrunners or any other person shall be responsible or have any liability whatsoever for any loss or damage (actual or alleged) arising from the terms or the timing of the acquisition or the procuring of it or any failure to procure subscribers.

Notwithstanding any other provision of this document or the Provisional Allotment Letter, the Company reserves the right to permit any Shareholder to participate in the Rights Issue on the terms and conditions set out in this document as if it were a Qualifying Shareholder if the Company with the consent of the Global Coordinator is satisfied that the transaction in question is exempt from or not subject to the legislation or regulations giving rise to the restrictions in question. If the Company is so satisfied, the Company will arrange for the relevant Shareholder to be sent a Provisional Allotment Letter if he is a Qualifying Non-CREST Shareholder or, if he is a Qualifying CREST Shareholder, arrange for Nil Paid Rights to be credited to the relevant CREST stock account.

Those Shareholders who wish, and are permitted, to take up their entitlement should note that payments must be made as described in paragraphs 3.2 and 4.2 above.

Overseas Shareholders should note that all subscription monies must be paid in pounds sterling by cheque or banker's draft and should be drawn on a bank in the UK, made payable to "MUFG Corporate Markets re Chesnara Plc Rights Issue A/C" and crossed "A/C payee only".

## **7.2 United States of America**

The Nil Paid Rights, the Fully Paid Rights, the New Ordinary Shares, the New Ordinary Shares and the Provisional Allotment Letters have not been and will not be registered under the U.S. Securities Act, and may not be offered, sold, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from the registration requirements of the U.S. Securities Act.

Subject to certain exceptions, none of this document and the Provisional Allotment Letter constitutes or will constitute an offer or an invitation to apply for or an offer or an invitation to acquire any Nil Paid Rights, Fully Paid Rights or New Ordinary Shares in the United States. Subject to certain exceptions, neither this document nor a Provisional Allotment Letter will be sent to any Shareholder with a registered address in the United States. Subject to certain exceptions, Provisional Allotment Letters or renunciations thereof sent from or post-marked in the United States will be deemed to be invalid.

The Company reserves the right with the consent of the Global Coordinator to treat as invalid any Provisional Allotment Letter (or renunciation thereof) that appears to the Company

or its agents to have been executed in or despatched from the United States, or that provides an address in the United States for the acceptance or renunciation of the Rights Issue, or which does not make the warranty set out in the Provisional Allotment Letter to the effect that the person is not accepting and/or renouncing the Provisional Allotment Letter or where the Company believes acceptance of such Provisional Allotment Letter may infringe applicable legal or regulatory requirements. The Company will not be bound to allot (on a non-provisional basis) or issue any New Ordinary Shares, Nil Paid Rights, or Fully Paid Rights to any person with an address in, or who is otherwise located in, the United States in whose favour a Provisional Allotment Letter or any Nil Paid Rights, Fully Paid Rights or New Ordinary Shares may be transferred or renounced. In addition, the Company and the Global Coordinator reserves the right to reject any MTM instruction sent by or on behalf of any CREST member with a registered address in the United States in respect of the Nil Paid Rights.

The provisions of paragraph 5.1 above will apply to any rights not taken up. Accordingly, subject to certain exceptions, Shareholders with a registered address in the United States will be treated as unexercising holders and the Joint Bookrunners will endeavour to procure on behalf of such unexercising holders, subscribers for the New Ordinary Shares.

Each purchaser of the securities in the United States will be required to represent and agree as follows:

- a) the purchaser (i) is a qualified institutional buyer, or QIB, as defined in Rule 144A under the U.S. Securities Act, or a broker-dealer acting for the account of a QIB; (ii) is acquiring such securities for its own account or for the account of a QIB; and (iii) is aware that the securities are restricted within the meaning of the Securities Act and may not be deposited into any unrestricted depositary facility, unless at the time of such deposit the securities are no longer restricted;
- b) the purchaser is aware that the securities have not been and will not be registered under the U.S. Securities Act and are being offered in the United States only to QIBs in a transaction not involving any public offering in the United States within the meaning of the Securities Act; and
- c) the purchaser understands and agrees that the securities may not be offered, sold, pledged or otherwise transferred, except (i) to a person that the seller and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of another QIB; or (ii) outside the United States in accordance with Regulation S under the U.S. Securities Act; or (iii) pursuant to an exemption from registration under the U.S. Securities Act.

## **7.3 Excluded Territories**

### **7.3.1 Australia**

No prospectus in relation to the New Ordinary Shares has been or will be lodged with, or registered by, the Australian Securities Commission. Neither the New Ordinary Shares or New Ordinary Shares nor the Provisional Allotment Letters nor any Nil Paid Rights or Fully Paid Rights held in CREST may be offered for subscription or purchase, taken up, sold, renounced, transferred or delivered, directly or indirectly, nor may any invitation to subscribe for or buy or sell New Ordinary Shares or any Nil Paid Rights or Fully Paid Rights held in CREST be issued or any draft or definitive document in relation to any such offer, sale or invitation be distributed, in or into Australia or to or for the account or benefit of an Australian person. Accordingly, no offer of New Ordinary Shares or New Ordinary Shares is being made under this document or the Provisional Allotment Letters to Shareholders with registered addresses in, or to residents of, Australia. No Provisional Allotment Letters will be sent to, nor will any Nil Paid Rights be credited to a stock account in CREST of, Qualifying Shareholders who have registered addresses in Australia.

### **7.3.2 Canada**

The Nil Paid Rights, the Fully Paid Rights, the New Ordinary Shares and the Provisional Allotment Letters have not been and will not be registered under the securities legislation of any province or territory of Canada. None of the Provisional

Allotment Letter, the New Ordinary Shares, Nil Paid Rights and the Fully Paid Rights will be directly or indirectly offered for subscription or purchase, taken up, sold, delivered, renounced or transferred in or into Canada. Therefore, the Rights Issue will not be made within Canada and Provisional Allotment Letters will not be sent to, nor will any Nil Paid Rights be credited to a stock account in CREST on behalf of, any Shareholder with a registered address in Canada. Any person in Canada who obtains a copy of this document or a Provisional Allotment Letter is required to disregard them.

#### 7.3.3 **Japan**

The relevant clearances have not been and will not be obtained from the Ministry of Finance of Japan and no prospectus has been or will be lodged with, or registered by, the Ministry of Finance of Japan. Therefore, neither the Provisional Allotment Letters nor the New Ordinary Shares, the New Ordinary Shares nor any Nil Paid Rights or Fully Paid Rights held in CREST may, directly or indirectly, be offered or sold, taken up, or renounced in or into Japan or its territories or possessions. No Provisional Allotment Letter will be sent to, nor will any Nil Paid Rights be credited to a stock account in CREST of, Qualifying Shareholders whose registered address is in Japan.

#### 7.3.4 **Republic of South Africa**

Due to restrictions under South African securities laws, no Provisional Allotment Letters in relation to the New Ordinary Shares will be sent to Shareholders who have registered addresses, or are resident or located, in the Republic of South Africa. Similarly, Nil Paid Rights will not be credited to the CREST accounts of Qualifying CREST Shareholders who have registered addresses, or are resident or located in the Republic of South Africa. Qualifying Shareholders who have a registered address, or are resident or located in the Republic of South Africa will not be entitled to take up Rights in the Rights Issue. The Provisional Allotment Letters, the Nil Paid Rights, the Fully Paid Rights, the New Ordinary Shares and the New Ordinary Shares may not be transferred or sold to, or renounced or delivered in, the Republic of South Africa. No offer of New Ordinary Shares or New Ordinary Shares is being made by virtue of this document or the Provisional Allotment Letters into the Republic of South Africa.

#### 7.4 **Overseas territories other than the Excluded Territories**

Other than for, subject to certain exceptions, Qualifying Shareholders with registered addresses, or who are resident or located in, any Excluded Territory, Provisional Allotment Letters will be posted to Overseas Shareholders who are Qualifying Non-CREST Shareholders and Nil Paid Rights will be credited to the CREST stock accounts of Overseas Shareholders who are Qualifying CREST Shareholders. Such Overseas Shareholders may, subject to the laws of the relevant jurisdictions, participate in the Rights Issue in accordance with the instructions set out in this document and, if relevant, the Provisional Allotment Letter. In cases where Overseas Shareholders do not take up Nil Paid Rights, their entitlements will be sold if possible, in accordance with the provisions of paragraph 5.1 above.

Qualifying Shareholders who have registered addresses in or who are resident in, or who are citizens of, all countries other than the UK should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their rights.

#### 7.4.1 **Member States of the EEA**

In relation to each member state of the European Economic Area (each, a “**Relevant Member State**”), none of the New Ordinary Shares, the Nil Paid Rights or the Fully Paid Rights have been or will be offered or sold to the public in that Relevant Member State prior to the publication of this document in relation to the New Ordinary Shares, the Nil Paid Rights and the Fully Paid Rights, which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the

competent authority in that Relevant Member State, all in accordance with the Prospectus Regulation, except that an offer of such Nil Paid Rights, Fully Paid Rights or New Ordinary Shares may be made to the public in that Relevant Member State:

- a) to legal entities which are qualified investors as defined in the Prospectus Regulation;
- b) to fewer than 150 natural or legal persons (other than “qualified investors” as defined in the Prospectus Regulation) per Relevant Member State subject to obtaining the prior consent of the Global Coordinator for any such offer; and
- c) in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of New Ordinary Shares, Nil Paid Rights or Fully Paid Rights shall require the Company or the Joint Bookrunners to publish a prospectus in that member state pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation, and each person who initially acquires any New Ordinary Shares, Nil Paid Rights or Fully Paid Rights or to whom any offer is made under the Rights Issue will be deemed to have represented, acknowledged, and agreed that it is a “qualified investor” within the meaning of Article 2(e) of the Prospectus Regulation.

For the purposes of the foregoing paragraph, the expression an “offer to the public” in relation to any New Ordinary Shares, the Nil Paid Rights or the Fully Paid Rights in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the New Ordinary Shares, the Nil Paid Rights or the Fully Paid Rights.

In the case of the New Ordinary Shares, the Nil Paid Rights or the Fully Paid Rights being offered to a financial intermediary, as that term is used in the Prospectus Regulation, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the New Ordinary Shares, the Nil Paid Rights or the Fully Paid Rights acquired by it have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any New Ordinary Shares, Nil Paid Rights or Fully Paid Rights to the public other than their offer or resale in a Relevant Member State to “qualified investors” within the meaning of Article 2(e) of the Prospectus Regulation. The Company, the Underwriters and their respective affiliates will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement.

#### **7.5 Waiver**

The provisions of paragraph 7 and of any other terms of the Rights Issue relating to Overseas Shareholders may be waived, varied or modified as regards specific Shareholders or on a general basis by the Company in its absolute and sole discretion. Subject to this, the provisions of paragraph 7 supersede any terms of the Rights Issue inconsistent herewith. References in paragraph 7 to Shareholders shall include references to the person or persons executing a Provisional Allotment Letter and, in the event of more than one person executing a Provisional Allotment Letter, the provisions of paragraph 7 shall apply to them jointly and to each of them.

### **8. Representations and warranties relating to Shareholders**

#### **8.1 All Qualifying Shareholders**

All Qualifying Non-CREST Shareholders, by completing and returning a Provisional Allotment Letter, and all Qualifying CREST Shareholders, by sending an MTM Instruction, will be deemed to have agreed and acknowledged that:

- a) the Joint Bookrunners: (i) are acting exclusively for the Company and no one else in connection with the Rights Issue; (ii) will not regard any other person (whether or not a recipient of this document) as their respective clients in relation to the Rights Issue; and (iii) will not be responsible to anyone other than the Company, nor for providing

the protections afforded to their clients nor for giving advice in connection with the Rights Issue or the contents of this document;

- b) apart from the responsibilities and liabilities, if any, which may be imposed on the Joint Bookrunners by FSMA or the regulatory regime established thereunder or under the regulatory regime of any other jurisdiction where exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, none of the Joint Bookrunners, nor any of their respective affiliates, directors, officers, employees or advisers, accept any responsibility whatsoever for the contents of this document, or make any representation or warranty, express or implied, in relation to the contents of this document, including its accuracy, completeness or verification or regarding the legality of any investment in the Nil Paid Rights, the Fully Paid Rights or the New Ordinary Shares by any person under the laws applicable to such person or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the New Ordinary Shares, the Nil Paid Rights, the Fully Paid Rights, the Rights Issue or the Acquisition, and nothing in this document is, or shall be relied upon as, a promise or representation in this respect, whether as to the past or the future. To the fullest extent permissible, the Joint Bookrunners accordingly disclaim all and any responsibility or liability whether arising in tort, contract or otherwise (save as referred to above) which they might otherwise have in respect of this document or any such statement;
- c) such Qualifying Shareholders have not relied on the Joint Bookrunners or any person affiliated with any of the Joint Bookrunners in connection with any investigation as to the accuracy of any information contained in this document or their investment decision; and
- d) such Qualifying Shareholders have relied only on the information contained in this document, and that no person has been authorised to give any information or to make any representation concerning the Company, the New Ordinary Shares, the Nil Paid Rights, the Fully Paid Rights, the Rights Issue or the Acquisition (other than as contained in this document) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company or the Joint Bookrunners.

## 8.2 Qualifying Non-CREST Shareholders

Any person accepting and/or renouncing a Provisional Allotment Letter or requesting registration of the New Ordinary Shares comprised therein represents and warrants to the Company and the Joint Bookrunners that, except where proof has been provided to the satisfaction of the Company and the Joint Bookrunners that such person's use of the Provisional Allotment Letter or the effecting of the instruction will not result in the contravention of any applicable regulatory or legal requirement in any jurisdiction: (a) such person is not accepting and/or renouncing the Provisional Allotment Letter, or requesting registration of the relevant New Ordinary Shares or giving such instruction, from within any of the Excluded Territories; (b) such person is not in any territory in which it is unlawful to make or accept an offer to subscribe for New Ordinary Shares or to use the Provisional Allotment Letter in any manner in which such person has used or will use it or to give such instructions; (c) such person is not acting on a non-discretionary basis on behalf of, or for the account or benefit of, a person located within or resident of any Excluded Territory or any territory referred to in (b) above at the time the instruction to accept or renounce was given; and (d) such person is not acquiring Nil Paid Rights, Fully Paid Rights or New Ordinary Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Nil Paid Rights, Fully Paid Rights or New Ordinary Shares into any Excluded Territory or any territory referred to in (b) above. The Company may treat as invalid any acceptance or purported acceptance of the allotment of New Ordinary Shares comprised in, or renunciation or purported renunciation of, a Provisional Allotment Letter if it: (i) appears to the Company to have been executed in or despatched from any Excluded Territory or otherwise in a manner which may involve a breach of the laws of any jurisdiction or if it believes the same may violate any applicable legal or regulatory requirement; (ii) provides an address in any Excluded Territory (or any jurisdiction outside the UK in which it would be



unlawful to deliver share certificates or sales advice); or (iii) purports to exclude the representations and warranties required by this paragraph 8.

### **8.3 Qualifying CREST Shareholders**

A CREST member or CREST sponsored member who makes a valid acceptance in accordance with the procedures set out in this Part VIII (*Terms and Conditions of the Rights Issue*) represents and warrants to the Company and the Joint Bookrunners that, except where proof has been provided to the satisfaction of the Company and the Joint Bookrunners that such person's acceptance will not result in the contravention of any applicable regulatory or legal requirement in any jurisdiction: (a) he is not within any of the Excluded Territories; (b) he is not in any territory in which it is unlawful to make or accept an offer to subscribe for New Ordinary Shares; (c) he is not accepting on a non-discretionary basis for, on behalf of, or for the account or benefit of, a person located or resident within any Excluded Territory or any territory referred to in (b) above at the time the instruction to accept was given; and (d) he is not acquiring New Ordinary Shares, Nil Paid Rights or Fully Paid Rights with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such New Ordinary Shares, Nil Paid Rights or Fully Paid Rights into any Excluded Territory or any territory referred to in (b) above.

## **9. Times and dates**

The Company shall, in its discretion and after consultation with its financial and legal advisers, be entitled to amend the dates that Provisional Allotment Letters are despatched or dealings in Nil Paid Rights commence or amend or extend the latest date for acceptance under the Rights Issue and all related dates set out in this document and in such circumstances shall notify the FCA, and make an announcement via a Regulatory Information Service approved by the FCA.

In the event such an announcement is made, Qualifying Shareholders may not receive any further written communication in respect of such amendment or extension of the dates included in this document.

If a supplementary prospectus is issued by the Company two or fewer Business Days prior to the latest time and date for acceptance and payment in full under the Rights Issue specified in this document (or such later date as may be agreed between the Company and the Joint Bookrunners), the latest date for acceptance under the Rights Issue shall be extended to the date that is three Business Days after the date of issue of the supplementary prospectus (and the dates and times of principal events due to take place following such date shall be extended accordingly).

## **10. Governing law**

The terms and conditions of the Rights Issue as set out in this document and the Provisional Allotment Letter and any non-contractual obligations arising out of or in relation to the Rights Issue shall be governed by, and construed in accordance with, English law.

## **11. Jurisdiction**

The courts of England and Wales are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Rights Issue, this document or the Provisional Allotment Letter and any non-contractual obligations arising out of or in connection with them. By accepting rights under the Rights Issue in accordance with the instructions set out in this document and, in the case of Qualifying Non-CREST Shareholders, other than, subject to limited exceptions, those with a registered address, or resident in, one of the Excluded Territories.

Shareholders only, the Provisional Allotment Letter, Qualifying Shareholders irrevocably submit to the jurisdiction of the courts of England and Wales and waive any objection to proceedings in any such court on the ground of venue or on the ground that proceedings have been brought in an inconvenient forum, or objection to the recognition or enforcement in the courts of any other country of a judgment delivered by an English court exercising jurisdiction pursuant to this paragraph 11.

## PART IX

### QUESTIONS AND ANSWERS REGARDING THE RIGHTS ISSUE

The questions and answers below have been prepared to help Shareholders understand what is involved in the Rights Issue. These are in general terms only and, as such, you should not rely solely on them and should also read Part VIII (*Terms and Conditions of the Rights Issue*) of this document for full details of the action you should take and the terms and conditions applicable to the Rights Issue. If you are in any doubt as to the action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under FSMA if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

This Part IX (*Questions and Answers regarding the Rights Issue*) deals with general questions relating to the Rights Issue and more specific questions relating to Qualifying Shareholders who hold Ordinary Shares in: (i) certificated form (referred to as Qualifying Non-CREST Shareholders); and (ii) Shareholders who hold Ordinary Shares in uncertificated form (that is, through CREST, referred to as Qualifying CREST Shareholders). If you are a CREST sponsored member, you should also consult your CREST sponsor. If you are a Shareholder resident outside of the United Kingdom, you should pay particular attention to paragraph 4.6 (*What should I do if I live outside the United Kingdom?*) of this Part IX (*Questions and Answers regarding the Rights Issue*) below.

If you do not know whether your Ordinary Shares are held in certificated or uncertificated form, please call the MUFG Corporate Markets shareholder helpline between 9.00 a.m. and 5.30 p.m. Monday to Friday (excluding United Kingdom public holidays) on 0371 664 0321 (calls to this number are charged at the standard national rate and will vary by provider) or on +44(0)371 664 0321 from outside the United Kingdom (charged at the applicable international rate). Please note that calls may be monitored or recorded and the helpline cannot provide financial, legal or tax advice or advice on the merits of the Rights Issue.

Times and dates referred to in this Part IX (*Questions and Answers regarding the Rights Issue*) have been included on the basis of the Expected Timetable of Principal Events for the Rights Issue set out in this document

#### 1. GENERAL

##### 1.1 What is a rights issue?

A rights issue is a way for listed companies to raise money. Companies do this by giving their existing shareholders a right to subscribe for further shares in proportion to their existing shareholdings.

The offer under this Rights Issue is of 79,539,337 New Ordinary Shares at a price of 176 pence per New Ordinary Share. If you are a Qualifying Shareholder, other than a Shareholder with a registered address in, or resident or located in, subject to certain exceptions, the Excluded Territories, you will be eligible to subscribe for New Ordinary Shares under the Rights Issue. If you hold your Ordinary Shares in certificated form, your entitlement will be set out in your Provisional Allotment Letter. **The Rights Issue will be made on the basis of 10 New Ordinary Shares for every 19 Existing Ordinary Shares held by Qualifying Shareholders on the Record Date.**

##### 1.2 Will Shareholders be entitled to vote on the Rights Issue?

No, the Rights Issue does not require new shareholder approval. The Company is relying on existing shareholder approvals granted under sections 551 and 570 of the Companies Act pursuant to resolutions passed at the Company's 2025 Annual General Meeting. No general meeting of Shareholders or other Shareholder vote will, therefore, take place in connection with the Rights Issue.

##### 1.3 I understand that there is a period when there is trading in the Nil Paid Rights. What does this mean?

If you do not want to subscribe for the New Ordinary Shares being offered to you under the Rights Issue, you can, if you are a Qualifying Non-CREST Shareholder or Qualifying CREST Shareholder, instead sell or transfer your rights (called Nil Paid Rights) to acquire

those New Ordinary Shares and receive the net proceeds, if any, of that sale or transfer in cash (subject to a *de minimis* of £5.00). This is referred to as dealing “nil paid”. This means that, during the Rights Issue offer period (i.e., between 8.00 a.m. on 8 July 2025 and 11.00 a.m. on 22 July 2025) you can, subject to demand and market conditions, trade in the Nil Paid Rights (if applicable). You can also trade Ordinary Shares (which will not carry any entitlement to participate in the Rights Issue).

**1.4 Can I sell some rights and use the proceeds to take up my remaining rights?**

This is known as a Cashless Take-up or “tail-swallowing”. If applicable, you should contact your stockbroker or financial adviser who may be able to help if you wish to do this.

Alternatively, if you are an individual Qualifying Non-CREST Shareholder aged 18 or over (in the case of natural persons), who is resident in the UK, Channel Islands or the Isle of Man (or any other country confirmed by MUFG Corporate Markets in writing provided that you have requested at your own exclusive initiative that the Special Dealing Service be provided to you), you can use the Special Dealing Service (see paragraph 2.4(E) (*If you want to use the Special Dealing Service operated by MUFG Corporate Markets*) of this Part IX (*Questions and Answers regarding the Rights Issue*) below).

Please note that your ability to sell your rights is dependent on demand for such rights and that the price for Nil Paid Rights may fluctuate. Please also ensure that you allow enough time so as to enable the person acquiring your rights to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 22 July 2025.

**1.5 Can I change my decision to take up my rights?**

Once you have returned your Provisional Allotment Letter, you cannot withdraw your application or change the number of New Ordinary Shares for which you have applied, except in the very limited circumstances set out at paragraph 5.2 of Part VIII (*Terms and Conditions of the Rights Issue*) of this document.

**2. ORDINARY SHARES IN CERTIFICATED FORM**

**2.1 I hold my Ordinary Shares in certificated form. How do I know if I am eligible to participate in the Rights Issue?**

If you receive a Provisional Allotment Letter and are not a Shareholder with a registered address in, subject to certain exceptions, any of the Excluded Territories, then you should be eligible to subscribe for New Ordinary Shares under the Rights Issue (as long as you have not sold all of your Ordinary Shares before 8.00 a.m. on 8 July 2025 (the time when the Ordinary Shares are expected to be marked “ex-rights” by the London Stock Exchange)). However, if you receive a Provisional Allotment Letter and you have a registered address in, or are a person resident or domiciled in, or a citizen of, a country other than the United Kingdom, you must satisfy yourself as to the full observance of the applicable laws of such territory including observing any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territories. Receipt of this document or a Provisional Allotment Letter does not constitute an offer in those jurisdictions in which it would be illegal to make an offer. Overseas Shareholders should refer to paragraph 7 of Part VIII (*Terms and Conditions of the Rights Issue*) of this document.

If you do not receive a Provisional Allotment Letter, and you do not hold your shares in CREST, this probably means you are not eligible to acquire any New Ordinary Shares. However, see Question 2.5 “*I acquired my Ordinary Shares prior to the Record Date and hold my Existing Ordinary Shares in certificated form. What if I do not receive a Provisional Allotment Letter?*” below.

**2.2 How many New Ordinary Shares will I be entitled to acquire?**

Box 2 on the Provisional Allotment Letter shows the number of New Ordinary Shares you will be entitled to acquire. You will be entitled to acquire at the Issue Price 10 New Ordinary Shares for every 19 Existing Ordinary Shares you hold at 6.00 p.m. on the Record Date. All Qualifying Non-CREST Shareholders (other than Shareholders with a registered address in,

subject to certain exceptions, any of the Excluded Territories) will be sent a Provisional Allotment Letter.

**2.3 I hold my Ordinary Shares in certificated form. What do I need to do in relation to the Rights Issue?**

If you hold your Ordinary Shares in certificated form and are not ineligible to participate in the Rights Issue (because you do not hold enough Existing Ordinary Shares on the Record Date) and do not have a registered address in, subject to certain exceptions, any of the Excluded Territories, you will be sent a Provisional Allotment Letter that show: (a) in Box 1, how many Existing Ordinary Shares you held at 6.00 p.m. on the Record Date; (b) in Box 2, how many New Ordinary Shares you are entitled to acquire pursuant to the Rights Issue; and (c) in Box 3, how much you need to pay if you want to take up all of your rights to subscribe for all the New Ordinary Shares provisionally allotted to you in full. Paragraph 2.4 (*I am a Qualifying Shareholder with a registered address in the United Kingdom and I hold my Ordinary Shares in certificated form. What are my options and what should I do with the Provisional Allotment Letter?*) of this Part IX (*Questions and Answers regarding the Rights Issue*) below gives more details regarding the choices available to you.

If you are ineligible to participate in the Rights Issue because you do not hold enough Existing Ordinary Shares on the Record Date or have a registered address in, subject to certain exceptions, any of the Excluded Territories, you will not receive a Provisional Allotment Letter. Please refer to paragraph 4.6 (*What should I do if I live outside the United Kingdom?*) of this Part IX (*Questions and Answers regarding the Rights Issue*) below.

**2.4 I am a Qualifying Shareholder with a registered address in the United Kingdom and I hold my Ordinary Shares in certificated form. What are my options and what should I do with the Provisional Allotment Letter?**

**(A) If you want to take up all of your rights**

If you want to take up all of your rights to acquire the New Ordinary Shares to which you are entitled, you must send the completed Provisional Allotment Letter, together with your cheque or banker's draft in pounds sterling made payable to "MUFG Corporate Markets Limited re Chesnara plc Rights Issue" and crossed "A/C payee only" for the amount shown in Box 3 of the Provisional Allotment Letter and write your Allotment Number and surname on the reverse of the cheque or banker's draft, by post or by hand (during normal business hours only) to MUFG Corporate Markets, Corporate Actions, Central Square, 29 Wellington Street, Leeds, LS1 4DL to be received by 11.00 a.m. on 22 July 2025. You do not need to sign the Provisional Allotment Letter. Within the United Kingdom only, you can use the reply-paid envelope provided with the Provisional Allotment Letter. Please allow sufficient time for delivery. Full instructions are set out in Part VIII (*Terms and Conditions of the Rights Issue*) of this document and in the Provisional Allotment Letter.

Please note third-party cheques will not be accepted other than building society cheques or banker's drafts.

If payment is made by building society cheque (not being drawn on an account of the person lodging the Provisional Allotment Letter, the "**applicant**") or a banker's draft, the building society or bank must endorse on the cheque or draft the applicant's name and the number of an account held in the applicant's name at the building society or bank, such endorsement being validated by a stamp and an authorised signature.

If you hold your shares in certificated form, a definitive share certificate will then be sent to you in respect of the New Ordinary Shares that you take up. Your definitive share certificate for the New Ordinary Shares is expected to be despatched to you by no later than 4 August 2025. You will need your Provisional Allotment Letter to be returned to you if you want to deal in your Fully Paid Rights. Your Provisional Allotment Letter will not be returned to you unless you tick Box E on page 4 of the Provisional Allotment Letter.

**(B) If you do not want to take up your rights at all**

If you do not want to take up any of your rights, you do not need to do anything. If you do not take up your rights, the number of Ordinary Shares you hold in the Company will remain the same, but the proportion you hold of the total number of Ordinary Shares in the



Company will be lower than the proportion you currently hold. If you do not accept your entitlement to the New Ordinary Shares by returning your Provisional Allotment Letter subscribing for the New Ordinary Shares to which you are entitled by 11.00 a.m. on 22 July 2025, the Company has made arrangements under which the Joint Bookrunners will try to find investors to take up your rights and the rights of others who have not taken them up. If the Joint Bookrunners do find investors who agree to pay a premium above the Issue Price and the related expenses of procuring those investors (including any applicable brokerage fees and commissions and amounts in respect of related VAT), you will be sent a cheque for your share of the amount of that premium provided that this is £5.00 or more. Cheques are expected to be despatched to certificated shareholders by no later than 4 August 2025. Cheques will be sent to your address appearing on the register of members of the Company (or to the first-named holder if you hold your Ordinary Shares jointly). If the Joint Bookrunners cannot find investors who agree to pay a premium over the Issue Price such that your entitlement would be £5.00 or more, you will not receive any payment and any amounts of less than £5.00 will be aggregated and will accrue for the benefit of the Company.

Alternatively and if applicable to your holding, if you do not want to take up your rights, you can sell or transfer your Nil Paid Rights (see paragraph 2.4(D) *(If you want to sell all of your rights)* of this Part IX *(Questions and Answers regarding the Rights Issue)* below).

**(C) If you want to take up some but not all of your rights**

If you wish to take up some, but not all, of your rights (but not transfer some, or all, of those you do not wish to take up), you can complete Box B in Part 1 on page 1 of the Provisional Allotment Letter making sure that you complete the boxes in that section stating the number of New Ordinary Shares you wish to acquire and the amount payable (at 176 pence per New Ordinary Share). You should return the Provisional Allotment Letter with a cheque or banker's draft in pounds sterling, made payable to "MUFG Corporate Markets Limited re Chesnara plc Rights Issue" and crossed "A/C payee only" for the amount payable and write your Allotment Number and surname on the reverse of the cheque or banker's draft, by post or by hand (during normal business hours only) to MUFG Corporate Markets, Corporate Actions, Central Square, 29 Wellington Street, Leeds, LS1 4DL to be received by 11.00 a.m. on 22 July 2025. You do not need to sign the Provisional Allotment Letter.

If you hold your shares in certificated form and wish to take up some, but not all, of your rights and to transfer some, or all, of those you do not wish to take up, or you wish to transfer all of the Nil Paid Rights or Fully Paid Rights (if applicable), but to different persons, you should first apply to have your Provisional Allotment Letter split by completing and signing Form X on page 4 of your Provisional Allotment Letter, and returning it by post or by hand (during normal business hours only) to MUFG Corporate Markets, Corporate Actions, Central Square, 29 Wellington Street, Leeds, LS1 4DL, so as to be received by 3.00 p.m. on 18 July 2025, together with a covering letter stating the number of split Provisional Allotment Letters required and the number of Nil Paid Rights to be comprised in each split Provisional Allotment Letter. You (or your stockbroker, bank or other authorised independent financial adviser) will receive the relevant number of split Provisional Allotment Letters in relation to the Nil Paid Rights to be sold. You should send the Provisional Allotment Letters representing the Nil Paid Rights you wish to sell to the new owner (or their broker). You should then deliver the split Provisional Allotment Letter representing the New Ordinary Shares that you wish to accept together with your cheque or banker's draft by post or by hand (during normal business hours only) to MUFG Corporate Markets, Corporate Actions, Central Square, 29 Wellington Street, Leeds, LS1 4DL to be received by 11.00 a.m. on 22 July 2025 (see paragraph 2.4(A) *(If you want to take up all of your rights)* of this Part IX *(Questions and Answers regarding the Rights Issue)* above).

Further details are set out in Part VIII *(Terms and Conditions of the Rights Issue)* of this document and will be set out in the Provisional Allotment Letter.

Alternatively, if you are an individual certificated shareholder aged 18 or over (in the case of natural persons), who is resident in the UK, Channel Islands or the Isle of Man (or any other country confirmed by MUFG Corporate Markets in writing provided that you have requested at your own exclusive initiative that the Special Dealing Service be provided to you), you can



use the Special Dealing Service to sell some rights and use the proceeds to take up your remaining rights, as further detailed in paragraph 2.4(E) (*If you want to use the Special Dealing Service operated by MUFG Corporate Markets*) of this Part IX (*Questions and Answers regarding the Rights Issue*) below.

**(D) If you want to sell all of your rights**

If you are a certificated shareholder and want to sell all of your rights outside of the Special Dealing Service (see below), you should complete and sign Form X on the Provisional Allotment Letter (if it is not already marked “Original Duly Renounced”) and pass the entire letter to your stockbroker, bank manager or other appropriate financial adviser or to the transferee (provided they do not have registered addresses or reside in, subject to certain exceptions, any of the Excluded Territories). Please note that your ability to sell your rights is dependent on demand for such rights and that the price for Nil Paid Rights may fluctuate.

Please ensure that you allow enough time so as to enable the person acquiring your rights to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 22 July 2025.

If you are an individual certificated Shareholder aged 18 or over (in the case of natural persons), who is resident in the UK, Channel Islands or the Isle of Man (or any other country confirmed by MUFG Corporate Markets in writing provided that you have requested at your own exclusive initiative that the Special Dealing Service be provided to you), you can use the Special Dealing Service to sell all of your rights. See paragraph 2.4(E) (*If you want to use the Special Dealing Service operated by MUFG Corporate Markets*) of this Part IX (*Questions and Answers regarding the Rights Issue*) below which explains how you can do this by using your Provisional Allotment Letter.

**(E) If you want to use the Special Dealing Service operated by MUFG Corporate Markets**

If you are an individual Qualifying Non-CREST Shareholder aged 18 or over (in the case of natural persons), who is resident in the UK, Channel Islands or the Isle of Man (or any other country confirmed by MUFG Corporate Markets in writing provided that you have requested at your own exclusive initiative that the Special Dealing Service be provided to you), you can use the Special Dealing Service to either: (i) sell all of your Nil Paid Rights; or (ii) sell a sufficient number of Nil Paid Rights to raise money to take up the remainder of your rights (that is, effect a Cashless Take-up).

If you want to use the Special Dealing Service to sell all of your Nil Paid Rights, you can tick Box C in Part 2A on page 1 of your Provisional Allotment Letter and complete, sign and date Part 2B on page 1, and in each case return it by post or by hand (during normal business hours only) to MUFG Corporate Markets, Corporate Actions, Central Square, 29 Wellington Street, Leeds, LS1 4DL, so as to be received by 11.00 a.m. on 16 July 2025.

If you want to use the Special Dealing Service to sell sufficient rights represented by your Provisional Allotment Letter to enable you to take up your remaining entitlements (i.e. effect a Cashless Take-up), you can tick Box D in Part 2A on page 1 of your Provisional Allotment Letter and complete, sign and date Part 2B on page 1, and in each case return it by post or by hand (during normal business hours only) to MUFG Corporate Markets, Corporate Actions, Central Square, 29 Wellington Street, Leeds, LS1 4DL, so as to be received by 11.00 a.m. on 16 July 2025.

**If you elect to use the Special Dealing Service to sell all of your Nil Paid Rights or to effect a Cashless Take-up, you will be required to provide the following personal details in respect of the holder of the Provisional Allotment Letter in Part 2B of the Provisional Allotment Letter: (i) full name; (ii) nationality; (iii) national client identifier or LEI (if your Ordinary Shares are registered in a corporate name); and (iv) date of birth.**

**Additionally, all Shareholders named in the Provisional Allotment Letter must sign it. Failure to do so will cause MUFG Corporate Markets to reject your instructions.**

If you do not have a national client identifier or LEI (if your Ordinary Shares are registered in a corporate name), please include “N/A” in respect of this information so that MUFG

Corporate Markets can generate an ID for you where possible. Without this information, MUFG Corporate Markets may not be able to carry out your instructions.

MUFG Corporate Markets will charge a commission of 1% of the gross proceeds of any sale of Nil Paid Rights effected using the Special Dealing Service, subject to a minimum of £15 per holding. Due to the minimum charge, the Special Dealing Service may not be cost effective for all Qualifying Non-CREST Shareholders. For example, in relation to Qualifying Non-CREST Shareholders selling a small holding, it is possible that in certain circumstances the administration charge may be more than the value of the sale proceeds.

You should be aware that by electing to use the Special Dealing Service, you will be deemed to be agreeing to the Special Dealing Service Terms and Conditions and make a legally binding agreement with MUFG Corporate Markets on those terms. The Special Dealing Service Terms and Conditions will be posted to you together with the Provisional Allotment Letter if you hold your Ordinary Shares in certificated form. For the avoidance of doubt, the Company accepts (and it is a term of the Rights Issue that it shall have) no responsibility or liability whatsoever to shareholders for or in respect of the Special Dealing Service operated by MUFG Corporate Markets and, to the fullest extent permitted by law, disclaims any duty, liability or responsibility whatsoever (whether direct or indirect and whether arising in contract, tort, under statute or otherwise) in respect of such service or its operation.

**2.5 I acquired my Ordinary Shares prior to the Record Date and hold my Existing Ordinary Shares in certificated form. What if I do not receive a Provisional Allotment Letter?**

If you do not receive a Provisional Allotment Letter but hold your Existing Ordinary Shares in certificated form, this probably means that you are not eligible to take up New Ordinary Shares under the Rights Issue. Some Qualifying Non-CREST Shareholders, however, will not receive a Provisional Allotment Letter but may still be eligible to subscribe for New Ordinary Shares under the Rights Issue, namely:

- Qualifying CREST Shareholders who held their Existing Ordinary Shares in uncertificated form on the Record Date and who have converted them to certificated form;
- Shareholders who bought Existing Ordinary Shares before the Ex-Rights Date and who hold such Ordinary Shares in certificated form but were not registered as the holders of those Ordinary Shares at the close of business on the Record Date; and
- certain Overseas Shareholders who can prove that the offer under the Rights Issue can lawfully be made to them without contravention of any relevant legal requirements.

If you do not receive a Provisional Allotment Letter but think that you should have received one (or should have received additional Provisional Allotment Letter(s), in respect of other holdings), please call the MUFG Corporate Markets shareholder helpline between 9.00 a.m. and 5.30 p.m. Monday to Friday (excluding United Kingdom public holidays) on 0371 664 0321 (calls to this number are charged at the standard national rate and will vary by provider) or on +44(0)371 664 0321 from outside the United Kingdom (charged at the applicable international rate). Please note that calls may be monitored or recorded and the helpline cannot provide financial, legal or tax advice or advice on the merits of the Rights Issue.

**2.6 I hold my Ordinary Shares in certificated form. If I take up my rights, when will I receive the certificate representing my New Ordinary Shares?**

If you take up your rights under the Rights Issue, share certificates for the New Ordinary Shares are expected to be posted by no later than 4 August 2025.

**2.7 I hold my Ordinary Shares in certificated form. What if I want to sell the New Ordinary Shares for which I have paid?**

If you hold your shares in certificated form, provided the New Ordinary Shares have been paid for and you have requested the return of the receipted Provisional Allotment Letter by completing Box E on the Provisional Allotment Letter, you can transfer the Fully Paid Rights by completing and signing Form X (the form of renunciation) on the receipted Provisional Allotment Letter in accordance with the instructions set out in the Provisional Allotment Letter

until 11.00 a.m. on 22 July 2025. After that time, you will be able to sell your New Ordinary Shares in the normal way. The share certificate relating to your New Ordinary Shares is expected to be despatched to you by no later than 4 August 2025. Pending despatch of the definitive share certificates, instruments of transfer of the New Ordinary Shares will be certified by the Registrar against the register.

Further details are set out in Part VIII (*Terms and Conditions of the Rights Issue*) of this document.

## **2.8 How do I transfer my rights into the CREST system?**

If you are a Qualifying Non-CREST Shareholder, but are a CREST member and want your New Ordinary Shares to be in uncertificated form, you should complete Form X and the CREST Deposit Form (both on page 4 of the Provisional Allotment Letter). Further details on how to deposit Nil Paid Rights or Fully Paid Rights into CREST are set out further in paragraph 3.10 (*Deposit of Nil Paid Rights or Fully Paid Rights into CREST*) of Part VIII (*Terms and Conditions of the Rights Issue*) of this document and in the Provisional Allotment Letter. If you have transferred your rights into the CREST system, you should refer to paragraph 4 (*Action to be taken by Qualifying CREST Shareholders in relation to Nil Paid Rights or Fully Paid Rights in CREST*) of Part VIII (*Terms and Conditions of the Rights Issue*) of this document for details on how to pay for the New Ordinary Shares.

## **3. ORDINARY SHARES IN CREST**

### **3.1 I hold my Ordinary Shares in CREST. How do I know if I am eligible to participate in the Rights Issue?**

If you are a Qualifying CREST Shareholder (save as mentioned below in this paragraph), and on the assumption that the Rights Issue proceeds as planned, your CREST stock account will be credited with your entitlement to Nil Paid Rights as soon as possible after 8.00 a.m. on 8 July 2025. The stock account to be credited will be the account under the participant ID and member account ID that apply to your Ordinary Shares at close of business on the Record Date. The Nil Paid Rights and the Fully Paid Rights are expected to be enabled after 8.00 a.m. on 8 July 2025. If you are a CREST sponsored member, you should consult your CREST sponsor if you wish to check that your account has been credited with your entitlement to Nil Paid Rights. The CREST stock accounts of Excluded Shareholders will not be credited with Nil Paid Rights. Excluded Shareholders should refer to paragraph 7 (*Overseas Shareholders*) of Part VIII (*Terms and Conditions of the Rights Issue*) of this document.

### **3.2 How many New Ordinary Shares will I be entitled to acquire?**

If you are eligible to subscribe for New Ordinary Shares in the Rights Issue, your stock account will be credited with Nil Paid Rights in respect of the number of New Ordinary Shares which you are entitled to acquire, and you will be entitled to 10 New Ordinary Shares for every 19 Existing Ordinary Shares you held at 6.00 p.m. on the Record Date. You can also view the claim transactions in respect of purchases/sales effected after this date, but before the Ex-Rights Date. If you are a CREST sponsored member, you should contact your CREST sponsor.

### **3.3 How do I take up my rights using CREST?**

If you are a Qualifying CREST Shareholder and wish to take up and pay for your rights, you should refer to the instructions set out in Part VIII (*Terms and Conditions of the Rights Issue*) of this document.

If you are a CREST member, you should ensure that an MTM instruction has been inputted and has settled by 11.00 a.m. on 22 July 2025 in order to make a valid acceptance. If your Ordinary Shares are held by a nominee or you are a CREST sponsored member, you should speak directly to the agent who looks after your stock or your CREST sponsor (as appropriate) who will be able to help. If you have further questions, particularly of a technical nature regarding acceptance through CREST, you should call the CREST Service Desk on 0845 964 5648 (or +44(0)20 7849 0199 if you are calling from outside the United Kingdom).

**3.4 If I take up my rights, when will New Ordinary Shares be credited to my CREST account(s)?**

If you take up your rights under the Rights Issue, it is expected that New Ordinary Shares will be credited to the CREST stock account in which you hold your Fully Paid Rights as soon as possible after 8.00 a.m. on 23 July 2025.

**4. FURTHER PROCEDURES FOR ORDINARY SHARES**

**4.1 If I purchase Ordinary Shares after the Record Date, will I be eligible to participate in the Rights Issue?**

If you bought Ordinary Shares after close of business on the Record Date but prior to 8.00 a.m. on 8 July 2025 (the time when the Ordinary Shares are expected to start trading ex-rights on the London Stock Exchange), you may be eligible to participate in the Rights Issue. If you are in any doubt, please consult your stockbroker, bank manager or other appropriate financial adviser, or whoever arranged your share purchase, to ensure you claim your entitlement.

If you purchase Ordinary Shares at or after 8.00 a.m. on 8 July 2025, you will not be eligible to participate in the Rights Issue in respect of those shares.

**4.2 What should I do if I sell or transfer all or some of my Ordinary Shares before 8.00 a.m. on 8 July 2025 (the Ex-Rights Date)?**

If you hold Ordinary Shares in certificated form and you sell or otherwise transfer, or have sold or otherwise transferred, all of your existing Ordinary Shares (other than ex-rights) before 8.00 a.m. on 8 July 2025 (being the Ex-Rights Date) please send this document together with any Provisional Allotment Letter, if and when received, as soon as possible to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee. However, these documents must not be forwarded, distributed or transmitted in or into or from any jurisdiction where to do so would violate the laws of that jurisdiction.

If you hold Ordinary Shares in certificated form and you sell or otherwise transfer, or have sold or otherwise transferred, only part of your holding of existing Ordinary Shares (other than ex-rights) before the Ex-Rights Date, you should refer to the instruction regarding split applications in Part VIII (*Terms and Conditions of the Rights Issue*) of this document and in the Provisional Allotment Letter.

If you hold Ordinary Shares in uncertificated form and you sell or have sold or have otherwise transferred all or some of your existing Ordinary Shares (other than ex-rights) before the Ex-Rights Date, you do not have to take any action. A claim transaction will automatically be generated by Euroclear which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee.

**4.3 What if the number of New Ordinary Shares to which I am entitled is not a whole number: am I entitled to fractions of New Ordinary Shares?**

Your entitlement to New Ordinary Shares will be calculated at 6.00 p.m. on the Record Date (other than in the case of those who bought shares after the Record Date but prior to 8.00 a.m. on 8 July 2025 who may be eligible to participate in the Rights Issue). If the result is not a whole number, you will not receive a New Ordinary Share in respect of the fraction of a New Ordinary Share and your entitlement will be rounded down to the nearest whole number.

Any fractional entitlements to New Ordinary Shares which arise will be aggregated into whole New Ordinary Shares and sold in the market on behalf of the relevant Shareholders. The total proceeds of the sale (net of related expenses (including any applicable brokerage fees and commissions and amounts in respect of related VAT)) will be paid in due proportion to each of the relevant Shareholders. Any proceeds of sale (net of related expenses (including any applicable brokerage fees and commissions and amounts in respect of related VAT)) due to each of the relevant Shareholder(s) of less than £5.00 will be aggregated and will accrue for the benefit of the Company.



#### **4.4 Will I be taxed if I take up or sell my rights or if my rights are sold on my behalf?**

The following comments are by way of general guidance, and are subject to the same caveats and qualifications as set out in Part XVI (*United Kingdom Taxation*) of this document, and accordingly assume, amongst other things, that you hold your Ordinary Shares as an investment.

If you are resident in the United Kingdom for tax purposes, you should not have to pay United Kingdom tax when you take up your rights, although the Rights Issue will affect the amount of United Kingdom tax you may pay when you subsequently sell any or all of your Ordinary Shares. However, you may (subject to any available exemption, allowance or relief) be subject to capital gains tax or corporation tax on any proceeds that you receive from the sale of your rights (unless, generally, in the case of a non-corporate shareholder, the proceeds do not exceed £3,000 or, if higher, 5% of the market value of your Ordinary Shares on the date of sale, although in that case the amount of United Kingdom tax you may pay when you subsequently sell all or any of your Ordinary Shares may be affected).

Further information on taxation in the United Kingdom with regard to the Rights Issue and the holding of New Ordinary Shares is contained in Part XVI (*United Kingdom Taxation*) of this document. Qualifying Shareholders who are in any doubt as to their tax position, or who are subject to tax in any other jurisdiction, should consult an appropriate professional adviser as soon as possible. Please note that the Shareholder Helpline will not be able to assist you with taxation issues.

#### **4.5 What if I hold options and awards under the Share-Based Incentive Plans?**

Participants in the Share-Based Incentive Plans will be contacted separately with further information on how their options and awards granted under the Share-Based Incentive Plans may be affected by the Rights Issue.

#### **4.6 What should I do if I live outside the United Kingdom?**

While you have an entitlement to participate in the Rights Issue, your ability to take up rights to New Ordinary Shares may be affected by the laws of the country in which you live, and you should take professional advice as to whether you require any governmental or other consents or need to observe any other formalities to enable you to take up your rights. Shareholders residing outside the United Kingdom should refer to paragraph 7 (*Overseas Shareholders*) of Part VIII (*Terms and Conditions of the Rights Issue*).

If as a result of the laws of certain jurisdictions you are unable to participate in the Rights Issue, the proportion you hold of the total number of Ordinary Shares in the Company will be lower than the proportion you currently hold. The Company has made arrangements under which the Joint Bookrunners will try to find investors to take up your rights alongside those of others who have not taken up their rights. If the Joint Bookrunners do find investors who agree to pay a premium above the Issue Price and the related expenses of procuring those investors (including any applicable brokerage fees and commissions and amounts in respect of related VAT), you will be sent a cheque for your share of the amount of that premium, provided that this is £5.00 or more. Cheques are expected to be despatched to certificated shareholders no later than 4 August 2025. Cheques will be sent to your address appearing on the register of members of the Company (or to the first-named holder if you hold your Ordinary Shares jointly) and, in the case of bank account payments, to the bank account information notified to the relevant nominee/MUFG Corporate Markets. If the Joint Bookrunners cannot find investors who agree to pay a premium over the Issue Price and related expenses, such that your entitlement would be £5.00 or more, you will not receive any payment and any amounts of less than £5.00 will be aggregated and will accrue for the benefit of the Company.

#### **4.7 What should I do if I think my holding of Ordinary Shares is incorrect?**

If you are concerned about the figure in the relevant Provisional Allotment Letter(s) or otherwise concerned that your holding of Ordinary Shares is incorrect, please call the MUFG Corporate Markets shareholder helpline between 9.00 a.m. and 5.30 p.m. Monday to Friday (excluding United Kingdom public holidays) on 0371 664 0321 (calls to this number are charged at the standard national rate and will vary by provider) or on +44(0)371 664 0321



from outside the United Kingdom (charged at the applicable international rate). Please note that calls may be monitored or recorded and the helpline cannot provide financial, legal or tax advice or advice on the merits of the Rights Issue.

## PART X

### INFORMATION ON CHESNARA PLC

*The following information should be read in conjunction with the information appearing elsewhere in, or incorporated by reference in, this document, including the financial and other information incorporated by reference in “Documents Incorporated by Reference”.*

#### 1. INTRODUCTION

Chesnara is a specialist life assurance and pension fund consolidation group with businesses in the UK, the Netherlands and Sweden.

The Chesnara Group's primary focus is on closed life and pensions books through its consolidation businesses in the UK and the Netherlands and the Chesnara Group also operates open life and pensions businesses where these are value enhancing, including through platforms in the UK, the Netherlands and Sweden. The Company seeks to create further value and sustain its approach to dividends by acquiring new companies or books of business. Its acquisition strategy primarily focuses on the territories in which it operates, though it will consider opportunities in other European countries where there is sufficient value and strategic and cultural fit.

The Company is the owner of Countrywide Assured, Movestic, Scildon and the Waard Group. Chesnara has been listed on the LSE's main market for listed securities since May 2004.

Chesnara operates predominantly through Countrywide Assured which was the key operating subsidiary at the time of the listing of Chesnara plc on the LSE in 2004. Countrywide Assured comprises a range of life insurance, pensions and savings products that are largely no longer actively marketed to customers and is therefore substantially “closed” to new business, with the exception of certain onshore bonds that continue to be written through third-party platforms. The focus of Countrywide Assured is to:

- 1) act as a consolidator of life and pensions books, predominantly those that are closed to new business. In this regard, the business has executed a number of closed-book acquisitions from City of Westminster Assurance, Save & Prosper and Direct Line Life. More recently, in 2022, Chesnara acquired Sanlam Life & Pensions UK Limited and in 2023 it agreed to acquire an individual protection portfolio from Colorado Life executed through a 100% reinsurance agreement and subsequent Part VII transfer on 23 February 2025. In late 2024, Chesnara reached an agreement with Canada Life to acquire a second, closed portfolio of unit linked bonds and legacy pension business, similarly 100% reinsured, which is expected to transfer to Chesnara at the end of 2025 (subject to the completion of a court-approved Part VII transfer);
- 2) deploy its specialist skills to efficiently and effectively manage in-force policies and customers' interests with the strategic objective of maximising value for shareholders from the existing business. This is achieved, in part, by outsourcing certain activities and closely monitoring the management of policies through a central UK based governance team. This outsourcing model creates a degree of cost variability which is vital to a largely closed-book business whose size is reducing naturally over time and is an approach that provides flexibility to support future acquisitions; and
- 3) apply its expertise in capital management, regulation and other key areas to support the Chesnara Group's overriding philosophy of “putting the customer first” and therefore achieve good outcomes for customers. This approach safeguards the financial future of customers and supports delivery of a service that meets their needs.

Chesnara has a range of growth opportunities and the Chesnara Group's strategy includes the disciplined acquisition of companies and portfolios, utilising a clear set of acquisition criteria to assess opportunities.

For the period ended 31 December 2024, the Chesnara Group achieved the following metrics:

- £60 million of Chesnara Group commercial cash generation;
- £531 million of EcV;
- 203% Group Solvency Coverage Ratio;

- £14 billion of funds under management; and
- 940,000 policies.

## 2. HISTORY AND DEVELOPMENT, OWNERSHIP AND ORGANISATIONAL STRUCTURE

### 2.1 History and development

Chesnara was incorporated on 29 October 2003 and its ordinary shares are listed on the London Stock Exchange. The Chesnara Group initially consisted of Countrywide Assured, a closed life and pensions book demerged from Chesnara plc, a large estate agency group. Since then, the Chesnara Group has grown through the acquisition of further closed UK businesses, both a closed-book group and an open life and pensions business in the Netherlands and an open life and pensions business in Sweden.

The below table provides a detailed summary of the key milestones since the Company was founded.

| Date    | Milestone                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|---------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2003/4  | <b>The Company is incorporated</b> – Chesnara estate agency group divested its life insurance business and this became the inaugural portfolio of the Chesnara Group with an opening European Embedded Value of the Chesnara Group which is valued in accordance with principles issued by the European Insurance CFO Forum (“ <b>Embedded Value</b> ”) of £126 million.                                                                                                                                                                                                      |
| 2005    | <b>The Company made its first acquisition</b> – City of Westminster Assurance, adding £30.3 million of Embedded Value to the Chesnara Group.                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 2009    | <b>The Company moved into Europe</b> with the acquisition of a Swedish business now called Movestic. The Chesnara Group’s Embedded Value reached £263 million. Unlike the UK operation, Movestic is open to new business which adds a further source of Embedded Value growth.                                                                                                                                                                                                                                                                                                |
| 2010    | <b>The acquisition of Save and Prosper</b> Group took the Chesnara Group’s assets under management to over £4 billion.                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 2013/14 | <b>Direct Line’s life assurance business was acquired</b> and by the end of 2014, total Chesnara Group Embedded Value had risen above £400 million.                                                                                                                                                                                                                                                                                                                                                                                                                           |
| 2015    | <b>Expansion into a new territory</b> with the acquisition of the Waard Group (“ <b>Waard</b> ”), a closed book in the Netherlands.                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| 2017    | <b>Building upon its entry to the Dutch market, the Company completed the acquisition of Legal &amp; General Nederland</b> , renamed “Scildon” at a 32% discount to its EcV of £202.5 million.                                                                                                                                                                                                                                                                                                                                                                                |
| 2019    | <b>Completion of the acquisition of a portfolio of 6,000 policies from Monuta Insurance</b> , under Waard.                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| 2020    | <b>Completion of the acquisition of 44,000 policies from the Dutch branch of Argenta Bank</b> , also under Waard.                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 2021    | Expansion in the Netherlands continued under Waard, with the <b>completion of the acquisition of a portfolio of policies from Brand New Day</b> .                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 2022    | On 28 April, the Chesnara Group <b>completed the acquisition of (i) Sanlam Life &amp; Pensions UK Limited in the UK</b> (renamed CASLP Ltd), for consideration of £39.0 million, adding £2.9 billion of assets under management and approximately 80,000 new policies; and <b>(ii) Robein Leven N.V in the Netherlands</b> for cash consideration of £13 million, furthering the delivery of the Chesnara Group’s strategy of acquiring value-enhancing books in the Netherlands. The Robein Leven business has been integrated into Waard, which is renamed Waard Leven N.V. |
| 2023    | On 1 January, the Chesnara Group completed the acquisition of <b>Nederlandsche Algemeene Maatschappij van Levensverzekering N.V.’s insurance portfolio in the Netherlands</b> (“ <b>Conservatrix Insurance Portfolio</b> ”) from bankruptcy. The Conservatrix Insurance Portfolio, consisting of approximately 70,000 policies, was migrated into Waard.                                                                                                                                                                                                                      |

- 2023** The Chesnara Group announced the agreement to **acquire Colorado Life's UK onshore individual protection line of business in May 2023**, comprising 47,000 term assurance and critical illness policies, which will transfer pursuant to a court-approved Part VII transfer.
- Also, in May, the Chesnara Group announced a long-term strategic partnership with SS&C for policy administration in the UK. The partnership with SS&C will enhance Chesnara's overall migration and integration capabilities whilst delivering cost-efficient policy administration for existing and future books of business for the long-term.
- 2024** The Chesnara Group announced the agreement to **acquire a closed portfolio of unit linked bonds and legacy pension business with approximately 17,000 policies and total assets under management of £1.5 billion as at 31 December 2023**, which will transfer pursuant to a court-approved Part VII transfer.
- 2025** The Chesnara Group announced the Acquisition.

## 2.2 Overview of key principal activities

The Chesnara Group manages itself on a geographical basis. It has three key operating segments, being:

- the UK
- the Netherlands; and
- Sweden.

### 2.2.1 UK

The UK division principally consists of the insurance company, Countrywide Assured. Countrywide Assured manages approximately 290,000 policies covering linked pension business, life insurance, endowments, annuities and some with-profit business, and is largely closed to new business. Countrywide Assured uses outsourcing partners to support a large part of its operating model, with functions such as customer services, investment management and accounting and actuarial services being outsourced. A central governance team is responsible for managing all outsourced operations.

As a largely closed book, the division creates value and surplus capital through managing the following key value drivers: costs; policy attrition; investment return; and capital management actions, including reinsurance. The division also generates future value through a small amount of new business, increments to existing policies and periodic acquisitions.

In general, surplus regulatory capital emerges as the book runs off. The level of required capital is closely linked to the level of risk to which the division is exposed. Management's risk-based decision-making process seeks continually to manage and monitor the balance of making value enhancing decisions whilst maintaining a risk profile in line with the Board's risk appetite.

#### Key metrics as at 31 December 2024:

- Solvency II:
  - (i) Own Funds: £130 million
  - (ii) Solvency Capital Requirement ("SCR"): £97 million
  - (iii) Surplus: £15 million
  - (iv) Solvency Coverage Ratio (post dividend): 135%
- EcV: £187 million
- Assets Under Administration: £6 billion
- No. of policies: approximately 290,000

### 2.2.2 Netherlands

The Chesnara Group's Dutch division has two business units: Waard and Scildon. Both Waard and Scildon have a common aim to make capital available to the Chesnara Group to fund further acquisitions or to contribute to dividends.

**Waard:** This is the division's closed book business. It is also the Chesnara Group's Dutch acquisition vehicle and supports the Chesnara Group's aim of further consolidation in the Netherlands. The division generates value and capital through a combination of running efficient operations, optimising investment management and capital management initiatives. Waard managed approximately 128,000 policies.

**Scildon:** Scildon is an "open" business and aims to add value and create surplus capital by writing "new" business and by efficient operational management and capital optimisation.

Scildon sells protection, individual savings and group pensions contracts via a broker-led distribution model. Its aim is to deliver meaningful value growth from realistic market share. Having realistic aspirations regarding volumes means the Chesnara Group is able to adopt a profitable pricing strategy. New business also helps the business maintain scale and hence contributes to unit cost management. Scildon manages approximately 240,000 policies.

#### Key metrics as at 31 December 2024:

- Solvency II:

##### **Scildon**

- Own Funds: £140 million
- SCR: £68 million
- Surplus: £20 million
- Solvency Coverage Ratio: 205%

##### **Waard**

- Own Funds: £82 million
- SCR: £25 million
- Surplus: £48 million
- Solvency Coverage Ratio: 324%
- EcV: £252 million
- Assets Under Administration: £3 billion
- No. of policies: approximately 370,000

### 2.2.3 Sweden

Movestic is a life and pensions business based in Sweden managing approximately 280,000 policies and is open to new business. From its Stockholm base, Movestic operates as an innovative brand in the Swedish life insurance market. It offers personalised unit-linked pension and savings solutions through brokers together with custodian products via a number of private banks and is well-regarded within both communities.

Movestic creates value predominantly by generating growth in the unit-linked Funds Under Management, whilst assuring a high-quality customer proposition and maintaining an efficient operating model. Funds Under Management growth is dependent upon positive client cash flows and positive investment performance. Capital surplus is a factor of both the company's value and capital requirements and hence surplus can also be optimised by effective management of capital.



As an “open” business, Movestic not only adds value from sales but as it gains scale, it aims to become increasingly cash generative which should fund further growth or contribute towards the Chesnara Group’s approach to dividends. Movestic has a clear sales focus towards the advised occupational pension market and is also growing its Custodian business.

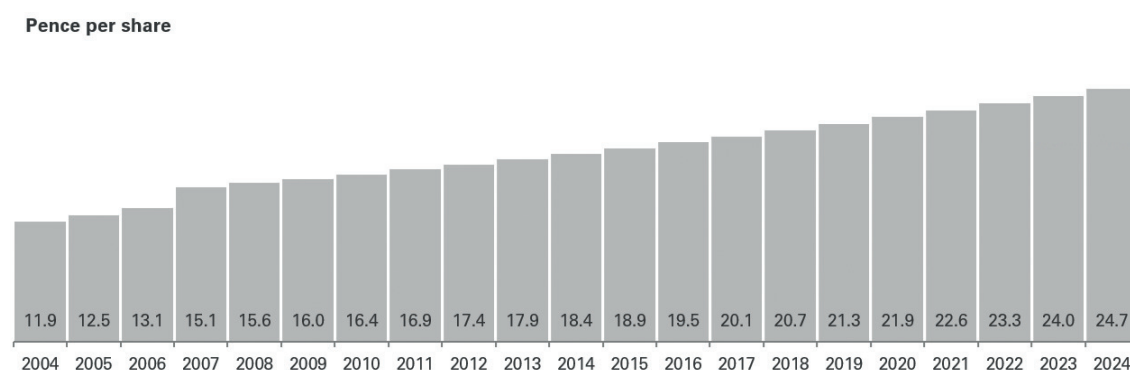
#### Key metrics as at 31 December 2024:

- Solvency II:
  - (i) Own Funds: £184 million
  - (ii) SCR: £122 million
  - (iii) Surplus: £37 million
  - (iv) Solvency Coverage Ratio: 151%
- EcV: £199 million
- Assets Under Administration: £5 billion
- No. of policies: approximately 280,000

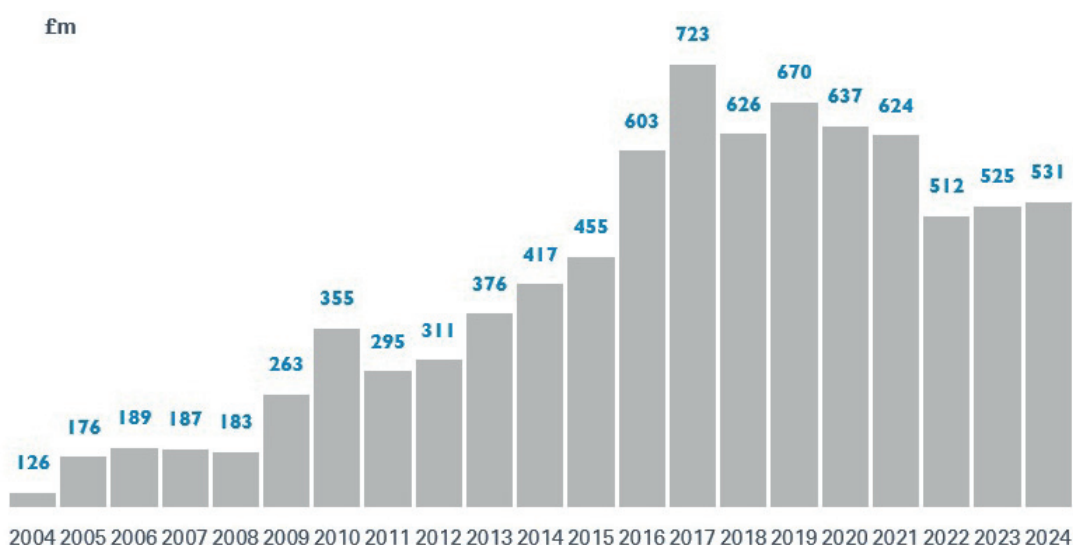
### 3. DIVIDEND AND ECONOMIC VALUE GROWTH

The Chesnara Group has a strong track record of delivering value growth and dividends to its shareholders, showing the strength of its business model. This can be summarised by the following charts:

Dividends per share history (pence per share)



EcV History (£m)



#### 4. STRATEGY

The Chesnara Group has three core strategic objectives:

| No. | Strategic objective                           | Description                                                                                                                     | Why it matters                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-----|-----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1   | Maximise the value from existing business     | Managing our existing customers efficiently, whilst delivering good outcomes, is core to delivering our overall strategic aims. | The existing books of policies are the principal source of cash generation and EcV and are at the heart of the investment case for the Shareholders and debtholders.                                                                                                                                                                                                                                                                 |
| 2   | Acquire life and pension businesses           | Acquiring and integrating companies into our business model is key to continuing our growth journey.                            | Well considered and appropriately priced acquisitions maintain the effectiveness of the operating model, create a source of value enhancement and sustain the longer-term cash generation potential of the Chesnara Group.                                                                                                                                                                                                           |
| 3   | Enhance value through profitable new business | Writing profitable new business supports the growth of the Chesnara Group and helps mitigate the natural run-off of our book.   | A primary focus of the Chesnara Group's operations is to ensure it manages our existing policy base in an efficient and compliant manner. In addition, the Chesnara financial model supports incremental value generation through writing profitable new business. New business profits are a welcome source of regular value growth which supplements the growth delivered from our existing policy base and periodic acquisitions. |

#### 4.1 Summary of recent results

The Chesnara Group's most recent reported results are for FY24. Below is a summary of the key financial metrics relating to these results.

##### Financial performance

|                                                      |                                                       | <b>2024</b> |
|------------------------------------------------------|-------------------------------------------------------|-------------|
| Dividends                                            | Dividends per share (p)                               | 24.7        |
| Cash                                                 | Chesnara Group commercial cash generation (£ million) | 60          |
| EcV earnings                                         | Economic value earnings (£ million)                   | 69          |
| International Financial Reporting Standards ("IFRS") | Profit before tax (£ million)                         | 21          |
| New business                                         | New business contribution (£ million)                 | 9           |

##### Financial position

|          |                                         | <b>2024</b> |
|----------|-----------------------------------------|-------------|
| Solvency | Solvency coverage ratio (%)             | 203         |
|          | Solvency surplus (£ million)            | 327         |
| EcV      | EcV per share (£ million)               | 3.52        |
|          | EcV (£ million)                         | 531         |
| Assets   | Assets under administration (£ billion) | 14          |
| Gearing  | Leverage ratio (%)                      | 30.9        |

#### 5. RECENT DEVELOPMENTS

The most recent set of results that have been published by the Chesnara Group are those for FY24. Since then, the following key developments have taken place:

- The merger of Scildon and Waard in the Netherlands has received portfolio transfer approval from the Dutch National Bank and completed on 2 July 2025.
- Subject to regulatory approval, Scildon has agreed to transfer its collective pension portfolio to Allianz. The transfer is expected to complete in quarter three of 2025.

## PART XI

### INFORMATION ON HSBC LIFE (UK)

Investors should read this Part XI (*Information on HSBC Life (UK)*) in conjunction with the information contained elsewhere in this document including Part II (*Risk Factors*) of this document. Where stated, financial information in this Part XI (*Information on HSBC Life (UK)*) of this document has been extracted from the audited consolidated financial statements of HSBC Life (UK) referred to in Part XIII (*Historical Financial Information of HSBC Life (UK)*) and set out in Appendix 1 (*HSBC Life (UK) Limited's Financial Statements together with the Audit Reports*) of this document.

#### 1. BUSINESS OVERVIEW

HSBC Life (UK) is a private limited company incorporated in England and Wales with registered number 00088695. The registered and head office of HSBC Life (UK) is at 8 Canada Square, London E14 5HQ. HSBC Life (UK)'s telephone number is +44 3457456125 and its website is <https://www.life.hsbc.co.uk>. The information contained on the website of HSBC Life (UK) does not form part of this document unless where expressly incorporated by reference.

HSBC Life (UK) is a specialist life protection and investment bond provider in the UK. HSBC Life (UK) operates both open and closed life assurance portfolios, with approximately 454,000 policies, of which approximately 440,000 are protection products. HSBC Life (UK) is the UK insurance arm of the HSBC Group. The HSBC Group is one of the world's largest banking and financial services organisations. The HSBC Group serves more than 40 million customers worldwide through a network that covers 64 countries and territories in its geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa.

HSBC Life (UK) is authorised by the PRA and regulated by the FCA and the PRA in the UK.

HSBC Life (UK)'s Financial Services Register number is 133435. HSBC Life (UK) is a member of the Association of British Insurers.

As at 31st December 2024, HSBC Life (UK) recorded a Pre-Tax Profit of £73.3 million in 2024, had £314 million of Eligible Solvency II Own Funds, a SCR of £210 million and Solvency Coverage Ratio of 149%. The business has low cross-border regulatory complexity given its single-country geographical focus.

Protection new business distributed via the bancassurance agreement with HSBC Bank (LifeChoices) is outside the transaction perimeter and will be terminated at Completion.

HSBC Life (UK) provides two key products: (i) an onshore investment bond ("OIB") and (ii) certain protection products (including life, critical illness and income protection). HSBC Life (UK) is the second largest operator in the UK OIB market and provides individual investors with access to approximately 4,000 funds from 200+ fund managers (including investment trusts, unit trusts and OEICs).

HSBC Life (UK) has three internally distributed protection products, which are exclusively sold in the UK. These include LifeChoices (individual protection products covering term assurance and critical illness), MyChoice (group protection products sold exclusively to HSBC Life (UK) group employees in the UK) and Premier 3.0 (newly launched individual protection product with approximately 900,000 customers).

HSBC Life (UK)'s internally distributed protection products are mostly managed on by HSBC's own legacy platform, whereas the OIB policies HLP policies and Premier 3.0 wealth sales are externally managed on a leading third party platform.

The HSBC Life (UK) business is currently led by Mark Hussein, who has acted as Chief Executive Officer since 2015. Douglas Clow is Chief Financial Officer and Jo Cooper is Chief Operating Officer. The business has its core operations in Bristol and Fareham.

The table below sets out the key performance indicators for the HSBC Life (UK) business for the year ended 31 December 2024.

## Key performance indicators (KPI)

|                                                                          | Year ended<br>31 December<br>2024 |
|--------------------------------------------------------------------------|-----------------------------------|
| New business volumes                                                     |                                   |
| – Life protection <sup>(1)</sup>                                         | £53.1m                            |
| – Life investments                                                       | £63.1m                            |
| Lapse rates (per annum)                                                  |                                   |
| – Life protection (term)                                                 | 9.2%                              |
| – Life protection (income protection)                                    | 7.5%                              |
| – Unit-linked life                                                       | 3.1%                              |
| Operating expenses variance (excess of allowance over incurred expenses) | £0.4m                             |
| Contractual Service Margin (CSM) <sup>(2)</sup>                          | £86m                              |
| Solvency Ratio                                                           | 149%                              |

(1) During the year, the basis for Life Protection new business volumes KPI has been revised to include Group Life products. The prior period has been restated.

(2) During the year, the basis for the CSM KPI has been revised to show the balance of net reinsurance. The prior period has been restated.

## 2. HISTORY AND DEVELOPMENT

HSBC Life (UK) was incorporated in 1906 and the business formally started trading as HSBC Life (UK) in September 1999.

In October 2011, HSBC Life (UK) took control of M&S Life. In June 2014, HSBC Life (UK) exited the pensions sector to simplify its proposition, pursue a capital-light strategy and reduce risk, focusing on life assurance products.

In 2016-17, HSBC Life (UK) launched the OIB product externally and internally through Premier Relationship Managers. Also during this period HSBC Life (UK) launched its externally distributed protection product (“HLP”), which was designed and built in just 7 months.

In 2018-19, HSBC Life (UK)'s HLP launched on several key insurance price comparison website and during this time, HSBC Life (UK) expanded the HLP offering, to include critical illness

During the period between 2020 and 2021, HSBC Life (UK)'s OIB experienced significant growth, and the product achieved a double-digit market share growth in the segment, according to ABI statistics.

In 2022, HSBC Life (UK) won the COVER Excellence Award, following the launch of an enhanced digital underwriting engine.

In 2025, HSBC Life (UK) launched Premier 3.0, which enables the HSBC Life (UK) business to upsell to HSBC's large UK customer base.

## 3. STRATEGY

HSBC Life (UK)'s key strategy is to be one of the top five providers in the protection market in the UK, whilst continuing growth in the OIB sector in line with market growth stabilising its position. The business has several in-flight initiatives to support this plan (see below).

### i) Investment Bonds

3.1.1 Launch of new Offshore Bond products;

3.1.2 Delivery of DFM functionality on Select Platform to strengthen investment advice proposition and boost sector presence;

3.1.3 Further distribution growth by embedding within existing Independent Financial Advisor networks and expansion to new networks; and

3.1.4 Margin improvement driven by reduced cost and larger business scale.



**ii) External Protection**

3.2.1 Key proposition enhancements include Multi-Benefit (launched in December 2024) and fully underwritten product; and

3.2.2 Continued optimisation through frequent pricing reviews.

**iii) Internal Protection**

3.3.1 Continued enhancements of product features;

3.3.2 Pricing optimisation techniques to increase sales volumes;

3.3.3 Improvement of Mobile features; and

3.3.4 Ability to offer pre-approved policies.

**4. GROUP STRUCTURE**

HSBC Life (UK) is a direct subsidiary of HSBC Bank plc, with the company number 00014259 and registered office address 8 Canada Square, London, E14 5HQ and an indirect wholly owned subsidiary of HSBC Holdings plc with the company number 00617987 and registered office address 8 Canada Square, London, E14 5HQ.

## **PART XII**

### **HISTORICAL FINANCIAL INFORMATION OF CHESNARA PLC**

The audited consolidated financial statements for Chesnara as at and for the financial year ended 31 December 2024, prepared in accordance with IAS, together with the audit reports and notes in respect of such financial year, contained in Chesnara plc's 2024 Annual Report and Accounts are incorporated by reference into this Part XII (*Historical Financial Information of Chesnara plc*) as described in Part XVIII (*Documents Incorporated by Reference*) of this document.

The consolidated financial statements contained in the Chesnara plc's 2024 Annual Report and Accounts were audited by Deloitte LLP and the audit report was unmodified. Deloitte LLP is registered to carry out audit work in the UK by the Institute of Chartered Accountants in England and Wales and has no material interest in the Company or HSBC Life (UK).

## **PART XIII**

### **HISTORICAL FINANCIAL INFORMATION OF HSBC LIFE (UK)**

The audited consolidated financial statements for HSBC Life (UK) as at and for the financial year ended 31 December 2024, prepared in accordance with IAS, together with the audit report and notes in respect of such financial year, contained in HSBC Life (UK) Limited's Annual Report and Financial Statements for the year ended 31 December 2024 is set out in Part 1 of Appendix 1 (*HSBC Life (UK) Limited's financial statements together with the audit reports*).

The audited consolidated financial statements for HSBC Life (UK) as at and for the financial year ended 31 December 2023, prepared in accordance with IAS, together with the audit report and notes in respect of such financial year, contained in HSBC Life (UK) Limited's Annual Report and Financial Statements for the year ended 31 December 2023 is set out in Part 2 of Appendix 1 (*HSBC Life (UK) Limited's financial statements together with the audit reports*).

The audited consolidated financial statements for HSBC Life (UK) as at and for the financial year ended 31 December 2022, prepared in accordance with IAS, together with the audit report and notes in respect of such financial year, contained in HSBC Life (UK) Limited's Annual Report and Financial Statements for the year ended 31 December 2022 is set out in Part 3 of Appendix 1 (*HSBC Life (UK) Limited's financial statements together with the audit reports*).

## PART XIV

### CAPITALISATION AND INDEBTEDNESS OF CHESNARA PLC

The following tables set out the Chesnara Group's capitalisation and indebtedness as at 30 April 2025.

The tables should be read in conjunction with the financial statements contained in the Chesnara plc's 2024 Annual Report and Accounts which are incorporated by reference into this document, as referred to in Part XVIII (*Documents Incorporated by Reference*) of this document.

The tables below set out the capitalisation and indebtedness of the Chesnara Group as at the dates stated and as such do not reflect the impact of the Acquisition.

#### Capitalisation

The following table sets out the Chesnara Group's capitalisation as at 31 December 2024, being the balance sheet date of the Chesnara Group's most recently published audited financial information, and as at 30 April 2025, being a date within 90 days of the date of this document:

|                           | As at<br>31 December<br>2024<br>(audited)<br>£000s | As at<br>30 April 2025<br>(unaudited)<br>£000s |
|---------------------------|----------------------------------------------------|------------------------------------------------|
| <b>Shareholder Equity</b> |                                                    |                                                |
| Share capital             | 7,506                                              | 7,506                                          |
| Legal reserve(s)          | —                                                  | —                                              |
| Other reserves            | 170,419                                            | 184,378                                        |
| <b>Total equity</b>       | <b>177,925</b>                                     | <b>191,884</b>                                 |

#### Notes:

(1) Other reserves is comprised of

(a) The share premium account which was £142.5m at 30 April 2025

(b) The merger reserve of £36.3m which arose from a reverse acquisition executed in 2004.

(c) The property revaluation reserve of £2.7m at 30 April 2025

(d) The exchange revaluation reserve of £2.8m at 30 April 2025

#### Indebtedness

The following table sets out the total indebtedness of the Chesnara Group as at 30 April 2025, being a date within 90 days of the date of this document:

|                                 | As at<br>30 April 2025<br>(unaudited)<br>£000s |
|---------------------------------|------------------------------------------------|
| <b>Current</b>                  |                                                |
| Guaranteed                      | —                                              |
| Secured                         | —                                              |
| Unsecured <sup>(1)</sup>        | 1,325                                          |
| <b>Total current borrowings</b> | <b>1,325</b>                                   |

|                                                   | <b>As at<br/>30 April 2025<br/>(unaudited)<br/>£000s</b> |
|---------------------------------------------------|----------------------------------------------------------|
| <b>Non-current</b>                                |                                                          |
| Guaranteed                                        | —                                                        |
| Secured                                           | —                                                        |
| Unsecured <sup>(2)</sup>                          | 203,215                                                  |
| <b>Total non-current borrowings<sup>(1)</sup></b> | <b>203,215</b>                                           |
| <b>Total indebtedness<sup>(1)</sup></b>           | <b>204,540</b>                                           |

**Notes:**

(1) The current unsecured debt is the current portion of the financial reinsurance of £1.3m and a £0.5m overdraft.

(2) The non-current unsecured debt relates to the £200.1m of Tier 2 debt held by Chesnara plc, as well as term finance of £1.7m and the non-current portion of the financial reinsurance of £0.7m.

The following table sets out the net indebtedness of the Chesnara Group as at 30 April 2025, being a date within 90 days of the date of this document:

|                                               | <b>As at<br/>30 April 2025<br/>(unaudited)<br/>£000s</b> |
|-----------------------------------------------|----------------------------------------------------------|
| Cash                                          | 146,860                                                  |
| Cash equivalents                              | —                                                        |
| Other current financial assets <sup>(1)</sup> | 12,132,162                                               |
| <b>Liquidity</b>                              | <b>12,279,022</b>                                        |
| Current financial debt <sup>(2)</sup>         | 461                                                      |
| Current portion of non-current financial debt | 1,325                                                    |
| <b>Current financial indebtedness</b>         | <b>1,786</b>                                             |
| <b>Net current financial indebtedness</b>     | <b>(12,277,236)</b>                                      |
| Non-current financial debt                    | 203,215                                                  |
| Debt instruments                              | —                                                        |
| Non-current trade and other payables          | 12,358                                                   |
| <b>Non-current financial indebtedness</b>     | <b>215,573</b>                                           |
| <b>Total financial indebtedness</b>           | <b>217,359</b>                                           |

**Notes:**

(1) Other current financial assets includes all financial investments held by the Chesnara Group.

(2) Current financial debt is the bank overdraft.



## PART XV

### UNAUDITED PRO FORMA FINANCIAL INFORMATION FOR THE ENLARGED GROUP AND ACCOUNTANT'S REPORT

#### Part A: Unaudited *Pro Forma* Financial Information

The unaudited *pro forma* IFRS income statement and unaudited *pro forma* IFRS statement of net assets of the Enlarged Group (together, the “**Unaudited Pro Forma IFRS Financial Information**”) set out below have been prepared for illustrative purposes only in accordance with Annex 20 of Commission Delegated Regulation (EU) 2019/980 and on the basis of the notes set out below. The unaudited *pro forma* IFRS income statement has been prepared to illustrate the effect on the earnings of the Chesnara Group as if the proposed Acquisition and the associated financing had taken place on 1 January 2024.

The unaudited *pro forma* IFRS statement of net assets has been prepared to illustrate the effect on the net assets of the Chesnara Group as if the proposed Acquisition and the associated financing had taken place on 31 December 2024. The Unaudited *Pro Forma* IFRS Financial Information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent the Chesnara Group's or the Enlarged Group's actual financial position or results. The Unaudited *Pro Forma* IFRS Financial Information is stated on the basis of the IFRS accounting policies to be adopted by the Chesnara Group in preparing its consolidated financial statements for the year ending 31 December 2025.

**Unaudited *pro forma* consolidated IFRS income for the Enlarged Group for the year ended 31 December 2024**

|                                                                                           | <i>Pro forma adjustments</i>                                       |                                                                    |                                        |                                       |                                         | <i>Pro forma financial information for the Enlarged Group</i> |
|-------------------------------------------------------------------------------------------|--------------------------------------------------------------------|--------------------------------------------------------------------|----------------------------------------|---------------------------------------|-----------------------------------------|---------------------------------------------------------------|
|                                                                                           | Chesnara Group for the year ended 31 December 2024<br>Note 1<br>£m | HSBC Life (UK) for the year ended 31 December 2024<br>Note 2<br>£m | Presentation alignment<br>Note 3<br>£m | Financing adjustments<br>Note 4<br>£m | Acquisition adjustments<br>Note 5<br>£m |                                                               |
| Insurance revenue                                                                         | 261.9                                                              | 196.0                                                              | —                                      | —                                     | —                                       | 457.9                                                         |
| Insurance service expense                                                                 | (244.1)                                                            | (143.4)                                                            | —                                      | —                                     | —                                       | (387.5)                                                       |
| Net expenses from reinsurance contracts held                                              | (9.2)                                                              | 4.2                                                                | —                                      | —                                     | —                                       | (5.0)                                                         |
| <b>Insurance service result</b>                                                           | <b>8.6</b>                                                         | <b>56.8</b>                                                        | <b>—</b>                               | <b>—</b>                              | <b>—</b>                                | <b>65.4</b>                                                   |
| Net investment return                                                                     | 1,286.1                                                            | 26.5                                                               | 333.7 <sup>a</sup>                     | —                                     | —                                       | 1,646.3                                                       |
| Net finance expenses from insurance contracts issued                                      | (334.8)                                                            | —                                                                  | (238.2) <sup>a</sup>                   | —                                     | —                                       | (573.0)                                                       |
| Net finance income from reinsurance contracts held                                        | 2.6                                                                | —                                                                  | 0.3 <sup>a</sup>                       | —                                     | —                                       | 2.9                                                           |
| Net change in investment contract liabilities                                             | (740.4)                                                            | —                                                                  | (95.8) <sup>a</sup>                    | —                                     | —                                       | (836.2)                                                       |
| Change in liabilities relating to policyholders' funds held by the Group                  | (160.8)                                                            | —                                                                  | —                                      | —                                     | —                                       | (160.8)                                                       |
| <b>Net investment return</b>                                                              | <b>52.7</b>                                                        | <b>26.5</b>                                                        | <b>—</b>                               | <b>—</b>                              | <b>—</b>                                | <b>79.2</b>                                                   |
| Fee, commission and other operating income                                                | 104.2                                                              | 0.3                                                                | 2.7 <sup>b</sup>                       | —                                     | —                                       | 107.2                                                         |
| <b>Total revenue net of investment result</b>                                             | <b>165.5</b>                                                       | <b>83.6</b>                                                        | <b>2.7</b>                             | <b>—</b>                              | <b>—</b>                                | <b>251.8</b>                                                  |
| Other operating expenses                                                                  | (133.6)                                                            | (10.3)                                                             | (2.7) <sup>b</sup>                     | —                                     | (5.8)                                   | (152.4)                                                       |
| <b>Total income less expenses</b>                                                         | <b>31.9</b>                                                        | <b>73.3</b>                                                        | <b>—</b>                               | <b>—</b>                              | <b>(5.8)</b>                            | <b>99.4</b>                                                   |
| Financing costs                                                                           | (11.1)                                                             | —                                                                  | —                                      | (4.4) <sup>a</sup>                    | —                                       | (15.5)                                                        |
| Profit arising on business combinations and portfolio acquisitions                        | —                                                                  | —                                                                  | —                                      | —                                     | —                                       | —                                                             |
| <b>Profit/(loss) before income taxes</b>                                                  | <b>20.8</b>                                                        | <b>73.3</b>                                                        | <b>—</b>                               | <b>(4.4)</b>                          | <b>(5.8)</b>                            | <b>83.9</b>                                                   |
| Income tax (expense) / credit                                                             | (16.9)                                                             | (47.4)                                                             | —                                      | 1.0 <sup>b</sup>                      | —                                       | (63.3)                                                        |
| <b>Profit/(loss) for the period</b>                                                       | <b>3.9</b>                                                         | <b>25.9</b>                                                        | <b>—</b>                               | <b>(3.4)</b>                          | <b>(5.8)</b>                            | <b>20.6</b>                                                   |
| Items that may be reclassified subsequently to profit and loss:                           |                                                                    |                                                                    |                                        |                                       |                                         |                                                               |
| Foreign exchange translation differences arising on the revaluation of foreign operations | (15.3)                                                             | —                                                                  | —                                      | —                                     | —                                       | (15.3)                                                        |
| Revaluation of land and building                                                          | 0.4                                                                | —                                                                  | —                                      | —                                     | —                                       | 0.4                                                           |
| Items that will not be reclassified to profit and loss                                    |                                                                    |                                                                    |                                        |                                       |                                         |                                                               |
| Revaluation of pension obligations after tax                                              | —                                                                  | —                                                                  | —                                      | —                                     | —                                       | —                                                             |
| <b>Other comprehensive (expense)/income for the period, net of tax</b>                    | <b>(14.9)</b>                                                      | <b>—</b>                                                           | <b>—</b>                               | <b>—</b>                              | <b>—</b>                                | <b>(14.9)</b>                                                 |
| <b>Total comprehensive income/(expense) for the period</b>                                | <b>(11.0)</b>                                                      | <b>25.9</b>                                                        | <b>—</b>                               | <b>(3.4)</b>                          | <b>(5.8)</b>                            | <b>5.7</b>                                                    |

## Notes

1. The income statement for the Chesnara Group has been extracted, without material adjustment, from Chesnara Group's audited consolidated financial statements for the year ended 31 December 2024, which are incorporated into this document by reference, as set out in Part XII (Historical Financial Information of Chesnara plc).
2. The income statement for HSBC Life (UK) has been extracted, without material adjustment, from HSBC Life (UK)'s audited financial statements for the year ended 31 December 2024, which are referred to in Part XIII (Historical Financial Information of HSBC Life (UK)) and set out in Appendix 1 (HSBC Life (UK) Limited's Financial Statements together with the Audit Reports) of this document.
3. This column reflects adjustments to align the presentation of the HSBC Life (UK) IFRS income statement with that of the Chesnara Group as follows:
  - (a) HSBC Life (UK) report 'Net finance expense from insurance contracts issued', 'Net finance income from reinsurance contracts held' and 'Net change in investment contract liabilities' within the 'Net investment returns' line on the face of the income statement. The Chesnara Group report these as individual items on the face of the income statement. A reclassification of £333.7m has been made to reclassify HSBC Life (UK) 'Net investment returns' to align presentation.
  - (b) HSBC Life (UK) classifies certain fee income and fee expenses within 'Fee, commission and other operating income' whilst Chesnara – Group includes these within 'Other operating expenses'. The adjustments align the presentation to Chesnara Group's presentation. A reclassification of £2.7m has been made to reclassify HSBC Life (UK) 'Fee, commission and other operating income' to 'other operating expenses' to align presentation.
4. On 3 July 2025, the Company entered into an amendment and restatement (details of which are set out in paragraph 9.1.4 of Part XVII (Additional Information) of this document) (the "Amended and Restated Facility Agreement") pursuant to which a three year £150,000,000 multicurrency Revolving Credit Facility (the "Amended RCF") is made available to the Company. The adjustment reflects:
 

|                                                                                           |              |
|-------------------------------------------------------------------------------------------|--------------|
| a) Adjustments to financing costs (as per the Amended and Restated Facility Agreement)    | £m           |
| Fees associated with drawing £65m from the Amended RCF and other associated advisory fees | (0.3)        |
| Annual interest payable under the Amended RCF                                             | (4.1)        |
| <b>Total adjustment</b>                                                                   | <b>(4.4)</b> |
- b) An adjustment of £1.0m to reflect the associated tax credit on the interest payable in 4(a) above at the rate of 25%.
5. An adjustment of £5.8m has been made to the line item 'Other operating expenses' to reflect the Directors' estimate of the due diligence costs, legal costs and other adviser fees attributable to the transaction that will be expensed in the income statement (these costs are part of total costs of £10.0m as detailed in paragraph 17 of Part XVII (Additional Information) of this document, the remainder of which will be capitalised). These estimated fees exclude any discretionary amounts payable to advisers on completion of the transaction.
6. Of the adjustments in Notes 4 and 5, only the adjustment in Note 4 relating to the annual interest payable under the Amended RCF will have a continuing impact, the rest all being one-off transaction costs.
7. In preparing the unaudited pro forma IFRS income statement, no adjustments have been made for the amortisation of intangibles such as AVIF that will arise on acquisition or other items subject to fair value accounting, on the basis that a fair value exercise will be performed on completion of the Acquisition. As such, the fair value exercise may result in material adjustments, and therefore the £16.8m difference in consideration and IFRS net assets of HSBC Life (UK) has not been shown as an adjustment to goodwill in the pro forma.
8. The unaudited pro forma IFRS income statement does not reflect any anticipated revenue enhancements, cost savings which are not directly attributable to the Acquisition, or operating synergies or dis-synergies that the Chesnara Group may achieve or incur as a result of the Acquisition. In preparing the unaudited pro forma IFRS income statement, no account has been taken of the trading activity or other transactions of the Chesnara Group or HSBC Life (UK) since 31 December 2024.

**Unaudited pro forma IFRS statement of net assets for the Enlarged Group for the year ended 31 December 2024**

|                                                                | Pro forma adjustments                                              |                                                                    |                                       |                                         | Pro forma financial information for the Enlarged Group |
|----------------------------------------------------------------|--------------------------------------------------------------------|--------------------------------------------------------------------|---------------------------------------|-----------------------------------------|--------------------------------------------------------|
|                                                                | Chesnara Group for the year ended 31 December 2024<br>Note 1<br>£m | HSBC Life (UK) for the year ended 31 December 2024<br>Note 2<br>£m | Financing adjustments<br>Note 3<br>£m | Acquisition adjustments<br>Note 4<br>£m |                                                        |
| <b>Assets</b>                                                  |                                                                    |                                                                    |                                       |                                         |                                                        |
| Intangible assets                                              | 87.2                                                               | —                                                                  | —                                     | —                                       | 87.2                                                   |
| Property and equipment                                         | 7.8                                                                | —                                                                  | —                                     | —                                       | 7.8                                                    |
| Investment properties                                          | 91.7                                                               | —                                                                  | —                                     | —                                       | 91.7                                                   |
| Deferred tax assets                                            | 38.9                                                               | 56.0                                                               | —                                     | —                                       | 94.9                                                   |
| Insurance contract assets                                      | 1.8                                                                | 37.8                                                               | —                                     | —                                       | 39.6                                                   |
| Reinsurance contract assets                                    | 169.9                                                              | 129.8                                                              | —                                     | —                                       | 299.7                                                  |
| Amounts deposited with reinsurers                              | 34.3                                                               | —                                                                  | —                                     | —                                       | 34.3                                                   |
| Financial investments                                          | 12,116.7                                                           | 3,873.2 <sup>a</sup>                                               | —                                     | —                                       | 15,989.9                                               |
| Derivative financial instruments                               | 0.1                                                                | —                                                                  | —                                     | —                                       | 0.1                                                    |
| Other assets                                                   | 68.7                                                               | 20.0                                                               | —                                     | —                                       | 88.7                                                   |
| Cash and cash equivalents                                      | 138.0                                                              | 173.1                                                              | 194.9 <sup>a</sup>                    | (260.0)                                 | 246.0                                                  |
| <b>Total Assets</b>                                            | <b>12,755.1</b>                                                    | <b>4,289.9</b>                                                     | <b>194.9</b>                          | <b>(260.0)</b>                          | <b>16,979.9</b>                                        |
| <b>Liabilities</b>                                             |                                                                    |                                                                    |                                       |                                         |                                                        |
| Insurance contract liabilities                                 | (4,099.1)                                                          | (3,003.0)                                                          | —                                     | —                                       | (7,102.1)                                              |
| Reinsurance contract liabilities                               | (16.6)                                                             | (37.6)                                                             | —                                     | —                                       | (54.2)                                                 |
| Other provisions                                               | (20.3)                                                             | —                                                                  | —                                     | —                                       | (20.3)                                                 |
| Investment contracts and fair value through profit or loss     | (6,116.7)                                                          | (931.4)                                                            | —                                     | —                                       | (7,048.1)                                              |
| Liabilities relating to policyholders' funds held by the Group | (1,825.5)                                                          | —                                                                  | —                                     | —                                       | (1,825.5)                                              |
| Lease contract liabilities                                     | (0.6)                                                              | —                                                                  | —                                     | —                                       | (0.6)                                                  |
| Borrowings                                                     | (204.8)                                                            | —                                                                  | (65.0) <sup>b</sup>                   | —                                       | (269.8)                                                |
| Derivative financial instruments                               | (0.6)                                                              | —                                                                  | —                                     | —                                       | (0.6)                                                  |
| Deferred tax liabilities                                       | (24.7)                                                             | (8.5)                                                              | —                                     | —                                       | (33.2)                                                 |
| Deferred income                                                | (1.3)                                                              | —                                                                  | —                                     | —                                       | (1.3)                                                  |
| Other current liabilities                                      | (129.7)                                                            | (32.6)                                                             | —                                     | —                                       | (162.3)                                                |
| Bank overdrafts                                                | (0.8)                                                              | —                                                                  | —                                     | —                                       | (0.8)                                                  |
| <b>Total liabilities</b>                                       | <b>(12,440.7)</b>                                                  | <b>(4,013.1)</b>                                                   | <b>(65.0)</b>                         | <b>—</b>                                | <b>(16,518.8)</b>                                      |
| <b>Net Assets</b>                                              | <b>314.4</b>                                                       | <b>276.8</b>                                                       | <b>129.9</b>                          | <b>(260.0)</b>                          | <b>461.1</b>                                           |

**Notes:**

- The net assets of Chesnara Group have been extracted, without material adjustment, from Chesnara Group's audited consolidated financial statements for the year ended 31 December 2024, which are incorporated into this document by reference, as set out in Part XII (Historical Financial Information of Chesnara plc).
- The net assets of HSBC Life (UK) have been extracted, without material adjustment, from HSBC Life (UK)'s audited financial statements for the year ended 31 December 2024, which are referred to in Part XIII (Historical Financial Information of HSBC Life (UK)) and set out in Appendix 1 (HSBC Life (UK) Limited's Financial Statements together with the Audit Reports) of this document.
  - HSBC Life presents "Financial investments" across "Debt securities – fixed rate" and "Collective investment schemes" on the face of the statement of financial position. These have been reclassified to "Financial investments" to align presentation.
- This column reflects adjustments in respect of financing activity related to the transaction as follows:

|                                                                                                                                  |              |
|----------------------------------------------------------------------------------------------------------------------------------|--------------|
| Adjustments to cash and cash equivalents:                                                                                        | £m           |
| a) The estimated net proceeds of the Rights Issue (refer to Part V (Share Capital and Rights Issue Statistics) of this document) | 130.2        |
| Accessing funds under the Amended RCF to fund the Acquisition                                                                    | 65.0         |
| £0.3m payment of the fees associated with accessing the Amended RCF and other associated advisory fees                           | (0.3)        |
| <b>Total adjustments</b>                                                                                                         | <b>194.9</b> |
| b) An adjustment to 'Borrowings' of £65.0m as a result of accessing funds under the Amended RCF.                                 |              |

- 4 *This column reflects payment for the Acquisition of £260.0m, as detailed in paragraph 9.1.1 of Part XVII (Additional Information) of this document.*
- 5 *In preparing the unaudited pro-forma IFRS statement of net assets, no account has been taken of the value of intangibles such as AVIF that will arise on acquisition or other items subject to fair value accounting, on the basis that a fair value exercise will be performed on completion of the Acquisition. As such, the fair value exercise may result in material adjustments, and therefore the £16.8m difference in consideration and IFRS net assets of HSBC Life (UK) has not been shown as an adjustment to goodwill in the pro forma.*
- 6 *In preparing the unaudited pro forma statement of net assets, no account has been taken of the trading activity or other transactions of the Chesnara Group or HSBC Life (UK) since 31 December 2024.*



## Part B: Accountant's Report

# Deloitte.

Deloitte LLP  
1 New Street Square  
London  
EC4A 3HQ

The Board of Directors  
on behalf of Chesnara plc  
2nd Floor, Building 4  
West Strand  
Preston  
PR1 8UY

RBC Europe Limited  
100 Bishopsgate  
London  
EC2N 4AA

3 July 2025

Dear Sirs/Mesdames,

### Chesnara plc (the "Company")

We report on the *pro forma* financial information (the "*Pro forma* financial information") set out in Part XV of the prospectus dated 3 July 2025 (the "Prospectus"). This report is required by Annex 20, section 3 of the UK version of the Commission delegated regulation (EU) 2019/980 (the "Prospectus Delegated Regulation") and is given for the purpose of complying with that regulation and for no other purpose.

### Opinion

In our opinion:

- (a) the *Pro forma* financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Company.

### Responsibilities

It is the responsibility of the directors of the Company (the "Directors") to prepare the *Pro forma* financial information in accordance with Annex 20 sections 1 and 2 of the Prospectus Delegated Regulation.

It is our responsibility to form an opinion, as to the proper compilation of the *Pro forma* financial information and to report that opinion to you in accordance with Annex 20 section 3 of the Prospectus Delegated Regulation.

Save for any responsibility arising under Prospectus Regulation Rule 5.3.2R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Annex 3 item 1.3 of the Prospectus Delegated Regulation, consenting to its inclusion in the Prospectus.

No reports or opinions have been made by us on any financial information of HSBC Life (UK) used in the compilation of the *Pro forma* financial information. In providing this opinion we are not providing any assurance on any source financial information on which the *Pro forma* financial information is based beyond the above opinion.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information of the Company used in the compilation of the *pro forma* financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed at the date of their issue.

### **Basis of preparation**

The *pro forma* financial information has been prepared on the basis described in the notes, for illustrative purposes only, to provide information about how the Acquisition and the associated financing might have affected the financial information presented on the basis of the accounting policies to be adopted by the Company in preparing the financial statements for the period ending 31 December 2025.

### **Basis of Opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Financial Reporting Council in the United Kingdom. We are independent of the Company and the Target in accordance with the Financial Reporting Council's Ethical Standard as applied to Investment Circular Reporting Engagements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the *Pro forma* financial information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the *Pro forma* financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards or practices.

### **Declaration**

For the purposes of Prospectus Regulation Rule 5.3.2R(2)(f) we are responsible for this report as part of the Prospectus and declare that to the best of our knowledge, the information contained in this report is, in accordance with the facts and that the report makes no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex 3 item 1.2 of the Prospectus Delegated Regulation.

Yours faithfully

Deloitte LLP

*Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London EC4A 3HQ, United Kingdom. Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients.*

## PART XVI

### UNITED KINGDOM TAXATION

The comments set out below are based on current United Kingdom tax law as applied in England and Wales and HM Revenue & Customs (“HMRC”) published practice (which may not be binding on HMRC), in each case as at the Latest Practicable Date, and both of which are subject to change, possibly with retrospective effect. They are intended as a general guide and are not a substitute for detailed advice. The following information applies only to Shareholders resident and, in the case of an individual, domiciled for tax purposes in the United Kingdom and to whom “split year” treatment does not apply (except insofar as express reference is made to the treatment of non-United Kingdom residents), who hold Ordinary Shares in the Company as an investment and who are, or are treated as, the absolute beneficial owners thereof. The discussion does not address all possible tax consequences relating to an investment in the New Ordinary Shares. Certain categories of Shareholders, including those carrying on certain financial activities, those subject to specific tax regimes or benefiting from certain reliefs or exemptions, those connected with the Company or Group, officers, former officers, employees and former employees of the Company or any Group company who have acquired Ordinary Shares in a personal capacity, those for whom the Ordinary Shares are employment related securities (pursuant to Part 7 of the Income Tax (Earnings and Pensions) Act 2003) and those that own (or are deemed to own) 5% or more of the share capital and/or voting power of the Company (either alone or together with connected persons) may be subject to special rules and this summary does not apply to such Shareholders.

Shareholders who are in any doubt about their tax position, or who are resident, domiciled or otherwise subject to taxation in a jurisdiction outside the United Kingdom, should consult their own professional advisers immediately. In particular, Shareholders should be aware that the tax legislation of any jurisdiction where a Shareholder is resident or otherwise subject to taxation in that jurisdiction may have an impact on the tax consequences of an investment in the Ordinary Shares including in respect of any income received from the Ordinary Shares.

#### 1. CAPITAL GAINS TAX

##### 1.1 *UK Individual Shareholders*

For the purposes of United Kingdom taxation of capital gains, the issue of the New Ordinary Shares should be regarded as a reorganisation of the share capital of the Company.

Accordingly, you should not be treated as making a disposal of all or part of your holding of Existing Ordinary Shares by reason of taking up all or part of your rights to New Ordinary Shares. No liability to United Kingdom tax on capital gains in respect of the New Ordinary Shares should arise if you take up your entitlement to New Ordinary Shares in full.

Your Existing Ordinary Shares and New Ordinary Shares should be treated as the same asset acquired at the time you acquired your Existing Ordinary Shares. The subscription monies for your New Ordinary Shares should be added to the base cost of your existing holding(s).

If you sell all or some of the New Ordinary Shares allotted to you, or your rights to subscribe for them, or if you allow or are deemed to have allowed your rights to lapse and receive a cash payment in respect of them, you may, depending on your circumstances, incur a liability to tax on any capital gain realised. Individual shareholders may be able to reduce their chargeable capital gains by utilising their annual exempt amount (currently £3,000 for the tax year ending 5 April 2026). Any gain not covered by the annual allowance this amount will be taxed to capital gains tax depending on what tax band it falls in. To the extent the excess is within the basic rate band it should generally be taxed at 18% and to the extent it is in excess of the basic rate band it should generally be taxed at 24%, subject to the availability of any exemptions, reliefs and/or available losses.

If you dispose of all or part of your rights to subscribe for New Ordinary Shares or allow or are deemed to allow them to lapse in return for a cash payment and the proceeds resulting from the disposal or lapse of rights are “small” as compared to the value of the Ordinary Shares in respect of which the rights arose, you may be treated as making no disposal for the purpose of tax on capital gains. No liability to tax on capital gains will then arise as a result of the disposal or lapse of the rights, but the proceeds will be deducted from the base

cost of your holding of Existing Ordinary Shares. HMRC interprets “small” as 5% or less of the value of the Ordinary Shares in respect of which the rights arose or £3,000 or less, regardless of whether or not it would pass the 5% test. If the cash you receive is not small, you’ll need to work out your gain or loss on the cash received by apportioning the allowable cost of your Existing Ordinary Shares between the cash received and the New Ordinary Shares received.

## 1.2 *UK Corporate Shareholders*

Subject to the availability of exemptions and reliefs, a Shareholder within the charge to UK corporation tax will be liable to corporation tax on a disposal of New Ordinary Shares. The corporation tax rate applicable to a Shareholder’s corporate taxable profits is currently 25%, or 19 if the Shareholder is eligible for the small profits rate of corporation tax.

## 2. **Taxation of dividends**

The Company will not be required to withhold amounts on account of United Kingdom tax at source when paying a dividend (whether the payment is made to a UK resident Shareholder, or a non-UK resident Shareholder).

### 2.1 **Individual Shareholders**

Dividends received by a United Kingdom resident individual Shareholder from the Company will generally be subject to tax as dividend income.

The first £500 (the “**Dividend Allowance**”) of the total amount of dividend income (including any dividends received from the Company) received by such a Shareholder in a tax year will be taxed at a nil rate (and so no income tax will be payable in respect of such amounts).

If a United Kingdom resident individual Shareholder’s total dividend income for a tax year exceeds the Dividend Allowance (such excess being referred to as the “**Taxable Excess**”), then the Taxable Excess will be subject to tax depending on the tax rate band or bands it falls within. The relevant tax rate band is determined by reference to the Shareholder’s total income charged to income tax (including the dividend income charged at a nil rate by virtue of the Dividend Allowance) less relevant reliefs and allowances (including the Shareholder’s personal allowance). The Taxable Excess is, in effect, treated as the top slice of any resulting taxable income and:

- (a) to the extent that the Taxable Excess falls below the basic rate limit of £50,270, the Shareholder will be subject to tax on it at the dividend basic rate of 8.75%.
- (b) to the extent that the Taxable Excess falls above the basic rate limit of £50,270 but below the higher rate limit of £125,140, the Shareholder will be subject to tax on it at the dividend upper rate of 33.75%.
- (c) to the extent that the Taxable Excess falls above the higher rate limit of £125,140, the Shareholder will be subject to tax on it at the dividend additional rate of 39.35%.

These rates and thresholds are currently applicable during the current tax year (ending 5 April 2026) and are subject to change.

### 2.2 **Corporate Shareholders**

Shareholders who are within the charge to corporation tax will be subject to corporation (currently at a rate of 25%, or 19% if the Shareholder is eligible for the small profits rate of corporation tax) on dividends paid by the Company, unless (subject to special rules for such Shareholders that are small companies) the dividends fall within an exempt class and certain other conditions are met. Each Shareholder’s position will depend on its own individual circumstances, although it would normally be expected that the dividends paid by the Company would fall within an exempt class such that no corporation tax is payable upon receipt of any dividend.

### 2.3 **Non-UK Shareholders**

A Shareholder resident or otherwise subject to tax outside the United Kingdom (whether an individual or a body corporate) may be subject to foreign taxation on dividend income under

local law. Shareholders to whom this may apply should obtain their own tax advice concerning tax liabilities on dividends received from the Company.

### **3. STAMP DUTY AND STAMP DUTY RESERVE TAX (“SDRT”)**

The statements in this section are intended as a general guide to the current United Kingdom stamp duty and SDRT position and, subject to the below, apply to all Shareholders, including those who are not resident for tax purposes in the UK. Special rules apply to certain transactions such as transfers of the Ordinary Shares to a company connected with the transferor and those rules are not described below. Investors should also note that certain categories of person are not liable to stamp duty or SDRT and others (such as persons connected with depositary arrangements or clearance services) may be liable at a higher rate or may, although not primarily liable for tax, be required to notify and account for SDRT under the Stamp Duty Reserve Tax Regulations 1986. The statements also may not relate to persons such as charities, market makers, brokers or dealers.

No SDRT will be payable on the issue of Provisional Allotment Letters or split Provisional Allotment Letters. Accordingly where Ordinary Shares represented by such documents are registered in the name of the original subscriber, no liability to stamp duty or SDRT will arise.

The purchase of rights to New Ordinary Shares represented by Provisional Allotment Letters or split Provisional Allotment Letters or credited in CREST (whether nil paid or fully paid) on or before the latest time for registration or renunciation will not generally be liable to stamp duty, but the purchaser will normally be liable to pay SDRT at the rate of 0.5% of the actual consideration paid.

Where such a purchase is effected through a stockbroker or other financial intermediary that person will normally account for the liability of SDRT and will indicate that this has been done in any contract note issued to a purchaser. In other cases, the purchaser of the rights to the New Ordinary Shares represented by the Provisional Allotment Letter or split Provisional Allotment Letter is liable to pay the SDRT and must account for it to HMRC.

No stamp duty or SDRT will be payable on the registration of Provisional Allotment Letters or split Provisional Allotment Letters, whether by the original holders or their renounees.

Any subsequent dealings in New Ordinary Shares will be subject to stamp duty or SDRT in the normal way. An agreement to transfer shares in the Company will normally give rise to a charge to SDRT at the rate of 0.5% of the amount or value of the consideration payable for the transfer. SDRT is, in general, payable by the purchaser. Transfers of Shares in the Company will generally be subject to stamp duty at the rate of 0.5% of the consideration given for the transfer (rounded up to the next £5.00). The purchaser normally pays the stamp duty. If a duly stamped transfer completing an agreement to transfer is produced within six years of the date on which the agreement is made (or, if the agreement is conditional, the date on which the agreement becomes unconditional) any SDRT paid is generally repayable, normally with interest, and otherwise the SDRT charge is cancelled.

Paperless transfers of shares in the Company within the CREST system are generally liable to SDRT, rather than stamp duty, at the rate of 0.5% of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the CREST system. Deposits of shares into CREST will not generally be subject to SDRT or stamp duty, unless the transfer into CREST is itself for consideration.

Special rules would apply if Ordinary Shares in the Company were transferred: (a) to, or to a nominee or an agent for, a person whose business is or includes the provision of clearance services; or (b) to, or to a nominee or an agent for, a person whose business is or includes issuing depositary receipts, (including in each case within CREST to a CREST account of such a person). In such circumstances, stamp duty or SDRT may be payable at the higher rate of 1.5% of the amount or value of the consideration given or, in certain circumstances, the value of the shares. Similarly, special rules would apply to the transfer of shares within a clearance service or in respect of agreements to transfer interests in depositary receipts.

**Accordingly, specific professional advice should be sought in relation to stamp duty and SDRT if shares are to be transferred to, within or via a clearance service or depositary receipt system**



## PART XVII

### ADDITIONAL INFORMATION

#### 1. RESPONSIBILITY STATEMENT

- 1.1 The Directors whose names appear in Part VI (Directors, Company Secretary, Registered Office and Advisers) of this document and Chesnara accept responsibility for the information contained in this document. To the best of the knowledge of the Directors and Chesnara, the information contained in this document is in accordance with the facts and this document makes no omission likely to affect its import.

#### 2. INCORPORATION AND ACTIVITY OF THE COMPANY

- 2.1 Chesnara was incorporated and registered in England and Wales on 29 October 2003 under the Companies Act 1985 as a public company limited by shares with registered number 04947166 and with the name PINCO 2042 plc. On 23 December 2003, it changed its name to Chesnara plc.
- 2.2 The registered and head office of Chesnara is at 2nd Floor, Building 4, West Strand Business Park, West Strand Road, Preston, Lancashire, PR1 8UY. The telephone number of Chesnara's registered and head office is +44 01772 972 050.
- 2.3 The principal legislation under which Chesnara operates is the Companies Act and the regulations made thereunder.
- 2.4 The Ordinary Shares are listed on the equity shares (commercial companies) category of the Official List and traded on the main market of the London Stock Exchange. The ISIN of the Ordinary Shares is GB00B00FPT80 and the SEDOL number is B00FPT8. The Ordinary Shares are in registered form and are capable of being held in either certificated or uncertificated form.
- 2.5 The Ordinary Shares are ordinary shares in registered form and are capable of being held either: (i) in certificated form; or (ii) in uncertificated form, and title to such shares may be transferred by means of a relevant system (as defined in the CREST Regulations).
- 2.6 Deloitte LLP, whose address is 1 City Square Leeds LS1 2AL are the auditor of Chesnara. Deloitte LLP is a member of the Institute of Chartered Accountants in England and Wales.

#### 3. SHARE CAPITAL OF THE COMPANY

- 3.1 Immediately prior to the publication of this document, the share capital of the Company was £7,556,237, comprising 151,124,742 Existing Ordinary Shares of £0.05 each, all of which were fully paid or credited as fully paid as at the Latest Practicable Date. The Company has no Ordinary Shares held in treasury. The Existing Ordinary Shares in the share capital of the Company have a nominal value of £0.05 each and are listed on the equity shares (commercial companies) category of the Official List and admitted to trading on the London Stock Exchange's main market for listed securities.
- 3.2 The Company has not issued any convertible securities, exchangeable securities or securities with warrants.
- 3.3 There are no acquisition rights or obligations over authorised but unissued share capital or undertakings to increase the share capital of the Company.
- 3.4 The issued and fully paid share capital of the Company immediately following completion of the Rights Issue, assuming the maximum number of New Ordinary Shares is issued and that no Ordinary Shares are issued as a result of the exercise of any share options between the Latest Practicable Date and the completion of the Rights Issue, is expected to be as follows:

| Nominal value of Ordinary Shares | Number of Ordinary Shares issued, allotted, called up and fully paid | Aggregate nominal value (£) |
|----------------------------------|----------------------------------------------------------------------|-----------------------------|
| £0.05                            | 230,664,079                                                          | 11,533,204                  |



- 3.5 The Company remains subject to the continuing obligations of the UK Listing Rules with regard to the issue of securities for cash and the provisions of section 561 of the Companies Act (which confers on Shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) apply to the issues of Ordinary Shares by the Company which are not the subject of the disapplication approved by the Shareholders in a general meeting of the Company.
- 3.6 It was resolved by Shareholders at the Company's 2025 Annual General Meeting that, amongst other things:
- 3.6.1 the Directors are authorised to allot shares and/or grant rights to subscribe for or to convert any security into shares up to an aggregate nominal value of £2,516,517, representing approximately one-third of the issued share capital of the Company;
  - 3.6.2 up to a further amount of £2,516,517, representing approximately a further third of the issued share capital of the Company, provided they are offered by way of a pre-emptive offer to Shareholders;
  - 3.6.3 the pre-emption rights under section 561 of the Companies Act are disapplied to permit the Directors to, amongst other things, allot shares that are equity securities:
    - (i) in connection with a rights issue or other pre-emptive offer up to a maximum nominal amount of £5,033,034;
    - (ii) up to a maximum nominal value of £754,955 representing approximately 10% of the issued share capital of the Company as at 26 March 2025 for cash;
    - (iii) up to an aggregate nominal value of £754,955 for cash in connection with financing an acquisition or other capital investment; and
    - (iv) such authorities will expire at the earlier of the Company's annual general meeting in 2026 and 30 June 2026.
- 3.7 Subject to the Admission of the New Ordinary Shares pursuant to the Rights Issue, 79,539,337 New Ordinary Shares will be issued at a price of 176 pence per New Ordinary Share. This will result in the issued ordinary share capital of the Company increasing by approximately 52.6%. Qualifying Shareholders who take up their *pro rata* entitlement in full will suffer no dilution to their interests in the Company as a result of the Rights Issue. Shareholders who do not or are not permitted to take up any of their rights to acquire the New Ordinary Shares will be diluted by 34.5% as a result of the Rights Issue (assuming that no Ordinary Shares are issued as a result of the exercise of any options between the Latest Practicable Date and completion of the Rights Issue).
- 3.8 The New Ordinary Shares which are the subject of the Rights Issue will be provisionally allotted (nil paid) to all Shareholders on the register on the Record Date by a resolution of the Board and created in accordance with the laws of England and Wales.
- 3.9 The New Ordinary Shares will have the same rights in all respects as the Existing Ordinary Shares (including the right to receive all dividends or other distributions declared after the date of their issue).
- 3.10 The New Ordinary Shares will trade under ISIN GB00B00FPT80 and the SEDOL number is B00FPT8. The ISIN for the Nil Paid Rights will be GB00BR0W1Q72 and the SEDOL will be BR0W1Q7. The ISIN for the Fully Paid Rights will be GB00BR0W1R89 and the SEDOL will be BR0W1R8.

#### **4. MANDATORY BIDS AND COMPULSORY ACQUISITION RULES RELATING TO ORDINARY SHARES**

- 4.1 Other than as provided by the City Code on Takeovers and Mergers (the "Takeover Code") and Chapter 28 of the Companies Act, there are no rules or provisions relating to mandatory bids and/or squeeze-out and sell-out rules that apply to the Ordinary Shares. No takeover offer (within the meaning of Part 28 of the Companies Act) was or has been made for any Ordinary Shares during the year ended 31 December 2023 or during its current fiscal year ending 31 December 2024 to the Latest Practicable Date.

#### 4.2 Mandatory takeover bids

The Takeover Code applies to the Company. Under Rule 9 of the Takeover Code, any person who acquires an interest in shares which, taken together with shares in which that person or any person acting in concert with that person is interested, carry 30% or more of the voting rights in the Company, the acquirer depending on the circumstances, persons acting in concert with it would be required (except with the consent of the UK Panel on Takeovers and Mergers) to make a cash offer for the outstanding shares at a price not less than the highest price paid for any interest in shares by the acquirer or his or her concert parties during the previous 12 months. A similar obligation to make such a mandatory offer would also arise on the acquisition of an interest in shares by a person holding (together with any persons acting in concert) an interest in shares carrying between 30% and 50% of the voting rights in the Company if the effect of such acquisition were to increase that person's percentage of the voting rights.

An offer under Rule 9 must be made in cash at the highest price paid by the person required to make the offer, or any person acting in concert with such person, for any interest in shares of the company during the 12 months prior to the announcement of the offer. There is not in existence any current mandatory takeover bid in relation to the Company.

#### 4.3 Squeeze-out

Under the Companies Act 2006, if a "takeover offer" (as defined in section 974 of the Companies Act) is made for the Company's shares and the offeror were to acquire, or unconditionally contract to acquire, not less than 90% in value of the shares to which the offer relates and not less than 90% of the voting rights carried by those shares to which the offer relates, it could, within three months of the last day on which its takeover offer can be accepted, compulsorily acquire the remaining 10%. The offeror would do so by sending a notice to outstanding members telling them that it will compulsorily acquire their shares and then, six weeks later, it would execute a transfer of the outstanding shares in its favour and pay the consideration for the outstanding shares to the Company, which would hold the consideration on trust for outstanding members. The consideration offered to the members whose shares are compulsorily acquired under this procedure must, in general, be the same as the consideration that was available under the original offer unless a member can show that the offer value is unfair.

#### 4.4 Sell-out

The Companies Act also gives minority members a right to be bought out in certain circumstances by an offeror who has made a takeover offer. If a takeover offer related to all of the Ordinary Shares and, at any time before the end of the period within which the offer could be accepted, the offeror held or had agreed to acquire not less than 90% in value of the Ordinary Shares and not less than 90% of the voting rights carried by the Ordinary Shares, any holder of Ordinary Shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those Ordinary Shares. The offeror is required to give any member notice of their right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority members to be bought out, but that period cannot end less than three months after the end of the acceptance period or, if later, three months from the date on which notice is served on members notifying them of their sell-out rights. If a member exercises their rights, the offeror is entitled and bound to acquire those Ordinary Shares on the terms of the offer or on such other terms as may be agreed.

#### 4.5 Takeover bids

No public takeover bid has been made in relation to the Company during the last financial year or the current financial year.

### 5. ARTICLES OF ASSOCIATION

The following is a summary of Chesnara's Articles which were adopted by special resolution passed on 16 May 2023 and contain (amongst others) the provisions as set out below. The Articles are available on Chesnara's website at [www.chesnara.co.uk/investors](http://www.chesnara.co.uk/investors) and are summarised below.

## 5.1 Objects

Chesnara's Articles do not specifically restrict the objects of the Company. Therefore, in accordance with section 31(1) of the Companies Act, the Company's objects are unrestricted.

## 5.2 Limited liability

The liability of the members is limited to the amount, if any, unpaid on the shares in the Company respectively held by them.

## 5.3 Rights attaching to ordinary shares

### (A) Voting rights of members

Subject to disenfranchisement in the event of: (i) non-payment of any call or other sum payable in respect of any share; or (ii) any non-compliance with any statutory notice requiring disclosure of the beneficial ownership of any shares; or (iii) the board accepting a member's surrender of shares, and subject to any special rights or restrictions as to voting for the time being attached to any shares, on a show of hands, every member has one vote and every proxy present has one vote. However, if the proxy has been duly appointed by more than one member and has been instructed by one or more of those members to vote for the resolution and has been instructed by one or more other of those members to vote against it, in which case a proxy has one vote for and one vote against the resolution.

On a poll, every member present in person or by proxy has one vote for every share of which he is a holder. In the case of joint holders, the vote of the person whose name stands first in the register of members and who tenders a vote is accepted to the exclusion of any votes tendered by any other joint holders.

A member in respect of whom an order has been made by any court having jurisdiction (whether in the United Kingdom or elsewhere) relating to a mental disorder or incapacity may vote (whether on a show of hands or on a poll) by their guardian or any other person duly authorised to do so on that member's behalf by proxy. The authority of this person must be submitted to the Registered Office or specified place at least forty-eight (48) hours before the meeting. If not, the right to vote cannot be exercised.

### (B) Dividends

- (i) Declaration of dividends – Subject to applicable statutory provision and the Articles, the Company may, by ordinary resolution, declare a dividend to be paid to members according to their respective rights, but no dividend shall exceed the amount recommended by the Board.
- (ii) Fixed and interim dividends – subject to applicable statutory provisions, the Board may pay such interim dividends (including any dividend payable at a fixed rate) as appears to the Board to be justified by the profits of the Company available for distribution. If at any time the share capital is divided into different classes, the Board may pay such interim dividends on shares which rank after shares conferring preferential rights with regard to dividend as well as on shares conferring preferential rights, unless at the time of payment any preferential dividend is in arrears. If the Board acts in good faith, no Director shall incur any liability to the holders of shares conferring preferential rights for any loss that they may suffer by the lawful payment of an interim dividend on any shares ranking after those with preferential rights.
- (iii) Entitlement to dividends – except as otherwise provided by the Articles or the rights attached to the shares: (i) a dividend shall be declared and paid according to the amounts paid up (otherwise than in advance of calls) on the nominal value of the shares on which the dividend is paid; and (ii) dividends shall be apportioned and paid proportionately to the amounts paid up on the nominal value of the shares during any portion or portions of the period in respect of which the dividend is paid, but if any share is issued on terms that

it shall rank for dividend as from a particular date, it shall rank for dividend accordingly.

- (iv) Dividends not to bear interest – no dividend or other money payable by the Company in respect of a share shall bear interest against the Company unless otherwise provided by the rights attached to the share.
- (v) Calls or debts may be deducted from dividends – the Board may deduct from any dividend or other amounts payable to any member in respect of a share all such sums presently due from them to the Company on account of calls or otherwise in relation to any shares.
- (vi) Dividends in kind – a general meeting may declare a dividend on the recommendation of the Board. This dividend payment can be satisfied, wholly or in part by the distribution of assets (including paid up shares or securities of any other body corporate). In particular, the Board may: (i) issue fractional certificates or ignore fractions; (ii) fix the value of distribution of any assets, and may determine that cash shall be paid to any member on the footing of the value so fixed in order to adjust the rights of members; and (iii) vest any assets in trustees on trust for the persons entitled to the dividend.
- (vii) Scrip dividends – the Board may, with the authority of an ordinary resolution of the Company, offer any holders of Ordinary Shares the right to elect to receive further fully paid Ordinary Shares by way of scrip dividend instead of cash in respect of all (or some part, to be determined by the Board) of any dividend specified by the ordinary resolution.
- (viii) Unclaimed dividends – all unclaimed dividends or other monies can be used by the board for the benefit of the Company until claimed. The Company depositing unclaimed dividends into a separate accounts does not make the Company a trustee of those funds. Any dividend unclaimed for a period of 12 years from the date the dividend became due for payment shall be forfeited and shall revert to the Company.

(C) Return of capital

- (ix) On a winding up of the Company and subject to applicable statutory provisions, the Company's assets available for distribution shall be divided among the members in proportion to the nominal amounts of capital paid up or credited as paid up on the shares held by them, subject to the terms of issue of or rights attached to any shares.
- (x) On a winding up of the Company (whether voluntary, under supervision or by the Court) the liquidator may, on obtaining any sanction required by law, divide among the members in kind the whole or any part of the assets of the Company, whether or not the assets consist of property of one kind or of different kinds. For this purpose the liquidator may set the value he deems fair on a class or classes of property, and may determine on the basis of such valuation and in accordance with the then existing rights of members how the division is to be carried out between members or classes of members. The liquidator may not, however, distribute to a member without their consent an asset to which there is attached a liability or potential liability for the owner.

(D) Capitalisation of profits and reserves

The Board may, with the authority of an ordinary resolution of the Company:

- (xi) resolve to capitalise any undivided profits of the Company not required for paying any preferential dividend or any sum standing to the credit of any reserve or fund of the Company (including any share premium account, capital redemption reserve and profit and loss account), in each case, whether or not it is available for distribution; and
- (xii) appropriate that sum to be capitalised to the holders of Ordinary Shares in proportion to the nominal amounts of the shares (whether or not fully paid) held by them respectively which would entitle them to participate in a

distribution of that sum if the shares were fully paid and the sum were then distributable and were distributed by way of dividend and apply such sum on their behalf either in or towards paying up the amounts, if any, unpaid on any shares held by them respectively, or in paying up in full New Ordinary Shares or debentures of the Company of a nominal amount equal to that sum, and allot the shares or debentures credited as fully paid to those holders of Ordinary Shares or as the Board may direct, in those proportions, or partly in one way and partly in the other, but so that the share premium account, the capital redemption reserve and any profits or reserves which are not available for distribution may, for the purposes of this Article, only be applied in paying up New Ordinary Shares to be allotted to members credited as fully paid.

- (xiii) Resolve that any shares allotted to members holding partly paid shares, so along as such shares remain partly paid, will rank for dividends to the extent as the partly paid shares;
- (xiv) Make such provision by the issue of fractional certificates ( or by ignoring fractions or by accruing the benefit of fractions to the Company rather than to the holders concerned) or by payment in cash or otherwise as the Board may determine in the case of shares or debentures becoming distributable in fractions, and
- (xv) Authorise a person to enter into an agreement with the Company on behalf of all concerned members, providing for: (i) allotment of fully paid shares or debentures to members based on their entitlement from capitalisation; or (ii) the payment by the Company on behalf of such members of unpaid amounts on existing shares using members' proportions of reserves or profits (the agreement will be binding on all members as will all acts and things required to give effect to such resolution).

#### 5.4 Transfer of shares

- (A) Subject to Articles, Company shares in certificated form may be transferred by an instrument of transfer in writing in any usual form, or in another form approved by the Board, which must be executed by or on behalf of the transferor and (in the case of a transfer of a share which is not fully paid) by or on behalf of the transferee. Uncertificated shares may be transferred without a written instrument in accordance with the Uncertified Securities Regulations. The transferor shall remain the holder of the share transferred until the name of the transferee is entered in the register of members in respect of it.
- (B) Subject to the applicable statutory provisions, the Board may refuse to register the transfer of a certificated share or the renunciation of a renounceable letter of allotment unless it is: (i) in respect of a share which is fully paid; (ii) in respect of only one class of shares; (iii) in favour of a single transferee or renounee or not more than four joint transferees or renounees; (iv) duly stamped (if required); and (v) delivered for registration to the Registered Office or such other place as the Board may decide, accompanied by the certificate for the shares to which it relates (unless a certificate has not been issued) and any other evidence as the Board may reasonably require to prove the title to such share of the transferor or person renouncing and the due execution by them of the transfer or renunciation or, if the transfer or renunciation is executed by some other person on their behalf, the authority of such person to do so.
- (C) If the Board refuses to register a transfer or renunciation, it shall, within two months after the date on which the transfer or renunciation was delivered to the Company and subject to statutory provisions, send notice of the refusal to the transferee or renounee and (except in the case of fraud) return to them the instrument of transfer or renunciation.
- (D) The Board shall register a transfer of title to any uncertificated share or the renunciation or transfer of any renounceable right of allotment of a share which is a participating security held in uncertificated form in accordance with the Uncertified Securities Regulations, except that the Board may refuse to register any such transfer



or renunciation which is in favour of more than four persons jointly or in any other circumstance permitted by the Uncertified Securities Regulations. Subject to statutory provisions, if the Board refuses to register any such transfer or renunciation the Company shall, within two months after the date on which the instruction relating to such transfer or renunciation was received by the Company, send notice of the refusal to the transferee or renouncee.

- (E) The Board may, at its discretion, recognise and give effect to a renunciation of the allotment of any share by the allottee in favour of some other person.
- (F) No fee shall be charged for the registration of a transfer of a share or the renunciation of a renounceable letter of allotment or other document relating to or affecting the title to any share.

#### 5.5 Alteration of share capital

- (A) The Company may alter its share capital in any way permitted by statute.
- (B) Any resolution authorising the Company to sub-divide any of its shares may determine that, as between the shares resulting from the sub-division, any of them may have a preference, advantage, or referred or any other right or be subject to any restriction compared with the others.

#### 5.6 Variation of class rights

- (A) If the share capital of the Company is divided into shares of different classes, any of the rights attached to any class of shares (that the Company may be or be about to be in liquidation) may (unless the rights attached to the shares of the class otherwise provide) be varied or abrogated in any manner, either with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of the class or with the sanction of a special resolution passed at a separate meeting of the holders of shares of the class.
- (B) Subject to the terms of issue of or rights attached to any shares, the rights or privileges attached to any class of shares shall be deemed not to be varied or abrogated by:
  - (i) the creation or issue of any New Ordinary Shares ranking *pari passu* in all respects (save as to the date from which such New Ordinary Shares shall rank for dividend) with or subsequent to those already issued;
  - (ii) the reduction of the capital paid up on such shares or by the purchase or redemption by the Company of any of its own shares in accordance with applicable statutory provisions; or
  - (iii) the Board resolving that a class of shares is to become or is to cease to be, or the operator permitting such class of shares to become or to cease to be, a participating security.

#### 5.7 Disclosure of interests in shares

Where notice is given by the Company under section 793 of the Companies Act (a “**section 793 notice**”) to a member, or another person appearing to be interested in shares held by such member, and the member or other person has failed in relation to any shares to give the Company the information required within fourteen days after the date of service of the section 793 notice, unless the Board otherwise decides:

- (A) the member is not entitled to be present or to vote at a general meeting or on a poll, or to exercise any other rights conferred by membership in relation to the meeting or poll in respect of the relevant shares; and
- (B) where the relevant shares represent at least 0.25% in nominal value of their class of shares: (i) a dividend (or any part of a dividend) or other distribution or amount payable may be withheld by the Company; (ii) the member shall not be entitled to elect to receive shares instead of a dividend; and (iii) the Board may, in certain circumstances and in its absolute discretion, refuse to register the transfer of any shares.



- (C) The transfer is an exempt transfer; and
- (D) The member is not themselves in default in supplying the information required and proves to the satisfaction of the Board that no person in default of supplying the information required is interested in any of the shares which are the subject of the transfer.

The restrictions shall cease to apply seven (7) days after the earlier of: (i) receipt by the Company of notice of an excepted transfer (but only in relation to the shares transferred); or (ii) receipt by the Company, in a form satisfactory to the Board, of all the information required by the section 793 notice.

#### 5.8 Uncertificated shares

Shares of a class shall not be treated as forming a separate class from other shares of the same class as a consequence of such shares being held in certificated or uncertificated form.

The Articles apply to uncertificated shares only to the extent that they are not inconsistent with the holding of such shares in uncertificated form, with the transfer of title to such shares by means of the Uncertificated System or with the Uncertified Securities Regulations. The Board may lay down regulations not included in the Articles which (in addition to or in substitution for any provisions of the Articles): (i) apply to the issue, holding or transfer of uncertificated shares; (ii) set out (where appropriate) the procedures for conversion and/or redemption of uncertificated shares; and/or (iii) the Board considers necessary or appropriate to ensure that the Articles are consistent with the Uncertified Securities Regulations.

#### 5.9 Forfeiture

The Board may serve notice on the members in respect of any amounts unpaid on their shares after it has become due and payable. The member shall be given not less than fourteen (14) days' notice to pay the unpaid amount, together with any interest and all expenses incurred by the Company by reason of the non-payment. In the event of non-compliance, a share in respect of which the notice is given may be forfeited by resolution of the Board. Such forfeiture shall include all dividends and other amounts payable in respect of the forfeited shares which have not yet been paid. The Board may accept the surrender of a share which is liable to be forfeited in accordance with the Articles.

When any share has been forfeited, notice of the forfeiture shall be served upon the person who was the holder of the share. An entry that such notice has been given and of the fact and date of forfeiture shall be made in the register of members. Failure to give notice to the relevant holder of the share will not invalidate the forfeiture. Forfeited shares shall become the property of the Company. The holder of a share (or the person entitled to it by transmission) which is forfeited shall, on forfeiture, cease to be a member in respect of the share; surrender to the Company for cancellation the certificate for the share (if a certificated share); remain liable to pay to the Company all monies payable in respect of the share at the time of forfeiture, with interest from such time of forfeiture until the time of payment; and remain liable to satisfy all (if any) claims and demands which the Company might have enforced in respect of the share at the time of forfeiture.

A statutory declaration by a Director or the Secretary that a share has been forfeited on a specified date shall be conclusive evidence of the facts stated in it against all persons claiming to be entitled to the share. The declaration shall (subject to the execution of any necessary instrument of transfer) constitute good title to the share.

#### 5.10 Lien on Shares

The Company has a first and paramount lien on each issued share (not being a fully paid share) for all amounts payable to the Company (whether presently payable or not) in respect of such share. The lien applies to all dividends on any such share and to all amounts payable by the Company in respect of such share. The Board may resolve that any share be exempt wholly or in part from the relevant provisions in the Articles.

The Company may enforce a lien by selling the shares if an amount in respect of which the lien exists is currently payable and is not paid within fourteen (14) days following the giving of a notice to the holder in accordance with the Articles. The title of the transferee to the

shares will not be affected by any irregularity in or invalidity of the proceedings connected with the sale or transfer. Any exercise shall be effective as if it had been executed by the holder of the shares to which it relates.

#### 5.11 Directors

(A) Number of Directors

The number of Directors shall not, unless otherwise determined by an ordinary resolution of the Company, be less than two nor more than ten.

(B) Appointment

The Company, by ordinary resolution, or the Board may appoint Directors either to fill a vacancy or as an addition to the existing Board, subject to the total number of Directors not exceeding the maximum number fixed by the Articles. Any Director so appointed by the Board shall hold office only until the next following annual general meeting, and shall then be eligible for reappointment. Such person shall not be taken into account in determining the number or identity of Directors who are to retire by rotation at such meeting.

(C) Executive Directors

Subject to statutory provisions, the Board may appoint any Director to hold any employment or executive office with the Company for such period and on such terms as the Board may decide. The Board may revoke, terminate or vary the terms of any such appointment, without prejudice to any claim for damages which the Director may have for breach of contract against the Company.

(D) Rotational Retirement at Annual General Meeting

At each annual general meeting, all Directors at the date of the notice convening the annual general meeting shall retire from office but shall be eligible for reappointment. If any resolution(s) for the appointment or reappointment of the persons eligible for appointment or reappointment as Directors are put to the annual general meeting and lost and at the end of that meeting the number of Directors is less than the minimum number fixed by the Articles, all Directors who stood for reappointment at that meeting (the “**Retiring Directors**”) shall be deemed to have been reappointed as Directors and shall remain in office but may act for no other purposes than filling vacancies and convening general meetings of the Company and performing such duties as are appropriate to maintain the Company as a going concern and to comply with the Company’s legal and regulatory obligations.

The Retiring Directors shall then convene a general meeting as soon as reasonably practicable following the annual general meeting at which they became Retiring Directors and they shall retire from office at that meeting, provided the number of Directors remaining in office is not fewer than the minimum number of Directors fixed by the Articles.

(E) Removal by ordinary resolution

The Company may in accordance with the applicable statutory provisions, by ordinary resolution remove any Director before the expiration of their term of office and by ordinary resolution appoint another person as Director in their place. Any person so appointed shall be treated, for the purposes of determining the time at which he or any other Director is to retire, as if he had become a Director on the day on which the person in whose place he is appointed was last appointed or re-appointed a Director.

(F) Alternate Directors

A Director may appoint any other Director or any person approved for that purpose by a Board resolution, to be their alternate by notice delivered to the company secretary, or in any other manner approved by the Board. An alternate director shall be an officer of the Company and be entitled to exercise all the powers, rights, duties and authorities of their appointer (other than the power to appoint an alternate Director) but shall not be deemed the agent of the Director appointing them. An alternate Director shall cease to be an alternate Director if their appointer revokes their

appointment by notice delivered to the company secretary or their appointer ceases to be a Director.

(G) **Remuneration**

The Company shall pay to the Directors (but not alternate Directors) for their services as Directors such aggregate amount of fees as the Board decides (not exceeding £650,000 per annum or such larger amount as the Company may by ordinary resolution decide). The aggregate fees shall be divided among the Directors as Board decides, or if no decision is made, equally. A Director may also be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings to which these Articles apply or otherwise in connection with the discharge of their duties as a Director.

The salary or remuneration of a Director appointed to hold employment or executive office in accordance with the Articles may be a fixed sum of money, or wholly or in part governed by business done or profits made, or as otherwise decided by the Board and may be in addition to or instead of a fee payable to them for their services as Director.

The Board may exercise all the powers of the Company to provide pensions or other retirement or superannuation benefits and to provide death or disability benefits or other allowances or gratuities (by insurance or otherwise) for a person who is or has at any time been a Director, an officer or a director or an employee of the Company or its subsidiary. For this purpose the Board may establish, maintain, subscribe and contribute to any scheme, trust or fund and pay premiums. A Director or former Director is entitled to receive and retain for their own benefit any pension or other benefit provided in accordance with this Article and is not obliged to account for it to the Company.

## **6. DIRECTORS AND PERSONS DISCHARGING MANAGERIAL RESPONSIBILITIES**

### **6.1 Board of Directors**

The Directors and their principal functions within the Company, together with a brief description of their management experience and expertise and principal business activities outside the Company, are set out below. The business address of each of the Directors (in such capacity) is 2nd Floor, Building 4, West Strand, Preston, PR1 8UY.

| <b>Name</b>             | <b>Position</b>                    |
|-------------------------|------------------------------------|
| Luke Savage             | Chair                              |
| Steven Grant Murray     | Group Chief Executive Officer      |
| Tom Howard              | Group Chief Financial Officer      |
| Carol Jungmin Hagh      | Senior Independent Director        |
| Gail Louise Tucker      | Independent Non-Executive Director |
| Eamonn Michael Flanagan | Independent Non-Executive Director |
| Samantha Tymms          | Independent Non-Executive Director |

### **6.2 Directorships and partnerships outside of the Group**

The details of those companies and partnerships outside of the Group of which the Directors are currently directors or partners, or have been directors or partners at any time during the five (5) years prior to the publication of this document, are as follows:

| <b>Name</b> | <b>Current directorships and partnerships</b>                                                                | <b>Previous directorships and partnerships in the last 5 years</b>                                                                    |
|-------------|--------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|
| Luke Savage | Liontrust Asset Management Plc<br>Bancroft's School<br>Numis Securities Limited<br>Numis Corporation Limited | DWF Group plc<br>Liverpool Victoria Financial Services Limited<br>Queen Mary University of London Foundation<br>Lutine Yachts Limited |

| <b>Name</b>     | <b>Current directorships and partnerships</b>                                                                                           | <b>Previous directorships and partnerships in the last 5 years</b>                                                                                 |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| Steven Murray   | Cattanach – a private charity (Chair)<br>CASFS Ltd<br>Countrywide Assured Life Holdings Limited<br>Countrywide Assured Services Limited | Royal London Asset Management Limited<br>Royal London Asset Management Holdings Limited<br>PM Central Services Limited<br>Countrywide Assured plc  |
| Tom Howard      | N/A                                                                                                                                     | Aviva Investors Holdings Limited<br>Aviva Investors Global Services Limited                                                                        |
| Carol Hagh      | Countrywide Assured plc<br>Old Game New Rules Ltd                                                                                       | Blossom Financial Services Limited<br>CASLP Ltd<br>Churchill Insurance Company Limited<br>U K Insurance Limited<br>Direct Line Insurance Group plc |
| Gail Tucker     | Countrywide Assured plc<br>Breast Cancer Now (Trustee)                                                                                  | PricewaterhouseCoopers<br>University of Warwick Council                                                                                            |
| Eamonn Flanagan | AJ Bell plc                                                                                                                             | Countrywide Assured plc<br>R&Q Insurance Holdings Ltd                                                                                              |
| Samantha Tymms  | N/A                                                                                                                                     | N/A                                                                                                                                                |

### 6.3 Conflicts of Interest

Save for their capacities as persons legally and beneficially interested in Ordinary Shares, there are:

- 6.3.1 no actual or potential conflicts of interest between the duties owed by the Directors and their private interests and/or other duties that they may also have; and
- 6.3.2 no arrangements or understandings with major Shareholders, customers, suppliers or others, pursuant to which any Director was selected as a member of the administrative, management or supervisory bodies or member of senior management.

Each of the Directors has a statutory duty under the Companies Acts to avoid conflicts of interests with the Company and to disclose the nature and extent of any such interest to the Board. Under the Articles of Association and, as permitted by the Companies Act, the Board may authorise any matter which would otherwise involve a Director breaching this duty to avoid conflicts of interest and may attach to any such authorisation such conditions and/ or restrictions as the Board deems appropriate (including in respect of the receipt of information or restrictions on participation at certain Board meetings), in accordance with the Articles of Association.

### 6.4 Directors' confirmations

6.4.1 Save as set out in paragraph 6.4.2 below, as at the date of this document, none of the Directors has at any time within the past five years:

- (a) had any convictions in relation to fraudulent offences (whether spent or unspent); or
- (b) been adjudged bankrupt or has entered into any individual voluntary arrangements; or

- (c) been a director of any company at the time of or within a 12 month period preceding any receivership compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with such company's creditors generally or with any class of creditors of such company; or
- (d) been partner of any partnership at the time of or within a 12 month period preceding any compulsory liquidation, administration or partnership voluntary arrangement of such partnership; or
- (e) had their assets be the subject of any receivership; or
- (f) been partner of any partnership at the time of or within a 12 month period preceding any assets thereof being the subject of a receivership; or
- (g) been subject to any official public incrimination and/or sanctions by any statutory or regulatory authority (including any designated professional body); or
- (h) ever been disqualified by a court from acting as a director or other officer of any company or from acting in the management or conduct of the affairs of any company.

6.4.2 Eamonn Flanagan was a non-executive director on the board of R&Q Insurance Holdings Ltd, a company incorporated in Bermuda which filed for liquidation in the Supreme Court of Bermuda on 21 June 2024. The Supreme Court appointed joint provisional liquidators and shortly following their appointment, Eamonn Flanagan resigned as a director of R&Q Insurance Holdings Ltd, alongside the other non-executive directors.

## 6.5 Directors' Interests

The interests of the Directors and their persons closely associated (for the purposes of UK MAR), in the share capital of the Company (all of which, unless otherwise indicated, are beneficial) on the Latest Practicable Date and as they are expected to be immediately following the Rights Issue including as a percentage of the enlarged share capital (assuming 100% take up by the Directors of their entitlements under the Rights Issue and that no Ordinary Shares are issued as a result of the exercise of any options between the Latest Practicable Date and the completion of the Rights Issue), are as follows:

| Name            | Ordinary shares<br>beneficially held at<br>Latest Practicable<br>Date |       | Ordinary Shares<br>beneficially held<br>immediately following<br>the Rights Issue |      |
|-----------------|-----------------------------------------------------------------------|-------|-----------------------------------------------------------------------------------|------|
|                 | No.                                                                   | %     | No.                                                                               | %    |
| Luke Savage     | 30,000                                                                | 0.020 | 45,789                                                                            | 0.02 |
| Steven Murray   | 250,839                                                               | 0.166 | 382,859                                                                           | 0.17 |
| Tom Howard      | 26,425                                                                | 0.017 | 40,332                                                                            | 0.02 |
| Carol Hagh      | 30,000                                                                | 0.020 | 45,789                                                                            | 0.02 |
| Eamonn Flanagan | 30,000                                                                | 0.020 | 45,789                                                                            | 0.02 |
| Gail Tucker     | N/A                                                                   | N/A   | N/A                                                                               | N/A  |
| Samantha Tymms  | N/A                                                                   | N/A   | N/A                                                                               | N/A  |

6.5.1 The Directors who are Shareholders have the same voting rights as all other Shareholders.

6.5.2 Details of the Directors' non-beneficial interests in the Ordinary Shares subject to options and awards under the Share-Based Incentive Plans as at the Latest Practicable Date are set out below:

| Name          | Type of award | No. of Ordinary Shares subject to Award <sup>(1)</sup> | Exercise Price | Grant date      | Vest date       | Performance Period | Holding Period |
|---------------|---------------|--------------------------------------------------------|----------------|-----------------|-----------------|--------------------|----------------|
| Steven Murray | 2023 LTIP     | 242,754                                                | Nil            | 28 March 2025   | 28 March 2028   | 3 Years            | 2 Years        |
|               | 2023 LTIP     | 249,525                                                | Nil            | 2 April 2024    | 2 April 2027    | 3 Years            | 2 Years        |
|               | 2023 LTIP     | 210,386                                                | Nil            | 6 July 2023     | 6 July 2026     | 3 Years            | 2 Years        |
|               | 2014 LTIP     | 56,467                                                 | Nil            | 28 April 2022   | 28 April 2025   | 3 Years            | 2 Years        |
|               | 2023 STIS     | 63,558                                                 | Nil            | 28 March 2025   | 28 March 2028   | N/A                | N/A            |
|               | 2023 STIS     | 39,953                                                 | Nil            | 31 May 2023     | 31 May 2026     | N/A                | N/A            |
|               | 2023 STIS     | 58,484                                                 | Nil            | 2 April 2024    | 2 April 2027    | N/A                | N/A            |
|               | 2014 STI      | 29,525                                                 | Nil            | 28 April 2022   | 28 April 2025   | N/A                | N/A            |
|               | Sharesave     | 8,167                                                  | 220.40         | 28 October 2022 | 1 December 2025 | N/A                | N/A            |
| Tom Howard    | 2023 LTIP     | 135,135                                                | Nil            | 16 April 2024   | 16 April 2027   | 3 years            | 2 Years        |
|               | 2023 LTIP     | 129,348                                                | Nil            | 28 March 2025   | 28 March 2028   | 3 Years            | 2 Years        |
|               | 2023 STIS     | 30,227                                                 | Nil            | 28 March 2025   | 28 March 2028   | N/A                | N/A            |
|               | 2024 Buy-out  | 75,397                                                 | Nil            | 15 May 2024     | 15 May 2027     | 3 years            | N/A            |
|               | 2024 Buy-out  | 188,492                                                | Nil            | 15 May 2024     | 15 May 2025     | 1 year             | N/A            |
|               | Sharesave     | 9,084                                                  | 204.20         | 25 October 2024 | 1 December 2027 | N/A                | N/A            |
|               | 2025 Buy-out  | 99,206                                                 | Nil            | 15 May 2024     | 15 May 2026     | 2 years            | N/A            |

The interests shown in the table above are the maximum number of Ordinary Shares that may be received under each of the awards. The actual number of Ordinary Shares that may be released or become exercisable is dependent, in some cases, on performance conditions and so may be less than the maximum shown.

6.5.3 The non-executive Directors and the Chair do not have any non-beneficial interests in the Ordinary Shares subject to options and awards under the Share-Based Incentive Plans.

6.5.4 Save as set out in this Part XVII (Additional Information), it is not expected that any Director will have any interest in the share or loan capital of the Company following the Rights Issue and there is no person to whom any capital of any member of the Group is under option or agreed unconditionally to be put under option.

6.5.5 Save as disclosed in this paragraph 6, no Director has any interests (beneficial or non-beneficial) in the share capital of the Company or any of its subsidiaries.

## 6.6 Directors' Remuneration

For more information on the Directors' remuneration (including any contingent or deferred compensation), and benefits in kind granted to Directors of the Company for services in all capacities to the Group, see the section titled 'Directors' Remuneration Report' in Chesnara plc's 2024 Annual Report and Accounts, incorporated into this document as described in Part XVIII (Documents Incorporated by Reference) of this document.

## 7. CORPORATE GOVERNANCE

For a description of the Group's corporate governance arrangements, including the structure of the Board, see the section titled 'Corporate Governance Report' in Chesnara plc's 2024



Annual Report and Accounts, incorporated into this document as described in Part XVIII (*Documents Incorporated by Reference*) of this document.

## 8. MAJOR SHAREHOLDERS AND OTHER INTERESTS

As at the Latest Practicable Date, the Company had been notified under Rule 5 of the Disclosure Guidance and Transparency Rules of the following direct and indirect substantial interests in the issued Ordinary Shares of the Company:

| Name of shareholder               | Total number of ordinary shares held | Percentage of the issued share capital as at Latest Practicable Date |
|-----------------------------------|--------------------------------------|----------------------------------------------------------------------|
| Aberdeen plc                      | 26,410,406                           | 17.48*                                                               |
| Columbia Threadneedle Investments | 17,839,143                           | 11.81                                                                |
| Hargreaves Lansdown Asset Mgt     | 13,748,381                           | 9.10                                                                 |
| M&G Investments                   | 8,700,317                            | 5.76                                                                 |
| Royal London Asset Mgt            | 5,631,863                            | 3.73                                                                 |
| Janus Henderson Investors         | 5,227,132                            | 3.46                                                                 |
| Dimensional Fund Advisors         | 4,557,161                            | 3.02                                                                 |
| Halifax Share Dealing             | 4,532,487                            | 3.00                                                                 |

\* Of the total Aberdeen plc shareholding of 17.48% (as at 30 May 2025), 8.36% is held by Interactive Investor.

As at the Latest Practicable Date, save as disclosed in this paragraph 8, the Company is not aware of any interest (within the meaning of the Disclosure and Transparency Rules) which represents 3% or more of the voting rights in the Company. The Company is not aware of any person or persons who, directly or indirectly, acting jointly with others or acting alone, exercised or could exercise control over the Company. The Company is not aware of any arrangements the operation of which may, at a subsequent date, result in a change in control of the Company.

## 9. MATERIAL CONTRACTS

### 9.1 Chesnara

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group: (a) in the two years immediately preceding the date of this document and are, or may be, material to the Group; or (b) containing provisions under which Chesnara plc or any member of the Group has any obligation or entitlement which is material to the Group as at the date of this document.

#### 9.1.1 *Share Purchase Agreement*

On 3 July 2025, the Company, as the buyer and HSBC Bank plc, as the seller entered into a share purchase agreement, to acquire the entire issued and to be issued share capital of HSBC Life (UK) (the “**Share Purchase Agreement**”).

Completion of the Share Purchase Agreement is subject to certain conditions being satisfied (or waived by the agreement of each of the Company and the Seller under the terms of the Share Purchase Agreement):

- the PRA having approved, or being treated as having approved, the acquisition of control of HSBC Life (UK) by the Company for the purposes of the FSMA; and
- Admission having become effective (the “**Admission Condition**”).

The Company has agreed to use its best endeavours to take certain actions in connection with the satisfaction of the condition relating to the approval by the PRA . If each of the conditions has not been satisfied (or waived by mutual written consent between the Company and the Seller) by the date which is nine months following the date of the Share Purchase Agreement and the Company and the Seller have not

otherwise agreed in writing within five Business Days thereof then the Share Purchase Agreement will terminate and the Acquisition will not proceed.

The total consideration for the Acquisition comprises: an amount equal to:

- a) £260 million (the “**Basic Amount**”); minus
- b) an amount equal to all dividend payments made by HSBC Life (UK) to the Seller in circumstances where the record date for such dividend falls between 31 December 2024 up to the date of Completion; (the “**Dividend Amount**”); plus
- c) an amount equal to:
  - a. 1% per annum calculated on a 365-day year, applied daily, from and including 1 January 2025 to and including the earlier of the date of Completion or 31 December 2025; and
  - b. 5% annum calculated on a 365-day year, applied daily, from and including 1 January 2026 to and including the date of Completion,  
(the “**Daily Amount**”),  
multiplied by the Basic Amount multiplied by the number of days elapsed from and including 1 January 2025 to and including the date of Completion; minus
  - c. the Daily Amount multiplied by the amount of each dividend forming part of the Dividend Amount multiplied by the number of days, in each case, elapsed from but excluding the relevant date on which a dividend forming part of the Dividend Amount is paid to the Seller to and including the date of Completion; plus
- d) an amount equal to the aggregate of any capital equity contribution, or other capital amounts to be contributed by the Seller and/or any member of the Seller’s group to HSBC Life (UK) in the form of cash between the date of the Share Purchase Agreement (included) and the date of Completion (included) (“**Capital Contributions**”); plus
- e) an amount for each Capital Contribution equal to the Daily Amount multiplied by the amount of the relevant Capital Contribution multiplied by the number of days elapsed from but excluding the date of payment of the relevant Capital Contribution up to and including the date of Completion,  
together the (“**Consideration Amount**”).

The Consideration Amount may be adjusted via a “locked box” mechanism. This means that if certain types of payments which are outside the ordinary course of business have been, or are, made to the Seller’s group from HSBC Life (UK) from 31 December 2024 up to and including the date of Completion, then this will result in a reduction in the cash component of the Consideration Amount at Completion. Where these payments have not been determined or agreed at Completion then further price adjustments may occur after Completion.

Prior to the date of Completion, either the Company or the Seller may terminate the Share Purchase Agreement with immediate effect, upon becoming aware that the other party:

- a) has become a Sanctioned Person (as defined within the Share Purchase Agreement); or
- b) has, in connection with the entry into of the Share Purchase Agreement and the transactions contemplated therein, and/or any matter pertaining directly or indirectly to the Share Purchase Agreement, including the negotiation of the Share Purchase Agreement and the fulfilment of the other party’s obligations under the Share Purchase Agreement, violated or would cause the other party to violate any: (i) Anti-Bribery Laws; (ii) Economic Sanctions Laws; (iii) the US Export Administration Regulations or the US International Traffic in Arms

Regulations; (iv) any Anti-Terrorism and Anti-Money Laundering Law (the “**Relevant Legislation**”).

If the Admission Condition is not satisfied within four Business Days of the date of the Share Purchase Agreement, the Company shall use best endeavours to seek alternative financing for the Acquisition. In such circumstances, the Seller may terminate the Share Purchase Agreement, from the fortieth Business Day following the date of the Share Purchase Agreement provided that the seller must give not less than 10 Business Days’ notice to the Company of its intention to exercise the termination right and further provided that such termination right shall lapse if the Company has been able to obtain alternative financing for the Acquisition to the reasonable satisfaction of the Seller.

On termination of the Share Purchase Agreement (other than: (i) as a result of the Seller becoming a Sanctioned Person; or(ii) having violated or caused the Company to violate the Relevant Legislation; or (iii) completion not occurring due to a failure of the Seller not complying with its completion obligations), a non-refundable break payment of an amount equal to £20,000,000 shall become payable within five Business Days of termination of the Share Purchase Agreement.

The Seller and the Company have given each other certain customary representations and warranties in relation to the Acquisition and the issue of the New Ordinary Shares. The Seller has also given to the Company an indemnity in respect of potential liabilities associated with certain enhanced redundancy or early retirement benefits under occupational pension schemes that may transfer to the Company upon Completion. The Company’s recourse in respect of warranties and certain indemnities in relation to HSBC Life (UK) is, save in respect of fraud, limited to recovery under warranty and indemnity insurance policy which was also entered into between the Company and Riskpoint Solutions Limited on the date of the Share Purchase Agreement.

Save as set out above, the Seller’s liability in respect of claims made pursuant to the Share Purchase Agreement is subject to certain customary limitations including that the Seller’s total liability in respect of all claims (other than specific claims relating to adjustments to the Consideration Amount via the “locked box” mechanism) relating to the Acquisition is not to exceed 100% of the Consideration Amount. Certain sub-caps on the Seller’s liability also apply.

The Seller has undertaken that HSBC Life (UK) will be run in the ordinary course of business until Completion and will not make any material change to the nature of the business. The Share Purchase Agreement contains customary restrictions on the conduct of certain activities by HSBC Life (UK) prior to Completion.

The Share Purchase Agreement is governed by English law.

#### **9.1.2 Underwriting Agreement**

On the date of this document, the Company and the Joint Bookrunners entered into the Underwriting Agreement pursuant to which the Company has appointed RBC as sole sponsor, global coordinator, lead underwriter and joint bookrunner, ABN AMRO as joint underwriter and joint bookrunner and Panmure Liberum as joint bookrunner in connection with the Rights Issue and Admission.

Subject to the terms and conditions of the Underwriting Agreement, the Joint Bookrunners (as agents for the Company) have severally (and not jointly or jointly and severally) agreed to use reasonable endeavours to procure subscribers for all (or as many as possible of) the New Ordinary Shares which are not taken up as soon as reasonably practicable and in any event no later than 8.00 a.m. on the second dealing day after the last date for acceptances under the Rights Issue, for an amount which is not less than the total of the Issue Price multiplied by the number of such New Ordinary Shares for which subscribers are so procured and the expenses of procurement (including any commissions and related amounts in respect of VAT).

If and to the extent that the Joint Bookrunners are unable to procure subscribers on the basis outlined above, the Underwriters shall, as principals, subscribe on a several basis in the agreed proportions for any remaining New Ordinary Shares at the Issue Price.

In consideration for their services under the Underwriting Agreement, and subject to their obligations under the Underwriting Agreement having become unconditional and the Underwriting Agreement not having been terminated, the Joint Bookrunners will be paid a fee by reference to the gross proceeds of the Rights Issue in respect of the New Ordinary Shares. The Company has also agreed to pay a fee to the Sponsor in consideration for its services as sponsor. The Company shall bear all reasonably and properly incurred expenses of, and incidental to, the Underwriting Agreement and the Rights Issue.

The Company has given certain customary representations and warranties and undertakings to the Joint Bookrunners, including a 180-day lock-up on issues of new shares from the date of Admission (save for permitted issuances in connection with the Rights Issue and existing employee share schemes and the issue of convertible securities following completion of the Rights Issue). The Company has also given customary indemnities to the Joint Bookrunners and to certain persons connected with the Joint Bookrunners.

The obligations of the Joint Bookrunners under the Underwriting Agreement are subject to certain customary conditions including, among others: (i) the representations and warranties given by the Company in the Underwriting Agreement being true and accurate and not misleading on the dates on which they are given; (ii) the Company having complied with all of its obligations undertakings under the Underwriting Agreement and under the terms and conditions of the Rights Issue; and (iii) Admission occurring not later than 8.00 a.m. on 8 July 2025 (or such later time and/or date as the Company and the Global Coordinator may agree in writing).

If any condition is not satisfied (unless, where permissible, extended or waived by the Global Coordinator), or becomes incapable of being satisfied, by the required time and date then, save for certain exceptions, the parties' obligations under the Underwriting Agreement shall cease and terminate, without prejudice to any liability for any prior breach of the Underwriting Agreement. In addition, the Global Coordinator is entitled to terminate the Underwriting Agreement prior to Admission if certain circumstances occur, including, among others, where, in the good faith opinion of the Global Coordinator, there has been a material adverse change with respect to the Group or the occurrence of certain force majeure-style events which would, in the good faith opinion of the Underwriters, make it impractical or inadvisable to proceed with the Rights Issue, to market the New Ordinary Shares in the manner contemplated, or to fulfil or enforce contracts for the subscription or sale of the New Ordinary Shares. The Underwriting Agreement cannot be terminated once Admission has occurred.

#### 9.1.3 ***Previous Acquisitions***

##### (i) ***Canada Life Acquisition Agreement***

On 20 December 2024, Countrywide Assured plc ("**Countrywide Assured**") and Canada Life Limited ("**CL**") entered into a framework agreement and reinsurance agreement to acquire CL's closed UK unit-linked bond and closed UK unit-linked pensions business ("**Acquired CL Business**"). The consideration paid for the Acquired CL Business was £2,200,000. The Acquired CL Business will transfer to Countrywide Assured pursuant to a Part VII transfer following approval by the Court of the English scheme and any conditions to the order sanctioned by the Court being satisfied. Under the terms of the framework agreement, the longstop date for the transfer is 31 December 2026 or such other date as agreed between Countrywide Assured and CL. Under the terms of the framework agreement, CL gave Countrywide Assured certain warranties. Claims in respect of certain tax

warranties must be brought prior to the date five years following the date on which the transfer takes effect in accordance with the Court order.

(ii) ***Canada Life 2023 Acquisition Agreement***

On 16 May 2023, Countrywide Assured and CL entered into a framework agreement and reinsurance agreement to acquire CL's UK onshore individual protection line which consisted of 47,000 term assurance and critical illness policies ("**2023 Acquired CL Business**"). The consideration paid for the Acquired CL Business was £9,000,000. The 2023 Acquired CL Business transferred to Countrywide Assured pursuant to a Part VII transfer following approval by the Court of the English scheme on 23 February 2025. Under the terms of the framework agreement, CL gave Countrywide Assured certain warranties. Claims in respect of certain tax warranties must be brought prior to the date four years following the date on which the transfer takes effect in accordance with the Court order.

(iii) ***Conservatrix Acquisition Agreement***

On 21 July 2022, Waard Leven N.V. ("**WL**") entered into an asset transfer agreement (the "**ATA**") with the trustees in bankruptcy of Nederlandsche Algemeene Maatschappij van Levensverzekering N.V. ("**Conservatrix**") to acquire the rights and obligations under insurance contracts entered into by Conservatrix (the "**Conservatrix Assets**"). Completion under the ATA occurred on 1 January 2023. WL's acquisition of the Conservatrix Assets was effected by way of the incorporation of a special purpose vehicle (which has since been dissolved), shares in which were issued to Conservatrix and then transferred along with the Conservatrix Assets to WL on or around 3 January 2023. Consent to the transfer of the Conservatrix Assets pursuant to the terms of the ATA was obtained from, amongst other stakeholders:

- (1) the Dutch tax authority, which also confirmed, with reference to a decision of the State Secretary of Finance of 28 April 2021, that the effective date of such transfer may be 1 April 2022 in accordance with the ATA;
- (2) the Dutch Central Bank ("**DNB**") in accordance with section 3:112 et seq of the Dutch Financial Supervision Act; section 3:284 of the Dutch Financial Supervisions Act;
- (3) the relevant supervisory judges of the District Court of Amsterdam, in accordance with section 101 jo. 176 of the Dutch Bankruptcy Act.

The transfer and integration of the Conservatrix Assets to Waard Leven N.V. was effectively completed on or around 3 January 2023.

9.1.4 ***Amended and Restated Facility Agreement***

On or around the date of this document, the Company entered into an amendment and restatement deed with National Westminster Bank plc as Arranger, Original Lender and Facility Agent and ABN AMRO as an Original Lender to amend and restate credit facility agreement originally dated 2 July 2024 (the "**Amended and Restated Facility Agreement**") pursuant to which a three year £150,000,000 multicurrency revolving facility is made available to the Company.

The Amended RCF may be applied towards, amongst other things, the part funding of consideration and the Acquisition under and pursuant to the Share Purchase Agreement as disclosed to the Amended RCF finance parties, certain other acquisitions that are permitted under the Amended and Restated Facility Agreement and general corporate and working capital purposes of the "Group" as defined in the Amended and Restated Facility Agreement (being the Company and each of its respective subsidiaries for the time being). The Amended RCF is unsecured, and the Company is the only borrower under the Amended and Restated Facility Agreement but the Company can on-lend amounts borrowed to other members of the Group.



The Amended and Restated Facility Agreement contains a certain funds concept which will apply to a utilisation of the Amended RCF to fund the Acquisition. In the context of the Acquisition, the **“Agreed Certain Funds Period”** will run from the effective date of the Amended and Restated Facility Agreement to the earlier of: (i) the date falling nine months after the date of the Share Purchase Agreement; (ii) the date on which the Share Purchase Agreement is terminated in accordance with its terms; (iii) the date on which the Company notifies the Facility Agent that the Acquisition will not be proceeding.

To make a certain funds utilisation, the Company has to comply with certain notice requirements under the Amended and Restated Facility Agreement and it must have sufficient headroom to draw the amount requested. If these requirements are met, during the Agreed Certain Funds Period, subject to certain carve outs, there can be no acceleration of the loans, cancellation of undrawn commitments or refusal to make available a utilisation of the loans in each case to the extent that such acceleration, cancellation or refusal to fund would prevent or limit the making of any loan to fund the Acquisition. The carve outs to certain funds are illegality, a “Major Event of Default” is continuing (on the date of the utilisation request, on the proposed utilisation date or would result from the proposed utilisation) and a change of control in relation to the Company.

The concept of Major Event of Default relates to the Company and its material subsidiaries (i.e. those members of the Group accounting for 5% or more of profit of the Group or gross assets of the Group). Major Events of Default include non-payment, insolvency defaults, unlawfulness, repudiation or rescission of finance documents, loss of regulatory authorisation, redemption of shares by the Company (save as expressly permitted by the Amended and Restated Facility Agreement), misrepresentation insofar as relating to breach of a material representation (being binding obligations, non-conflict, power and authority and validity and admissibility in evidence), breach of financial indebtedness and negative pledge undertakings, breach of undertakings relating to acquisitions, disposals, merger, loans, dividends and general authorisations (in the case of authorisations only insofar as relating to the Company's or the relevant Material Subsidiaries' ability to perform obligations under the Amended and Restated Facility Agreement and related finance documents) and termination of the Share Purchase Agreement.

Immediately upon the expiry of the Agreed Certain Funds Period, all rights, remedies and entitlements shall be available to the finance parties and may be exercised, notwithstanding that they may not have been used or been available for use during the Agreed Certain Funds Period.

Subject to the certain funds provisions summarised above, loans under the Amended RCF may be drawn if no Default is outstanding or would result from such loan. The Defaults included in the Amended and Restated Facility Agreement are customary and based on the Loan Market Association's template for investment grade transactions.

Loans under the Amended RCF may be drawn in sterling, US dollars or euro. Interest is payable on the loans at a percentage rate per annum which is equal to the aggregate of the relevant reference rate (SONIA for sterling loans, SOFR for US dollar loans and EURIBOR for euro loans) plus a margin which is subject to change depending on the total debt to economic value for the 12 month period ending on the most recent financial quarter date. If an event of default is continuing the highest possible margin applies. Each interest period is one month and interest is payable at the end of each interest period. The Company is also required to pay a commitment fee equal to 35% of the applicable margin on available commitments under the Amended RCF for the period that the Amended RCF is available. The commitment fee is calculated on the last day of each month but is payable quarterly in arrears.

The Amended and Restated Facility Agreement includes standard information undertakings. These include the delivery of annual audited consolidated financial statements, half yearly interim consolidated financial statements relative the first half



of each financial year, quarterly consolidated management accounts and copies of regulatory returns required to be delivered by a member of the Group to any financial services regulator.

There are three financial covenants that the Company must comply with under the Amended and Restated Facility Agreement which are measured:

- a. firstly, the distributable earnings of the Company on the first day of each 12 month period ending on a financial quarter date (each a “**Relevant Period**”) plus cashflow for that Relevant Period to total funding costs of the Company (which includes all financing charges (including on tier 1 or tier 2 debt), dividends and any redemption of or reduction in share capital) for that Relevant Period must not be less than 1.4:1;
- b. secondly, total debt (being all financial indebtedness of the Group (including the capital element of finance leases) less tier 1 and tier 2 debt and up to £60,000,000 of financial indebtedness relating to financial reinsurance in the ordinary course of business) to economic value (being the Company's assessment of the value of the business in accordance with Solvency II after adjusting for certain items where it is deemed that Solvency II does not reflect the commercial value of the business) must not at any time be more than 0.2:1; and
- c. thirdly, each regulated Group member must at all times maintain financial resources of at least 110% of the minimum regulatory solvency capital requirement with certain named entities within the Group having to maintain at least 130% of the minimum regulatory requirement.

The Company must submit compliance certificates relative to the financial covenants with each set of quarterly and annual financial statements. The compliance certificate relating to the annual financial statements must be reported on by the Company's auditors.

In addition, the Amended and Restated Facility Agreement contains certain other customary representations, warranties and undertakings including, without limitation, a restriction on certain acquisitions, a restriction on certain sales and other disposals of assets, a restriction on the creation or subsistence of security subject to certain exceptions, a restriction on financial indebtedness subject to certain exceptions, a requirement that if any reinsurer providing reinsurance services to a member of the Group becomes insolvent, ceases business or whose credit rating falls below a certain level to replace that reinsurer or recapture the reinsurance provided by that reinsurer and a requirement to maintain certain regulatory authorisations.

The events of default under the Amended and Restated Facility Agreement include, among others and subject to customary grace periods and materiality thresholds, (i) failure to make payments under the Amended and Restated Facility Agreement and related finance documents, (ii) breach of any financial covenants mentioned above, (iii) breach of any other obligations contained in the Amended and Restated Facility Agreement and related finance documents, (iv) misrepresentation, (v) cross-default in excess of specified amounts, (vi) certain insolvency events or procedures in relation to any Group company (any similar events, including enforcement of security over assets above a specified value), (vii) creditors' process in relation to assets of a Group company above a specified value, (ix) it becomes unlawful for an obligor to perform any of its obligations, (x) repudiation, (xi) a material adverse effect (defined to include a material adverse effect on the ability of the Company to perform its payment obligations under the Amended and Restated Facility Agreement and related finance documents, on the business, operations financial condition or assets of the Group as a whole or the validity or enforceability of rights and remedies under the Amended RCF and related finance documents) occurs or is reasonably expected to occur, (xii) cessation of business by a Group company, (xiii) redemption of shares or reduction of share capital by the Company subject to express carve outs, (xiv) audit qualification in relation to the audited accounts of any Group company, (xv) rescission or purported rescission of the Amended and Restated Facility Agreement or other

related finance documents, (xvi) proceedings which are reasonably likely to be adversely determined and, if adversely determined, could reasonably be expected to have a material adverse effect, (xvii) loss, suspension or termination of regulatory authorisation (xviii) imposition of restriction or limitation on dividends or distributions by a regulator which has or is reasonably likely to have a material adverse effect, (xix) certain powers are exercised by a regulator against a regulated member of the Group in circumstances which have or are reasonably likely to have a material adverse effect, (xx) tier 1 or tier 2 debt ceases to be subordinated and rank behind sums owed by the Company under the Amended and Restated Facility Agreement and related finance documents.

The events of default include a general carve-out in relation to the Acquisition, pursuant to which matters or transactions explicitly disclosed to the finance parties prior to the date of completion under the Share Purchase Agreement and solely in connection with Indianna shall not be deemed to constitute a breach of any representation, warranty or undertaking in the Amended and Restated Facility Agreement and thus shall not constitute a default or an event of default.

If an event of default is continuing, the Facility Agent may give notice of cancellation of all available commitments and/or declare all outstanding advances, together with accrued interest, to be immediately due and payable or payable on demand.

## 9.2 HSBC Life (UK)

The following contract (not being a contract entered into in the ordinary course of business) have been entered into by HSBC Life (UK): (a) in the two years immediately preceding the date of this document and are, or may be, material to HSBC Life (UK); or (b) containing provisions under which HSBC Life (UK) has any obligation or entitlement which is material to HSBC Life (UK) as at the date of this document.

### 9.2.1 *Share Purchase Agreement*

Please see the description of the Share Purchase Agreement as set out in paragraph 9.1.1 of this Part XVII (*Additional Information*).

## 10. RELATED PARTY TRANSACTIONS

### 10.1 Chesnara

There are no related party transactions between the Chesnara Group and its related parties that were entered into during the year ended 31 December 2024 and there have been no related party transactions during the period from 31 December 2024 to the Latest Practicable Date.

### 10.2 HSBC Life (UK)

Save as disclosed in the historical financial information of HSBC Life (UK) appended to this Prospectus and referred to below, HSBC Life (UK) entered into no transactions with related parties during the years ended 31 December 2022, 31 December 2023 and 31 December 2024.

- Note 27 of the notes to the audited financial statements of HSBC Life (UK) for year ended 31 December 2022 which can be found at page 294 of this document.
- Note 21 of the notes to the audited financial statements of HSBC Life (UK) for year ended 31 December 2023 which can be found at page 242 of this document.
- Note 20 of the notes to the audited financial statements of HSBC Life (UK) for year ended 31 December 2024 which can be found at page 187 of this document.

In respect of the period from 1 January 2025 to 31 March 2025, related party transactions between HSBC Life (UK) and related parties are summarised as follows:

#### 10.2.1 *Income and expense*

|                              | <b>31 May 2025</b> |
|------------------------------|--------------------|
|                              | <b>£'000</b>       |
| Net insurance service result |                    |
| – Parent                     | 0                  |
| – Other Group company        | 2,669              |
| Net investment returns       |                    |
| – Parent                     | 2,016              |
| – Other Group company        | 1,845              |
| Net fees income / (expense)  |                    |
| – Parent                     | (551)              |
| – Other Group company        | 5,086              |
| Total operating expenses     |                    |
| – Parent                     | 0                  |
| – Other Group company        | (3,038)            |
|                              | <hr/>              |
|                              | <b>8,8027</b>      |
|                              | <hr/> <hr/>        |

#### 11.2.2 *Key balances with related parties as at 31 May 2025*

|                                                        | <b>31 May 2025</b> |
|--------------------------------------------------------|--------------------|
|                                                        | <b>£'000</b>       |
| <b>Assets</b>                                          |                    |
| Financial assets at fair value through profit and loss |                    |
| Debt securities                                        | 0                  |
| – Other Group company                                  | 932                |
| Collective investment schemes                          |                    |
| – Parent                                               | 0                  |
| – Other Group company                                  | 50,357             |
| Cash and cash equivalents                              |                    |
| – Parent                                               | 174,190            |
|                                                        | <hr/>              |
|                                                        | <b>225,478</b>     |
| Loans, receivables and prepayments                     |                    |
| – Parent                                               | 410                |
| – Other Group company                                  | 2,326              |
| Insurance contract assets                              |                    |
| – Parent                                               | 0                  |
| – Other Group company                                  | 0                  |
| Reinsurance contract assets                            |                    |
| – Parent                                               | 0                  |
| – Other Group company                                  | 9,787              |
|                                                        | <hr/>              |
|                                                        | <b>238,002</b>     |

31 May 2025

£'000

# **Liabilities**

## Insurance contract assets

|                       |        |
|-----------------------|--------|
| – Parent              | 0      |
| – Other Group company | 74,394 |

## Reinsurance contract liabilities

|                       |   |
|-----------------------|---|
| – Parent              | 0 |
| – Other Group company | 8 |

## Investment contract liabilities

|                       |         |
|-----------------------|---------|
| – Other Group company | 916,533 |
|-----------------------|---------|

## Insurance and other payables and deferred income

|                       |       |
|-----------------------|-------|
| – Parent              | 469   |
| – Other Group company | 6,776 |

**998,180**

Income from related party transactions arises from:

- Insurance service result includes the impact from HSBC Group contracts with other HSBC Group companies to provide life, critical illness and income protection cover for employees and associated reinsurance contracts. The impact of attributable insurance contract expenses are also included in the insurance service result.
- Investment returns include interest receivable on cash balances deposited with HSBC Life (UK)'s parent and interest on collective investment scheme holdings with other HSBC Group companies.
- Fee income include annual management charges rebated to HSBC Life (UK) in respect of its holdings in collective investment schemes managed by other HSBC Group companies, and fees received from HSBC Group companies for the provision of insurance products.
- Fee expenses include costs charged to the HSBC Life (UK) by its parent for the provision of investment accounting and unit pricing services and cost charged for the provision of asset management services by other HSBC Group companies.
- Operating expenses include acquisition costs (commission) payable to other HSBC Group companies in relation to sales of the HSBC Life (UK)'s products. HSBC Life (UK)'s products are currently marketed and sold primarily by HSBC Bank through its sales channels.
- Costs charged to the HSBC Life (UK) for the provision of management services are also included in operating expenses. These include product management, customer services (policy underwriting, administration and claims processing), risk management, actuarial, finance, human resources, property services and IT. HSBC Life (UK) is recharged for the actual costs incurred in undertaking these activities. Cost directly attributable to insurance and reinsurance contracts are taken into the contractual service margin calculation and spread over the life of the contracts through the insurance service result.

As a wholly owned subsidiary of the HSBC Group, HSBC Life has many services provided by other HSBC Group companies, and in addition provides insurance and investment products to HSBC Group companies. The relationship between the companies is managed through intragroup agreements, and there have been no material changes to these agreements since 31 May 2025. All services are billed on a monthly or more regular basis, and there have been no material changes in the amounts charged since 31 May 2025.

On 26 June 2025, a dividend in the amount of £15 million was paid by HSBC Life (UK) to its parent. Other than this dividend, and for the intragroup arrangements referred to above, there have been no material related party transactions since 1 June 2025. As set out in the summary of the Share Purchase Agreement at paragraph 9.2.1 of this Part XVII (*Additional Information*), any dividend payment made by HSBC Life (UK) to the Seller in circumstances where the record date for such dividend falls between 31 December 2024 up to the date of Completion shall result in an adjustment to the total consideration for the Acquisition.

## **11. DIVIDENDS**

The Group is committed to offering its Shareholders an attractive income stream arising from the profits of its life assurance business. The Company's dividend policy is directly influenced by two key factors. The Directors recognise that the Ordinary Shares are predominantly held as a source of predictable and sustainable income. The Directors' primary aim is therefore to provide an attractive yield with steady growth where possible. The Directors' aim to satisfy investor expectations cannot and will not be delivered at the expense of financial security and solvency. As such, dividend capacity is assessed giving full regard to the Group Capital Management Policy which currently prohibits dividends to be declared that would result in Chesnara's Solvency Coverage Ratio falling below 110%.

The Directors make dividend decisions with reference to a range of management information, reports and policies including the Group own risk and solvency statement, Group business plan, solvency analysis including sensitivities, analysis of historic financial results and the Group Capital Management Policy, and any other factors deemed by the Directors to be relevant at the time.

In respect of FY24, the Company announced the payment of a final dividend of 16.08 pence per Ordinary Share to Shareholders, and an interim dividend of 8.61 pence per Ordinary Share was paid on 1 November 2024. Therefore, the total dividend paid to Shareholders in respect of the financial year ended 31 December 2024 will be made at the rate of 24.69 pence per Ordinary Share.

Supported by the strong financial profile of the Acquisition, there will be a step-up in the Chesnara Group's dividend trajectory. The final FY25 dividend and interim FY26 dividend is expected to be increased by 6%, representing a one-year acceleration in the Chesnara Group's recent historic track record of 3% per annum increases.

## **12. WORKING CAPITAL**

The Company is of the opinion that, taking into account the Amended and Restated Facility Agreement and the net proceeds of the Rights Issue, the working capital available to the Group is sufficient for its present requirements, that is, for at least the next 12 months from the date of publication of this document.

## **13. LITIGATION**

### **13.1 Chesnara**

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during a period covering at least the previous 12 months preceding the date of this document which may have, or have had in the recent past, significant effects on the Company's or the Group's financial position or profitability or, following the Acquisition, may have significant effects on the Group and/or the Enlarged Group's financial position or profitability.

### **13.2 HSBC Life (UK)**

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during a period covering at least the previous 12 months preceding the date of this document which may have, or have had in the recent past, significant effects on HSBC Life (UK)'s financial position or profitability.

#### **14. NO SIGNIFICANT CHANGE**

##### **14.1 Chesnara**

There has been no significant change in the financial performance or financial position of the Group since 31 December 2024, being the date to which the latest audited financial statements of the Group were prepared.

##### **14.2 HSBC Life (UK)**

Save for the £15 million dividend payment made by HSBC Life (UK) to the Seller on 26 June 2025 as referred to in paragraph 10.2 of this Part XVII (*Additional Information*), there has been no significant change in the financial performance or financial position of HSBC Life (UK) since 31 December 2024, being the date to which the latest audited financial statements of HSBC Life (UK) were prepared.

#### **15. REGULATORY DISCLOSURES**

The Company regularly publish announcements via the Regulatory Information Service and the Company's website. Below is a summary of the information disclosed in accordance with the Company's obligations under UK MAR over the past 12 months relevant as at the Latest Practicable Date. In addition to the Regulatory Information Service, full announcements can be accessed via the Company's website at [www.chesnara.co.uk/investors](http://www.chesnara.co.uk/investors).

##### **15.1 Transactions of Persons Discharging Managerial Responsibilities ("PDMR")**

- (A) On 10 June 2025, the Company released a notification relating to the purchase of Ordinary Shares pursuant to a dividend reinvestment plan on behalf of a PDMR.
- (B) On 23 May 2025, the Company released notifications relating to the purchase of Ordinary Shares pursuant to a dividend reinvestment plan on behalf of a PDMR, as well as on behalf of a closely associated person with the PDMR.
- (C) On 24 April 2025, the Company released a notification relating to a PDMR being granted a conditional award of Ordinary Shares under the Company's Long Term Incentive Plan ("LTIP").
- (D) On 7 April 2025, the Company released a notification relating to a PDMR transferring Ordinary Shares to a closely associated person with the PDMR.
- (E) On 31 March 2025, the Company released a notification relating to PDMRs being granted awards of Ordinary Shares under the Company's Short Term Incentive Scheme and other PDMRs of the Company being granted conditional awards of Ordinary Shares under the LTIP.
- (F) On 28 March 2025, the Company released a notification relating to the purchase of Ordinary Shares on behalf of PDMRs.
- (G) On 30 January 2025, the Company released a notification relating to the purchase of Ordinary Shares pursuant to a dividend reinvestment plan on behalf of a PDMR.
- (H) On 12 December 2024, the Company released a notification relating to the purchase of Ordinary Shares on behalf of a PDMR.
- (I) On 22 November 2024, the Company released a notification relating to the purchase of Ordinary Shares pursuant to a dividend reinvestment plan on behalf a PDMR, as well as on behalf of a closely associated person with the PDMR.
- (J) On 14 November 2024, the Company released a notification relating to the purchase of Ordinary Shares under a dividend reinvestment plan on behalf of a PDMR.
- (K) On 29 October 2024, the Company released a notification relating to the grant of options to acquire Ordinary Shares under the Company's Save As You Earn Scheme on behalf of PDMRs.
- (L) On 11 September 2024, the Company released a notification relating to the purchase of Ordinary Shares on behalf of PDMRs.



- (M) On 1 August 2024, the Company released a notification regarding a PDMR's acquisition of Ordinary Shares following the partial vesting of an award under the 2014 LTIP. A portion of the shares was sold to cover associated tax and social security liabilities.

#### 15.2 Directorate Changes

- (A) On 6 June 2025, the Company released a notification relating to directorate changes.
- (B) On 29 January 2025, the Company released a notification relating to directorate changes.
- (C) On 18 July 2024, the Company released a notification relating to an external directorship appointment of an independent non-executive director of the Company.

#### 15.3 Financial Results

- (A) On 27 March 2025, the Company released a notification in relation to its full year results for the period ended 31 December 2024.
- (B) On 10 September 2024, the Company released a notification in relation to its half-year results for the period ended 30 June 2024.

#### 15.4 Shareholdings

- (A) On 10 July 2024, the Company released a notification in relation the holdings of its major shareholders.

#### 15.5 Acquisitions

- (A) On 23 December 2024, the Company released a notification announcing its agreement to acquire a closed portfolio of unit linked bonds and legacy pension business from Canada Life Limited.

### 16. CONSENTS

Deloitte LLP of 1 New Street Square, London, EC4A 3HQ has given and not withdrawn its written consent to the inclusion of its report on the unaudited *pro forma* financial information in Part XV (*Unaudited Pro Forma Financial Information for the Enlarged Group and Accountant's Report*) of this document in the form and context in which it is included and has authorised the contents of the part of this document which comprise its report for the purposes of Rule 5.3.2R(2)(f) the Prospectus Regulation Rules. Deloitte LLP is a member firm of the Institute of Chartered Accountants in England and Wales.

### 17. GENERAL

- 17.1 The aggregate costs and expenses payable by Chesnara in connection with the Rights Issue are estimated to amount to approximately £10 million (excluding amounts in respect of VAT).
- 17.2 The financial information contained in this document does not constitute statutory accounts within the meaning of section 434(3) of the Companies Act.
- 17.3 The auditor of the Company is Deloitte LLP of 1 City Square, Leeds, LS1 2AL. Deloitte has audited the consolidated financial statements of Chesnara for the financial year ended 2024. Deloitte LLP is a member firm of the Institute of Chartered Accountants in England and Wales.
- 17.4 One or both of the Joint Bookrunners and their affiliates have engaged in transactions with the Company (including, in some cases, credit agreements and credit lines) in the ordinary course of its banking business and one or both of the Joint Bookrunners have performed various investment banking, financial advisory and other services for the Company, for which it received customary fees, and the Joint Bookrunners and their affiliates may provide such services in the future. Each of the Joint Bookrunners and their respective affiliates may, from time to time, engage in further transactions with, and perform services for, the Company and the Group in the ordinary course of their respective businesses.

## **18. DOCUMENTS AVAILABLE FOR INSPECTION**

18.1 Copies of the following documents will be available on Chesnara's website at [www.chesnara.co.uk/investors](http://www.chesnara.co.uk/investors) from the date of this document up to and including the date of Admission:

- (A) the Articles;
- (B) the consent letter referred to in paragraph 16 of this Part XVII (*Additional Information*);
- (C) the report from Deloitte LLP on the Unaudited *Pro Forma* Financial Information of the Enlarged Group set out in Part B of Part XV (*Unaudited Pro Forma Financial Information for the Enlarged Group and Accountant's Report*) of this document;
- (D) the documents incorporated by reference into this document as described in Part XVIII (*Documents Incorporated by Reference*) of this document; and
- (E) a copy of this document.

Dated: 3 July 2025

## PART XVIII

### DOCUMENTS INCORPORATED BY REFERENCE

This document should be read and construed in conjunction with certain information which have been previously published and filed with the FCA and which shall be deemed to be incorporated in, and form part of, this document.

The table below sets out the documents of which certain parts are incorporated by reference into, and form part of, this document. Only the parts of the documents identified in the table below are incorporated into, and form part of, this document. The parts of these documents which are not incorporated by reference are either not relevant for investors or are covered elsewhere in this document. To the extent that any information incorporated by reference itself incorporates any information by reference, either expressly or by implication, such information will not form part of this document for the purposes of the Prospectus Regulation Rules, except where such information is stated within this document as specifically being incorporated by reference or where the document is specifically defined as including such information.

Any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this document to the extent that a statement contained herein (or in a later document which is incorporated by reference herein) modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this document.

| <b>Reference document</b>                      | <b>Information incorporated by reference into this document</b> | <b>Page numbers</b> |
|------------------------------------------------|-----------------------------------------------------------------|---------------------|
| Chesnara plc's 2024 Annual Report and Accounts | Corporate Governance Report                                     | 98                  |
|                                                | Director Remuneration Report                                    | 110                 |
|                                                | Independent Auditor's Report to the members of Chesnara plc     | 142                 |
|                                                | Consolidated Statement of Comprehensive Income                  | 148                 |
|                                                | Consolidated Balance Sheet                                      | 149                 |
|                                                | Consolidated Statement of Cash flows                            | 150                 |
|                                                | Consolidated Statement of Changes in Equity                     | 151                 |
|                                                | Notes to the consolidated financial statements                  | 152                 |

This document is available for inspection in accordance with paragraph 18 (*Documents Available for Inspection*) of Part XVII (*Additional Information*) of this document. These documents are also available electronically on the Company's website at [www.chesnara.co.uk/investors](http://www.chesnara.co.uk/investors).

## PART XIX

### DEFINITIONS

|                                                         |                                                                                                                                                                                                                                         |
|---------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>“ABN AMRO”</b>                                       | means ABN AMRO Bank N.V.                                                                                                                                                                                                                |
| <b>“Acquisition”</b>                                    | means the acquisition by the Company of the Target from the Seller pursuant to the Share Purchase Agreement                                                                                                                             |
| <b>“Admission”</b>                                      | means Admission of the New Ordinary Shares and Admission of the Rights (Nil and Fully Paid);                                                                                                                                            |
| <b>“Admission of the New Ordinary Shares”</b>           | means the admission of the New Ordinary Shares to: (i) listing on the equity shares (commercial companies) category of the Official List; and (ii) trading on the London Stock Exchange’s main market for listed securities             |
| <b>“Admission of the Rights (Nil and Fully Paid)”</b>   | means the admission of the Rights (nil and fully paid) to trading on a multi-lateral trading facility of the London Stock Exchange                                                                                                      |
| <b>“Amended and Restated Facilities Agreement”</b>      | means the amended and restated facility agreement entered into by the Company and the Amended RCF Banks on 3 July 2025, details of which are set out in paragraph 9.1.4 of Part XVII ( <i>Additional Information</i> ) of this document |
| <b>“Amended RCF”</b>                                    | means the revolving credit facility provided pursuant to the Amended and Restated Facilities Agreement                                                                                                                                  |
| <b>“Annual General Meeting”</b>                         | means an annual general meeting of the Company as defined in the Articles                                                                                                                                                               |
| <b>“Articles” or “Articles of Association”</b>          | means the articles of association of the Company in force at the date of this document                                                                                                                                                  |
| <b>“AVIF”</b>                                           | means “Acquired Value of In-Force” business (being part of the purchase price that represents the value of the insurance contracts in the target company when a life insurance company makes an acquisition)                            |
| <b>“BACS”</b>                                           | means the Bankers Automated Clearing Services                                                                                                                                                                                           |
| <b>“Board”</b>                                          | means the board of directors of the Company (as at the date of this document, unless otherwise stated)                                                                                                                                  |
| <b>“Business Day”</b>                                   | means any day (other than a Saturday or Sunday) on which banks generally are open for business in London (other than solely for settlement and trading in Euro)                                                                         |
| <b>“Cashless Take-up”</b>                               | means the sale of such number of Nil Paid Rights as will generate sufficient sale proceeds to enable the direct or indirect holder thereof to take up all of their remaining Nil Paid Rights (or entitlements thereto)                  |
| <b>“certificated”</b>                                   | refers to a share or other security which is not in uncertificated form (that is, not in CREST) and “in certificated form” shall be construed accordingly                                                                               |
| <b>“Chair”</b>                                          | means the chair of the Company                                                                                                                                                                                                          |
| <b>“CHAPS”</b>                                          | means the Clearing House Automated Payment System                                                                                                                                                                                       |
| <b>“Chesnara Group”</b>                                 | means the Company together with each of its direct and indirect subsidiaries from time to time (and “subsidiary” shall have the meaning given to it in the Companies Act                                                                |
| <b>“Chesnara plc’s 2024 Annual Report and Accounts”</b> | means the annual report and audited consolidated financial statements (including the notes thereon) of the Group as at and for the financial year ended 31 December 2024                                                                |

|                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>“City Code”</b>                                  | means the City Code on Takeovers and Mergers of the UK                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>“Closing Price”</b>                              | means the closing middle market quotation of an Existing Ordinary Share as derived from the Daily Official List                                                                                                                                                                                                                                                                                                                                                          |
| <b>“Countrywide Assured”</b>                        | means Countrywide Assured plc, a company incorporated in England and Wales (Company Registration Number 02261746) and having its registered office at 2nd Floor, Building 4 West Strand Road, Preston, Lancashire, England, PR1 8UY                                                                                                                                                                                                                                      |
| <b>“Companies Act”</b>                              | means the Companies Act 2006 (c. 46) of England and Wales, as amended from time to time                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>“Company” or “Chesnara”</b>                      | means Chesnara plc a company incorporated in England and Wales (Company Registration Number: 04947166) and having its registered office at 2nd Floor, Building 4 West Strand, Preston, PR1 8UY                                                                                                                                                                                                                                                                           |
| <b>“Completion”</b>                                 | means completion of the Acquisition pursuant to the terms of the Share Purchase Agreement                                                                                                                                                                                                                                                                                                                                                                                |
| <b>“CREST”</b>                                      | means the relevant system (as defined in the CREST Regulations) in respect of which Euroclear is the operator (as defined in the CREST Regulations)                                                                                                                                                                                                                                                                                                                      |
| <b>“CREST Manual”</b>                               | means the rules governing the operation of CREST, consisting of the CREST Reference Manual, CREST International Manual, CREST Central Counterparty Service Manual, CREST Rules, Registrars Service Standards, Settlement Discipline Rules, CREST CCSS Operations Manual, Daily Timetable, CREST Application Procedure and CREST Glossary of Terms (all as defined in the CREST Glossary of Terms promulgated by Euroclear on 15 July 1996, as amended from time to time) |
| <b>“CREST member”</b>                               | means a person who has been admitted by Euroclear UK as a system-member (as defined in the CREST Regulations)                                                                                                                                                                                                                                                                                                                                                            |
| <b>“CREST Regulations”</b>                          | means the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended from time to time                                                                                                                                                                                                                                                                                                                                                                    |
| <b>“CREST sponsor”</b>                              | means a CREST participant admitted to CREST as a CREST sponsor                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>“CREST sponsored member”</b>                     | means a CREST member admitted to CREST as a sponsored member                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>“Daily Official List”</b>                        | means the daily official list of the London Stock Exchange                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>“Directors”</b>                                  | means the statutory directors of the Company (as at the date of this document, unless otherwise stated)                                                                                                                                                                                                                                                                                                                                                                  |
| <b>“Disclosure Guidance and Transparency Rules”</b> | means the disclosure guidance and transparency rules made under Part VI of FSMA (as amended from time to time)                                                                                                                                                                                                                                                                                                                                                           |
| <b>“EcV”</b>                                        | means economic value, a market consistent assessment of the value of existing insurance businesses, plus adjusted net asset value of the non-insurance business within the Group                                                                                                                                                                                                                                                                                         |
| <b>“Eligible Solvency II Own Funds”</b>             | means Solvency II Own Funds that can be used to meet the Solvency Capital Requirement                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>“Enlarged Group”</b>                             | means the Group following Completion of the Acquisition                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>“Enlarged Share Capital”</b>                     | means the expected issued ordinary share capital of the Company immediately following the issuance of the New Ordinary Shares                                                                                                                                                                                                                                                                                                                                            |
| <b>“Euroclear”</b>                                  | means Euroclear UK & International Limited                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>“EUWA”</b>                                       | means the European Union (Withdrawal) Act 2018                                                                                                                                                                                                                                                                                                                                                                                                                           |

|                                          |                                                                                                                                                                                                                                                                                                            |
|------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>“Ex-Rights Date”</b>                  | means the date specified in the Expected Timetable of Principal Events                                                                                                                                                                                                                                     |
| <b>“Existing Ordinary Shares”</b>        | means, in relation to a particular date, the Ordinary Shares in issue at that date                                                                                                                                                                                                                         |
| <b>“Excluded Shareholders”</b>           | means, subject to certain exceptions, Shareholders who have registered addresses in, who are incorporated in, registered in, or otherwise resident or located or resident in, any Excluded Territory or, subject to certain limited exceptions in the United States of America                             |
| <b>“Excluded Territories”</b>            | means Australia, Canada, Japan, South Africa and any other jurisdiction where the extension or availability of the Rights Issue (or any transaction contemplated thereby and any activities carried out in connection therewith) would breach applicable law and “Excluded Territory” means one of them    |
| <b>“Executive Director”</b>              | means the executive directors of the Company as at the date of this document and <b>“Executive Director”</b> means any one of them                                                                                                                                                                         |
| <b>“Facility Agent”</b>                  | means National Westminster Bank plc acting as facility agent in connection with the Amended and Restated Facility Agreement                                                                                                                                                                                |
| <b>“FCA”</b>                             | means the Financial Conduct Authority                                                                                                                                                                                                                                                                      |
| <b>“FCA Handbook”</b>                    | means the FCA’s Handbook of Rules and Guidance, as amended from time to time                                                                                                                                                                                                                               |
| <b>“Fully Paid Rights”</b>               | means the rights to acquire New Ordinary Shares, fully paid                                                                                                                                                                                                                                                |
| <b>“FSMA”</b>                            | means the Financial Services and Markets Act 2000 of England and Wales, as amended from time to time                                                                                                                                                                                                       |
| <b>“FY24”</b>                            | means the Company’s financial year ended 31 December 2024                                                                                                                                                                                                                                                  |
| <b>“FY25”</b>                            | means the Company’s financial year ending 31 December 2025                                                                                                                                                                                                                                                 |
| <b>“FY26”</b>                            | means the Company’s financial year ending 31 December 2026                                                                                                                                                                                                                                                 |
| <b>“Global Coordinator”</b>              | means RBC Europe Limited                                                                                                                                                                                                                                                                                   |
| <b>“Group Capital Management Policy”</b> | means the policy maintained by the Board from time to time documenting the Group’s capital management framework, including amongst other things how the Company manages its capital such that it continues to meet the Solvency II requirements                                                            |
| <b>“Group Solvency Coverage Ratio”</b>   | means the ratio of the Group’s Eligible Solvency II Own Funds divided by the Group’s Solvency Capital Requirement                                                                                                                                                                                          |
| <b>“HSBC Group”</b>                      | means HSBC Life (UK) together with its holding companies or parent undertakings and any subsidiary of such holding companies or parent undertakings, in each case from time to time (and “holding companies”, “parent undertakings” and “subsidiaries” shall have the meanings given in the Companies Act) |
| <b>“HSBC Life (UK)” or the “Target”</b>  | means HSBC Life (UK) Limited                                                                                                                                                                                                                                                                               |
| <b>“HSBC Bank” or “Seller”</b>           | means HSBC Bank plc                                                                                                                                                                                                                                                                                        |
| <b>“IFRS”</b>                            | means the International Financial Reporting Standards as adopted by the UK                                                                                                                                                                                                                                 |
| <b>“ISIN”</b>                            | means International Securities Identification Number                                                                                                                                                                                                                                                       |
| <b>“Issue Price”</b>                     | means 176 pence per New Ordinary Share issued pursuant to the Rights Issue                                                                                                                                                                                                                                 |



|                                           |                                                                                                                                                                                                                                            |
|-------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>“Joint Bookrunners”</b>                | means RBC Europe Limited, ABN AMRO Bank N.V. and Panmure Liberum Limited                                                                                                                                                                   |
| <b>“Latest Practicable Date”</b>          | means 2 July 2025, being the latest practicable date prior to the publication of this document                                                                                                                                             |
| <b>“LEI”</b>                              | means Legal Entity Identifier                                                                                                                                                                                                              |
| <b>“LSE” or “London Stock Exchange”</b>   | means London Stock Exchange Group plc                                                                                                                                                                                                      |
| <b>“LTI”</b>                              | means Long-Term Incentive Scheme                                                                                                                                                                                                           |
| <b>“LTIP”</b>                             | means Long-Term Incentive Plan                                                                                                                                                                                                             |
| <b>“Major Events of Default”</b>          | has the meaning set out in the summary of the Amended and Restated Facilities Agreement contained in paragraph 9.1.4 of Part XVII ( <i>Additional Information</i> ) of this document                                                       |
| <b>“Movestic”</b>                         | means the group’s Swedish business, Movestic Livförsäkring AB and its subsidiary and associated companies                                                                                                                                  |
| <b>“New Ordinary Shares”</b>              | means the new Ordinary Shares to be issued by the Company pursuant to the Rights Issue                                                                                                                                                     |
| <b>“Nil Paid Rights”</b>                  | means rights to acquire New Ordinary Shares, nil paid                                                                                                                                                                                      |
| <b>“Official List”</b>                    | means the official list maintained by the FCA pursuant to FSMA                                                                                                                                                                             |
| <b>“Ordinary Shares”</b>                  | means the ordinary shares of 5 pence each in the capital of the Company and includes, where the context requires, the New Ordinary Shares                                                                                                  |
| <b>“Overseas Shareholders”</b>            | means Shareholders with registered addresses in, or who are citizens, residents or nationals of jurisdictions outside of the United Kingdom                                                                                                |
| <b>“Own Funds”</b>                        | means, in accordance with the UK’s regulatory regime for insurers, the sum of the individual capital resources for each of the regulated related undertakings less the book-value of investments by the Company in those capital resources |
| <b>“Panmure Liberum”</b>                  | means Panmure Liberum Limited                                                                                                                                                                                                              |
| <b>“Part VII transfer”</b>                | means a transfer pursuant to Part VII of the Financial Services and Markets Act 2000                                                                                                                                                       |
| <b>“PRA”</b>                              | means the Prudential Regulatory Authority                                                                                                                                                                                                  |
| <b>“Prospectus” or “this document”</b>    | means this document, comprising a prospectus relating to the Company for the purposes of the Rights Issue                                                                                                                                  |
| <b>“Prospectus Regulation”</b>            | means the Prospectus Regulation (Regulation (EU) 2017/1129), and the delegated acts, implementing acts and technical standards thereunder                                                                                                  |
| <b>“Prospectus Regulation Rules”</b>      | means the Prospectus Regulation Rules of the FCA made pursuant to Section 73A of FSMA                                                                                                                                                      |
| <b>“Provisional Allotment Letter”</b>     | means the provisional allotment letter to be issued to Qualifying Non-CREST Shareholders (other than certain Overseas Shareholders)                                                                                                        |
| <b>“Qualifying CREST Shareholder”</b>     | means Qualifying Shareholders holding Ordinary Shares in uncertificated form                                                                                                                                                               |
| <b>“Qualifying Non-CREST Shareholder”</b> | means Qualifying Shareholders holding Ordinary Shares in certificated form                                                                                                                                                                 |

|                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>“Qualifying Shareholder”</b>                | means holders of Ordinary Shares on the register of members of the Company on the Record Date with the exclusion of the Excluded Shareholders                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>“QIB”</b>                                   | means a “qualified institutional buyer” within the meaning of Rule 144A under the US Securities Act                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>“RBC”</b>                                   | means RBC Europe Limited                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>“RCF Banks”</b>                             | means National Westminster Bank plc and ABN AMRO Bank N.V.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>“Receiving Agent” and “Registrar”</b>       | means MUFG Corporate Markets, a trading name of MUFG Corporate Markets (UK) Limited                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>“Record Date”</b>                           | means 6.00 p.m. on 1 July 2025, being the time and date specified in Part IV ( <i>Expected Timetable of Principal Events</i> ) of this document on which a Shareholder must hold Ordinary Shares to be a Qualifying Shareholder                                                                                                                                                                                                                                                                                                                                                                           |
| <b>“Regulatory Information Service”</b>        | means one of the regulatory information services authorised by the FCA to receive, process and disseminate regulatory information from listed companies                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>“Rights (Nil and Fully Paid)”</b>           | means the Nil Paid Rights and the Fully Paid Rights                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>“Rights Issue”</b>                          | means the offer by way of rights to Qualifying Shareholders to acquire New Ordinary Shares in the Company, subject to the terms and conditions of this document                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>“SDRT”</b>                                  | means stamp duty reserve tax                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>“SEDOL”</b>                                 | means Stock Exchange Daily Official List                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>“Share-Based Incentive Plans”</b>           | means the following share schemes operated by the Group: (i) the 2023 LTIP; (ii) the 2014 LTI; (iii) the 2023 STIS; (iv) the 2014 STI; (v) the Share save; and (vi) the Buy-out plan                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>“Shareholder”</b>                           | means a holder of Ordinary Shares from time to time (and Shareholders shall be construed accordingly)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>“Share Purchase Agreement”</b>              | has the meaning given in paragraph 9.1.1 of Part XVII ( <i>Additional Information</i> ) of this document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>“Solvency II”</b>                           | means the fundamental review of the capital adequacy regime for the European insurance industry. Solvency II aims to establish a set of EU-wide capital requirements and risk management standards and has replaced the Solvency I requirements                                                                                                                                                                                                                                                                                                                                                           |
| <b>“Solvency Capital Requirement” or “SCR”</b> | means, in accordance with the UK’s regulatory regime for insurers, the sum of individual capital resource requirements for the insurer and each of its regulated undertaking                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>“Solvency Coverage Ratio”</b>               | means the ratio of an insurance company’s eligible capital to its regulatory capital requirement                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>“Solvency II Surplus”</b>                   | means the difference between the Group’s Eligible Solvency II Own Funds and the Group’s Solvency Capital Requirement                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>“Special Dealing Service”</b>               | means the dealing service being made available by MUFG Corporate Markets Trustees (UK) Limited to Qualifying Non-CREST Shareholders who are individuals aged 18 or over (in the case of natural persons) who are resident in the United Kingdom, the Channel Islands or the Isle of Man (or any other country confirmed by MUFG Corporate Markets in writing provided that they have requested at their own exclusive initiative that the Special Dealing Service be provided to them) who may elect to use the Special Dealing Service sell all of their Nil Paid Rights or to effect a Cashless Take-up |

|                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-----------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>“Sponsor”</b>                                    | means RBC Europe Limited acting in its role as sponsor as defined in the UK Listing Rules                                                                                                                                                                                                                                                                                                                                     |
| <b>“SS&amp;C”</b>                                   | means SS&C Technologies Limited                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>“STI” or “STIs”</b>                              | means Short-Term Incentive Scheme                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>“stock account”</b>                              | means an account within a member account in CREST to which a holding of a particular share or other security in CREST is credited;                                                                                                                                                                                                                                                                                            |
| <b>“TERP”</b>                                       | means the theoretical ex-rights price                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>“Transitional Services Agreement”</b>            | has the meaning given in paragraph 2.6.2 of Part VII ( <i>Letter from the Chair</i> ) of this document                                                                                                                                                                                                                                                                                                                        |
| <b>“U.S. Securities Act”</b>                        | means the U.S. Securities Act of 1933, as amended                                                                                                                                                                                                                                                                                                                                                                             |
| <b>“UK”</b>                                         | means the United Kingdom                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>“UK Listing Rules”</b>                           | means the UK Listing Rules made under Part VI of FSMA (as set out in the FCA Handbook), as amended from time to time                                                                                                                                                                                                                                                                                                          |
| <b>“UK MAR”</b>                                     | means Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse, as it forms part of UK law by virtue of the EUWA, as amended from time to time                                                                                                                                                                                                                              |
| <b>“UK Prospectus Regulation”</b>                   | means the Prospectus Regulation (EU) 2017/1129, as it forms part of UK law by virtue of the EUWA                                                                                                                                                                                                                                                                                                                              |
| <b>“UK Solvency II Directive”</b>                   | means the “Solvency 2 Directive” as defined in the UK Solvency II EU Exit Regulations                                                                                                                                                                                                                                                                                                                                         |
| <b>“UK Solvency II EU Exit Regulations”</b>         | means the Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019                                                                                                                                                                                                                                                                                                                                               |
| <b>“UK Solvency II Regulation”</b>                  | means the “Solvency 2 Regulation” as defined in, and amended by, the UK Solvency II EU Exit Regulations (and being the EU Solvency II Delegated Act as implemented, <i>mutatis mutandis</i> , as “UK law” for the purposes of and pursuant to the EUWA into Applicable Law and Regulation in the United Kingdom), as the same may be amended and/or supplemented from time to time by applicable law and regulation in the UK |
| <b>“Uncertificated” or “in Uncertificated Form”</b> | refers to a share or other security recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST                                                                                                                                                                           |
| <b>“Underwriting Agreement”</b>                     | means the agreement dated 3 July 2025 between the Company and the Joint Bookrunners, a summary of which is set out in paragraph 9.1.2 of Part XVII ( <i>Additional Information</i> )                                                                                                                                                                                                                                          |
| <b>“Underwriters”</b>                               | means RBC Europe Limited and ABN AMRO Bank N.V.                                                                                                                                                                                                                                                                                                                                                                               |
| <b>“USE Instructions”</b>                           | means Unmatched Stock Event instructions, as defined in the CREST Regulations                                                                                                                                                                                                                                                                                                                                                 |
| <b>“VAT”</b>                                        | means value added tax                                                                                                                                                                                                                                                                                                                                                                                                         |

**APPENDIX 1**

**HSBC LIFE (UK) LIMITED'S FINANCIAL STATEMENTS  
TOGETHER WITH THE AUDIT REPORTS**

**PART 1**

**FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER  
2024 TOGETHER WITH THE AUDIT REPORT**

# Independent auditors' report to the members of HSBC Life (UK) Limited

## Report on the audit of the financial statements

### Opinion

In our opinion, HSBC Life (UK) Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2024 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Statement of financial position as at 31 December 2024; the Statement of comprehensive income, the Statement of cash flows, the Statement of changes in equity for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Our opinion is consistent with our reporting to the Risk and Audit Committee ("RAC").

### Basis for opinion

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

### Independence

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 7, we have provided no non-audit services to the company in the period under audit.

### Our audit approach

#### Overview

##### Audit scope

- We performed a full scope audit of the complete financial information of the entity in accordance with our materiality and risk assessment.

##### Key audit matters

- Subjectivity in mortality and morbidity assumptions in insurance contract liabilities.
- Subjectivity in expense assumptions in insurance contract liabilities.

##### Materiality

- Overall materiality: £21,495,569 (2023: £17,401,311) based on 0.5% of total assets.
- Performance materiality: £16,121,677 (2023: £13,050,983).

### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Adoption of IFRS 17 and restatement of comparatives; and valuation and recoverability of deferred tax asset, which were key audit matters last year, are no longer included because of IFRS 17 being fully implemented at the 31 December 2023 year end and due to the recognition of the deferred tax asset at the 31 December 2023 year end and its subsequent utilisation during the year which has reduced the value of the asset. Otherwise, the key audit matters below are consistent with last year.

| Key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | How our audit addressed the key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
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| <p><b>Subjectivity in mortality and morbidity assumptions in insurance contract liabilities.</b></p> <p>Refer to accounting policy 2 (b) and note 4 to the financial statements regarding this area. A sensitivity analysis is included in note 3.</p> <p>Insurance contract liabilities are sensitive to the assumptions used, with those relevant to mortality and morbidity highlighted as those having the most material impact on the valuation of insurance contract liabilities. There is a risk that the assumptions are not appropriate given the variability in experience, the potential impact of Covid-19, the relatively small size of the Company's business and the pool of data from which to assess experience. In calculating the insurance contract liabilities, management uses the company's own historical experience and available market data in the calculation of appropriate assumptions. In doing so there is a risk that mortality and morbidity assumptions may not be appropriate.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <p>We performed the following audit procedures to test the significant judgements made in setting the mortality and morbidity assumptions:</p> <ul style="list-style-type: none"> <li>- We audited the experience analysis, for mortality and morbidity including testing the design and operational effectiveness of controls in the experience analysis processes, as well as the results and judgements applied to this data in the setting of assumptions;</li> <li>- We have tested the reasonableness of the methodology used to perform experience studies with reference to relevant rules and actuarial guidance and our understanding of the approaches used in the wider market;</li> <li>- We audited the appropriateness of the assumptions including the selected mortality tables and mortality improvement assumptions in light of the specific characteristics of the business, industry practices, and any other available information such as general population data;</li> <li>- We assessed management's considerations in relation to the long term impacts of COVID-19 and other trends in the UK on results of experience analysis and in the allowance made for potential changes in current and future expected rates of mortality;</li> <li>- We have compared the assurance mortality assumptions against those adopted by peers using our annual benchmarking survey of the market; and</li> <li>- We have audited the impact of assumption changes on results by considering the movement in reserves and the sensitivity of management's calculations and as such their susceptibility to manipulation by management.</li> </ul> <p>Based upon the results of our testing, we consider the mortality and morbidity assumptions used in the calculations of insurance contract liabilities to be appropriate.</p>                                 |
| <p><b>Subjectivity of expense assumptions in insurance contract liabilities.</b></p> <p>Refer to accounting policy (b) and note 4 to the financial statements regarding this area. A sensitivity analysis is included in note 3.</p> <p>Future maintenance expenses and expense inflation assumptions are used in the measurement of the best estimate liabilities. The assumptions reflect the expected future expenses that will be required to maintain the in-force policies at the balance sheet date. The assumptions used require significant judgement which includes how expenses are allocated between maintenance and acquisition expenses as well as how expenses are split between attributable and non-attributable costs under IFRS 17. In addition to the amount allowed for in the valuation model an expense overrun reserve is recognised to address the risk that modelled expense amounts are insufficient to cover the future expenses of the portfolio. The calculation of the insurance contract liabilities is sensitive to changes in allocations between categories, changes in the underlying expense assumptions and the methodology used to calculate the expense overrun manual reserve. As such, there is a risk that the expense assumptions are not appropriate or supportable where inappropriate judgements have been made. Such matters may have a material impact on the reported results. Key areas of judgement taken in setting the Company's expense assumptions include estimation of the projected cost base and associated volumes of policies in force, both in the short term and any changes to this over time.</p> | <p>We have performed the following audit procedures:</p> <ul style="list-style-type: none"> <li>- We tested the design and operating effectiveness of management's controls over the approval of assumptions and input of maintenance expense assumptions into the valuation models;</li> <li>- We evaluated the completeness and accuracy of the total cost base and allocation of expenses to the appropriate cost centre;</li> <li>- We tested and, where relevant, challenged the appropriateness of the cost allocations between attributable and non attributable costs; and acquisition and maintenance expenses, and validated the split by agreeing a sample of cost centres to supporting evidence;</li> <li>- We validated that there are no material unexpected differences between the projected costs and the actual incurred costs in the financial year to 31 December 2024 that would have a material impact on the valuation of insurance contract liability;</li> <li>- We agreed the allocation of expenses was made in accordance with the allocation model. We assessed the reasonableness of the per policy expense assumptions made in the calculations of insurance contract provisions, by ensuring they accurately reflect the agreed allocated expenses, are based on appropriate in force policy counts and are sufficient to cover future expected costs;</li> <li>- We assessed the appropriateness of the rate at which expenses are assumed to inflate in the future, taking into account current and future market expectations of earnings inflation; and</li> <li>- We have audited the appropriateness and mathematical accuracy of the expense overrun provision held as at 31 December 2024.</li> </ul> <p>Based upon the results of our testing the expense assumptions used in the insurance contract liabilities are appropriate.</p> |



## How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

## The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the Company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the Company's financial statements.

## Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

|                                 |                                                                                                                                                                                                                                                                                                 |
|---------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Overall Company materiality     | £21,495,569 (2023: £17,401,311)                                                                                                                                                                                                                                                                 |
| How we determined it            | 0.5% of total assets                                                                                                                                                                                                                                                                            |
| Rationale for benchmark applied | We believe the main users of the financial statements, being policyholders and the regulators, are most focused on balance sheet strength and ability to pay future claims. As such, we have chosen a balance sheet benchmark of total assets which is a generally accepted auditing benchmark. |

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2023: 75%) of overall materiality, amounting to £16,121,677 (2023: £13,050,983) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Risk and Audit Committee ("RAC") that we would report to them misstatements identified during our audit above £1,074,778 (2023: £870,066) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating management's stress and scenario testing including the Solvency Capital Requirement and Risk Margin. This included consideration of the impact of downside scenarios;
- The review of correspondence with the PRA;
- The review of board papers and attendance at RAC meetings;
- The challenge of management's key actuarial assumptions for appropriateness within the current business environment; and
- An assessment of the balance sheet, liquidity and solvency position at the year end.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

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

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

## Reporting on other information

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

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

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

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

### Strategic report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Report of the Directors for the year ended 31 December 2024 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

### Responsibilities for the financial statements and the audit

#### Responsibilities of the directors for the financial statements

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

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

#### Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006, the Prudential Regulation Authority's regulations, the Financial Conduct Authority's regulations and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and posting inappropriate journal entries to increase revenue. Audit procedures performed by the engagement team included:

- Discussions with the Risk and Audit Committee, management (including those involved in the Risk and Compliance function) and Internal Audit, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of matters reported on the Company's whistleblowing register and the results of management's investigation of such matters;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority;
- Reviewing relevant meeting minutes including those of the Board, Risk and Audit Committee, the Executive Committee and Technical Governance Committee, as well as attending the Risk and Audit Committee;
- Reviewing data regarding policyholder complaints, the Company's register of litigation and claims, Internal Audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Procedures relating to the valuation of insurance contract liabilities, in particular mortality, morbidity and expense assumptions described in the key matters above;
- Validating the appropriateness of journal entries identified based on our fraud risk criteria; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

## Use of this report

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

## Other required reporting

### Companies Act 2006 exception reporting

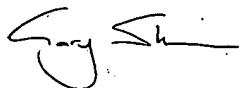
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

## Appointment

Following the recommendation of the Risk and Audit Committee ("RAC"), we were appointed by the members on 31 March 2015 to audit the financial statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement is 10 years, covering the years ended 31 December 2015 to 31 December 2024.



Gary Shaw (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

28 March 2025

# Financial statements

## Statement of comprehensive income for the year ended 31 December 2024

|                                                                     |       | 2024<br>£'000 | 2023<br>£'000  |
|---------------------------------------------------------------------|-------|---------------|----------------|
|                                                                     | Notes |               |                |
| Insurance service revenue                                           | 4     | 196,037       | 169,448        |
| Insurance service expenses                                          | 4     | (143,382)     | (143,735)      |
| Net income / (expenses) from reinsurance contracts                  | 4     | 4,193         | (9,220)        |
| <b>Net insurance service result</b>                                 | 4     | <b>56,848</b> | <b>16,494</b>  |
| Net investment returns                                              | 4     | 26,473        | 12,399         |
| Net fees income                                                     | 5     | 254           | 266            |
| <b>Net operating income before change in expected credit losses</b> |       | <b>83,575</b> | <b>29,159</b>  |
| Credit impairment losses                                            | 6     | (80)          | (2,286)        |
| <b>Net operating income</b>                                         |       | <b>83,495</b> | <b>26,873</b>  |
| Total operating expenses                                            | 7     | (10,228)      | (9,392)        |
| <b>Profit before tax</b>                                            |       | <b>73,267</b> | <b>17,481</b>  |
| Tax (expense) / credit                                              | 9     | (47,392)      | 92,239         |
| <b>Profit and total comprehensive income for the year</b>           |       | <b>25,875</b> | <b>109,720</b> |

For the year ended 31 December 2024 and prior year comparatives, Insurance revenue, Insurance service expense and net income / (expenses) from reinsurance contracts have been included on the face of the Statement of comprehensive income, in line with the requirements of IAS 1.

The Company has no comprehensive income or expense other than the profit for the year recognised in the statement of comprehensive income.

The accounting policies and notes on pages 16 to 49 form an integral part of these financial statements.

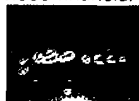
# Statement of financial position as at 31 December 2024

|                                                        |       | 2024<br>£'000    | 2023 <sup>1</sup><br>£'000 |
|--------------------------------------------------------|-------|------------------|----------------------------|
|                                                        | Notes |                  |                            |
| <b>ASSETS</b>                                          |       |                  |                            |
| Financial assets at fair value through profit and loss |       |                  |                            |
| – Debt securities-fixed rate                           | 10    | 103,731          | 40,954                     |
| – Collective investment schemes                        | 10    | 3,769,502        | 3,095,510                  |
| – Cash and cash equivalents                            | 10    | 173,138          | 168,523                    |
| Receivables, prepayments and accrued income            | 11    | 20,028           | 14,300                     |
| Deferred tax asset                                     | 18    | 56,002           | 88,456                     |
| Insurance contract assets                              |       | 37,757           | 41,040                     |
| Reinsurance contract assets                            |       | 129,747          | 127,241                    |
| <b>Total assets</b>                                    |       | <b>4,289,905</b> | <b>3,576,024</b>           |
| <b>LIABILITIES AND EQUITY</b>                          |       |                  |                            |
| <b>Liabilities</b>                                     |       |                  |                            |
| Current tax liabilities                                |       | 2,563            | 17,108                     |
| Insurance and other payables and deferred income       | 16    | 30,052           | 30,224                     |
| Insurance contract liabilities                         |       | 3,002,992        | 2,330,232                  |
| Reinsurance contract liabilities                       |       | 37,617           | 39,938                     |
| Investment contract liabilities                        | 15    | 931,399          | 852,588                    |
| Other provisions                                       | 17    | —                | 54                         |
| Deferred tax liabilities                               | 18    | 8,527            | —                          |
| <b>Total liabilities</b>                               |       | <b>4,013,150</b> | <b>3,270,144</b>           |
| <b>Equity</b>                                          |       |                  |                            |
| Called up share capital                                | 12    | 94,375           | 94,375                     |
| Retained earnings                                      | 14    | 182,380          | 211,505                    |
| <b>Total equity</b>                                    |       | <b>276,755</b>   | <b>305,880</b>             |
| <b>Total equity and liabilities</b>                    |       | <b>4,289,905</b> | <b>3,576,024</b>           |

<sup>1</sup> Reinsurance contract liabilities and Insurance and other payables and deferred income prior year comparatives have been restated as reinsurance contract payables are now recognised within reinsurance contract liabilities in the current year.

The accounting policies and notes on pages 16 to 49 form an integral part of these financial statements.

These financial statements on pages 16 to 49 were approved by the Board of Directors on 28 March 2025 and were signed on its behalf by:



Digitally signed by:  
Douglas CLOW  
Date: 2025.03.28 15:  
59:48 Z

D A Clow

Director

Company Registered Number: 00088695

# Statement of cash flows for the year ended 31 December 2024

|                                                                    | Note | 2024<br>£'000 | 2023 <sup>1</sup><br>£'000 |
|--------------------------------------------------------------------|------|---------------|----------------------------|
| Cash flows from operating activities                               |      |               |                            |
| Profit before tax                                                  |      | 73,267        | 17,481                     |
| Adjustments for:                                                   |      |               |                            |
| - interest receivable                                              |      | (13,351)      | (11,461)                   |
| - dividends receivable                                             |      | (31,383)      | (24,473)                   |
| - interest payable                                                 |      | 66            | 58                         |
| - amortisation                                                     |      | —             | 422                        |
| Net fair value gains on financial assets                           |      | (304,412)     | (198,862)                  |
| Net insurance finance expense                                      |      | 237,862       | 160,071                    |
| Changes in operating assets and liabilities                        |      |               |                            |
| Net decrease in equity securities                                  |      | —             | 128                        |
| Net (increase)/decrease in debt securities                         |      | (68,827)      | 16,154                     |
| Net (increase) in collective investments                           |      | (363,519)     | (295,080)                  |
| Net (increase)/decrease in derivative financial instruments        |      | (10)          | 9                          |
| Net (increase) in receivables and prepayments                      |      | (5,730)       | (3,980)                    |
| Net decrease in insurance contract assets                          |      | 3,282         | 2,151                      |
| Net (increase) in reinsurance contract assets                      |      | (2,506)       | (18,156)                   |
| Net increase in insurance contract liabilities                     |      | 434,899       | 271,655                    |
| Net (decrease)/increase in reinsurance contract liabilities        |      | (2,321)       | 9,915                      |
| Net increase in investment contract liabilities                    |      | 78,811        | 63,440                     |
| Net (decrease) in insurance and other payables and deferred income |      | (180)         | (10,708)                   |
| Net (decrease) in other provisions                                 |      | (54)          | —                          |
| Cash generated from/(used in) operations                           |      | 35,894        | (21,236)                   |
| Interest received on investments                                   |      | 13,346        | 11,583                     |
| Dividends received on investments                                  |      | 31,397        | 24,530                     |
| Interest paid                                                      |      | (66)          | (58)                       |
| Income taxes paid                                                  |      | (20,956)      | (442)                      |
| Net cash generated from operating activities                       |      | 59,615        | 14,377                     |
| Cash flows from financing activities                               |      |               |                            |
| Dividend paid                                                      |      | (55,000)      | —                          |
| Net cash outflow from financing activities                         |      | (55,000)      | —                          |
| Net increase in cash and cash equivalents                          |      | 4,615         | 14,377                     |
| Cash and cash equivalents brought forward                          | 10   | 168,523       | 154,146                    |
| Cash and cash equivalents carried forward                          | 10   | 173,138       | 168,523                    |

<sup>1</sup> Reinsurance contract liabilities and Insurance and other payables and deferred income prior year comparatives have been restated as reinsurance contract payables are now recognised within reinsurance contract liabilities in the current year.

The Company classifies the net acquisition of financial assets as operating cash flows, as these are funded from the net cash flows associated with insurance and investment contracts.

The accounting policies and notes on pages 16 to 49 form an integral part of these financial statements.



## Statement of changes in equity for the year ended 31 December 2024

|                                                                            | Called up<br>share capital<br>£'000 | Retained<br>earnings<br>£'000 | Shareholders'<br>equity<br>£'000 |
|----------------------------------------------------------------------------|-------------------------------------|-------------------------------|----------------------------------|
| <b>Year Ended 31 December 2024</b>                                         |                                     |                               |                                  |
| 1 January 2024                                                             | 94,375                              | 211,505                       | 305,880                          |
| Profit for the year                                                        | —                                   | 25,875                        | 25,875                           |
| Total comprehensive income for the year                                    | —                                   | 25,875                        | 25,875                           |
| Transactions with the owners of the Company recognised directly in equity: |                                     |                               |                                  |
| Dividends to shareholders                                                  | —                                   | (55,000)                      | (55,000)                         |
| 31 December 2024                                                           | 94,375                              | 182,380                       | 276,755                          |
| <b>Year Ended 31 December 2023</b>                                         |                                     |                               |                                  |
| 1 January 2023                                                             | 94,375                              | 101,785                       | 196,160                          |
| Profit for the year                                                        | —                                   | 109,720                       | 109,720                          |
| Total comprehensive income for the year                                    | —                                   | 109,720                       | 109,720                          |
| Transactions with the owners of the Company recognised directly in equity: |                                     |                               |                                  |
| Dividends to shareholders                                                  | —                                   | —                             | —                                |
| 31 December 2023                                                           | 94,375                              | 211,505                       | 305,880                          |

The accounting policies and notes on pages 16 to 49 form an integral part of these financial statements.

Total shareholders' equity is wholly attributable to equity shareholders.

# Notes on the Financial Statements

## 1. Basis of preparation

### 1.1. Basis of preparation

#### (a) Compliance with International Financial Reporting Standards

The financial statements of the Company have been prepared in accordance with UK-adopted International Accounting Standards (IASs) and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

There were no unendorsed standards effective for the year ended 31 December 2024 affecting these financial statements and the Company's application of IASs result in no differences between IASs.

#### (b) Standards adopted during the year ended 31 December 2024

No new accounting standards have been adopted by the Company in the year ended 31 December 2024.

#### (c) Future accounting developments

##### **Minor amendments to IASs:**

The IASB has published a number of minor amendments to IFRS's which are effective from 1 January 2025. The Company expects they will have an insignificant effect, when adopted, on the financial statements, if applicable.

##### **Other amendments and new IFRS Accounting Standards**

##### **IFRS 18 'Presentation and Disclosure in Financial Statements'**

In April 2024, the IASB issued IFRS 18 'Presentation and Disclosure in Financial Statements', effective for annual reporting periods beginning on or after 1 January 2027. The new accounting standard aims to give users of financial statements more transparent and comparable information about an entity's financial performance. It will replace IAS 1 'Presentation of Financial Statements' but carries over many requirements from that IFRS Accounting Standard unchanged. In addition, there are three sets of new requirements relating to the structure of the income statement, management-defined performance measures and the aggregation and disaggregation of financial information.

While IFRS 18 will not change recognition criteria or measurement bases, it may have an impact on presenting information in the financial statements, in particular the income statement and to a lesser extent the cash flow statement. The Company is currently assessing impacts and data readiness before developing a more detailed implementation plan.

#### (d) Presentation of information

The functional currency of the Company is Sterling, which is also the presentation currency of the financial statements.

The financial statements of the Company have been prepared in accordance with the Companies Act 2006 as applicable to companies using UK-adopted IASs. The principal accounting policies applied in the preparation of these financial statements have been consistently applied to all of the years presented, unless otherwise stated.

The Company is exempt from the requirement to prepare group financial statements by virtue of section 400 of the Companies Act 2006. The financial statements present information about the Company as an individual undertaking.

#### (e) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items, highlighted as the 'Use of accounting estimates and judgements' in section 2(i) below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different estimates and judgements from those reached by management for the purposes of these financial statements. Management's selection of the Company's accounting policies that contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

Management has considered the impact of climate-related risks on the Company's financial position and performance. While the effects of climate change are a source of uncertainty, as at 31 December 2024 management do not consider there to be a material impact on our critical judgements and estimates from the physical, transition and other climate-related risks in the short to medium term. In particular management has considered the known and observable potential impact of climate-related risks of associated judgements and estimates in our fair value calculations.

#### (f) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including:

- Current capital requirements and resources;
- Projected capital requirements and solvency ratios;
- Future projections of profitability;
- Cashflow projections;
- Current and forward looking liquidity adequacy, including scenario analyses;
- Considerations of stressed scenarios that reflect the uncertainty in ongoing structural changes from the Russia-Ukraine and Israel-Hamas wars, rising inflation as a result of disrupted supply chains globally, climate change and other top and emerging risks, as well as from the related impacts on profitability, capital and liquidity.

# Notes on the Financial Statements (continued)

## 1. Basis of preparation (continued)

### 1.1. Basis of preparation (continued)

#### (g) General information

HSBC Life (UK) Limited is a company domiciled and incorporated in England and Wales.

## 2. Summary of significant accounting policies

### (a) Financial Instruments

Financial instruments cover a wide range of financial assets, including financial investments, other receivables, cash and cash equivalents and financial liabilities, including investment contract liabilities, and trade payables.

#### **Classification and measurement of financial assets and financial liabilities**

A financial asset is initially measured at fair value plus, for an item not at fair value through profit and loss ('FVTPL'), transaction costs directly attributable to its acquisition.

A financial asset is classified, on initial recognition, as measured at: amortised cost; fair value through other comprehensive income ('FVOCI') debt instrument; FVOCI-equity investment; or FVTPL. The classification of financial assets depends on;

- The purpose for which they were acquired;
- The business model in which the financial asset is managed, and
- Its contractual cash flow characteristics. This classification determines the subsequent measurement basis.

#### **Business model**

The Company manages its financial instruments on a fair value basis. The Company manages the business and makes business decisions on an economic capital basis. This is determined on a Solvency II basis which requires assets and liabilities to be valued at fair value (best estimate liabilities for technical provisions).

The performance of the assets is evaluated and reported to management on a fair value basis. The economic capital balance sheet and the investment returns (fair value movements and interest) are reported to management and evaluated at governance meetings (Assets and Liabilities Management Committee "ALCO", and Risk and Audit Committee) on a fair value basis.

- Financial investments are measured at fair value through profit and loss.
- Receivables. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

All financial assets classified at fair value through profit or loss are managed, and their performance evaluated, on a fair value basis.

Purchases and sales of financial assets are recognised on the trade date, which is when the Company commits to purchase or sell the assets. Other financial assets are de-recognised when contractual rights to receive cash flows from the investments expire, or when the investments, together with substantially all the risks and rewards of ownership, have been transferred.

Financial assets are initially measured at fair value. After initial recognition, the Company measures financial assets classified at fair value through profit or loss at fair value, without any deduction for transaction costs it may incur on disposal. The fair value of quoted investments are their quoted bid prices at the statement of financial position date. Certain financial assets are valued using a valuation technique:

- Unlisted debt securities relate to short term instruments and are valued by reference to the yields on the instruments (see note 10);

Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss, are included in the income statement in the period in which they arise. Net fair value gains/losses on financial instruments classified at fair value through profit or loss are reported in the income statement as financial income inclusive of interest received and receivable from debt securities.

Dividends from collective investments are included in financial income on the date that the securities are quoted ex dividend.

Interest income represents interest calculated on an effective interest basis.

#### **Determination of fair value**

All financial instruments are recognised initially at fair value, except for receivables that are recognised initially at fair value plus directly attributable transaction costs. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received).

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison to similar instruments where market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants.

# Notes on the Financial Statements (continued)

## 2. Summary of significant accounting policies (continued)

### (a) Financial Instruments (continued)

#### Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition, and include cash.

Cash and cash equivalents comprise cash balances and short term deposits all of which are classified as FVTPL.

#### Trade payables and receivables

Due to the short term nature of trade payables and receivables, their carrying amount is considered to be the same as their fair value.

#### Financial liabilities

The Company also determines classification of financial liabilities as FVTPL as per the business model. For investment contracts please refer to note 2(c).

#### Impairment of financial assets

An expected credit loss ('ECL') impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investment in equity instruments. The Company's business model is a fair value business model and therefore there is no impairment impact on financial investments and derivatives, as both are at FVTPL.

Receivables are credit-impaired when there is observable data that the following events have taken place:

- Significant financial difficulty of the intermediary, e.g. known cashflow difficulties experienced by the intermediary, or deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful;
- A breach of contract, such as a default or past due event, e.g. contractual payments of either principal or interest being past due for more than 90 days;
- It is becoming probable that the intermediary will enter bankruptcy or other financial reorganisation;
- A concession granted to the intermediary for economic or legal reasons relating to the intermediary's financial difficulty that HSBC would not otherwise consider, e.g. forgiveness or postponement of principal, interest or fees, where the concession is not insignificant.

In such circumstances the credit impairment loss will be recognised in the Statement of profit or loss and other comprehensive income.

### (b) Insurance contracts

A contract is classified as an insurance contract where the Company accepts significant insurance risk from another party by agreeing to compensate that party if it is adversely affected by a specified uncertain future event. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant. In addition, the Company issues insurance contracts with direct participation features ('unit-linked'), which are also accounted under IFRS 17 'Insurance Contracts'.

#### Aggregation of insurance contracts

Individual insurance contracts that are managed together and subject to similar risks are identified as a portfolio. Contracts that are managed together usually belong to the same product group, and have similar characteristics such as being subject to a similar pricing framework or similar product management, and are issued by the same legal entity. If a contract is exposed to more than one risk, the dominant risk of the contract is used to assess whether the contract features similar risks. Each portfolio is further separated by the contract's expected profitability. The portfolios are split by their profitability into: (i) contracts that are onerous at initial recognition; (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently; and (iii) the remaining contracts. These profitability groups are then divided by issue date, with most contracts the Company issues after the transition date being grouped into calendar quarter cohorts. Currently no contract are being assigned to category (ii) as there is no evidence to support this allocation.

The measurement of the insurance contract liability is based on groups of insurance contracts as established at initial recognition, and will include fulfilment cash flows as well as the CSM representing the unearned profit. The Company has elected to update the estimates used in the measurement on a year-to-date basis.

#### Fulfilment cash flows

The fulfilment cash flows comprise the following:

##### (i) Best estimates of future cash flows

The cash flows within the contract boundary of each contract in the Company include amounts expected to be collected from premiums and payouts for claims, benefits and expenses, and are projected using a range of scenarios and assumptions in an unbiased way based on the Company's demographic and operating experience along with external mortality data where the Company's own experience data is not sufficiently large in size to be credible.

# Notes on the Financial Statements (continued)

## 2. Summary of significant accounting policies (continued)

### (b) Insurance contracts (continued)

#### (ii) Adjustment for the time value of money (i.e. discounting) and financial risks associated with the future cash flows

The estimates of future cash flows are adjusted to reflect the time value of money and the financial risks to derive an expected present value.

A bottom-up approach is used to determine the discount rate to be applied to a given set of expected future cash flows. This is derived as the sum of the risk-free yield and an illiquidity premium. The risk-free yield is determined based on observable market data, where such markets are considered to be deep, liquid and transparent. When information is not available, management judgement is applied to determine the appropriate risk-free yield. Illiquidity premiums reflect the liquidity characteristics of the associated insurance contracts. The characteristics of the insurance contracts support a zero illiquidity premium.

#### (iii) Risk adjustment for non-financial risk

The risk adjustment reflects the compensation required for bearing the uncertainty about the amount and timing of future cash flows that arises from non-financial risk. It is calculated as a 75th percentile level of stress over a one year period. The level of the stress is determined with reference to external regulatory stresses and internal economic capital stresses.

The Company does not disaggregate changes in the risk adjustment between insurance service result (comprising insurance revenue and insurance service expense) and insurance finance income or expenses. All changes are included in insurance service result.

#### Measurement models

The variable fee approach ('VFA') measurement model is used for contracts issued by the Company, which is mandatory upon meeting the following criteria:

- The contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- The Company expects to pay to the policyholder a substantial share of the fair value returns on the underlying items. The Company considers that a substantial share is a majority of returns; and
- The Company expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. The Company considers that a substantial proportion is a majority proportion of change on a present value probability-weighted average of all scenarios.

The remaining contracts issued and the reinsurance contracts held are accounted for under the general measurement model ('GMM').

#### CSM and coverage units

The CSM represents the unearned profit and results in no income or expense at initial recognition when the group of contracts is profitable. The CSM is adjusted at each subsequent reporting period for changes in fulfilment cash flows relating to future service (e.g. changes in non-economic assumptions, including mortality and morbidity rates). For initial recognition of onerous groups of contracts and when groups of contracts become onerous subsequently, losses are recognised in insurance service expense immediately.

For groups of contracts measured using the VFA, changes in economic experience and economic assumption changes adjust the CSM, whereas these changes do not adjust the CSM under the GMM, but are recognised in profit or loss as they arise.

The CSM is systematically recognised in insurance revenue to reflect the insurance contract services provided, based on the coverage units of the group of contracts. Coverage units are determined by the quantity of benefits and the expected coverage period of the contracts.

The Company identifies the quantity of the benefits provided as follows:

- For insurance coverage - based on the expected net policyholder insurance benefit at each period after allowance for decrements, where net policyholder insurance benefit refers to the amount of sum assured less the fund value or surrender value.
- For investment services (including both investment-return service and investment-related service) - based on a constant measure basis which reflects the provision of access for the policyholder to the facility.

For contracts that provide both insurance coverage and investment services, coverage units are weighted according to the expected present value of the future cash outflows for each service.

#### Insurance service result

Insurance revenue reflects the consideration to which the Company expects to be entitled in exchange for the provision of coverage and other insurance contract services (excluding any investment components). Insurance service expenses comprise the incurred claims and other incurred insurance service expenses (excluding any investment components), and losses on onerous groups of contracts and reversals of such losses.

#### Insurance finance income and expenses

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from the effects of the time value of money, financial risk and changes therein. For VFA contracts, changes in the fair value of underlying items (excluding additions and withdrawals) are recognised in insurance finance income or expenses.

# Notes on the Financial Statements (continued)

## 2. Summary of significant accounting policies (continued)

### (c) Investment contracts

#### **Classification**

Contracts under which the transfer of insurance risk to the Company from the policyholder is not significant are classified as investment contracts.

#### **Recognition and measurement**

Amounts collected on investment contracts, which primarily involve the transfer of financial risk, are accounted for using deposit accounting, under which the amounts collected are credited directly to the statement of financial position, as an adjustment to the investment contract liability to the policyholder, and payments to policyholders are debited against the statement of financial position liability.

All investment contracts issued include the provision of investment management services. These services are accounted for in accordance with IFRS 15 Revenue from contracts with customers where the revenue associated with the service component is recognised by reference to the stage of completion of the transaction. The Company recognises annual management fees, based on the policyholder's account value, when due. Any front-end fees deducted from premiums received, prior to allocation of units to the policy, are spread over the expected period of the contract, based on the latest assumptions.

#### **Liability measurement**

Liabilities in relation to unit-linked investment contracts are classified under IFRS 9 requirements as at fair value through profit or loss. The financial liability is measured using a valuation technique, based on the carrying value of the assets and liabilities that are held to back the contract, adjusted to take account of the effect on the liabilities of the discounting for the time value of tax payments on assets sold in the fund.

These liabilities are classified as fair value through profit and loss as this group of liabilities, together with the related unit-linked assets, are managed, and their performance evaluated, on a fair value basis.

### (d) Revenue

Revenue comprises insurance contract revenue, fees and commission income and financial income. Financial income is detailed above in note 2(a) Financial instruments.

The accounting policy in relation to revenue from insurance contracts is disclosed in note 2(b) in the Insurance Service Result section.

#### **Fee and commission income**

Fees and commission income includes fees on investment management services contracts that are recognised as the services are provided and that it is highly improbable that these will be reversed.

Fees and commissions that do not require the Company to render further services are recognised as other income by the Company when they become receivable.

### (e) Income Tax

Income tax comprises current and deferred tax and is recognised in the income statement.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the end of the reporting period and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the Company intends to settle on a net basis and the legal right to offset exists.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the end of the reporting period. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when the Company has a legal right to offset.

In addition to paying tax on shareholders' profits ('shareholder tax'), the Company pays tax on policyholders' investment returns ('policyholder tax') on certain products at policyholder tax rates. The incremental tax borne by the Company represents income tax on policyholder's investment return. Utilisation of historic tax losses, means that the Company will only pay policyholder tax once the historic tax losses are fully utilised.

### (f) Foreign currencies

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the end of the reporting period. Any resulting exchange differences are included in the statement of comprehensive income.



# Notes on the Financial Statements (continued)

## 2. Summary of significant accounting policies (continued)

### (f) Foreign currencies (continued)

Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Any exchange component of a gain or loss on a non-monetary item is recognised in other comprehensive income if the gain or loss on the non-monetary item is recognised in other comprehensive income. Any exchange component of a gain or loss on a non-monetary item is recognised in the statement of comprehensive income if the gain or loss on the non-monetary item is recognised in the statement of comprehensive income.

Translation differences on items measured at fair value, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

### (g) Provisions

A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where appropriate, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

### (h) Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are recognised in equity as a deduction from proceeds, net of tax.

Dividends payable in relation to equity shares are recognised as follows; final dividend payments are reflected in the financial statements in the period in which they are declared and interim dividends in the period they are paid.

### (i) Use of accounting estimates and judgements

When preparing the financial statements, it is the Directors' responsibility to select suitable accounting policies and to make judgements and estimates that are reasonable and prudent.

The Company makes estimates and assumptions concerning the future that have a significant risk of causing a material adjustment to the reported amounts of assets and liabilities within the next financial year. Estimates and assumptions are continually evaluated and based on assessments of historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The final estimates also include an explicit risk adjustment to allow for uncertainty in the non-financial assumptions within the estimates.

#### Coverage units

The Company's approach to the determination of coverage units is set out in 'Summary of significant accounting policies' in note 2(b). Judgement was involved in the determination of the approach that most faithfully represents the nature of our business and the benefits that are ascribed to the policy holder over the duration of insurance contracts, as the standard does not specify a required basis for determination of coverage units. The Company determined that the coverage unit basis that best reflects the provision of investment services is the availability of the facility over time. For insurance business it is based on the expected net policyholder insurance benefit at each period after allowance for decrements.

#### Discount rates

The discount rate methodology is a fundamental assumption underpinning the IFRS 17 reporting. While IFRS 17 does not specify the actual methodology of setting the discount rate, it requires that the methodology should be market consistent, set based on the liability characteristics, and that only financial risk should be allowed for in the discount rate. The Company has elected to apply the risk-free rate with no adjustment for an illiquidity premium.

#### Expenses

IFRS 17 requires the determination of whether cash flows are directly attributable to the acquisition or fulfilment of insurance contracts. Insurance acquisition cash flows are included in the measurement of a group of insurance contracts only if they are directly attributable to the individual contracts in a group, or to the group itself, or the portfolio of insurance contracts to which the group belongs. When estimating fulfilment cash flows, the Company also allocates fixed and variable overheads cash flows directly attributable to the fulfilment of insurance contracts. Judgement is involved in identifying and allocating costs and this determination has been informed by time study assessments which consider factors such as the allocation of frontline staff costs related to distribution including salaries, commissions and bonuses, and associated overhead allocations. Assessments are also performed to determine the amount of maintenance costs such as claims handling, policy administration and associated overheads.

#### Deferred tax asset

A deferred tax asset has been recognised (Note 18, Deferred tax (assets)/liabilities), relating to historic tax losses, based on the recognition and measurement criteria in IAS 12.

The Company is subject to the UK's taxation regime for life assurance companies which seeks to tax the policyholder profits, where appropriate, along with the shareholder (Company) profits. This is known as the "I-E" regime (broadly any investment income plus gains on disposals of assets less expenses of management).

# Notes on the Financial Statements (continued)

## 2. Summary of significant accounting policies (continued)

### (i) Use of accounting estimates and judgements (continued)

#### Deferred tax asset (continued)

Under the I-E regime only Basic Life Assurance and General Annuity Business ("BLAGAB") products, are subject to tax on an I-E basis. Where there are more expenses than investment return and gains, the Company is in an Excess Expense (XSE) position and will have XSE to carry forward. XSE is effectively a form of tax loss for which a deferred tax asset was recognised.

The deferred tax asset is recognised based on probable future taxable investment income and gains within 10 years. Assumed investment returns are consistent with actuarial assumptions used in reserving and the Board approved financial resource plan (FRP), which includes new business over the planning period of 5 years.

## 3. Management of insurance and financial risk

The Company issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the Company manages these risks.

### Insurance risk

The insurance contracts sold by the Company offer a lump sum or monthly income payable on death, on diagnosis of certain specified critical illnesses, or in the event of the policyholder being unable to work through long-term illness, or on a combination of these benefits. The amount of benefit payable may be fixed at the outset, increased at a fixed rate or with regard to a recognised index, or reduced over the course of the contract. Alternatively, it may either be linked to the value of units allocated to the policy or based on the original premium paid.

Depending on the type of contract, the customer premiums may be expected to be level throughout the term of the contract or increased annually on the anniversary of the inception of the contract.

For certain contracts, in the event of different experience, the Company may review the premium payable by the customer. For other contracts, the customer premium is guaranteed throughout the term of the contract irrespective of any variations in experience.

The risk under any one insurance contract is the possibility that the insured event occurs, when it will occur and, in some cases, the uncertainty of the amount of the resulting claim. By the very nature of an individual insurance contract, this risk is random and therefore unpredictable. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be.

The Company manages its insurance risk through strict underwriting procedures (developed in conjunction with reinsurers) and claims management. These procedures are regularly reviewed internally and also by the Company's reinsurers. In addition, the Company's Risk Management Meeting regularly monitors and manages insurance risk issues.

The Company adopts rigorous approval procedures for new products and pricing reviews, close monitoring and active management of reinsurance arrangements and monitoring of emerging issues.

The Company's underwriting strategy is intended to ensure that the risks underwritten are diversified in terms of type of risk and the level of insured benefits. Medical selection is also included in the Company's underwriting procedures, with premium varied to reflect the health condition and family medical history of the applicants. The Company limits retention on individual lives for each type of insured benefit (e.g. life and critical illness) by the use of proportional reinsurance.

Historically, the Company has written a significant proportion of protection business where customers' premiums are reviewable in line with experience. This represents approximately 15% (2023: 18%) of the current in-force protection business. The Company has obtained reinsurance on a combination of reviewable and guaranteed terms for this business, and actively manages the risk of a mismatch between the reinsurance and the commitment to customers.

The Company also writes protection business where customer premiums are guaranteed. The Company has obtained reinsurance on guaranteed terms in order to match the commitment to customers.

The spread of business is generally geographically diverse within the United Kingdom meaning that the Company is not exposed to a significant concentration of insurance risk on individual policies. However, the Company is exposed to a concentration of insurance risk on the protection benefits provided as part of the flexible benefits package offered to the UK employees of HSBC, of which the most material would be in respect of a catastrophe at the UK headquarters of HSBC Bank. The concentration risk was considered as part of the process of securing the business and appropriate reinsurance was put in place to ensure that the risk exposure remained within the risk appetite of the Company.

The Company uses reinsurance appropriately to reduce variability of the losses incurred by the Company and has reinsurance contracts in place to mitigate a proportion of mortality and morbidity risk. In addition, reinsurance is used where it is judged to be economically advantageous to do so.

# Notes on the Financial Statements (continued)

## 3. Management of insurance and financial risk (continued)

### Insurance risk (continued)

The Company's current reinsurance treaties for the major new business lines are set out in the following table.

| Business Type                         | Operating Type | Retention | Risk Type               |
|---------------------------------------|----------------|-----------|-------------------------|
| Mortality (Internal Term business)    | Proportional   | 40%       | Risk rates              |
| Morbidity (Internal Critical illness) | Proportional   | 20%       | Risk rates              |
| Mortality (External Term business)    | Proportional   | 5%        | Risk rates              |
| Morbidity (External Critical illness) | Proportional   | 20%       | Risk rates              |
| Group Term business                   | Proportional   | 10%       | Level Rate + Risk rates |
| Group Critical Illness business       | Proportional   | 10%       | Level Rate + Risk rates |
| Group Income Protection               | Proportional   | 0%        | Level Rate              |

Similar proportional arrangements apply to existing business. The Company makes use of reinsurance to reduce capital requirements where it is available on good economic terms.

### Sensitivities

The following table shows the sensitivity of Company's profit and total equity to reasonably foreseeable changes in non-economic assumptions. These sensitivities are prepared in accordance with current IFRS 17.

Mortality and morbidity risk is typically associated with life insurance contracts. The effect on profit of an increase in mortality or morbidity depends on the type of business being written.

Sensitivity to lapse rates depends on the type of contracts being written. An increase in lapse rates typically has a negative effect on CSM (and therefore expected future profits) due to the loss of future income on the lapsed policies. However, some contract lapses have a positive effect on profit due to the existence of policy surrender charges and policies late on in the lifecycle will have a positive impact if lapses increase.

Expense rate risk is the exposure to a change in the allocated cost of administering insurance contracts. To the extent that increased expenses cannot be passed on to policyholders, an increase in expense rates will have a negative effect on our profits.

#### Sensitivity of the Company to insurance risk factors:

|                                                              | Effect on CSM<br>(net)<br>£'000 | Effect on profit<br>after tax (net)<br>£'000 | Effect on total<br>equity (net)<br>£'000 |
|--------------------------------------------------------------|---------------------------------|----------------------------------------------|------------------------------------------|
| <b>At 31 Dec 2024</b>                                        |                                 |                                              |                                          |
| 5% increase in mortality and/or morbidity rates <sup>1</sup> | (4,341)                         | 412                                          | 412                                      |
| 5% decrease in mortality and/or morbidity rates <sup>1</sup> | 3,547                           | (64)                                         | (64)                                     |
| 10% increase in lapse rates                                  | (283)                           | (1,598)                                      | (1,598)                                  |
| 10% decrease in lapse rates                                  | (15)                            | 1,480                                        | 1,480                                    |
| 10% increase in expense rates                                | (6,531)                         | (1,704)                                      | (1,704)                                  |
| 10% decrease in expense rates                                | 6,542                           | 1,690                                        | 1,690                                    |

|                                                              |          |         |         |
|--------------------------------------------------------------|----------|---------|---------|
| <b>At 31 Dec 2023</b>                                        |          |         |         |
| 5% increase in mortality and/or morbidity rates <sup>1</sup> | (15,175) | (1,552) | (1,552) |
| 5% decrease in mortality and/or morbidity rates <sup>1</sup> | 17,604   | 1,238   | 1,238   |
| 10% increase in lapse rates                                  | (2,257)  | (2,889) | (2,889) |
| 10% decrease in lapse rates                                  | 2,212    | 2,288   | 2,288   |
| 10% increase in expense rates                                | (6,206)  | (1,798) | (1,798) |
| 10% decrease in expense rates                                | 6,253    | 1,213   | 1,213   |

<sup>1</sup> Mortality and morbidity sensitivities have been reduced in the current year from 10% to 5% scenarios as the shock is deemed to be overly onerous and 5% more closely aligns to market practice. The prior period comparatives have been restated.

# Notes on the Financial Statements (continued)

## 3. Management of insurance and financial risk (continued)

### Asset/liability matching

The Company aims to manage its assets using an approach that balances quality, diversification, asset/liability matching, liquidity and investment return, while operating within a defined risk appetite. The Company's senior management reviews and approves the investment strategy on a periodic basis, establishes investment guidelines and limits, and provides oversight of the asset/liability management process.

For unit-linked insurance and investment contracts, the unit liability to policyholders is determined by the value of the assets in the unit-linked portfolios. There is therefore no direct net equity price, currency, interest rate or credit risk exposure to the Company for these contracts as the risks are borne by the policyholders. However, indirect exposure to equities and interest rates arises through the customer charges as explained further below. The following table analyses the Company's assets and liabilities between the main insurance and investment contract types:

| At 31 December 2024                                           | Life direct<br>participating<br>contracts | Life other     | Investment<br>contracts | Shareholder<br>assets and<br>liabilities | Total            |
|---------------------------------------------------------------|-------------------------------------------|----------------|-------------------------|------------------------------------------|------------------|
|                                                               | £'000                                     | £'000          | £'000                   | £'000                                    | £'000            |
| <b>Assets</b>                                                 |                                           |                |                         |                                          |                  |
| Financial assets at fair value through profit and loss        |                                           |                |                         |                                          |                  |
| – Debt securities-fixed rate                                  | —                                         | —              | —                       | 103,731                                  | 103,731          |
| – Collective investment schemes                               | 2,778,195                                 | —              | 936,355                 | 54,952                                   | 3,769,502        |
| – Cash and cash equivalents                                   | 70,458                                    | —              | 610                     | 102,070                                  | 173,138          |
| Loans, receivables and prepayments                            | 619                                       | 17,683         | 7                       | 1,719                                    | 20,028           |
| Deferred tax asset                                            | —                                         | —              | —                       | 56,002                                   | 56,002           |
| Insurance contract assets                                     | —                                         | 37,757         | —                       | —                                        | 37,757           |
| Reinsurance contract assets                                   | (88)                                      | 129,835        | —                       | —                                        | 129,747          |
| <b>Total assets</b>                                           | <b>2,849,184</b>                          | <b>185,275</b> | <b>936,972</b>          | <b>318,474</b>                           | <b>4,289,905</b> |
| <b>Liabilities</b>                                            |                                           |                |                         |                                          |                  |
| Insurance contract liabilities                                | 2,826,399                                 | 176,593        | —                       | —                                        | 3,002,992        |
| Reinsurance contract liabilities                              | 1,042                                     | 36,575         | —                       | —                                        | 37,617           |
| Investment contract liabilities                               | —                                         | —              | 931,399                 | —                                        | 931,399          |
| Insurance and other payables and deferred income              | 21,743                                    | 2,736          | 5,573                   | —                                        | 30,052           |
| Other provisions                                              | —                                         | —              | —                       | —                                        | —                |
| Deferred tax liabilities                                      | —                                         | —              | —                       | 8,527                                    | 8,527            |
| Current tax liabilities                                       | —                                         | —              | —                       | 2,563                                    | 2,563            |
| <b>Total liabilities</b>                                      | <b>2,849,184</b>                          | <b>215,904</b> | <b>936,972</b>          | <b>11,090</b>                            | <b>4,013,150</b> |
| <b>At 31 December 2023</b>                                    |                                           |                |                         |                                          |                  |
|                                                               | £'000                                     | £'000          | £'000                   | £'000                                    | £'000            |
| <b>Assets</b>                                                 |                                           |                |                         |                                          |                  |
| Financial assets at fair value through profit and loss        |                                           |                |                         |                                          |                  |
| – Debt securities-fixed rate                                  | —                                         | —              | —                       | 40,954                                   | 40,954           |
| – Collective investment schemes                               | 2,123,244                                 | —              | 857,633                 | 114,633                                  | 3,095,510        |
| – Cash and cash equivalents                                   | 50,030                                    | —              | 1,202                   | 117,291                                  | 168,523          |
| Loans, receivables and prepayments                            | 1,429                                     | 11,236         | —                       | 1,635                                    | 14,300           |
| Deferred tax asset                                            | —                                         | —              | —                       | 88,456                                   | 88,456           |
| Insurance contract assets                                     | —                                         | 41,040         | —                       | —                                        | 41,040           |
| Reinsurance contract assets                                   | 31                                        | 127,210        | —                       | —                                        | 127,241          |
| <b>Total assets</b>                                           | <b>2,174,734</b>                          | <b>179,486</b> | <b>858,835</b>          | <b>362,969</b>                           | <b>3,576,024</b> |
| <b>Liabilities</b>                                            |                                           |                |                         |                                          |                  |
| Insurance contract liabilities                                | 2,148,812                                 | 181,420        | —                       | —                                        | 2,330,232        |
| Reinsurance contract liabilities <sup>1</sup>                 | 1,549                                     | 38,389         | —                       | —                                        | 39,938           |
| Investment contract liabilities                               | —                                         | —              | 852,588                 | —                                        | 852,588          |
| Insurance and other payables and deferred income <sup>1</sup> | 24,373                                    | (408)          | 6,248                   | 11                                       | 30,224           |
| Other provisions                                              | —                                         | 54             | —                       | —                                        | 54               |
| Deferred tax liabilities                                      | —                                         | —              | —                       | —                                        | —                |
| Current tax liabilities                                       | —                                         | —              | —                       | 17,108                                   | 17,108           |
| <b>Total liabilities</b>                                      | <b>2,174,734</b>                          | <b>219,455</b> | <b>858,836</b>          | <b>17,119</b>                            | <b>3,270,144</b> |

<sup>1</sup> In the current year, reinsurance contract payables have been recognised within reinsurance contract liabilities. The prior year comparatives have been restated as a result.

# Notes on the Financial Statements (continued)

## 3. Management of insurance and financial risk (continued)

### Financial risk

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. The key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of this financial risk are market risk, credit risk and liquidity risk.

### Market risk

Market risk is the risk of change in fair value of a financial instrument due to changes in interest rates, equity prices or foreign currency exchange rates. Equity and foreign exchange exposure is substantially all contained within the unit-linked funds and the risk is borne by the policyholders. However, the income for the Company from the unit-linked funds is derived from the annual management charges which are a fixed percentage of the fund value. The Company also receives income on certain products in respect of tax deductions for investment income and gains that are taxable for the Company. This income therefore varies with the investment performance of the funds. Therefore, the charges made are dependent on the level of the fund.

The 'other' investment portfolio contains small holdings of units in the unit-linked funds, relating to the operation of small box holdings of unallocated units, which generates some equity exposure. These holdings are kept to a minimum and managed against agreed limits. The main holdings within the 'other' portfolio are in collectives that hold debt securities and short term money market instruments and 'Debt securities' which are government securities and corporate bonds.

### Interest rate risk

The Company's net exposure to market risk from changes in interest rates arises from its non-linked and 'other' investment portfolios as well as from its liabilities. Interest rates also impact the fund values where customer funds have bond exposure and so the comments above relating to equity also apply here. The Company operates investment guidelines for its shareholder assets, which include setting out the matching policy of the Company. The investment strategy is approved by the Board following review and recommendation by the Risk and Audit Committee (RAC) which is a formal sub-committee of the Board, and also by the HSBC Group Insurance Function. Compliance with guidelines is monitored and exposures and breaches are reported to the Asset and Liability Management Committee.

Management monitor the Company's sensitivity to interest rate movements by considering the profit impact in stressed scenarios.

### Sensitivities

The following table provides the impacts on the contractual service margin, profit after tax and equity of the Company from reasonably possible effects of changes in selected interest rate and growth asset scenarios for the year. These sensitivities are prepared in accordance with current IFRSs and are based on changing one assumption at a time with other variables being held constant which in practice could be correlated.

The sensitivities are stated before allowance for management actions, which may mitigate the effect of changes in the market environment.

#### Sensitivity to market risk factors:

|                                                 | 2024                                      |                           |                                    | 2023                                      |                           |                                    |
|-------------------------------------------------|-------------------------------------------|---------------------------|------------------------------------|-------------------------------------------|---------------------------|------------------------------------|
|                                                 | Effect on<br>profit after<br>tax<br>£'000 | Effect on<br>CSM<br>£'000 | Effect on<br>total equity<br>£'000 | Effect on<br>profit after<br>tax<br>£'000 | Effect on<br>CSM<br>£'000 | Effect on<br>total equity<br>£'000 |
| +100 basis point parallel shift in yield curves |                                           |                           |                                    |                                           |                           |                                    |
| – Insurance & Reinsurance Contracts             | 4,738                                     | 1,378                     | 4,738                              | 4,334                                     | 852                       | 4,334                              |
| -100 basis point parallel shift in yield curves |                                           |                           |                                    |                                           |                           |                                    |
| – Insurance & Reinsurance Contracts             | (6,691)                                   | (1,726)                   | (6,691)                            | (6,474)                                   | (998)                     | (6,474)                            |
| 10% increase in growth assets <sup>1</sup>      |                                           |                           |                                    |                                           |                           |                                    |
| – Insurance & Reinsurance Contracts             | 747                                       | 4,182                     | 747                                | 1,686                                     | 1,029                     | 1,686                              |
| 10% decrease in growth assets <sup>1</sup>      |                                           |                           |                                    |                                           |                           |                                    |
| – Insurance & Reinsurance Contracts             | (802)                                     | (3,865)                   | (802)                              | (2,007)                                   | (960)                     | (2,007)                            |

<sup>1</sup> Growth assets primarily comprise investment fund and corporate bond holdings.

The analysis above has been prepared for an immediate change in values, including changes in the value of related assets, and assumptions with no allowance for management actions. The impacts shown reflect the effect on equity and profit and loss. The impacts are caused by changes in the insurance contract liability and assets through the underlying components which includes the fulfilment cashflows and the contractual service margin. The analysis follows the company's accounting policy for these contracts including the treatment when the contractual service margin cannot be adjusted to offset changes in the fulfilment cashflows and the change in CSM amortisation over the full accounting period.

# Notes on the Financial Statements (continued)

## 3. Management of insurance and financial risk (continued)

### Credit risk

The Company has exposure to credit risk on financial assets; this is the risk that a counterparty will be unable to pay the amounts due in full when they arise. Where the exposure relates to assets held within the Company's unit-linked funds, the credit risk is borne by the policyholders.

The main areas where the Company has an exposure to credit risk (i.e. excluding the unit-linked exposure) are:

- The default risk of a reinsurer currently used by the Company;
- The default risk of debt instruments held within collective investment scheme holdings;
- The default risk of debt securities held by the Company;
- The default risk of HSBC Bank plc in respect of the Company's deposit holdings; and
- The default risk of non-clawback of indemnity commission from intermediaries in the event that policies lapse.

The Company operates investment guidelines for its non-linked assets which set out the permitted assets that may be held and any limits to be applied. Limits on exposure to a single counterparty are set by reference to the credit rating of the counterparty. The investment guidelines are set out in the Investment Policy Document which is approved by the Asset and Liability Management Committee. Compliance with guidelines is monitored and exposures and breaches are reported to the Asset and Liability Management Committee.

Within the Company's unit-linked funds, the credit risk is borne by the policyholders and not the shareholders. The fund managers operate within agreed investment guidelines which specify the required credit quality for fund investments.

Reinsurance is placed with counterparties that have undergone appropriate due diligence checks and have been approved by the HSBC Group Insurance Function. Exposures and breaches against internal and regulatory limits are monitored and reported to the Asset and Liability Management Committee.

Intermediaries undergo due diligence checks before onboarding and sales, lapses and clawback of commission is monitored and reported to the Distribution Oversight Forum and the Asset and Liability Management Committee. Exposures are also managed by negotiating with intermediaries to have some commission paid on non-indemnity terms.

### Credit exposure

Other than to its parent (see note 20), the only significant concentrations of credit risk are in relation to the Company's reinsurers.

### Liquidity risk

Liquidity risk is the risk that an insurance operation, though solvent, either does not have sufficient financial resources available to meet its obligations when they fall due, or can secure them only at excessive cost. Liquidity risk may be able to be shared with policyholders for products with participating features.

The Company has to meet daily calls on its cash resources, notably from claims arising on its insurance and investment contracts. There is therefore a risk that cash will not be available to settle liabilities when due.

The Company's policy for managing this risk is to ensure that all investment securities held within the non-linked funds are capable of meeting the Prudential Regulation Authority's (PRA's) definition of 'readily realisable' to the extent that they are capable of being realised for a value equivalent to at least 97.5% of their current market value within a period of seven days.

The Company also holds a sufficient level of cash balances at all times, such that normal operational cash flows can be met without the sale of investments. Contingency arrangements are also available to the Company to ensure that short-term liquidity can be maintained in any extreme or unforeseen circumstances.

For the unit-linked funds, there is a risk that significant policyholder outflows could exceed the short-term liquidity within the funds. The Company has the power to defer settlement to policyholders in certain circumstances by between one and six months, depending on the fund.

Short-term liquidity management is undertaken on a daily basis. Longer-term liquidity risk is managed on an ongoing basis through the regular review of the investment portfolio to align the maturity profile with that of the projected contract liabilities.

The Company has developed a liquidity contingency plan which formally sets out how the Company will monitor potential liquidity issues and the actions that will be taken in certain situations.

Cashflow analysis, to assess Company's liquidity adequacy, was performed and the outcome was that the Company is expected to have sufficient liquid funds over the next five years, provided dividends are limited.

The approach adopted by management to assess liquidity risk is based on consideration of the impact of a number of stress tests on short-term and medium-term cash flows.



# Notes on the Financial Statements (continued)

## 3. Management of insurance and financial risk (continued)

### Liquidity risk (continued)

The assumptions in the base scenario are then stressed in a number of scenarios to determine whether sufficient liquidity can be generated and at what cost. Any potential issues are then addressed.

The remaining contractual maturity of insurance contract liabilities is included in Note 4.

The amounts of insurance contract liabilities that are payable on demand are set out by the product grouping below:

|                                               | 2024                      |                                     | 2023                      |                                     |
|-----------------------------------------------|---------------------------|-------------------------------------|---------------------------|-------------------------------------|
|                                               | Amounts Payable on Demand | Carrying Amount for these Contracts | Amounts Payable on Demand | Carrying Amount for these Contracts |
|                                               | £'000                     | £'000                               | £'000                     | £'000                               |
| Life direct participating contracts           | 2,797,017                 | 2,787,696                           | 2,134,071                 | 2,111,990                           |
| Life other contracts                          | 59,305                    | 215,296                             | 52,168                    | 218,242                             |
| Reinsurance contract liabilities <sup>1</sup> | —                         | 37,617                              | —                         | 39,938                              |
| At 31 Dec                                     | 2,856,322                 | 3,040,609                           | 2,186,239                 | 2,370,170                           |

<sup>1</sup> In the current year, reinsurance contract payables have been recognised within reinsurance contract liabilities. The prior year comparatives have been restated as a result.

## Capital management

The key objectives of the Company's capital management policy is to:

- Enable the Company to write new business, that is, to meet the development costs of new contracts and the capital requirements from writing new business;
- To ensure solvency, without the need for capital injection, on an ongoing basis withstanding ordinary volatility in economic and non-economic experience, and in the event of mild stress scenarios; and
- Protect against regulatory intervention.

The optimum level of capital buffer ensures that a capital injection is not required over the planning time horizon with an acceptable confidence level to the Company's parent and excess capital is not sitting with the Company reducing return on capital to the shareholders.

The Company is required to hold regulatory capital in compliance with the rules issued by the Prudential Regulation Authority (PRA). Solvency II, the Europe-wide prudential regulation framework, came into force on 1 January 2016 and has since been adopted by the PRA. In terms of Solvency II, Pillar 1, the Company's solvency capital requirement (SCR) is determined on a standard formula basis plus a voluntary capital add-on. Solvency II, Pillar 2, requires the Company to do its own assessment of the capital required for current and future risks. The Company will then hold the maximum of the regulatory capital (SCR) and its own capital assessment.

The target capital level is 137% of the Company's assessment of the capital required, with a minimum absolute target buffer of £64million. Where the actual capital exceeds the target level, a dividend payment should be considered to bring the solvency margin down to the target level. Other considerations such as liquidity, projected new business sales, distributable reserves and reinsurance exposure are all considered when determining what level of dividends can be paid.

The risk appetite is that the solvency margin should remain above 129% of the Company's assessment of the capital required with a minimum buffer of £45m. This is based on a 1 in 10 year event. In the current year, the Solvency Capital Requirement is £210m (2023: £168m) and the Solvency Ratio is 149% (2023: 164%).

The Company has complied with the externally imposed capital requirements to which it is subject at all times during the current and prior financial year.

The table below summarises the IFRS and regulatory capital held by the Company.

|                                                               | 2024     | 2023     |
|---------------------------------------------------------------|----------|----------|
|                                                               | £'000    | £'000    |
| Share capital                                                 | 94,375   | 94,375   |
| Retained earnings                                             | 182,380  | 211,505  |
|                                                               | 276,755  | 305,880  |
| Adjustments to capital for regulatory purposes:               |          |          |
| – replace IFRS reserves with Solvency II Technical Provisions | 86,683   | 61,602   |
| – IFRS 17 valuation differences                               | (16,175) | (5,425)  |
| – other asset valuation differences                           | —        | 19       |
| – deferred tax                                                | (9,166)  | (14,050) |
| Regulatory capital held                                       | 338,097  | 348,026  |

# Notes on the Financial Statements (continued)

## 3. Management of insurance and financial risk (continued)

### Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events. The Company manages its exposure to operational risk through the identification, categorisation and evaluation of individual risks and by maintaining appropriate control processes to mitigate those risks. This is monitored through the Company's Risk Management Meeting.

Model risk is one element of operational risk that the Company is exposed to. Model risk is the risk of loss arising from a financial model used to measure risks or value transactions, not working in the way it was designed to. The Company uses models for liability valuation, product pricing and capital management. It manages model risk through establishing and maintaining appropriate systems of internal controls governing the development, usage and change control of the models. This includes independent reviews of the models where appropriate.

## 4. Insurance contracts - Amounts recognised in profit or loss

### (a) Net insurance service result

|                                                                   | Year ended 31 Dec 2024                           |                                   |                  | Year ended 31 Dec 2023                           |                                   |                  |
|-------------------------------------------------------------------|--------------------------------------------------|-----------------------------------|------------------|--------------------------------------------------|-----------------------------------|------------------|
|                                                                   | Life direct participating contracts <sup>1</sup> | Life other contracts <sup>2</sup> | Total            | Life direct participating contracts <sup>1</sup> | Life other contracts <sup>2</sup> | Total            |
|                                                                   | £'000                                            | £'000                             | £'000            | £'000                                            | £'000                             | £'000            |
| Insurance revenue                                                 |                                                  |                                   |                  |                                                  |                                   |                  |
| Amounts relating to changes in liabilities for remaining coverage |                                                  |                                   |                  |                                                  |                                   |                  |
| CSM recognised for services provided                              | 3,516                                            | 21,363                            | 24,879           | 2,908                                            | 25,687                            | 28,595           |
| Change in risk adjustment for non-financial risk for risk expired | 1,024                                            | 4,265                             | 5,289            | 789                                              | 3,719                             | 4,508            |
| Expected incurred claims and other insurance service expenses     | 60,310                                           | 96,809                            | 157,119          | 27,935                                           | 103,052                           | 130,987          |
| Recovery of insurance acquisition cash flows                      | 906                                              | 7,844                             | 8,750            | 472                                              | 4,886                             | 5,358            |
| <b>Total insurance revenue</b>                                    | <b>65,756</b>                                    | <b>130,281</b>                    | <b>196,037</b>   | <b>32,104</b>                                    | <b>137,344</b>                    | <b>169,448</b>   |
| Insurance service expenses                                        |                                                  |                                   |                  |                                                  |                                   |                  |
| Incurred claims and other insurance service expenses              | (19,143)                                         | (97,433)                          | (116,576)        | (15,213)                                         | (97,004)                          | (112,217)        |
| Losses and reversal of losses on onerous contracts                | 1,810                                            | (5,393)                           | (3,583)          | (4,762)                                          | (6,289)                           | (11,051)         |
| Amortisation of insurance acquisition cash flows                  | (906)                                            | (7,844)                           | (8,750)          | (472)                                            | (4,886)                           | (5,358)          |
| Adjustments to liabilities for incurred claims                    | —                                                | (14,473)                          | (14,473)         | —                                                | (15,109)                          | (15,109)         |
| <b>Total insurance service expenses</b>                           | <b>(18,239)</b>                                  | <b>(125,143)</b>                  | <b>(143,382)</b> | <b>(20,447)</b>                                  | <b>(123,288)</b>                  | <b>(143,735)</b> |
| <b>Total insurance service results</b>                            | <b>47,517</b>                                    | <b>5,138</b>                      | <b>52,655</b>    | <b>11,657</b>                                    | <b>14,056</b>                     | <b>25,713</b>    |
| Net income (expenses) from reinsurance contracts held             |                                                  |                                   |                  |                                                  |                                   |                  |
| Allocation of reinsurance premiums                                | —                                                | (83,875)                          | (83,875)         | —                                                | (90,617)                          | (90,617)         |
| Amounts recoverable from reinsurers for incurred claims           | —                                                | 88,142                            | 88,142           | —                                                | 81,381                            | 81,381           |
| Effect of changes in non-performance risk of reinsurer            | —                                                | (74)                              | (74)             | —                                                | 16                                | 16               |
| <b>Total net income (expenses) from reinsurance</b>               | <b>—</b>                                         | <b>4,193</b>                      | <b>4,193</b>     | <b>—</b>                                         | <b>(9,220)</b>                    | <b>(9,220)</b>   |
| <b>Net insurance service result</b>                               | <b>47,517</b>                                    | <b>9,331</b>                      | <b>56,848</b>    | <b>11,657</b>                                    | <b>4,836</b>                      | <b>16,493</b>    |

<sup>1</sup> Life direct participating contracts are substantially measured under the Variable Fee Approach measurement model.

<sup>2</sup> Life other contracts are measured under the General Measurement Model.

# Notes on the Financial Statements (continued)

## 4. Insurance contracts - Amounts recognised in profit or loss (continued)

### (b) Net investment return

|                                                                                                                 | Year ended 31 Dec 2024              |                      |               |                  | Year ended 31 Dec 2023              |                      |               |                  |
|-----------------------------------------------------------------------------------------------------------------|-------------------------------------|----------------------|---------------|------------------|-------------------------------------|----------------------|---------------|------------------|
|                                                                                                                 | Life direct participating contracts | Life other contracts | Shareholders  | Total            | Life direct participating contracts | Life other contracts | Shareholders  | Total            |
|                                                                                                                 | £'000                               | £'000                | £'000         | £'000            | £'000                               | £'000                | £'000         | £'000            |
| Investment return                                                                                               |                                     |                      |               |                  |                                     |                      |               |                  |
| Amounts recognised in profit or loss                                                                            | 248,471                             | —                    | 10,558        | 259,029          | 159,169                             | —                    | 10,201        | 169,370          |
| Net interest income                                                                                             | —                                   | —                    | 5,306         | 5,306            | —                                   | —                    | 3,099         | 3,099            |
| <b>Total investment return</b>                                                                                  | <b>248,471</b>                      | <b>—</b>             | <b>15,864</b> | <b>264,335</b>   | <b>159,169</b>                      | <b>—</b>             | <b>13,300</b> | <b>172,469</b>   |
| Net finance income/(expense) from insurance contracts issued                                                    |                                     |                      |               |                  |                                     |                      |               |                  |
| Changes in fair value of underlying items of direct participating contracts                                     | (244,134)                           | —                    | —             | (244,134)        | (155,599)                           | —                    | —             | (155,599)        |
| Interest accreted                                                                                               | —                                   | 489                  | —             | 489              | —                                   | 1,556                | —             | 1,556            |
| Effect of changes in interest rates and other financial assumptions                                             | —                                   | 2,039                | —             | 2,039            | —                                   | (514)                | —             | (514)            |
| Effect of measuring changes in estimates at current rates and adjusting the CSM at rates on initial recognition | —                                   | 3,428                | —             | 3,428            | —                                   | (2,858)              | —             | (2,858)          |
| <b>Net finance income/(expense) from insurance contracts</b>                                                    | <b>(244,134)</b>                    | <b>5,956</b>         | <b>—</b>      | <b>(238,178)</b> | <b>(155,599)</b>                    | <b>(1,816)</b>       | <b>—</b>      | <b>(157,415)</b> |
| Net finance income/(expense) from reinsurance contracts held                                                    |                                     |                      |               |                  |                                     |                      |               |                  |
| Interest accreted                                                                                               | —                                   | (988)                | —             | (988)            | —                                   | (1,978)              | —             | (1,978)          |
| Effect of changes in interest rates and other financial assumptions                                             | —                                   | 1,304                | —             | 1,304            | —                                   | (676)                | —             | (676)            |
| Net finance income/(expense) from reinsurance contracts held                                                    | —                                   | 316                  | —             | 316              | —                                   | (2,654)              | —             | (2,654)          |
| <b>Net insurance finance income/(expense)</b>                                                                   | <b>(244,134)</b>                    | <b>6,272</b>         | <b>—</b>      | <b>(237,862)</b> | <b>(155,599)</b>                    | <b>(4,470)</b>       | <b>—</b>      | <b>(160,069)</b> |
| <b>Net investment return</b>                                                                                    | <b>4,337</b>                        | <b>6,272</b>         | <b>15,864</b> | <b>26,473</b>    | <b>3,570</b>                        | <b>(4,470)</b>       | <b>13,300</b> | <b>12,400</b>    |

|                                                                                                      | Year ended 31 Dec 2024              |                      |                      |               |                | Year ended 31 Dec 2023              |                      |                      |               |                |
|------------------------------------------------------------------------------------------------------|-------------------------------------|----------------------|----------------------|---------------|----------------|-------------------------------------|----------------------|----------------------|---------------|----------------|
|                                                                                                      | Life direct participating contracts | Life other contracts | Investment contracts | Shareholders  | Total          | Life direct participating contracts | Life other contracts | Investment contracts | Shareholders  | Total          |
|                                                                                                      | £'000                               | £'000                | £'000                | £'000         | £'000          | £'000                               | £'000                | £'000                | £'000         | £'000          |
| Amounts recognised in profit or loss                                                                 |                                     |                      |                      |               |                |                                     |                      |                      |               |                |
| Net fair value (losses)/gains on assets at FVTPL                                                     | 248,471                             | —                    | 95,810               | 10,558        | 354,839        | 159,169                             | —                    | 62,269               | 10,201        | 231,639        |
| Investment contract liability increase / (decrease) from underlying asset fair value gains/ (losses) | —                                   | —                    | (95,810)             | —             | (95,810)       | —                                   | —                    | (62,269)             | —             | (62,269)       |
| Net interest income                                                                                  | —                                   | —                    | —                    | 5,306         | 5,306          | —                                   | —                    | —                    | 3,099         | 3,099          |
| <b>Amounts recognised in profit or loss</b>                                                          | <b>248,471</b>                      | <b>—</b>             | <b>—</b>             | <b>15,864</b> | <b>264,335</b> | <b>159,169</b>                      | <b>—</b>             | <b>—</b>             | <b>13,300</b> | <b>172,469</b> |

# Notes on the Financial Statements (continued)

## 4. Insurance contracts - Amounts recognised in profit or loss (continued)

### (c) Movements in carrying amounts of insurance contracts - Analysis by remaining coverage and incurred claims

Year ended 31 Dec 2024

|                                                                                   | Life direct participating           |                   |                    |                  | Other life contracts                |                   |                    |                  |                  |
|-----------------------------------------------------------------------------------|-------------------------------------|-------------------|--------------------|------------------|-------------------------------------|-------------------|--------------------|------------------|------------------|
|                                                                                   | Liabilities for remaining coverage: |                   |                    |                  | Liabilities for remaining coverage: |                   |                    |                  |                  |
|                                                                                   | Excluding<br>loss<br>component      | Loss<br>component | Incurred<br>claims | Total            | Excluding<br>loss<br>component      | Loss<br>component | Incurred<br>claims | Total            | Total            |
|                                                                                   | £'000                               | £'000             | £'000              | £'000            | £'000                               | £'000             | £'000              | £'000            | £'000            |
| Opening assets                                                                    | —                                   | —                 | —                  | —                | (53,463)                            | 3,493             | 8,929              | (41,041)         | (41,041)         |
| Opening liabilities                                                               | 2,104,155                           | 7,343             | 492                | 2,111,990        | 89,585                              | 11,242            | 117,416            | 218,243          | 2,330,233        |
| <b>Net opening balance 1 Jan 2024</b>                                             | <b>2,104,155</b>                    | <b>7,343</b>      | <b>492</b>         | <b>2,111,990</b> | <b>36,122</b>                       | <b>14,735</b>     | <b>126,345</b>     | <b>177,202</b>   | <b>2,289,192</b> |
| Changes in the statement of profit or loss and OCI                                |                                     |                   |                    |                  |                                     |                   |                    |                  |                  |
| Insurance revenue                                                                 |                                     |                   |                    |                  |                                     |                   |                    |                  |                  |
| Contract under fair value approach                                                | (13,678)                            | —                 | —                  | (13,678)         | (61,497)                            | —                 | —                  | (61,497)         | (75,175)         |
| Other contracts                                                                   | (52,078)                            | —                 | —                  | (52,078)         | (68,784)                            | —                 | —                  | (68,784)         | (120,862)        |
| <b>Total insurance revenue</b>                                                    | <b>(65,756)</b>                     | <b>—</b>          | <b>—</b>           | <b>(65,756)</b>  | <b>(130,281)</b>                    | <b>—</b>          | <b>—</b>           | <b>(130,281)</b> | <b>(196,037)</b> |
| Insurance service expenses                                                        |                                     |                   |                    |                  |                                     |                   |                    |                  |                  |
| Incurred claims and other insurance service expenses                              | —                                   | (362)             | 19,505             | 19,143           | —                                   | (954)             | 98,387             | 97,433           | 116,576          |
| Amortisation of insurance acquisition cash flows                                  | 906                                 | —                 | —                  | 906              | 7,844                               | —                 | —                  | 7,844            | 8,750            |
| Losses and reversal of losses on onerous contracts                                | —                                   | (1,810)           | —                  | (1,810)          | —                                   | 5,393             | —                  | 5,393            | 3,583            |
| Adjustments to liabilities for incurred claims                                    | —                                   | —                 | —                  | —                | —                                   | —                 | 14,473             | 14,473           | 14,473           |
| <b>Total insurance service expenses</b>                                           | <b>906</b>                          | <b>(2,172)</b>    | <b>19,505</b>      | <b>18,239</b>    | <b>7,844</b>                        | <b>4,439</b>      | <b>112,860</b>     | <b>125,143</b>   | <b>143,382</b>   |
| Investment components                                                             | (136,329)                           | —                 | 136,329            | —                | (3,570)                             | —                 | 3,570              | —                | —                |
| <b>Insurance service result</b>                                                   | <b>(201,179)</b>                    | <b>(2,172)</b>    | <b>155,834</b>     | <b>(47,517)</b>  | <b>(126,007)</b>                    | <b>4,439</b>      | <b>116,430</b>     | <b>(5,138)</b>   | <b>(52,656)</b>  |
| Net finance expenses from insurance contracts                                     | 244,134                             | —                 | —                  | 244,134          | (6,153)                             | (70)              | 267                | (5,956)          | 238,178          |
| Other                                                                             | —                                   | —                 | —                  | —                | 70                                  | (69)              | —                  | 1                | 1                |
| <b>Total changes in the statement of profit or loss and OCI</b>                   | <b>42,956</b>                       | <b>(2,172)</b>    | <b>155,834</b>     | <b>196,618</b>   | <b>(132,091)</b>                    | <b>4,300</b>      | <b>116,697</b>     | <b>(11,095)</b>  | <b>185,523</b>   |
| Cash flows                                                                        |                                     |                   |                    |                  |                                     |                   |                    |                  |                  |
| Premiums received                                                                 | 632,007                             | —                 | —                  | 632,007          | 144,552                             | —                 | —                  | 144,552          | 776,559          |
| Claims and other insurance service expenses paid, including investment components | —                                   | —                 | (155,713)          | (155,713)        | —                                   | —                 | (111,530)          | (111,530)        | (267,243)        |
| Insurance acquisition cash flows                                                  | 2,794                               | —                 | —                  | 2,794            | (21,591)                            | —                 | —                  | (21,591)         | (18,797)         |
| <b>Total cash flows</b>                                                           | <b>634,801</b>                      | <b>—</b>          | <b>(155,713)</b>   | <b>479,088</b>   | <b>122,961</b>                      | <b>—</b>          | <b>(111,530)</b>   | <b>11,431</b>    | <b>490,519</b>   |
| <b>Net closing balance 31 Dec 2024</b>                                            | <b>2,781,912</b>                    | <b>5,171</b>      | <b>613</b>         | <b>2,787,696</b> | <b>26,992</b>                       | <b>19,035</b>     | <b>131,512</b>     | <b>177,539</b>   | <b>2,965,235</b> |
| Closing assets                                                                    | —                                   | —                 | —                  | —                | (56,711)                            | 8,901             | 10,053             | (37,757)         | (37,757)         |
| Closing liabilities                                                               | 2,781,912                           | 5,171             | 613                | 2,787,696        | 83,703                              | 10,134            | 121,459            | 215,296          | 3,002,992        |
| <b>Net closing balance 31 Dec 2024</b>                                            | <b>2,781,912</b>                    | <b>5,171</b>      | <b>613</b>         | <b>2,787,696</b> | <b>26,992</b>                       | <b>19,035</b>     | <b>131,512</b>     | <b>177,539</b>   | <b>2,965,235</b> |

# Notes on the Financial Statements (continued)

## 4. Insurance contracts - Amounts recognised in profit or loss (continued)

### (c) Movements in carrying amounts of insurance contracts - Analysis by remaining coverage and incurred claims (continued)

| Year ended 31 Dec 2023                                                            |                                         |                            |                             |                  |                                         |                            |                             |                  |                  |
|-----------------------------------------------------------------------------------|-----------------------------------------|----------------------------|-----------------------------|------------------|-----------------------------------------|----------------------------|-----------------------------|------------------|------------------|
|                                                                                   | Life direct participating               |                            |                             |                  | Other life contracts                    |                            |                             |                  |                  |
|                                                                                   | Liabilities for remaining coverage:     |                            |                             |                  | Liabilities for remaining coverage:     |                            |                             |                  |                  |
|                                                                                   | Excluding<br>loss<br>component<br>£'000 | Loss<br>component<br>£'000 | Incurred<br>claims<br>£'000 | Total<br>£'000   | Excluding<br>loss<br>component<br>£'000 | Loss<br>component<br>£'000 | Incurred<br>claims<br>£'000 | Total<br>£'000   | Total<br>£'000   |
| Opening assets                                                                    | —                                       | —                          | —                           | —                | (49,496)                                | 316                        | 5,989                       | (43,191)         | (43,191)         |
| Opening liabilities                                                               | 1,698,815                               | 4,215                      | 293                         | 1,703,323        | 93,421                                  | 8,724                      | 93,038                      | 195,183          | 1,898,506        |
| <b>Net opening balance 1 Jan 2023</b>                                             | <b>1,698,815</b>                        | <b>4,215</b>               | <b>293</b>                  | <b>1,703,323</b> | <b>43,925</b>                           | <b>9,040</b>               | <b>99,027</b>               | <b>151,992</b>   | <b>1,855,315</b> |
| Changes in the statement of profit or loss and OCI                                |                                         |                            |                             |                  |                                         |                            |                             |                  |                  |
| Insurance revenue                                                                 |                                         |                            |                             |                  |                                         |                            |                             |                  |                  |
| Contract under fair value approach                                                | (17,194)                                | —                          | —                           | (17,194)         | (70,265)                                | —                          | —                           | (70,265)         | (87,459)         |
| Other contracts <sup>1</sup>                                                      | (14,911)                                | —                          | —                           | (14,911)         | (67,079)                                | —                          | —                           | (67,079)         | (81,990)         |
| <b>Total insurance revenue</b>                                                    | <b>(32,105)</b>                         | <b>—</b>                   | <b>—</b>                    | <b>(32,105)</b>  | <b>(137,344)</b>                        | <b>—</b>                   | <b>—</b>                    | <b>(137,344)</b> | <b>(169,449)</b> |
| Insurance service expenses                                                        |                                         |                            |                             |                  |                                         |                            |                             |                  |                  |
| Incurred claims and other insurance service expenses                              | —                                       | (666)                      | 15,879                      | 15,213           | —                                       | (575)                      | 97,579                      | 97,004           | 112,217          |
| Amortisation of insurance acquisition cash flows                                  | 472                                     | —                          | —                           | 472              | 4,886                                   | —                          | —                           | 4,886            | 5,358            |
| Losses and reversal of losses on onerous contracts                                | —                                       | 4,762                      | —                           | 4,762            | —                                       | 6,289                      | —                           | 6,289            | 11,051           |
| Adjustments to liabilities for incurred claims                                    | —                                       | —                          | —                           | —                | —                                       | —                          | 15,109                      | 15,109           | 15,109           |
| Total insurance service expenses                                                  | 472                                     | 4,096                      | 15,879                      | 20,447           | 4,886                                   | 5,714                      | 112,688                     | 123,288          | 143,735          |
| <b>Investment components</b>                                                      | <b>(130,473)</b>                        | <b>—</b>                   | <b>130,473</b>              | <b>—</b>         | <b>(2,995)</b>                          | <b>—</b>                   | <b>2,995</b>                | <b>—</b>         | <b>—</b>         |
| Insurance service result                                                          | (162,105)                               | 4,096                      | 146,352                     | (11,657)         | (135,453)                               | 5,714                      | 115,683                     | (14,056)         | (25,713)         |
| Net finance expenses from insurance contracts                                     | 155,599                                 | —                          | —                           | 155,599          | 1,146                                   | (9)                        | 680                         | 1,817            | 157,416          |
| Transfer                                                                          | 968                                     | (968)                      | —                           | —                | 9                                       | (10)                       | —                           | (1)              | (1)              |
| <b>Total changes in the statement of profit or loss and OCI</b>                   | <b>(5,538)</b>                          | <b>3,128</b>               | <b>146,352</b>              | <b>143,942</b>   | <b>(134,298)</b>                        | <b>5,695</b>               | <b>116,363</b>              | <b>(12,240)</b>  | <b>131,702</b>   |
| Cash flows                                                                        |                                         |                            |                             |                  |                                         |                            |                             |                  |                  |
| Premiums received                                                                 | 408,175                                 | —                          | —                           | 408,175          | 150,351                                 | —                          | —                           | 150,351          | 558,526          |
| Claims and other insurance service expenses paid, including investment components | —                                       | —                          | (146,153)                   | (146,153)        | —                                       | —                          | (89,045)                    | (89,045)         | (235,198)        |
| Insurance acquisition cash flows                                                  | 2,703                                   | —                          | —                           | 2,703            | (23,856)                                | —                          | —                           | (23,856)         | (21,153)         |
| <b>Total cash flows</b>                                                           | <b>410,878</b>                          | <b>—</b>                   | <b>(146,153)</b>            | <b>264,725</b>   | <b>126,495</b>                          | <b>—</b>                   | <b>(89,045)</b>             | <b>37,450</b>    | <b>302,175</b>   |
| <b>Net closing balance 31 Dec 2023</b>                                            | <b>2,104,155</b>                        | <b>7,343</b>               | <b>492</b>                  | <b>2,111,990</b> | <b>36,122</b>                           | <b>14,735</b>              | <b>126,345</b>              | <b>177,202</b>   | <b>2,289,192</b> |
| Closing assets                                                                    | —                                       | —                          | —                           | —                | (53,463)                                | 3,493                      | 8,929                       | (41,041)         | (41,041)         |
| Closing liabilities                                                               | 2,104,155                               | 7,343                      | 492                         | 2,111,990        | 89,585                                  | 11,242                     | 117,416                     | 218,243          | 2,330,233        |
| <b>Net closing balance 31 Dec 2023</b>                                            | <b>2,104,155</b>                        | <b>7,343</b>               | <b>492</b>                  | <b>2,111,990</b> | <b>36,122</b>                           | <b>14,735</b>              | <b>126,345</b>              | <b>177,202</b>   | <b>2,289,192</b> |

<sup>1</sup> Other contracts are those contracts measured by applying IFRS 17 from inception of the contracts. This includes contracts measured under the full retrospective approach at Transition and contracts inception after Transition.

# Notes on the Financial Statements (continued)

## 4. Insurance contracts - Amounts recognised in profit or loss (continued)

### (d) Movements in carrying amounts of reinsurance contracts - Analysis by remaining coverage and incurred claims

| Year ended 31 Dec 2024                                                          |                          |                |                 |                 |
|---------------------------------------------------------------------------------|--------------------------|----------------|-----------------|-----------------|
| Liabilities for remaining coverage:                                             |                          |                |                 |                 |
|                                                                                 | Excluding loss component | Loss component | Incurred claims | Total           |
|                                                                                 | £'000                    | £'000          | £'000           | £'000           |
| Opening assets                                                                  | 32,623                   | 3,997          | 90,621          | 127,241         |
| Opening liabilities <sup>1</sup>                                                | (55,938)                 | —              | 16,000          | (39,938)        |
| <b>Net opening balance 01-Jan-2024</b>                                          | <b>(23,315)</b>          | <b>3,997</b>   | <b>106,621</b>  | <b>87,303</b>   |
| Changes in the statement of profit or loss and OCI                              |                          |                |                 |                 |
| Allocation of reinsurance premiums paid                                         | (83,875)                 | —              | —               | (83,875)        |
| Recoveries of incurred claims and other insurance service expenses              | —                        | —              | 74,007          | 74,007          |
| Recoveries or reversals of recoveries of losses on onerous underlying contracts | 2,581                    | (1,585)        | —               | 996             |
| Adjustment to assets for incurred claims                                        | —                        | —              | 13,139          | 13,139          |
| <b>Total amounts recoverable from reinsurer</b>                                 | <b>(81,294)</b>          | <b>(1,585)</b> | <b>87,146</b>   | <b>4,267</b>    |
| Net finance expenses from reinsurance contracts                                 | (210)                    | —              | 527             | 316             |
| Effect of changes in non-performance risk of reinsurers                         | (74)                     | —              | —               | (74)            |
| <b>Total changes in the statement of profit or loss and OCI</b>                 | <b>(81,578)</b>          | <b>(1,585)</b> | <b>87,673</b>   | <b>4,509</b>    |
| Cash flows                                                                      |                          |                |                 |                 |
| Premiums paid                                                                   | 83,589                   | —              | —               | 83,589          |
| Claims and other recoverables received                                          | —                        | —              | (83,272)        | (83,272)        |
| <b>Total cash flows</b>                                                         | <b>83,589</b>            | <b>—</b>       | <b>(83,272)</b> | <b>317</b>      |
| <b>Net closing balance 31-Dec-2024</b>                                          | <b>(21,304)</b>          | <b>2,412</b>   | <b>111,022</b>  | <b>92,130</b>   |
| Closing assets                                                                  | 29,763                   | 2,412          | 97,572          | 129,747         |
| Closing liabilities                                                             | (51,067)                 | —              | 13,450          | (37,617)        |
| <b>Net closing balance 31-Dec-2024</b>                                          | <b>(21,304)</b>          | <b>2,412</b>   | <b>111,022</b>  | <b>92,130</b>   |
| Opening assets                                                                  | 37,489                   | 2,940          | 68,656          | 109,085         |
| Opening liabilities                                                             | (46,655)                 | —              | 16,632          | (30,023)        |
| <b>Net opening balance 01-Jan-2023</b>                                          | <b>(9,166)</b>           | <b>2,940</b>   | <b>85,288</b>   | <b>79,062</b>   |
| Changes in the statement of profit or loss and OCI                              |                          |                |                 |                 |
| Allocation of reinsurance premiums paid                                         | (90,617)                 | —              | —               | (90,617)        |
| Recoveries of incurred claims and other insurance service expenses              | —                        | —              | 71,317          | 71,317          |
| Recoveries or reversals of recoveries of losses on onerous underlying contracts | 548                      | 1,057          | —               | 1,605           |
| Adjustment to assets for incurred claims                                        | —                        | —              | 8,459           | 8,459           |
| <b>Total amounts recoverable from reinsurer</b>                                 | <b>(90,069)</b>          | <b>1,057</b>   | <b>79,776</b>   | <b>(9,236)</b>  |
| Net finance expenses from reinsurance contracts                                 | (3,073)                  | —              | 419             | (2,654)         |
| Effect of changes in non-performance risk of reinsurers                         | 16                       | —              | —               | 16              |
| <b>Total changes in the statement of profit or loss and OCI</b>                 | <b>(93,126)</b>          | <b>1,057</b>   | <b>80,195</b>   | <b>(11,874)</b> |
| Cash flows                                                                      |                          |                |                 |                 |
| Premiums paid <sup>1</sup>                                                      | 78,977                   | —              | —               | 78,977          |
| Claims and other recoverables received                                          | —                        | —              | (58,862)        | (58,862)        |
| <b>Total cash flows</b>                                                         | <b>78,977</b>            | <b>—</b>       | <b>(58,862)</b> | <b>20,115</b>   |
| <b>Net closing balance 31-Dec-2023</b>                                          | <b>(23,315)</b>          | <b>3,997</b>   | <b>106,621</b>  | <b>87,303</b>   |
| Closing assets                                                                  | 32,623                   | 3,997          | 90,621          | 127,241         |
| Closing liabilities                                                             | (55,938)                 | —              | 16,000          | (39,938)        |
| <b>Net closing balance 31-Dec-2023</b>                                          | <b>(23,315)</b>          | <b>3,997</b>   | <b>106,621</b>  | <b>87,303</b>   |

<sup>1</sup> In the current year, reinsurance contract payables have been recognised within reinsurance contract liabilities. The prior year comparatives have been restated as a result.



# Notes on the Financial Statements (continued)

## 4. Insurance contracts - Amounts recognised in profit or loss (continued)

### (e) Movements in carrying amounts of insurance contracts - Analysis by measurement component

|                                                                                                      | Year ended 31 Dec 2024                                         |                                        |                                                                |                                     |                              |                  |
|------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|----------------------------------------|----------------------------------------------------------------|-------------------------------------|------------------------------|------------------|
|                                                                                                      | Insurance contracts -                                          |                                        | Insurance contracts - Life direct participating contracts      |                                     | Contractual service margin   |                  |
|                                                                                                      | Estimates of present value of future cash flows (excluding RA) | Risk adjustment for non-financial risk | Estimates of present value of future cash flows (including RA) | Contracts under fair value approach | Other Contracts <sup>1</sup> | Total gross      |
|                                                                                                      | £'000                                                          | £'000                                  | £'000                                                          | £'000                               | £'000                        | £'000            |
| Opening assets                                                                                       | —                                                              | —                                      | —                                                              | —                                   | —                            | —                |
| Opening liabilities                                                                                  | 2,084,493                                                      | 5,036                                  | 2,089,529                                                      | 2,765                               | 19,695                       | 2,111,989        |
| <b>Net opening balance 1 Jan 2024</b>                                                                | <b>2,084,493</b>                                               | <b>5,036</b>                           | <b>2,089,529</b>                                               | <b>2,765</b>                        | <b>19,695</b>                | <b>2,111,989</b> |
| Changes in the statement of profit or loss and OCI                                                   |                                                                |                                        |                                                                |                                     |                              |                  |
| Changes that relate to current services                                                              |                                                                |                                        |                                                                |                                     |                              |                  |
| CSM recognised for services provided                                                                 | —                                                              | —                                      | —                                                              | (396)                               | (3,120)                      | (3,516)          |
| Change in risk adjustment for non-financial risk for risk expired                                    | —                                                              | (1,024)                                | (1,024)                                                        | —                                   | —                            | (1,024)          |
| Experience adjustments                                                                               | (41,166)                                                       | —                                      | (41,166)                                                       | —                                   | —                            | (41,166)         |
| Changes that relate to future services                                                               |                                                                |                                        |                                                                |                                     |                              |                  |
| Contracts initially recognised in the year                                                           | (14,580)                                                       | 2,007                                  | (12,573)                                                       | —                                   | 13,067                       | 493              |
| Changes in estimates that adjust the CSM                                                             | (12,493)                                                       | 30                                     | (12,463)                                                       | 3,282                               | 9,193                        | 12               |
| Changes in estimates that result in losses and reversal of losses on onerous contracts <sup>1</sup>  | (2,351)                                                        | 36                                     | (2,315)                                                        | —                                   | —                            | (2,315)          |
| <b>Insurance service result</b>                                                                      | <b>(70,591)</b>                                                | <b>1,049</b>                           | <b>(69,542)</b>                                                | <b>2,886</b>                        | <b>19,139</b>                | <b>(47,517)</b>  |
| Net finance (income)/expenses from insurance contracts                                               | 244,134                                                        | —                                      | 244,134                                                        | —                                   | —                            | 244,134          |
| <b>Total changes in the statement of profit or loss and OCI</b>                                      | <b>173,543</b>                                                 | <b>1,049</b>                           | <b>174,592</b>                                                 | <b>2,886</b>                        | <b>19,139</b>                | <b>196,618</b>   |
| Cash flows                                                                                           |                                                                |                                        |                                                                |                                     |                              |                  |
| Premiums received                                                                                    | 632,007                                                        | —                                      | 632,007                                                        | —                                   | —                            | 632,007          |
| Claims, other insurance service expenses paid (including investment components) and other cash flows | (155,713)                                                      | —                                      | (155,713)                                                      | —                                   | —                            | (155,713)        |
| Insurance acquisition cash flows                                                                     | 2,795                                                          | —                                      | 2,794                                                          | —                                   | —                            | 2,794            |
| <b>Total cash flows</b>                                                                              | <b>479,089</b>                                                 | <b>—</b>                               | <b>479,089</b>                                                 | <b>—</b>                            | <b>—</b>                     | <b>479,089</b>   |
| <b>Net closing balance 31 Dec 24</b>                                                                 | <b>2,737,125</b>                                               | <b>6,085</b>                           | <b>2,743,210</b>                                               | <b>5,651</b>                        | <b>38,834</b>                | <b>2,787,696</b> |
| Closing assets                                                                                       | —                                                              | —                                      | —                                                              | —                                   | —                            | —                |
| Closing liabilities                                                                                  | 2,737,125                                                      | 6,085                                  | 2,743,210                                                      | 5,651                               | 38,834                       | 2,787,696        |
| <b>Net closing balance 31 Dec 24</b>                                                                 | <b>2,737,125</b>                                               | <b>6,085</b>                           | <b>2,743,210</b>                                               | <b>5,651</b>                        | <b>38,834</b>                | <b>2,787,696</b> |

1 Other contracts are those contracts measured by applying IFRS 17 from inception of the contracts. This includes contracts measured under the full retrospective approach at Transition and contracts inception after Transition.

# Notes on the Financial Statements (continued)

## 4. Insurance contracts - Amounts recognised in profit or loss (continued)

### (e) Movements in carrying amounts of insurance contracts - Analysis by measurement component (continued)

Year ended 31 Dec 2023

|                                                                                                      | Insurance contracts - Insurance contracts - Life direct participating contracts |                                        |                                                                |                                     |                 |                  |
|------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|----------------------------------------|----------------------------------------------------------------|-------------------------------------|-----------------|------------------|
|                                                                                                      |                                                                                 |                                        |                                                                | Contractual service margin          |                 | Total gross      |
|                                                                                                      | Estimates of present value of future cash flows (excluding RA)                  | Risk adjustment for non-financial risk | Estimates of present value of future cash flows (including RA) | Contracts under fair value approach | Other Contracts |                  |
|                                                                                                      | £'000                                                                           | £'000                                  | £'000                                                          | £'000                               | £'000           | £'000            |
| Opening assets                                                                                       | —                                                                               | —                                      | —                                                              | —                                   | —               | —                |
| Opening liabilities                                                                                  | 1,609,515                                                                       | 6,921                                  | 1,616,436                                                      | 24,348                              | 62,539          | 1,703,323        |
| <b>Net opening balance 1 Jan 2023</b>                                                                | <b>1,609,515</b>                                                                | <b>6,921</b>                           | <b>1,616,436</b>                                               | <b>24,348</b>                       | <b>62,539</b>   | <b>1,703,323</b> |
| Changes in the statement of profit or loss and OCI                                                   |                                                                                 |                                        |                                                                |                                     |                 |                  |
| Changes that relate to current services                                                              |                                                                                 |                                        |                                                                |                                     |                 |                  |
| CSM recognised for services provided                                                                 | —                                                                               | —                                      | —                                                              | (876)                               | (2,032)         | (2,908)          |
| Change in risk adjustment for non-financial risk for risk expired                                    | —                                                                               | (792)                                  | (792)                                                          | —                                   | —               | (792)            |
| Experience adjustments                                                                               | (12,722)                                                                        | —                                      | (12,722)                                                       | —                                   | —               | (12,722)         |
| Changes that relate to future services                                                               |                                                                                 |                                        |                                                                |                                     |                 |                  |
| Contracts initially recognised in the year                                                           | (21,622)                                                                        | 1,704                                  | (19,918)                                                       | —                                   | 20,256          | 338              |
| Changes in estimates that adjust the CSM                                                             | 84,458                                                                          | (2,683)                                | 81,775                                                         | (20,707)                            | (61,067)        | 1                |
| Changes in estimates that result in losses and reversal of losses on onerous contracts               | 4,540                                                                           | (114)                                  | 4,426                                                          | —                                   | —               | 4,426            |
| <b>Insurance service result</b>                                                                      | <b>54,654</b>                                                                   | <b>(1,885)</b>                         | <b>52,769</b>                                                  | <b>(21,583)</b>                     | <b>(42,843)</b> | <b>(11,657)</b>  |
| Net finance (income)/expenses from insurance contracts                                               | 155,599                                                                         | —                                      | 155,599                                                        | —                                   | —               | 155,599          |
| <b>Total changes in the statement of profit or loss and OCI</b>                                      | <b>210,253</b>                                                                  | <b>(1,885)</b>                         | <b>208,368</b>                                                 | <b>(21,583)</b>                     | <b>(42,843)</b> | <b>143,942</b>   |
| Cash flows                                                                                           |                                                                                 |                                        |                                                                |                                     |                 |                  |
| Premiums received                                                                                    | 408,175                                                                         | —                                      | 408,175                                                        | —                                   | —               | 408,175          |
| Claims, other insurance service expenses paid (including investment components) and other cash flows | (139,005)                                                                       | —                                      | (139,005)                                                      | —                                   | —               | (139,005)        |
| Insurance acquisition cash flows                                                                     | (4,445)                                                                         | —                                      | (4,445)                                                        | —                                   | —               | (4,445)          |
| <b>Total cash flows</b>                                                                              | <b>264,725</b>                                                                  | <b>—</b>                               | <b>264,725</b>                                                 | <b>—</b>                            | <b>—</b>        | <b>264,725</b>   |
| <b>Net closing balance 31 Dec 23</b>                                                                 | <b>2,084,493</b>                                                                | <b>5,036</b>                           | <b>2,089,529</b>                                               | <b>2,765</b>                        | <b>19,696</b>   | <b>2,111,989</b> |
| Closing assets                                                                                       | —                                                                               | —                                      | —                                                              | —                                   | —               | —                |
| Closing liabilities                                                                                  | 2,084,493                                                                       | 5,036                                  | 2,089,529                                                      | 2,765                               | 19,696          | 2,111,989        |
| <b>Net closing balance 31 Dec 23</b>                                                                 | <b>2,084,493</b>                                                                | <b>5,036</b>                           | <b>2,089,529</b>                                               | <b>2,765</b>                        | <b>19,696</b>   | <b>2,111,989</b> |

# Notes on the Financial Statements (continued)

## 4. Insurance contracts - Amounts recognised in profit or loss (continued)

### (e) Movements in carrying amounts of insurance contracts - Analysis by measurement component (continued)

|                                                                                                      | Year ended 31 Dec 2024                                         |                                        |                                                                |                                     |                 |                 |
|------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|----------------------------------------|----------------------------------------------------------------|-------------------------------------|-----------------|-----------------|
|                                                                                                      | Insurance contracts - Life                                     |                                        |                                                                | Other contracts                     |                 |                 |
|                                                                                                      | Estimates of present value of future cash flows (excluding RA) | Risk adjustment for non-financial risk | Estimates of present value of future cash flows (including RA) | Contractual service margin          |                 | Total gross     |
|                                                                                                      |                                                                |                                        |                                                                | Contracts under fair value approach | Other Contracts |                 |
|                                                                                                      | £'000                                                          | £'000                                  | £'000                                                          | £'000                               | £'000           | £'000           |
| Opening assets                                                                                       | (72,085)                                                       | 9,905                                  | (62,180)                                                       | 3,674                               | 17,466          | (41,040)        |
| Opening liabilities                                                                                  | 126,977                                                        | 19,642                                 | 146,619                                                        | 65,180                              | 6,443           | 218,242         |
| <b>Net opening balance 1 Jan 2024</b>                                                                | <b>54,892</b>                                                  | <b>29,547</b>                          | <b>84,439</b>                                                  | <b>68,854</b>                       | <b>23,909</b>   | <b>177,202</b>  |
| Changes in the statement of profit or loss and OCI                                                   |                                                                |                                        |                                                                |                                     |                 |                 |
| Changes that relate to current services                                                              |                                                                |                                        |                                                                |                                     |                 |                 |
| CSM recognised for services provided                                                                 | —                                                              | —                                      | —                                                              | (11,799)                            | (9,564)         | (21,363)        |
| Change in risk adjustment for non-financial risk for risk expired                                    | —                                                              | (4,304)                                | (4,304)                                                        | —                                   | —               | (4,304)         |
| Experience adjustments                                                                               | 625                                                            | —                                      | 625                                                            | —                                   | —               | 625             |
| Changes that relate to future services                                                               |                                                                |                                        |                                                                |                                     |                 |                 |
| Contracts initially recognised in the year                                                           | (20,051)                                                       | 4,918                                  | (15,133)                                                       | —                                   | 15,497          | 365             |
| Changes in estimates that adjust the CSM                                                             | 10,890                                                         | (2,044)                                | 8,846                                                          | (2,679)                             | (6,167)         | —               |
| Changes in estimates that result in losses and reversal of losses on onerous contracts               | 5,913                                                          | (846)                                  | 5,067                                                          | —                                   | —               | 5,067           |
| Adjustments to liabilities for incurred claims                                                       | 13,306                                                         | 1,166                                  | 14,473                                                         | —                                   | —               | 14,473          |
| <b>Insurance service result</b>                                                                      | <b>10,684</b>                                                  | <b>(1,110)</b>                         | <b>9,574</b>                                                   | <b>(14,478)</b>                     | <b>(234)</b>    | <b>(5,138)</b>  |
| Net finance (income)/expenses from insurance contracts                                               | (7,518)                                                        | —                                      | (7,518)                                                        | 778                                 | 783             | (5,956)         |
| <b>Total changes in the statement of profit or loss and OCI</b>                                      | <b>3,166</b>                                                   | <b>(1,110)</b>                         | <b>2,056</b>                                                   | <b>(13,699)</b>                     | <b>550</b>      | <b>(11,095)</b> |
| Cash flows                                                                                           |                                                                |                                        |                                                                |                                     |                 |                 |
| Premiums received                                                                                    | 144,552                                                        | —                                      | 144,552                                                        | —                                   | —               | 144,552         |
| Claims, other insurance service expenses paid (including investment components) and other cash flows | (111,530)                                                      | —                                      | (111,530)                                                      | —                                   | —               | (111,530)       |
| Insurance acquisition cash flows                                                                     | (21,591)                                                       | —                                      | (21,591)                                                       | —                                   | —               | (21,591)        |
| <b>Total cash flows</b>                                                                              | <b>11,431</b>                                                  | <b>—</b>                               | <b>11,431</b>                                                  | <b>—</b>                            | <b>—</b>        | <b>11,431</b>   |
| <b>Net closing balance 31 Dec 24</b>                                                                 | <b>69,489</b>                                                  | <b>28,437</b>                          | <b>97,925</b>                                                  | <b>55,155</b>                       | <b>24,459</b>   | <b>177,539</b>  |
| Closing assets                                                                                       | (69,338)                                                       | 9,681                                  | (59,657)                                                       | 3,839                               | 18,061          | (37,757)        |
| Closing liabilities                                                                                  | 138,826                                                        | 18,756                                 | 157,582                                                        | 51,316                              | 6,398           | 215,296         |
| <b>Net closing balance 31 Dec 24</b>                                                                 | <b>69,489</b>                                                  | <b>28,437</b>                          | <b>97,925</b>                                                  | <b>55,155</b>                       | <b>24,459</b>   | <b>177,539</b>  |

# Notes on the Financial Statements (continued)

## 4. Insurance contracts - Amounts recognised in profit or loss (continued)

### (e) Movements in carrying amounts of insurance contracts - Analysis by measurement component (continued)

|                                                                                                      | Year ended 31 Dec 2023                                         |                                        |                                                                |                                     |                 |                 |
|------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|----------------------------------------|----------------------------------------------------------------|-------------------------------------|-----------------|-----------------|
|                                                                                                      | Insurance contracts - Life                                     |                                        |                                                                | Other contracts                     |                 |                 |
|                                                                                                      | Estimates of present value of future cash flows (excluding RA) | Risk adjustment for non-financial risk | Estimates of present value of future cash flows (including RA) | Contractual service margin          |                 | Total gross     |
|                                                                                                      |                                                                |                                        |                                                                | Contracts under fair value approach | Other Contracts |                 |
|                                                                                                      | £'000                                                          | £'000                                  | £'000                                                          | £'000                               | £'000           | £'000           |
| Opening assets                                                                                       | (85,156)                                                       | 8,672                                  | (76,484)                                                       | 5,922                               | 27,371          | (43,191)        |
| Opening liabilities                                                                                  | 102,714                                                        | 19,321                                 | 122,035                                                        | 67,991                              | 5,157           | 195,183         |
| <b>Net opening balance 1 Jan 2023</b>                                                                | <b>17,558</b>                                                  | <b>27,993</b>                          | <b>45,551</b>                                                  | <b>73,913</b>                       | <b>32,528</b>   | <b>151,992</b>  |
| Changes in the statement of profit or loss and OCI                                                   |                                                                |                                        |                                                                |                                     |                 |                 |
| Changes that relate to current services                                                              |                                                                |                                        |                                                                |                                     |                 |                 |
| CSM recognised for services provided                                                                 | —                                                              | —                                      | —                                                              | (14,275)                            | (11,412)        | (25,687)        |
| Change in risk adjustment for non-financial risk for risk expired                                    | —                                                              | (3,744)                                | (3,744)                                                        | —                                   | —               | (3,744)         |
| Experience adjustments                                                                               | (6,048)                                                        | —                                      | (6,048)                                                        | —                                   | —               | (6,048)         |
| Changes that relate to future services                                                               |                                                                |                                        |                                                                |                                     |                 |                 |
| Contracts initially recognised in the year                                                           | (25,350)                                                       | 5,965                                  | (19,385)                                                       | —                                   | 20,369          | 984             |
| Changes in estimates that adjust the CSM                                                             | 10,724                                                         | (687)                                  | 10,037                                                         | 10,541                              | (20,578)        | —               |
| Changes in estimates that result in losses and reversal of losses on onerous contracts               | 5,358                                                          | (27)                                   | 5,331                                                          | —                                   | —               | 5,331           |
| Changes that relate to past services                                                                 |                                                                |                                        |                                                                |                                     |                 |                 |
| Adjustments to liabilities for incurred claims                                                       | 15,062                                                         | 47                                     | 15,109                                                         | —                                   | —               | 15,109          |
| <b>Insurance service result</b>                                                                      | <b>(254)</b>                                                   | <b>1,554</b>                           | <b>1,300</b>                                                   | <b>(3,734)</b>                      | <b>(11,621)</b> | <b>(14,055)</b> |
| Net finance (income)/expenses from insurance contracts                                               | 139                                                            | —                                      | 139                                                            | (1,325)                             | 3,002           | 1,816           |
| <b>Total changes in the statement of profit or loss and OCI</b>                                      | <b>(115)</b>                                                   | <b>1,554</b>                           | <b>1,439</b>                                                   | <b>(5,059)</b>                      | <b>(8,619)</b>  | <b>(12,239)</b> |
| Cash flows                                                                                           |                                                                |                                        |                                                                |                                     |                 |                 |
| Premiums received                                                                                    | 150,351                                                        | —                                      | 150,351                                                        | —                                   | —               | 150,351         |
| Claims, other insurance service expenses paid (including investment components) and other cash flows | (89,046)                                                       | —                                      | (89,046)                                                       | —                                   | —               | (89,046)        |
| Insurance acquisition cash flows                                                                     | (23,856)                                                       | —                                      | (23,856)                                                       | —                                   | —               | (23,856)        |
| <b>Total cash flows</b>                                                                              | <b>37,449</b>                                                  | <b>—</b>                               | <b>37,449</b>                                                  | <b>—</b>                            | <b>—</b>        | <b>37,449</b>   |
| <b>Net closing balance 31 Dec 23</b>                                                                 | <b>54,892</b>                                                  | <b>29,547</b>                          | <b>84,439</b>                                                  | <b>68,854</b>                       | <b>23,909</b>   | <b>177,202</b>  |
| Closing assets                                                                                       | (72,085)                                                       | 9,905                                  | (62,180)                                                       | 3,674                               | 17,466          | (41,040)        |
| Closing liabilities                                                                                  | 126,977                                                        | 19,642                                 | 146,619                                                        | 65,180                              | 6,443           | 218,242         |
| <b>Net closing balance 31 Dec 23</b>                                                                 | <b>54,892</b>                                                  | <b>29,547</b>                          | <b>84,439</b>                                                  | <b>68,854</b>                       | <b>23,909</b>   | <b>177,202</b>  |

# Notes on the Financial Statements

## (continued)

### 4. Insurance contracts - Amounts recognised in profit or loss (continued)

#### (f) Movements in carrying amounts of reinsurance contracts - Analysis by measurement component

|                                                                        | Year ended 31 Dec 2024                                         |                                        |                                                                |                                     |                 |               |
|------------------------------------------------------------------------|----------------------------------------------------------------|----------------------------------------|----------------------------------------------------------------|-------------------------------------|-----------------|---------------|
|                                                                        | Reinsurance contracts - Life                                   |                                        |                                                                | Other contracts                     |                 |               |
|                                                                        | Estimates of present value of future cash flows (excluding RA) | Risk adjustment for non-financial risk | Estimates of present value of future cash flows (including RA) | Contractual service margin          |                 |               |
|                                                                        |                                                                |                                        |                                                                | Contracts under fair value approach | Other Contracts | Total gross   |
|                                                                        | £'000                                                          | £'000                                  | £'000                                                          | £'000                               | £'000           | £'000         |
| Opening assets                                                         | 78,458                                                         | 12,989                                 | 91,447                                                         | 27,067                              | 8,727           | 127,241       |
| Opening liabilities <sup>1</sup>                                       | (47,846)                                                       | 1,845                                  | (46,001)                                                       | 6,063                               | —               | (39,938)      |
| <b>Net opening balance 1 Jan 2024</b>                                  | <b>30,612</b>                                                  | <b>14,834</b>                          | <b>45,446</b>                                                  | <b>33,130</b>                       | <b>8,727</b>    | <b>87,303</b> |
| Changes in the statement of profit or loss and OCI                     |                                                                |                                        |                                                                |                                     |                 |               |
| Changes that relate to current services                                |                                                                |                                        |                                                                |                                     |                 |               |
| CSM recognised for services provided                                   | —                                                              | —                                      | —                                                              | (4,305)                             | (2,706)         | (7,012)       |
| Change in risk adjustment for non-financial risk for risk expired      | —                                                              | (2,465)                                | (2,465)                                                        | —                                   | —               | (2,465)       |
| Experience adjustments                                                 | 5,510                                                          | —                                      | 5,510                                                          | —                                   | —               | 5,510         |
| Changes that relate to future services                                 |                                                                |                                        |                                                                |                                     |                 |               |
| Contracts initially recognised in the year                             | (7,956)                                                        | 2,881                                  | (5,075)                                                        | —                                   | 5,019           | (56)          |
| Changes in estimates that adjust the contractual service margin        | 3,583                                                          | (1,343)                                | 2,239                                                          | (2,778)                             | 539             | —             |
| Changes in estimates that do not adjust the contractual service margin | 1,883                                                          | (629)                                  | 1,254                                                          | —                                   | —               | 1,254         |
| Changes that relate to past services                                   |                                                                |                                        |                                                                |                                     |                 |               |
| Adjustments to assets/liabilities for incurred claims                  | 6,232                                                          | —                                      | 6,232                                                          | —                                   | —               | 6,232         |
| <b>Insurance service result</b>                                        | <b>9,251</b>                                                   | <b>(1,556)</b>                         | <b>7,695</b>                                                   | <b>(7,084)</b>                      | <b>2,852</b>    | <b>3,463</b>  |
| Net finance income/expenses from reinsurance contracts                 | (403)                                                          | 805                                    | 402                                                            | 375                                 | 344             | 1,121         |
| Effect of changes in non-performance risk of reinsurers                | (74)                                                           | —                                      | (74)                                                           | —                                   | —               | (74)          |
| <b>Total changes in the statement of profit or loss and OCI</b>        | <b>8,774</b>                                                   | <b>(751)</b>                           | <b>8,023</b>                                                   | <b>(6,708)</b>                      | <b>3,195</b>    | <b>4,510</b>  |
| Cash flows                                                             |                                                                |                                        |                                                                |                                     |                 |               |
| Premiums paid                                                          | 83,589                                                         | —                                      | 83,589                                                         | —                                   | —               | 83,589        |
| Claims and other recoverables received                                 | (83,272)                                                       | —                                      | (83,272)                                                       | —                                   | —               | (83,272)      |
| <b>Total cash flows</b>                                                | <b>317</b>                                                     | <b>—</b>                               | <b>317</b>                                                     | <b>—</b>                            | <b>—</b>        | <b>317</b>    |
| <b>Net closing balance 31 Dec 24</b>                                   | <b>39,703</b>                                                  | <b>14,084</b>                          | <b>53,787</b>                                                  | <b>26,421</b>                       | <b>11,923</b>   | <b>92,130</b> |
| Closing assets                                                         | 78,836                                                         | 12,333                                 | 91,169                                                         | 26,656                              | 11,923          | 129,747       |
| Closing liabilities                                                    | (39,133)                                                       | 1,751                                  | (37,382)                                                       | (235)                               | —               | (37,617)      |
| <b>Net closing balance 31 Dec 24</b>                                   | <b>39,703</b>                                                  | <b>14,084</b>                          | <b>53,787</b>                                                  | <b>26,421</b>                       | <b>11,923</b>   | <b>92,130</b> |

<sup>1</sup> In the current year, reinsurance contract payables have been recognised within reinsurance contract liabilities. The prior year comparatives have been restated as a result.

# Notes on the Financial Statements (continued)

## 4. Insurance contracts - Amounts recognised in profit or loss (continued)

### (f) Movements in carrying amounts of reinsurance contracts - Analysis by measurement component (continued)

Year ended 31 Dec 2023

|                                                                        | Reinsurance contracts - Life Other contracts                            |                                                 |                                                                         |                                              |                          |                      |
|------------------------------------------------------------------------|-------------------------------------------------------------------------|-------------------------------------------------|-------------------------------------------------------------------------|----------------------------------------------|--------------------------|----------------------|
|                                                                        |                                                                         |                                                 |                                                                         | Contractual service margin                   |                          |                      |
|                                                                        | Estimates of present value of future cash flows (excluding RA)<br>£'000 | Risk adjustment for non-financial risk<br>£'000 | Estimates of present value of future cash flows (including RA)<br>£'000 | Contracts under fair value approach<br>£'000 | Other Contracts<br>£'000 | Total gross<br>£'000 |
| Opening assets                                                         | 59,042                                                                  | 11,773                                          | 70,815                                                                  | 30,483                                       | 7,787                    | 109,085              |
| Opening liabilities                                                    | (39,691)                                                                | 2,052                                           | (37,639)                                                                | 7,616                                        | —                        | (30,023)             |
| <b>Net opening balance 1 Jan 2023</b>                                  | <b>19,351</b>                                                           | <b>13,825</b>                                   | <b>33,176</b>                                                           | <b>38,099</b>                                | <b>7,787</b>             | <b>79,062</b>        |
| Changes in the statement of profit or loss and OCI                     |                                                                         |                                                 |                                                                         |                                              |                          |                      |
| Changes that relate to current services                                |                                                                         |                                                 |                                                                         |                                              |                          |                      |
| CSM recognised for services provided                                   | —                                                                       | —                                               | —                                                                       | (6,056)                                      | (3,322)                  | (9,378)              |
| Change in risk adjustment for non-financial risk for risk expired      | —                                                                       | (2,335)                                         | (2,335)                                                                 | —                                            | —                        | (2,335)              |
| Experience adjustments                                                 | (9,421)                                                                 | —                                               | (9,421)                                                                 | —                                            | —                        | (9,421)              |
| Changes that relate to future services                                 |                                                                         |                                                 |                                                                         |                                              |                          |                      |
| Contracts initially recognised in the year                             | (10,115)                                                                | 3,796                                           | (6,319)                                                                 | —                                            | 6,972                    | 653                  |
| Changes in recoveries of losses on onerous                             | —                                                                       | —                                               | —                                                                       | —                                            | —                        | —                    |
| Changes in estimates that adjust the contractual service margin        | 2,831                                                                   | (490)                                           | 2,341                                                                   | 632                                          | (2,973)                  | —                    |
| Changes in estimates that do not adjust the contractual service margin | 1,090                                                                   | 15                                              | 1,105                                                                   | —                                            | —                        | 1,105                |
| Changes that relate to past services                                   |                                                                         |                                                 |                                                                         |                                              |                          |                      |
| Adjustments to assets/liabilities for incurred claims                  | 10,115                                                                  | 23                                              | 10,138                                                                  | —                                            | —                        | 10,138               |
| <b>Insurance service result</b>                                        | <b>(5,500)</b>                                                          | <b>1,009</b>                                    | <b>(4,491)</b>                                                          | <b>(5,424)</b>                               | <b>677</b>               | <b>(9,238)</b>       |
| Net finance income/expenses from reinsurance contracts                 | (3,372)                                                                 | —                                               | (3,372)                                                                 | 455                                          | 263                      | (2,654)              |
| Effect of changes in non-performance risk of reinsurers                | 16                                                                      | —                                               | 16                                                                      | —                                            | —                        | 16                   |
| <b>Total changes in the statement of profit or loss and OCI</b>        | <b>(8,856)</b>                                                          | <b>1,009</b>                                    | <b>(7,847)</b>                                                          | <b>(4,969)</b>                               | <b>940</b>               | <b>(11,876)</b>      |
| Cash flows                                                             |                                                                         |                                                 |                                                                         |                                              |                          |                      |
| Premiums paid <sup>1</sup>                                             | 78,975                                                                  | —                                               | 78,975                                                                  | —                                            | —                        | 78,975               |
| Claims and other recoverables received                                 | (58,860)                                                                | —                                               | (58,860)                                                                | —                                            | —                        | (58,860)             |
| <b>Total cash flows</b>                                                | <b>20,115</b>                                                           | <b>—</b>                                        | <b>20,115</b>                                                           | <b>—</b>                                     | <b>—</b>                 | <b>20,115</b>        |
| Other                                                                  | —                                                                       | —                                               | —                                                                       | —                                            | —                        | —                    |
| <b>Net closing balance 31 Dec 23</b>                                   | <b>30,612</b>                                                           | <b>14,834</b>                                   | <b>45,446</b>                                                           | <b>33,130</b>                                | <b>8,727</b>             | <b>87,303</b>        |
| Closing assets                                                         | 78,458                                                                  | 12,989                                          | 91,447                                                                  | 27,067                                       | 8,727                    | 127,241              |
| Closing liabilities                                                    | (47,846)                                                                | 1,845                                           | (46,001)                                                                | 6,063                                        | —                        | (39,938)             |
| <b>Net closing balance 31 Dec 23</b>                                   | <b>30,612</b>                                                           | <b>14,834</b>                                   | <b>45,446</b>                                                           | <b>33,130</b>                                | <b>8,727</b>             | <b>87,303</b>        |

<sup>1</sup> In the current year, reinsurance contract payables have been recognised within reinsurance contract liabilities. The prior year comparatives have been restated as a result.



# Notes on the Financial Statements (continued)

## 4. Insurance contracts - Amounts recognised in profit or loss (continued)

### (g) Effect of contracts initially recognised in the year

|                                                       | Year ended 31 Dec 2024      |                          |              | Year ended 31 Dec 2023      |                          |              |
|-------------------------------------------------------|-----------------------------|--------------------------|--------------|-----------------------------|--------------------------|--------------|
|                                                       | Profitable contracts issued | Onerous contracts issued | Total        | Profitable contracts issued | Onerous contracts issued | Total        |
|                                                       | £'000                       | £'000                    | £'000        | £'000                       | £'000                    | £'000        |
| <b>Life direct participating contracts</b>            |                             |                          |              |                             |                          |              |
| Estimates of present value of cash outflows           | 557,600                     | 25,388                   | 582,938      | 374,707                     | 11,935                   | 386,642      |
| - Claims and other insurance service expenses payable | 557,600                     | 25,388                   | 582,938      | 374,707                     | 11,935                   | 386,642      |
| Estimates of present value of cash inflows            | (571,917)                   | (25,013)                 | (596,930)    | (396,594)                   | (11,670)                 | (408,264)    |
| Risk adjustment for non-financial risk                | 1,719                       | 150                      | 1,869        | 1,631                       | 73                       | 1,704        |
| CSM                                                   | 12,598                      | —                        | 12,598       | 20,256                      | —                        | 20,256       |
| Losses recognised on initial recognition              | —                           | (534)                    | (534)        | —                           | 338                      | 338          |
| <b>Life other contracts</b>                           |                             |                          |              |                             |                          |              |
| Estimates of present value of cash outflows           | 102,601                     | 4,468                    | 107,069      | 115,833                     | 6,544                    | 122,377      |
| - Claims and other insurance service expenses payable | 102,601                     | 4,468                    | 107,069      | 115,833                     | 6,544                    | 122,377      |
| Estimates of present value of cash inflows            | (122,631)                   | (4,264)                  | (126,895)    | (141,898)                   | (5,829)                  | (147,727)    |
| Risk adjustment for non-financial risk                | 4,759                       | 171                      | 4,930        | 5,698                       | 268                      | 5,966        |
| CSM                                                   | 15,271                      | —                        | 15,271       | 20,367                      | —                        | 20,367       |
| Losses recognised on initial recognition              | —                           | (355)                    | (355)        | —                           | 983                      | 983          |
| <b>Reinsurance contracts</b>                          |                             |                          | <b>4,766</b> |                             |                          | <b>6,319</b> |

### (h) Present value of expected future cash flows of insurance contract liabilities and contractual service margin

|                                                             | less than 1 year | 1-2 years     | 2-3 years     | 3-4 years     | 4-5 years     | 5-10 years     | 10-20 years    | Over 20 years    | Total            |
|-------------------------------------------------------------|------------------|---------------|---------------|---------------|---------------|----------------|----------------|------------------|------------------|
|                                                             | £'000            | £'000         | £'000         | £'000         | £'000         | £'000          | £'000          | £'000            | £'000            |
| <b>Insurance liability future cash flows</b>                |                  |               |               |               |               |                |                |                  |                  |
| Life direct participating contracts                         | 50,140           | 56,060        | 64,580        | 66,664        | 68,079        | 322,775        | 495,609        | 1,613,219        | 2,737,125        |
| Life other contracts                                        | 41,943           | (8,420)       | (8,396)       | (8,197)       | (7,458)       | (17,948)       | 13,903         | 64,062           | 69,489           |
| Reinsurance contracts                                       | (41,505)         | (7,663)       | (4,367)       | (2,005)       | (624)         | 4,352          | 7,580          | 4,531            | (39,703)         |
| <b>Insurance liability future cash flows at 31 Dec 2024</b> | <b>50,578</b>    | <b>39,977</b> | <b>51,817</b> | <b>56,462</b> | <b>59,997</b> | <b>309,178</b> | <b>517,092</b> | <b>1,681,811</b> | <b>2,766,911</b> |
| <b>Remaining contractual service margin</b>                 |                  |               |               |               |               |                |                |                  |                  |
| Life direct participating contracts                         | 3,753            | 3,490         | 3,235         | 2,996         | 2,771         | 10,908         | 11,144         | 6,188            | 44,485           |
| Life other contracts                                        | 13,256           | 10,907        | 9,083         | 7,588         | 6,355         | 19,242         | 10,990         | 2,192            | 79,614           |
| Reinsurance contracts                                       | (8,821)          | (3,858)       | (3,395)       | (2,981)       | (2,602)       | (8,861)        | (6,322)        | (1,503)          | (38,344)         |
| <b>Remaining contractual service margin at 31 Dec 2024</b>  | <b>8,184</b>     | <b>10,539</b> | <b>8,923</b>  | <b>7,603</b>  | <b>6,524</b>  | <b>21,288</b>  | <b>15,813</b>  | <b>6,876</b>     | <b>85,755</b>    |
| <b>Insurance liability future cash flows</b>                |                  |               |               |               |               |                |                |                  |                  |
| Life direct participating contracts                         | 19,783           | 45,235        | 55,569        | 63,630        | 70,065        | 331,163        | 504,506        | 994,541          | 2,084,492        |
| Life other contracts                                        | 40,405           | (6,168)       | (9,620)       | (9,497)       | (8,550)       | (20,706)       | 13,502         | 55,525           | 54,891           |
| Reinsurance contracts <sup>1</sup>                          | (44,670)         | (5,642)       | (2,701)       | (826)         | 561           | 8,081          | 9,064          | 5,521            | (30,612)         |
| <b>Insurance liability future cash flows at 31 Dec 2023</b> | <b>15,518</b>    | <b>33,425</b> | <b>43,248</b> | <b>53,307</b> | <b>62,076</b> | <b>318,538</b> | <b>527,072</b> | <b>1,055,587</b> | <b>2,108,771</b> |
| <b>Remaining contractual service margin</b>                 |                  |               |               |               |               |                |                |                  |                  |
| Life direct participating contracts                         | 1,789            | 1,677         | 1,578         | 1,481         | 1,382         | 5,487          | 5,852          | 3,215            | 22,461           |
| Life other contracts                                        | 15,519           | 12,668        | 10,445        | 8,700         | 7,301         | 22,358         | 13,024         | 2,750            | 92,765           |
| Reinsurance contracts                                       | (5,700)          | (4,926)       | (4,262)       | (3,707)       | (3,225)       | (10,710)       | (7,409)        | (1,919)          | (41,858)         |
| <b>Remaining contractual service margin at 31 Dec 2023</b>  | <b>11,608</b>    | <b>9,419</b>  | <b>7,761</b>  | <b>6,474</b>  | <b>5,458</b>  | <b>17,135</b>  | <b>11,467</b>  | <b>4,046</b>     | <b>73,368</b>    |

<sup>1</sup> In the current year, reinsurance contract payables have been recognised within reinsurance contract liabilities. The prior year comparatives have been restated as a result.

# Notes on the Financial Statements (continued)

## 4. Insurance contracts - Amounts recognised in profit or loss (continued)

### (i) Discount rates

The Group has elected to apply a bottom-up approach whereby the discount rate is derived using the risk-free rate adjusted for an illiquidity premium as set out in the Summary of material accounting policies (b) Insurance contracts. The blended average of discount rates is used:

|              | 2024   | 2023   |
|--------------|--------|--------|
| rate 10Y (%) | 4.07 % | 3.28 % |
| rate 20Y (%) | 4.30 % | 3.43 % |

## 5. Net fees income / (expense)

|                                                                      | 2024<br>£'000  | 2023<br>£'000  |
|----------------------------------------------------------------------|----------------|----------------|
| <b>Fee income</b>                                                    |                |                |
| Fund management fees                                                 | 2,949          | 2,735          |
| Front-end fees recognised in the year                                | —              | 459            |
| Rebated annual management charges from collective investment schemes | 30             | 56             |
| Policy fees                                                          | —              | —              |
| <b>Total fee income</b>                                              | <b>2,979</b>   | <b>3,250</b>   |
| <b>Fee expense</b>                                                   |                |                |
| Investment contract benefits paid                                    | (61)           | (73)           |
| Investment management, custody and valuation fees                    | (1,416)        | (1,319)        |
| Fee sharing arrangement                                              | (1,012)        | (891)          |
| Bank charges                                                         | (220)          | (281)          |
| Other                                                                | (16)           | (420)          |
| <b>Total fee expense</b>                                             | <b>(2,725)</b> | <b>(2,984)</b> |
| <b>Net fees income / (expense)</b>                                   | <b>254</b>     | <b>266</b>     |

## 6. Credit impairment losses

|                                              | 2024<br>£'000 | 2023<br>£'000 |
|----------------------------------------------|---------------|---------------|
| Commission clawback credit impairment losses | 80            | 2,286         |

Credit impairment losses relate to commission clawback. Commission paid to third party insurance intermediaries, for the sale of HSBC Life Protection (HLP) policies, is due back to the Company when policies lapse within four years from inception. The commission clawback receivable is impaired when the Company assesses the refunds are no longer recoverable from the intermediaries due to significant financial difficulty.

## 7. Total operating expenses

|                                 | 2024                                                                                      |                                                                     |                                         |                | 2023                                                                                      |                                                                     |                                         |                |
|---------------------------------|-------------------------------------------------------------------------------------------|---------------------------------------------------------------------|-----------------------------------------|----------------|-------------------------------------------------------------------------------------------|---------------------------------------------------------------------|-----------------------------------------|----------------|
|                                 | Expenses<br>attributed<br>to insurance<br>acquisition<br>cash flows <sup>1</sup><br>£'000 | Other<br>directly<br>attributable<br>expenses <sup>1</sup><br>£'000 | Other<br>operating<br>expenses<br>£'000 | Total<br>£'000 | Expenses<br>attributed to<br>insurance<br>acquisition<br>cash flows <sup>1</sup><br>£'000 | Other<br>directly<br>attributable<br>expenses <sup>1</sup><br>£'000 | Other<br>operating<br>expenses<br>£'000 | Total<br>£'000 |
| Expenses by nature              |                                                                                           |                                                                     |                                         |                |                                                                                           |                                                                     |                                         |                |
| Commission payable <sup>2</sup> | 12,908                                                                                    | —                                                                   | —                                       | 12,908         | 16,709                                                                                    | —                                                                   | —                                       | 16,709         |
| Administrative expenses         | 12,561                                                                                    | 5,994                                                               | 10,228                                  | 28,783         | 11,904                                                                                    | 6,406                                                               | 9,392                                   | 27,702         |
| <b>Total operating expenses</b> | <b>25,469</b>                                                                             | <b>5,994</b>                                                        | <b>10,228</b>                           | <b>41,691</b>  | <b>28,613</b>                                                                             | <b>6,406</b>                                                        | <b>9,392</b>                            | <b>44,411</b>  |

<sup>1</sup> Expenses attributed to insurance acquisition cash flows and other directly attributable expenses comprise expenses incurred by the Company in the reporting period that relate directly to the fulfilment of contracts issued within IFRS 17's scope and reinsurance contracts held. These expenses are recognised in the statement of comprehensive income based on IFRS 17 measurement requirements.

<sup>2</sup> Commission payable has been restated in the current year as a result of recognising advisor fees on Life Direct Participating contracts as partial surrenders. The prior year comparatives have also been restated.

# Notes on the Financial Statements (continued)

## 7. Total operating expenses (continued)

### Audit, legal and other professional fees include:

| Audit, legal and other professional fees include:             | 2024<br>£'000 | 2023<br>£'000 |
|---------------------------------------------------------------|---------------|---------------|
| <b>Auditors remuneration:</b>                                 |               |               |
| – Audit of these financial statements pursuant to legislation | 482           | 471           |
| – Other audit-related services pursuant to such legislation   | 165           | 161           |
|                                                               | <b>647</b>    | <b>632</b>    |

The fees paid to auditors detailed above (exclusive of VAT) relate only to activities in respect of the Company.

Other audit-related services relate to the Company's Solvency II audit required by regulation.

## 8. Directors' emoluments

One director who served during the year (2023: One director) was remunerated by other Group undertakings which made no specific charge to this company for their services. The emoluments of the other directors in respect of their services to the Company are shown below.

|                               | 2024<br>£'000 | 2023<br>£'000 |
|-------------------------------|---------------|---------------|
| Emoluments                    | 870           | 671           |
| Pension scheme contributions  | 8             | 9             |
|                               | <b>878</b>    | <b>680</b>    |
| <b>Highest paid Director:</b> |               |               |
| Emoluments                    | 571           | 277           |
| Pension scheme contributions  | 1             | 2             |
|                               | <b>572</b>    | <b>279</b>    |

The highest paid director did not exercise options over HSBC Holdings plc ordinary shares during the year (2023: One director).

The Company does not have any direct employees (2023: nil). The directors and staff are all employees of other Group undertakings.

Retirement benefits are accruing to the directors under schemes operated by their employing companies. Retirement benefits are accruing to two directors under money purchase schemes and none are accruing under defined benefits scheme at 31 December 2024 (2023: two directors under money purchase schemes and none accruing under defined benefits scheme). The directors are members of retirement benefit schemes operated by HSBC Bank UK plc. Details of these schemes can be found in the Annual Report and Accounts of HSBC Bank UK plc. The Company does not receive any explicit charges in respect of the costs of contributions to the retirement benefit schemes for the directors and staff. As the Company has no staff, it has no liability in respect of any deficit within the schemes, although any surplus or deficit may affect the level of costs recharged to the Company in future periods.

## 9. Tax expense / (credit)

|                                                   | 2024<br>£'000 | 2023<br>£'000    |
|---------------------------------------------------|---------------|------------------|
| <b>Current tax</b>                                |               |                  |
| UK Corporation tax                                |               |                  |
| – on current year profit                          | 5,977         | 20,774           |
| – adjustments in respect of prior years           | 434           | (2,002)          |
| Overseas tax                                      |               |                  |
| – on current year profit                          | –             | (17)             |
| <b>Total current tax</b>                          | <b>6,411</b>  | <b>18,755</b>    |
| <b>Deferred tax</b>                               |               |                  |
| Deferred tax asset recognition                    | –             | (115,875)        |
| Origination and reversal of temporary differences | 38,796        | 4,881            |
| Adjustment in respect of prior years              | 2,185         | –                |
| <b>Total deferred tax</b>                         | <b>40,981</b> | <b>(110,994)</b> |
| <b>Tax expense / (credit)</b>                     | <b>47,392</b> | <b>(92,239)</b>  |

# Notes on the Financial Statements (continued)

## 9. Tax expense / (credit) (continued)

### Tax reconciliation:

|                                                  | 2024<br>£'000 | Percentage of<br>overall profit<br>before tax<br>% | 2023<br>£'000   | Percentage of<br>overall profit<br>before tax<br>% |
|--------------------------------------------------|---------------|----------------------------------------------------|-----------------|----------------------------------------------------|
| <b>Profit before tax</b>                         | <b>73,267</b> |                                                    | 17,481          |                                                    |
| Tax of 25% (2023: 23.5%)                         | 18,317        | 25                                                 | 4,108           | 24                                                 |
| Impact of policyholder tax                       | 31,086        | 42                                                 | (85,806)        | (491)                                              |
| Adjustments in respect of prior years            | 434           | 1                                                  | (2,002)         | (11)                                               |
| Income not taxable for tax purposes              | (4,630)       | (6)                                                | (8,601)         | (49)                                               |
| Overseas tax charge                              | —             | —                                                  | (17)            | —                                                  |
| Adjustments in respect of prior years (deferred) | 2,185         | 3                                                  | —               | —                                                  |
| Other items                                      | —             | —                                                  | 79              | —                                                  |
| <b>Overall tax expense / (credit)</b>            | <b>47,392</b> | <b>65</b>                                          | <b>(92,239)</b> | <b>(527)</b>                                       |

An increase in the main UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This increases the Company's future current tax charge accordingly. Where appropriate, the deferred tax liability at 31 December 2024 and 2023 has been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences.

On June 2023, legislation was substantively enacted in the UK, the jurisdiction of the entity's ultimate parent entity, HSBC Holdings plc, to introduce the 'Pillar Two' global minimum tax model rules of the Organisation of Economic Co-operation and Development's (OECD) Inclusive Framework on Base Erosion and Profit Sharing (BEPS), as well as a qualified domestic minimum top-up tax, with effect from 1 January 2024. Under these rules, a top-up tax liability arises where the effective tax rate of the HSBC Holdings plc Group's operations in a jurisdiction, calculated based on principles set out in the OECD's Pillar Two model rules, is below 15%. Based on the Company's calculations, no top-up tax liability arose in respect of the UK in the year and these rules are not expected to affect the Company's tax expense in future periods.

## 10. Financial assets at fair value through profit or loss

The Company's financial assets at fair value through profit or loss are summarised below by measurement category.

|                                                                    | 2024<br>£'000    | 2023<br>£'000    |
|--------------------------------------------------------------------|------------------|------------------|
| Mandatorily fair value through profit or loss (FVTPL)              | 3,873,233        | 3,136,464        |
|                                                                    | 2024<br>£'000    | 2023<br>£'000    |
| <b>Financial assets at fair value through profit or loss</b>       |                  |                  |
| Debt securities – fixed interest rate:                             |                  |                  |
| – government bonds                                                 | 85,633           | 4,739            |
| – other - listed                                                   | 18,098           | 36,215           |
|                                                                    | 103,731          | 40,954           |
| Collective investment schemes – unlisted                           | 3,769,502        | 3,095,510        |
|                                                                    | 3,873,233        | 3,136,464        |
| Cash and cash equivalents:                                         |                  |                  |
| – Bank and cash balances                                           | 121,173          | 116,656          |
| – Short-term bank deposits                                         | 51,965           | 51,867           |
|                                                                    | 173,138          | 168,523          |
| <b>Total financial assets at fair value through profit or loss</b> | <b>4,046,371</b> | <b>3,304,987</b> |
| Expected to be recovered in no more than one year                  | 671,681          | 503,385          |
| Expected to be recovered after more than one year                  | 3,374,690        | 2,801,602        |
|                                                                    | 4,046,371        | 3,304,987        |

The other listed fixed rate debt securities relate to corporate bonds. The fair values of these are determined based on the interest yields on the instruments.

Custody services are provided by HSBC Security Services, SEI Investments (Europe) Limited, True Potential Investments LLP and M&G.

# Notes on the Financial Statements (continued)

## 10. Financial assets at fair value through profit or loss (continued)

### Valuation of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable parties in an arm's length transaction.

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price: financial instruments with quoted prices for identical instruments in active markets.
- Level 2: Valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets and financial instruments valued using models where all significant inputs are observable.
- Level 3: Valuation technique with significant unobservable inputs: financial instruments valued using models where one or more significant inputs are unobservable.

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

| 2024                            | Level 1<br>£'000         | Level 2<br>£'000         | Level 3<br>£'000         | Total<br>£'000         |
|---------------------------------|--------------------------|--------------------------|--------------------------|------------------------|
| <b>Financial assets:</b>        |                          |                          |                          |                        |
| Collectives                     | 3,769,293                | —                        | 209                      | 3,769,502              |
| Debt securities                 | 81,000                   | 22,731                   | —                        | 103,731                |
| Cash                            | 173,138                  | —                        | —                        | 173,138                |
| Unit-linked                     | 3,795,340                | —                        | 209                      | 3,795,549              |
| Other                           | 228,091                  | 22,731                   | —                        | 250,822                |
|                                 | 4,023,431                | 22,731                   | 209                      | 4,046,371              |
| <b>Liabilities:</b>             |                          |                          |                          |                        |
| Investment contract liabilities | —                        | 931,399                  | —                        | 931,399                |
| <b>2023</b>                     | <b>Level 1<br/>£'000</b> | <b>Level 2<br/>£'000</b> | <b>Level 3<br/>£'000</b> | <b>Total<br/>£'000</b> |
| <b>Financial assets:</b>        |                          |                          |                          |                        |
| Collectives                     | 3,095,335                | —                        | 175                      | 3,095,510              |
| Debt securities                 | —                        | 40,954                   | —                        | 40,954                 |
| Cash                            | 168,523                  | —                        | —                        | 168,523                |
|                                 | 3,263,858                | 40,954                   | 175                      | 3,304,987              |
| Unit-linked                     | 2,980,703                | —                        | 175                      | 2,980,878              |
| Other                           | 283,155                  | 40,954                   | —                        | 324,109                |
|                                 | 3,263,858                | 40,954                   | 175                      | 3,304,987              |
| <b>Liabilities:</b>             |                          |                          |                          |                        |
| Investment contract liabilities | —                        | 852,588                  | —                        | 852,588                |

<sup>1</sup> In the current year, cash has been moved from Level 2 to Level 1 to more accurately reflect the levelling of the asset. The prior year comparative has been restated.

# Notes on the Financial Statements (continued)

## 11. Receivables, prepayments and accrued income

|                                                               | 2024<br>£'000 | 2023<br>£'000 |
|---------------------------------------------------------------|---------------|---------------|
| Receivables arising from insurance and reinsurance contracts: |               |               |
| – due from related party intermediaries                       | —             | (40)          |
| – due from other reinsurers                                   | 14,351        | 10,169        |
| – due from related party reinsurers                           | 1,676         | 1,340         |
| Bridging accounts                                             |               |               |
| – Third party                                                 | (226)         | (232)         |
| Other loans and receivables:                                  |               |               |
| – Prepayments                                                 | 206           | 202           |
| – Accrued income                                              | 1,192         | 849           |
| – Receivables from related parties                            | 470           | 821           |
| – Other receivables                                           | 2,359         | 1,177         |
| – Other receivables from related parties                      | —             | 14            |
|                                                               | <b>20,028</b> | <b>14,300</b> |
| Expected to be recovered in no more than one year             | <b>20,028</b> | <b>14,300</b> |

The carrying amount of receivables, including insurance receivables, is considered to be a reasonable approximation of their fair value. Bridging accounts are control accounts to manage the actual accounting cashflows versus expected cashflows from the cashflow models.

## 12. Called up share capital

|                                                          | 2024<br>£'000 | 2023<br>£'000 |
|----------------------------------------------------------|---------------|---------------|
| <b>Allotted, called up and fully paid</b>                |               |               |
| 94,375,000 (2023: 94,375,000) Ordinary shares of £1 each | <b>94,375</b> | <b>94,375</b> |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to repayment of capital.

## 13. Dividends

|                         | 2024<br>£'000 | 2024<br>Total per share | 2023<br>£'000 | 2023<br>Total per share |
|-------------------------|---------------|-------------------------|---------------|-------------------------|
| Interim dividend        | 20,000        | 0.21                    | —             | —                       |
| Second interim dividend | 35,000        | 0.37                    | —             | —                       |
|                         | <b>55,000</b> | <b>0.58</b>             | <b>—</b>      | <b>—</b>                |

## 14. Retained earnings

|                   | 2024<br>£'000  | 2023<br>£'000  |
|-------------------|----------------|----------------|
| Retained earnings | <b>182,380</b> | <b>211,505</b> |

The retained earnings balance represents the amount available for dividend distribution to the equity shareholders of the Company. The retained earnings plus capital are in excess of the Company's regulatory solvency capital requirement and thus there are available distributable reserves.

## 15. Investment contract liabilities

|                                                                         | 2024<br>£'000  | 2023<br>£'000  |
|-------------------------------------------------------------------------|----------------|----------------|
| Investment contracts at fair value through profit or loss (unit-linked) | <b>931,399</b> | <b>852,588</b> |
| Expected to be paid in no more than one year                            | —              | 118            |
| Expected to be paid after more than one year                            | <b>931,399</b> | <b>852,470</b> |
|                                                                         | <b>931,399</b> | <b>852,588</b> |

All investment contract liabilities are designated by the Company to be at fair value through profit or loss. The maturity value of these financial liabilities is determined by the fair value of the linked assets at maturity date. There will be no difference between the carrying amount and the maturity amount at maturity date.



# Notes on the Financial Statements (continued)

## 16. Insurance and other payables and deferred income

|                                                 | 2024<br>£'000 | 2023 <sup>1</sup><br>£'000 |
|-------------------------------------------------|---------------|----------------------------|
| Direct insurance contract payables              | 10,609        | 10,659                     |
| Amounts due to related parties                  | 6,089         | 6,932                      |
| Direct investment contract payables             | 5,189         | 5,067                      |
| Other payables and accrued expenses             | 7,974         | 9,803                      |
| Deferred income                                 | —             | 19                         |
| Bridging accounts                               |               |                            |
| - Third party                                   | 191           | (2,256)                    |
|                                                 | 30,052        | 30,224                     |
| Expected to be settled in no more than one year | 30,052        | 30,224                     |

<sup>1</sup> In the current year, reinsurance contract payables have been recognised within reinsurance contract liabilities. The prior year comparatives have been restated as a result.

Deferred income relates to front-end fees received from investment contract holders as a prepayment for asset management and related services. These amounts are non-refundable and were fully released to income in the current year as the services were rendered.

Bridging accounts are control accounts to manage the actual accounting cashflows versus expected cashflows from the cashflow models. The carrying amount of insurance and other payables is considered to be a reasonable approximation of their fair value.

## 17. Other provisions

|                                              | 2024<br>£'000 | 2023<br>£'000 |
|----------------------------------------------|---------------|---------------|
| At 1 January                                 | 54            | 54            |
| Amounts reversed during the period           | (54)          | —             |
| At 31 December                               | —             | 54            |
| Expected to be paid in no more than one year | —             | 54            |

The provision related to policyholder remediation on historic FlexiLife Plan policies, with a decrease sum assured, where premiums were marginally overcharged. The provision included premium refunds and accrued interest on the refunds. The provision was released in the current year following a review of the outstanding balance due to be paid.

## 18. Deferred tax (assets)/liabilities

|                                  | 2024<br>£'000 | 2023<br>£'000 |
|----------------------------------|---------------|---------------|
| <b>Deferred Tax Asset</b>        |               |               |
| At 1 January                     | (88,456)      | 22,538        |
| Transfer                         | (9,636)       | —             |
| Income statement charge/(credit) | 42,090        | (110,994)     |
| At 31 December                   | (56,002)      | (88,456)      |
| <b>Deferred Tax Liability</b>    |               |               |
| At 1 January                     | —             | —             |
| Transfer                         | 9,636         | —             |
| Income statement charge/(credit) | (1,109)       | —             |
| At 31 December                   | 8,527         | —             |

# Notes on the Financial Statements (continued)

## 18. Deferred tax (assets)/liabilities (continued)

|                                 | 2024<br>£'000 | 2023<br>£'000 |
|---------------------------------|---------------|---------------|
| <b>Deferred tax assets</b>      |               |               |
| Deferred and excess expenses    | 56,002        | 98,092        |
| <b>Deferred tax liabilities</b> |               |               |
| Insurance contract provisions   | 8,527         | 9,636         |

A deferred tax asset has been recognised (Note 2(i) Use of accounting estimates and judgements), relating to historic tax losses, based on the recognition and measurement criteria in IAS 12. The conclusion was that the recognition threshold was met, due to the increase in interest rates which resulted in higher projected future taxable income (investment return and gains), which supported the expected utilisation.

An increase in the main UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This increases the company's future current tax charge accordingly. Where appropriate, the deferred tax liability at 31 December 2024 has been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences.

There are no unrecognised deferred tax assets and deferred tax liabilities.

The UK's taxation regime for life assurance companies taxes policyholder profits and "I-E" (broadly any investment income plus gains on disposals of assets less expenses of management) tax losses (XSE) were first recognised as a deferred tax asset during 2023.

## 19. Structured entities

The Company is involved with structured entities through investment fund holdings within the unit-linked and non-linked funds.

The arrangements that involve structured entities form part of the normal course of business for the Company and are authorised by management when they are established to ensure appropriate purpose and governance. The Company has involvement with unconsolidated structured entities, which may be established by HSBC Group companies or by third parties, as detailed below.

The term 'unconsolidated structured entities' refers to all structured entities controlled or not controlled by the Company. The Company is exempt from preparing consolidated group financial statements (refer to note 1(d)) and thus the structured entities the Company controls are included in the unconsolidated structured entities listed below. The Company enters into transactions with unconsolidated structured entities in the normal course of business to facilitate policyholder transactions and for specific investment opportunities. The table below shows the total assets of unconsolidated structured entities in which the Company has an interest at the reporting date, as well as its maximum exposure to loss in relation to those interests.

The maximum potential loss from the Company's interests in unconsolidated structured entities represents the maximum loss that it could be required to report as a result of its involvement with unconsolidated structured entities regardless of the probability of the loss being incurred.

Nature and risks associated with HSBC interests in unconsolidated structured entities:

|                                                                                               | 2024<br>£'000 | 2023<br>£'000 |
|-----------------------------------------------------------------------------------------------|---------------|---------------|
| <b>At 31 December</b>                                                                         |               |               |
| HSBC Life (UK) Limited's interest - assets                                                    |               |               |
| Collective investment schemes                                                                 | 3,769,502     | 3,095,510     |
| Total assets in relation to the Company's interests in the unconsolidated structured entities | 3,769,502     | 3,095,510     |
| <b>Maximum loss</b>                                                                           | 3,769,502     | 3,095,510     |

HSBC Group companies have established and manage money market funds and non-money market investment funds to provide policyholders with investment opportunities. HSBC Group companies, as fund managers, may be entitled to receive management and performance fees based on the assets under management.

# Notes on the Financial Statements

## (continued)

### 20. Related party transactions

The Company has a related party relationship with its parent, with other group undertakings and with its directors. Transactions with related parties are summarised as follows:

#### (a) Income and expense

|                              | 2024<br>£'000 | 2023<br>£'000 |
|------------------------------|---------------|---------------|
| Net insurance service result |               |               |
| - Other Group company        | 5,934         | 10,642        |
| Net investment returns       |               |               |
| - Parent                     | 5,372         | 3,158         |
| - Other Group company        | 7,032         | 7,765         |
| Net fees income / (expense)  |               |               |
| - Parent                     | (1,291)       | (1,281)       |
| - Other Group company        | (1,326)       | (1,153)       |
| Total operating expenses     |               |               |
| - Parent                     | —             | 1,566         |
| - Other Group company        | (8,669)       | (9,340)       |
|                              | 7,052         | 11,357        |

Income from related party transactions arises from:

- Insurance service result includes the impact from Group contracts with other Group companies to provide life, critical illness and income protection cover for employees and associated reinsurance contracts. The impact of attributable insurance contract expenses are also included in the insurance service result;
- Investment returns include interest receivable on cash balances deposited with the Company's parent and interest on collective investment scheme holdings with other Group companies;
- Fee income include annual management charges rebated to the Company in respect of its holdings in collective investment schemes managed by other HSBC Group companies;
- Fee expenses include costs charged to the Company its parent for the provision of investment accounting and unit pricing services and cost charged for the provision of asset management services by other Group companies.
- Operating expenses include acquisition costs (commission) payable to other Group companies in relation to sales of the Company's products. The Company's products are currently marketed and sold primarily by HSBC UK Bank plc through its sales channels.
- Costs charged to the Company for the provision of management services are also included in operating expenses. These include product management, customer services (policy underwriting, administration and claims processing), risk management, actuarial, finance, human resources, property services and IT. The Company is recharged for the actual costs incurred in undertaking these activities. Cost directly attributable to insurance and reinsurance contracts are taken into the contractual service margin calculation and spread over the life of the contracts through the insurance service result.

#### (b) Key management compensation

The Company does not have any direct employees. The Directors and staff are all employees of other Group companies. The costs recharged to the Company include the following amounts in respect of key management compensation relating to those individuals' services to the Company:

|                                                 | 2024<br>£'000 | 2023<br>£'000 |
|-------------------------------------------------|---------------|---------------|
| Salaries and other short-term employee benefits | 870           | 675           |
| Post-employment benefits                        | 8             | 5             |
|                                                 | 878           | 680           |

Key management transact with the Company and other companies within the Group through the purchase of standard products in the ordinary course of business and on substantially the same terms as for comparable transactions with persons of a similar standing or, where applicable, with other employees of the Group.

# Notes on the Financial Statements (continued)

## 20. Related party transactions (continued)

### (c) Key Year-end balances with related parties

|                                                        | 2024<br>£'000    | 2023<br>£'000              |
|--------------------------------------------------------|------------------|----------------------------|
| <b>Assets</b>                                          |                  |                            |
| Financial assets at fair value through profit and loss |                  |                            |
| Debt securities                                        |                  |                            |
| - Other Group company                                  | 922              | 4,921                      |
| Collective investment schemes                          |                  |                            |
| - Other Group company                                  | 54,953           | 114,632                    |
| Cash and cash equivalents                              |                  |                            |
| - Parent                                               | 173,138          | 168,523                    |
| Receivables, prepayments and accrued income            |                  |                            |
| - Parent                                               | 470              | 828                        |
| - Other Group company                                  | 1,676            | 1,307                      |
| Reinsurance contract assets                            |                  |                            |
| - Other Group company                                  | 9,093            | 7,557                      |
|                                                        | <b>240,252</b>   | <b>297,768</b>             |
|                                                        | 2024<br>£'000    | 2023 <sup>1</sup><br>£'000 |
| <b>Liabilities</b>                                     |                  |                            |
| Insurance contract liabilities                         |                  |                            |
| - Parent                                               | —                | —                          |
| - Other Group company                                  | 73,164           | 65,014                     |
| Reinsurance contract liabilities                       |                  |                            |
| - Parent                                               | —                | —                          |
| - Other Group company                                  | 1,480            | 1,406                      |
| Investment contract liabilities                        |                  |                            |
| - Other Group company                                  | 931,399          | 852,588                    |
| Insurance and other payables and deferred income       |                  |                            |
| - Parent                                               | 320              | 480                        |
| - Other Group company                                  | 5,769            | 6,452                      |
|                                                        | <b>1,012,132</b> | <b>925,940</b>             |

<sup>1</sup> In the current year, Reinsurance contract payables have been recognised within reinsurance contract liabilities rather than Insurance and other payables and other deferred income. The prior year comparatives have been restated as a result.

Asset and liability balances with related parties arise from:

- Debt securities relate to corporate bonds held with other Group companies;
- Collective investment scheme holdings, which are managed by another Group company;
- Deposits with the Company's parent;
- Inter-company settlement accounts with the Company's parent and with other Group companies in respect of premiums, claims, commission and expenses;
- Reinsurance contract assets include contractual service margin, risk adjustment, incurred claims and remaining coverage balances relating to reinsurance contracts with other Group companies;
- Insurance contract liabilities include contractual service margin, risk adjustment, incurred claims and remaining coverage balances relating to insurance contracts with other Group companies;
- Liabilities to a pension scheme in respect of an investment contract taken out by the pension scheme.

# Notes on the Financial Statements (continued)

## 21. Parent undertakings

The ultimate parent undertaking and ultimate controlling party is HSBC Holdings plc, which is the parent undertaking of the largest group to consolidate these financial statements. HSBC Bank plc, incorporated in England, is the parent undertaking of the smallest group to consolidate these financial statements. Both companies are registered in England.

Copies of HSBC Holdings plc and HSBC Bank plc consolidated financial statements can be obtained from:

8 Canada Square  
London  
E14 5HQ  
[www.hsbc.com](http://www.hsbc.com)

## 22. Events after the balance sheet date

There are no significant events after the balance sheet date.

## **PART 2**

### **FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023 TOGETHER WITH THE AUDIT REPORT**



**Report on the audit of the financial statements****Opinion**

In our opinion, HSBC Life (UK) Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2023 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts, which comprise: the Statement of financial position as at 31 December 2023; the Statement of comprehensive income, the Statement of cash flows, the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Risk and Audit Committee ("RAC").

**Basis for opinion**

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

**Independence**

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than the services described in note 7, we have provided no non-audit services to the Company in the period under audit.

**Our audit approach****Overview****Audit scope**

- We performed a full scope audit of the complete financial information of the entity in accordance with our materiality and risk assessment.

**Key audit matters**

- Subjectivity in expense assumptions in insurance contract liabilities
- Subjectivity in mortality and morbidity assumptions in insurance contract liabilities
- Valuation and recoverability of deferred tax asset
- Adoption of IFRS 17 and restatement of comparatives

**Materiality**

- Overall materiality: £17,401,311 (2022: £14,161,000) based on 0.5% of total assets.
- Performance materiality: £13,050,983 (2022: £10,620,000).

**The scope of our audit**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

## HSBC LIFE (UK) LIMITED

### Independent Auditors' Report to the Members of HSBC Life (UK) Limited (continued)

#### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Adoption of IFRS 17 and restatement of comparatives is a new key audit matter this year. The key audit matter "Subjectivity in expense assumptions in insurance contract liabilities" has also been updated to reflect the impacts from the adoption of IFRS 17 during the period.

In addition, the key audit matter "Unrecognised deferred tax assets relating to historic tax losses" has been changed to "Valuation and recoverability of deferred tax asset" as the related deferred tax asset in respect of historical tax losses (Excess Management Expenses) was recognised during the period.

All other key audit matters are consistent with the prior year.

| Key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | How our audit addressed the key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
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| <p><i>Subjectivity in expense assumptions in insurance contract liabilities</i></p> <p>Refer to accounting policy (b) and note 4 to the financial statements regarding this area. A sensitivity analysis is included in note 3.</p> <p>Future maintenance expenses and expense inflation assumptions are used in the measurement of the best estimate liabilities. The assumptions reflect the expected future expenses that will be required to maintain the in-force policies at the balance sheet date. The assumptions used require significant judgement which includes how expenses are allocated between maintenance and acquisition expenses as well as how expenses are split between attributable and non-attributable costs under IFRS 17.</p> <p>In addition to the amount allowed for in the valuation model an expense overrun reserve is recognised to address the risk that modelled expense amounts are insufficient to cover the future expenses of the portfolio.</p> <p>The calculation of the insurance contract liabilities is sensitive to changes in allocations between categories, changes in the underlying expense assumptions and the methodology used to calculate the expense overrun manual reserve. As such, there is a risk that the expense assumptions are not appropriate or supportable where inappropriate judgements have been made. Such matters may have a material impact on the reported results. Key areas of judgement taken in setting the Company's expense assumptions include estimation of the projected cost base and associated volumes of policies in force, both in the short term and any changes to this over time.</p> | <p>We performed the testing set out below in respect of the subjectivity in expense assumptions in insurance contract liabilities:</p> <ul style="list-style-type: none"><li>• We tested the split of expenses between acquisition and maintenance expenses, and agreed the split of attributable and non attributable costs under IFRS 17 by agreeing a sample of cost centres to supporting evidence;</li><li>• We reviewed and, where relevant, challenged the appropriateness of the cost allocations established, and ensured there are no material unexpected differences between the projected costs and the actual incurred costs in the financial year to 31 December 2023 that would have a material impact on the valuation of insurance contract liabilities;</li><li>• We agreed the allocation of expenses was made in accordance with the allocation model. We have assessed the reasonableness of the per policy expense assumptions made in the calculations of insurance contract liabilities, by ensuring they accurately reflect the agreed allocated expenses, are based on appropriate in force policy counts and are sufficient to cover future expected costs;</li><li>• We benchmarked the expense inflation assumption and IFRS expense margin against others in the industry;</li><li>• Furthermore, we have assessed the appropriateness of management's expense inflation assumptions given the current high inflationary environment, and;</li><li>• We have audited the calculation of the separate expense overrun manual reserve held as at 31 December 2023.</li></ul> <p>Based upon the results of our testing, the expense assumptions used in the insurance contract liabilities are appropriate.</p> |

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| <p><i>Subjectivity in mortality and morbidity assumptions in insurance contract liabilities</i></p> <p>Refer to accounting policy (b) and note 4 to the financial statements regarding this area. A sensitivity analysis is included in note 3.</p> <p>Insurance contract liabilities are sensitive to the assumptions used, with those relevant to mortality and morbidity highlighted as those having the most material impact on the valuation of insurance contract liabilities. There is a risk that the assumptions are not appropriate given the variability in experience, the potential impact of Covid-19, the relatively small size of the Company's business and the pool of data from which to assess experience. In calculating the insurance contract liabilities, management uses the Company's own historical experience and available market data in the calculation of appropriate assumptions. In doing so there is a risk that mortality and morbidity assumptions may not be appropriate.</p> | <p>We performed the testing set out below on the significant judgements made in setting the mortality and morbidity assumptions:</p> <ul style="list-style-type: none"> <li>• We audited the experience analysis for mortality and morbidity including testing the design and operational effectiveness of controls in the experience analysis processes, as well as the results and judgements applied to this data in the setting of assumptions;</li> <li>• We challenged the validity of the analysis performed by management and their conclusions based on our understanding of the approaches used in the wider market and on the experience data that management has observed in previous periods;</li> <li>• We have assessed the appropriateness of excluding 2020 data and including 2021 and 2022 data from the experience analysis, due to the impacts of Covid-19, by performing our own independent expectation of assumptions using management's data;</li> <li>• We assessed the appropriateness of the assumptions, including the selected mortality tables and whether mortality improvement factors need to be applied, in light of the specific characteristics of the business, industry practices and any other available information such as general population data;</li> <li>• We have audited the impact on results from any assumption changes by considering the movement in reserves against sensitivity runs performed by management and reviewing management's own justification; and</li> <li>• We have considered management's mortality assumptions relative to market peers via benchmarking.</li> </ul> <p>Based upon the results of our testing, the mortality and morbidity assumptions used in the calculations of insurance contract liabilities are appropriate.</p> |
| <p><b>Valuation and recoverability of deferred tax asset</b><br/>Refer to note 19 and accounting policy (k).</p> <p>The Company recognised a deferred tax asset in respect of historical policyholder tax attributes (mainly tax losses - Excess Management Expenses) during the year which had a value of £98,092k in the balance sheet at 31 December 2023. The recognition of this deferred tax asset is a key judgement and valuation and recoverability is a key source of estimation uncertainty.</p> <p>The Company is subject to the UK's taxation regime for life assurance companies. This regime taxes the policyholder profits (where appropriate) along with the shareholder profits, in respect of Basic Life Assurance and General Annuity Business ("BLAGAB") products which for the Company is primarily its Onshore Investment Bond product. Policyholder tax losses have arisen historically in this business, which may now be offset against</p>                                               | <p>We have performed the following audit procedures:</p> <ul style="list-style-type: none"> <li>• We obtained management's assessment which evaluates whether the Company has met the recognition criteria for deferred tax assets in IAS 12;</li> <li>• We assessed the reasonableness of management's projections of future profits. We considered the consistency of these projections with the cash flows and assumptions used in the actuarial valuation models;</li> <li>• We considered macroeconomic factors, such as the volatility of risk free rates and interest rates which are key assumptions used in management's forecasts of future taxable investment income and gains;</li> <li>• We considered the availability of deferred tax liabilities against which deferred tax assets could be utilised;</li> <li>• We considered whether the accounting entries to recognise the deferred tax asset and related reserving movements were appropriate; and</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |

## HSBC LIFE (UK) LIMITED

### Independent Auditors' Report to the Members of HSBC Life (UK) Limited (continued)

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| <p>future income and gains generated in respect of investment assets backing this business.</p> <p>Management has concluded that it is probable that there will be sufficient future profits and so have recognised the deferred tax asset in full.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <ul style="list-style-type: none"> <li>• We considered the sufficiency of the disclosure in the financial statements as a key judgement and source of estimation uncertainty.</li> </ul> <p>Based upon the results of our testing, we consider the recognition and valuation of the deferred tax asset on the balance sheet to be appropriate and that the balance is recoverable.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <p>Adoption of IFRS 17 and restatement of comparatives<br/>Refer to note 1, note 22 and accounting policy (b).</p> <p>IFRS 17 became effective for periods beginning on or after 1 January 2023, replacing International Financial Reporting Standard 4, 'Insurance Contracts'. As a result, the Company has adopted IFRS 17 in these financial statements.</p> <p>The transition to IFRS 17 has introduced new financial statement line items and disclosures, requiring significant changes to the measurement of transactions and balances in the financial statements, including new areas of judgement and estimation. New systems, data flows, interfaces, processes and models have been developed and introduced, giving rise to increased risks of material misstatement.</p> <p>International Accounting Standard 8 'Accounting Policies, Changes in Accounting Estimates and Errors' ("IAS 8") requires that when the impact of adopting a new accounting standard would be material to the financial statement comparatives, these comparatives should be restated. As a result, the 2022 opening balance sheet at the date of transition to IFRS 17 and the 2022 comparatives have been restated.</p> <p>In particular, we consider the key risks in relation to the adoption of IFRS 17 and restatement of comparatives to be as follows:</p> <ul style="list-style-type: none"> <li>• Determination of the transition approach adopted for each group of insurance contracts;</li> <li>• Determination of the cost of capital and risk appetite assumption used within the calculation of the Contractual Service Margin modelled using the Fair Value Approach ('FVA') on transition;</li> <li>• The methodology in respect of determining the risk adjustment;</li> <li>• The implementation of new models which includes the CSM calculation engine, and changes to existing cash flow models to produce the IFRS 17 results; and</li> <li>• The appropriateness of methodologies, assumptions and significant judgements applied in the calculation of relevant balances.</li> </ul> | <p>In performing our audit work over the transition to IFRS 17, and restatement of comparative financial statements including the opening balance sheet, the procedures we performed included the following:</p> <ul style="list-style-type: none"> <li>• Tested the design and operating effectiveness of controls in place;</li> <li>• Assessed the appropriateness of the transition approach adopted for each group of insurance contracts;</li> <li>• Assessed whether the judgements, methodology and assumptions applied by management in determining the accounting policies are in accordance with IFRS 17;</li> <li>• Applied industry knowledge and compared the methodology, models and assumptions used in determining the risk adjustment, CSM and discounted IFRS 17 best estimate liabilities against expected market practice. This included consideration of the reasonableness of methodologies and assumptions and the appropriateness of any judgements applied, including whether or not there was any indication of management bias;</li> <li>• Performed validation of certain new models by evaluating the testing performed by management to assess the compliance of the model with the requirements of the standard and implementation of agreed methodology;</li> <li>• Tested the mathematical accuracy and completeness of the supporting calculations and adjustments used to determine the opening balance sheet and 2022 restated comparatives;</li> <li>• Tested the design and operating effectiveness of output controls, such as the analysis of change in the CSM, to assess the reasonableness of movements between periods and the commentary provided over these movements by management; and</li> <li>• Performed testing over key data flows within the IFRS 17 business processes.</li> </ul> <p>Based on the work performed and the evidence obtained, we consider the approaches adopted and resulting measurements in the financial statements to be appropriate.</p> |

#### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

## HSBC LIFE (UK) LIMITED

### Independent Auditors' Report to the Members of HSBC Life (UK) Limited (continued)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

#### The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the Company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the Company's financial statements.

#### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

|                                        |                                                                                                                                                                                                                                                                                                 |
|----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Overall Company materiality</i>     | £17,401,311 (2022: £14,161,000)                                                                                                                                                                                                                                                                 |
| <i>How we determined it</i>            | 0.5% of total assets                                                                                                                                                                                                                                                                            |
| <i>Rationale for benchmark applied</i> | We believe the main users of the financial statements, being policyholders and the regulators, are most focused on balance sheet strength and ability to pay future claims. As such, we have chosen a balance sheet benchmark of total assets which is a generally accepted auditing benchmark. |

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £13,050,983 (2022: £10,620,000) for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Risk and Audit Committee ("RAC") that we would report to them misstatements identified during our audit above £870,066 (2022: £708,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

#### Conclusions relating to going concern

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating management's stress and scenario testing including the Solvency Capital Requirement and Risk Margin. This included consideration of the impact of downside scenarios;
- The review of correspondence with the PRA;
- The review of board papers and attendance at RAC meetings;
- The challenge of management's key actuarial assumptions for appropriateness within the current business environment, and;
- An assessment of the balance sheet, liquidity and solvency position at the year end.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

## **HSBC LIFE (UK) LIMITED**

### **Independent Auditors' Report to the Members of HSBC Life (UK) Limited (continued)**

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

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

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

#### **Reporting on other information**

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

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

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

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

#### **Strategic report and Directors' report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

#### **Responsibilities for the financial statements and the audit**

##### **Responsibilities of the directors for the financial statements**

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

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

##### **Auditors' responsibilities for the audit of the financial statements**

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

## HSBC LIFE (UK) LIMITED

### Independent Auditors' Report to the Members of HSBC Life (UK) Limited (continued)

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

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006, the Prudential Regulation Authority's regulations, the Financial Conduct Authority's regulations and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue, and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with the Risk and Audit Committee, management (including those involved in the Risk and Compliance function) and Internal Audit, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud.
- Assessment of matters reported on the Company's whistleblowing register and the results of management's investigation of such matters.
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority.
- Reviewing relevant meeting minutes including those of the Board, Risk and Audit Committee, the Executive Committee and Technical Governance Committee, as well as attending the Risk and Audit Committee.
- Reviewing data regarding policyholder complaints, the Company's register of litigation and claims, Internal Audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud.
- Procedures relating to the valuation of insurance contract liabilities, in particular mortality, morbidity and expense assumptions described in the key matters above.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

#### Use of this report

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

#### Other required reporting

#### Companies Act 2006 exception reporting

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

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



## HSBC LIFE (UK) LIMITED

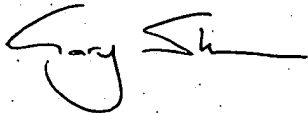
### Independent Auditors' Report to the Members of HSBC Life (UK) Limited (continued)

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We have no exceptions to report arising from this responsibility.

#### Appointment

Following the recommendation of the Risk and Audit Committee ("RAC"), we were appointed by the members on 31 March 2015 to audit the financial statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement is 9 years, covering the years ended 31 December 2015 to 31 December 2023.



Gary Shaw (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
05 April 2024

# HSBC LIFE (UK) LIMITED

## Financial Statements

### Statement of comprehensive income for the year ended 31 December 2023

|                                                                     | Note | 2023<br>£'000  | 2022 <sup>1</sup><br>£'000<br>(Restated) |
|---------------------------------------------------------------------|------|----------------|------------------------------------------|
| Net insurance service result                                        | 4    | 16,494         | 14,077                                   |
| Net investment return                                               | 4    | 12,399         | 21,839                                   |
| Net fees income / (expense)                                         | 5    | 266            | (576)                                    |
| <b>Net operating income before change in expected credit losses</b> |      | <b>29,159</b>  | <b>35,340</b>                            |
| Credit impairment losses                                            | 6    | (2,286)        | (229)                                    |
| <b>Net operating income</b>                                         |      | <b>26,873</b>  | <b>35,111</b>                            |
| Total operating expenses                                            | 7    | (9,392)        | (9,912)                                  |
| <b>Profit before tax</b>                                            |      | <b>17,481</b>  | <b>25,199</b>                            |
| Tax credit / (charge)                                               | 9    | 92,239         | (6,400)                                  |
| <b>Profit and total comprehensive income for the year</b>           |      | <b>109,720</b> | <b>18,799</b>                            |

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. 2022 comparative data has been restated. Refer to Note 22, Effects of adoption of IFRS 17, for the analysis of the restatement.

The Company has no comprehensive income or expense other than the profit for the year recognised in the statement of comprehensive income.

The accounting policies and notes on pages 21 to 60 form an integral part of these financial statements.

# HSBC LIFE (UK) LIMITED

## Financial Statements (continued)

### Statement of financial position as at 31 December 2023

|                                                             | Note | 2023<br>£'000    | 2022 <sup>1</sup><br>£'000<br>(Restated) | 2021 <sup>1</sup><br>£'000<br>(Restated) |
|-------------------------------------------------------------|------|------------------|------------------------------------------|------------------------------------------|
| <b>ASSETS</b>                                               |      |                  |                                          |                                          |
| Contractual rights – investment contracts                   | 10   | -                | 422                                      | 449                                      |
| Financial investments at fair value through profit and loss |      |                  |                                          |                                          |
| – Equities                                                  | 11   | -                | 4,141                                    | 44,106                                   |
| – Debt securities-fixed rate                                | 11   | 40,954           | 52,326                                   | 85,530                                   |
| – Collective investment schemes                             | 11   | 3,095,510        | 2,602,346                                | 2,482,053                                |
| – Derivative financial instruments                          | 11   | -                | -                                        | 192                                      |
| – Cash and cash equivalents                                 | 11   | 168,523          | 154,146                                  | 142,717                                  |
| Receivables, prepayments and accrued income                 | 12   | 14,300           | 10,499                                   | 9,022                                    |
| Income tax recoverable                                      |      | -                | 1,205                                    | 2,936                                    |
| Deferred tax asset                                          | 19   | 88,456           | -                                        | -                                        |
| Insurance contract assets                                   |      | 41,040           | 43,191                                   | 44,667                                   |
| Reinsurance contract assets                                 |      | 127,241          | 109,085                                  | 88,802                                   |
| <b>Total assets</b>                                         |      | <b>3,576,024</b> | <b>2,977,361</b>                         | <b>2,900,474</b>                         |
| <b>LIABILITIES AND EQUITY</b>                               |      |                  |                                          |                                          |
| <b>Liabilities</b>                                          |      |                  |                                          |                                          |
| Insurance contract liabilities                              |      | 2,330,232        | 1,898,506                                | 1,766,944                                |
| Reinsurance contract liabilities                            |      | 29,125           | 30,023                                   | 41,979                                   |
| Investment contracts liabilities                            | 16   | 852,588          | 789,148                                  | 860,440                                  |
| Insurance and other payables and deferred income            | 17   | 41,037           | 40,932                                   | 29,369                                   |
| Other provisions                                            | 18   | 54               | 54                                       | 113                                      |
| Deferred tax liabilities                                    | 19   | -                | 22,538                                   | 16,268                                   |
| Current tax liabilities                                     |      | 17,108           | -                                        | -                                        |
| <b>Total liabilities</b>                                    |      | <b>3,270,144</b> | <b>2,781,201</b>                         | <b>2,715,113</b>                         |
| <b>Equity</b>                                               |      |                  |                                          |                                          |
| Called up share capital                                     | 13   | 94,375           | 94,375                                   | 94,375                                   |
| Retained earnings                                           | 15   | 211,505          | 101,785                                  | 90,986                                   |
| <b>Total shareholders' equity</b>                           |      | <b>305,880</b>   | <b>196,160</b>                           | <b>185,361</b>                           |
| <b>Total equity and liabilities</b>                         |      | <b>3,576,024</b> | <b>2,977,361</b>                         | <b>2,900,474</b>                         |

<sup>1</sup> From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. 2022 comparative data has been restated and for 2021 the IFRS 17 transition balance sheet as at 1 January 2022 is presented. Refer to Note 22, Effects of adoption of IFRS 17, for the analysis of the restatement.

The accounting policies and notes on pages 21 to 60 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 28 March 2024 and were signed on its behalf by:



Digitally signed by:  
Douglas Clow  
Date: 2024.04.04  
17:33:16 Z

D A Clow  
Director

Company Registered Number: 00088695

**HSBC LIFE (UK) LIMITED**  
**Financial Statements (continued)**

**Statement of cash flows for the year ended 31 December 2023**

|                                                                             | Note | 2023<br>£'000 | 2022 <sup>1</sup><br>£'000<br>(Restated) |
|-----------------------------------------------------------------------------|------|---------------|------------------------------------------|
| <b>Cash flows from operating activities</b>                                 |      |               |                                          |
| Profit before tax                                                           |      | 17,481        | 25,199                                   |
| Adjustments for:                                                            |      |               |                                          |
| – Interest receivable                                                       |      | (11,461)      | (2,859)                                  |
| – Dividends receivable                                                      |      | (24,473)      | (18,281)                                 |
| – Interest payable                                                          |      | 58            | -                                        |
| – Amortisation                                                              |      | 422           | 27                                       |
| Net fair value losses/(gains) on financial assets                           |      | (198,862)     | 246,498                                  |
| Net insurance finance (income)/expense                                      |      | 160,071       | (179,872)                                |
| <i>Changes in operating assets and liabilities</i>                          |      |               |                                          |
| Net (increase)/decrease in equity securities                                |      | 128           | 46,879                                   |
| Net (increase)/decrease in debt securities                                  |      | 16,154        | 27,057                                   |
| Net (increase)/decrease in collective investments                           |      | (295,080)     | (367,517)                                |
| Net (increase)/decrease in derivative financial instruments                 |      | 9             | 151                                      |
| Net (increase)/decrease in loans, receivables and prepayments               |      | (3,980)       | (1,249)                                  |
| Net (increase)/decrease in insurance contract assets                        |      | 2,151         | 1,476                                    |
| Net (increase)/decrease in reinsurance contract assets                      |      | (18,156)      | (20,283)                                 |
| Net increase/(decrease) in insurance contract liabilities                   |      | 271,655       | 311,434                                  |
| Net increase/(decrease) in reinsurance contract liabilities                 |      | (898)         | (11,956)                                 |
| Net increase/(decrease) in investment contract liabilities                  |      | 63,440        | (71,292)                                 |
| Net increase/(decrease) in insurance and other payables and deferred income |      | 105           | 11,563                                   |
| Net increase/(decrease) in other provisions                                 |      | -             | (59)                                     |
| Cash (used in)/generated in operations                                      |      | (21,236)      | (3,084)                                  |
| Interest received on investments                                            |      | 11,583        | 2,576                                    |
| Dividends received on investments                                           |      | 24,530        | 18,336                                   |
| Interest paid                                                               |      | (58)          | -                                        |
| Income taxes (paid)/reclaimed                                               |      | (442)         | 1,601                                    |
| Net cash generated from operating activities                                |      | 14,377        | 19,429                                   |
| <b>Cash flows from financing activities</b>                                 |      |               |                                          |
| Dividend paid                                                               |      | -             | (8,000)                                  |
| Net cash outflow from financing activities                                  |      | -             | (8,000)                                  |
| <b>Net increase in cash and cash equivalents</b>                            |      | <b>14,377</b> | <b>11,429</b>                            |
| Cash and cash equivalents brought forward                                   | 11   | 154,146       | 142,717                                  |
| Cash and cash equivalents carried forward                                   | 11   | 168,523       | 154,146                                  |

<sup>1</sup> From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. 2022 comparative data has been restated. Refer to Note 22, Effects of adoption of IFRS 17, for the analysis of the restatement.

The Company classifies the net acquisition of financial assets as operating cash flows, as these are funded from the net cash flows associated with insurance and investment contracts.

The accounting policies and notes on pages 21 to 60 form an integral part of these financial statements.

# HSBC LIFE (UK) LIMITED

## Financial Statements (continued)

### Statement of changes in equity for the year ended 31 December 2023

|                                                                               | Called up share<br>capital<br>£'000 | Retained<br>earnings<br>£'000 | Total equity<br>£'000 |
|-------------------------------------------------------------------------------|-------------------------------------|-------------------------------|-----------------------|
| <b>Year Ended 31 December 2023</b>                                            |                                     |                               |                       |
| 1 January 2023                                                                | 94,375                              | 101,785                       | 196,160               |
| Profit for the year                                                           | -                                   | 109,720                       | 109,720               |
| Total comprehensive income for the year                                       | -                                   | 109,720                       | 109,720               |
| Transactions with the owners of the Company recognised directly<br>in equity: |                                     |                               |                       |
| Dividends to shareholder                                                      | -                                   | -                             | -                     |
| 31 December 2023                                                              | 94,375                              | 211,505                       | 305,880               |

|                                                                               | Called up share<br>capital <sup>1</sup><br>£'000<br>(Restated) | Retained earnings <sup>1</sup><br>£'000<br>(Restated) | Total equity <sup>1</sup><br>£'000<br>(Restated) |
|-------------------------------------------------------------------------------|----------------------------------------------------------------|-------------------------------------------------------|--------------------------------------------------|
| <b>Year Ended 31 December 2021 as previously reported</b>                     | 94,375                                                         | 43,708                                                | 138,083                                          |
| Impact on transition to IFRS 17                                               | -                                                              | 47,278                                                | 47,278                                           |
| 1 January 2022 (restated)                                                     | 94,375                                                         | 90,986                                                | 185,361                                          |
| Profit for the year                                                           | -                                                              | 18,799                                                | 18,799                                           |
| Total comprehensive income for the year                                       | -                                                              | 18,799                                                | 18,799                                           |
| Transactions with the owners of the Company recognised directly<br>in equity: |                                                                |                                                       |                                                  |
| Dividends to shareholder                                                      | -                                                              | (8,000)                                               | (8,000)                                          |
| 31 December 2022                                                              | 94,375                                                         | 101,785                                               | 196,160                                          |

<sup>1</sup> From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. 2022 comparative data has been restated. Refer to Note 22, Effects of adoption of IFRS 17, for the analysis of the restatement.

The accounting policies and notes on pages 21 to 60 form an integral part of these financial statements.

Total shareholders' equity is wholly attributable to equity shareholders.

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements

### 1 Basis of preparation

#### (a) Compliance with International Financial Reporting Standards

The financial statements of the Company have been prepared in accordance with UK-adopted International Accounting Standards (IASs) and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

There were no unendorsed standards effective for the year ended 31 December 2023 affecting these financial statements and the Company's application of IASs result in no differences between IASs.

#### (b) Standards adopted during the year ended 31 December 2023

##### IFRS 17 'Insurance contracts'

On 1 January 2023, the Group adopted the requirements of IFRS 17 'Insurance Contracts' retrospectively with comparatives restated from the transition date, 1 January 2022. At transition, the Company's total equity increased by £47m. Refer to Note 22, Effects of adoption of IFRS 17, for the analysis of the restatement.

On adoption of IFRS 17, balances based on IFRS 4 were derecognised. Insurance contract liabilities have been remeasured under IFRS 17 based on groups of insurance contracts, which include the fulfilment cash flows comprising the best estimate of the present value of the future cash flows (for example premiums and pay-outs for claims, benefits, and expenses), together with a risk adjustment for non-financial risk, as well as the contractual service margin ('CSM'). The CSM represents the unearned profits that will be released and systematically recognised in insurance revenue as services are provided over the expected coverage period. The Company has no illiquidity premium. The characteristics of the liquidity cashflows support an illiquidity premium of zero.

The key differences between IFRS 4 and IFRS 17 are summarised in the following table:

|                                  | IFRS 4                                                                                                                                                                                                                                                                                                                                                             | IFRS 17                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Balance sheet                    | <ul style="list-style-type: none"> <li>- Insurance contract liabilities for non-linked life insurance contracts are calculated by local actuarial principles. Liabilities under unit-linked life insurance contracts are at least equivalent to the surrender or transfer value, by reference to the value of the relevant underlying funds or indices.</li> </ul> | <ul style="list-style-type: none"> <li>- Insurance contract liabilities are measured for groups of insurance contracts at current value, comprising the fulfilment cash flows and the CSM.</li> <li>- The fulfilment cash flows comprise the best estimate of the present value of the future cash flows, together with a risk adjustment for non-financial risk.</li> <li>- The CSM represents the unearned profit.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                 |
| Profit emergence/<br>recognition | <ul style="list-style-type: none"> <li>- The value of new business is reported as revenue on Day 1.</li> <li>- The impact of the majority of assumption changes is recognised immediately in the income statement.</li> <li>- Variances between actual and expected cash flows are recognised in the period they arise.</li> </ul>                                 | <ul style="list-style-type: none"> <li>- The CSM is systematically recognised in revenue as services are provided over the expected coverage period of the group of contracts (i.e. no Day 1 profit).</li> <li>- Contracts are measured using the general measurement model ('GMM') or the variable fee approach ('VFA') model for insurance contracts with direct participation features upon meeting the eligibility criteria. Under the VFA model, the investment experience and assumption changes are absorbed by the CSM and released over time to profit or loss. For contracts measured under GMM, the Company's share of the investment volatility is recorded in profit or loss as it arises.</li> <li>- Losses from onerous contracts are recognised in the income statement immediately.</li> </ul> |

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

|                                               | IFRS 4                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | IFRS 17                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Investment return assumptions (discount rate) | <ul style="list-style-type: none"> <li>Estimates are also made as to future investment income arising from the assets backing unit-linked longterm insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. In order to ensure prudence, the direction of the interest rate margin is based on whether an individual contract is an asset or a liability, on a contract by contract basis. It is prudent to increase the realistic assumption for those contracts that can be considered as assets and to decrease it otherwise. A margin of 20 per cent (relative to best estimate) is used, operating in the appropriate direction.</li> </ul> | <ul style="list-style-type: none"> <li>Under the market consistent approach, expected future investment spreads are not included in the investment return assumption. Instead, the discount rate includes an illiquidity premium that reflects the nature of the associated insurance contract liabilities. For the Company the characteristics of the liquidity cashflows support an illiquidity premium of zero.</li> </ul> |
| Expenses                                      | <ul style="list-style-type: none"> <li>Total expenses to acquire and maintain the contract over its lifetime are included in the insurance contract liabilities calculation.</li> <li>Expenses are recognised across operating expenses and fee expense as incurred.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                            | <ul style="list-style-type: none"> <li>Projected lifetime expenses that are directly attributable costs are included in the insurance contract liabilities and recognised in the insurance service result.</li> <li>Non-attributable costs are reported in operating expenses.</li> </ul>                                                                                                                                     |

### Transition

In applying IFRS 17 for insurance contracts retrospectively, the full retrospective approach ('FRA') has been used unless it was impracticable. When the FRA is impracticable such as when there is a lack of sufficient and reliable data, an entity has an accounting policy choice to use either the modified retrospective approach ('MRA') or the fair value approach ('FVA'). The Company has applied the FRA for new business from 2019 at the earliest, subject to practicability, and the FVA for the majority of the remaining contracts for which the FRA is impracticable. The selection of 2019 for FRA was based on consideration of the data and models available for earlier periods, the reasonable efforts needed to apply FRA and the materiality of the business that would be remaining at the transition date. Prior to 2016, before implementation of Solvency II, the calibration of management's risk appetite for uncertainty is believed to require hindsight and is therefore ineligible for FRA. The models used to value liabilities underwent significant development leading up to the year end 2019 valuation date, new business volumes over 2016 to 2018 were low relative to volumes from 2019 and the economic conditions reduced new business profit margins. The combination of these factors mean the effort to complete FRA for the years 2016 to 2018 would not be proportionate to the resulting CSM balance at transition.

Under the FVA, the valuation of insurance liabilities on transition is based on the applicable requirements of IFRS 13 'Fair Value Measurement'. This requires consideration of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The CSM is calculated as the difference between what a market participant would demand for assuming the unexpired risk associated with insurance contracts, including required profit, and the fulfilment cash flows that are determined using IFRS 17 principles.

In determining the fair value, the Company considered the estimated profit margin that a market participant would demand in return for assuming the insurance liabilities with the consideration of the level of capital that a market participant would be required to hold, and the discount rate with an allowance for an illiquidity premium that takes into account the level of 'matching' between the Company's assets and related liabilities. These assumptions were set taking into account the assumptions that a hypothetical market participant operating in each local jurisdiction would consider.

### Amendments to IAS 12 'International Tax Reform – Pillar Two Model Rules

On 20 June 2023, legislation was substantively enacted in the UK to introduce the OECD's Pillar Two global minimum tax rules and a UK qualified domestic minimum top-up tax, with effect from 1 January 2024. Based on an assessment performed, this legislation is not expected to increase the company's future tax liabilities.



## HSBC LIFE (UK) LIMITED

### Notes on the Financial Statements (continued)

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(c) Future accounting developments

Minor amendments to IASs:

The IASB has published a number of minor amendments to IFRS's which are effective from 1 January 2024. The Company expects they will have an insignificant effect, when adopted, on the financial statements, if applicable.

(d) Presentation of information

The functional currency of the Company is Sterling, which is also the presentation currency of the financial statements.

The financial statements of the Company have been prepared in accordance with the Companies Act 2006 as applicable to companies using UK-adopted IASs. The principal accounting policies applied in the preparation of these financial statements have been consistently applied to all of the years presented, unless otherwise stated.

The Company is exempt from the requirement to prepare group financial statements by virtue of section 400 of the Companies Act 2006. The financial statements present information about the Company as an individual undertaking.

(e) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items, highlighted as the 'Use of accounting estimates and judgements' in section 2(k) below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different estimates and judgements from those reached by management for the purposes of these financial statements. Management's selection of the Company's accounting policies that contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

Management has considered the impact of climate-related risks on the Company's financial position and performance. While the effects of climate change are a source of uncertainty, as at 31 December 2023 management do not consider there to be a material impact on our critical judgements and estimates from the physical, transition and other climate-related risks in the short to medium term. In particular management has considered the known and observable potential impact of climate-related risks of associated judgements and estimates in our fair value calculations.

(f) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including:

- Current capital requirements and resources;
- Projected capital requirements and solvency ratios;
- Future projections of profitability;
- Cashflow projections;
- Current and forward looking liquidity adequacy, including scenario analyses;
- Considerations of stressed scenarios that reflect the uncertainty in ongoing structural changes from the Covid-19 pandemic, the Russia-Ukraine and Israel-Hamas wars, rising inflation as a result of disrupted supply chains globally, climate change and other top and emerging risks, as well as from the related impacts on profitability, capital and liquidity.

(g) General information

HSBC Life (UK) Limited is a company domiciled and incorporated in England and Wales.

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

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### 2 Summary of significant accounting policies

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#### (a) Financial Instruments

Financial instruments cover a wide range of financial assets, including financial investments, other receivables, cash and cash equivalents and financial liabilities, including investment contract liabilities, and trade payables.

#### Classification and measurement of financial assets and financial liabilities

A financial asset is initially measured at fair value plus, for an item not at fair value through profit and loss ('FVTPL'), transaction costs directly attributable to its acquisition.

A financial asset is classified, on initial recognition, as measured at: amortised cost; fair value through other comprehensive income ('FVOCI') debt instrument; FVOCI-equity investment; or FVTPL. The classification of financial assets depends on:

- the purpose for which they were acquired;
- the business model in which the financial asset is managed, and
- its contractual cash flow characteristics. This classification determines the subsequent measurement basis.

#### Business model

The Company manages its financial instruments on a fair value basis. The Company manages the business and makes business decisions on an economic capital basis. This is determined on a Solvency II basis which requires assets and liabilities to be valued at fair value (best estimate liabilities for technical provisions).

The performance of the assets is evaluated and reported to management on a fair value basis. The economic capital balance sheet and the investment returns (fair value movements and interest) are reported to management and evaluated at governance meetings (Assets and Liabilities Management Committee "ALCO", Risk and Audit Committee and Technical Governance Committee) on a fair value basis.

- Financial investments are measured at fair value through profit and loss.
- Derivative financial instruments;
- Receivables. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

All financial assets classified at fair value through profit or loss are managed, and their performance evaluated, on a fair value basis.

Purchases and sales of financial assets are recognised on the trade date, which is when the Company commits to purchase or sell the assets. Other financial assets are de-recognised when contractual rights to receive cash flows from the investments expire, or when the investments, together with substantially all the risks and rewards of ownership, have been transferred.

Financial assets (including derivative liabilities) are initially measured at fair value. After initial recognition, the Company measures financial assets (and derivative liabilities) classified at fair value through profit or loss at fair value, without any deduction for transaction costs it may incur on disposal. The fair value of quoted investments are their quoted bid prices at the statement of financial position date. Certain financial assets are valued using a valuation technique:

- Derivative instruments valued at market prices;
- Unlisted debt securities relate to short term instruments and are valued by reference to the yields on the instruments (see note 11);

Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss, are included in the income statement in the period in which they arise. Net fair value gains/losses on financial instruments classified at fair value through

profit or loss are reported in the income statement as financial income inclusive of interest received and receivable from debt securities.

Dividends from equities and collective investments are included in financial income on the date that the securities are quoted ex dividend.

Interest income represents interest calculated on an effective interest basis.

#### Determination of fair value

All financial instruments are recognised initially at fair value, except for receivables that are recognised initially at fair value plus directly attributable transaction costs. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received).

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison to similar instruments where market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants.

#### Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition, and include cash.

Cash and cash equivalents comprise cash balances and short term deposits all of which are classified as FVTPL.

#### Trade payables and receivables

Due to the short term nature of trade payables and receivables, their carrying amount is considered to be the same as their fair value.

#### Financial liabilities

The Company also determines classification of financial liabilities as FVTPL as per the business model. For investment contracts please refer to note 2 (c).

#### Impairment of financial assets

An expected credit loss ('ECL') impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investment in equity instruments. The Company's business model is a fair value business model and therefore there is no impairment impact on financial investments and derivatives, as both are at FVTPL.

Receivables are credit-impaired when there is observable data that the following events have taken place:

- Significant financial difficulty of the intermediary, e.g. known cashflow difficulties experienced by the intermediary, or deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful;
- A breach of contract, such as a default or past due event, e.g. contractual payments of either principal or interest being past due for more than 90 days;
- It is becoming probable that the intermediary will enter bankruptcy or other financial reorganisation;
- A concession granted to the intermediary for economic or legal reasons relating to the intermediary's financial difficulty that HSBC would not otherwise consider, e.g. forgiveness or postponement of principal, interest or fees, where the concession is not insignificant.

In such circumstances the credit impairment loss will be recognised in the Statement of profit or loss.

## HSBC LIFE (UK) LIMITED

### Notes on the Financial Statements (continued)

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#### (b) Insurance contracts

A contract is classified as an insurance contract where the Company accepts significant insurance risk from another party by agreeing to compensate that party if it is adversely affected by a specified uncertain future event. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant. In addition, the Company issues insurance contracts with direct participation features ('unit-linked'), which are also accounted under IFRS 17 'Insurance Contracts'.

#### Aggregation of insurance contracts

Individual insurance contracts that are managed together and subject to similar risks are identified as a portfolio. Contracts that are managed together usually belong to the same product group, and have similar characteristics such as being subject to a similar pricing framework or similar product management, and are issued by the same legal entity. If a contract is exposed to more than one risk, the dominant risk of the contract is used to assess whether the contract features similar risks. Each portfolio is further separated by the contract's expected profitability. The portfolios are split by their profitability into: (i) contracts that are onerous at initial recognition; (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently; and (iii) the remaining contracts. These profitability groups are then divided by issue date, with most contracts the Company issues after the transition date being grouped into calendar quarter cohorts. Currently no contract are being assigned to category (ii) as there is no evidence to support this allocation.

The measurement of the insurance contract liability is based on groups of insurance contracts as established at initial recognition, and will include fulfilment cash flows as well as the CSM representing the unearned profit. The Company has elected to update the estimates used in the measurement on a year-to-date basis.

#### Fulfilment cash flows

The fulfilment cash flows comprise the following:

##### (i) Best estimates of future cash flows

The cash flows within the contract boundary of each contract in the Company include amounts expected to be collected from premiums and payouts for claims, benefits and expenses, and are projected using a range of scenarios and assumptions in an unbiased way based on the Company's demographic and operating experience along with external mortality data where the Company's own experience data is not sufficiently large in size to be credible.

##### (ii) Adjustment for the time value of money (i.e. discounting) and financial risks associated with the future cash flows

The estimates of future cash flows are adjusted to reflect the time value of money and the financial risks to derive an expected present value.

A bottom-up approach is used to determine the discount rate to be applied to a given set of expected future cash flows. This is derived as the sum of the risk-free yield and an illiquidity premium. The risk-free yield is determined based on observable market data, where such markets are considered to be deep, liquid and transparent. When information is not available, management judgement is applied to determine the appropriate risk-free yield. Illiquidity premiums reflect the liquidity characteristics of the associated insurance contracts. The characteristics of the insurance contracts support a zero illiquidity premium.

##### (iii) Risk adjustment for non-financial risk

The risk adjustment reflects the compensation required for bearing the uncertainty about the amount and timing of future cash flows that arises from non-financial risk. It is calculated as a 75th percentile level of stress over a one year period. The level of the stress is determined with reference to external regulatory stresses and internal economic capital stresses.

The Company does not disaggregate changes in the risk adjustment between insurance service result (comprising insurance revenue and insurance service expense) and insurance finance income or expenses. All changes are included in insurance service result.

**Measurement models**

The variable fee approach ('VFA') measurement model is used for contracts issued by the Company, which is mandatory upon meeting the following eligibility criteria at inception:

- the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- the Company expects to pay to the policyholder a substantial share of the fair value returns on the underlying items. The Company considers that a substantial share is a majority of returns; and
- the Company expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. The Company considers that a substantial proportion is a majority proportion of change on a present value probability-weighted average of all scenarios.

The remaining contracts issued and the reinsurance contracts held are accounted for under the general measurement model ('GMM').

**CSM and coverage units**

The CSM represents the unearned profit and results in no income or expense at initial recognition when the group of contracts is profitable. The CSM is adjusted at each subsequent reporting period for changes in fulfilment cash flows relating to future service (e.g. changes in non-economic assumptions, including mortality and morbidity rates). For initial recognition of onerous groups of contracts and when groups of contracts become onerous subsequently, losses are recognised in insurance service expense immediately.

For groups of contracts measured using the VFA, changes in economic experience and economic assumption changes adjust the CSM, whereas these changes do not adjust the CSM under the GMM, but are recognised in profit or loss as they arise.

The CSM is systematically recognised in insurance revenue to reflect the insurance contract services provided, based on the coverage units of the group of contracts. Coverage units are determined by the quantity of benefits and the expected coverage period of the contracts.

The Company identifies the quantity of the benefits provided as follows:

- For insurance coverage - based on the expected net policyholder insurance benefit at each period after allowance for decrements, where net policyholder insurance benefit refers to the amount of sum assured less the fund value or surrender value.
- For investment services (including both investment-return service and investment-related service) - based on a constant measure basis which reflects the provision of access for the policyholder to the facility.

For contracts that provide both insurance coverage and investment services, coverage units are weighted according to the expected present value of the future cash outflows for each service.

**Insurance service result**

Insurance revenue reflects the consideration to which the Company expects to be entitled in exchange for the provision of coverage and other insurance contract services (excluding any investment components). Insurance service expenses comprise the incurred claims and other incurred insurance service expenses (excluding any investment components), and losses on onerous groups of contracts and reversals of such losses.

**Insurance finance income and expenses**

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from the effects of the time value of money, financial risk and changes therein. For VFA contracts, changes in the fair value of underlying items (excluding additions and withdrawals) are recognised in insurance finance income or expenses.

## HSBC LIFE (UK) LIMITED

### Notes on the Financial Statements (continued)

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#### (c) Investment contracts

##### Classification

Contracts under which the transfer of insurance risk to the Company from the policyholder is not significant are classified as investment contracts.

##### Recognition and measurement

Amounts collected on investment contracts, which primarily involve the transfer of financial risk, are accounted for using deposit accounting, under which the amounts collected are credited directly to the statement of financial position, as an adjustment to the investment contract liability to the policyholder, and payments to policyholders are debited against the statement of financial position liability.

All investment contracts issued include the provision of investment management services. These services are accounted for in accordance with IFRS 15 *Revenue from contracts with customers* where the revenue associated with the service component is recognised by reference to the stage of completion of the transaction. The Company recognises annual management fees, based on the policyholder's account value, when due. Any front-end fees deducted from premiums received, prior to allocation of units to the policy, are spread over the expected period of the contract, based on the latest assumptions.

##### Liability measurement

Liabilities in relation to unit-linked investment contracts are classified under IFRS 9 requirements as at fair value through profit or loss. The financial liability is measured using a valuation technique, based on the carrying value of the assets and liabilities that are held to back the contract, adjusted to take account of the effect on the liabilities of the discounting for the time value of tax payments on assets sold in the fund.

These liabilities are classified as fair value through profit and loss as this group of liabilities, together with the related unit-linked assets, are managed, and their performance evaluated, on a fair value basis.

#### (d) Revenue

Revenue comprises insurance contract revenue, fees and commission income and financial income. Financial income is detailed above in note 2 (a) Financial instruments.

The accounting policy in relation to revenue from insurance contracts is disclosed in note 2(b).

##### Fee and commission income

Fees and commission income includes fees on investment management services contracts that are recognised as the services are provided and that it is highly improbable that these will be reversed.

Fees and commissions that do not require the Company to render further services are recognised as other income by the Company when they become receivable.

#### (e) Expenses

Commissions payable on the sales of investment contracts are capitalised and amortised as the related revenue is recognised.

#### (f) Income Tax

Income tax comprises current and deferred tax and is recognised in the income statement.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the end of the reporting period and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the Company intends to settle on a net basis and the legal right to offset exists.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences

and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the end of the reporting period. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when the Company has a legal right to offset.

In addition to paying tax on shareholders' profits ('shareholder tax'), the Company pays tax on policyholders' investment returns ('policyholder tax') on certain products at policyholder tax rates. The incremental tax borne by the Company represents income tax on policyholder's investment return. Utilisation of historic tax losses, means that the Company will only pay policyholder tax once the historic tax losses are fully utilised.

(g) Foreign currencies

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the end of the reporting period. Any resulting exchange differences are included in the statement of comprehensive income.

Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Any exchange component of a gain or loss on a non-monetary item is recognised in other comprehensive income if the gain or loss on the non-monetary item is recognised in other comprehensive income. Any exchange component of a gain or loss on a non-monetary item is recognised in the statement of comprehensive income if the gain or loss on the non-monetary item is recognised in the statement of comprehensive income.

Translation differences on items measured at fair value, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

(h) Contractual rights

Contractual rights – investment contracts

Incremental costs that are incurred in acquiring investment management service rights are capitalised as an asset, representing the right to benefit from providing investment management services, and amortised as the related revenue is recognised. These assets are reviewed regularly to determine if they are recoverable from future cash flows on the associated contracts. Those that are not deemed to be recoverable are charged to income. The test for recoverability is performed at a portfolio level, on portfolios of relatively homogeneous contracts.

Amortisation

Amortisation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful life of the contracts. The amortisation pattern and duration are reviewed annually for each contract group, based on the latest estimates, and any adjustments taken to the statement of comprehensive income in the current period.

(i) Provisions

A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where appropriate, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.



**(j) Share capital**

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are recognised in equity as a deduction from proceeds, net of tax.

Dividends payable in relation to equity shares are recognised as follows; final dividend payments are reflected in the financial statements in the period in which they are declared and interim dividends in the period they are paid.

**(k) Use of accounting estimates and judgements**

When preparing the financial statements, it is the Directors' responsibility to select suitable accounting policies and to make judgements and estimates that are reasonable and prudent.

The Company makes estimates and assumptions concerning the future that have a significant risk of causing a material adjustment to the reported amounts of assets and liabilities within the next financial year. Estimates and assumptions are continually evaluated and based on assessments of historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The final estimates also include an explicit risk adjustment to allow for uncertainty in the non-financial assumptions within the estimates.

***Insurance contracts***

Under the fair value approach (FVA), the valuation of insurance liabilities on transition is based on the applicable requirements of IFRS 13 'Fair Value Measurement'. This requires consideration of the price that would

be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The CSM is calculated as the difference between what a market participant would demand for assuming the unexpired risk associated with insurance contracts, including required profit, and the fulfilment cash flows that are determined using IFRS 17 principles.

In determining the fair value, the Company considered the estimated profit margin that a market participant would demand in return for assuming the insurance liabilities with the consideration of the level of capital that a market participant would be required to hold, and the discount rate with an allowance for an illiquidity premium that takes into account the level of 'matching' between the Company's assets and related liabilities. These assumptions were set taking into account the assumptions that a hypothetical market participant operating in each local jurisdiction would consider.

***Coverage units***

The Company's approach to the determination of coverage units is set out in 'Summary of significant accounting policies' in note 2(b). Judgement was involved in the determination of the approach that most faithfully represents the nature of our business and the benefits that are ascribed to the policy holder over the duration of insurance contracts, as the standard does not specify a required basis for determination of coverage units. The Company determined that the coverage unit basis that best reflects the provision of investment services is the availability of the facility over time. For insurance business it is based on the expected net policyholder insurance benefit at each period after allowance for decrements.

***Discount rates***

The discount rate methodology is a fundamental assumption underpinning the IFRS 17 reporting. While IFRS 17 does not specify the actual methodology of setting the discount rate, it requires that the methodology should be market consistent, set based on the liability characteristics, and that only financial risk should be allowed for in the discount rate. The Company has elected to apply the risk-free rate with no adjustment for an illiquidity premium.

***Expenses***

IFRS 17 requires the determination of whether cash flows are directly attributable to the acquisition or fulfilment of insurance contracts. Insurance acquisition cash flows are included in the measurement of a group of insurance contracts only if they are directly attributable to the individual contracts in a

group, or to the group itself, or the portfolio of insurance contracts to which the group belongs. When estimating fulfilment cash flows, the Company also allocates fixed and variable overheads cash flows directly attributable to the fulfilment of insurance contracts. Judgement is involved in identifying and allocating costs and this determination has been informed by time study assessments which consider factors such as the allocation of frontline staff costs related to distribution including salaries, commissions and bonuses, and associated overhead allocations. Assessments are also performed to determine the amount of maintenance costs such as claims handling, policy administration and associated overheads.

#### *Deferred tax asset*

A deferred tax asset has been recognised (Note 19, Deferred tax (assets)/liabilities), relating to historic tax losses, based on the recognition and measurement criteria in IAS 12.

The Company is subject to the UK's taxation regime for life assurance companies which seeks to tax the policyholder profits, where appropriate, along with the shareholder (Company) profits. This is known as the "I-E" regime (broadly any investment income plus gains on disposals of assets less expenses of management).

Under the I-E regime only Basic Life Assurance and General Annuity Business ("BLAGAB") products, are subject to tax on an I-E basis. Where there are more expenses than investment return and gains, the Company is in an XSE position and will have XSE to carry forward. XSE is effectively a form of tax loss for which a deferred tax asset was recognised.

The deferred tax asset is recognised based on probable future taxable investment income and gains within 10 years. Assumed investment returns are consistent with actuarial assumptions used in reserving and the Board approved financial resource plan (FRP), which includes new business over the planning period of 5 years.

### **3 Management of insurance and financial risk**

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The Company issues contracts that transfer insurance risk or financial risk or both. It also holds financial instruments that transfer financial risk. This section summarises these risks and the way the Company manages these risks.

#### *Insurance risk*

The insurance contracts sold by the Company offer a lump sum or monthly income payable on death, on diagnosis of certain specified critical illnesses, or in the event of the policyholder being unable to work through long-term illness, or on a combination of these benefits. The amount of benefit payable may be fixed at the outset, increased at a fixed rate or with regard to a recognised index, or reduced over the course of the contract. Alternatively, it may either be linked to the value of units allocated to the policy or based on the original premium paid.

Depending on the type of contract, the customer premiums may be expected to be level throughout the term of the contract or increased annually on the anniversary of the inception of the contract.

For certain contracts, in the event of different experience, the Company may review the premium payable by the customer. For other contracts, the customer premium is guaranteed throughout the term of the contract irrespective of any variations in experience.

The risk under any one insurance contract is the possibility that the insured event occurs, when it will occur and, in some cases, the uncertainty of the amount of the resulting claim. By the very nature of an individual insurance contract, this risk is random and therefore unpredictable. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be.

The Company manages its insurance risk through strict underwriting procedures (developed in conjunction with reinsurers) and claims management. These procedures are regularly reviewed internally and also by the Company's reinsurers. In addition, the Company's Risk Management Meeting regularly monitors and manages insurance risk issues.

## HSBC LIFE (UK) LIMITED

### Notes on the Financial Statements (continued)

The Company adopts rigorous approval procedures for new products and pricing reviews, close monitoring and active management of reinsurance arrangements and monitoring of emerging issues.

The Company's underwriting strategy is intended to ensure that the risks underwritten are diversified in terms of type of risk and the level of insured benefits. Medical selection is also included in the Company's underwriting procedures, with premium varied to reflect the health condition and family medical history of the applicants. The Company limits retention on individual lives for each type of insured benefit (e.g. life and critical illness) by the use of proportional reinsurance.

Historically, the Company has written a significant proportion of protection business where customers' premiums are reviewable in line with experience. This represents approximately 18% (2022: 21%) of the current in-force protection business. The Company has obtained reinsurance on a combination of reviewable and guaranteed terms for this business, and actively manages the risk of a mismatch between the reinsurance and the commitment to customers.

The Company also writes protection business where customer premiums are guaranteed. The Company has obtained reinsurance on guaranteed terms in order to match the commitment to customers.

The spread of business is generally geographically diverse within the United Kingdom meaning that the Company is not exposed to a significant concentration of insurance risk on individual policies. However, the Company is exposed to a concentration of insurance risk on the protection benefits provided as part of the flexible benefits package offered to the UK employees of HSBC, of which the most material would be in respect of a catastrophe at the UK headquarters of HSBC Bank. The concentration risk was considered as part of the process of securing the business and appropriate reinsurance was put in place to ensure that the risk exposure remained within the risk appetite of the Company.

The Company uses external reinsurance appropriately to reduce variability of the losses incurred by the Company and has reinsurance contracts in place to mitigate a proportion of mortality and morbidity risk. In addition, reinsurance is used where it is judged to be economically advantageous to do so.

The Company's current reinsurance treaties for the major new business lines are set out in the following table.

| Business Type                         | Operating Type | Retention | Risk Type               |
|---------------------------------------|----------------|-----------|-------------------------|
| Mortality (Internal Term business)    | Proportional   | 40%       | Risk rates              |
| Morbidity (Internal Critical illness) | Proportional   | 20%       | Risk rates              |
| Morbidity (Income protection)         | Proportional   | 40%       | Risk rates              |
| Mortality (External Term business)    | Proportional   | 5%        | Risk rates              |
| Morbidity (External Critical illness) | Proportional   | 20%       | Risk rates              |
| Group Term business                   | Proportional   | 10%       | Level Rate + Risk rates |
| Group Critical Illness business       | Proportional   | 10%       | Level Rate + Risk rates |
| Group Income Protection               | Proportional   | 0%        | Level Rate              |

Similar proportional arrangements apply to existing business. The Company makes use of reinsurance to reduce capital requirements where it is available on good economic terms.

#### Sensitivities

The following table shows the sensitivity of Company's profit and total equity to reasonably foreseeable changes in non-economic assumptions. These sensitivities are prepared in accordance with current IFRSs, which have changed following the adoption of IFRS 17 'Insurance Contracts', effective from 1 January 2023.

## HSBC LIFE (UK) LIMITED

### Notes on the Financial Statements (continued)

Mortality and morbidity risk is typically associated with life insurance contracts. The effect on profit of an increase in mortality or morbidity depends on the type of business being written.

Sensitivity to lapse rates depends on the type of contracts being written. An increase in lapse rates typically has a negative effect on CSM (and therefore expected future profits) due to the loss of future income on the lapsed policies. However, some contract lapses have a positive effect on profit due to the existence of policy surrender charges and policies late on in the lifecycle will have a positive impact if lapses increase.

Expense rate risk is the exposure to a change in the allocated cost of administering insurance contracts. To the extent that increased expenses cannot be passed on to policyholders, an increase in expense rates will have a negative effect on our profits.

Sensitivity of the Company to insurance risk factors:

|                                                  | Effect on CSM<br>(gross)<br>£'000 | Effect on profit after<br>tax (gross)<br>£'000 | Effect on profit after<br>tax (net)<br>£'000 | Effect on total equity<br>(gross)<br>£'000 | Effect on total equity<br>(net)<br>£'000 |
|--------------------------------------------------|-----------------------------------|------------------------------------------------|----------------------------------------------|--------------------------------------------|------------------------------------------|
| <b>At 31 Dec 2023</b>                            |                                   |                                                |                                              |                                            |                                          |
| 10% increase in mortality and/or morbidity rates | (30,349)                          | (8,764)                                        | (3,103)                                      | (8,764)                                    | (3,103)                                  |
| 10% decrease in mortality and/or morbidity rates | 35,208                            | 2,174                                          | 2,476                                        | 2,174                                      | 2,476                                    |
| 10% increase in lapse rates                      | (2,257)                           | (3,072)                                        | (2,889)                                      | (3,072)                                    | (2,889)                                  |
| 10% decrease in lapse rates                      | 2,212                             | 402                                            | 2,288                                        | 402                                        | 2,288                                    |
| 10% increase in expense rates                    | (6,206)                           | (2,893)                                        | (1,798)                                      | (2,893)                                    | (1,798)                                  |
| 10% decrease in expense rates                    | 6,253                             | 240                                            | 1,213                                        | 240                                        | 1,213                                    |
| <b>At 31 Dec 2022</b>                            |                                   |                                                |                                              |                                            |                                          |
| 10% increase in mortality and/or morbidity rates | (35,053)                          | (3,034)                                        | (1,544)                                      | (3,034)                                    | (1,544)                                  |
| 10% decrease in mortality and/or morbidity rates | 39,091                            | (1,208)                                        | 1,400                                        | (1,208)                                    | 1,400                                    |
| 10% increase in lapse rates                      | (2,218)                           | (1,810)                                        | (2,213)                                      | (1,810)                                    | (2,213)                                  |
| 10% decrease in lapse rates                      | 2,035                             | 392                                            | 1,913                                        | 392                                        | 1,913                                    |
| 10% increase in expense rates                    | (6,884)                           | (1,228)                                        | (704)                                        | (1,228)                                    | (704)                                    |
| 10% decrease in expense rates                    | 7,134                             | (431)                                          | 103                                          | (431)                                      | 103                                      |

#### Financial risk

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. The key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of this financial risk are market risk, credit risk and liquidity risk.

#### Asset/liability matching

The Company aims to manage its assets using an approach that balances quality, diversification, asset/liability matching, liquidity and investment return, while operating within a defined risk appetite. The Company's senior management reviews and approves the investment strategy on a periodic basis, establishes investment guidelines and limits, and provides oversight of the asset/liability management process.

For unit-linked insurance and investment contracts, the unit liability to policyholders is determined by the value of the assets in the unit-linked portfolios. There is therefore no direct net equity price, currency, interest rate or credit risk exposure to the Company for these contracts as the risks are borne by the policyholders. However, indirect exposure to equities and interest rates arises through the customer charges as explained further below.

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

The following table analyses the Company's assets and liabilities between the main insurance and investment contract types:

| At 31 December 2023                                    | Life direct<br>participating<br>contracts<br>£'000 | Life other<br>£'000 | Investment<br>contracts<br>£'000 | Shareholder<br>assets<br>and liabilities<br>£'000 | Total<br>£'000   |
|--------------------------------------------------------|----------------------------------------------------|---------------------|----------------------------------|---------------------------------------------------|------------------|
| <b>Assets</b>                                          |                                                    |                     |                                  |                                                   |                  |
| Contractual rights – investment contracts              | -                                                  | -                   | -                                | -                                                 | -                |
| Financial assets at fair value through profit and loss |                                                    |                     |                                  |                                                   |                  |
| – Equities                                             | -                                                  | -                   | -                                | -                                                 | -                |
| – Debt securities-fixed rate                           | -                                                  | -                   | -                                | 40,954                                            | 40,954           |
| – Collective investment schemes                        | 2,123,244                                          | -                   | 857,633                          | 114,633                                           | 3,095,510        |
| – Derivative financial instruments                     | -                                                  | -                   | -                                | -                                                 | -                |
| – Cash and cash equivalents                            | 50,030                                             | -                   | 1,202                            | 117,291                                           | 168,523          |
| Loans, receivables and prepayments                     | 1,429                                              | 11,236              | -                                | 1,635                                             | 14,300           |
| Income tax recoverable                                 | -                                                  | -                   | -                                | -                                                 | -                |
| Deferred tax asset                                     | -                                                  | -                   | -                                | 88,456                                            | 88,456           |
| Insurance contract assets                              | -                                                  | 41,040              | -                                | -                                                 | 41,040           |
| Reinsurance contract assets                            | 31                                                 | 127,210             | -                                | -                                                 | 127,241          |
| <b>Total assets</b>                                    | <b>2,174,734</b>                                   | <b>179,486</b>      | <b>858,835</b>                   | <b>362,969</b>                                    | <b>3,576,024</b> |
| <b>Liabilities</b>                                     |                                                    |                     |                                  |                                                   |                  |
| Insurance contract liabilities                         | 2,148,812                                          | 181,420             | -                                | -                                                 | 2,330,232        |
| Reinsurance contract liabilities                       | 1,549                                              | 27,576              | -                                | -                                                 | 29,125           |
| Investment contract liabilities                        | -                                                  | -                   | 852,588                          | -                                                 | 852,588          |
| Insurance and other payables and deferred income       | 24,373                                             | 10,405              | 6,248                            | 11                                                | 41,037           |
| Other provisions                                       | -                                                  | 54                  | -                                | -                                                 | 54               |
| Deferred tax liabilities                               | -                                                  | -                   | -                                | -                                                 | -                |
| Current tax liabilities                                | -                                                  | -                   | -                                | 17,108                                            | 17,108           |
| <b>Total liabilities</b>                               | <b>2,174,734</b>                                   | <b>219,455</b>      | <b>858,836</b>                   | <b>17,119</b>                                     | <b>3,270,144</b> |

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

| At 31 December 2022 ( <i>Restated</i> )                | Life direct<br>participating<br>contracts<br>£'000 | Life other<br>£'000 | Investment<br>contracts<br>£'000 | Shareholder<br>assets<br>and liabilities<br>£'000 | Total<br>£'000   |
|--------------------------------------------------------|----------------------------------------------------|---------------------|----------------------------------|---------------------------------------------------|------------------|
| <b>Assets</b>                                          |                                                    |                     |                                  |                                                   |                  |
| Contractual rights – investment contracts              | -                                                  | -                   | -                                | 422                                               | 422              |
| Financial assets at fair value through profit and loss |                                                    |                     |                                  |                                                   |                  |
| – Equities                                             | 4,141                                              | -                   | -                                | -                                                 | 4,141            |
| – Debt securities-fixed rate                           | -                                                  | -                   | -                                | 52,326                                            | 52,326           |
| – Collective investment schemes                        | 1,701,721                                          | -                   | 794,412                          | 106,213                                           | 2,602,346        |
| – Derivative financial instruments                     | -                                                  | -                   | -                                | -                                                 | -                |
| – Cash and cash equivalents                            | 55,318                                             | -                   | 1,449                            | 97,379                                            | 154,146          |
| Loans, receivables and prepayments                     | 220                                                | 7,435               | -                                | 2,844                                             | 10,499           |
| Income tax recoverable                                 | -                                                  | -                   | -                                | 1,205                                             | 1,205            |
| Deferred tax asset                                     | -                                                  | -                   | -                                | -                                                 | -                |
| Insurance contract assets                              | -                                                  | 43,191              | -                                | -                                                 | 43,191           |
| Reinsurance contract assets                            | 105                                                | 108,980             | -                                | -                                                 | 109,085          |
| <b>Total assets</b>                                    | <b>1,761,505</b>                                   | <b>159,606</b>      | <b>795,861</b>                   | <b>260,389</b>                                    | <b>2,977,361</b> |
| <b>Liabilities</b>                                     |                                                    |                     |                                  |                                                   |                  |
| Insurance contract liabilities                         | 1,739,851                                          | 158,655             | -                                | -                                                 | 1,898,506        |
| Reinsurance contract liabilities                       | 1,635                                              | 28,388              | -                                | -                                                 | 30,023           |
| Investment contract liabilities                        | -                                                  | -                   | 789,148                          | -                                                 | 789,148          |
| Insurance and other payables and deferred income       | 20,019                                             | 14,199              | 6,713                            | 1                                                 | 40,932           |
| Other provisions                                       | -                                                  | 54                  | -                                | -                                                 | 54               |
| Deferred tax liabilities                               | -                                                  | -                   | -                                | 22,538                                            | 22,538           |
| Current tax liabilities                                | -                                                  | -                   | -                                | -                                                 | -                |
| <b>Total liabilities</b>                               | <b>1,761,505</b>                                   | <b>201,296</b>      | <b>795,861</b>                   | <b>22,539</b>                                     | <b>2,781,201</b> |

### Market risk

Market risk is the risk of change in fair value of a financial instrument due to changes in interest rates, equity prices or foreign currency exchange rates. Equity and foreign exchange exposure is substantially all contained within the unit-linked funds and the risk is borne by the policyholders. However, the income for the Company from the unit-linked funds is derived from the annual management charges which are a fixed percentage of the fund value. The Company also receives income on certain products in respect of tax deductions for investment income and gains that are taxable for the Company. This income therefore varies with the investment performance of the funds. Therefore, the charges made are dependent on the level of the fund.

The 'other' investment portfolio contains small holdings of units in the unit-linked funds, relating to the operation of small box holdings of unallocated units, which generates some equity exposure. These holdings are kept to a minimum and managed against agreed limits. The main holdings within the 'other' portfolio, classified within 'Equities and collectives', are in collectives that hold debt securities and short term money market instruments and 'Debt securities' which are government securities and corporate bonds.

### Interest rate risk

The Company's net exposure to market risk from changes in interest rates arises from its non-linked and 'other' investment portfolios as well as from its liabilities. Interest rates also impact the fund values where customer funds have bond exposure and so the comments above relating to equity also apply here. The Company operates investment guidelines for its non-linked assets, which include setting out the matching policy of the Company. The investment strategy is approved by the Board following review and recommendation by the Risk and Audit Committee (RAC) which is a formal sub-committee of the Board, and also by the HSBC Group Insurance Function. Compliance with guidelines is monitored and exposures and breaches are reported to the Asset and Liability Management Committee.

## HSBC LIFE (UK) LIMITED

### Notes on the Financial Statements (continued)

Management monitor the Company's sensitivity to interest rate movements by considering the profit impact in stressed scenarios.

#### Sensitivities

The following table provides the impacts on the contractual service margin, profit after tax and equity of the Company from reasonably possible effects of changes in selected interest rate, equity price, growth assets and foreign exchange rate scenarios for the year. These sensitivities are prepared in accordance with current IFRSs and are based on changing one assumption at a time with other variables being held constant which in practice could be correlated.

The sensitivities are stated before allowance for management actions, which may mitigate the effect of changes in the market environment. The sensitivities presented allow for adverse changes in policyholder behaviour that may arise in response to changes in market rates.

#### Sensitivity to market risk factors:

|                                                 | Effect on<br>profit after<br>tax | 2023<br>Effect on<br>CSM | Effect on<br>total equity | Effect on<br>profit after<br>tax | 2022<br>Effect on<br>CSM | Effect on<br>total equity |
|-------------------------------------------------|----------------------------------|--------------------------|---------------------------|----------------------------------|--------------------------|---------------------------|
|                                                 | £'000                            | £'000                    | £'000                     | £'000                            | £'000                    | £'000                     |
| +100 basis point parallel shift in yield curves |                                  |                          |                           |                                  |                          |                           |
| – Insurance & Reinsurance Contracts             | 4,334                            | 852                      | 4,334                     | 2,653                            | 2,154                    | 2,653                     |
| -100 basis point parallel shift in yield curves |                                  |                          |                           |                                  |                          |                           |
| – Insurance & Reinsurance Contracts             | (6,474)                          | (998)                    | (6,474)                   | (5,327)                          | (1,984)                  | (5,327)                   |
| 10% increase in growth assets <sup>1</sup>      |                                  |                          |                           |                                  |                          |                           |
| – Insurance & Reinsurance Contracts             | 1,686                            | 1,029                    | 1,686                     | (58)                             | 2,864                    | (58)                      |
| 10% decrease in growth assets <sup>1</sup>      |                                  |                          |                           |                                  |                          |                           |
| – Insurance & Reinsurance Contracts             | (2,007)                          | (960)                    | (2,007)                   | (626)                            | (2,407)                  | (626)                     |

<sup>1</sup> Growth assets primarily comprise investment fund and corporate bond holdings.

The analysis above has been prepared for an immediate change in values, including changes in the value of related assets, and assumptions with no allowance for management actions. The impacts shown reflect the effect on equity and profit and loss. The impacts are caused by changes in the insurance contract liability and assets through the underlying components which includes the fulfilment cashflows and the contractual service margin. The analysis follows the company's accounting policy for these contracts including the treatment when the contractual service margin can't be adjusted to offset changes in the fulfilment cashflows and the change in CSM amortisation over the full accounting period.

#### Credit risk

The Company has exposure to credit risk on financial assets; this is the risk that a counterparty will be unable to pay the amounts due in full when they arise. Where the exposure relates to assets held within the Company's unit-linked funds, the credit risk is borne by the policyholders.

The main areas where the Company has an exposure to credit risk (i.e. excluding the unit-linked exposure) are:

- the default risk of a reinsurer currently used by the Company;
- the default risk of debt instruments held within collective investment scheme holdings;
- the default risk of debt securities held by the Company;
- the default risk of HSBC Bank plc in respect of the Company's deposit holdings; and
- the default risk of non-clawback of indemnity commission from intermediaries in the event that policies lapse.

The Company operates investment guidelines for its non-linked assets which set out the permitted assets that may be held and any limits to be applied. Limits on exposure to a single counterparty are set by



reference to the credit rating of the counterparty. The investment guidelines are set out in the Investment Policy Document which is approved by the Asset and Liability Management Committee. Compliance with guidelines is monitored and exposures and breaches are reported to the Asset and Liability Management Committee.

Within the Company's unit-linked funds, the credit risk is borne by the policyholders and not the shareholders. The fund managers operate within agreed investment guidelines which specify the required credit quality for fund investments.

Reinsurance is placed with counterparties that have undergone appropriate due diligence checks and have been approved by the HSBC Group Insurance Function. Exposures and breaches against internal and regulatory limits are monitored and reported to the Asset and Liability Management Committee.

Intermediaries undergo due diligence checks before onboarding and sales, lapses and clawback of commission is monitored and reported to the Distribution Oversight Forum and the Asset and Liability Management Committee.

**Credit exposure**

Other than to its parent (see note 21), the only significant concentrations of credit risk are in relation to the Company's reinsurers.

**Liquidity risk**

Liquidity risk is the risk that an insurance operation, though solvent, either does not have sufficient financial resources available to meet its obligations when they fall due, or can secure them only at excessive cost. Liquidity risk may be able to be shared with policyholders for products with participating features.

The Company has to meet daily calls on its cash resources, notably from claims arising on its insurance and investment contracts. There is therefore a risk that cash will not be available to settle liabilities when due.

The Company's policy for managing this risk is to ensure that all investment securities held within the non-linked funds are capable of meeting the Prudential Regulation Authority's (PRA's) definition of 'readily realisable' to the extent that they are capable of being realised for a value equivalent to at least 97.5% of their current market value within a period of seven days.

The Company also holds a sufficient level of cash balances at all times, such that normal operational cash flows can be met without the sale of investments. Contingency arrangements are also available to the Company to ensure that short-term liquidity can be maintained in any extreme or unforeseen circumstances.

For the unit-linked funds, there is a risk that significant policyholder outflows could exceed the short-term liquidity within the funds. The Company has the power to defer settlement to policyholders in certain circumstances by between one and six months, depending on the fund.

Short-term liquidity management is undertaken on a daily basis. Longer-term liquidity risk is managed on an ongoing basis through the regular review of the investment portfolio to align the maturity profile with that of the projected contract liabilities.

The Company has developed a liquidity contingency plan which formally sets out how the Company will monitor potential liquidity issues and the actions that will be taken in certain situations.

Cashflow analysis, to assess Company's liquidity adequacy, was performed and the outcome was that the Company is expected to have sufficient liquid funds over the next five years.

The approach adopted by management to assess liquidity risk is based on consideration of the impact of a number of stress tests on short-term and medium-term cash flows.

The assumptions in the base scenario are then stressed in a number of scenarios to determine whether sufficient liquidity can be generated and at what cost. Any potential issues are then addressed.

The remaining contractual maturity of insurance contract liabilities is included in Note 4.

The amounts of insurance contract liabilities that are payable on demand are set out by the product grouping below:

|                                     | 2023                      |                                     | 2022                      |                                     |
|-------------------------------------|---------------------------|-------------------------------------|---------------------------|-------------------------------------|
|                                     | Amounts Payable on Demand | Carrying Amount for these Contracts | Amounts Payable on Demand | Carrying Amount for these Contracts |
|                                     | £'000                     | £'000                               | £'000                     | £'000                               |
| Life direct participating contracts | 2,134,071                 | 2,111,989                           | 1,727,693                 | 1,703,323                           |
| Life other contracts                | 52,168                    | 218,243                             | 50,957                    | 195,183                             |
| Reinsurance contract liabilities    | -                         | 29,125                              | -                         | 30,023                              |
| <b>At 31 Dec</b>                    | <b>2,186,239</b>          | <b>2,359,357</b>                    | <b>1,778,650</b>          | <b>1,928,529</b>                    |

### Operational and model risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events. The Company manages its exposure to operational risk through the identification, categorisation and evaluation of individual risks and by maintaining appropriate control processes to mitigate those risks. This is managed through the Company's Risk Management Meeting.

Model risk is one element of operational risk that the Company is exposed to. Model risk is the risk of loss arising from a financial model used to measure risks or value transactions, not working in the way it was designed to. The Company uses models for liability valuation, product pricing and capital management. It manages model risk through establishing and maintaining appropriate systems of internal controls governing the development, usage and change control of the models. This includes independent reviews of the models where appropriate.

### Capital management

The key objectives of the Company's capital management policy is to:

- enable the Company to write new business, that is, to meet the development costs of new contracts and the capital requirements from writing new business;
- to ensure solvency, without the need for capital injection, on an ongoing basis withstanding ordinary volatility in economic and non-economic experience, and in the event of mild stress scenarios; and
- protect against regulatory intervention.

The optimum level of capital buffer ensures that a capital injection is not required over the planning time horizon with an acceptable confidence level to the Company's parent and excess capital is not sitting with the Company reducing return on capital to the shareholders.

The Company is required to hold regulatory capital in compliance with the rules issued by the Prudential Regulation Authority (PRA). Solvency II, the Europe-wide prudential regulation framework, came into force on 1 January 2016. In terms of Solvency II, Pillar 1, the Company's solvency capital requirement (SCR) is determined on a standard formula basis plus a voluntary capital add-on. Solvency II, Pillar 2, requires the Company to do its own assessment of the capital required for current and future risks. The Company will then hold the maximum of the regulatory capital (SCR) and its own capital assessment.

The target capital level is 156% of the Company's assessment of the capital required, with a minimum absolute target buffer of £50million. Where the actual capital exceeds the target level, a dividend payment should be considered to bring the solvency margin down to the target level. Other considerations such as liquidity, projected new business sales, distributable reserves and reinsurance exposure are all considered when determining what level of dividends can be paid.

The risk appetite is that the solvency margin should remain above 146% of the Company's assessment of the capital required with a minimum buffer of £35m. This is based on a 1 in 10 year event.

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

The Company has complied with the externally imposed capital requirements to which it is subject at all times during the current and prior financial year.

The table below summarises the IFRS and regulatory capital held by the Company.

|                                                               | 2023<br>£'000  | 2022<br>£'000  |
|---------------------------------------------------------------|----------------|----------------|
| Share capital                                                 | 94,375         | 94,375         |
| Retained earnings                                             | 211,505        | 34,026         |
|                                                               | <b>305,880</b> | <b>128,401</b> |
| Adjustments to capital for regulatory purposes:               |                |                |
| – replace IFRS reserves with Solvency II Technical Provisions | 61,602         | 206,359        |
| – IFRS 17 valuation differences                               | (5,425)        | -              |
| – other asset valuation differences                           | 19             | 67             |
| – deferred tax                                                | (14,050)       | (51,607)       |
| Regulatory capital held                                       | <b>348,026</b> | <b>283,220</b> |

### 4 Insurance contracts Amounts recognised in profit or loss

#### (a) Net insurance service result

|                                                                    | Year ended 31 Dec 2023                                 |                                      |                  | Year ended 31 Dec 2022                    |                         |                  |
|--------------------------------------------------------------------|--------------------------------------------------------|--------------------------------------|------------------|-------------------------------------------|-------------------------|------------------|
|                                                                    | Life direct<br>participating<br>contracts <sup>1</sup> | Life other<br>contracts <sup>2</sup> | Total            | Life direct<br>participating<br>contracts | Life other<br>contracts | Total            |
|                                                                    | £'000                                                  | £'000                                | £'000            | £'000                                     | £'000                   | £'000            |
| <b>Insurance revenue</b>                                           |                                                        |                                      |                  |                                           |                         |                  |
| Amounts relating to changes in liabilities for remaining coverage  |                                                        |                                      |                  |                                           |                         |                  |
| CSM recognised for services provided                               | 2,908                                                  | 25,687                               | 28,595           | 7,029                                     | 20,753                  | 27,782           |
| Change in risk adjustment for non-financial risk for risk expired  | 789                                                    | 3,719                                | 4,508            | 544                                       | 5,335                   | 5,879            |
| Expected incurred claims and other insurance service expenses      | 27,935                                                 | 103,052                              | 130,987          | 10,680                                    | 111,014                 | 121,694          |
| Recovery of insurance acquisition cash flows                       | 472                                                    | 4,886                                | 5,358            | 182                                       | 1,641                   | 1,823            |
| <b>Total insurance revenue</b>                                     | <b>32,104</b>                                          | <b>137,344</b>                       | <b>169,448</b>   | <b>18,435</b>                             | <b>138,743</b>          | <b>157,178</b>   |
| <b>Insurance service expenses</b>                                  |                                                        |                                      |                  |                                           |                         |                  |
| Incurred claims and other insurance service expenses               | (15,213)                                               | (97,004)                             | (112,217)        | (16,436)                                  | (109,255)               | (125,691)        |
| Losses and reversal of losses on onerous contracts                 | (4,762)                                                | (6,289)                              | (11,051)         | (934)                                     | (4,708)                 | (5,642)          |
| Amortisation of insurance acquisition cash flows                   | (472)                                                  | (4,886)                              | (5,358)          | (182)                                     | (1,641)                 | (1,823)          |
| Adjustments to liabilities for incurred claims                     | -                                                      | (15,109)                             | (15,109)         | -                                         | (4,291)                 | (4,291)          |
| <b>Total insurance service expenses</b>                            | <b>(20,447)</b>                                        | <b>(123,288)</b>                     | <b>(143,735)</b> | <b>(17,552)</b>                           | <b>(119,895)</b>        | <b>(137,447)</b> |
| <b>Total insurance service results</b>                             | <b>11,657</b>                                          | <b>14,056</b>                        | <b>25,713</b>    | <b>883</b>                                | <b>18,848</b>           | <b>19,731</b>    |
| <b>Net income (expenses) from reinsurance contracts held</b>       |                                                        |                                      |                  |                                           |                         |                  |
| Allocation of reinsurance premiums                                 | -                                                      | (90,617)                             | (90,617)         | -                                         | (90,727)                | (90,727)         |
| Amounts recoverable from reinsurers for incurred claims            | -                                                      | 81,381                               | 81,381           | -                                         | 85,043                  | 85,043           |
| Effect of changes in non-performance risk of reinsurer             | -                                                      | 16                                   | 16               | -                                         | 29                      | 29               |
| <b>Total net income (expenses) from reinsurance contracts held</b> | <b>-</b>                                               | <b>(9,220)</b>                       | <b>(9,220)</b>   | <b>-</b>                                  | <b>(5,655)</b>          | <b>(5,655)</b>   |
| <b>Net insurance service result</b>                                | <b>11,657</b>                                          | <b>4,836</b>                         | <b>16,493</b>    | <b>883</b>                                | <b>13,193</b>           | <b>14,076</b>    |

1 Life direct participating contracts are substantially measured under the variable fee approach measurement model.

2 Life other contracts are measured under the general measurement model.

**HSBC LIFE (UK) LIMITED**  
**Notes on the Financial Statements (continued)**

(b) Net investment return

|                                                                                                                 | Year ended 31 Dec 2023              |                      |               |                  | Year ended 31 Dec 2022              |                      |               |                  |
|-----------------------------------------------------------------------------------------------------------------|-------------------------------------|----------------------|---------------|------------------|-------------------------------------|----------------------|---------------|------------------|
|                                                                                                                 | Life direct participating contracts | Life other contracts | Share-holders | Total            | Life direct participating contracts | Life other contracts | Share-holders | Total            |
|                                                                                                                 | £'000                               | £'000                | £'000         | £'000            | £'000                               | £'000                | £'000         | £'000            |
| <b>Investment return</b>                                                                                        |                                     |                      |               |                  |                                     |                      |               |                  |
| Amounts recognised in profit or loss                                                                            | 159,169                             | -                    | 10,201        | 169,370          | (157,777)                           | -                    | (834)         | (158,611)        |
| Net interest income                                                                                             | -                                   | -                    | 3,099         | 3,099            | -                                   | -                    | 578           | 578              |
| <b>Total investment return</b>                                                                                  | <b>159,169</b>                      | <b>-</b>             | <b>13,300</b> | <b>172,469</b>   | <b>(157,777)</b>                    | <b>-</b>             | <b>(256)</b>  | <b>(158,033)</b> |
| <b>Net finance income/(expense) from insurance contracts issued</b>                                             |                                     |                      |               |                  |                                     |                      |               |                  |
| Changes in fair value of underlying items of direct participating contracts                                     | (155,599)                           | -                    | -             | (155,599)        | 154,390                             | -                    | -             | 154,390          |
| Interest accreted                                                                                               | -                                   | 1,556                | -             | 1,556            | -                                   | 6,699                | -             | 6,699            |
| Effect of changes in interest rates and other financial assumptions                                             | -                                   | (514)                | -             | (514)            | -                                   | 12,403               | -             | 12,403           |
| Effect of measuring changes in estimates at current rates and adjusting the CSM at rates on initial recognition | -                                   | (2,858)              | -             | (2,858)          | -                                   | 172                  | -             | 172              |
| <b>Net finance income/(expense) from insurance contracts issued</b>                                             | <b>(155,599)</b>                    | <b>(1,816)</b>       | <b>-</b>      | <b>(157,415)</b> | <b>154,390</b>                      | <b>19,274</b>        | <b>-</b>      | <b>173,664</b>   |
| <b>Net finance income/(expense) from reinsurance contracts held</b>                                             |                                     |                      |               |                  |                                     |                      |               |                  |
| Interest accreted                                                                                               | -                                   | (1,978)              | -             | (1,978)          | -                                   | (3,578)              | -             | (3,578)          |
| Effect of changes in interest rates and other financial assumptions                                             | -                                   | (676)                | -             | (676)            | -                                   | 9,785                | -             | 9,785            |
| Net finance income/(expense) from reinsurance contracts held                                                    | -                                   | (2,654)              | -             | (2,654)          | -                                   | 6,207                | -             | 6,207            |
| <b>Net insurance finance income/(expense)</b>                                                                   | <b>(155,599)</b>                    | <b>(4,470)</b>       | <b>-</b>      | <b>(160,069)</b> | <b>154,390</b>                      | <b>25,481</b>        | <b>-</b>      | <b>179,871</b>   |
| <b>Net investment return</b>                                                                                    | <b>3,570</b>                        | <b>(4,470)</b>       | <b>13,300</b> | <b>12,400</b>    | <b>(3,387)</b>                      | <b>25,481</b>        | <b>(256)</b>  | <b>21,838</b>    |

|                                                                                                    | Year ended 31 Dec 2023              |                      |                      |               |                | Year ended 31 Dec 2022              |                      |                      |               |                  |
|----------------------------------------------------------------------------------------------------|-------------------------------------|----------------------|----------------------|---------------|----------------|-------------------------------------|----------------------|----------------------|---------------|------------------|
|                                                                                                    | Life direct participating contracts | Life other contracts | Investment contracts | Share-holders | Total          | Life direct participating contracts | Life other contracts | Investment contracts | Share-holders | Total            |
|                                                                                                    | £'000                               | £'000                | £'000                | £'000         | £'000          | £'000                               | £'000                | £'000                | £'000         | £'000            |
| <b>Amounts recognised in profit or loss</b>                                                        |                                     |                      |                      |               |                |                                     |                      |                      |               |                  |
| Net fair value (losses)/gains on assets at FVTPL                                                   | 159,169                             | -                    | 62,269               | 10,201        | 231,639        | (157,777)                           | -                    | (67,325)             | (834)         | (225,936)        |
| Investment contract liability increase /(decrease) from underlying asset fair value gains/(losses) | -                                   | -                    | (62,269)             | -             | (62,269)       | -                                   | -                    | 67,325               | -             | 67,325           |
| Net interest income                                                                                | -                                   | -                    | -                    | 3,099         | 3,099          | -                                   | -                    | -                    | 578           | 578              |
| <b>Amounts recognised in profit or loss</b>                                                        | <b>159,169</b>                      | <b>-</b>             | <b>-</b>             | <b>13,300</b> | <b>172,469</b> | <b>(157,777)</b>                    | <b>-</b>             | <b>-</b>             | <b>(256)</b>  | <b>(158,033)</b> |

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

### (c) Movements in carrying amounts of insurance contracts - Analysis by remaining coverage and incurred claims

|                                                                                   | Year ended 31 Dec 2023              |                |                  |                  |                                     |                |                 |                  |                  |
|-----------------------------------------------------------------------------------|-------------------------------------|----------------|------------------|------------------|-------------------------------------|----------------|-----------------|------------------|------------------|
|                                                                                   | Life direct participating           |                |                  |                  | Other life contracts                |                |                 |                  |                  |
|                                                                                   | Liabilities for remaining coverage: |                |                  |                  | Liabilities for remaining coverage: |                |                 |                  |                  |
|                                                                                   | Excluding loss component            | Loss component | Incurred claims  | Total            | Excluding loss component            | Loss component | Incurred claims | Total            | Total            |
|                                                                                   | £'000                               | £'000          | £'000            | £'000            | £'000                               | £'000          | £'000           | £'000            | £'000            |
| Opening assets                                                                    | -                                   | -              | -                | -                | (49,496)                            | 316            | 5,989           | (43,191)         | (43,191)         |
| Opening liabilities                                                               | 1,698,815                           | 4,215          | 293              | 1,703,323        | 93,421                              | 8,724          | 93,038          | 195,183          | 1,898,506        |
| <b>Net opening balance 1 Jan 2023</b>                                             | <b>1,698,815</b>                    | <b>4,215</b>   | <b>293</b>       | <b>1,703,323</b> | <b>43,925</b>                       | <b>9,040</b>   | <b>99,027</b>   | <b>151,992</b>   | <b>1,855,315</b> |
| <b>Changes in the statement of comprehensive income</b>                           |                                     |                |                  |                  |                                     |                |                 |                  |                  |
| <b>Insurance revenue</b>                                                          |                                     |                |                  |                  |                                     |                |                 |                  |                  |
| Contract under fair value approach                                                | (17,194)                            | -              | -                | (17,194)         | (70,265)                            | -              | -               | (70,265)         | (87,459)         |
| Other contracts <sup>1</sup>                                                      | (14,911)                            | -              | -                | (14,911)         | (67,079)                            | -              | -               | (67,079)         | (81,990)         |
| <b>Total insurance revenue</b>                                                    | <b>(32,105)</b>                     | <b>-</b>       | <b>-</b>         | <b>(32,105)</b>  | <b>(137,344)</b>                    | <b>-</b>       | <b>-</b>        | <b>(137,344)</b> | <b>(169,449)</b> |
| <b>Insurance service expenses</b>                                                 |                                     |                |                  |                  |                                     |                |                 |                  |                  |
| Incurred claims and other insurance service expenses                              | -                                   | (666)          | 15,879           | 15,213           | -                                   | (575)          | 97,579          | 97,004           | 112,217          |
| Amortisation of insurance acquisition cash flows                                  | 472                                 | -              | -                | 472              | 4,886                               | -              | -               | 4,886            | 5,358            |
| Losses and reversal of losses on onerous contracts                                | -                                   | 4,762          | -                | 4,762            | -                                   | 6,289          | -               | 6,289            | 11,051           |
| Adjustments to liabilities for incurred claims                                    | -                                   | -              | -                | -                | -                                   | -              | 15,109          | 15,109           | 15,109           |
| <b>Total insurance service expenses</b>                                           | <b>472</b>                          | <b>4,096</b>   | <b>15,879</b>    | <b>20,447</b>    | <b>4,886</b>                        | <b>5,714</b>   | <b>112,688</b>  | <b>123,288</b>   | <b>143,735</b>   |
| Investment components                                                             | (130,473)                           | -              | 130,473          | -                | (2,995)                             | -              | 2,995           | -                | -                |
| Insurance service result                                                          | <b>(162,105)</b>                    | <b>4,096</b>   | <b>146,352</b>   | <b>(11,657)</b>  | <b>(135,453)</b>                    | <b>5,714</b>   | <b>115,683</b>  | <b>(14,056)</b>  | <b>(25,713)</b>  |
| Net finance (income)/expenses from insurance contracts                            | 155,599                             | -              | -                | 155,599          | 1,146                               | (9)            | 680             | 1,817            | 157,416          |
| Transfer                                                                          | 968                                 | (968)          | -                | -                | 9                                   | (10)           | -               | (1)              | (1)              |
| <b>Total changes in the statement of comprehensive income</b>                     | <b>(5,538)</b>                      | <b>3,128</b>   | <b>146,352</b>   | <b>143,942</b>   | <b>(134,298)</b>                    | <b>5,695</b>   | <b>116,363</b>  | <b>(12,240)</b>  | <b>131,702</b>   |
| <b>Cash flows</b>                                                                 |                                     |                |                  |                  |                                     |                |                 |                  |                  |
| Premiums received                                                                 | 408,175                             | -              | -                | 408,175          | 150,351                             | -              | -               | 150,351          | 558,526          |
| Claims and other insurance service expenses paid, including investment components | -                                   | -              | (146,153)        | (146,153)        | -                                   | -              | (89,045)        | (89,045)         | (235,198)        |
| Insurance acquisition cash flows                                                  | 2,703                               | -              | -                | 2,703            | (23,856)                            | -              | -               | (23,856)         | (21,153)         |
| <b>Total cash flows</b>                                                           | <b>410,878</b>                      | <b>-</b>       | <b>(146,153)</b> | <b>264,725</b>   | <b>126,495</b>                      | <b>-</b>       | <b>(89,045)</b> | <b>37,450</b>    | <b>302,175</b>   |
| <b>Net closing balance 31 Dec 2023</b>                                            | <b>2,104,155</b>                    | <b>7,343</b>   | <b>492</b>       | <b>2,111,990</b> | <b>36,122</b>                       | <b>14,735</b>  | <b>126,345</b>  | <b>177,202</b>   | <b>2,289,192</b> |
| Closing assets                                                                    | -                                   | -              | -                | -                | (53,463)                            | 3,493          | 8,929           | (41,041)         | (41,041)         |
| Closing liabilities                                                               | 2,104,155                           | 7,343          | 492              | 2,111,990        | 89,585                              | 11,242         | 117,416         | 218,243          | 2,330,233        |
| <b>Net closing balance 31 Dec 2023</b>                                            | <b>2,104,155</b>                    | <b>7,343</b>   | <b>492</b>       | <b>2,111,990</b> | <b>36,122</b>                       | <b>14,735</b>  | <b>126,345</b>  | <b>177,203</b>   | <b>2,289,192</b> |

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

| Year ended 31 Dec 2022                                                            |                                                                            |                            |                             |                  |                                                             |                            |                             |                  |
|-----------------------------------------------------------------------------------|----------------------------------------------------------------------------|----------------------------|-----------------------------|------------------|-------------------------------------------------------------|----------------------------|-----------------------------|------------------|
|                                                                                   | Life direct participating contracts<br>Liabilities for remaining coverage: |                            |                             |                  | Other life contracts<br>Liabilities for remaining coverage: |                            |                             |                  |
|                                                                                   | Excluding loss<br>component<br>£'000                                       | Loss<br>component<br>£'000 | Incurred<br>claims<br>£'000 | Total<br>£'000   | Excluding loss<br>component<br>£'000                        | Loss<br>component<br>£'000 | Incurred<br>claims<br>£'000 | Total<br>£'000   |
| Opening assets                                                                    |                                                                            |                            |                             |                  |                                                             |                            |                             |                  |
| Opening liabilities                                                               | 1,566,937                                                                  | 4,052                      | 390                         | 1,571,379        | (50,311)                                                    | 512                        | 5,132                       | (44,667)         |
| <b>Net opening balance 1 Jan 2022</b>                                             | <b>1,566,937</b>                                                           | <b>4,052</b>               | <b>390</b>                  | <b>1,571,379</b> | <b>69,377</b>                                               | <b>4,651</b>               | <b>76,870</b>               | <b>150,898</b>   |
| <b>Changes in the statement of comprehensive income</b>                           |                                                                            |                            |                             |                  |                                                             |                            |                             |                  |
| <b>Insurance revenue</b>                                                          |                                                                            |                            |                             |                  |                                                             |                            |                             |                  |
| Contract under fair value approach                                                | (6,319)                                                                    | -                          | -                           | (6,319)          | (74,317)                                                    | -                          | -                           | (74,317)         |
| Other contracts <sup>1</sup>                                                      | (12,116)                                                                   | -                          | -                           | (12,116)         | (64,427)                                                    | -                          | -                           | (64,427)         |
| <b>Total insurance revenue</b>                                                    | <b>(18,435)</b>                                                            | <b>-</b>                   | <b>-</b>                    | <b>(18,435)</b>  | <b>(138,744)</b>                                            | <b>-</b>                   | <b>-</b>                    | <b>(138,744)</b> |
| <b>Insurance service expenses</b>                                                 |                                                                            |                            |                             |                  |                                                             |                            |                             |                  |
| Incurred claims and other insurance service expenses                              | -                                                                          | (736)                      | 17,171                      | 16,435           | -                                                           | (317)                      | 109,572                     | 109,255          |
| Amortisation of insurance acquisition cash flows                                  | 182                                                                        | -                          | -                           | 182              | 1,641                                                       | -                          | -                           | 1,641            |
| Losses and reversal of losses on onerous contracts                                | -                                                                          | 934                        | -                           | 934              | -                                                           | 4,707                      | -                           | 4,707            |
| Adjustments to liabilities for incurred                                           | -                                                                          | -                          | -                           | -                | -                                                           | -                          | 4,291                       | 4,291            |
| <b>Total insurance service expenses</b>                                           | <b>182</b>                                                                 | <b>198</b>                 | <b>17,171</b>               | <b>17,551</b>    | <b>1,641</b>                                                | <b>4,390</b>               | <b>113,863</b>              | <b>119,894</b>   |
| Investment components                                                             | (104,028)                                                                  | -                          | 104,028                     | -                | (2,568)                                                     | -                          | 2,568                       | -                |
| <b>Insurance service result</b>                                                   | <b>(122,280)</b>                                                           | <b>198</b>                 | <b>121,199</b>              | <b>(883)</b>     | <b>(139,670)</b>                                            | <b>4,390</b>               | <b>116,430</b>              | <b>(18,850)</b>  |
| Net finance expenses from insurance contracts                                     | (154,390)                                                                  | -                          | -                           | (154,390)        | (13,494)                                                    | -                          | (5,780)                     | (19,274)         |
| Transfer                                                                          | 36                                                                         | (36)                       | -                           | -                | -                                                           | -                          | -                           | -                |
| <b>Total changes in the statement of comprehensive income</b>                     | <b>(276,634)</b>                                                           | <b>162</b>                 | <b>121,199</b>              | <b>(155,273)</b> | <b>(153,164)</b>                                            | <b>4,390</b>               | <b>110,650</b>              | <b>(38,124)</b>  |
| <b>Cash flows</b>                                                                 |                                                                            |                            |                             |                  |                                                             |                            |                             |                  |
| Premiums received                                                                 | 402,167                                                                    | -                          | -                           | 402,167          | 152,575                                                     | -                          | -                           | 152,575          |
| Claims and other insurance service expenses paid, including investment components | -                                                                          | -                          | (121,296)                   | (121,296)        | -                                                           | -                          | (88,493)                    | (88,493)         |
| Insurance acquisition cash flows                                                  | 6,345                                                                      | -                          | -                           | 6,345            | (24,863)                                                    | -                          | -                           | (24,863)         |
| <b>Total cash flows</b>                                                           | <b>408,512</b>                                                             | <b>-</b>                   | <b>(121,296)</b>            | <b>287,216</b>   | <b>127,712</b>                                              | <b>-</b>                   | <b>(88,493)</b>             | <b>39,219</b>    |
| <b>Net closing balance 31 Dec 2022</b>                                            | <b>1,698,815</b>                                                           | <b>4,214</b>               | <b>293</b>                  | <b>1,703,322</b> | <b>43,925</b>                                               | <b>9,041</b>               | <b>99,027</b>               | <b>151,993</b>   |
| Closing assets                                                                    |                                                                            |                            |                             |                  | (49,496)                                                    | 316                        | 5,989                       | (43,191)         |
| Closing liabilities                                                               | 1,698,815                                                                  | 4,214                      | 293                         | 1,703,322        | 93,421                                                      | 8,725                      | 93,038                      | 195,184          |
| <b>Net closing balance 31 Dec 2022</b>                                            | <b>1,698,815</b>                                                           | <b>4,214</b>               | <b>293</b>                  | <b>1,703,322</b> | <b>43,925</b>                                               | <b>9,041</b>               | <b>99,027</b>               | <b>151,993</b>   |

1 Other contracts are those contracts measured by applying IFRS 17 from inception of the contracts. This includes contracts measured under the full retrospective approach at Transition and contracts inception after Transition.

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

### (d) Movements in carrying amounts of reinsurance contracts - Analysis by remaining coverage and incurred claims

| Year ended 31 Dec 2023                                        |                          |                |                 |                 |
|---------------------------------------------------------------|--------------------------|----------------|-----------------|-----------------|
| Liabilities for remaining coverage                            |                          |                |                 |                 |
|                                                               | Excluding loss component | Loss component | Incurred claims | Total           |
|                                                               | £'000                    | £'000          | £'000           | £'000           |
| Opening assets                                                | 37,489                   | 2,940          | 68,656          | 109,085         |
| Opening liabilities                                           | (46,655)                 | -              | 16,632          | (30,023)        |
| <b>Net opening balance 01-Jan-2023</b>                        | <b>(9,166)</b>           | <b>2,940</b>   | <b>85,288</b>   | <b>79,062</b>   |
| <b>Changes in the statement of comprehensive income</b>       |                          |                |                 |                 |
| Allocation of reinsurance premiums paid                       | (90,617)                 | -              | -               | (90,617)        |
| Recoveries of incurred claims and other insurance service     | -                        | -              | 71,317          | 71,317          |
| Recoveries or reversals of recoveries of losses on onerous    | 548                      | 1,057          | -               | 1,605           |
| Adjustment to assets for incurred claims                      | -                        | -              | 8,459           | 8,459           |
| <b>Total amounts recoverable from reinsurer</b>               | <b>548</b>               | <b>1,057</b>   | <b>79,776</b>   | <b>81,381</b>   |
| Net finance expenses from reinsurance contracts               | (3,073)                  | -              | 419             | (2,654)         |
| Effect of changes in non-performance risk of reinsurers       | 16                       | -              | -               | 16              |
| <b>Total changes in the statement of comprehensive income</b> | <b>(93,126)</b>          | <b>1,057</b>   | <b>80,195</b>   | <b>(11,874)</b> |
| <b>Cash flows</b>                                             |                          |                |                 |                 |
| Premiums paid                                                 | 89,792                   | -              | -               | 89,792          |
| Claims and other recoverables received                        | -                        | -              | (58,862)        | (58,862)        |
| <b>Total cash flows</b>                                       | <b>89,792</b>            | <b>-</b>       | <b>(58,862)</b> | <b>30,930</b>   |
| <b>Net closing balance 31-Dec-2023</b>                        | <b>(12,500)</b>          | <b>3,997</b>   | <b>106,621</b>  | <b>98,118</b>   |
| Closing assets                                                | 32,623                   | 3,997          | 90,621          | 127,241         |
| Closing liabilities                                           | (45,123)                 | -              | 16,000          | (29,124)        |
| <b>Net closing balance 31-Dec-2023</b>                        | <b>(12,500)</b>          | <b>3,997</b>   | <b>106,621</b>  | <b>98,117</b>   |

| Year ended 31 Dec 2022                                        |                          |                |                 |               |
|---------------------------------------------------------------|--------------------------|----------------|-----------------|---------------|
| Liabilities for remaining coverage                            |                          |                |                 |               |
|                                                               | Excluding loss component | Loss component | Incurred claims | Total         |
|                                                               | £'000                    | £'000          | £'000           | £'000         |
| Opening assets                                                | 42,983                   | 1,078          | 44,740          | 88,801        |
| Opening liabilities                                           | (61,491)                 | -              | 19,512          | (41,979)      |
| <b>Net opening balance 01-Jan-2022</b>                        | <b>(18,508)</b>          | <b>1,078</b>   | <b>64,252</b>   | <b>46,822</b> |
| <b>Changes in the statement of comprehensive income</b>       |                          |                |                 |               |
| Allocation of reinsurance premiums paid                       | (90,727)                 | -              | -               | (90,727)      |
| Recoveries of incurred claims and other insurance service     | -                        | -              | 81,064          | 81,064        |
| Recoveries or reversals of recoveries of losses on            | (200)                    | 1,862          | -               | 1,662         |
| Adjustment to assets for incurred claims                      | -                        | -              | 2,317           | 2,317         |
| <b>Total amounts recoverable from reinsurer</b>               | <b>(200)</b>             | <b>1,862</b>   | <b>83,381</b>   | <b>85,043</b> |
| Net finance expenses from reinsurance contracts               | 10,887                   | -              | (4,680)         | 6,207         |
| Effect of changes in non-performance risk of reinsurers       | 29                       | -              | -               | 29            |
| <b>Total changes in the statement of comprehensive income</b> | <b>(80,011)</b>          | <b>1,862</b>   | <b>78,701</b>   | <b>552</b>    |
| <b>Cash flows</b>                                             |                          |                |                 |               |
| Premiums paid                                                 | 89,354                   | -              | -               | 89,354        |
| Claims and other recoverables received                        | -                        | -              | (57,665)        | (57,665)      |
| <b>Total cash flows</b>                                       | <b>89,354</b>            | <b>-</b>       | <b>(57,665)</b> | <b>31,689</b> |
| <b>Net closing balance 31-Dec-2022</b>                        | <b>(9,165)</b>           | <b>2,940</b>   | <b>85,288</b>   | <b>79,063</b> |
| Closing assets                                                | 37,489                   | 2,940          | 68,656          | 109,085       |
| Closing liabilities                                           | (46,655)                 | -              | 16,632          | (30,023)      |
| <b>Net closing balance 31-Dec-2022</b>                        | <b>(9,166)</b>           | <b>2,940</b>   | <b>85,288</b>   | <b>79,062</b> |



# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

### (e) Movements in carrying amounts of insurance contracts - Analysis by measurement component

|                                                                                                       | Year ended 31 Dec 2023                                         |                                        |                                                                |                                                               |                 |                  |
|-------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|----------------------------------------|----------------------------------------------------------------|---------------------------------------------------------------|-----------------|------------------|
|                                                                                                       | Insurance contracts - Insurance contracts                      |                                        |                                                                | Life direct participating contracts                           |                 |                  |
|                                                                                                       | Estimates of present value of future cash flows (excluding RA) | Risk adjustment for non-financial risk | Estimates of present value of future cash flows (including RA) | Contractual service margin Contract under fair value approach | Other Contracts | Total gross      |
|                                                                                                       | £'000                                                          | £'000                                  | £'000                                                          | £'000                                                         | £'000           | £'000            |
| Opening assets                                                                                        | -                                                              | -                                      | -                                                              | -                                                             | -               | -                |
| Opening liabilities                                                                                   | 1,609,515                                                      | 6,921                                  | 1,616,436                                                      | 24,348                                                        | 62,539          | 1,703,323        |
| <b>Net opening balance 1 Jan 2023</b>                                                                 | <b>1,609,515</b>                                               | <b>6,921</b>                           | <b>1,616,436</b>                                               | <b>24,348</b>                                                 | <b>62,539</b>   | <b>1,703,323</b> |
| <b>Changes in the statement of comprehensive income</b>                                               |                                                                |                                        |                                                                |                                                               |                 |                  |
| <b>Changes that relate to current services</b>                                                        |                                                                |                                        |                                                                |                                                               |                 |                  |
| CSM recognised for services provided                                                                  | -                                                              | -                                      | -                                                              | (876)                                                         | (2,032)         | (2,908)          |
| Change in risk adjustment for non-financial risk for risk expired                                     | -                                                              | (792)                                  | (792)                                                          | -                                                             | -               | (792)            |
| Experience adjustments                                                                                | (12,722)                                                       | -                                      | (12,722)                                                       | -                                                             | -               | (12,722)         |
| <b>Changes that relate to future services</b>                                                         |                                                                |                                        |                                                                |                                                               |                 |                  |
| Contracts initially recognised in the year                                                            | (21,622)                                                       | 1,704                                  | (19,918)                                                       | -                                                             | 20,256          | 338              |
| Changes in estimates that adjust the CSM                                                              | 84,458                                                         | (2,683)                                | 81,775                                                         | (20,707)                                                      | (61,067)        | 1                |
| Changes in estimates that result in losses and reversal of losses on onerous contracts                | 4,540                                                          | (114)                                  | 4,426                                                          | -                                                             | -               | 4,426            |
| <b>Insurance service result</b>                                                                       | <b>54,654</b>                                                  | <b>(1,885)</b>                         | <b>52,769</b>                                                  | <b>(21,583)</b>                                               | <b>(42,843)</b> | <b>(11,657)</b>  |
| Net finance (income)/expenses from insurance contracts                                                | 155,599                                                        | -                                      | 155,599                                                        | -                                                             | -               | 155,599          |
| <b>Total changes in the statement of comprehensive income</b>                                         | <b>210,253</b>                                                 | <b>(1,885)</b>                         | <b>208,368</b>                                                 | <b>(21,583)</b>                                               | <b>(42,843)</b> | <b>143,942</b>   |
| <b>Cash flows</b>                                                                                     |                                                                |                                        |                                                                |                                                               |                 |                  |
| Premiums received                                                                                     | 408,175                                                        | -                                      | 408,175                                                        | -                                                             | -               | 408,175          |
| Claims, other insurance service expenses paid (including investment components), and other cash flows | (139,005)                                                      | -                                      | (139,005)                                                      | -                                                             | -               | (139,005)        |
| Insurance acquisition cash flows                                                                      | (4,445)                                                        | -                                      | (4,445)                                                        | -                                                             | -               | (4,445)          |
| <b>Total cash flows</b>                                                                               | <b>264,725</b>                                                 | <b>-</b>                               | <b>264,725</b>                                                 | <b>-</b>                                                      | <b>-</b>        | <b>264,725</b>   |
| <b>Net closing balance 31 Dec 23</b>                                                                  | <b>2,084,493</b>                                               | <b>5,036</b>                           | <b>2,089,529</b>                                               | <b>2,765</b>                                                  | <b>19,695</b>   | <b>2,111,989</b> |
| Closing assets                                                                                        | -                                                              | -                                      | -                                                              | -                                                             | -               | -                |
| Closing liabilities                                                                                   | 2,084,493                                                      | 5,036                                  | 2,089,529                                                      | 2,765                                                         | 19,695          | 2,111,989        |
| <b>Net closing balance 31 Dec 23</b>                                                                  | <b>2,084,493</b>                                               | <b>5,036</b>                           | <b>2,089,529</b>                                               | <b>2,765</b>                                                  | <b>19,695</b>   | <b>2,111,989</b> |

1 Other contracts are those contracts measured by applying IFRS 17 from inception of the contracts. This includes contracts measured under the full retrospective approach at Transition and contracts inceptioned after Transition.

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

Year ended 31 Dec 2022

|                                                                                                      | Insurance contracts - Insurance contracts                      |                                        | Life direct participating contracts                            |                                    |                 |
|------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|----------------------------------------|----------------------------------------------------------------|------------------------------------|-----------------|
|                                                                                                      | Estimates of present value of future cash flows (excluding RA) | Risk adjustment for non-financial risk | Estimates of present value of future cash flows (including RA) | Contractual service margin         |                 |
|                                                                                                      | £'000                                                          | £'000                                  | £'000                                                          | Contract under fair value approach | Other Contracts |
|                                                                                                      |                                                                |                                        |                                                                | £'000                              | £'000           |
|                                                                                                      |                                                                |                                        |                                                                |                                    | Total gross     |
|                                                                                                      |                                                                |                                        |                                                                |                                    | £'000           |
| Opening assets                                                                                       |                                                                |                                        |                                                                |                                    |                 |
| Opening liabilities                                                                                  | 1,510,747                                                      | 3,700                                  | 1,514,447                                                      | 21,422                             | 35,511          |
| Net opening balance 1 Jan 2022                                                                       | 1,510,747                                                      | 3,700                                  | 1,514,447                                                      | 21,422                             | 35,511          |
| Changes in the statement of comprehensive income                                                     |                                                                |                                        |                                                                |                                    |                 |
| Changes that relate to current services                                                              |                                                                |                                        |                                                                |                                    |                 |
| CSM recognised for services provided                                                                 | -                                                              | -                                      | -                                                              | -                                  | (7,029)         |
| Change in risk adjustment for non-financial risk for risk expired                                    | -                                                              | -                                      | -                                                              | -                                  | -               |
| Experience adjustments                                                                               | 5,755                                                          | -                                      | 5,755                                                          | -                                  | -               |
| Changes that relate to future services                                                               |                                                                |                                        |                                                                |                                    |                 |
| Contracts initially recognised in the year                                                           | (18,976)                                                       | 1,280                                  | (17,696)                                                       | -                                  | 18,328          |
| Changes in estimates that adjust the CSM                                                             | (21,021)                                                       | 1,818                                  | (19,203)                                                       | 2,926                              | 15,729          |
| Changes in estimates that result in losses and reversal of losses on onerous contracts               | 183                                                            | 123                                    | 306                                                            | -                                  | -               |
| Insurance service result                                                                             | (34,059)                                                       | 3,221                                  | (30,838)                                                       | 2,926                              | 27,028          |
| Net finance (income)/expenses from insurance contracts                                               | (154,390)                                                      | -                                      | (154,390)                                                      | -                                  | -               |
| Total changes in the statement of comprehensive income                                               | (188,449)                                                      | 3,221                                  | (185,228)                                                      | 2,926                              | 27,028          |
| Cash flows                                                                                           |                                                                |                                        |                                                                |                                    |                 |
| Premiums received                                                                                    | 412,420                                                        | -                                      | 412,420                                                        | -                                  | -               |
| Claims, other insurance service expenses paid (including investment components) and other cash flows | (121,296)                                                      | -                                      | (121,296)                                                      | -                                  | -               |
| Insurance acquisition cash flows                                                                     | (3,907)                                                        | -                                      | (3,907)                                                        | -                                  | -               |
| Total cash flows                                                                                     | 287,217                                                        | -                                      | 287,217                                                        | -                                  | -               |
| Net closing balance 31 Dec 2022                                                                      | 1,609,515                                                      | 6,921                                  | 1,616,436                                                      | 24,348                             | 62,539          |
| Closing assets                                                                                       |                                                                |                                        |                                                                |                                    |                 |
| Closing liabilities                                                                                  | 1,609,515                                                      | 6,921                                  | 1,616,436                                                      | 24,384                             | 62,539          |
| Net closing balance 31 Dec 2022                                                                      | 1,609,515                                                      | 6,921                                  | 1,616,436                                                      | 24,384                             | 62,539          |

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

| Year ended 31 Dec 2023                                                                                     |                                                                                 |                                              |                                                                         |                                           |                              |                 |
|------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|----------------------------------------------|-------------------------------------------------------------------------|-------------------------------------------|------------------------------|-----------------|
| Insurance contracts - Life Other contracts                                                                 |                                                                                 |                                              |                                                                         |                                           |                              |                 |
|                                                                                                            | Estimates of<br>present value of<br>future cash flows<br>and risk<br>adjustment | Risk adjustment<br>for non-financial<br>risk | Estimates of<br>present value of<br>future cash flows<br>(including RA) | Contractual service margin                |                              | Total gross     |
|                                                                                                            | £'000                                                                           | £'000                                        | £'000                                                                   | Contracts under<br>fair value<br>approach | Other contracts <sup>1</sup> | £'000           |
| Opening assets                                                                                             | (85,156)                                                                        | 8,672                                        | (76,484)                                                                | 5,922                                     | 27,371                       | (43,191)        |
| Opening liabilities                                                                                        | 102,714                                                                         | 19,321                                       | 122,035                                                                 | 67,991                                    | 5,157                        | 195,183         |
| <b>Net opening balance 1 Jan 2023</b>                                                                      | <b>17,558</b>                                                                   | <b>27,993</b>                                | <b>45,551</b>                                                           | <b>73,913</b>                             | <b>32,528</b>                | <b>151,992</b>  |
| <b>Changes in the statement of<br/>comprehensive income</b>                                                |                                                                                 |                                              |                                                                         |                                           |                              |                 |
| <b>Changes that relate to current services</b>                                                             |                                                                                 |                                              |                                                                         |                                           |                              |                 |
| CSM recognised for services provided                                                                       | -                                                                               | -                                            | -                                                                       | (14,275)                                  | (11,412)                     | (25,687)        |
| Change in risk adjustment for non-<br>financial risk for risk expired                                      | -                                                                               | (3,744)                                      | (3,744)                                                                 | -                                         | -                            | (3,744)         |
| Experience adjustments                                                                                     | (6,048)                                                                         | -                                            | (6,048)                                                                 | -                                         | -                            | (6,048)         |
| <b>Changes that relate to future services</b>                                                              |                                                                                 |                                              |                                                                         |                                           |                              |                 |
| Contracts initially recognised in the year                                                                 | (25,350)                                                                        | 5,965                                        | (19,385)                                                                | -                                         | 20,369                       | 984             |
| Changes in estimates that adjust the CSM                                                                   | 10,724                                                                          | (687)                                        | 10,037                                                                  | 10,541                                    | (20,578)                     | -               |
| Changes in estimates that result in losses                                                                 | 5,358                                                                           | (27)                                         | 5,331                                                                   | -                                         | -                            | 5,331           |
| Adjustments to liabilities for incurred<br>claims                                                          | 15,062                                                                          | 47                                           | 15,109                                                                  | -                                         | -                            | 15,109          |
| <b>Insurance service result</b>                                                                            | <b>(254)</b>                                                                    | <b>1,554</b>                                 | <b>1,300</b>                                                            | <b>(3,734)</b>                            | <b>(11,621)</b>              | <b>(14,055)</b> |
| Net finance (income)/expenses from<br>insurance contracts                                                  | 139                                                                             | -                                            | 139                                                                     | (1,325)                                   | 3,002                        | 1,816           |
| <b>Total changes in the statement of<br/>comprehensive income</b>                                          | <b>(115)</b>                                                                    | <b>1,554</b>                                 | <b>1,439</b>                                                            | <b>(5,059)</b>                            | <b>(8,619)</b>               | <b>(12,239)</b> |
| <b>Cash flows</b>                                                                                          |                                                                                 |                                              |                                                                         |                                           |                              |                 |
| Premiums received                                                                                          | 150,351                                                                         | -                                            | 150,351                                                                 | -                                         | -                            | 150,351         |
| Claims, other insurance service expenses<br>paid (including investment components)<br>and other cash flows | (89,046)                                                                        | -                                            | (89,046)                                                                | -                                         | -                            | (89,046)        |
| Insurance acquisition cash flows                                                                           | (23,856)                                                                        | -                                            | (23,856)                                                                | -                                         | -                            | (23,856)        |
| <b>Total cash flows</b>                                                                                    | <b>37,449</b>                                                                   | <b>-</b>                                     | <b>37,449</b>                                                           | <b>-</b>                                  | <b>-</b>                     | <b>37,449</b>   |
| <b>Net closing balance 31 Dec 23</b>                                                                       | <b>54,892</b>                                                                   | <b>29,547</b>                                | <b>84,439</b>                                                           | <b>68,854</b>                             | <b>23,909</b>                | <b>177,202</b>  |
| Closing assets                                                                                             | (72,085)                                                                        | 9,905                                        | (62,180)                                                                | 3,675                                     | 17,466                       | (41,040)        |
| Closing liabilities                                                                                        | 126,977                                                                         | 19,642                                       | 146,619                                                                 | 65,180                                    | 6,443                        | 218,242         |
| <b>Net closing balance 31 Dec 23</b>                                                                       | <b>54,891</b>                                                                   | <b>29,547</b>                                | <b>84,439</b>                                                           | <b>68,854</b>                             | <b>23,909</b>                | <b>177,202</b>  |

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

| Year ended 31 Dec 2022                                                                               |                                                                                  |                      |                                                                |                                                               |                              |                 |
|------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|----------------------|----------------------------------------------------------------|---------------------------------------------------------------|------------------------------|-----------------|
|                                                                                                      | Insurance contracts - Life                                                       |                      |                                                                | Other contracts                                               |                              | Total gross     |
|                                                                                                      | Estimates of present value of future cash flows (excluding for non-financial RA) | Risk adjustment risk | Estimates of present value of future cash flows (including RA) | Contractual service margin Contract under fair value approach | Other contracts <sup>1</sup> |                 |
|                                                                                                      | £'000                                                                            | £'000                | £'000                                                          | £'000                                                         | £'000                        | £'000           |
| Opening assets                                                                                       | (91,160)                                                                         | 11,131               | (80,029)                                                       | 20,254                                                        | 15,109                       | (44,666)        |
| Opening liabilities                                                                                  | 107,531                                                                          | 18,898               | 126,429                                                        | 65,453                                                        | 3,682                        | 195,564         |
| Net opening balance 1 Jan 2022                                                                       | 16,371                                                                           | 30,029               | 46,400                                                         | 85,707                                                        | 18,791                       | 150,898         |
| <b>Changes in the statement of comprehensive income</b>                                              |                                                                                  |                      |                                                                |                                                               |                              |                 |
| <b>Changes that relate to current services</b>                                                       |                                                                                  |                      |                                                                |                                                               |                              |                 |
| CSM recognised for services provided                                                                 | -                                                                                | -                    | -                                                              | (14,863)                                                      | (5,890)                      | (20,753)        |
| Change in risk adjustment for non-financial risk for risk expired                                    | -                                                                                | (5,357)              | (5,357)                                                        | -                                                             | -                            | (5,357)         |
| Experience adjustments                                                                               | (1,759)                                                                          | -                    | (1,759)                                                        | -                                                             | -                            | (1,759)         |
| <b>Changes that relate to future services</b>                                                        |                                                                                  |                      |                                                                |                                                               |                              |                 |
| Contracts initially recognised in the year                                                           | (24,937)                                                                         | 7,112                | (17,825)                                                       | -                                                             | 20,488                       | 2,663           |
| Changes in estimates that adjust the CSM                                                             | 1,927                                                                            | (3,335)              | (1,408)                                                        | 2,443                                                         | (1,036)                      | (1)             |
| Changes in estimates that result in losses and reversal of losses on onerous contracts               | 2,616                                                                            | (549)                | 2,067                                                          | -                                                             | -                            | 2,067           |
| <b>Changes that relate to past services</b>                                                          |                                                                                  |                      |                                                                |                                                               |                              |                 |
| Adjustments to liabilities for incurred claims                                                       | 4,199                                                                            | 93                   | 4,292                                                          | -                                                             | -                            | 4,292           |
| <b>Insurance service result</b>                                                                      | <b>(17,954)</b>                                                                  | <b>(2,036)</b>       | <b>(19,990)</b>                                                | <b>(12,420)</b>                                               | <b>13,562</b>                | <b>(18,848)</b> |
| Net finance (income)/expenses from insurance contracts                                               | (20,077)                                                                         | -                    | (20,077)                                                       | 627                                                           | 176                          | (19,274)        |
| <b>Total changes in the statement of comprehensive income</b>                                        | <b>(38,031)</b>                                                                  | <b>(2,036)</b>       | <b>(40,067)</b>                                                | <b>(11,793)</b>                                               | <b>13,738</b>                | <b>(38,122)</b> |
| <b>Cash flows</b>                                                                                    |                                                                                  |                      |                                                                |                                                               |                              |                 |
| Premiums received                                                                                    | 152,575                                                                          | -                    | 152,575                                                        | -                                                             | -                            | 152,575         |
| Claims, other insurance service expenses paid (including investment components) and other cash flows | (88,488)                                                                         | -                    | (88,488)                                                       | -                                                             | -                            | (88,488)        |
| Insurance acquisition cash flows                                                                     | (24,869)                                                                         | -                    | (24,869)                                                       | -                                                             | -                            | (24,869)        |
| <b>Total cash flows</b>                                                                              | <b>39,218</b>                                                                    | <b>-</b>             | <b>39,218</b>                                                  | <b>-</b>                                                      | <b>-</b>                     | <b>39,218</b>   |
| <b>Net closing balance 31 Dec 2022</b>                                                               | <b>17,558</b>                                                                    | <b>27,993</b>        | <b>45,551</b>                                                  | <b>73,914</b>                                                 | <b>32,529</b>                | <b>151,994</b>  |
| Closing assets                                                                                       | (85,156)                                                                         | 8,672                | (76,484)                                                       | 5,922                                                         | 27,371                       | (43,191)        |
| Closing liabilities                                                                                  | 102,714                                                                          | 19,321               | 122,035                                                        | 67,992                                                        | 5,158                        | 195,185         |
| <b>Net closing balance 31 Dec 2022</b>                                                               | <b>17,558</b>                                                                    | <b>27,993</b>        | <b>45,551</b>                                                  | <b>73,914</b>                                                 | <b>32,529</b>                | <b>151,994</b>  |

**HSBC LIFE (UK) LIMITED**  
**Notes on the Financial Statements (continued)**

(f) Movements in carrying amounts of reinsurance contracts - Analysis by measurement component

|                                                                        | Year ended 31 Dec 2023                                              |                                        |                                                                |                                     |                              |                 |
|------------------------------------------------------------------------|---------------------------------------------------------------------|----------------------------------------|----------------------------------------------------------------|-------------------------------------|------------------------------|-----------------|
|                                                                        | Reinsurance contracts - Life                                        |                                        |                                                                | Other contracts                     |                              |                 |
|                                                                        | Contractual service margin                                          |                                        |                                                                |                                     |                              |                 |
|                                                                        | Estimates of present value of future cash flows and risk adjustment | Risk adjustment for non-financial risk | Estimates of present value of future cash flows (including RA) | Contracts under fair value approach | Other contracts <sup>1</sup> | Total gross     |
|                                                                        | £'000                                                               | £'000                                  | £'000                                                          | £'000                               | £'000                        | £'000           |
| Opening assets                                                         | 59,042                                                              | 11,773                                 | 70,815                                                         | 30,483                              | 7,787                        | 109,085         |
| Opening liabilities                                                    | (39,691)                                                            | 2,052                                  | (37,639)                                                       | 7,616                               | 0                            | (30,023)        |
| <b>Net opening balance 1 Jan 2023</b>                                  | <b>19,351</b>                                                       | <b>13,825</b>                          | <b>33,176</b>                                                  | <b>38,099</b>                       | <b>7,787</b>                 | <b>79,062</b>   |
| <b>Changes in the statement of comprehensive income</b>                |                                                                     |                                        |                                                                |                                     |                              |                 |
| <b>Changes that relate to current services</b>                         |                                                                     |                                        |                                                                |                                     |                              |                 |
| CSM recognised for services provided                                   | -                                                                   | -                                      | -                                                              | (6,056)                             | (3,322)                      | (9,378)         |
| Change in risk adjustment for non-financial risk for risk expired      | -                                                                   | (2,335)                                | (2,335)                                                        | -                                   | -                            | (2,335)         |
| Experience adjustments                                                 | (9,421)                                                             | -                                      | (9,421)                                                        | -                                   | -                            | (9,421)         |
| <b>Changes that relate to future services</b>                          |                                                                     |                                        |                                                                |                                     |                              |                 |
| Contracts initially recognised in the year                             | (10,115)                                                            | 3,796                                  | (6,319)                                                        | -                                   | 6,972                        | 653             |
| Changes in estimates that adjust the contractual service margin        | 2,831                                                               | (490)                                  | 2,341                                                          | 632                                 | (2,973)                      | -               |
| Changes in estimates that do not adjust the contractual service margin | 1,090                                                               | 15                                     | 1,105                                                          | -                                   | -                            | 1,105           |
| <b>Changes that relate to past services</b>                            |                                                                     |                                        |                                                                |                                     |                              |                 |
| Adjustments to assets/liabilities for incurred claims                  | 10,115                                                              | 23                                     | 10,138                                                         | -                                   | -                            | 10,138          |
| <b>Insurance service result</b>                                        | <b>(5,500)</b>                                                      | <b>1,009</b>                           | <b>(4,491)</b>                                                 | <b>(5,424)</b>                      | <b>677</b>                   | <b>(9,238)</b>  |
| Net finance income/expenses from reinsurance contracts                 | (3,372)                                                             | -                                      | (3,372)                                                        | 455                                 | 263                          | (2,654)         |
| Effect of changes in non-performance risk of reinsurers                | 16                                                                  | -                                      | 16                                                             | -                                   | -                            | 16              |
| <b>Total changes in the statement of comprehensive income</b>          | <b>(8,856)</b>                                                      | <b>1,009</b>                           | <b>(7,847)</b>                                                 | <b>(4,969)</b>                      | <b>940</b>                   | <b>(11,876)</b> |
| <b>Cash flows</b>                                                      |                                                                     |                                        |                                                                |                                     |                              |                 |
| Premiums paid                                                          | 89,790                                                              | -                                      | 89,790                                                         | -                                   | -                            | 89,790          |
| Claims and other recoverables received                                 | (58,860)                                                            | -                                      | (58,860)                                                       | -                                   | -                            | (58,860)        |
| <b>Total cash flows</b>                                                | <b>30,930</b>                                                       | <b>-</b>                               | <b>30,930</b>                                                  | <b>-</b>                            | <b>-</b>                     | <b>30,930</b>   |
| <b>Net closing balance 31 Dec 23</b>                                   | <b>41,425</b>                                                       | <b>14,834</b>                          | <b>56,259</b>                                                  | <b>33,130</b>                       | <b>8,727</b>                 | <b>98,116</b>   |
| Closing assets                                                         | 78,458                                                              | 12,989                                 | 91,447                                                         | 27,067                              | 8,728                        | 127,242         |
| Closing liabilities                                                    | (37,033)                                                            | 1,845                                  | (35,188)                                                       | 6,063                               | -                            | (29,125)        |
| <b>Net closing balance 31 Dec 23</b>                                   | <b>41,425</b>                                                       | <b>14,834</b>                          | <b>56,259</b>                                                  | <b>33,130</b>                       | <b>8,728</b>                 | <b>98,118</b>   |

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

| Year ended 31 Dec 2022                                                 |                                                                         |                                              |                                                                            |                                                                        |                    |                |
|------------------------------------------------------------------------|-------------------------------------------------------------------------|----------------------------------------------|----------------------------------------------------------------------------|------------------------------------------------------------------------|--------------------|----------------|
| Reinsurance contracts - Life Other contracts                           |                                                                         |                                              |                                                                            |                                                                        |                    |                |
|                                                                        | Estimates of<br>present value of<br>future cash flows<br>(excluding RA) | Risk adjustment<br>for non-financial<br>risk | Estimates of<br>present value of<br>future cash<br>flows (including<br>RA) | Contractual service margin<br>Contract under<br>fair value<br>approach | Other<br>Contracts | Total gross    |
|                                                                        | £'000                                                                   | £'000                                        | £'000                                                                      | £'000                                                                  | £'000              | £'000          |
| Opening assets                                                         | 52,534                                                                  | 9,166                                        | 61,700                                                                     | 13,447                                                                 | 13,655             | 88,802         |
| Opening liabilities                                                    | (64,456)                                                                | 5,609                                        | (58,847)                                                                   | 16,867                                                                 | -                  | (41,980)       |
| <b>Net opening balance 1 Jan 2022</b>                                  | <b>(11,922)</b>                                                         | <b>14,775</b>                                | <b>2,853</b>                                                               | <b>30,314</b>                                                          | <b>13,655</b>      | <b>46,822</b>  |
| <b>Changes in the statement of comprehensive income</b>                |                                                                         |                                              |                                                                            |                                                                        |                    |                |
| <b>Changes that relate to current services</b>                         |                                                                         |                                              |                                                                            |                                                                        |                    |                |
| CSM recognised for services provided                                   | -                                                                       | -                                            | -                                                                          | 5,165                                                                  | (9,186)            | (4,021)        |
| Change in risk adjustment for non-financial risk for risk expired      | -                                                                       | (3,522)                                      | (3,522)                                                                    | -                                                                      | -                  | (3,522)        |
| Experience adjustments                                                 | 382                                                                     | -                                            | 382                                                                        | -                                                                      | -                  | 382            |
| <b>Changes that relate to future services</b>                          |                                                                         |                                              |                                                                            |                                                                        |                    |                |
| Contracts initially recognised in the year                             | (8,212)                                                                 | 4,743                                        | (3,469)                                                                    | -                                                                      | 5,065              | 1,596          |
| Changes in recoveries of losses on onerous                             | -                                                                       | -                                            | -                                                                          | -                                                                      | -                  | -              |
| Changes in estimates that adjust the contractual service margin        | 1,458                                                                   | (2,293)                                      | (835)                                                                      | 2,318                                                                  | (1,778)            | (295)          |
| Changes in estimates that do not adjust the contractual service margin | 434                                                                     | -                                            | 434                                                                        | -                                                                      | -                  | 434            |
| <b>Changes that relate to past services</b>                            |                                                                         |                                              |                                                                            |                                                                        |                    |                |
| Adjustments to assets/liabilities for incurred claims                  | (381)                                                                   | 122                                          | (259)                                                                      | -                                                                      | -                  | (259)          |
| <b>Insurance service result</b>                                        | <b>(6,319)</b>                                                          | <b>(950)</b>                                 | <b>(7,269)</b>                                                             | <b>7,483</b>                                                           | <b>(5,899)</b>     | <b>(5,685)</b> |
| Net finance (income)/expenses from reinsurance contracts               | 5,874                                                                   | -                                            | 5,874                                                                      | 302                                                                    | 30                 | 6,206          |
| Effect of changes in non-performance risk of reinsurers                | 29                                                                      | -                                            | 29                                                                         | -                                                                      | -                  | 29             |
| <b>Total changes in the statement of comprehensive income</b>          | <b>(416)</b>                                                            | <b>(950)</b>                                 | <b>(1,366)</b>                                                             | <b>7,785</b>                                                           | <b>(5,869)</b>     | <b>550</b>     |
| <b>Cash flows</b>                                                      |                                                                         |                                              |                                                                            |                                                                        |                    |                |
| Premiums paid                                                          | 90,054                                                                  | -                                            | 90,054                                                                     | -                                                                      | -                  | 90,054         |
| Claims and other recoverables received                                 | (58,365)                                                                | -                                            | (58,365)                                                                   | -                                                                      | -                  | (58,365)       |
| Transfer                                                               | -                                                                       | -                                            | -                                                                          | -                                                                      | -                  | -              |
| <b>Total cash flows</b>                                                | <b>31,689</b>                                                           | <b>-</b>                                     | <b>31,689</b>                                                              | <b>-</b>                                                               | <b>-</b>           | <b>31,689</b>  |
| Other                                                                  | -                                                                       | -                                            | -                                                                          | -                                                                      | -                  | -              |
| <b>Net closing balance 31 Dec 2022</b>                                 | <b>19,351</b>                                                           | <b>13,825</b>                                | <b>33,176</b>                                                              | <b>38,099</b>                                                          | <b>7,786</b>       | <b>79,061</b>  |
| Closing assets                                                         | 59,042                                                                  | 11,773                                       | 70,815                                                                     | 30,483                                                                 | 7,786              | 109,084        |
| Closing liabilities                                                    | (39,691)                                                                | 2,052                                        | (37,639)                                                                   | 7,616                                                                  | 0                  | (30,023)       |
| <b>Net closing balance 31 Dec 2022</b>                                 | <b>19,351</b>                                                           | <b>13,825</b>                                | <b>33,176</b>                                                              | <b>38,099</b>                                                          | <b>7,786</b>       | <b>79,061</b>  |

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

### (g) Effect of contracts initially recognised in the year

|                                                       | Year ended 31 Dec 2023      |                          |           | Year ended 31 Dec 2022      |                          |           |
|-------------------------------------------------------|-----------------------------|--------------------------|-----------|-----------------------------|--------------------------|-----------|
|                                                       | Profitable contracts issued | Onerous contracts issued | Total     | Profitable contracts issued | Onerous contracts issued | Total     |
|                                                       | £'000                       | £'000                    | £'000     | £'000                       | £'000                    | £'000     |
| <b>Life direct participating contracts</b>            |                             |                          |           |                             |                          |           |
| Estimates of present value of cash outflows           | 374,707                     | 11,935                   | 386,642   | 365,527                     | 13,151                   | 378,678   |
| - Claims and other insurance service expenses payable | 374,707                     | 11,935                   | 386,642   | 365,527                     | 13,151                   | 378,678   |
| Estimates of present value of cash inflows            | (396,594)                   | (11,670)                 | (408,264) | (385,050)                   | (12,604)                 | (397,654) |
| Risk adjustment for non-financial risk                | 1,631                       | 73                       | 1,704     | 1,197                       | 84                       | 1,281     |
| CSM                                                   | 20,256                      | -                        | 20,256    | 18,327                      | -                        | 18,327    |
| <b>Losses recognised on initial recognition</b>       | -                           | 338                      | 338       | 1                           | 631                      | 632       |
| <b>Life other contracts</b>                           |                             |                          |           |                             |                          |           |
| Estimates of present value of cash outflows           | 115,833                     | 6,544                    | 122,377   | 131,270                     | 19,177                   | 150,447   |
| - Claims and other insurance service expenses payable | 115,833                     | 6,544                    | 122,377   | 131,270                     | 19,177                   | 150,447   |
| Estimates of present value of cash inflows            | (141,898)                   | (5,829)                  | (147,727) | (157,980)                   | (17,405)                 | (175,385) |
| Risk adjustment for non-financial risk                | 5,698                       | 268                      | 5,966     | 6,222                       | 890                      | 7,112     |
| CSM                                                   | 20,367                      | -                        | 20,367    | 20,488                      | -                        | 20,488    |
| <b>Losses recognised on initial recognition</b>       | -                           | 983                      | 983       | -                           | 2,662                    | 2,662     |
| <b>Reinsurance contracts</b>                          |                             |                          | 6,319     |                             |                          | 3,469     |

### (h) Present value of expected future cash flows of insurance contract liabilities and contractual service margin

|                                                             | less than 1 year | 1-2 years     | 2-3 years     | 3-4 years     | 4-5 years     | 5-10 years     | 10-20 years    | Over 20 years    | Total            |
|-------------------------------------------------------------|------------------|---------------|---------------|---------------|---------------|----------------|----------------|------------------|------------------|
|                                                             | £'000            | £'000         | £'000         | £'000         | £'000         | £'000          | £'000          | £'000            | £'000            |
| <b>Insurance liability future cash flows</b>                |                  |               |               |               |               |                |                |                  |                  |
| Life direct participating contracts                         | 19,783           | 45,235        | 55,569        | 63,630        | 70,065        | 331,163        | 504,506        | 994,541          | 2,084,492        |
| Life other contracts                                        | 40,405           | (6,168)       | (9,620)       | (9,497)       | (8,550)       | (20,706)       | 13,502         | 55,525           | 54,891           |
| Reinsurance contracts                                       | (55,482)         | (5,642)       | (2,701)       | (826)         | 561           | 8,081          | 9,064          | 5,521            | (41,424)         |
| <b>Insurance liability future cash flows at 31 Dec 2023</b> | <b>4,706</b>     | <b>33,425</b> | <b>43,248</b> | <b>53,307</b> | <b>62,076</b> | <b>318,538</b> | <b>527,072</b> | <b>1,055,587</b> | <b>2,097,959</b> |
| <b>Remaining contractual service margin</b>                 |                  |               |               |               |               |                |                |                  |                  |
| Life direct participating contracts                         | 1,789            | 1,677         | 1,578         | 1,481         | 1,382         | 5,487          | 5,852          | 3,215            | 22,461           |
| Life other contracts                                        | 15,519           | 12,668        | 10,445        | 8,700         | 7,301         | 22,358         | 13,024         | 2,750            | 92,765           |
| Reinsurance contracts                                       | (5,700)          | (4,926)       | (4,262)       | (3,707)       | (3,225)       | (10,710)       | (7,409)        | (1,919)          | (41,858)         |
| <b>Remaining contractual service margin at 31 Dec 2023</b>  | <b>11,608</b>    | <b>9,419</b>  | <b>7,761</b>  | <b>6,474</b>  | <b>5,458</b>  | <b>17,135</b>  | <b>11,467</b>  | <b>4,046</b>     | <b>73,368</b>    |
| <b>Insurance liability future cash flows</b>                |                  |               |               |               |               |                |                |                  |                  |
| Life direct participating contracts                         | 23,420           | 34,750        | 42,687        | 48,880        | 53,824        | 254,397        | 387,558        | 763,999          | 1,609,515        |
| Life other contracts                                        | 18,986           | (12,419)      | (11,729)      | (10,832)      | (9,449)       | (23,547)       | 14,784         | 51,764           | 17,558           |
| Reinsurance contracts                                       | (36,800)         | (5,185)       | (2,219)       | (386)         | 716           | 9,873          | 9,812          | 4,838            | (19,351)         |
| <b>Insurance liability future cash flows at 31 Dec 2022</b> | <b>5,606</b>     | <b>17,146</b> | <b>28,739</b> | <b>37,662</b> | <b>45,091</b> | <b>240,723</b> | <b>412,154</b> | <b>820,601</b>   | <b>1,607,722</b> |
| <b>Remaining contractual service margin</b>                 |                  |               |               |               |               |                |                |                  |                  |
| Life direct participating contracts                         | 4,597            | 5,269         | 5,168         | 5,011         | 4,774         | 20,047         | 24,175         | 17,845           | 86,886           |
| Life other contracts                                        | 15,954           | 13,432        | 11,345        | 9,579         | 8,129         | 25,847         | 17,220         | 4,935            | 106,441          |
| Reinsurance contracts                                       | (5,680)          | (5,072)       | (4,453)       | (3,912)       | (3,449)       | (11,739)       | (8,783)        | (2,797)          | (45,885)         |
| <b>Remaining contractual service margin at 31 Dec 2022</b>  | <b>14,871</b>    | <b>13,629</b> | <b>12,060</b> | <b>10,678</b> | <b>9,454</b>  | <b>34,155</b>  | <b>32,612</b>  | <b>19,983</b>    | <b>147,442</b>   |



# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

### (i) Discount rates

The Group has elected to apply a bottom-up approach whereby the discount rate is derived using the risk-free rate adjusted for an illiquidity premium as set out in the Summary of material accounting policies (b) Insurance contracts. The blended average of discount rates is used:

|              | 2023  | 2022  |
|--------------|-------|-------|
| rate 10Y (%) | 3.28% | 3.71% |
| rate 20Y (%) | 3.43% | 3.54% |

### 5 Net fees income / (expense)

|                                                                      | 2023<br>£'000  | 2022<br>£'000<br>(Restated) |
|----------------------------------------------------------------------|----------------|-----------------------------|
| <b>Fee income</b>                                                    |                |                             |
| Fund management based fees                                           | 2,735          | 2,832                       |
| Front-end fees recognised in the year                                | 459            | 42                          |
| Rebated annual management charges from collective investment schemes | 56             | -                           |
| Policy fees                                                          | -              | 16                          |
| <b>Total fee income</b>                                              | <b>3,250</b>   | <b>2,890</b>                |
| <b>Fee expense</b>                                                   |                |                             |
| Investment contract benefits paid                                    | (73)           | (121)                       |
| Investment management, custody and valuation fees                    | (1,319)        | (1,695)                     |
| Fee sharing arrangement                                              | (891)          | (877)                       |
| Bank charges                                                         | (281)          | (48)                        |
| Other                                                                | (420)          | (725)                       |
| <b>Total fee expense</b>                                             | <b>(2,984)</b> | <b>(3,466)</b>              |
| <b>Net fees income / (expense)</b>                                   | <b>266</b>     | <b>(576)</b>                |

### 6 Credit impairment losses

|                                                     | 2023<br>£'000 | 2022<br>£'000 |
|-----------------------------------------------------|---------------|---------------|
| <b>Commission clawback credit impairment losses</b> | <b>2,286</b>  | <b>229</b>    |

Credit impairment losses relate to commission clawback. Commission paid to third party insurance intermediaries, for the sale of HSBC Life Protection (HLP) policies, is due back to the Company when policies lapse within four years from inception. The commission clawback receivable is impaired when the Company assesses the refunds are no longer recoverable from the intermediaries due to significant financial difficulty.

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

### 7 Total operating expenses

|                                 | 2023                                                                          |                                                            |                                   |                | 2022                                                                                        |                                                                          |                                                 |                              |
|---------------------------------|-------------------------------------------------------------------------------|------------------------------------------------------------|-----------------------------------|----------------|---------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|-------------------------------------------------|------------------------------|
|                                 | Expenses attributed to insurance acquisition cash flows <sup>1</sup><br>£'000 | Other directly attributable expenses <sup>1</sup><br>£'000 | Other operating expenses<br>£'000 | Total<br>£'000 | Expenses attributed to insurance acquisition cash flows <sup>1</sup><br>£'000<br>(Restated) | Other directly attributable expenses <sup>1</sup><br>£'000<br>(Restated) | Other operating expenses<br>£'000<br>(Restated) | Total<br>£'000<br>(Restated) |
| <b>Expenses by nature</b>       |                                                                               |                                                            |                                   |                |                                                                                             |                                                                          |                                                 |                              |
| Commission payable              | 19,575                                                                        | -                                                          | -                                 | 19,575         | 21,424                                                                                      | -                                                                        | -                                               | 21,424                       |
| Administrative expenses         | 11,904                                                                        | 6,406                                                      | 9,392                             | 27,702         | 8,902                                                                                       | 8,273                                                                    | 9,912                                           | 27,087                       |
| <b>Total operating expenses</b> | <b>31,479</b>                                                                 | <b>6,406</b>                                               | <b>9,392</b>                      | <b>47,277</b>  | <b>30,326</b>                                                                               | <b>8,273</b>                                                             | <b>9,912</b>                                    | <b>48,511</b>                |

<sup>1</sup> Expenses attributed to insurance acquisition cash flows and other directly attributable expenses comprise expenses incurred by the Company in the reporting period that relate directly to the fulfilment of contracts issued within IFRS 17's scope and reinsurance contracts held. These expenses are recognised in the statement of comprehensive income based on IFRS 17 measurement requirements.

Audit, legal and other professional fees include:

#### Auditors remuneration:

|                                                               |            |            |
|---------------------------------------------------------------|------------|------------|
| - Audit of these financial statements pursuant to legislation | 471        | 280        |
| - Other audit-related services pursuant to such legislation   | 161        | 149        |
|                                                               | <b>632</b> | <b>429</b> |

The fees paid to auditors detailed above (exclusive of VAT) relate only to activities in respect of the Company.

Other audit-related services pursuant to such legislation for 2023 relates to the Solvency II limited scope audit.

### 8 Directors' emoluments

One director who served during the year (2022: One director) was remunerated by other Group undertakings which made no specific charge to this company for their services. The emoluments of the other directors in respect of their services to the Company are shown below.

|                              | 2023<br>£'000 | 2022<br>£'000 |
|------------------------------|---------------|---------------|
| Emoluments                   | 671           | 558           |
| Pension scheme contributions | 9             | 4             |
|                              | <b>680</b>    | <b>562</b>    |
| Highest paid Director:       |               |               |
| Emoluments                   | 277           | 287           |
| Pension scheme contributions | 2             | 2             |
|                              | <b>279</b>    | <b>289</b>    |

The highest paid director exercised options over HSBC Holdings plc ordinary shares during the year (2022: Two directors).

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

The Company does not have any direct employees (2022: nil). The directors and staff are all employees of other Group undertakings.

Retirement benefits are accruing to the directors under schemes operated by their employing companies. Retirement benefits are accruing to two directors under money purchase schemes and none are accruing under defined benefits scheme at 31 December 2023 (2022: two directors under money purchase schemes and none accruing under defined benefits scheme). The directors are members of retirement benefit schemes operated by HSBC Bank UK plc. Details of these schemes can be found in the Annual Report and Accounts of HSBC Bank UK plc. The Company does not receive any explicit charges in respect of the costs of contributions to the retirement benefit schemes for the directors and staff. As the Company has no staff, it has no liability in respect of any deficit within the schemes, although any surplus or deficit may affect the level of costs recharged to the Company in future periods.

### 9 Tax (credit) / expense

|                                                   | Notes | 2023<br>£'000 | 2022<br>£'000<br>(Restated) |
|---------------------------------------------------|-------|---------------|-----------------------------|
| <b>Current tax</b>                                |       |               |                             |
| UK Corporation tax:                               |       |               |                             |
| – on current year profit                          |       | 20,774        | 113                         |
| – adjustments in respect of prior years           |       | (2,002)       | -                           |
| Overseas tax                                      |       |               |                             |
| – on current year profit                          |       | (17)          | 17                          |
| Total current tax                                 |       | 18,755        | 130                         |
| <b>Deferred tax</b>                               |       |               |                             |
| Deferred tax asset recognition                    |       | (115,875)     | -                           |
| Origination and reversal of temporary differences |       | 4,881         | 6,265                       |
| Effect of changes in tax rates                    |       | -             | 1                           |
| Adjustment in respect of prior years              |       | -             | 4                           |
| Total deferred tax                                | 19    | (110,994)     | 6,270                       |
| Tax credit                                        |       | (92,239)      | 6,400                       |

#### Tax reconciliation:

|                                       | 2023<br>£'000 | Percentage of<br>overall loss<br>before tax<br>% | 2022<br>£'000<br>(Restated) | Percentage of<br>overall profit<br>before tax<br>% |
|---------------------------------------|---------------|--------------------------------------------------|-----------------------------|----------------------------------------------------|
| Profit before tax                     | 17,481        |                                                  | 25,199                      |                                                    |
| Tax of 23.5% (2022: 19%)              | 4,108         | 24                                               | 4,788                       | 19                                                 |
| Impact of policyholder tax            | (85,806)      | (491)                                            | -                           | -                                                  |
| Adjustments in respect of prior years | (2,002)       | (11)                                             | 3                           | -                                                  |
| Income not taxable for tax purposes   | (8,601)       | (49)                                             | (3)                         | -                                                  |
| Overseas tax charge                   | (17)          | -                                                | 17                          | -                                                  |
| Changes in tax rates                  | -             | -                                                | 1,488                       | -                                                  |
| Other items                           | 79            | -                                                | 107                         | -                                                  |
| Overall tax credit                    | (92,239)      | (527)                                            | 6,400                       | 19                                                 |

An increase in the main UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the company's future current tax charge accordingly. Where appropriate, the deferred tax liability at 31 December 2023 and 2022 has been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences.

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

### 10 Contractual rights- investment contracts

|                     | Investment contracts<br>Contractual rights<br>£'000 |
|---------------------|-----------------------------------------------------|
| <b>2023</b>         |                                                     |
| 1 January 2023      | 422                                                 |
| Amortisation        | (422)                                               |
| At 31 December 2023 | -                                                   |
| <b>2022</b>         |                                                     |
| 1 January 2022      | 449                                                 |
| Amortisation        | (27)                                                |
| At 31 December 2022 | 422                                                 |

The contractual rights have been fully amortised during 2023.

### 11 Financial assets at fair value through profit or loss

The Company's financial assets at fair value through profit or loss are summarised below by measurement category.

|                                                              | 2023<br>£'000         | 2022<br>£'000         |
|--------------------------------------------------------------|-----------------------|-----------------------|
| Mandatorily fair value through profit or loss (FVTPL)        | 3,136,464             | 2,658,813             |
| <b>Financial assets at fair value through profit or loss</b> | <b>2023<br/>£'000</b> | <b>2022<br/>£'000</b> |
| Equity securities – listed                                   | -                     | 4,141                 |
| Debt securities – fixed interest rate:                       |                       |                       |
| – government bonds                                           | 4,739                 | 4,717                 |
| – other - listed                                             | 36,215                | 47,609                |
|                                                              | 40,954                | 52,326                |
| Collective investment schemes – unlisted                     | 3,095,510             | 2,602,346             |
| Cash and cash equivalents:                                   |                       |                       |
| – Bank and cash balances                                     | 116,656               | 102,361               |
| – Short-term bank deposits                                   | 51,867                | 51,785                |
|                                                              | 168,523               | 154,146               |
| Total financial assets at fair value through profit or loss  | 3,304,987             | 2,812,959             |
| Expected to be recovered in no more than one year            | 503,385               | 495,152               |
| Expected to be recovered after more than one year            | 2,801,602             | 2,317,807             |
|                                                              | 3,304,987             | 2,812,959             |

The other listed fixed rate debt securities relate to corporate bonds. The fair values of these are determined based on the interest yields on the instruments.

Derivatives are valued using internal models with inputs based on observable data.

Custody services are provided by HSBC Security Services, SEI Investments (Europe) Limited; True Potential Investments LLP and Investment Funds Direct Limited.

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

### Valuation of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable parties in an arm's length transaction.

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- **Level 1:** Quoted market price: financial instruments with quoted prices for identical instruments in active markets.
- **Level 2:** Valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets and financial instruments valued using models where all significant inputs are observable.
- **Level 3:** Valuation technique with significant unobservable inputs: financial instruments valued using models where one or more significant inputs are unobservable.

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

| 2023                            | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000   |
|---------------------------------|------------------|------------------|------------------|------------------|
| Financial assets:               |                  |                  |                  |                  |
| Equity securities               | -                | -                | -                | -                |
| Collectives                     | 3,095,335        | -                | 175              | 3,095,510        |
| Debt securities                 | -                | 40,954           | -                | 40,954           |
| Cash                            | -                | 168,523          | -                | 168,523          |
|                                 | <u>3,095,335</u> | <u>209,477</u>   | <u>175</u>       | <u>3,304,987</u> |
| Unit-linked                     | 2,980,703        | -                | 175              | 2,980,878        |
| Other                           | 114,632          | 209,477          | -                | 324,109          |
|                                 | <u>3,095,335</u> | <u>209,477</u>   | <u>175</u>       | <u>3,304,987</u> |
| Liabilities:                    |                  |                  |                  |                  |
| Investment contract liabilities | -                | 852,588          | -                | 852,588          |
|                                 | <u>-</u>         | <u>852,588</u>   | <u>-</u>         | <u>852,588</u>   |
| 2022                            | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000   |
| Financial assets:               |                  |                  |                  |                  |
| Equity securities               | 4,141            | -                | -                | 4,141            |
| Collectives                     | 2,602,048        | -                | 298              | 2,602,346        |
| Debt securities                 | -                | 52,326           | -                | 52,326           |
| Cash                            | -                | 154,146          | -                | 154,146          |
|                                 | <u>2,606,189</u> | <u>206,472</u>   | <u>298</u>       | <u>2,812,959</u> |
| Unit-linked                     | 2,485,718        | -                | 298              | 2,486,016        |
| Other                           | 120,471          | 206,472          | -                | 326,943          |
|                                 | <u>2,606,189</u> | <u>206,472</u>   | <u>298</u>       | <u>2,812,959</u> |
| Liabilities:                    |                  |                  |                  |                  |
| Investment contract liabilities | -                | 789,148          | -                | 789,148          |
|                                 | <u>-</u>         | <u>789,148</u>   | <u>-</u>         | <u>789,148</u>   |

**HSBC LIFE (UK) LIMITED**  
**Notes on the Financial Statements (continued)**

**12 Receivables, prepayments and accrued income**

|                                                               | 2023<br>£'000 | 2022<br>£'000<br>(Restated) |
|---------------------------------------------------------------|---------------|-----------------------------|
| Receivables arising from insurance and reinsurance contracts: |               |                             |
| – due from contract holders                                   | -             | -                           |
| – due from related party intermediaries                       | (40)          | 305                         |
| – due from other reinsurers                                   | 10,169        | 7,556                       |
| – due from related party reinsurers                           | 1,340         | (84)                        |
| Bridging accounts                                             |               |                             |
| – Third party                                                 | (232)         | (85)                        |
| Other loans and receivables:                                  |               |                             |
| – Prepayments                                                 | 202           | 235                         |
| – Accrued income                                              | 849           | 1,279                       |
| – Receivables from related parties                            | 821           | 572                         |
| – Other receivables                                           | 1,177         | 704                         |
| – Other receivables from related parties                      | 14            | 17                          |
|                                                               | <b>14,300</b> | <b>10,499</b>               |
| Expected to be recovered in no more than one year             | <b>14,300</b> | <b>10,499</b>               |
|                                                               | <b>14,300</b> | <b>10,499</b>               |

The carrying amount of receivables, including insurance receivables, is considered to be a reasonable approximation of their fair value.

Bridging accounts are control accounts to manage the actual accounting cashflows versus expected cashflows from the cashflow models.

**13 Called up share capital**

|                                       | 2023<br>£'000 | 2022<br>£'000 |
|---------------------------------------|---------------|---------------|
| Allotted, called up and fully paid    |               |               |
| 94,375,000 Ordinary shares of £1 each | <b>94,375</b> | <b>94,375</b> |
|                                       | <b>94,375</b> | <b>94,375</b> |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to repayment of capital.

**14 Dividends**

|                  | 2023<br>£'000 | 2023<br>Total per share | 2022<br>£'000 | 2022<br>Total per share |
|------------------|---------------|-------------------------|---------------|-------------------------|
| Interim dividend | -             | -                       | 8,000         | 0.08                    |

**15 Retained earnings**

|                   | 2023<br>£'000  | 2022<br>£'000<br>(Restated) |
|-------------------|----------------|-----------------------------|
| Retained earnings | <b>211,505</b> | <b>101,785</b>              |

## HSBC LIFE (UK) LIMITED

### Notes on the Financial Statements (continued)

The retained earnings balance represents the amount available for dividend distribution to the equity shareholders of the Company. The retained earnings plus capital are in excess of the Company's regulatory solvency capital requirement and thus there is no restriction on distributable reserves.

#### 16 Investment contract liabilities

|                                                                         | 2023<br>£'000 | 2022<br>£'000 |
|-------------------------------------------------------------------------|---------------|---------------|
| Investment contracts at fair value through profit or loss (unit-linked) | 852,588       | 789,148       |
| Expected to be paid in no more than one year                            | 118           | 183           |
| Expected to be paid after more than one year                            | 852,470       | 788,965       |
|                                                                         | 852,588       | 789,148       |

All investment contract liabilities are designated by the Company to be at fair value through profit or loss.

The maturity value of these financial liabilities is determined by the fair value of the linked assets at maturity date. There will be no difference between the carrying amount and the maturity amount at maturity date.

#### 17 Insurance and other payables and deferred income

|                                                                           | 2023<br>£'000 | 2022<br>£'000<br>(Restated) |
|---------------------------------------------------------------------------|---------------|-----------------------------|
| Direct insurance contract payables                                        | 10,659        | 6,643                       |
| Reinsurance contract payables                                             | 9,408         | 9,550                       |
| Amounts due to related parties<br>including reinsurance contract payables | 8,337         | 12,688                      |
| Direct investment contract payables                                       | 5,067         | 5,397                       |
| Other payables and accrued expenses                                       | 9,803         | 6,266                       |
| Deferred income                                                           | 19            | 487                         |
| Bridging accounts<br>- Third party                                        | (2,256)       | (99)                        |
|                                                                           | 41,037        | 40,932                      |
| Expected to be settled in no more than one year                           | 41,037        | 40,932                      |
|                                                                           | 41,037        | 40,932                      |

Deferred income relates to front-end fees received from investment contract holders as a prepayment for asset management and related services. These amounts are non-refundable and are released to income as the services are rendered.

Bridging accounts are control accounts to manage the actual accounting cashflows versus expected cashflows from the cashflow models.

The carrying amount of insurance and other payables is considered to be a reasonable approximation of their fair value.



**HSBC LIFE (UK) LIMITED**  
**Notes on the Financial Statements (continued)**

**18 Other provisions**

|                                              | 2023<br>£'000 | 2022<br>£'000 |
|----------------------------------------------|---------------|---------------|
| At 1 January                                 | 54            | 113           |
| Additional provisions made during the year   | -             | -             |
| Utilised during the year                     | -             | (59)          |
| Amounts reversed during the year             | -             | -             |
| At 31 December                               | 54            | 54            |
| Expected to be paid in no more than one year | 54            | 54            |
| Expected to be paid after more than one year | -             | -             |
|                                              | 54            | 54            |

The provision utilised in the year relates to policyholder remediation on historic FlexiLife Plan policies, with a decreasing sum assured, where premiums were marginally overcharged. The provision includes premium refunds and accrued interest on the refunds.

**19 Deferred tax (assets)/liabilities**

|                         | 2023<br>£'000 | 2022<br>£'000<br>(Restated) |
|-------------------------|---------------|-----------------------------|
| At 1 January            | 22,538        | 16,268                      |
| Income statement credit | (110,994)     | 6,270                       |
| At 31 December          | (88,456)      | 22,538                      |

|                                 | 2023<br>£'000 | 2022<br>£'000<br>(Restated) |
|---------------------------------|---------------|-----------------------------|
| <b>Deferred tax assets</b>      |               |                             |
| Deferred income                 | -             | 115                         |
| Deferred and excess expenses    | 98,092        | -                           |
|                                 | 98,092        | 115                         |
| <b>Deferred tax liabilities</b> |               |                             |
| Contractual rights              | -             | 106                         |
| Insurance contract provisions   | 9,636         | 22,547                      |
|                                 | 9,636         | 22,653                      |

A deferred tax asset has been recognised (Note 2(k) Use of accounting estimates and judgements), relating to historic tax losses, based on the recognition and measurement criteria in IAS 12. The conclusion was that the recognition threshold was met, due to the increase in interest rates which resulted in higher projected future taxable income (investment return and gains), which supported the expected utilisation.

There are no unrecognised deferred tax asset. At year-end 2022, a deferred tax asset in respect of excess management expenses of £495,893,000 with tax impact £99,168,000 had not been recognised as the recoverability of the deferred tax asset was considered doubtful.

## HSBC LIFE (UK) LIMITED

### Notes on the Financial Statements (continued)

The UK's taxation regime for life assurance companies taxes policyholder profits and "I-E" (broadly any investment income plus gains on disposals of assets less expenses of management) tax losses (XSE) were recognised as a deferred tax asset during 2023.

#### 20 Structured entities

The Company is involved with structured entities through investment fund holdings within the unit-linked and non-linked funds.

The arrangements that involve structured entities form part of the normal course of business for the Company and are authorised by management when they are established to ensure appropriate purpose and governance. The Company has involvement with unconsolidated structured entities, which may be established by HSBC Group companies or by third parties, as detailed below.

The term 'unconsolidated structured entities' refers to all structured entities controlled or not controlled by the Company. The Company is exempt from preparing consolidated group financial statements (refer to note 1(d)) and thus the structured entities the Company controls are included in the unconsolidated structured entities listed below. The Company enters into transactions with unconsolidated structured entities in the normal course of business to facilitate policyholder transactions and for specific investment opportunities.

The table below shows the total assets of unconsolidated structured entities in which the Company has an interest at the reporting date, as well as its maximum exposure to loss in relation to those interests.

The maximum potential loss from the Company's interests in unconsolidated structured entities represents the maximum loss that it could be required to report as a result of its involvement with unconsolidated structured entities regardless of the probability of the loss being incurred. Nature and risks associated with HSBC interests in unconsolidated structured entities:

|                                                                                                  | 2023<br>£'000 | 2022<br>£'000 |
|--------------------------------------------------------------------------------------------------|---------------|---------------|
| <b>At 31 December</b>                                                                            |               |               |
| HSBC Life (UK) Limited's interest - assets                                                       |               |               |
| Collective investment schemes                                                                    | 3,095,510     | 2,602,346     |
| Total assets in relation to the Company's interests<br>in the unconsolidated structured entities | 3,095,510     | 2,602,346     |
| Maximum loss                                                                                     | 3,095,510     | 2,602,346     |

HSBC Group companies have established and manage money market funds and non-money market investment funds to provide policyholders with investment opportunities. HSBC Group companies, as fund managers, may be entitled to receive management and performance fees based on the assets under management.

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

### 21 Related party transactions

The Company has a related party relationship with its parent, with other group undertakings and with its directors.

Transactions with related parties are summarised as follows:

#### (a) Income and expense

|                              | 2023<br>£'000 | 2022<br>£'000<br>(Restated) |
|------------------------------|---------------|-----------------------------|
| Net insurance service result |               |                             |
| - Other Group company        | 10,642        | 3,941                       |
| Net investment returns       |               |                             |
| - Parent                     | 3,158         | 559                         |
| - Other Group company        | 7,765         | 5,458                       |
| Net fees income / (expense)  |               |                             |
| - Parent                     | (1,281)       | (1,204)                     |
| - Other Group company        | (1,153)       | (1,416)                     |
| Total operating expenses     |               |                             |
| - Parent                     | 1,566         | (1,566)                     |
| - Other Group company        | (9,340)       | (8,247)                     |
|                              | (7,774)       | (9,813)                     |
|                              | 11,357        | (2,475)                     |

Income from related party transactions arises from:

- Insurance service result includes the impact from Group contracts with other Group companies to provide life, critical illness and income protection cover for employees and associated reinsurance contracts. The impact of attributable insurance contract expenses are also included in the insurance service result;
- Investment returns include interest receivable on cash balances deposited with the Company's parent and interest on collective investment scheme holdings with other Group companies;
- Fee income include annual management charges rebated to the Company in respect of its holdings in collective investment schemes managed by other HSBC Group companies;
- Fee expenses include costs charged to the Company its parent for the provision of investment accounting and unit pricing services and cost charged for the provision of asset management services by other Group companies.
- Operating expenses include acquisition costs (commission) payable to other Group companies in relation to sales of the Company's products. The Company's products are currently marketed and sold primarily by HSBC UK Bank plc through its sales channels.
- Costs charged to the Company for the provision of management services are also included in operating expenses. These include product management, customer services (policy underwriting, administration and claims processing), risk management, actuarial, finance, human resources, property services and IT. The Company is recharged for the actual costs incurred in undertaking these activities. Cost directly attributable to insurance and reinsurance contracts are taken into the contractual service margin calculation and spread over the life of the contracts through the insurance service result.

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

### (b) Key management compensation

The Company does not have any direct employees. The Directors and staff are all employees of other Group companies. The costs recharged to the Company include the following amounts in respect of key management compensation relating to those individuals' services to the Company:

|                                                 | 2023<br>£'000 | 2022<br>£'000 |
|-------------------------------------------------|---------------|---------------|
| Salaries and other short-term employee benefits | 675           | 558           |
| Post-employment benefits                        | 5             | 4             |
|                                                 | <b>680</b>    | <b>562</b>    |

Key management transact with the Company and other companies within the Group through the purchase of standard products in the ordinary course of business and on substantially the same terms as for comparable transactions with persons of a similar standing or, where applicable, with other employees of the Group.

### (c) Year-end balances with related parties

| Assets                                                 | 2023<br>£'000  | 2022<br>£'000<br>(Restated) |
|--------------------------------------------------------|----------------|-----------------------------|
| Financial assets at fair value through profit and loss |                |                             |
| Debt securities                                        |                |                             |
| - Other Group company                                  | 4,921          | 4,895                       |
| Collective investment schemes                          |                |                             |
| - Other Group company                                  | 114,632        | 106,213                     |
| Cash and cash equivalents                              |                |                             |
| - Parent                                               | 168,523        | 154,146                     |
| Loans, receivables and prepayments                     |                |                             |
| - Parent                                               | 828            | 572                         |
| - Other Group company                                  | 1,307          | 221                         |
| Reinsurance contract assets                            |                |                             |
| - Other Group company                                  | 7,557          | 6,324                       |
|                                                        | <b>297,768</b> | <b>272,371</b>              |

| Liabilities                                      | 2023<br>£'000  | 2022<br>£'000<br>(Restated) |
|--------------------------------------------------|----------------|-----------------------------|
| Insurance contract liabilities                   |                |                             |
| - Other Group company                            | 65,014         | 56,470                      |
| Investment contract liabilities                  |                |                             |
| - Other Group company                            | 852,588        | 789,148                     |
| Insurance and other payables and deferred income |                |                             |
| - Parent                                         | 480            | (841)                       |
| - Other Group company                            | 12,924         | 18,926                      |
|                                                  | <b>931,006</b> | <b>863,703</b>              |

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

Asset and liability balances with related parties arise from:

- Debt securities relate to corporate bonds held with other Group companies;
- Collective investment scheme holdings, which are managed by another Group company;
- Deposits with the Company's parent;
- Inter-company settlement accounts with the Company's parent and with other Group companies in respect of premiums, claims, commission and expenses;
- Reinsurance contract assets include contractual service margin, risk adjustment, incurred claims and remaining coverage balances relating to reinsurance contracts with other Group companies;
- Insurance contract liabilities include contractual service margin, risk adjustment, incurred claims and remaining coverage balances relating to insurance contracts with other Group companies;
- Liabilities to a pension scheme in respect of an investment contract taken out by the pension scheme.

## 22 Effects of adoption of IFRS 17

On 1 January 2023, the Company adopted IFRS 17 'Insurance Contracts', and as required by the standard applied the requirements retrospectively, with comparatives restated from the transition date, 1 January 2022. The tables below provide the transition restatement impact on the Company's balance sheet as at 1 January 2022, as well as the statement of comprehensive income for the year ended 31 December 2022.

Further information about the effect of the adoption of IFRS 17 are provided in Note 1 'Basis of preparation'.

IFRS 17 transition impact on the balance sheet at 1 January 2022:

|                                                    | IFRS 4           | Removal of IFRS 4  | IFRS 17 fulfilment cash flows | IFRS 17 CSM      | Tax effect      | IFRS 17          | Total movements |
|----------------------------------------------------|------------------|--------------------|-------------------------------|------------------|-----------------|------------------|-----------------|
|                                                    | £'000            | £'000              | £'000                         | £'000            | £'000           | £'000            | £'000           |
| <b>Assets</b>                                      |                  |                    |                               |                  |                 |                  |                 |
| Contractual rights – investment contracts          | 449              | -                  | -                             | -                | -               | 449              | -               |
| Financial investments at fair value through profit |                  |                    |                               |                  |                 |                  |                 |
| – Equities                                         | 44,106           | -                  | -                             | -                | -               | 44,106           | -               |
| – Debt securities-fixed rate                       | 85,530           | -                  | -                             | -                | -               | 85,530           | -               |
| – Collective investment schemes                    | 2,482,053        | -                  | -                             | -                | -               | 2,482,053        | -               |
| – Derivative financial instruments                 | 192              | -                  | -                             | -                | -               | 192              | -               |
| – Cash and cash equivalents                        | 142,717          | -                  | -                             | -                | -               | 142,717          | -               |
| Reinsurance assets                                 | 86,955           | (86,955)           | -                             | -                | -               | -                | (86,955)        |
| Insurance contract assets                          | -                | -                  | 80,029                        | (35,362)         | -               | 44,667           | 44,667          |
| Reinsurance contract assets                        | -                | -                  | 61,700                        | 27,102           | -               | 88,802           | 88,802          |
| Receivables, prepayments and accrued income        | 14,748           | (5,726)            | -                             | -                | -               | 9,022            | (5,726)         |
| Income tax recoverable                             | 2,936            | -                  | -                             | -                | -               | 2,936            | -               |
| Deferred tax asset                                 | -                | -                  | -                             | -                | -               | -                | -               |
| <b>Total assets</b>                                | <b>2,859,686</b> | <b>(92,681)</b>    | <b>141,729</b>                | <b>(8,260)</b>   | <b>-</b>        | <b>2,900,474</b> | <b>40,788</b>   |
| <b>Liabilities and equity</b>                      |                  |                    |                               |                  |                 |                  |                 |
| <b>Liabilities</b>                                 |                  |                    |                               |                  |                 |                  |                 |
| Insurance contract provisions                      | 1,826,262        | (1,826,262)        | -                             | -                | -               | -                | (1,826,262)     |
| Insurance contract liabilities                     | -                | -                  | 1,640,876                     | 126,068          | -               | 1,766,944        | 1,766,944       |
| Reinsurance contract liabilities                   | -                | -                  | 58,847                        | (16,868)         | -               | 41,979           | 41,979          |
| Investment contract liabilities                    | 860,440          | -                  | -                             | -                | -               | 860,440          | -               |
| Insurance and other payables and deferred income   | 34,645           | (5,276)            | -                             | -                | -               | 29,369           | (5,276)         |
| Other provisions                                   | 113              | -                  | -                             | -                | -               | 113              | -               |
| Deferred tax liabilities                           | 143              | -                  | -                             | -                | 16,125          | 16,268           | 16,125          |
| <b>Total liabilities</b>                           | <b>2,721,603</b> | <b>(1,831,538)</b> | <b>1,699,723</b>              | <b>109,200</b>   | <b>16,125</b>   | <b>2,715,113</b> | <b>(6,490)</b>  |
| <b>Total shareholders' equity</b>                  | <b>138,083</b>   | <b>1,738,857</b>   | <b>(1,557,994)</b>            | <b>(117,460)</b> | <b>(16,125)</b> | <b>185,361</b>   | <b>47,278</b>   |
| <b>Total liabilities and equity</b>                | <b>2,859,686</b> | <b>(92,681)</b>    | <b>141,729</b>                | <b>(8,260)</b>   | <b>-</b>        | <b>2,900,474</b> | <b>40,788</b>   |

**Transition drivers**

**Removal of IFRS 4 balances**

IFRS 4 insurance contract assets and insurance contract liabilities are removed on transition, to be replaced with IFRS 17 balances.

**Recognition of the IFRS 17 fulfilment cash flows**

The measurement of the insurance contracts liabilities under IFRS 17 is based on groups of insurance contracts and includes a liability for fulfilling the insurance contracts, such as premiums, directly attributable expenses and insurance benefits and claims including policyholder returns. These are recorded within the fulfilment cash flow component of the insurance contract liability, together with the risk adjustment for non-financial risk.

**Recognition of the IFRS 17 CSM**

The CSM is a component of the insurance contract liability and represents the future unearned profit associated with insurance contracts which will be released to the profit and loss over the expected coverage period.

**Tax effect**

A new deferred tax liability was recognised on the temporary differences between the new IFRS 17 accounting balances and the IFRS 4 balances removed on transition.

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

IFRS 17 transition impact on the reported statement of comprehensive income for the year ended 31 December 2022:

|                                                                                                                                               | IFRS 4         | Removal of IFRS 4 | Insurance finance income/expense | IFRS 17 CSM   | Onerous contracts | Experience variance and other | Attributable expenses | Tax effect     | IFRS 17       |
|-----------------------------------------------------------------------------------------------------------------------------------------------|----------------|-------------------|----------------------------------|---------------|-------------------|-------------------------------|-----------------------|----------------|---------------|
|                                                                                                                                               | £'000          | £'000             | £'000                            | £'000         | £'000             | £'000                         | £'000                 | £'000          | £'000         |
| Net investment returns                                                                                                                        | -              | -                 | -                                | -             | -                 | -                             | -                     | -              | 21,839        |
| Net income from financial instruments held for trading or managed on a fair value basis                                                       | (223,963)      | -                 | -                                | -             | -                 | -                             | -                     | -              | (223,963)     |
| Net interest income                                                                                                                           | 578            | -                 | -                                | -             | -                 | -                             | -                     | -              | 578           |
| Net expense from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss | 65,250         | -                 | -                                | -             | -                 | 102                           | -                     | -              | 65,352        |
| Net insurance finance income/(expense)                                                                                                        | -              | -                 | 179,872                          | -             | -                 | -                             | -                     | -              | 179,872       |
| Net insurance premium income                                                                                                                  | 464,276        | (464,276)         | -                                | -             | -                 | -                             | -                     | -              | -             |
| Net insurance service result                                                                                                                  | -              | -                 | -                                | 26,119        | (3,907)           | (8,135)                       | -                     | -              | 14,077        |
| – insurance revenue                                                                                                                           | -              | -                 | -                                | 33,661        | -                 | 121,694                       | 1,824                 | -              | 157,179       |
| – insurance service expense                                                                                                                   | -              | -                 | -                                | -             | (5,642)           | (129,981)                     | (1,824)               | -              | (137,447)     |
| – Net income (expenses) from                                                                                                                  | -              | -                 | -                                | (7,542)       | 1,735             | 152                           | -                     | -              | (5,655)       |
| Net fees income / (expense)                                                                                                                   | 3,000          | -                 | -                                | -             | -                 | (3,576)                       | -                     | -              | (576)         |
| <b>Total operating income</b>                                                                                                                 | <b>309,141</b> | <b>(464,276)</b>  | <b>179,872</b>                   | <b>26,119</b> | <b>(3,907)</b>    | <b>(11,609)</b>               | <b>-</b>              | <b>-</b>       | <b>35,340</b> |
| Net insurance claims and benefits paid and movement in liabilities to policyholders                                                           | (256,068)      | 256,068           | -                                | -             | -                 | -                             | -                     | -              | -             |
| <b>Net operating income before change in expected credit losses and other credit impairment charges</b>                                       | <b>53,073</b>  | <b>(208,208)</b>  | <b>179,872</b>                   | <b>26,119</b> | <b>(3,907)</b>    | <b>(11,609)</b>               | <b>-</b>              | <b>-</b>       | <b>35,340</b> |
| Change in expected credit losses and other credit impairment charges                                                                          | (229)          | -                 | -                                | -             | -                 | -                             | -                     | -              | (229)         |
| <b>Net operating income</b>                                                                                                                   | <b>52,844</b>  | <b>(208,208)</b>  | <b>179,872</b>                   | <b>26,119</b> | <b>(3,907)</b>    | <b>(11,609)</b>               | <b>-</b>              | <b>-</b>       | <b>35,111</b> |
| Total operating expenses                                                                                                                      | (53,063)       | -                 | -                                | -             | -                 | -                             | 43,151                | -              | (9,912)       |
| <b>Profit before tax</b>                                                                                                                      | <b>(219)</b>   | <b>(208,208)</b>  | <b>179,872</b>                   | <b>26,119</b> | <b>(3,907)</b>    | <b>(11,609)</b>               | <b>43,151</b>         | <b>-</b>       | <b>25,199</b> |
| Tax expense                                                                                                                                   | 23             | -                 | -                                | -             | -                 | -                             | -                     | (6,423)        | (6,400)       |
| <b>(Loss)/Profit and total comprehensive income for the year</b>                                                                              | <b>(196)</b>   | <b>(208,208)</b>  | <b>179,872</b>                   | <b>26,119</b> | <b>(3,907)</b>    | <b>(11,609)</b>               | <b>43,151</b>         | <b>(6,423)</b> | <b>18,799</b> |

### Transition drivers

#### Removal of IFRS 4-based revenue items

On the implementation of IFRS 17, new income statement line items associated with insurance contract accounting were introduced. Consequently, the previously reported IFRS 4 line items 'Net insurance premium revenue' and 'Net insurance claims and benefits incurred' were also removed.

#### Introduction of IFRS 17 income statement

##### Insurance finance income/(expense)

Insurance finance income/(expense) of £180m for the year ended 31 December 2022 represents the change in the carrying amount of insurance contracts arising from the effect of, and changes in, the time value of money and financial risk. For variable fee approach contracts, the insurance finance income/(expense) includes the changes in the fair value of underlying items (excluding additions and withdrawals). It therefore has an offsetting impact to investment income earned on underlying assets supporting insurance contracts.



# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

### CSM

Revenue is recognised for the release of the CSM associated with the in-force business, which was allocated at a rate of approximately 6% during 2022. The CSM release is largely impacted by the constant measure allocation approach for investment services, but may vary over time primarily due to changes in the total amount of CSM reported on the balance sheet from factors such as new business written, investment experience, or changes to assumptions.

### Onerous contracts

Losses on onerous contracts are taken to the statement of comprehensive income as incurred.

### Experience variance and other

'Experience variance and other' represents the expected expenses, claims and recovery of acquisition cash flows, which are reported as part of the insurance revenue. This is offset with the actual expenses and claims incurred in the period and amortisation of acquisition cash flows, which are reported as part of insurance service expense.

### Attributable expenses

Directly attributable expenses are the costs associated with originating and fulfilling an identified portfolio of insurance contracts. These costs include distribution fees paid to third parties as part of originating insurance contracts together with appropriate allocations of fixed and variable overheads, which are included within the fulfilment cash flows and are no longer shown on the operating expenses line, whereas non-attributable expenses remain in the operating expenses.

Balance sheet as at the transition date and at 31 December 2022:

|                                                             | IFRS 17          |                  | IFRS 4           |                  |
|-------------------------------------------------------------|------------------|------------------|------------------|------------------|
|                                                             | 31 Dec<br>2022   | 1 Jan<br>2022    | 31 Dec<br>2022   | 1 Jan<br>2022    |
|                                                             | £'000            | £'000            | £'000            | £'000            |
| <b>Assets</b>                                               |                  |                  |                  |                  |
| Contractual rights – investment contracts                   | 422              | 449              | 422              | 449              |
| Financial investments at fair value through profit and loss |                  |                  |                  |                  |
| – Equities                                                  | 4,141            | 44,106           | 4,141            | 44,106           |
| – Debt securities-fixed rate                                | 52,326           | 85,530           | 52,326           | 85,530           |
| – Collective investment schemes                             | 2,602,346        | 2,482,053        | 2,602,346        | 2,482,053        |
| – Derivative financial instruments                          | -                | 192              | -                | 192              |
| – Cash and cash equivalents                                 | 154,146          | 142,717          | 154,146          | 142,717          |
| Reinsurance assets                                          | -                | -                | 91,030           | 86,955           |
| Insurance contract assets                                   | 43,191           | 44,667           | -                | -                |
| Reinsurance contract assets                                 | 109,085          | 88,802           | -                | -                |
| Receivables, prepayments and accrued income                 | 10,499           | 9,022            | 16,111           | 14,748           |
| Income tax recoverable                                      | 1,205            | 2,936            | 1,205            | 2,936            |
| Deferred tax asset                                          | -                | -                | 10               | -                |
| <b>Total assets</b>                                         | <b>2,977,361</b> | <b>2,900,474</b> | <b>2,921,737</b> | <b>2,859,686</b> |
| <b>Liabilities and equity</b>                               |                  |                  |                  |                  |
| <b>Liabilities</b>                                          |                  |                  |                  |                  |
| Insurance contract provisions                               | -                | -                | 1,956,388        | 1,826,262        |
| Insurance contract liabilities                              | 1,898,506        | 1,766,944        | -                | -                |
| Reinsurance contract liabilities                            | 30,023           | 41,979           | -                | -                |
| Investment contract liabilities                             | 789,148          | 860,440          | 789,148          | 860,440          |
| Insurance and other payables and deferred income            | 40,932           | 29,369           | 47,746           | 34,645           |
| Other provisions                                            | 54               | 113              | 54               | 113              |
| Deferred tax liabilities                                    | 22,538           | 16,268           | -                | 143              |
| <b>Total liabilities</b>                                    | <b>2,781,201</b> | <b>2,715,113</b> | <b>2,793,336</b> | <b>2,721,603</b> |
| <b>Total shareholders' equity</b>                           | <b>196,160</b>   | <b>185,361</b>   | <b>128,401</b>   | <b>138,083</b>   |
| <b>Total liabilities and equity</b>                         | <b>2,977,361</b> | <b>2,900,474</b> | <b>2,921,737</b> | <b>2,859,686</b> |

**23 Parent undertakings**

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The ultimate parent undertaking and ultimate controlling party is HSBC Holdings plc, which is the parent undertaking of the largest group to consolidate these financial statements. HSBC Bank plc, incorporated in England, is the parent undertaking of the smallest group to consolidate these financial statements. Both companies are registered in England.

Copies of HSBC Holdings plc and HSBC Bank plc consolidated financial statements can be obtained from:

8 Canada Square  
London  
E14 5HQ  
[www.hsbc.com](http://www.hsbc.com)

**24 Events after the balance sheet date**

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There are no significant events after the balance sheet date.

**PART 3**

**FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR  
ENDED 31 DECEMBER 2022 TOGETHER WITH THE AUDIT REPORT**

**Report on the audit of the financial statements****Opinion**

In our opinion, HSBC Life (UK) Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts, which comprise: the Statement of financial position as at 31 December 2022; the Statement of comprehensive income, the Statement of cash flows, the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Risk and Audit Committee ("RAC").

**Basis for opinion**

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

**Independence**

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than the services described in note 9, we have provided no non-audit services to the Company in the period under audit.

**Our audit approach****Overview****Audit scope**

- We performed a full scope audit of the complete financial information of the entity in accordance with our materiality and risk assessment.

**Key audit matters**

- Subjectivity in expense assumptions in insurance contract provisions
- Subjectivity in mortality and morbidity assumptions in insurance contract provisions
- Unrecognised deferred tax asset relating to historic tax losses

**Materiality**

- Overall materiality: £14,161,000 (2021: £14,251,000) based on 0.5% of total assets.
- Performance materiality: £10,620,000 (2021: £10,688,000).

**The scope of our audit**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

**Key audit matters**

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# HSBC LIFE (UK) LIMITED

## Independent Auditors' Report to the Members of HSBC Life (UK) Limited (continued)

This is not a complete list of all risks identified by our audit.

Unrecognised deferred tax asset relating to historic tax losses is a new Key audit matter this year, given the impact changes in the macroeconomic environment have had on the projections of future profits for the Company. All other key audit matters are consistent with the prior year.

| Key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | How our audit addressed the key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>Subjectivity in expense assumptions in insurance contract provisions</i></p> <p>Refer to Note 21 and accounting policy (k). The valuation of insurance contract provisions includes estimated future expenses that are expected to be incurred in the administration and maintenance of the existing policies to their maturity. Expense allocation categorises expenses as either maintenance costs (of existing policies), claim costs (for existing policies as they mature) or costs for the acquisition of new business (therefore excluded from the liability). Such costs are further allocated by product type to arrive at a per policy expense.</p> <p>In addition to the amount allowed for in the valuation model an expense overrun reserve is recognised to address the risk that modelled expense amounts are insufficient to cover the future expenses of the portfolio.</p> <p>The calculation of the insurance contract provisions is sensitive to changes in allocations between categories, changes in the underlying expense assumptions and the methodology used to calculate the expense overrun manual reserve. As such, there is a risk that the expense assumptions are not appropriate or supportable where inappropriate judgements have been made. Such matters may have a material impact on the reported results. Key areas of judgement taken in setting the Company's expense assumptions include estimation of the projected cost base and associated volumes of policies in force, both in the short term and any changes to this over time.</p> | <p>We performed the testing set out below in respect of the subjectivity in expense assumptions in insurance contract provisions:</p> <ul style="list-style-type: none"><li>• We tested and challenged the appropriateness of the split between maintenance and acquisition expenses by selecting a sample of cost centres and ensuring management had made a reasonable assessment;</li><li>• We reviewed and, where relevant, challenged the appropriateness of the cost allocations established, and ensured there are no material unexpected differences between the projected costs and the actual incurred costs in the financial year to 31 December 2022 that would have a material impact on the valuation of insurance contract provisions;</li><li>• We agreed the allocation of expenses was made in accordance with the allocation model. We have assessed the reasonableness of the per policy expense assumptions made in the calculations of insurance contract provisions, by ensuring they accurately reflect the agreed allocated expenses, are based on appropriate in force policy counts and are sufficient to cover future expected costs;</li><li>• We benchmarked the expense inflation assumption and IFRS expense margin against others in the industry;</li><li>• Furthermore, we have assessed the appropriateness of management's expense inflation assumptions given the current high inflationary environment, and;</li><li>• We have audited the calculation of the separate expense overrun manual reserve held as at 31 December 2022.</li></ul> <p>Based upon the results of our testing, the expense assumptions used in the insurance contract provisions are appropriate.</p> |
| <p><i>Subjectivity in mortality and morbidity assumptions in insurance contract provisions</i></p> <p>Refer to Note 21 and accounting policy (k). Insurance contract provisions are sensitive to the assumptions used, with those relevant to mortality and morbidity highlighted as those having the most material impact on the valuation of insurance contract provisions. There is a risk that the assumptions are not appropriate given the variability in experience, the potential impact of Covid-19, the relatively small size of the Company's business and the pool of data from which to assess experience. In calculating the insurance contract provisions, management uses the Company's own historical experience and available market data in the calculation of appropriate assumptions. In doing so</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | <p>We performed the testing set out below on the significant judgements made in setting the mortality and morbidity assumptions:</p> <ul style="list-style-type: none"><li>• We audited the experience analysis for mortality and morbidity including testing the design and operational effectiveness of controls in the experience analysis processes, as well as the results and judgements applied to this data in the setting of assumptions;</li><li>• We challenged the validity of the analysis performed by management and their conclusions based on our understanding of the approaches used in the wider market and on the experience data that</li></ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>there is a risk that mortality and morbidity assumptions may not be appropriate.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <p>management has observed in previous periods;</p> <ul style="list-style-type: none"> <li>• We have assessed the appropriateness of excluding 2020 data and including 2021 data from the experience analysis, due to the impacts of Covid-19 by performing our own independent expectation of assumptions using management's data;</li> <li>• We assessed the appropriateness of the assumptions, including the selected mortality tables and whether mortality improvement factors need to be applied, in light of the specific characteristics of the business, industry practices and any other available information such as general population data;</li> <li>• We have audited the impact on results from any assumption changes by considering the movement in reserves against sensitivity runs performed by management and reviewing management's own justification; and</li> <li>• We have considered management's mortality assumptions relative to market peers via benchmarking.</li> </ul> <p>Based upon the results of our testing, the mortality and morbidity assumptions used in the calculations of insurance contract provisions are appropriate.</p> |
| <p>Unrecognised deferred tax asset relating to historic tax losses<br/>Refer to note 25 and accounting policy (k).</p> <p>The Company has an unrecognised deferred tax asset of £99,168k (2021: £65,056k) in respect of historical tax losses (Excess Management Expenses). The Company is subject to the UK's taxation regime for life assurance companies. This regime taxes the policyholder profits (where appropriate) along with the shareholder profits, in respect of Basic Life Assurance and General Annuity Business ("BLAGAB") products which for the Company is primarily its Onshore Investment Bonds. Policyholder tax losses have arisen historically in this business, which may now be offset against future income and gains generated in respect of investment assets backing this business. This gives a potential deferred tax asset in respect of these losses.</p> <p>The recognition of a deferred tax asset is a key judgement. An assessment against the recognition criteria in IAS 12 is required to determine whether the deferred tax asset should be recognised on the Company's balance sheet. Management concluded that the recognition criteria had not been met as at 31 December 2022, primarily due to the level of uncertainty around projections of future profits.</p> | <p>We have performed the following audit procedures:</p> <ul style="list-style-type: none"> <li>• We obtained management's assessment which evaluates whether the Company has met the recognition criteria for deferred tax assets in IAS 12.</li> <li>• We assessed the reasonableness of management's projections of future profits. We considered the consistency of these projections with the cash flows and assumptions used in the actuarial valuation models.</li> <li>• We considered macroeconomic factors, such as the volatility of interest rates and the losses incurred by the Company in 2022, which has increased the overall level of uncertainty in projections of future profits.</li> <li>• We considered the availability of deferred tax liabilities against which deferred tax assets could be utilised.</li> <li>• We considered the sufficiency of the disclosure in the financial statements as a key judgement.</li> </ul> <p>Based upon the results of our testing, we consider the judgement not to recognise the deferred tax asset on the balance sheet to be reasonable.</p>                                                              |

**How we tailored the audit scope**

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

## HSBC LIFE (UK) LIMITED

### Independent Auditors' Report to the Members of HSBC Life (UK) Limited (continued)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

#### The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the Company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the Company's financial statements.

#### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

|                                        |                                                                                                                                                                                                                                                                                                 |
|----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Overall Company materiality</i>     | £14,161,000 (2021: £14,251,000).                                                                                                                                                                                                                                                                |
| <i>How we determined it</i>            | 0.5% of total assets                                                                                                                                                                                                                                                                            |
| <i>Rationale for benchmark applied</i> | We believe the main users of the financial statements, being policyholders and the regulators, are most focused on balance sheet strength and ability to pay future claims. As such, we have chosen a balance sheet benchmark of total assets which is a generally accepted auditing benchmark. |

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £10,620,000 (2021: £10,688,000) for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Risk and Audit Committee ("RAC") that we would report to them misstatements identified during our audit above £731,000 (2021: £712,500) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

#### Conclusions relating to going concern

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating management's stress and scenario testing including the Solvency Capital Requirement and Risk Margin. This included consideration of the impact of downside scenarios;
- The review of correspondence with the PRA;
- The review of board papers and attendance at RAC meetings;
- The challenge of management's key actuarial assumptions for appropriateness within the current business environment, and;
- An assessment of the balance sheet, liquidity and solvency position at the year end.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.



# **HSBC LIFE (UK) LIMITED**

## **Independent Auditors' Report to the Members of HSBC Life (UK) Limited (continued)**

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

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

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

### **Reporting on other information**

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

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

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

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

### **Strategic report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

### **Responsibilities for the financial statements and the audit**

#### **Responsibilities of the directors for the financial statements**

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

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

#### **Auditors' responsibilities for the audit of the financial statements**

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

**Independent Auditors' Report to the Members of HSBC Life (UK) Limited  
(continued)**

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

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006, the Prudential Regulation Authority's regulations, the Financial Conduct Authority's regulations and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue, and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with the Risk and Audit Committee, management (including those involved in the Risk and Compliance function) and Internal Audit, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud.
- Assessment of matters reported on the Company's whistleblowing register and the results of management's investigation of such matters.
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority.
- Reviewing relevant meeting minutes including those of the Board, Risk and Audit Committee, the Executive Committee and Technical Governance Committee, as well as attending the Risk and Audit Committee.
- Reviewing data regarding policyholder complaints, the Company's register of litigation and claims, Internal Audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud.
- Procedures relating to the valuation of insurance contract provisions, in particular mortality, morbidity and expense assumptions described in the key matters above.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

**Use of this report**

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

**Other required reporting**

**Companies Act 2006 exception reporting**

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

- we have not obtained all the information and explanations we require for our audit; or

## HSBC LIFE (UK) LIMITED

### Independent Auditors' Report to the Members of HSBC Life (UK) Limited (continued)

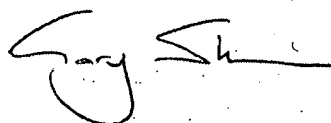
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- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial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

We have no exceptions to report arising from this responsibility.

#### Appointment

Following the recommendation of the Risk and Audit Committee ("RAC"), we were appointed by the members on 31 March 2015 to audit the financial statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement is 8 years, covering the years ended 31 December 2015 to 31 December 2022.



Gary Shaw (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
31 March 2023

**HSBC LIFE (UK) LIMITED**  
**Financial Statements**

**Statement of comprehensive income for the year ended 31 December 2022**

|                                                                  | <i>Note</i> | 2022<br>£'000    | 2021<br>£'000    |
|------------------------------------------------------------------|-------------|------------------|------------------|
| <b>Continuing operations</b>                                     |             |                  |                  |
| Insurance premium revenue                                        |             | 555,246          | 557,966          |
| Insurance premium ceded to reinsurers                            |             | (90,970)         | (93,800)         |
| <b>Net insurance premium revenue</b>                             | <b>4</b>    | <b>464,276</b>   | <b>464,166</b>   |
| Fees and commission income                                       | 5           | 3,000            | 3,268            |
| Financial (expense)/income                                       | 6           | (223,385)        | 224,789          |
| <b>Net income</b>                                                |             | <b>243,891</b>   | <b>692,223</b>   |
| Claims and benefits incurred                                     |             | (319,230)        | (604,102)        |
| Reinsurers' share of claims and benefits incurred                |             | 63,162           | 57,880           |
| <b>Net insurance claims and benefits incurred</b>                | <b>7</b>    | <b>(256,068)</b> | <b>(546,222)</b> |
| Investment contract benefits                                     | 8           | 65,250           | (89,155)         |
| Acquisition costs                                                | 9           | (28,619)         | (29,468)         |
| Administrative expenses                                          | 9           | (22,947)         | (19,082)         |
| Expenses for asset management services                           |             | (1,416)          | (1,298)          |
| Credit impairment losses and other operating expenses            | 10          | (310)            | (1,384)          |
| <b>Total expenses</b>                                            |             | <b>(53,292)</b>  | <b>(51,232)</b>  |
| <b>(Loss)/Profit before tax</b>                                  |             | <b>(219)</b>     | <b>5,614</b>     |
| Tax credit                                                       | 12          | 23               | 50               |
| <b>(Loss)/Profit and total comprehensive income for the year</b> |             | <b>(196)</b>     | <b>5,664</b>     |

The Company has no comprehensive income or expense other than the loss for the year recognised in the statement of comprehensive income.

The accounting policies and notes on pages 19 to 54 form an integral part of these financial statements.

# HSBC LIFE (UK) LIMITED

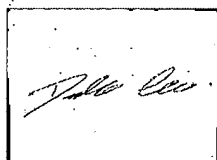
## Financial Statements (continued)

### Statement of financial position as at 31 December 2022

|                                                             | Note   | 2022<br>£'000    | 2021<br>£'000    |
|-------------------------------------------------------------|--------|------------------|------------------|
| <b>ASSETS</b>                                               |        |                  |                  |
| Contractual rights – investment contracts                   | 13     | 422              | 449              |
| Financial investments at fair value through profit and loss |        |                  |                  |
| – Equities                                                  | 14     | 4,141            | 44,106           |
| – Debt securities-fixed rate                                | 14     | 52,326           | 85,530           |
| – Collective investment schemes                             | 14     | 2,602,346        | 2,482,053        |
| – Derivative financial instruments                          | 14, 15 | -                | 192              |
| Reinsurance assets                                          | 21     | 91,030           | 86,955           |
| Receivables, prepayments and accrued income                 | 16     | 16,111           | 14,748           |
| Cash and cash equivalents                                   | 17     | 154,146          | 141,231          |
| Income tax recoverable                                      |        | 1,205            | 2,936            |
| Deferred tax asset                                          | 25     | 10               | -                |
| <b>Total assets</b>                                         |        | <b>2,921,737</b> | <b>2,858,200</b> |
| <b>LIABILITIES AND EQUITY</b>                               |        |                  |                  |
| <b>Liabilities</b>                                          |        |                  |                  |
| Insurance contract provisions                               | 21     | 1,956,388        | 1,826,262        |
| Financial liabilities                                       |        |                  |                  |
| – Investment contracts                                      | 22     | 789,148          | 860,440          |
| Insurance and other payables and deferred income            | 23     | 47,746           | 34,645           |
| Other provisions                                            | 24     | 54               | 113              |
| Deferred tax liabilities                                    | 25     | -                | 143              |
| <b>Total liabilities</b>                                    |        | <b>2,793,336</b> | <b>2,721,603</b> |
| <b>Equity</b>                                               |        |                  |                  |
| Called up share capital                                     | 18     | 94,375           | 94,375           |
| Retained earnings                                           | 20     | 34,026           | 42,222           |
| <b>Total shareholders' equity</b>                           |        | <b>128,401</b>   | <b>136,597</b>   |
| <b>Total equity and liabilities</b>                         |        | <b>2,921,737</b> | <b>2,858,200</b> |

The accounting policies and notes on pages 19 to 54 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 28 March 2023 and were signed on its behalf by:



Digitally signed by:  
Douglas CLOW  
DN: CN = Douglas CLOW  
Date: 2023.03.31 18:02:  
56 Z

D A Clow  
Director

Company Registered Number: 00088695

**HSBC LIFE (UK) LIMITED**  
**Financial Statements (continued)**

**Statement of cash flows for the year ended 31 December 2022**

|                                                             | <i>Note</i> | <b>2022<br/>£'000</b> | <b>2021<br/>£'000</b> |
|-------------------------------------------------------------|-------------|-----------------------|-----------------------|
| <b>Cash flows from operating activities</b>                 |             |                       |                       |
| (Loss)/Profit before tax                                    |             | (219)                 | 5,614                 |
| Adjustments for:                                            |             |                       |                       |
| – Interest receivable                                       |             | (7,115)               | (3,349)               |
| – Interest payable                                          |             | 48                    | 39                    |
| – Dividends receivable                                      |             | (14,043)              | (12,137)              |
| – Amortisation                                              |             | 27                    | 59                    |
| Net fair value losses/(gains) on financial assets           |             | 245,484               | (209,360)             |
| <i>Changes in operating assets and liabilities</i>          |             |                       |                       |
| Net (increase)/decrease in reinsurance assets               |             | (4,075)               | 4,615                 |
| Net (increase)/decrease in receivables                      |             | (1,134)               | 4,478                 |
| Net decrease in equity securities                           |             | 47,751                | 25,383                |
| Net (increase) in collective investment schemes             |             | (367,486)             | (324,399)             |
| Net decrease in debt securities                             |             | 24,033                | 1,541                 |
| Net decrease/(increase) in derivative financial instruments |             | 213                   | (45)                  |
| Net (decrease)/increase in investment contract liabilities  |             | (71,292)              | 87,834                |
| Net increase in insurance provisions                        |             | 130,124               | 437,088               |
| Net increase/(decrease) in operating liabilities            |             | 13,102                | (8,794)               |
| Net decrease in other provisions                            |             | (59)                  | (244)                 |
| Cash (used in)/generated in operations                      |             | (4,641)               | 8,323                 |
| Interest received on investments                            |             | 9,905                 | 6,678                 |
| Dividends received on investments                           |             | 14,098                | 12,123                |
| Interest paid                                               |             | (48)                  | (39)                  |
| Income taxes received/(paid)                                |             | 1,601                 | (2,713)               |
| Net cash generated from operating activities                |             | 20,915                | 24,372                |
| <b>Cash flows from financing activities</b>                 |             |                       |                       |
| Dividend paid                                               |             | (8,000)               | (10,000)              |
| Net cash outflow from financing activities                  |             | (8,000)               | (10,000)              |
| <b>Net increase in cash and cash equivalents</b>            |             | 12,915                | 14,372                |
| Cash and cash equivalents brought forward                   | 17          | 141,231               | 126,859               |
| Cash and cash equivalents carried forward                   | 17          | 154,146               | 141,231               |

The Company classifies the net acquisition of financial assets as operating cash flows, as these are funded from the net cash flows associated with insurance and investment contracts.

The accounting policies and notes on pages 19 to 54 form an integral part of these financial statements.

**HSBC LIFE (UK) LIMITED**  
**Financial Statements (continued)**

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

|                                                                               | Called up share<br>capital<br>£'000 | Retained<br>earnings<br>£'000 | Total equity<br>£'000 |
|-------------------------------------------------------------------------------|-------------------------------------|-------------------------------|-----------------------|
| <b>Year Ended 31 December 2022</b>                                            |                                     |                               |                       |
| 1 January 2022                                                                | 94,375                              | 42,222                        | 136,597               |
| Loss for the year                                                             | -                                   | (196)                         | (196)                 |
| Total comprehensive income for the year                                       | -                                   | (196)                         | (196)                 |
| Transactions with the owners of the Company recognised directly<br>in equity: |                                     |                               |                       |
| Dividends to shareholder                                                      | -                                   | (8,000)                       | (8,000)               |
| 31 December 2022                                                              | <b>94,375</b>                       | <b>34,026</b>                 | <b>128,401</b>        |

|                                                                               | Called up share<br>capital<br>£'000 | Retained earnings<br>£'000 | Total equity<br>£'000 |
|-------------------------------------------------------------------------------|-------------------------------------|----------------------------|-----------------------|
| <b>Year Ended 31 December 2021</b>                                            |                                     |                            |                       |
| 1 January 2021                                                                | 94,375                              | 46,558                     | 140,933               |
| Profit for the year                                                           | -                                   | 5,664                      | 5,664                 |
| Total comprehensive income for the year                                       | -                                   | 5,664                      | 5,664                 |
| Transactions with the owners of the Company recognised directly<br>in equity: |                                     |                            |                       |
| Dividends to shareholder                                                      | -                                   | (10,000)                   | (10,000)              |
| 31 December 2021                                                              | <b>94,375</b>                       | <b>42,222</b>              | <b>136,597</b>        |

The accounting policies and notes on pages 19 to 54 form an integral part of these financial statements.

Total shareholders' equity is wholly attributable to equity shareholders.

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements

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### 1 Basis of preparation

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(a) Compliance with International Financial Reporting Standards

The financial statements of the Company have been prepared in accordance with UK-adopted *International Accounting Standards (IASs)* and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

There were no unendorsed standards effective for the year ended 31 December 2022 affecting these financial statements and the Company's application of IASs result in no differences between IASs.

Standards adopted during the year ended 31 December 2022:

During 2022, the Company has not adopted any standards and there have been no amendments to standards which have affected the financial statements of the Company.

(b) Future accounting developments

Minor amendments to IASs:

The IASB has not published any minor amendments to IASs which are effective from 1 January 2022 that are applicable to the Company.

New Standards:

There are no new IASs published by the IASB which are effective from 1 January 2022 that are expected to have an impact on the financial statements of the Company.

Standards and amendments issued by the IASB:

IFRS 17 'Insurance contracts'

IFRS 17 'Insurance Contracts' will be effective from 1 January 2023, with comparatives restated from 1 January 2022. The standard sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds, and applies retrospectively. The company is at an advanced stage in the implementation of IFRS 17 with accounting policies, data and models in place and dress rehearsal estimate runs of selected comparative dates having been progressed.

We have the following expectations as to the impact compared with our current accounting policies for insurance contracts, which is set out in policy 2(b), (c) and (k) on page 22 – 28:

- IFRS 17 requires increased use of current market values in the measurement of insurance liabilities. Changes in market conditions for certain products measured under the general measurement approach are immediately recognised in profit or loss, while changes in market conditions for other products measured under the variable fee approach are included in the measurement of the contractual service margin (CSM).
- In accordance with IFRS 17, directly attributable costs will be incorporated in the CSM and recognised in the results of insurance services as a reduction in reported revenue, as profit is recognised over the duration of insurance contracts.
- All of these impacts will be subject to deferred tax.

No quantitative disclosure of the estimated opening balance sheet as at 1 January 2022 is disclosed in the annual report and accounts, as the dress rehearsal runs were performed to HSBC Group reporting materiality level, which is much higher than the company's local statutory materiality, and included a number of known limitations, simplifications, system defects and errors which are in the process of being resolved for the purposes of the Company's financial reporting.

(c) Presentation of information

The functional currency of the Company is Sterling, which is also the presentation currency of the financial statements.

The financial statements of the Company have been prepared in accordance with the Companies Act 2006 as applicable to companies using UK-adopted IASs. The principal accounting policies applied in



the preparation of these financial statements have been consistently applied to all of the years presented, unless otherwise stated.

The Company is exempt from the requirement to prepare group financial statements by virtue of section 400 of the Companies Act 2006. The financial statements present information about the Company as an individual undertaking.

(d) **Going concern**

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including:

- Current capital requirements and resources;
- Projected capital requirements and solvency ratios;
- Future projections of profitability;
- Cashflow projections;
- Current and forward looking liquidity adequacy, including scenario analyses; and
- Considerations of the on-going impacts on the Company from Covid-19.

(e) **General information**

HSBC Life (UK) Limited is a company domiciled and incorporated in England and Wales.

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## **2 Summary of significant accounting policies**

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(a) **Financial Instruments**

Financial instruments cover a wide range of financial assets, including financial investments, other receivables, cash and cash equivalents and financial liabilities, including investment contract liabilities, and trade payables.

**Classification and measurement of financial assets and financial liabilities**

A financial asset is initially measured at fair value plus, for an item not at fair value through profit and loss ('FVTPL'), transaction costs directly attributable to its acquisition.

A financial asset is classified, on initial recognition, as measured at: amortised cost; FVOCI-debt instrument; FVOCI-equity investment; or FVTPL. The classification of financial assets depends on;

- the purpose for which they were acquired;
- the business model in which the financial asset is managed, and
- its contractual cash flow characteristics. This classification determines the subsequent measurement basis.

**Business model**

The Company manages its financial instruments on a fair value basis. The Company manages the business and makes business decisions on an economic capital basis. This is determined on a Solvency II basis which requires assets and liabilities to be valued at fair value (best estimate liabilities for technical provisions).

The performance of the assets is evaluated and reported to management on a fair value basis. The economic capital balance sheet and the investment returns (fair value movements and interest) are reported to management and evaluated at governance meetings (Assets and Liabilities Management Committee "ALCO", Risk and Audit Committee and Technical Governance Committee) on a fair value basis.

**Financial instruments (continued)**

- Financial investments are measured at fair value through profit and loss.
- Derivative financial instruments;
- Receivables. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

All financial assets classified at fair value through profit or loss are managed, and their performance evaluated, on a fair value basis.

Purchases and sales of financial assets are recognised on the trade date, which is when the Company commits to purchase or sell the assets. Other financial assets are de-recognised when contractual rights to receive cash flows from the investments expire, or when the investments, together with substantially all the risks and rewards of ownership, have been transferred.

Financial assets (including derivative liabilities) are initially measured at fair value. After initial recognition, the Company measures financial assets (and derivative liabilities) classified at fair value through profit or loss at fair value, without any deduction for transaction costs it may incur on disposal. The fair value of quoted investments are their quoted bid prices at the statement of financial position date. Certain financial assets are valued using a valuation technique:

- Derivative instruments valued at market prices;
- Unlisted debt securities relate to short term instruments and are valued by reference to the yields on the instruments (see note 14);

Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss, are included in the income statement in the period in which they arise. Net fair value gains/losses on financial instruments classified at fair value through profit or loss are reported in the income statement as financial income inclusive of interest received and receivable from debt securities.

Dividends from equities and collective investments are included in financial income on the date that the securities are quoted ex dividend.

Interest income represents interest calculated on an effective interest basis.

**Determination of fair value**

All financial instruments are recognised initially at fair value, except for receivables that are recognised initially at fair value plus directly attributable transaction costs. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received).

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison to similar instruments where market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants.

**Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition, and include cash.

Cash and cash equivalents comprise cash balances and short term deposits all of which are classified as FVTPL.

**Trade payables and receivables**

Due to the short term nature of trade payables and receivables, their carrying amount is considered to be the same as their fair value.

**Financial liabilities**

The Company also determines classification of financial liabilities as FVTPL as per the business model. For investment contracts please refer to note 2 (c)(iv).

**Impairment of financial assets**

An expected credit loss ('ECL') impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investment in equity instruments. The Company's business model is a fair value business model and therefore there is no impairment impact on financial investments and derivatives, as both are at FVTPL.

Receivables are credit-impaired when there is observable data that the following events have taken place:

- Significant financial difficulty of the intermediary, e.g. known cashflow difficulties experienced by the intermediary, or deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful;
- A breach of contract, such as a default or past due event, e.g. contractual payments of either principal or interest being past due for more than 90 days;
- It is becoming probable that the intermediary will enter bankruptcy or other financial reorganisation;
- A concession granted to the intermediary for economic or legal reasons relating to the intermediary's financial difficulty that HSBC would not otherwise consider, e.g. forgiveness or postponement of principal, interest or fees, where the concession is not insignificant.

In such circumstances the credit impairment loss will be recognised in the Statement of profit or loss.

**(b) Classification of contracts**

Contracts, under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder, are classified as insurance contracts. As a general guideline the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index or prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

Contracts under which the transfer of insurance risk to the Company from the policyholder is not significant are classified as investment contracts.

**(c) Recognition and measurement of contracts****(i) Long-term insurance contracts with fixed and guaranteed benefits**

These contracts insure events associated with human life (for example death or survival) over a long duration. Premiums are recognised as revenue when they become payable by the contract holder. Claims are recorded as an expense on the basis of notifications received up to the statement of financial position date.

A liability for contract benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is computed using a gross premium valuation method. The liability is determined as the sum of the expected discounted values of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the future premiums based on the valuation assumptions used. The liability is based on latest

assumptions as to mortality, lapses, maintenance expenses and investment income, including an appropriate margin for prudence. For certain contracts, the calculated liability is subject to a minimum of the surrender value payable under the policy.

Under the calculation described above, it is possible for an individual contract to have negative statutory reserves (i.e. to be valued as an asset). However, this is subject to an overall limit that negative statutory reserves be eliminated at product group level.

(ii) Long-term insurance contracts without fixed benefits – unit-linked

These are savings contracts that also insure human life events (for example death or survival) over a long duration. Units are allocated to the policy, based on the premiums paid, and the value of the units form the basis for determining the amount payable on an insured event. The value of units is determined daily based on the current value of the assets held within each unit-linked fund. The unit liability is the current surrender value of all units allocated to policyholders before any surrender penalties.

Premiums are recognised as revenue when the corresponding unit liability is established. An explicit unit charge may be made for the cost of providing the insured benefit. Death and critical illness claims, where applicable, that give rise to a liability in excess of any value assigned to policyholder units are recorded on the basis of notifications received up to the statement of financial position date. Other claims and surrenders are recorded at the point when the corresponding unit liability is reduced.

In addition to the unit liability, a further non-unit liability (sterling reserves) may be held in respect of additional mortality exposure in excess of unit value and any expense risks. This liability is calculated using the same method as detailed above for contracts with fixed and guaranteed benefits.

(iii) Reinsurance

The Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential. Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Premiums ceded and benefits reimbursed are presented in the income statement and statement of financial position on a gross basis.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as insurance. Amounts recoverable under such contracts are recognised in the same time as the related claim. Contracts that do not transfer significant insurance risk are accounted for as a financial asset.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within 'other receivables'), as well as longer term receivables (classified as 'reinsurance assets') that are dependent on expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities (included within 'insurance and other payables and deferred income') are primarily premiums payable for reinsurance contracts which are recognised as an expense when due.

(iv) Investment contracts

Amounts collected on investment contracts, which primarily involve the transfer of financial risk, are accounted for using deposit accounting, under which the amounts collected are credited directly to the statement of financial position, as an adjustment to the investment contract liability to the policyholder, and payments to policyholders are debited against the statement of financial position liability.

All investment contracts issued include the provision of investment management services. These services are accounted for in accordance with IFRS 15 *Revenue from contracts with customers* where the revenue associated with the service component is recognised by reference to the stage of completion of the transaction. The Company recognises annual management fees, based on the policyholder's account value, when due. Any front-end fees deducted from premiums received, prior to

allocation of units to the policy, are spread over the expected period of the contract, based on the latest assumptions.

#### Liability measurement

Liabilities in relation to unit-linked investment contracts are classified under IFRS 9 requirements as at fair value through profit or loss. The financial liability is measured using a valuation technique, based on the carrying value of the assets and liabilities that are held to back the contract, adjusted to take account of the effect on the liabilities of the discounting for the time value of tax payments on assets sold in the fund.

These liabilities are classified as fair value through profit and loss as this group of liabilities, together with the related unit-linked assets, are managed, and their performance evaluated, on a fair value basis.

#### (d) Revenue

Revenue comprises insurance contract premiums, fees and commission income and financial income. Financial income is detailed above in note 2 (a) Financial instruments.

The accounting policy in relation to revenue from insurance contracts is disclosed in note 2(c).

#### Fee and commission income

Fees and commission income includes fees on investment management services contracts that are recognised as the services are provided and that it is highly improbable that these will be reversed.

Fees and commissions that do not require the Company to render further services are recognised as other income by the Company when they become receivable.

#### (e) Expenses

Commissions payable on the sales of insurance products are recognised in the income statement in the periods in which the commission amounts are payable. For single premium products, commission is payable at the commencement of the policy. For regular premium products, commission is payable over a period of, typically, two to four years, depending on the term of the policy. Digital protection business commission is primarily indemnity commission, which is payable up front.

Commissions payable on the sales of investment products are capitalised and amortised as the related revenue is recognised.

Initial commission and renewal commission is payable on the sale of HLP products when the policy is underwritten. In the event that the policy lapses, the commission is recovered from the intermediary. Credit impairment losses will be recognised on commission refunds receivables that are credit-impaired (refer to Note 2(a) Impairment of financial assets, above).

#### (f) Income Tax

Income tax comprises current and deferred tax and is recognised in the income statement.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the end of the reporting period and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the Company intends to settle on a net basis and the legal right to offset exists.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the end of the reporting period. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when the Company has a legal right to offset.

(g) Foreign currencies

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the end of the reporting period. Any resulting exchange differences are included in the statement of comprehensive income.

Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Any exchange component of a gain or loss on a non-monetary item is recognised in other comprehensive income if the gain or loss on the non-monetary item is recognised in other comprehensive income. Any exchange component of a gain or loss on a non-monetary item is recognised in the statement of comprehensive income if the gain or loss on the non-monetary item is recognised in the statement of comprehensive income.

Translation differences on items measured at fair value, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

(h) Contractual rights and deferred acquisition costs

Deferred acquisition costs – insurance contracts

For unit-linked and non-linked insurance business, the deferral of acquisition costs is implicit through the use of the gross premium valuation method. The deferral of costs is included in the insurance contract provisions and there is no explicit deferred acquisition cost.

Contractual rights – investment contracts

Incremental costs that are incurred in acquiring investment management service rights are capitalised as an asset, representing the right to benefit from providing investment management services, and amortised as the related revenue is recognised. These assets are reviewed regularly to determine if they are recoverable from future cash flows on the associated contracts. Those that are not deemed to be recoverable are charged to income. The test for recoverability is performed at a portfolio level, on portfolios of relatively homogeneous contracts.

Amortisation

Amortisation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful life of the contracts. The amortisation pattern and duration are reviewed annually for each contract group, based on the latest estimates, and any adjustments taken to the statement of comprehensive income in the current period.

(i) Provisions

A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where appropriate, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(j) Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are recognised in equity as a deduction from proceeds, net of tax.

Dividends payable in relation to equity shares are recognised as follows; final dividend payments are reflected in the financial statements in the period in which they are declared and interim dividends in the period they are paid.

(k) Use of judgments and estimates

When preparing the financial statements, it is the Directors' responsibility to select suitable accounting policies and to make judgements and estimates that are reasonable and prudent.

The Company makes estimates and assumptions concerning the future that have a significant risk of causing a material adjustment to the reported amounts of assets and liabilities within the next financial year. Estimates and assumptions are continually evaluated and based on prudent assessments of historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*Policyholder claims and benefits*

The estimation of future benefit payments and premiums arising from long-term insurance contracts is the Company's most critical accounting estimate. The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Company.

Estimates are made as to the expected number of deaths for each of the years in which the Company is exposed to risk. The Company bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Company's own experience. The estimated number of deaths determines the total value of these benefit payments. The main source of uncertainty is that epidemics such as Covid-19, AIDS, influenza pandemics and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the Company has significant exposure to mortality risk.

Estimates are also made as to the expected number of critical illness claims for each of the years in which the Company is exposed to risk. The Company bases these estimates on reinsurer rates, adjusted where appropriate to reflect the Company's own experience. The estimated number of claims determines the total value of these benefit payments. The main source of uncertainty is that medical advancements and wide scale public health screening programmes could lead to a significant increase in the early diagnosis and treatment of the diseases covered in the policy conditions.

Estimates are also made as to the cost of income protection claims for each of the years in which the Company is exposed to risk. This requires two main assumptions – the number of new claims (inceptions) and the termination rate (effectively determining the length of the claim). This is based on a combination of reinsurer rates and industry experience, adjusted where appropriate to reflect the Company's own experience. The estimated claims cost determines the total value of these benefit payments. The main source of uncertainty is that a downturn in the economy can increase inception rates. Termination rates are heavily influenced by the cause of claims with mental health claims being a particular area of uncertainty. The quality of the claims management is also a key determinant in termination experience. The Company uses an external claims management Company for this process.

Historically the Company has written a significant proportion of protection business where customers' premiums are reviewable in line with experience. For this business, judgement is required as to the likely changes in future customer premiums based on current claims experience. The policy of the Company is to recognise expected future reductions but not to anticipate future increases in customer premiums. In addition, a prudent allowance is made for future premium reductions in excess of current experience.

Estimates are made as to the future persistency of policies and the rates at which customers surrender or lapse their policies. The estimates are based on an analysis of past experience and vary by product as well as the length of time the policy has been in effect. Estimates are also made on the level of future expenses needed to administer and maintain the business. The Company bases these estimates on the current costs incurred by the Company and the current number of policies in force.

Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. The average estimated rate of investment return is 4.08% (2021: 1.08%) for any period for which the policy is an asset and 2.72% (2021: 0.72%) for any period for which the policy is a liability.

*Deferred tax asset*

Unrecognised tax losses (Note 25, Deferred tax (assets)/liabilities), relating to historic tax losses, have been assessed against the requirements for recognition and measurement in IAS 12. The conclusion was that the recognition threshold was not met, due to the uncertainty surrounding future taxable income (investment return and gains). Equity market volatility, due to macro-economic factors, such as the significant interest rate increases, rise in inflation and the conflict in Ukraine, had a material negative impact on investment income during 2022, which increased the uncertainty around expected future investment income.

The Company is subject to the UK's taxation regime for life assurance companies which seeks to tax the policyholder profits, where appropriate, along with the shareholder (Company) profits. This is known as the "I-E" regime (broadly any investment income plus gains on disposals of assets less expenses of management).

Under the I-E regime only Basic Life Assurance and General Annuity Business ("BLAGAB") products, are subject to tax on an I-E basis. Where there are more expenses than investment return and gains, the Company is in an XSE position and will have XSE to carry forward.

XSE is effectively a form of tax loss and therefore a deferred tax asset could potentially be recognised for any XSE carried forward at the end of a reporting period.

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**3 Management of insurance and financial risk**

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The Company issues contracts that transfer insurance risk or financial risk or both. It also holds financial instruments that transfer financial risk. This section summarises these risks and the way the Company manages these risks.

***Insurance risk***

The insurance contracts sold by the Company offer a lump sum or monthly income payable on death, on diagnosis of certain specified critical illnesses, or in the event of the policyholder being unable to work through long-term illness, or on a combination of these benefits. The amount of benefit payable may be fixed at the outset, increased at a fixed rate or with regard to a recognised index, or reduced over the course of the contract. Alternatively, it may either be linked to the value of units allocated to the policy or based on the original premium paid.

Depending on the type of contract, the customer premiums may be expected to be level throughout the term of the contract or increased annually on the anniversary of the inception of the contract.

For certain contracts, in the event of adverse experience, the Company may review the premium payable by the customer. For other contracts, the customer premium is guaranteed throughout the term of the contract irrespective of any variations in experience.

The risk under any one insurance contract is the possibility that the insured event occurs, when it will occur and, in some cases, the uncertainty of the amount of the resulting claim. By the very nature of an individual insurance contract, this risk is random and therefore unpredictable. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be.

The Company manages its insurance risk through strict underwriting procedures (developed in conjunction with reinsurers) and claims management. These procedures are regularly reviewed internally and also by the Company's reinsurers. In addition, the Company's Risk Management Meeting regularly monitors and manages insurance risk issues.

The Company adopts rigorous approval procedures for new products and pricing reviews, close monitoring and active management of reinsurance arrangements and monitoring of emerging issues.

The Company's underwriting strategy is intended to ensure that the risks underwritten are diversified in terms of type of risk and the level of insured benefits. Medical selection is also included in the Company's underwriting procedures, with premium varied to reflect the health condition and family medical history of



the applicants. The Company limits retention on individual lives for each type of insured benefit (e.g. life and critical illness) by the use of proportional reinsurance.

Historically, the Company has written a significant proportion of protection business where customers' premiums are reviewable in line with experience. This represents approximately 21% (2021: 24%) of the current in-force protection business. The Company has obtained reinsurance on a combination of reviewable and guaranteed terms for this business, and actively manages the risk of a mismatch between the reinsurance and the commitment to customers.

The Company also writes protection business where customer premiums are guaranteed. The Company has obtained reinsurance on guaranteed terms in order to match the commitment to customers.

The spread of business is generally geographically diverse within the United Kingdom meaning that the Company is not exposed to a significant concentration of insurance risk on individual policies. However, the Company is exposed to a concentration of insurance risk on the protection benefits provided as part of the flexible benefits package offered to the UK employees of HSBC, of which the most material would be in respect of a catastrophe at the UK headquarters of HSBC Bank. The concentration risk was considered as part of the process of securing the business and appropriate reinsurance was put in place to ensure that the risk exposure remained within the risk appetite of the Company.

The Company uses external reinsurance appropriately to reduce variability of the losses incurred by the Company and has reinsurance contracts in place to mitigate a proportion of mortality and morbidity risk. In addition, reinsurance is used where it is judged to be economically advantageous to do so.

The Company's current reinsurance treaties for the major new business lines are set out in the following table.

| <b>Business Type</b>                  | <b>Operating Type</b> | <b>Retention</b> | <b>Risk Type</b>        |
|---------------------------------------|-----------------------|------------------|-------------------------|
| Mortality (Internal Term business)    | Proportional          | 15%              | Risk rates              |
| Morbidity (Internal Critical illness) | Proportional          | 20%              | Risk rates              |
| Morbidity (Income protection)         | Proportional          | 40%              | Risk rates              |
| Mortality (External Term business)    | Proportional          | 5%               | Risk rates              |
| Morbidity (External Critical illness) | Proportional          | 20%              | Risk rates              |
| Group Term business                   | Proportional          | 10%              | Level Rate + Risk rates |
| Group Income Protection               | Proportional          | 0%               | Level Rate              |

Similar proportional arrangements apply to existing business. The Company makes use of reinsurance to reduce capital requirements where it is available on good economic terms.

#### **Financial risk**

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. The key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of this financial risk are market risk, credit risk and liquidity risk.

#### **Asset/liability matching**

The Company aims to manage its assets using an approach that balances quality, diversification, asset/liability matching, liquidity and investment return, while operating within a defined risk appetite. The Company's senior management reviews and approves the investment strategy on a periodic basis, establishes investment guidelines and limits, and provides oversight of the asset/liability management process.

For unit-linked insurance and investment contracts, the unit liability to policyholders is determined by the value of the assets in the unit-linked portfolios. There is therefore no direct net equity price, currency,

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

interest rate or credit risk exposure to the Company for these contracts as the risks are borne by the policyholders. However, indirect exposure to equities and interest rates arises through the customer charges as explained further below.

The following table analyses the Company's assets and liabilities between the main insurance and investment contract types:

| At 31 December 2022                                                              | Insurance contracts<br>Non-linked<br>£'000          | Insurance contracts<br>Unit-linked<br>£'000          | Investment contracts<br>Unit-linked<br>£'000          | Other<br>£'000         | Total<br>£'000         |
|----------------------------------------------------------------------------------|-----------------------------------------------------|------------------------------------------------------|-------------------------------------------------------|------------------------|------------------------|
| <b>Assets</b>                                                                    |                                                     |                                                      |                                                       |                        |                        |
| Contractual rights – Investment contracts                                        | -                                                   | -                                                    | -                                                     | 422                    | 422                    |
| Financial assets:                                                                |                                                     |                                                      |                                                       |                        |                        |
| – Equities and collectives                                                       | 65,352                                              | 1,701,093                                            | 784,923                                               | 55,119                 | 2,606,487              |
| – Debt securities                                                                | -                                                   | -                                                    | -                                                     | 52,326                 | 52,326                 |
| – Derivatives                                                                    | -                                                   | -                                                    | -                                                     | -                      | -                      |
| Reinsurance assets                                                               | 91,030                                              | -                                                    | -                                                     | -                      | 91,030                 |
| Cash and cash equivalents                                                        | 41,493                                              | 82,671                                               | 10,338                                                | 19,644                 | 154,146                |
| Receivables, prepayments, accrued income, income tax receivable and deferred tax | 14,997                                              | 344                                                  | 605                                                   | 1,380                  | 17,326                 |
| <b>Total assets</b>                                                              | <b>212,872</b>                                      | <b>1,784,108</b>                                     | <b>795,866</b>                                        | <b>128,891</b>         | <b>2,921,737</b>       |
| <b>Liabilities</b>                                                               |                                                     |                                                      |                                                       |                        |                        |
| Insurance contract provisions                                                    | 179,582                                             | 1,776,806                                            | -                                                     | -                      | 1,956,388              |
| Financial liabilities                                                            | -                                                   | -                                                    | 789,148                                               | -                      | 789,148                |
| Other provisions and liabilities                                                 | 33,290                                              | 7,302                                                | 6,718                                                 | 490                    | 47,800                 |
| <b>Total liabilities</b>                                                         | <b>212,872</b>                                      | <b>1,784,108</b>                                     | <b>795,866</b>                                        | <b>490</b>             | <b>2,793,336</b>       |
| <b>At 31 December 2021</b>                                                       | <b>Insurance contracts<br/>Non-linked<br/>£'000</b> | <b>Insurance contracts<br/>Unit-linked<br/>£'000</b> | <b>Investment contracts<br/>Unit-linked<br/>£'000</b> | <b>Other<br/>£'000</b> | <b>Total<br/>£'000</b> |
| <b>Assets</b>                                                                    |                                                     |                                                      |                                                       |                        |                        |
| Contractual rights – Investment contracts                                        | -                                                   | -                                                    | -                                                     | 449                    | 449                    |
| Financial assets:                                                                |                                                     |                                                      |                                                       |                        |                        |
| – Equities and collectives                                                       | 72,613                                              | 1,578,438                                            | 857,319                                               | 17,789                 | 2,526,159              |
| – Debt securities                                                                | -                                                   | -                                                    | -                                                     | 85,530                 | 85,530                 |
| – Derivatives                                                                    | -                                                   | 179                                                  | 13                                                    | -                      | 192                    |
| Reinsurance assets                                                               | 86,955                                              | -                                                    | -                                                     | -                      | 86,955                 |
| Cash and cash equivalents                                                        | 53,167                                              | 50,435                                               | 6,949                                                 | 30,680                 | 141,231                |
| Receivables, prepayments, accrued income and income tax receivable               | 13,430                                              | 715                                                  | 642                                                   | 2,897                  | 17,684                 |
| <b>Total assets</b>                                                              | <b>226,165</b>                                      | <b>1,629,767</b>                                     | <b>864,923</b>                                        | <b>137,345</b>         | <b>2,858,200</b>       |
| <b>Liabilities</b>                                                               |                                                     |                                                      |                                                       |                        |                        |
| Insurance contract provisions                                                    | 201,679                                             | 1,624,583                                            | -                                                     | -                      | 1,826,262              |
| Financial liabilities                                                            | -                                                   | -                                                    | 860,440                                               | -                      | 860,440                |
| Other provisions and liabilities                                                 | 24,486                                              | 5,184                                                | 4,483                                                 | 748                    | 34,901                 |
| <b>Total liabilities</b>                                                         | <b>226,165</b>                                      | <b>1,629,767</b>                                     | <b>864,923</b>                                        | <b>748</b>             | <b>2,721,603</b>       |

The 'Other' column relates to balances attributable to shareholder's equity.

### Market risk

Market risk is the risk of change in fair value of a financial instrument due to changes in interest rates, equity prices or foreign currency exchange rates. Equity and foreign exchange exposure is substantially all contained within the unit-linked funds and the risk is borne by the policyholders. However, the income for the Company from the unit-linked funds is derived from the annual management charges which are a fixed percentage of the fund value. The Company also receives income on certain products in respect of tax deductions for investment income and gains that are taxable for the Company. This income therefore

varies with the investment performance of the funds. Therefore, the charges made are dependent on the level of the fund.

The 'other' investment portfolio contains small holdings of units in the unit-linked funds, relating to the operation of small box holdings of unallocated units, which generates some equity exposure. These holdings are kept to a minimum and managed against agreed limits. The main holdings within the 'other' portfolio, classified within 'Equities and collectives', are in collectives that hold debt securities and short term money market instruments and 'Debt securities' which are government securities and corporate bonds. The sensitivities to changes in equity prices are disclosed in note 21.

#### *Interest rate risk*

The Company's net exposure to market risk from changes in interest rates arises from its non-linked and 'other' investment portfolios as well as from its liabilities. Interest rates also impact the fund values where customer funds have bond exposure and so the comments above relating to equity also apply here. The Company operates investment guidelines for its non-linked assets, which include setting out the matching policy of the Company. The investment strategy is approved by the Board following review and recommendation by the Risk and Audit Committee (RAC) which is a formal sub-committee of the Board, and also by the HSBC Group Insurance Function. Compliance with guidelines is monitored and exposures and breaches are reported to the Asset and Liability Management Committee.

Management monitor the Company's sensitivity to interest rate movements by considering the profit impact in stressed scenarios. The sensitivities to changes in interest rates are disclosed in note 21.

#### **Credit risk**

The Company has exposure to credit risk on financial assets; this is the risk that a counterparty will be unable to pay the amounts due in full when they arise. Where the exposure relates to assets held within the Company's unit-linked funds, the credit risk is borne by the policyholders.

The main areas where the Company has an exposure to credit risk (i.e. excluding the unit-linked exposure) are:

- the default risk of a reinsurer currently used by the Company;
- the default risk of debt instruments held within collective investment scheme holdings;
- the default risk of debt securities held by the Company;
- the default risk of HSBC Bank plc in respect of the Company's deposit holdings; and
- the default risk of non-clawback of indemnity commission from intermediaries in the event that policies lapse.

The Company operates investment guidelines for its non-linked assets which set out the permitted assets that may be held and any limits to be applied. Limits on exposure to a single counterparty are set by reference to the credit rating of the counterparty. The investment guidelines are set out in the Investment Policy Document which is approved by the Asset and Liability Management Committee. Compliance with guidelines is monitored and exposures and breaches are reported to the Asset and Liability Management Committee.

Within the Company's unit-linked funds, the credit risk is borne by the policyholders and not the shareholders. The fund managers operate within agreed investment guidelines which specify the required credit quality for fund investments.

Reinsurance is placed with counterparties that have undergone appropriate due diligence checks and have been approved by the HSBC Group Insurance Function. Exposures and breaches against internal and regulatory limits are monitored and reported to the Asset and Liability Management Committee.

Intermediaries undergo due diligence checks before onboarding and sales, lapses and clawback of commission is monitored and reported to the Distribution Oversight Forum and the Asset and Liability Management Committee.

**Credit exposure**

The table below shows the maximum exposure to investment credit risk. No amounts are individually or collectively impaired. Other than to its parent (see note 27), the only significant concentrations of credit risk are in relation to the Company's reinsurers. Further information on exposures to reinsurers is set out in note 21.

|                                                        | Unit-linked      | Other          | Total            |
|--------------------------------------------------------|------------------|----------------|------------------|
|                                                        | £'000            | £'000          | £'000            |
| <b>At 31 December 2022</b>                             |                  |                |                  |
| Financial assets at fair value through profit or loss: |                  |                |                  |
| – Debt securities                                      | -                | 52,326         | 52,326           |
| – Collective investment schemes                        | 2,481,875        | 120,471        | 2,602,346        |
| – Derivative financial instruments                     | -                | -              | -                |
| Reinsurance assets                                     | -                | 91,030         | 91,030           |
| Receivables, prepayments and accrued income            | 949              | 11,862         | 12,811           |
| Cash and cash equivalents                              | 93,009           | 61,137         | 154,146          |
| Income tax (payable)/recoverable                       | -                | 1,205          | 1,205            |
| <b>Total not past due</b>                              | <b>2,575,833</b> | <b>338,031</b> | <b>2,913,864</b> |
| Receivables and prepayments at fair value:             |                  |                |                  |
| – Overdue up to 6 months                               | -                | 2,875          | 2,875            |
| – Overdue 7-12 months                                  | -                | 273            | 273              |
| – Overdue over 12 months                               | -                | 152            | 152              |
| <b>Total past due</b>                                  | <b>-</b>         | <b>3,300</b>   | <b>3,300</b>     |
| <b>Total assets bearing credit risk</b>                | <b>2,575,833</b> | <b>341,331</b> | <b>2,917,164</b> |
| <b>At 31 December 2021</b>                             |                  |                |                  |
| Financial assets at fair value through profit or loss: |                  |                |                  |
| – Debt securities                                      | -                | 85,530         | 85,530           |
| – Collective investment schemes                        | 2,391,660        | 90,393         | 2,482,053        |
| – Derivative financial instruments                     | 192              | -              | 192              |
| Reinsurance assets                                     | -                | 86,955         | 86,955           |
| Receivables, prepayments and accrued income            | 1,058            | 10,641         | 11,699           |
| Cash and cash equivalents                              | 57,384           | 83,847         | 141,231          |
| Income tax recoverable                                 | 299              | 2,637          | 2,936            |
| <b>Total not past due</b>                              | <b>2,450,593</b> | <b>360,003</b> | <b>2,810,596</b> |
| Receivables and prepayments at fair value:             |                  |                |                  |
| – Overdue up to 6 months                               | -                | 2,644          | 2,644            |
| – Overdue 7-12 months                                  | -                | 145            | 145              |
| – Overdue over 12 months                               | -                | 260            | 260              |
| <b>Total past due</b>                                  | <b>-</b>         | <b>3,049</b>   | <b>3,049</b>     |
| <b>Total assets bearing credit risk</b>                | <b>2,450,593</b> | <b>363,052</b> | <b>2,813,645</b> |

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## Notes on the Financial Statements (continued)

|                                         | 2022<br>£'000           | 2021<br>£'000           |
|-----------------------------------------|-------------------------|-------------------------|
| AAA                                     | 69,419                  | 92,731                  |
| AA                                      | 110,196                 | 108,284                 |
| A                                       | 91,920                  | 140,239                 |
| BBB                                     | 14,463                  | 18,659                  |
| Not rated                               | 1,872                   | 3,139                   |
|                                         | <u>287,870</u>          | <u>363,052</u>          |
| Unit-linked                             | 2,629,294               | 2,450,593               |
| <b>Total assets bearing credit risk</b> | <u><b>2,917,164</b></u> | <u><b>2,813,645</b></u> |

The assets above are analysed in the table above using Standard & Poor's (S&P) rating (or equivalent when not available from S&P).

### Liquidity risk

The Company has to meet daily calls on its cash resources, notably from claims arising on its insurance and investment contracts. There is therefore a risk that cash will not be available to settle liabilities when due.

The Company's policy for managing this risk is to ensure that all investment securities held within the non-linked funds are capable of meeting the Prudential Regulation Authority's (PRA's) definition of 'readily realisable' to the extent that they are capable of being realised for a value equivalent to at least 97.5% of their current market value within a period of seven days.

The Company also holds a sufficient level of cash balances at all times, such that normal operational cash flows can be met without the sale of investments. Contingency arrangements are also available to the Company to ensure that short-term liquidity can be maintained in any extreme or unforeseen circumstances.

For the unit-linked funds, there is a risk that significant policyholder outflows could exceed the short-term liquidity within the funds. The Company has the power to defer settlement to policyholders in certain circumstances by between one and six months, depending on the fund.

Short-term liquidity management is undertaken on a daily basis. Longer-term liquidity risk is managed on an ongoing basis through the regular review of the investment portfolio to align the maturity profile with that of the projected contract liabilities.

The Company has developed a liquidity contingency plan which formally sets out how the Company will monitor potential liquidity issues and the actions that will be taken in certain situations.

Cashflow analysis, to assess Company's liquidity adequacy, was performed and the outcome was that the Company is expected to have sufficient liquid funds over the next five years.

The approach adopted by management to assess liquidity risk is based on consideration of the impact of a number of stress tests on short-term and medium-term cash flows.

The assumptions in the base scenario are then stressed in a number of scenarios to determine whether sufficient liquidity can be generated and at what cost. Any potential issues are then addressed.

The following table summarises the maturity profile of the financial liabilities of the Company based on remaining contractual obligations (please refer to note 21 for the maturity profile of insurance contract liabilities).

| Contractual cash flows (undiscounted) |                  |                  |                   |                  |                      |                |
|---------------------------------------|------------------|------------------|-------------------|------------------|----------------------|----------------|
| At 31 December 2022                   | 0-1 yrs<br>£'000 | 1-5 yrs<br>£'000 | 5-15 yrs<br>£'000 | >15 yrs<br>£'000 | Unit linked<br>£'000 | Total<br>£'000 |
| Financial liabilities:                |                  |                  |                   |                  |                      |                |
| – Investment contracts                | -                | -                | -                 | -                | 789,148              | 789,148        |
| Insurance and other payables          | 33,237           | -                | -                 | -                | 14,020               | 47,257         |
| <b>Total</b>                          | <b>33,237</b>    | <b>-</b>         | <b>-</b>          | <b>-</b>         | <b>803,168</b>       | <b>836,405</b> |
| Contractual cash flows (undiscounted) |                  |                  |                   |                  |                      |                |
| At 31 December 2021                   | 0-1 yrs<br>£'000 | 1-5 yrs<br>£'000 | 5-15 yrs<br>£'000 | >15 yrs<br>£'000 | Unit linked<br>£'000 | Total<br>£'000 |
| Financial liabilities:                |                  |                  |                   |                  |                      |                |
| – Investment contracts                | -                | -                | -                 | -                | 860,440              | 860,440        |
| Insurance and other payables          | 24,469           | -                | -                 | -                | 9,667                | 34,136         |
| <b>Total</b>                          | <b>24,469</b>    | <b>-</b>         | <b>-</b>          | <b>-</b>         | <b>870,107</b>       | <b>894,576</b> |

All liability cash flows for unit-linked contracts are considered to be payable on demand.

### Operational and model risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events. The Company manages its exposure to operational risk through the identification, categorisation and evaluation of individual risks and by maintaining appropriate control processes to mitigate those risks. This is managed through the Company's Risk Management Meeting.

Model risk is one element of operational risk that the Company is exposed to. Model risk is the risk of loss arising from a financial model used to measure risks or value transactions, not working in the way it was designed to. The Company uses models for liability valuation, product pricing and capital management. It manages model risk through establishing and maintaining appropriate systems of internal controls governing the development, usage and change control of the models. This includes independent reviews of the models where appropriate.

### Capital management

The key objectives of the Company's capital management policy is to:

- enable the Company to write new business, that is, to meet the development costs of new contracts and the capital requirements from writing new business;
- to ensure solvency, without the need for capital injection, on an ongoing basis withstanding ordinary volatility in economic and non-economic experience, and in the event of mild stress scenarios; and
- protect against regulatory intervention.

The optimum level of capital buffer ensures that a capital injection is not required over the planning time horizon with an acceptable confidence level to the Company's parent and excess capital is not sitting with the Company reducing return on capital to the shareholders.

The Company is required to hold regulatory capital in compliance with the rules issued by the Prudential Regulation Authority (PRA). Solvency II, the Europe-wide prudential regulation framework, came into force on 1 January 2016. In terms of Solvency II, Pillar 1, the Company's solvency capital requirement (SCR) is determined on a standard formula basis plus a voluntary capital add-on. Solvency II, Pillar 2, requires the Company to do its own assessment of the capital required for current and future risks. The Company will then hold the maximum of the regulatory capital (SCR) and its own capital assessment.

The target capital level is 130% of the Company's assessment of the capital required, with a minimum absolute target buffer of £50m. Where the actual capital exceeds the target level, a dividend should be paid to bring the solvency margin down to the target level. Other considerations such as liquidity, projected

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## Notes on the Financial Statements (continued)

new business sales, distributable reserves and reinsurance exposure are all considered when determining what dividends can be paid.

The risk appetite is that the solvency margin should remain above 120% of the Company's assessment of the capital required with a minimum buffer of £35m. This is based on a 1 in 10 year event.

The Company has complied with the externally imposed capital requirements to which it is subject at all times during the current and prior financial year.

The table below summarises the IFRS and regulatory capital held by the Company.

|                                                               | 2022<br>£'000  | 2021<br>£'000  |
|---------------------------------------------------------------|----------------|----------------|
| Share capital                                                 | 94,375         | 94,375         |
| Retained earnings                                             | 34,026         | 42,222         |
|                                                               | <b>128,401</b> | <b>136,597</b> |
| Adjustments to capital for regulatory purposes:               |                |                |
| – replace IFRS reserves with Solvency II Technical Provisions | 206,359        | 127,997        |
| – other asset valuation differences                           | 67             | 60             |
| – deferred tax                                                | (51,607)       | (30,734)       |
| Regulatory capital held                                       | <b>283,220</b> | <b>233,920</b> |

### 4 Net insurance premium revenue

#### (a) Insurance premium revenue

Substantially all business is written in the UK.

|                                  | 2022<br>Gross<br>£'000 | 2022<br>Reinsurance<br>£'000 | 2022<br>Net<br>£'000 | 2021<br>Gross<br>£'000 | 2021<br>Reinsurance<br>£'000 | 2021<br>Net<br>£'000 |
|----------------------------------|------------------------|------------------------------|----------------------|------------------------|------------------------------|----------------------|
| <b>Life insurance business</b>   |                        |                              |                      |                        |                              |                      |
| Non-participating contracts      |                        |                              |                      |                        |                              |                      |
| – regular premium                | 72,027                 | (40,467)                     | 31,560               | 72,875                 | (39,937)                     | 32,938               |
| – single premium                 | 3                      | (4)                          | (1)                  | 8                      | (4)                          | 4                    |
| Linked contracts                 |                        |                              |                      |                        |                              |                      |
| – regular premium                | 3,997                  | (338)                        | 3,659                | 4,839                  | (369)                        | 4,470                |
| – single premium                 | 400,423                | -                            | 400,423              | 398,050                | -                            | 398,050              |
|                                  | <b>476,450</b>         | <b>(40,809)</b>              | <b>435,641</b>       | <b>475,772</b>         | <b>(40,310)</b>              | <b>435,462</b>       |
| <b>Permanent health business</b> |                        |                              |                      |                        |                              |                      |
| Non-participating contracts      |                        |                              |                      |                        |                              |                      |
| – regular premium                | 77,417                 | (49,480)                     | 27,937               | 80,689                 | (52,786)                     | 27,903               |
| Linked contracts                 |                        |                              |                      |                        |                              |                      |
| – regular premium                | 1,379                  | (681)                        | 698                  | 1,505                  | (704)                        | 801                  |
|                                  | <b>78,796</b>          | <b>(50,161)</b>              | <b>28,635</b>        | <b>82,194</b>          | <b>(53,490)</b>              | <b>28,704</b>        |
| Total premiums written           | <b>555,246</b>         | <b>(90,970)</b>              | <b>464,276</b>       | <b>557,966</b>         | <b>(93,800)</b>              | <b>464,166</b>       |

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## Notes on the Financial Statements (continued)

### (b) Annualised new business for insurance contracts

| Insurance contracts              | 2022<br>Regular<br>premiums<br>£'000 | 2022<br>Single<br>premiums<br>£'000 | 2021<br>Regular<br>premiums<br>£'000 | 2021<br>Single<br>premiums<br>£'000 |
|----------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| <b>Life insurance business</b>   |                                      |                                     |                                      |                                     |
| Non-participating contracts      | 13,190                               | -                                   | 11,847                               | -                                   |
| Linked contracts                 | 25                                   | 383,836                             | 111                                  | 394,295                             |
|                                  | <u>13,215</u>                        | <u>383,836</u>                      | <u>11,958</u>                        | <u>394,295</u>                      |
| <b>Permanent health business</b> |                                      |                                     |                                      |                                     |
| Non-participating contracts      | 4,238                                | -                                   | 3,126                                | -                                   |
|                                  | <u>4,238</u>                         | <u>-</u>                            | <u>3,126</u>                         | <u>-</u>                            |
| <b>Total</b>                     | <u>17,453</u>                        | <u>383,836</u>                      | <u>15,084</u>                        | <u>394,295</u>                      |

In classifying new business premiums, the following bases of recognition have been adopted:

- recurrent single premium contracts are included as new business single premiums; and
- increments under existing contracts are classified as new business premiums.

Where regular premiums are received other than annually, the reported regular new business premiums are on an annualised basis. For annually-priced protection products, factors have been applied to the calculation of new business premiums to reflect future premium increases.

### (c) Annualised new business for investment contracts

The following table summarises the new business written in the year in respect of investment contracts. The premiums receivable for these contracts are not included within 'Insurance premium revenue' in the statement of comprehensive income but are credited directly to the statement of financial position as an adjustment to the financial liabilities for investment contracts.

| Investment contracts           | 2022<br>Regular<br>premiums<br>£'000 | 2022<br>Single<br>premiums<br>£'000 | 2021<br>Regular<br>premiums<br>£'000 | 2021<br>Single<br>premiums<br>£'000 |
|--------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| <b>Life insurance business</b> |                                      |                                     |                                      |                                     |
| Linked contracts               | -                                    | -                                   | 4                                    | -                                   |
| <b>Pension business</b>        |                                      |                                     |                                      |                                     |
| Linked contracts               | -                                    | 49,485                              | -                                    | 49,118                              |
| <b>Total</b>                   | <u>-</u>                             | <u>49,485</u>                       | <u>4</u>                             | <u>49,118</u>                       |

## 5 Fees and commission income

|                                                                      | 2022<br>£'000 | 2021<br>£'000 |
|----------------------------------------------------------------------|---------------|---------------|
| <b>Fee income</b>                                                    |               |               |
| Fund management based fees                                           | 2,832         | 2,951         |
| Front-end fees recognised in the year                                | 30            | 67            |
| <b>Commission income</b>                                             |               |               |
| Rebated annual management charges from collective investment schemes | 125           | 250           |
| Policy fees                                                          | 13            | -             |
|                                                                      | <u>3,000</u>  | <u>3,268</u>  |



**6 Financial (expense)/income**

|                                                                              | 2022<br>£'000    | 2021<br>£'000  |
|------------------------------------------------------------------------------|------------------|----------------|
| Interest income                                                              | 7,115            | 3,349          |
| Dividend income                                                              | 14,043           | 12,137         |
| Net fair value (losses)/gains on assets at FVTPL                             | (245,505)        | 209,248        |
| Net fair value gains on derivative financial instruments classified as FVTPL | 21               | 112            |
| Foreign exchange gains/(losses)                                              | 941              | (57)           |
|                                                                              | <b>(223,385)</b> | <b>224,789</b> |

**7 Net insurance claims and benefits incurred**

|                                                       | 2022<br>£'000  | 2021<br>£'000  |
|-------------------------------------------------------|----------------|----------------|
| <b>Long-term insurance contracts</b>                  |                |                |
| Claims and benefits incurred                          |                |                |
| – claims and benefits paid                            | 189,104        | 167,016        |
| – increase in liabilities                             | 130,126        | 437,086        |
| <b>Total cost of policyholder claims and benefits</b> | <b>319,230</b> | <b>604,102</b> |
| Reinsurers' share of claims and benefits incurred     |                |                |
| – claims and benefits paid                            | (59,087)       | (62,495)       |
| – (increase)/decrease in assets                       | (4,075)        | 4,615          |
| <b>Total cost of policyholder benefits</b>            | <b>256,068</b> | <b>546,222</b> |

**8 Investment contract benefits**

The investment contract benefits decrease of £65,250,000 (2021 increase: £89,155,000) represents changes in the fair value of investment contract liabilities. All investment contracts are designated as at fair value through profit or loss.

This amount represents the total amount recognised in the statement of comprehensive income for the change in fair value of liabilities. The investment contract liabilities are determined on a daily basis from the bid value of the underlying unit-linked fund assets, the majority of which are listed securities.

**9 Acquisition costs and administrative expenses**

|                                                                                | 2022<br>£'000 | 2021<br>£'000 |
|--------------------------------------------------------------------------------|---------------|---------------|
| <b>Expenses for the acquisition of insurance and investment contracts</b>      |               |               |
| Amortisation of contractual rights asset                                       | 27            | 59            |
| Costs incurred for the acquisition of insurance contracts expensed in the year | 28,592        | 29,409        |
| <b>Total acquisition expenses</b>                                              | <b>28,619</b> | <b>29,468</b> |

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

|                                                               | 2022<br>£'000 | 2021<br>£'000 |
|---------------------------------------------------------------|---------------|---------------|
| <b>Administrative expenses</b>                                |               |               |
| Purchase of goods and services                                | 22,899        | 19,054        |
| Other costs                                                   | 48            | 28            |
| <b>Total administrative expenses</b>                          | <b>22,947</b> | <b>19,082</b> |
| <b>Expenses by nature</b>                                     |               |               |
| Amortisation of contractual rights asset                      | 27            | 59            |
| Commission payable                                            | 21,424        | 23,110        |
| Purchase of goods and services                                | 30,067        | 25,353        |
| Other costs                                                   | 48            | 28            |
| <b>Total acquisition costs and administrative expenses</b>    | <b>51,566</b> | <b>48,550</b> |
| Administrative expenses include:                              |               |               |
| <b>Auditors remuneration:</b>                                 |               |               |
| – Audit of these financial statements pursuant to legislation | 280           | 235           |
| – Other audit-related services pursuant to such legislation   | 149           | 135           |
|                                                               | <b>429</b>    | <b>370</b>    |

The fees paid to auditors detailed above (exclusive of VAT) relate only to activities in respect of the Company.

Other audit-related services pursuant to such legislation for 2022 relates to the Solvency II limited scope audit.

### 10 Credit impairment losses and other operating expenses

|                                                                     | 2022<br>£'000 | 2021<br>£'000 |
|---------------------------------------------------------------------|---------------|---------------|
| Commission and stamp duty relating to purchases of financial assets | 32            | 33            |
| Interest payable                                                    | 49            | 39            |
| Credit impairment losses                                            | 229           | 1,312         |
| <b>Total credit impairment and other operating expenses</b>         | <b>310</b>    | <b>1,384</b>  |

Other operating expenses includes credit impairment losses on commission clawback. Commission paid to third party insurance intermediaries, for the sale of HSBC Life Protection (HLP) policies, is due back to the Company when policies lapse within four years from inception. The commission clawback receivable is impaired when the Company assesses the refunds are no longer recoverable from the intermediaries due to significant financial difficulty.

### 11 Directors' emoluments

One director who served during the year (2021: Two directors) was remunerated by other Group undertakings which made no specific charge to this company for their services. The emoluments of the other directors in respect of their services to the Company are shown below.

|                              | 2022<br>£'000 | 2021<br>£'000 |
|------------------------------|---------------|---------------|
| Emoluments                   | 558           | 434           |
| Pension scheme contributions | 4             | 4             |
|                              | <b>562</b>    | <b>438</b>    |

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

|                              |            |            |
|------------------------------|------------|------------|
| Highest paid Director:       |            |            |
| Emoluments                   | 287        | 225        |
| Pension scheme contributions | 2          | 2          |
|                              | <u>289</u> | <u>227</u> |

Two directors exercised options over HSBC Holdings plc ordinary shares during the year (2021: One).

The Company does not have any direct employees (2021: nil). The directors and staff are all employees of other Group undertakings.

Retirement benefits are accruing to the directors under schemes operated by their employing companies. Retirement benefits are accruing to two directors under money purchase schemes and none are accruing under defined benefits scheme at 31 December 2022 (2021: two directors under money purchase schemes and none accruing under defined benefits scheme). The directors are members of retirement benefit schemes operated by HSBC Bank plc. Details of these schemes can be found in the Annual Report and Accounts of HSBC Bank plc. The Company does not receive any explicit charges in respect of the costs of contributions to the retirement benefit schemes for the directors and staff. As the Company has no staff, it has no liability in respect of any deficit within the schemes, although any surplus or deficit may affect the level of costs recharged to the Company in future periods.

### 12 Tax credit

|                                                   | Notes | 2022<br>£'000 | 2021<br>£'000 |
|---------------------------------------------------|-------|---------------|---------------|
| <b>Current tax</b>                                |       |               |               |
| UK Corporation tax                                |       |               |               |
| – on current year profit                          |       | 113           | 79            |
| – adjustments in respect of prior years           |       | -             | -             |
| Overseas tax                                      |       |               |               |
| – on current year profit                          |       | 17            | 35            |
| Total current tax                                 |       | <u>130</u>    | <u>114</u>    |
| <b>Deferred tax</b>                               |       |               |               |
| Origination and reversal of temporary differences |       | (158)         | (158)         |
| Effect of changes in tax rates                    |       | 1             | (4)           |
| Adjustment in respect of prior years              |       | 4             | (2)           |
| Total deferred tax                                | 25    | <u>(153)</u>  | <u>(164)</u>  |
| Tax credit                                        |       | <u>(23)</u>   | <u>(50)</u>   |

#### Tax reconciliation:

|                                       | 2022<br>£'000 | Percentage of<br>overall loss<br>before tax<br>% | 2021<br>£'000 | Percentage of<br>overall profit<br>before tax<br>% |
|---------------------------------------|---------------|--------------------------------------------------|---------------|----------------------------------------------------|
| (Loss)/Profit before tax              | (219)         |                                                  | 5,614         |                                                    |
| Tax of 19% (2021: 19%)                | (42)          | 19.2                                             | 1,067         | 19.0                                               |
| Adjustments in respect of prior years | 4             | (1.8)                                            | (2)           | (0.0)                                              |
| Income not taxable for tax purposes   | (3)           | 1.4                                              | (1,146)       | (20.4)                                             |
| Overseas tax charge                   | 17            | (7.8)                                            | 35            | 0.6                                                |
| Changes in tax rates                  | 1             | (0.5)                                            | (4)           | (0.1)                                              |
| Overall tax credit                    | <u>(23)</u>   | <u>10.5</u>                                      | <u>(50)</u>   | <u>(0.9)</u>                                       |

An increase in the main UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2022. This will increase the company's future current tax charge accordingly. Where appropriate, the deferred tax asset at 31 December 2022 has been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences.

**13 Contractual rights- investment contracts**

|                     | Investment contracts<br>Contractual rights<br>£'000 |
|---------------------|-----------------------------------------------------|
| <b>2022</b>         |                                                     |
| 1 January 2022      | 449                                                 |
| Amortisation        | (27)                                                |
| At 31 December 2022 | <u>422</u>                                          |
| <b>2021</b>         |                                                     |
| 1 January 2021      | 508                                                 |
| Amortisation        | (59)                                                |
| At 31 December 2021 | <u>449</u>                                          |

The contractual rights are amortised over the remaining expected life of each investment contract. This is estimated using appropriate assumptions for terminations and lapses. The average amortisation period is 7 years (2021: 6 years) and the longest remaining period is 50 years (2021: 50 years).

**14 Financial assets at fair value through profit or loss**

The Company's financial assets at fair value through profit or loss are summarised below by measurement category.

|                                                              | 2022<br>£'000         | 2021<br>£'000         |
|--------------------------------------------------------------|-----------------------|-----------------------|
| Mandatorily fair value through profit or loss (FVTPL)        | 2,658,813             | 2,611,689             |
| Derivative financial instruments (Mandatorily FVTPL)         | -                     | 192                   |
|                                                              | <u>2,658,813</u>      | <u>2,611,881</u>      |
| <b>Financial assets at fair value through profit or loss</b> | <b>2022<br/>£'000</b> | <b>2021<br/>£'000</b> |
| Equity securities – listed                                   | <u>4,141</u>          | <u>44,106</u>         |
| Debt securities – fixed interest rate:                       |                       |                       |
| – government bonds                                           | 4,717                 | 5,502                 |
| – other - listed                                             | <u>47,609</u>         | <u>80,028</u>         |
|                                                              | <u>52,326</u>         | <u>85,530</u>         |
| Collective investment schemes – unlisted                     | 2,602,346             | 2,482,053             |
| Derivative financial instruments                             | -                     | 192                   |
| Total financial assets at fair value through profit or loss  | <u>2,658,813</u>      | <u>2,611,881</u>      |
| Expected to be recovered in no more than one year            | 341,006               | 334,983               |
| Expected to be recovered after more than one year            | <u>2,317,807</u>      | <u>2,276,898</u>      |
|                                                              | <u>2,658,813</u>      | <u>2,611,881</u>      |

The other listed fixed rate debt securities relate to corporate bonds. The fair values of these are determined based on the interest yields on the instruments.

Derivatives are valued using internal models with inputs based on observable data.

Custody services are provided by HSBC Security Services, SEI Investments (Europe) Limited, True Potential Investments LLP and Investment Funds Direct Limited.

### Valuation of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable parties in an arm's length transaction.

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- **Level 1:** Quoted market price: financial instruments with quoted prices for identical instruments in active markets.
- **Level 2:** Valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets and financial instruments valued using models where all significant inputs are observable.
- **Level 3:** Valuation technique with significant unobservable inputs: financial instruments valued using models where one or more significant inputs are unobservable.

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

| 2022                            | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000   |
|---------------------------------|------------------|------------------|------------------|------------------|
| Financial assets:               |                  |                  |                  |                  |
| Equity securities               | 4,141            | -                | -                | 4,141            |
| Collectives                     | 2,602,048        | -                | 298              | 2,602,346        |
| Debt securities                 | -                | 52,326           | -                | 52,326           |
| Derivatives                     | -                | -                | -                | -                |
|                                 | <u>2,606,189</u> | <u>52,326</u>    | <u>298</u>       | <u>2,658,813</u> |
| Unit-linked                     | 2,485,718        | -                | 298              | 2,486,016        |
| Other                           | 120,471          | 52,326           | -                | 172,797          |
|                                 | <u>2,606,189</u> | <u>52,326</u>    | <u>298</u>       | <u>2,658,813</u> |
| Liabilities:                    |                  |                  |                  |                  |
| Investment contract liabilities | -                | 789,148          | -                | 789,148          |
|                                 | <u>-</u>         | <u>789,148</u>   | <u>-</u>         | <u>789,148</u>   |

# HSBC LIFE (UK) LIMITED

## Notes on the Financial Statements (continued)

| 2021                            | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000   |
|---------------------------------|------------------|------------------|------------------|------------------|
| Financial assets:               |                  |                  |                  |                  |
| Equity securities               | 44,106           | -                | -                | 44,106           |
| Collectives                     | 2,481,878        | -                | 175              | 2,482,053        |
| Debt securities                 | -                | 85,530           | -                | 85,530           |
| Derivatives                     | -                | 192              | -                | 192              |
|                                 | <u>2,525,984</u> | <u>85,722</u>    | <u>175</u>       | <u>2,611,881</u> |
| Unit-linked                     | 2,435,582        | 192              | 175              | 2,435,949        |
| Other                           | 90,402           | 85,530           | -                | 175,932          |
|                                 | <u>2,525,984</u> | <u>85,722</u>    | <u>175</u>       | <u>2,611,881</u> |
| Liabilities:                    |                  |                  |                  |                  |
| Investment contract liabilities | -                | 860,440          | -                | 860,440          |
|                                 | -                | <u>860,440</u>   | -                | <u>860,440</u>   |

### 15 Derivative financial instruments

The Company held index financial futures within its unit-linked tracker funds to ensure that assets which are not directly invested in components of the index, match the performance returns of the relevant index. The index financial futures had a maximum duration of three months.

|                         | 2022<br>Contract/<br>notional<br>amount<br>£'000 | 2022<br>Fair value<br>asset<br>£'000 | 2022<br>Fair value<br>liability<br>£'000 | 2021<br>Contract/<br>notional<br>amount<br>£'000 | 2021<br>Fair value<br>asset<br>£'000 | 2021<br>Fair value<br>liability<br>£'000 |
|-------------------------|--------------------------------------------------|--------------------------------------|------------------------------------------|--------------------------------------------------|--------------------------------------|------------------------------------------|
| Equity/index contracts  |                                                  |                                      |                                          |                                                  |                                      |                                          |
| Exchange traded futures | -                                                | -                                    | -                                        | 664                                              | 192                                  | -                                        |

### 16 Receivables, prepayments and accrued income

|                                                               | 2022<br>£'000 | 2021<br>£'000 |
|---------------------------------------------------------------|---------------|---------------|
| Receivables arising from insurance and reinsurance contracts: |               |               |
| - due from contract holders                                   | 414           | 291           |
| - due from other reinsurers                                   | 12,317        | 11,487        |
| - due from related parties                                    | 575           | 283           |
| Other receivables:                                            |               |               |
| - Accrued income                                              | 1,426         | 1,617         |
| - receivables due from related parties                        | 424           | 5             |
| - other receivables                                           | 720           | 852           |
| Prepayments                                                   | 235           | 213           |
|                                                               | <u>16,111</u> | <u>14,748</u> |
| Expected to be recovered in no more than one year             | <u>16,111</u> | <u>14,748</u> |
|                                                               | <u>16,111</u> | <u>14,748</u> |

The carrying amount of receivables, including insurance receivables, is considered to be a reasonable approximation of their fair value.

**HSBC LIFE (UK) LIMITED****Notes on the Financial Statements (continued)****17 Cash and cash equivalents**

|                           | 2022<br>£'000 | 2021<br>£'000 |
|---------------------------|---------------|---------------|
| Bank and cash balances    | 102,361       | 89,470        |
| Short-term bank deposits  | 51,785        | 51,761        |
| Cash and cash equivalents | 154,146       | 141,231       |

Cash and cash equivalents include balances within the unit-linked funds of £93.0m (2021: £57.4m) which are restricted and thus are not available for general business use.

**18 Called up share capital**

|                                       | 2022<br>£'000 | 2021<br>£'000 |
|---------------------------------------|---------------|---------------|
| Allotted, called up and fully paid    |               |               |
| 94,375,000 Ordinary shares of £1 each | 94,375        | 94,375        |
|                                       | 94,375        | 94,375        |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to repayment of capital.

**19 Dividends**

|                  | 2022<br>£'000 | 2022<br>Total per share | 2021<br>£'000 | 2021<br>Total per share |
|------------------|---------------|-------------------------|---------------|-------------------------|
| Interim dividend | 8,000         | 0.08                    | 10,000        | 0.11                    |
|                  | 8,000         | 0.08                    | 10,000        | 0.11                    |

**20 Retained earnings**

|                   | 2022<br>£'000 | 2021<br>£'000 |
|-------------------|---------------|---------------|
| Retained earnings | 34,026        | 42,222        |

The retained earnings balance represents the amount available for dividend distribution to the equity shareholders of the Company. The retained earnings are in excess of the Company's regulatory solvency capital requirement and thus there is no restriction on distributable reserves.

**HSBC LIFE (UK) LIMITED**  
**Notes on the Financial Statements (continued)**

**21 Insurance contract provisions and reinsurance assets**

|                                              | 2022<br>£'000 | 2021<br>£'000 |
|----------------------------------------------|---------------|---------------|
| <b>Gross</b>                                 |               |               |
| Long-term insurance contracts:               |               |               |
| – unit-linked - unit liability               | 1,776,806     | 1,624,583     |
| – non-linked                                 | 162,522       | 191,773       |
| – provision for outstanding claims           | 17,060        | 9,906         |
| Total insurance contract provisions, gross   | 1,956,388     | 1,826,262     |
| <b>Reinsurance</b>                           |               |               |
| Long-term insurance contracts:               |               |               |
| – non-linked                                 | (77,183)      | (79,835)      |
| – provision for outstanding claims           | (13,847)      | (7,120)       |
| Total reinsurance assets                     | (91,030)      | (86,955)      |
| <b>Net</b>                                   |               |               |
| Long-term insurance contracts:               |               |               |
| – unit-linked - unit liability               | 1,776,806     | 1,624,583     |
| – non-linked                                 | 85,339        | 111,938       |
| – provision for outstanding claims           | 3,213         | 2,786         |
| Total insurance liabilities-net              | 1,865,358     | 1,739,307     |
| Expected to be paid in no more than one year | 136,333       | 144,307       |
| Expected to be paid after more than one year | 1,729,025     | 1,595,000     |
|                                              | 1,865,358     | 1,739,307     |

**Long-term life insurance contracts – assumptions, changes in assumptions and sensitivity**

**Calculation methodology**

For the non-linked liabilities and the unit-linked liabilities, the insurance contract provisions are calculated using a gross premium basis. The provision is calculated by subtracting the present value of future premiums from the present value of future benefits payable under the policy until it ceases on the earlier of maturity, death or lapsation (refer to Persistency section). The gross premium method makes explicit allowance for future commission and policy maintenance costs (with an appropriate allowance for inflation).

The calculation of the non-linked liabilities means that contracts that do not include guaranteed surrender values may have negative statutory reserves (i.e. valued as an asset). However, this is subject to an overall requirement that negative statutory reserves be eliminated at product group level.

The effects of Covid-19 on the assumption setting process is to treat the experience of 2020 as a one-off for claims and persistency assumptions; unless it continues a previously identified trend. Where 2020 experience is unusually high/low compared to previous years, assumptions will not be altered based on 2020 experience by itself.

**Process used to determine assumptions**

The principal assumptions underlying the calculation of the insurance contract provisions are:

**Mortality**

A base mortality table is selected which is most appropriate for each type of contract. The mortality rates reflected in this table are adjusted to calculate the best estimate of mortality based on a statistical investigation into the Company's mortality experience. A margin for prudence of 15 per cent is added to the best estimate.



**Morbidity (Critical Illness – CI)**

An appropriate base table, based on the rate table produced by the Company's reinsurers, is selected for each type of contract. The rates reflected in this table are adjusted to calculate the best estimate of morbidity based on a statistical investigation into the Company's morbidity experience, where this is credible. A margin for prudence of 25 per cent is added to the best estimate.

**Morbidity (Income Protection – IP)**

The incidence and termination from disability is derived from studies performed by independent actuarial bodies. The rates in these tables are adjusted to calculate the best estimate of morbidity based on an investigation into the Company's experience, where this is credible. A prudence margin of 25 per cent is added to the best estimate for IP Inceptions and a prudence margin of 10 per cent is subtracted from the best estimate for IP Terminations.

**Other options and guarantees**

The Company's options and guarantees are generally limited to insurability options on certain lifetime events.

**Persistency**

The Company's recent lapse experience is analysed for each major contract type and used to calculate the best estimate of future persistency.

In order to ensure prudence, the direction of the lapse margin is based on whether an individual contract is an asset or a liability, on a contract by contract basis. It is prudent to increase the realistic lapse assumption for those contracts that can be considered as assets and to decrease it for those that are liabilities.

A margin of 30 per cent, relative to best estimate, is used, operating in the appropriate direction.

**Discount rates**

|                                  | 2022  | 2021  |
|----------------------------------|-------|-------|
| <b>Non-linked</b>                |       |       |
| – policies valued as liabilities | 2.72% | 0.72% |
| – policies valued as assets      | 4.08% | 1.08% |

Estimates are also made as to future investment income arising from the assets backing unit-linked long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

In order to ensure prudence, the direction of the interest rate margin is based on whether an individual contract is an asset or a liability, on a contract by contract basis. It is prudent to increase the realistic assumption for those contracts that can be considered as assets and to decrease it otherwise.

A margin of 20 per cent (relative to best estimate) is used, operating in the appropriate direction.

**Renewal expenses and inflation**

The current level of renewal expenses, plus a margin of up to 15 per cent, is assumed to be an appropriate expense base. Only attributable expenses are included for renewal expenses on unit-linked contracts. Expense inflation is assumed to be the implied future price inflation from the Bank of England with reference to index linked asset yield. An additional expense reserve is held to cover the risk that overall policy volumes decline in future years and the current renewal expense assumption does not cover the expected expenses of the Company. Expense inflation is assumed to be the implied future price inflation from the Bank of England with reference to index linked asset yield, plus a judgmental addition of 5% to year one rates.

**Reviewable premiums**

For business where customer premiums are reviewable and a premium increase is anticipated at the next review point, this is not anticipated in the valuation. However, where a reduction in premium is expected, the lower premium is valued. The re-insurance rates are considered separately, and where these rates are guaranteed, no change is anticipated, although where reinsurance rates are reviewable, they are assumed to increase when premium increases are anticipated and are assumed to stay the same when premiums are expected to reduce.

**Taxation**

The Company has assumed that the application of current tax legislation will not change, except where future changes have been substantively enacted.

**Key assumptions**

The principal assumptions (including prudence margins) used to value the main classes of business were as follows (assumptions for 2021 are shown in brackets where these have changed):

\*Inception and Termination rates are based on CMIR12 with the exception of Termination rates for Accident & Sickness which are based on internal experience and Inception rates for Life Choices which are based on the reinsurance risk rates.

**HSBC LIFE (UK) LIMITED**
**Notes on the Financial Statements (continued)**

| Class of business                                                        | Renewal expenses (p.a) | Mortality                                                                                                                              | Morbidity                                                        | Interest rate (p.a) (before tax)                     | Lapse rates for years 1-15 (1-15), % p.a <sup>4</sup>                                                                                                                                                                                                                                                          |
|--------------------------------------------------------------------------|------------------------|----------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Term assurance – non-CI (business written pre-July 2004)                 | £20.50 (2021 - £22.70) | Male: 103.5% TM08 Sel (Male: 103.5% TM08 Sel)<br><br>Female: 115% TF08 Sel <sup>1,2</sup> (Female: 126.5% TF08 Sel <sup>1</sup> )      | N/a                                                              | 4.08%/2.72% <sup>5</sup> (1.08%/0.72% <sup>5</sup> ) | 9, 11, 10, 8, 8, 5, 5, 5, 5, 4.5, 4.5, 4.5, 4.5, 4.5, 3.5 (9, 11, 10, 8, 8, 5, 5, 5, 5, 4.5, 4.5, 4.5, 4, 4, 3.5)                                                                                                                                                                                              |
| Term assurance – non-CI (business written post-July 2004, excluding HLP) | £20.50 (£22.70)        | Male: 92% TM08 Sel (92% TM08 Sel)<br><br>Female: 92% TF08 Sel <sup>1,2</sup> (92% TF08 Sel <sup>1</sup> )                              | N/a                                                              | 4.08%/2.72% <sup>5</sup> (1.08%/0.72% <sup>5</sup> ) | 5, 5, 5, 5, 5, 4.5, 4.5, 4.5, 4.5, 4, 4, 4, 4, 4, 4 (5, 6, 5.5, 6, 6, 6, 6, 6, 6, 6, 6, 6, 6, 6)                                                                                                                                                                                                               |
| Term assurance – CI (business written pre-July 2004)                     | £20.50 (£22.70)        | Male: 100% GRACI NL <sup>3</sup> (100% GRACI NL <sup>3</sup> )<br>Female: 131.5% GRACI NL <sup>3</sup> (131.5% GRACI NL <sup>3</sup> ) |                                                                  | 4.08%/2.72% <sup>5</sup> (1.08%/0.72% <sup>5</sup> ) | 11, 19, 14, 12, 12, 11, 11, 10, 10, 9, 9, 9, 7, 7, 4 (11, 19, 14, 12, 12, 11, 11, 10, 10, 9, 9, 9, 7, 7, 4)                                                                                                                                                                                                    |
| Term assurance – CI (business written post-July 2004)                    | £20.50 (£22.70)        | Male: 122.0% GRACI NL <sup>3</sup> (112.5% GRACI NL)<br>Female: 128% GRACI NL <sup>3</sup> (119% GRACI NL)                             |                                                                  | 4.08%/2.72% <sup>5</sup> (1.08%/0.72% <sup>5</sup> ) | 7, 7, 7, 7, 7, 7, 7, 7, 7, 7, 7, 7, 7, 7, 7, 7 (8, 8, 8, 8, 8, 8, 8, 8, 8, 8, 8, 8, 8, 8, 8, 8)                                                                                                                                                                                                                |
| Income protection (individual)                                           | £20.50 (£22.70)        | Male: 103.5% TM08 Sel <sup>2</sup> (103.5% TM08 Sel <sup>2</sup> )<br>Female: 115% TF08 Sel <sup>2</sup> (126.5% TF08 Sel)             | Inception and Termination rates are based on CMIR12 <sup>4</sup> | 4.08%/2.72% <sup>5</sup> (1.08%/0.72% <sup>5</sup> ) | 15, 20, 17, 15, 15, 11, 11, 11, 11, 9, 9, 9, 9, 9, 7 (15, 20, 17, 15, 15, 11, 11, 11, 11, 10, 10, 10, 10, 10, 7)                                                                                                                                                                                               |
| Onshore Investment Bond                                                  | £97.60 (£90.60)        | Male: 25.88% AM00 Sel (40.25% AM00 Sel)<br>Female: 20.13% AF00 Sel (31.63% AF00 Sel)                                                   | N/a                                                              | 4.08%/2.72% <sup>5</sup> (1.08%/0.72% <sup>5</sup> ) | 1, 1, 1, 1, 1, 4, 4, 4, 4, 4.5, 4.5, 4.5, 4.5, 4.5, 4.5 (1, 1, 1, 4, 4, 4, 4, 4, 4, 4.5, 4.5, 4.5, 4.5, 4.5, 4.5)                                                                                                                                                                                              |
| HSBC Life Protection (HLP) Term Assurance                                | £14.70 (£15.20)        | 85% of reinsurance rates, uplifted by 15% statutory margin (97.75% of reinsurance rates)                                               |                                                                  | 4.08%/2.72% <sup>5</sup> (1.08%/0.72% <sup>5</sup> ) | Level Agg: 8, 7, 3.5, 10, 10.91, 9.09, 5.45, 5.45, 5.45, 5.45, 5.45, 5.45 (Level Agg: 8, 6, 6, 10, 10.91, 9.09, 5.45, 5.45, 5.45, 5.45, 5.45, 5.45)<br>Level IFA: 23, 16, 13, 10, 10.91, 9.09, 5.45, 5.45, 5.45, 5.45, 5.45, 5.45 (Level IFA: 25.6, 9, 7, 10, 10.91, 9.09, 5.45, 5.45, 5.45, 5.45, 5.45, 5.45) |

- <sup>1</sup> The rates are adjusted for gender. An allowance has also been made for future premium reductions.
- <sup>2</sup> No mortality improvements or deteriorations were applied in 2022.
- <sup>3</sup> The rates vary by gender.
- <sup>4</sup> The percentages used for the inception rates vary by occupational class, sex, policyholder age and deferred period. The percentages used for the termination rates vary by deferred period and month of disability.
- <sup>5</sup> The interest rate varies dependent on whether the policy is an asset 4.08% (2021: 1.08%) or a liability 2.72% (2021: 0.72%).
- <sup>6</sup> The lapse rate assumptions vary dependent on whether the contract is an asset or liability. A margin of 30% is added (for an asset) or deducted (for a liability) to the figure above. The lapse rates also vary by contract with the most significant contract within each product group being quoted in the table above.

**(a) Changes in assumptions**

The increase in the long-term insurance liability as a result of changes in assumptions was £1.6million (2021 increase: £13.4million), net of reinsurance. The following table gives an analysis of the movement by source:

|                                                  | Net liability<br>movement<br>2022<br>£'000 | Net liability<br>movement<br>2021<br>£'000 |
|--------------------------------------------------|--------------------------------------------|--------------------------------------------|
| Mortality/morbidity                              | (2,388)                                    | 465                                        |
| Persistency                                      | 5,192                                      | 2,094                                      |
| Economic assumptions                             | -                                          | -                                          |
| Expense assumptions                              | (1,207)                                    | 10,817                                     |
| Total decrease resulting from assumption changes | 1,597                                      | 13,376                                     |

There has been a marginal increase in the net liability movements during 2022 as a result of several offsetting assumption changes. Whilst lapse assumptions were generally revised downwards on the term assurance book, with projected claims falling, inception rates on Income Choice products were reduced by 25%, which caused a c.£3.5m reduction in liabilities. In addition, maintenance expense assumptions were reduced, particularly on the term assurance business. There were no explicit economic assumption changes as part of the annual basis review. The company's investment strategy remains unchanged from 2022. The effects of Covid-19 on the assumption setting process has been considered and the approach for the 2022 basis review was to treat the experience of 2020 as a one-off for claims and persistency assumptions, unless it continues a previously identified trend.

**(b) Sensitivity analysis**

|                                                     | Profit impact<br>(before tax)<br>2022<br>£'000 | Equity impact<br>2022<br>£'000 | Profit impact<br>(before tax)<br>2021<br>£'000 | Equity impact<br>2021<br>£'000 |
|-----------------------------------------------------|------------------------------------------------|--------------------------------|------------------------------------------------|--------------------------------|
| <b>Base Stress</b>                                  |                                                |                                |                                                |                                |
| Interest rates increasing 100 basis points          | 3,653                                          | 2,959                          | 12,264                                         | 9,934                          |
| Interest rates reducing 100 basis points            | (7,575)                                        | (6,136)                        | (18,183)                                       | (14,728)                       |
| Equity prices increasing by 10%                     | 14,508                                         | 11,752                         | 13,462                                         | 10,904                         |
| Equity prices reducing by 10%                       | (14,527)                                       | (11,767)                       | (13,326)                                       | (10,794)                       |
| Lapse rates increasing 100 basis points             | 9,903                                          | 8,022                          | 15,370                                         | 12,450                         |
| Lapse rates reducing 100 basis points               | (12,627)                                       | (10,228)                       | (18,957)                                       | (15,355)                       |
| All mortality and morbidity rates increasing by 10% | (7,231)                                        | (5,857)                        | (10,274)                                       | (8,322)                        |
| All mortality and morbidity rates reducing by 10%   | 5,650                                          | 4,577                          | 7,383                                          | 5,980                          |
| All expenses increasing by 10%                      | (5,890)                                        | (4,771)                        | (9,063)                                        | (7,341)                        |
| All expenses reducing by 10%                        | 5,731                                          | 4,642                          | 7,974                                          | 6,459                          |

The analysis above has been prepared for a change in variable with no allowance for management actions and taking into account changes in the value of related assets. The impacts shown reflect the immediate effect on the insurance contract provisions, and related assets, based on the reserving methodology of the Company.

**(c) Movements in insurance contract provisions and reinsurance assets**

| <b>Long-term – Linked</b>                                      | <b>Gross<br/>£'000</b> | <b>Reinsured<br/>£'000</b> | <b>Net<br/>£'000</b> |
|----------------------------------------------------------------|------------------------|----------------------------|----------------------|
| <b>At 1 January 2022</b>                                       | <b>1,624,583</b>       | <b>-</b>                   | <b>1,624,583</b>     |
| Premiums received                                              | 405,980                | -                          | 405,980              |
| Surrenders and other terminations                              | (105,594)              | -                          | (105,594)            |
| Fees and charges deducted                                      | (9,827)                | -                          | (9,827)              |
| Investment returns credited to account balances                | (138,336)              | -                          | (138,336)            |
| <b>At 31 December 2022</b>                                     | <b>1,776,806</b>       | <b>-</b>                   | <b>1,776,806</b>     |
| <b>At 1 January 2021</b>                                       | <b>1,201,009</b>       | <b>-</b>                   | <b>1,201,009</b>     |
| Premiums received                                              | 404,722                | -                          | 404,722              |
| Surrenders and other terminations                              | (78,553)               | -                          | (78,553)             |
| Fees and charges deducted                                      | (9,999)                | -                          | (9,999)              |
| Investment returns credited to account balances                | 107,404                | -                          | 107,404              |
| <b>At 31 December 2021</b>                                     | <b>1,624,583</b>       | <b>-</b>                   | <b>1,624,583</b>     |
| <b>Long-term – Non-linked</b>                                  | <b>Gross<br/>£'000</b> | <b>Reinsured<br/>£'000</b> | <b>Net<br/>£'000</b> |
| <b>At 1 January 2022</b>                                       | <b>191,773</b>         | <b>(79,835)</b>            | <b>111,938</b>       |
| Reserve established in respect of business written in the year | (5,822)                | (7,431)                    | (13,253)             |
| Unwinding of business in force at start of year                | 33,052                 | (129)                      | 32,923               |
| Changes to bases                                               | (56,481)               | 10,212                     | (46,269)             |
| <b>At 31 December 2022</b>                                     | <b>162,522</b>         | <b>(77,183)</b>            | <b>85,339</b>        |
| <b>At 1 January 2021</b>                                       | <b>180,536</b>         | <b>(86,075)</b>            | <b>94,461</b>        |
| Reserve established in respect of business written in the year | (2,912)                | (1,571)                    | (4,483)              |
| Unwinding of business in force at start of year                | (1,132)                | 4,721                      | 3,589                |
| Changes to bases                                               | 15,281                 | 3,090                      | 18,371               |
| <b>At 31 December 2021</b>                                     | <b>191,773</b>         | <b>(79,835)</b>            | <b>111,938</b>       |

A summary of the reinsurer exposure by credit rating is shown below (the figures shown are the reinsurers' share of insurance liabilities).

|                            | <b>Non-linked<br/>insurance<br/>£'000</b> | <b>Linked insurance<br/>£'000</b> | <b>Total<br/>£'000</b> |
|----------------------------|-------------------------------------------|-----------------------------------|------------------------|
| <b>At 31 December 2022</b> |                                           |                                   |                        |
| AA                         | 83,813                                    | -                                 | 83,813                 |
| A                          | 7,217                                     | -                                 | 7,217                  |
| BBB or unrated             | -                                         | -                                 | -                      |
|                            | <b>91,030</b>                             | <b>-</b>                          | <b>91,030</b>          |
|                            | <b>Non-linked insurance<br/>£'000</b>     | <b>Linked insurance<br/>£'000</b> | <b>Total<br/>£'000</b> |
| <b>At 31 December 2021</b> |                                           |                                   |                        |
| AA                         | 83,461                                    | -                                 | 83,461                 |
| A                          | 3,492                                     | -                                 | 3,492                  |
| BBB or unrated             | 2                                         | -                                 | 2                      |
|                            | <b>86,955</b>                             | <b>-</b>                          | <b>86,955</b>          |

The Company has reinsurance treaties with ten (2021: eleven) reinsurance companies, the exposure to the largest of which is £44m (2021: £43m). The Company monitors reinsurer exposure on a regular basis in order to ensure compliance with regulatory and internal limits.

**22 Investment contract liabilities**

|                                                                         | 2022<br>£'000 | 2021<br>£'000 |
|-------------------------------------------------------------------------|---------------|---------------|
| Investment contracts at fair value through profit or loss (unit-linked) | 789,148       | 860,440       |
| Expected to be paid in no more than one year                            | 183           | 20            |
| Expected to be paid after more than one year                            | 788,965       | 860,420       |
|                                                                         | 789,148       | 860,440       |

All investment contract liabilities are designated by the Company to be at fair value through profit or loss.

The maturity value of these financial liabilities is determined by the fair value of the linked assets at maturity date. There will be no difference between the carrying amount and the maturity amount at maturity date.

**23 Insurance and other payables and deferred income**

|                                                                           | 2022<br>£'000 | 2021<br>£'000 |
|---------------------------------------------------------------------------|---------------|---------------|
| Direct insurance contract payables                                        | 18,428        | 14,574        |
| Reinsurance contract payables                                             | 9,425         | 7,702         |
| Amounts due to related parties<br>including reinsurance contract payables | 11,511        | 8,194         |
| Other payables and accrued expenses                                       | 7,893         | 3,666         |
| Deferred income                                                           | 489           | 509           |
|                                                                           | 47,746        | 34,645        |
| Expected to be settled in no more than one year                           | 47,337        | 34,217        |
| Expected to be settled after more than one year                           | 409           | 428           |
|                                                                           | 47,746        | 34,645        |

Deferred income relates to front-end fees received from investment contract holders as a prepayment for asset management and related services. These amounts are non-refundable and are released to income as the services are rendered.

The carrying amount of insurance and other payables is considered to be a reasonable approximation of their fair value.

**HSBC LIFE (UK) LIMITED**  
**Notes on the Financial Statements (continued)**

**24 Other provisions**

|                                              | Total<br>£'000 |
|----------------------------------------------|----------------|
| At 1 January 2022                            | 113            |
| Additional provisions made during the year   | -              |
| Utilised during the year                     | (59)           |
| Amounts reversed during the year             | -              |
| At 31 December 2022                          | <u>54</u>      |
| Expected to be paid in no more than one year | 54             |
| Expected to be paid after more than one year | -              |
|                                              | <u>54</u>      |
|                                              | Total<br>£'000 |
| At 1 January 2021                            | 357            |
| Additional provisions made during the year   | 116            |
| Utilised during the year                     | (360)          |
| Amounts reversed during the year             | -              |
| At 31 December 2021                          | <u>113</u>     |
| Expected to be paid in no more than one year | 113            |
| Expected to be paid after more than one year | -              |
|                                              | <u>113</u>     |

The provision utilised in the year relates to policyholder remediation on historic FlexiLife Plan policies, with a decreasing sum assured, where premiums were marginally overcharged. The provision includes premium refunds and accrued interest on the refunds.

**25 Deferred tax (assets)/liabilities**

|                         | 2022<br>£'000 | 2021<br>£'000 |
|-------------------------|---------------|---------------|
| At 1 January            | 143           | 307           |
| Income statement credit | (153)         | (164)         |
| At 31 December          | <u>(10)</u>   | <u>143</u>    |

A deferred tax asset of £99,168k (2021: £65,056k) in respect of excess expenses of management has not been recognised as it is uncertain that there will be sufficient future taxable profits to utilise these expenses.

|                            | 2022<br>£'000 | 2021<br>£'000 |
|----------------------------|---------------|---------------|
| <b>Deferred tax assets</b> |               |               |
| Deferred income            | 115           | 127           |
|                            | <u>115</u>    | <u>127</u>    |

**Deferred tax liabilities**

Contractual rights

105

112

Insurance contract provisions

-

158

105

270

**26 Structured entities**

The Company is involved with structured entities through investment fund holdings within the unit-linked and non-linked funds.

The arrangements that involve structured entities form part of the normal course of business for the Company and are authorised by management when they are established to ensure appropriate purpose and governance. The Company has involvement with unconsolidated structured entities, which may be established by HSBC Group companies or by third parties, as detailed below.

The term 'unconsolidated structured entities' refers to all structured entities controlled or not controlled by the Company. The Company is exempt from preparing consolidated group financial statements (refer to note 1(c) and thus the structured entities the Company controls are included in the unconsolidated structured entities listed below. The Company enters into transactions with unconsolidated structured entities in the normal course of business to facilitate policyholder transactions and for specific investment opportunities.

The table below shows the total assets of unconsolidated structured entities in which the Company has an interest at the reporting date, as well as its maximum exposure to loss in relation to those interests.

The maximum potential loss from the Company's interests in unconsolidated structured entities represents the maximum loss that it could be required to report as a result of its involvement with unconsolidated structured entities regardless of the probability of the loss being incurred. Nature and risks associated with HSBC interests in unconsolidated structured entities:

|                                                                                                  | 2022<br>£'000 | 2021<br>£'000 |
|--------------------------------------------------------------------------------------------------|---------------|---------------|
| <b>At 31 December</b>                                                                            |               |               |
| HSBC Life (UK) Limited's interest - assets                                                       |               |               |
| Collective investment schemes                                                                    | 2,602,346     | 2,482,053     |
| Total assets in relation to the Company's interests<br>in the unconsolidated structured entities | 2,602,346     | 2,482,053     |
| Maximum loss                                                                                     | 2,602,346     | 2,482,053     |

HSBC Group companies have established and manage money market funds and non-money market investment funds to provide policyholders with investment opportunities. HSBC Group companies, as fund managers, may be entitled to receive management and performance fees based on the assets under management.



**27 Related party transactions**

The Company has a related party relationship with its parent, with other group undertakings and with its directors.

Transactions with related parties are summarised as follows:

**(a) Income**

|                                 | 2022<br>£'000 | 2021<br>£'000 |
|---------------------------------|---------------|---------------|
| Insurance premium income:       |               |               |
| – Other Group companies         | 49,076        | 52,322        |
| Fees and commission income:     |               |               |
| – Other Group companies         | 125           | 250           |
| Financial income:               |               |               |
| – Parent                        | 598           | 155           |
| – Group-managed investment fund | 312           | 3,459         |
|                                 | <u>50,111</u> | <u>56,186</u> |

Income from related party transactions arises from:

- insurance premiums under group contracts with the Other Group Companies to provide life, critical illness and income protection cover for employees;
- annual management charges rebated to the Company in respect of its holdings in collective investment schemes managed by other HSBC Group companies;
- interest receivable on cash balances deposited with the Company's parent;
- changes in the fair value of derivative contracts at fair value, entered into with the Company's parent (see note 15); and
- changes in the fair value of the Company's holdings in one investment fund (2021: one), in which the Company owned more than 50% of the fund during the year, and which was managed by other HSBC Group companies

**(b) Expenditure**

|                                                    | 2022<br>£'000 | 2021<br>£'000 |
|----------------------------------------------------|---------------|---------------|
| Insurance premium - ceded to reinsurers:           |               |               |
| – Other Group companies                            | 12,835        | 12,811        |
| Claims and benefits incurred:                      |               |               |
| – Other Group companies                            | 776           | 679           |
| Reinsurers' share of claims and benefits incurred: |               |               |
| – Other Group companies                            | (6,910)       | (9,632)       |
| Acquisition costs:                                 |               |               |
| – Other Group companies                            | 11,907        | 12,415        |
| Administrative expenses:                           |               |               |
| – Parent                                           | 2,850         | 1,194         |
| – Other Group companies                            | 10,644        | 10,860        |
| Expenses for asset management services:            |               |               |
| – Other Group companies                            | 1,416         | 1,298         |
|                                                    | <u>33,518</u> | <u>29,625</u> |

Expenditure from related party transactions arises from:

- reinsurance premiums payable to other Group companies in respect of life, critical illness and income protection cover, and shares of claims recoverable in respect of these reinsurance contracts;

- acquisition costs (commission) payable to the other Group companies in relation to sales of the Company's products. The Company's products are currently marketed and sold primarily by HSBC UK Bank plc through its sales channels. For single premium insurance and investment contract sales, commission is payable on commencement of the policy. For regular premium sales, the commission is paid in monthly instalments over an initial period of, typically, up to 48 months;
- costs charged to the Company for the provision of management services. These include product management, customer services (policy underwriting, administration and claims processing), risk management, actuarial, finance, human resources, property services and IT. The Company is recharged for the actual costs incurred in undertaking these activities;
- costs charged to the Company by the Company's parent for the provision of investment accounting and unit pricing services; and
- costs charged to the Company by other Group companies for the provision of asset management services.

**(c) Key management compensation**

The Company does not have any direct employees. The Directors and staff are all employees of the Company's parent or other Group companies. The costs recharged to the Company include the following amounts in respect of key management compensation relating to those individuals' services to the Company:

|                                                 | 2022<br>£'000 | 2021<br>£'000 |
|-------------------------------------------------|---------------|---------------|
| Salaries and other short-term employee benefits | 558           | 434           |
| Post-employment benefits                        | 4             | 4             |
|                                                 | <u>562</u>    | <u>438</u>    |

Key management transact with the Company and other companies within the HSBC Group through the purchase of standard products in the ordinary course of business and on substantially the same terms as for comparable transactions with persons of a similar standing or, where applicable, with other employees of the Group.

**(d) Year-end balances with related parties**

|                                 | 2022<br>£'000  | 2021<br>£'000  |
|---------------------------------|----------------|----------------|
| <b>Assets</b>                   |                |                |
| Debt securities:                |                |                |
| – Other Group companies         | 4,895          | 5,484          |
| Collective investment schemes:  |                |                |
| – Group-managed investment fund | 20,015         | 23,924         |
| Receivables:                    |                |                |
| – Parent                        | 424            | 5              |
| – Other Group companies         | 2,592          | 1,896          |
| Cash and cash equivalents:      |                |                |
| – Parent                        | 154,146        | 141,231        |
|                                 | <u>182,072</u> | <u>172,540</u> |

| <b>Liabilities</b>                             | <b>2022<br/>£'000</b> | <b>2021<br/>£'000</b> |
|------------------------------------------------|-----------------------|-----------------------|
| Financial liabilities – Investment contracts:  |                       |                       |
| – Pension scheme                               | 688,276               | 740,364               |
| Insurance, other payables and deferred income: |                       |                       |
| – Parent                                       | 1,907                 | 2,190                 |
| – Other Group companies                        | 9,604                 | 6,004                 |
|                                                | <b>699,787</b>        | <b>748,558</b>        |

Asset and liability balances with related parties arise from:

- Debt securities relate to corporate bonds held with Other Group Companies.
- holding in one investment fund (2021: one), in which the Company owns more than 50% of the fund, and which is managed by another HSBC Group company, disclosed in note 26.
- inter-company settlement accounts with the Company's parent and with other Group companies in respect of premiums, claims, commission and expenses;
- deposits with the Company's parent; and
- liabilities to a pension scheme in respect of an investment contract taken out by the pension scheme.

## **28 Parent undertakings**

The ultimate parent undertaking and ultimate controlling party is HSBC Holdings plc, which is the parent undertaking of the largest group to consolidate these financial statements. HSBC Bank plc, incorporated in England, is the parent undertaking of the smallest group to consolidate these financial statements. Both companies are registered in England.

Copies of HSBC Holdings plc and HSBC Bank plc consolidated financial statements can be obtained from:

8 Canada Square  
London  
E14 5HQ  
[www.hsbc.com](http://www.hsbc.com)

## **29 Events after the balance sheet date**

There are no significant events after the balance sheet date.

