

# **Zurich Financial Services UK Pension Scheme**

**Annual report and financial statements for the  
year ended 30 June 2016**

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

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### Welcome from the trustee chairman



Welcome to the 2016 annual report. The trustees have had another busy year with pension scheme changes and planning for the triennial valuation as at 30 June 2016, as well as all the regular trustee business. There have also been a number of changes to the trustee board during the year.

### Valuation and scheme funding

A full scheme valuation is being carried out as at 30 June 2016. You can read about the valuation process on [pages 21 to 24](#). We expect the valuation process to be completed during 2017.

### Pension changes

The pension changes, moving active members from ZPensionBuilder to ZCashBuilder from 1 January 2016, were successfully implemented and a new programme of Regional Pension Support sessions has been rolled out to support members in understanding their new benefits. Further details can be found on [page 18 to 19](#).

### Pension flexibilities

From April 2015 the law changed the way in which people can access their pension savings from defined contribution arrangements like ZCashBuilder. Find out more about the options now available to our members on [page 12](#).

### Investment: ZPensionBuilder and ESExec

The trustees' investment strategy aims to find a balance between risk, control and maintaining growth. Over recent years we have developed a program to reduce the scheme's exposure to changes in interest rates by entering into interest rate swap contracts. This year the trustee has continued its review of the ZPensionBuilder and ESExec investment strategy. Please see [pages 27 to 36](#) for more information on the scheme's investments and the outcome of the review.

### ZCashBuilder

During the second half of 2015 the trustee undertook a full review of the funds available to ZCashBuilder members and their associated charges. The resulting fund changes were in place when all active members of ZPensionBuilder moved to ZCashBuilder on 1 January 2016.

### Changes to the board

In August 2015 Tim Holliday resigned from the board. We thank him for his contribution over the last two years. As Tim was a company nominated director, the sponsoring employer appointed Simon Clifford (Global Head of Life Technical Excellence) as his replacement from 1 November 2015.

In September 2015 Roy Brimblecombe decided to retire from the board. We thank him for his commitment and dedication to the trustee board over many years. As Roy was a member nominated trustee, to fill his vacancy we asked current members and pensioners who wanted to be considered for the trustee board to put themselves forward. Shortlisted candidates attended an assessment day in July 2015 designed to measure aptitude for the trustee role. Successful candidates attended a final interview and, ultimately, Anna Fleming (Chief Claims Officer) was appointed to the board from 1 October 2015.

On 31 July 2016 Paul Trickett stood down from the board, after performing the role of Chair since March 2013, in order to take up a directorship with Aviva. We thank Paul for his commitment and leadership over the last three years, which have seen some significant changes to the scheme and the way it is funded. As a result of Paul's resignation Christian Jochum was appointed as Interim Chair early in August. I was then appointed as Chair of the Trustee Board and its funding committee with effect from 30 August 2016. I am excited to have the opportunity to work with the trustees going forward.

On 30 September 2016 Dave Hodges left the Company and therefore the trustee board. Dave had been a trustee for a number of years and we also thank him for undertaking the role. Cécile Fresneau (Chief Underwriting Officer) has been appointed to replace Dave with effect from 19 October 2016.

### Trustee Website

In December we launched our 'new look' website. This incorporated all the existing functionality with a more contemporary feel and a few new features, particularly around the presentation of ZCashBuilder funds, and also contained a new member guide encompassing the changes from 1 January 2016.

### Adviser review

During the year we continued with our policy of regularly reviewing providers by inviting a number of covenant and investment advisers to tender. After careful consideration, in March the trustees decided to re-appoint PwC as their covenant adviser and in July 2016 Hymans Robertson were re-appointed as investment advisers.

I hope you enjoy reading this year's report and find it engaging and informative. If you have any comments or queries please contact David Lidbury (Scheme Secretary) at the address on [page 5](#).

Finally, don't forget to keep up to date by visiting our website [www.zpen.info](http://www.zpen.info) on a regular basis.

*David Sims*

**David Sims**  
(Chair)

### Trustees' report

#### How the scheme is managed

##### Trustee board

This pension scheme is set up under trust, which ensures legal separation of the pension scheme's assets from Zurich Insurance Group's assets. In this document, when we refer to Zurich we mean the group of companies that make up the Zurich Insurance Group, and when we refer to the company we mean the sponsoring company (see [page 9](#)) and the employers.

The trustee company, Zurich Financial Services UK Pension Trustee Ltd, is responsible for managing the trust. Each trustee company director (usually referred to as a "trustee") has a legal duty to run the scheme in accordance with the governing trust deed and rules for the benefit of members and their dependants.

Under the trustee company's constitution there must always be between eight and ten trustees, including:

- four member trustees, at least one of which must be a pensioner, and
- one independent trustee.

The remaining trustees are nominated by the company. The trustee board can operate with vacancies, which does happen from time to time when people leave. The trustee board follows Zurich group and industry best practice, but operates quite independently.

**ZPen trustee board at 30 June 2016**



##### Terms of office

The member and independent trustees are all appointed for three year terms (unless they choose to resign before this) provided that they continue to be eligible. At the end of the three years they can choose to stand for selection again.

Trustees nominated by the company do not have fixed terms of office and continue as trustees until they resign or the company removes them.

Any trustee will stop being a trustee immediately if they are prohibited by law from acting as a trustee or a company director.

#### Selecting member trustees

The trustees have agreed a process for the nomination and selection of member trustees. The current process is that, every three years, employee and pensioner members are asked to put themselves forward if they would like to be a member trustee. These applications are reviewed by the UK Head of Pensions and Benefits and various employee representative bodies within the Zurich group of companies in the UK, including recognised unions. Following the initial review a shortlist of candidates is created.

The trustee board puts the shortlisted candidates through a selection procedure to ensure they have the necessary skills and aptitude to be trustees. This includes a specifically designed assessment centre and competency based interviews: the focus is on critical thinking, analytical and decision making skills and team working. The selection process was last run in 2015 due to the resignation of Roy Brimblecombe.

#### Changes to the trustee board

Roy Brimblecombe <i>Pensioner nominated</i>	Resigned 30 September 2015
Tim Holliday <i>Company nominated</i>	Resigned 31 August 2015
Simon Clifford <i>Company nominated</i>	Appointed 1 November 2015
Anna Fleming <i>Member nominated</i>	Appointed 1 October 2015
Paul Trickett <i>Chair</i>	Resigned 31 July 2016
David Sims <i>Chair</i>	Appointed 30 August 2016
Dave Hodges <i>Company nominated</i>	Resigned 30 September 2016
Cécile Fresneau <i>Company nominated</i>	Appointed 19 October 2016

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### Trustees



**Paul Trickett**  
Trustee Chair

*Resigned 31 July 2016*



**David Sims**  
Trustee Chair

*Appointed 30 August 2016*



**Christian Jochum**  
(Interim Trustee Chair  
from 1 – 29 August 2016)  
Head of Regional  
Investment Management  
Europe



**Graham Mearns**  
former Risk manager for  
Openwork



**BESTrustees**  
Represented by  
Clive Gilchrist

Deputy Chair, BESTrustees



**Roy Brimblecombe CBE**  
former Chief Actuary for  
Eagle Star

*Resigned 30 September 2015*



**Tom McKenna**  
Engineer Surveyor



**Gillian Mitchell**  
Group Head of Pensions &  
Benefits



**Simon Clifford**  
Global Head of Life  
Technical Excellence

*Appointed 1 November 2015*

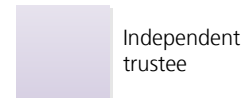
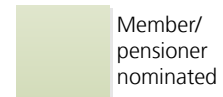
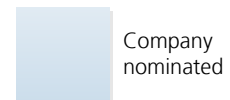


**Dave Hodges**  
Client Relations Director  
Zurich Corporate Savings

*Resigned 30 September 2016*



**Alan Wood**  
General Secretary  
UFS



**Anna Fleming**  
Chief Claims OfficerUK  
General Insurance

*Appointed 1 October 2015*



**Cécile Fresneau**  
Chief Underwriting Officer  
UK General Insurance

*Appointed 19 October 2016*

**Contacts**



Emma Skuse  
Head of UK Pensions & Benefits



UK Pensions & Benefits

**For general information and individual benefit enquiries:**

Chris Allen, Pensions Controller  
UK Pensions & Benefits  
Zurich  
The Grange  
Bishop's Cleeve  
Cheltenham  
Glos, GL52 8XX

Further details on how to contact us are on on [page 18](#).

**To contact the trustees:**

David Lidbury, Scheme Secretary  
UK Pensions & Benefits  
Zurich  
The Grange  
Bishop's Cleeve  
Cheltenham  
Glos, GL52 8XX

E-mail: [david.lidbury@uk.zurich.com](mailto:david.lidbury@uk.zurich.com)

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### Trustees' advisers

#### Investment managers

##### **ZCashBuilder**

Zurich Assurance Ltd



##### **ZPensionBuilder**

M & G Investments



Macquarie



##### **ZPensionBuilder & ESExec**

Columbia Threadneedle (Previously Threadneedle Pensions Ltd)



#### Custodian & investment performance

##### **ZPensionBuilder & ESExec**

The Northern Trust Company



#### Investment advisers

Hymans Robertson



#### Investment analysts

Zurich Insurance Company, Investment Management



#### Bankers

Lloyds TSB Bank plc

The Royal Bank of Scotland plc

#### Pricing agent

Goldman Sachs



#### Scheme actuary

Mark Howard FIA, Barnett Waddingham LLP

**Barnett  
Waddingham**

#### Independent auditors and independent covenant advisers

PricewaterhouseCoopers LLP



#### Solicitors

Simmons & Simmons LLP

**Simmons & Simmons**

#### Insurance company

Zurich Assurance Ltd



#### Customer services

ZPensionBuilder

UK Pensions & Benefits, Zurich



ZCashBuilder & pensioner payroll

RPMI



#### Trustee company secretary

Zurich Corporate Secretary (UK) Limited

#### Scheme secretaries

Claire Calo, Zurich (until 31/12/2015)

David Lidbury, Zurich (from 1/1/2016)

### Trustees' responsibilities

The trustees have a responsibility for managing the scheme through appropriate internal controls to:

- safeguard the scheme's assets;
- ensure that adequate accounting records are kept; and
- prevent and detect fraud and other irregularities.

The trustees must make information about the scheme available to members in an annual report.

The trustees are responsible for the maintenance and integrity of the scheme's website, [www.zpen.info](http://www.zpen.info).

### Trustees' report and financial statements

The trustees have to prepare audited financial statements for each scheme year and make these available to scheme members and their dependants. These financial statements must:

- show a "true and fair view" in law<sup>1</sup> of the scheme's financial transactions during the scheme year, and
- show the amount of scheme assets at the end of the scheme year, and how these are invested, and
- show details of the scheme's liabilities at the end of the scheme year - other than the money needed to pay pensions and benefits in the future, and
- contain the information specified in law<sup>2</sup> relating to the preparation of financial statements for occupational pension schemes, and
- include a statement on whether the financial statements have been prepared in accordance with the relevant accounting practice<sup>3</sup>.

The trustees have supervised the preparation of the financial statements and have agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

### Pension scheme contributions

The trustees have a legal duty to ensure that a schedule of contributions is prepared, maintained and, from time to time, revised. This schedule must show:

- the rates of contributions (other than voluntary contributions) payable to the

scheme by or on behalf of the employers and the active members, and

- the payment dates for these contributions.

The trustees must also:

- keep records of contributions received from active members, and
- monitor whether employers are making contributions to the scheme in accordance with the schedule of contributions.

If contributions are not made correctly, the trustees are required by law<sup>4</sup> to consider making reports to the Pensions Regulator and to members.

### Conflicts of interest and duty

The trustees have a formal policy and procedure on managing conflicts of interest and duty which complies with Companies Act 2006 requirements.

All trustees must declare any "interests" – that is directorships or other situations where they have (or could potentially have) an interest that conflicts with the interests of the trustee company. For example, a trustee might also be a director of a Zurich company and/or be a member of the scheme. These interests must then be formally authorised by the trustee board to enable the trustees to continue to participate in discussions and decision making. All authorised interests are maintained in a formal register which is reviewed at the start of every trustee meeting.

### Managing conflicts

The trustees must still manage conflicts even where the particular situation has been authorised. The trustees' policy states that:

- if a trustee is conflicted on a particular matter they will usually not take part in any decision on that matter;
- where there is acute conflict, the trustee or adviser may withdraw from any discussions relating to the matter.

The policy also describes trustees' obligations on how to handle confidential information acquired in their trustee role and in other roles.

Trustees are not permitted to accept any improper gift, entertainment or similar benefit in relation to actual or prospective business matters.

### Conflicts between ZPen and ESExec sections

If the trustee board has a conflict between the interests of the ZPen section and the interests of the ESExec section, a committee can be formed to consider the matter from the ESExec point of view.

<sup>1</sup> United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

<sup>2</sup> Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996

<sup>3</sup> Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised November 2014)

<sup>4</sup> Pensions Acts 1995 and 2004



### Trustee knowledge and understanding

By law<sup>5</sup>, trustees must have enough knowledge and understanding to be able to carry out their function effectively. This requirement is reinforced by the Pensions Regulator (the Regulator), who has set out his expectations for trustee knowledge and understanding (TKU) in a Code of Practice.

The scheme trustee board has a formal policy on TKU, and this is regularly reviewed to ensure continued compliance with the Regulator's requirements. New trustees attend introductory training and must complete the Regulator's training course, the "trustee toolkit", within six months of appointment. When the "trustee toolkit" introduces new modules all trustees are expected to complete these as soon as possible.

All trustees have formal annual assessments which review TKU. Any training needs identified by the assessments are met through tailored training programmes which use a variety of training tools, including interactive workshop sessions, seminars and individual study. Use is made of in house expertise and the trustees' own advisers as well as external training programmes and seminars.

The trustees also carry out formal board reviews which look at the effectiveness of the board as a whole. The last formal review was completed in March 2016 and the next is due in 2019.

At least once a year the trustees set aside a day for team development, facilitated by in house and external expertise. This year the trustees took part in a workshop to improve their business continuity planning and had a reminder session about fiduciary duties.

Every year the trustees also spend a day, usually in November, reassessing the pension scheme's risk framework, after which the priorities are agreed for the scheme business plan for the following year.

### How the scheme is structured

#### A brief history of the scheme

This pension scheme was established in the 1950s to provide pension benefits for Eagle Star's UK staff. Over the years, as the company has changed with acquisitions and mergers, various different pension arrangements have been moved into the trust creating the scheme we have today, which is Zurich's staff pension scheme in the UK and the largest employee pension scheme throughout Zurich globally.

In 2001, the Allied Dunbar and Zurich Insurance pension schemes were transferred into the trust, at which point the scheme changed its name to the Zurich Financial Services UK Pension Scheme. Members kept their existing benefits within what we now call the old scheme tiers - AD, ES and ZI. From 1 October 2000, new joiners came into a new benefit tier called Tier 2000 (T2K).

The old scheme tiers (including T2K) were all what is known as "defined benefit" or "final salary" benefits: that is, the final emerging pension is calculated by reference to service and pensionable salary close to leaving or retirement.

In 2007, after a period of consultation with employees, the old scheme tiers were closed and existing members were given the choice of joining ZPensionBuilder or ZCashBuilder. ZPensionBuilder is also "final salary" but on a more simplified basis than the old scheme structure. ZCashBuilder is a "defined contribution" or "money purchase scheme", where the final benefits depend on how much has been paid in, what the investment returns have been and how much it costs to buy a pension when you retire. Since April 2007 new members come straight into ZCashBuilder.

In 2005, the old Gresham Trust plc Pension and Assurance Scheme merged with the scheme and in April 2009 the former Eagle Star Executives' pension scheme transferred across as an entirely standalone section. During 2009 and 2010 some former members of the Zurich Financial Services UK Supplementary Pension Scheme (a top up arrangement for former AD members) transferred their funds into the trust. The diagram on the following page shows the scheme in its current form. Note that AVCs<sup>6</sup> paid before 1 April 2007 are now accounted for under ZCashBuilder but the investments have not changed.

In April 2015, following consultation with employees, the company announced the closure of ZPensionBuilder to future accrual on 31 December 2015. From 1 January 2016, all active members moved into ZCashBuilder.

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<sup>5</sup> Pensions Act 2004

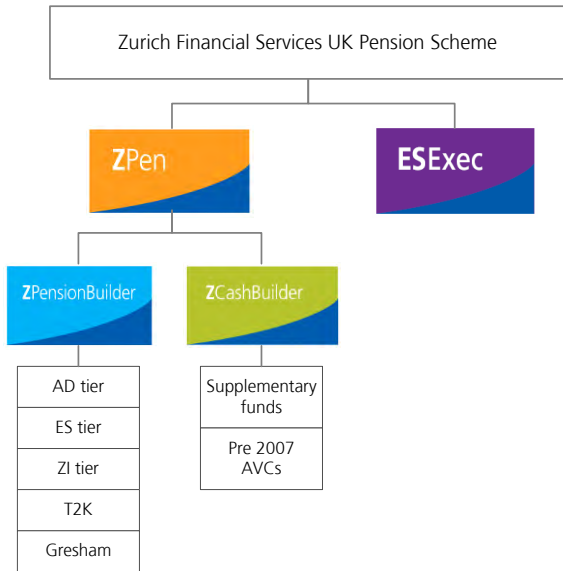
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<sup>6</sup> Additional Voluntary Contributions

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### Scheme structure



Importantly, assets cannot be moved between the ZPensionBuilder, ZCashBuilder and ESExec sections in order to meet any funding deficits – all these monies are ring fenced for the members in those sections.

### The trustee company

The trustee company, Zurich Financial Services UK Pension Trustee Limited, has 100 shares. Zurich

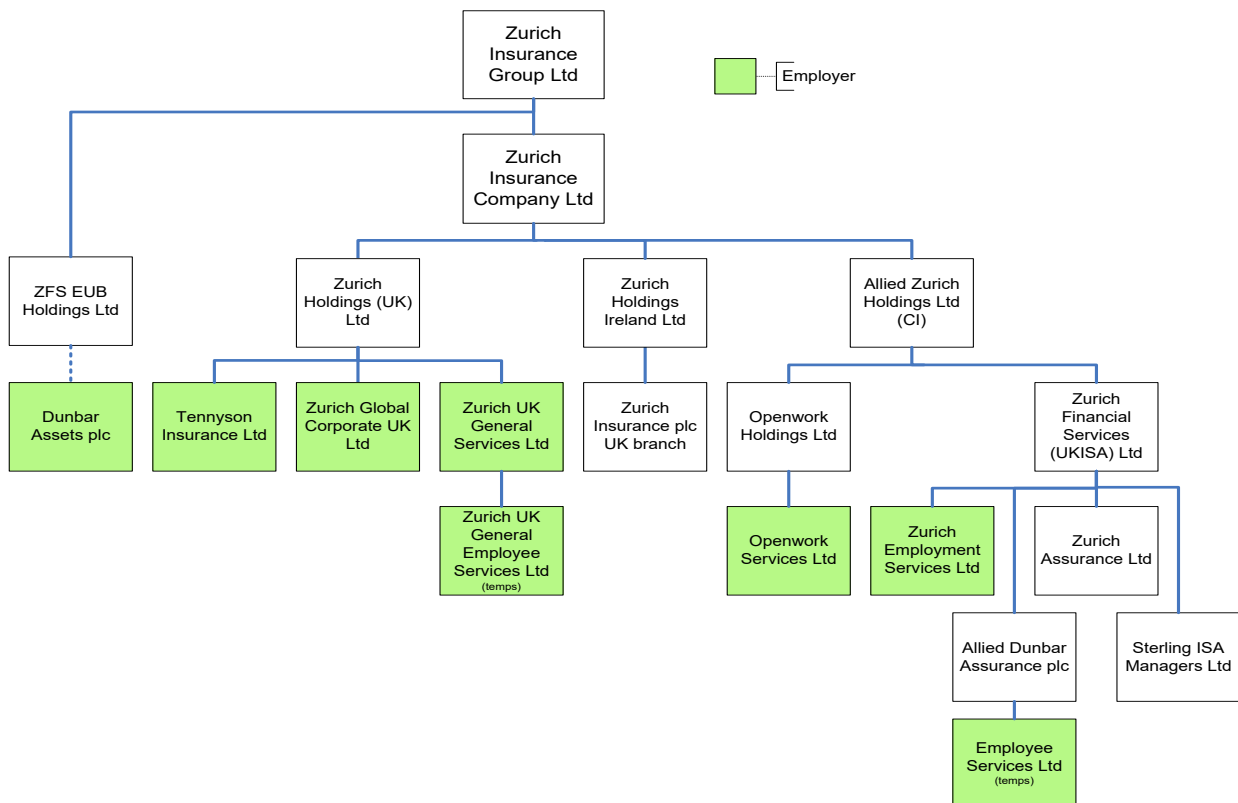
Financial Services (UKISA) Limited holds 99 of these and the remaining share is held by Capita Fiduciary Group. The share held by Capita Fiduciary Group is a 'golden share'. Any amendment to the Articles of Association for the trustee company requires the consent of the golden shareholder.

Zurich Financial Services (UKISA) Limited appoints all of the trustee company directors, although the appointment or removal of the independent trustee company director requires the consent of the golden shareholder.

### The sponsoring company

The sponsoring company for the scheme is Zurich Financial Services (UKISA) Limited. Zurich Financial Services (UKISA) Limited is a UK holding company. Only UK employing companies participate in the scheme. The chart below shows a simplified structure of the employers within the UK businesses.

UFS, a participating employer of the scheme, has agreed to transfer its undertakings to the union Community and at the transfer date will exit the scheme as a participating employer. At their meeting on 6 October 2016, the trustees agreed that UFS can give less than three months' notice of its intention to leave the scheme. At the date of approving the financial statements, it is understood that the date of transfer will be 1 January 2017.



# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### Overview of the scheme year

#### Activities during the year: trustee meetings

The trustees meet as a full board at least four times a year, as well as a day to review the risk framework and agree priorities for the scheme business plan. An additional meeting is set aside for training and development. The trustees also meet from time to time in committees to consider, amongst other things, discretionary,

administrative and investment issues. They will usually act by consensus, although they do each have one vote, should the need arise. The Chairman does not have a casting vote.

The trustees keep an attendance record and attendance at the board and other committee meetings during the scheme year was as shown in the table below. There were more meetings than normal this scheme year due to additional consideration of the triennial valuation and also the pension proposals from the sponsoring employer

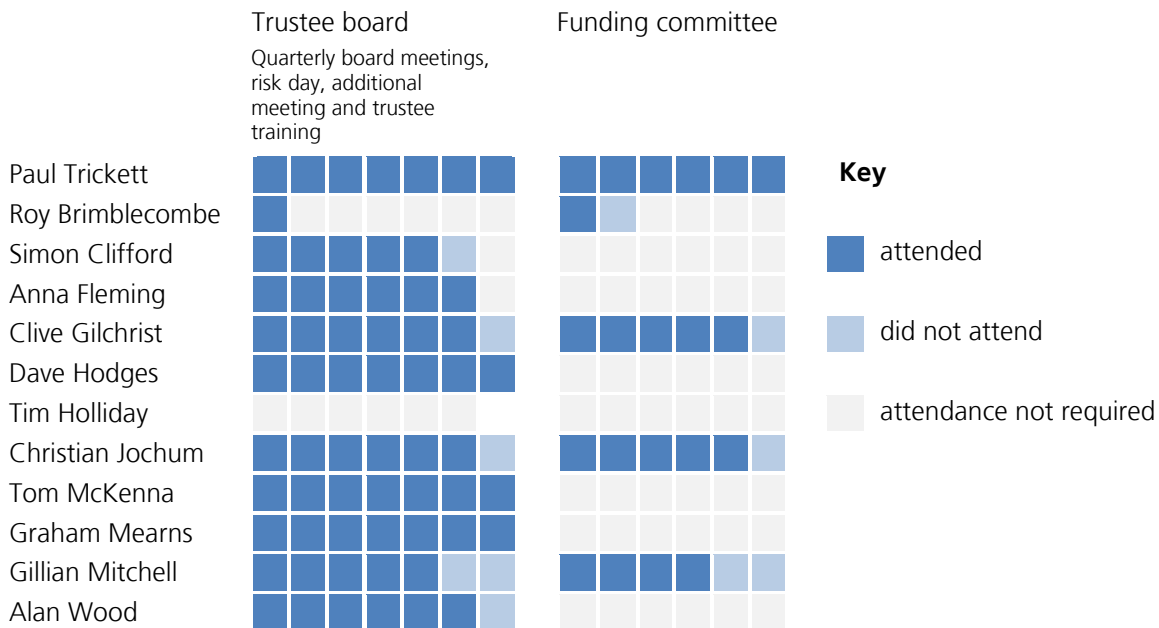
#### Meetings this scheme year

<b>July 2015</b>	Funding committee Additional board meeting (pension proposals)
<b>August 2015</b>	Additional board meeting (pension proposals)
<b>September 2015</b>	Funding committee Quarterly board meeting
<b>October 2015</b>	Funding committee
<b>November 2015</b>	Annual risk day Funding committee
<b>December 2015</b>	Quarterly board meeting
<b>January 2016</b>	Additional board meeting
<b>February 2016</b>	Funding committee
<b>March 2016</b>	Quarterly board meeting
<b>May 2016</b>	Trustee training day Funding committee
<b>June 2016</b>	Quarterly board meeting

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### Meeting attendance this scheme year



- Christian Jochum attended funding committee meetings in his capacity as investment adviser prior to becoming a trustee member of the committee.
- Gillian Mitchell was unable to attend the quarterly or funding committee meetings in September 2015 due to a conflict of interest

A sub-group of the trustees also met twice, in July and August 2015, to discuss the pension proposals.

### Changes made in the scheme year

In November 2014, Zurich and Openwork entered into consultation with their employees on closing ZPensionBuilder to future accrual and providing all members with ZCashBuilder benefits going forward. The trustees were not involved in the consultation process, but were required to agree to any rule amendments necessary to give effect to the changes. After working extensively with their advisers to test rigorously the financial imperative for change, the trustees agreed in principle to the changes. They believe that the final changes and transitional arrangement (applicable to Zurich employees) announced by Zurich and Openwork achieve an acceptable balance.

The majority of the pension scheme changes came into force on 1 January 2016. However, as part of the transitional arrangements agreed for Zurich employees, all ZCashBuilder members received a minimum company contribution of at least 12% from 1 July 2015. ZCashBuilder members who already received 14% or more on 1 January 2016 continued to do so until 31 March 2016.

In addition, from 1 July 2015 any members who left with less than 2 years' qualifying service have been able to leave their benefits in ZCashBuilder until they either take their pension benefits or elect to transfer them elsewhere.

These changes were reflected in a Deed of Amendment executed on 25 June 2015.

On 31 December 2015, ZPensionBuilder closed to future accrual and all active ZPensionBuilder members joined ZCashBuilder. Benefits earned in ZPensionBuilder up to 31 December 2015 will continue to be linked to final pensionable salary until members leave or take their pension, whichever is sooner. From 1 January 2016 to 31 March 2016, Zurich employees moving from ZPensionBuilder to ZCashBuilder received the ZCashBuilder+ age related contribution rates from the company. From 1 April 2016, the transitional arrangements for Zurich employees ended and the company contribution to ZCashBuilder changed to 12% of pensionable salary for Zurich members.

From 1 April 2016 Zurich members in the UK were also given an option to exchange up to 3% of their employer pension contribution for a taxable allowance, the net of which is paid into their own ZSavings account on the Zurich Money4Life platform. Members automatically revert back to a 12% employer pension contribution at the beginning of each tax year but can re-elect the ZSavings option at that time if they so wish.

From 1 January 2016 the company contribution for Openwork employees is 5% of pensionable salary with up to a further 5% of pensionable salary matched if the member makes contributions by salary sacrifice.

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

In addition to the changes to pension benefits, Zurich and Openwork are also offering members the option to switch to new style death in service benefits introduced for new starters to Zurich and Openwork from 1 January 2016.

Finally, from 1 January 2016 members have been able to transfer benefits from other pension arrangements into ZCashBuilder.

### Pension flexibilities

In April 2015 the Government introduced some radical changes to pensions that affect the way payments can be made from a ZCashBuilder fund. During the year the trustees spent two days participating in a training workshop about these new flexibilities and considered how they can be offered to members.

### Transfers out of the scheme

Individuals who leave the scheme before they retire can, if they wish, transfer the value of their benefits (usually known as a cash equivalent) into another pension arrangement. During the scheme year all cash equivalent values were calculated and verified in the manner prescribed by regulations made under section 97 of the Pension Schemes Act 1993. No allowance is made in these calculations for any discretionary benefits. There were no transfers where the cash equivalent paid was less than the amount provided for by section 94(1) of the Pension Schemes Act 1993.

### Financial statements

The financial statements for the year are set out on [pages 40 to 57](#) and scheme membership details are on [page 14](#).

The trustees confirm that the financial statements have been prepared and audited in accordance with regulations made under sections 41(1) and (6) of the Pensions Act 1995.

### Scheme running costs

A budget for scheme expenses is agreed by the trustee on an annual basis and actual spend against budget is monitored throughout the year.

### Increases to pensions in payment

Pensions in payment are increased annually, but in different ways for each of the tiers. The following table sets out the pension increases for this scheme year. For members who retire part way through the year, the first increase is usually a proportion of the full year amount. There is more information about how pension increases are calculated in the member's guide. For pensioners who are over state pension age and who were members of tier 2000, the ZI, ES or ES Exec tiers, the state rather than the scheme may increase part of their pension. ZPensionBuilder pension increases are due on the same

date as the member's old scheme pension. There were no discretionary increases during the scheme year ended 30 June 2016 (2015: none).

Category	Date	Amount
ZPensionBuilder	1 July 2015	0.9%
	1 July 2016 <i>(former ES tier &amp; Tier 2000)</i>	1.3%
	1 October 2015 <i>(former ZI tier)</i>	1.0%
	1 January 2016 <i>(former AD tier)</i>	1.1%
	1 January 2016 <i>(former AD IOM tier)</i>	2.2%
ES tier	1 July 2015	3.0%
	1 July 2016	3.0%
Tier 2000	1 July 2015	0.9%
	1 July 2016	1.3%
ESExec	1 July 2015	3.0%
	1 July 2016	3.0%
ZI tier	1 October 2015	1.0%
AD tier	1 January 2016	1.1%
AD Isle of Man	1 January 2016	2.2%

### Compliance statement

#### Tax status of the scheme

The scheme is a registered scheme and as such is exempt from most UK income and capital gains taxes. The trustees know of no reason why this registration should be withdrawn.

#### Scheme investments

The investment managers appointed on behalf of the trustees to manage funds under section 34 of the Pensions Act 1995 are appropriately authorised under the Financial Services and Markets Act 2000 to manage investments or are specifically exempted from the requirements of the Act. The investment manager appointed has the appropriate knowledge and experience necessary to manage the particular investments delegated to them.

#### Statement of trustees' responsibilities in respect of the financial statements

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), are the responsibility of the trustees. Pension scheme regulations require the trustees to make available to scheme members, beneficiaries and certain other parties, audited financial statements for each scheme year which:

- show a true and fair view of the financial transactions of the scheme during the scheme year and of the amount and disposition at the end of the scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year;
- state whether applicable United Kingdom Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- contain the information specified in Regulations 3 and 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

The trustees are responsible for supervising the preparation of the financial statements and for agreeing suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

The trustees are also responsible for making available certain other information about the scheme in the form of an annual report.

The trustees also have a general responsibility for ensuring that adequate accounting records are kept and

for taking such steps as are reasonably open to them to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

#### Statement of trustees' responsibility in respect of contributions

The trustees are responsible under pensions legislation for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions showing the rates of contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme and the dates on or before which such contributions are to be paid.

The trustees are also responsible for keeping records in respect of contributions received in respect of any active member of the scheme and for adopting risk-based processes to monitor whether contributions that fall due to be paid are paid into the scheme in accordance with the schedule of contributions.

Where breaches of the schedule occur, the trustees are required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and to members.

#### The Pensions Regulator – codes of practice

The Pensions Regulator is a statutory body which regulates work based pension arrangements.

The Pensions Regulator's objectives are to protect the benefits of pension scheme members, to reduce the risk of calls on the Pension Protection Fund (PPF), and to promote the good administration of work-based pension schemes.

The Pensions Regulator has a number of regulatory tools, including issuing codes of practice, to enable it to meet its statutory objectives. The Pensions Regulator will target its resources on those areas where members' benefits are at greatest risk.

Codes of practice provide practical guidelines on the requirements of pensions legislation and set out the standards of conduct and practice expected of those who must meet these requirements. The intention is that the standards set out in the codes are consistent with how a well-run pension scheme would choose to meet its legal requirements.

Codes of practice are not statements of the law and there is no penalty for failing to comply with them. It is not necessary for all the provisions of a code of practice to be followed in every circumstance. Any alternative approach to that appearing in the codes of practice will nevertheless need to meet the underlying legal requirements, and a penalty may be imposed if these requirements are not met. When determining whether the legal requirements have been met, a court or tribunal must take any relevant codes of practice into account.

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

To date the Pensions Regulator has produced 13 codes of practice and details on how the scheme is compliant can be provided on request from the [Scheme secretary](#).

### Investment Governance Group (IGG): Principles for Investment Governance

In 2002 Paul Myners published a review of institutional investment which found shortcomings in the expertise and organisation of investment decision making by pension fund trustees. The "Myners Principles" followed: these set out to codify best practice in investment decision making. Compliance with the Principles was voluntary but pension fund trustees were expected to consider how these principles applied to their fund and to report on a 'comply or explain' basis on how they had used them.

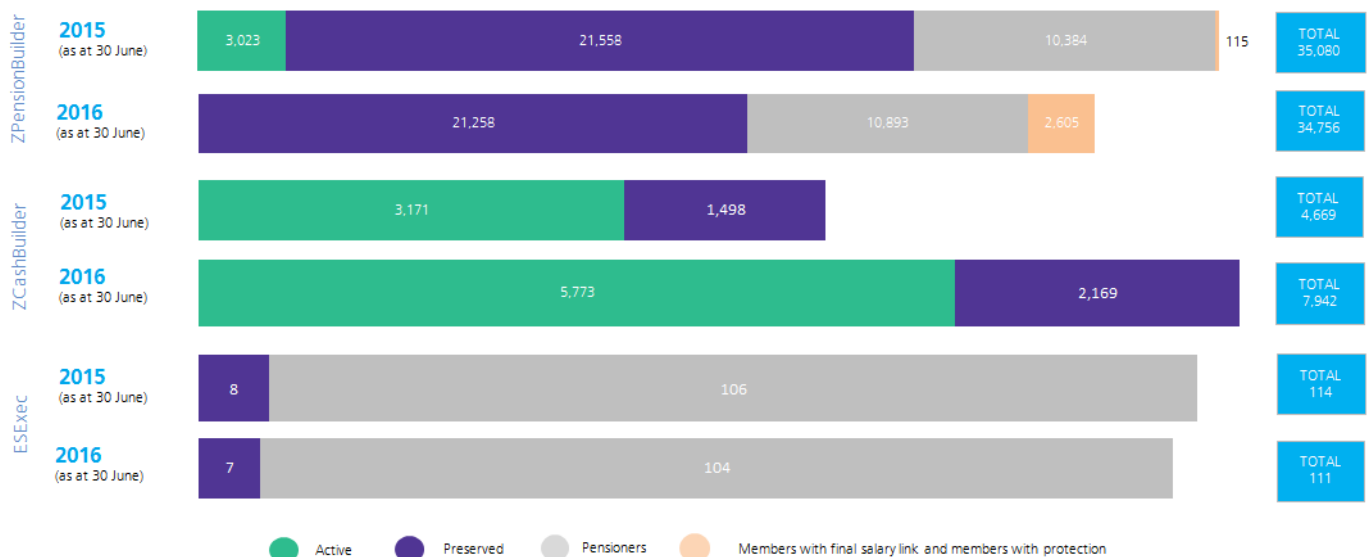
Following a further review of institutional investment in 2008, the IGG was set up to encourage ownership and promotion of the Myners' Principles. The IGG has updated the original Principles (aimed at defined benefit/final salary schemes) and also used these as a basis for their six Principles for defined contribution/money purchase schemes.

The Principles complement existing regulations but are not a legal requirement. The IGG suggest that they are used as a checklist against which pension schemes can identify areas in need of improvement.

Details of the Principles, together with notes on our approach, are available on request from the [Scheme Secretary](#).

### Membership details

The change in membership of the scheme is given below



Included within pensioners are 1,336 (2015:1,288) beneficiaries as at the year end.

### Statement regarding DC governance For the year ended 30 June 2016

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (“the Administration Regulations”) require the trustee to include an annual statement regarding governance in the annual report.

#### Default arrangement

Members of ZCashBuilder, the DC section of the scheme, who do not make an explicit choice regarding the investment of their funds are defaulted in two different ways, depending on whether they have ZPensionBuilder benefits and ZCashBuilder benefits or solely ZCashBuilder benefits.

If a member has ZPensionBuilder and ZCashBuilder benefits then they will be defaulted to the 100% cash lifestyle option within e-Z plan. If a member has only ZCashBuilder benefits then they will be defaulted to the 75% drawdown and 25% cash lifestyle within e-Z plan.

Within both defaults, e-Z plan invests in ZFundBuilder up until 5 years before the member’s selected pension age where it then gradually switches towards a final position of either 100% cash or 75% drawdown and 25% cash.

Fund Name	Objective	Fund Linked to
ZFundBuilder	To invest in higher risk/return funds to achieve investment growth	Growth
ZRetirementLumpSum	To invest in lower risk/return funds that will be taken as cash at retirement	Cash
ZFlexibleIncomePot	To invest in lower risk/return funds from which drawdown payments can be taken as income	Drawdown

e-Z plan is invested in a series of funds provided by Zurich Assurance Limited. These funds have holdings in underlying pooled funds which have many different fund managers. The trustee cannot therefore directly influence the social, environmental and ethical policies and practices of the companies in which the pooled funds invest although the trustee sets out its ethical investment policy in its statement of investment principles which includes some indirect considerations.

Some of the underlying pooled funds are managed actively and some passively. All of these funds are measured against specific benchmarks which are built up from the underlying fund benchmarks.

By investing in this manner, the trustees expect to deliver growth over the member’s lifetime within the scheme without excessive risk taking, with an increased focus in the final five years of reducing volatility to enable members approaching retirement to make financial plans for the period after retirement. The trustees consider this approach to be in the best interests of relevant members and relevant beneficiaries.

The principles noted above relating to the default arrangement were last reviewed by the trustees in June 2015 and are due to be reviewed every three years thereafter. In 2016 an additional default lifestyle arrangement for members who moved from ZPensionBuilder to ZCashBuilder was added which targets members towards cash-like assets.



### Processing scheme transactions

The trustee has a specific duty to secure that core financial transactions (including the investment of contributions, transfer of member assets into and out of the scheme, transfers between different investments within the scheme and payments to and in respect of members) relating to the DC section are processed promptly and accurately. These transactions are undertaken on the trustees' behalf by the scheme's DC administrator, RPMI and its investment manager Zurich Assurance Limited. The trustees have reviewed the processes and controls, implemented by those organisations and consider them to be suitably designed to achieve these objectives. The trustee has also agreed service levels and reporting of performance against those service levels.

In the light of the above, the trustees consider that the requirements for processing core financial transactions specified in the Administration Regulations have been met.

### Transaction costs

The Administration Regulations require the trustees to make an assessment of charges and transaction costs borne by DC section members and the extent to which those charges and costs represent good value for money for members.

The default arrangement attracts varying levels of management charge depending on how far the member is from their selected pension age. The maximum charge that will be levied on the members is when they are invested 100% in ZFlexibleIncomePot at a charge of 0.615% of assets under management for all members. This is lower than the maximum allowed of 0.75% and the trustees are satisfied that they have negotiated a good deal for members taking account of the expected growth in the size of the DC section with members moving from ZPensionBuilder.

The trustees also make available a range of 12 self-select funds which may be chosen by members as an alternative to the default arrangement. Members can also invest in funds that make up the default arrangement individually. These funds attract annual charges of between 0.33% and 0.95%, and the level of charges for each fund is set out on the scheme website. These funds allow members to take a more tailored approach to managing their own pension investments.

The trustees also make available a selection of 13 additional lifestyles that can be selected by the members. The member can choose multiples of 25% in any of the lifestyle funds. For example a member could target 25% in annuity purchase, 50% in drawdown and 25% in cash. The maximum charge in any of the lifestyles will be 0.615%.

### Trustees' knowledge and understanding

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of scheme assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Code of Practice 07. The comments in this section relate to the trustees as a body in dealing with the whole scheme and are not restricted to the ZCashBuilder section.

The trustees have put in place arrangements for ensuring that they take personal responsibility for keeping themselves up-to-date with relevant developments and carry out a self-assessment of training needs. The Secretary to the trustees reviews the self-assessments and arranges for training to be made available to individual trustees or to the whole trustee body as appropriate. In addition, the trustees receive advice from professional advisors, and the relevant skills and experience of those advisers is a key criterion when evaluating advisor performance or selecting new advisors.

All the trustees have completed the Pension Regulator's Trustee Toolkit with the exception of the trustees appointed in 2016 who are required to complete this within six months of taking up office. Taking account of actions taken individually and as a trustee body, and the professional advice available to them, the trustees consider that they are able properly to exercise their functions as trustees.

## ZCashBuilder governance

As trustee of the Zurich Financial Services UK Pension Scheme we have reviewed and assessed that our systems, processes and controls across key governance functions are consistent with those set out in The Pensions Regulator's:

- Code of Practice 13: Governance and administration of occupational defined contribution trust-based schemes
- Regulatory guidance for defined contribution schemes

These are underpinned by the DC quality features.

Based on our assessment we believe that we have adopted the standards of practice set out in the DC code and DC regulatory guidance. These help demonstrate the presence of DC quality features, which we believe will help deliver better outcomes for members at retirement.

The Statement regarding DC governance was approved by the trustees on 7 December 2016 and signed on their behalf by:



David Sims

**Chair: Zurich Financial Services UK Pension Trustee Ltd**  
**7 December 2016**

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### Customer services

#### Expert help for members

We offer a range of ways of getting in touch and finding out more about your benefits. Your first port of call for benefit quotations should always be our secure website: [www.zpen.info](http://www.zpen.info) but if you need to speak to someone directly, the Customer Services teams in Cheltenham and Darlington are available at the end of the telephone. You can also write or email us with your enquiry.

Regional Pensions Support Manager, Faye Willetts, attends all Zurich's main offices on a regular basis to help employees fully understand and appreciate their pension benefits. Faye recently launched a new programme of support sessions including:

- "The Pensions Power Up", giving information to new employees on their new pension scheme;
- "Saving Extra", explaining the different ways to save for retirement including all the tax & NI savings available;
- "The Retirement Power Up" to help employees plan for retirement; and
- "ZCashBuilder Fund Choices" to explain the 12 fund choices and 15 Lifestyle options available to members.

For more information on these are the other sessions now available go to the trustees website [www.zpen.info](http://www.zpen.info)

Faye is supported by Rich Cypher, Governance & Regional Pensions Support Manager, who also provides support for members with particularly complex pension benefits.

Feedback is consistently very positive as employees appreciate the opportunity to discuss their position face to face.

Our regional pensions support team is here to help educate and inform members about the benefits of ZPen and are not authorised to give financial advice. If you need financial advice you should contact an independent financial adviser.

#### Regional pensions support team



Faye Willetts



Rich Cypher

### Recognition



In 2015, at the Pension Scheme of the Year Awards, the ZPen team were highly commended in the **Best Administration** category and the scheme was also a finalist in the **Best DC Communication Strategy** category.

#### Email:

[zcashbuilderteam@rpmi.co.uk](mailto:zcashbuilderteam@rpmi.co.uk)

The ZCashBuilder Team  
RPMI  
PO Box 377  
Darlington  
County Durham  
DL3 6XY



How to  
contact us

#### Telephone

0800 232 1915  
Internal:  
7727 6611



The ZPen Team  
Zurich  
The Grange  
Bishops Cleeve  
Cheltenham  
GL52 8XX



#### Email:

[zpenteam@uk.zurich.com](mailto:zpenteam@uk.zurich.com)

Pensioners  
For queries about your pension payments  
please contact  
0800 232 1915

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

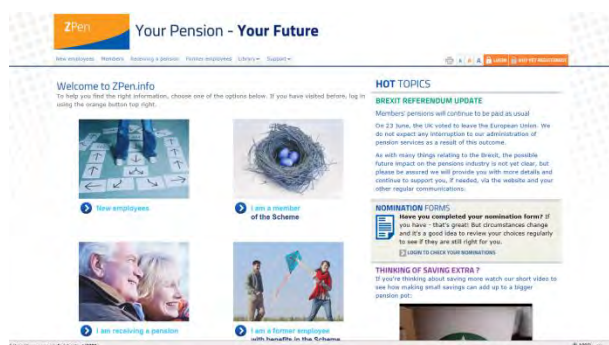
### The scheme on line

Members can calculate and set up their own benefits on line.

Former ZPensionBuilder members are able to calculate their own pension benefits and set up their pension using the self service facilities on the scheme's secure website ([www.zpen.info](http://www.zpen.info)). To date more than 2,200 members have used the website to set up their own retirement benefits.

### Online facilities for ZCashBuilder

ZCashBuilder members are able to view their funds and switch their investments on line. The on line facilities are available 24/7 365 days a year, so members can use the website when it is convenient to them and from any location where they have internet access. The website is secure: members have individual passwords which they set themselves and no information is saved onto the computer used to access the website. Additional security checks are made before any benefits are paid.



### Access to up to date information on line

ZCashBuilder members can run quotes known as statutory money purchase illustrations (SMPI) on line giving them an indication of potential benefits at retirement. Members are able to vary their retirement age and amount of savings to see the impact on potential benefits, helping them to plan for retirement. The final benefits available will depend on investment returns and the final cost of buying pensions.

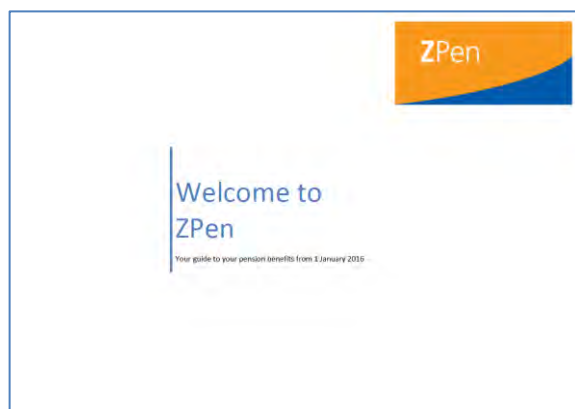
There's also a page specifically for pensioners providing information about pension pay dates, pension increases, the Pensioners Association and contact details for pay and tax queries. In addition, since January 2012 pensioners have been able to register with the website so they can see their pension payslips on line.

Current employees are also able to let the trustees know who they would like to benefit in the event of death in service by using the on-line nomination form.

Members are kept up to date with the latest developments affecting their scheme through the NewsFlash! feature on the website. In addition, the annual trustees' newsletter is available on line.

All key scheme documentation is available to download, including:

- Annual report & accounts;
- Valuation report
- Member's booklet
- Statement of investment principles
- Contribution schedule
- Annual actuarial report
- Trustee dispute procedure



### Funding benefits in ZPensionBuilder and ESExec

The trustees are responsible for making sure there is enough money in ZPensionBuilder and ESExec to pay the benefits as they fall due. So, the trustees need to:

- understand how much the benefits are going to cost (the pension scheme "liabilities"), and
- have an investment strategy which ensures that the pension scheme is in good shape to meet the benefit payments as they arise.

The trustees and the company have agreed a funding policy, summarised in a Statement of Funding Principles. The statement is prepared by the scheme actuary after the trustees and the company have examined all the relevant factors, such as:

- the return on investments (including an estimate of what these will be in the future),
- how the liabilities have been affected by pay rises, pension increases and how long pensioners are living after retirement.

The ongoing funding of the scheme is closely monitored by the trustees and by a dedicated funding committee, which meets at least once a quarter with the scheme actuary.

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### Funding committee: Trustee members



**BESTrustees**  
Independent trustee  
represented by  
Clive Gilchrist  
*valuation & investment*



**Roy Brimblecombe**  
Pensioner trustee  
*valuation & investment*  
*Resigned 30 September 2015*



**Christian Jochum**  
Company nominated trustee  
*valuation & investment*



**Gillian Mitchell**  
Company nominated trustee  
*valuation & investment*



**David Sims**  
Trustee chair  
*valuation & investment*  
*Appointed 30 August 2016*



**Paul Trickett**  
Trustee chair  
*valuation & investment*  
*Resigned 31 July 2016*

### Funding committee: Company members



**David Ford**  
Head of Strategic Finance:  
Global Life  
*valuation*



**Andy Jackson**  
Head of Capital & Liquidity  
Management:  
Zurich Insurance Company Ltd  
*investment*



**Paul Sutton**  
Group Head of Total Rewards:  
Zurich  
*valuation*



**Stuart Tyler-Lloyd**  
Balance Sheet Chief Investment  
Officer  
*investment*

### Advisers

#### Investment advisers

Hymans Robertson



#### Investment analysts

Zurich Insurance Company, Investment  
Management



#### Scheme actuary

Mark Howard, FIA  
Barnett Waddingham



### Funding committee

The funding committee is made up of representatives from the trustee board and from the company, chosen for their experience and expertise. The Pensions Regulator encourages regular dialogue between trustees and employers on scheme funding matters. At Zurich, the funding committee is the forum for this dialogue. The work is specialist, and committee members (both trustee and company representatives) are selected to ensure the appropriate level of expertise is maintained. Apart from the committee members themselves, various other people regularly attend the meetings, including members of the UK Pensions & Benefits team, as well as external specialist investment advisers and the actuary. The trustees have two investment advisers: Zurich Investment Management, who develop proposals, and Hymans Robertson,

who advise the trustees on these proposals and on the direction of the investment strategy.

The committee's work falls into two areas, although there is a great deal of overlap between these:

- valuation: keeping the cost of benefits under review
- investment: implementing the strategy set by the trustee board.

### Valuing the benefits

At least once every three years the trustees ask the scheme actuary to carry out a valuation to assess the financial position of the ZPensionBuilder and ESExec sections. Given the pension changes that took effect from 1 January 2016, some of the steps described below will change for the valuation as at 30 June 2016.

The last valuation, completed as at 30 June 2013, had two main purposes:

1. to determine the current financial position of the ZPensionBuilder and ESExec sections based on all benefits earned to 30 June 2013, and
2. to establish the cost of providing benefits in the future.

There were several steps in the valuation process:

#### Step 1: determining the value of benefits earned to date

The actuary calculated the value of the benefits earned to 30 June 2013 for all members – the “technical provisions”. This included those who had preserved benefits<sup>7</sup> and those who had actually retired.

In making his calculations, the actuary made assumptions about things like return on investments, inflation in the future and how long members were expected to live. These assumptions were agreed by the trustees, the company and the actuary, and are detailed in the following section on [page 23](#).

#### Step 2: determining the funding level

The actuary compared the technical provisions in the ZPensionBuilder and ESExec sections with the value of the assets in the relevant section of the fund. The result of this comparison is called the “funding level”. If the fund had been worth more than the value of the benefits earned so far, there would have been a “surplus”. However, the reverse applied, meaning there was a “deficit”.

A surplus or deficit does not necessarily mean that there is too much cash (or a cash shortfall) in the fund. The valuation is essentially a snapshot in time taking account of the various factors described above. The true position ultimately depends on whether the assumptions made are borne out in

practice. The ZPensionBuilder and ESExec sections may have different funding outcomes: for example, one could be in surplus and the other in deficit.

#### Step 3: determining the funding rate

Using the same assumptions and current benefit levels, the actuary then determined the long term cost of providing ongoing benefits (the “funding rate”).

#### Step 4: agreeing the contribution rate

When the funding level and the funding rate were known, the trustees and the company agreed a contribution rate for the future. The trustees and the company also agreed how to address the deficit.

The funding committee worked through the valuation process with the actuary in a series of workshops. The product of these workshops was a recommendation to the trustee board, from which the valuation method was finalised, producing final results. These results were then presented to the company, which responded with proposals for funding the deficit and for the level of future contributions to the scheme. The whole process was conducted in close partnership between the company and trustees. Between valuations, the committee reviews the funding position quarterly and makes recommendations to the trustee board in respect of the annual report.

### **Actuarial method and assumptions used in the valuation as at 30 June 2013<sup>8</sup>**

The method and actuarial assumptions used for the valuation of the scheme at 30 June 2013 are set out in the scheme's Statement of Funding Principles. The method and significant assumptions were derived as follows:

#### **Method**

The actuarial method used is the Projected Unit Method.

#### **Inflation and pension increases**

By looking at the cost of investing in Government bonds with payments linked to inflation compared to the cost of investing in Government bonds not linked to inflation, it is possible to arrive at a figure for the average market view of future Retail Prices Index (RPI) inflation. This is then compared to the latest Treasury targets for inflation in the UK, when deriving the assumption to use. Supply and demand factors for such assets may also be taken into account.

An assumption for Consumer Prices Index (CPI) inflation is set having regard to the likely long-term difference between RPI and CPI.

<sup>7</sup> Members have preserved benefits if they have left the company but have not yet reached retirement age.

<sup>8</sup> Provided by Barnett Waddingham LLP (4 August 2016)

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

The assumed rate of pension increases is set taking into account the inflation assumption and also any limit or floor on the rate of increase.

### Discount rate

The discount rate is normally determined by the trustee taking into account professional advice in relation to market indicators available at the valuation date, the long-term strategic asset allocation, the liability profile of the scheme, and the perceived strength of the employer covenant. The return on Government bonds is taken as a suitable market index yield.

As a proportion of the scheme's funds are invested in assets such as equities which would be expected to outperform Government bonds over the long term, an allowance is made for this in the discount rate. The allowance is determined by the trustee based on information provided by their professional advisers.

### Mortality

The rates of mortality assumed are based on reports published by the Continuous Mortality Investigation Bureau most relevant to the membership of the scheme, with allowance for expected future improvements in longevity.

This assumption is adjusted in the light of evidence relating to the actual mortality experience of the scheme and may also take account of the industry in which the members work, or the distribution of pension payment amounts.

### Retirement

An allowance is made for a certain proportion of active members in the ES and AD Tiers, born before 30 June 1967, to retire before reaching age 60. Members born after this date are assumed to retire at their Normal Retirement Age.

An allowance is made for a certain proportion of active members to retire from service through ill-health each year before reaching Normal Retirement Age.

### Cash commutation

An allowance is made for a proportion of members to exchange part of their pension for a lump sum at retirement. The trustee takes advice from the scheme actuary as to the terms available for members to exchange pension for a lump sum.

### Dependant details

Assumptions regarding the proportion of members with a dependant at death and the age difference between males and females is set taking into account advice from the scheme actuary and the experience of the scheme.

### Expenses

A contribution is paid by the Employer to cover an allowance for standard administrative expenses and other professional fees the trustee incurs in running the scheme and for the annual Pension Protection Fund levy.

The key assumptions used as at 30 June 2013 were as follows:

Key Financial Assumptions as at 30 June 2013	ZPen Section	ES Exec Section
Duration	22 years	15 years
Pre and post-retirement discount rate	4.95% pa	4.35%
Price inflation – RPI	3.50% pa	3.20%
Price inflation – CPI	2.70% pa	2.40%
Salary inflation	3.5%	n/a
Pension increases:		
– RPI with a maximum of 5%	3.45% pa	n/a
– RPI with a minimum of 3% and a maximum of 5%	3.55% pa	3.40%
– RPI with a minimum of 3% and a maximum of 7.5%	3.70% pa	n/a
– CPI with a maximum of 3%	2.45% pa	2.20%

Key Demographic Assumptions as at 30 June 2013	ZPen Section	ES Exec Section
Pre-retirement mortality table	100% PNXA00	85% PNXA00
Post-retirement mortality table	100% PNXA00	85% PNXA00
Allowance for improvements in life expectancy	CMI_2012 core projection with a long-term rate of improvement of 1.25% pa	CMI_2012 core projection with a long-term rate of improvement of 1.25% pa
Age difference between husbands and wives	3 years	3 years
Proportion married/with financial dependants	90% at valuation date	90% at valuation date
Allowance for cash commutation	80% of maximum permitted, based on current factors	80% of maximum permitted, based on current factors

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### Funding position

The most recent full actuarial valuations of ZPensionBuilder and ESExec section (the latter, formerly the ES Executives' scheme) were carried out as at 30 June 2013. Between triennial valuations the

trustees publish annual funding updates, the most recent of which is as at 30 June 2015.

### ZPensionBuilder

Following the completion of the 30 June 2013 valuation, an asset backed contribution (ABC) arrangement was set up for ZPensionBuilder to address the deficit in that section. More information on this can be seen in the investment notes under other investments.

Employer contributions increased from 28.5% to 34.3% of pensionable salaries for ZPensionBuilder members from 1 March 2014 to 31 December 2015 to meet the cost of future service benefits as they are earned over that period.

In addition, employer contributions increased from 2.1% to 2.6% of pensionable salaries in respect of ZCashBuilder members with effect from 1 March 2014 to meet the cost of death and ill health benefits.

An additional amount of £4.3m will be paid by the employer each year to cover the expenses of running the ZPen section and the PPF levy.

The last annual funding update was prepared as at 30 June 2015. This showed that since the ABC was put in place the funding level has worsened giving rise to a new deficit. Although the assets have performed well, this has been offset by the decrease in the investment return assumption, which is mainly due to the fall in long-dated gilt yields. The next full valuation as at 30 June 2016 is underway and if a deficit remains, the trustees and company will agree how to address this.

	30 June 2012 £million	30 June 2013 £million	30 June 2014 £million	30 June 2015 £million
Assets (excluding AVCs/APCs)	£4,411	£4,621	£4,948	£5,559
Asset backed contribution (Scottish Limited Partnership)	n/a*	n/a*	n/a*	£782
Amount needed to provide benefits	£5,545	£5,236	£5,679	£6,586
Surplus/(Shortfall)	(£1,134)	(£615)	(£731)	(£245)
Funding level	80%	88%	87%	96%

\* The asset backed contribution was not put in place until 31 July 2014



# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### ESExec section

To eliminate the deficit in the ESExec section, the employer has agreed to pay £1.7 million a year until 2018 and £0.9 million in 2019, by 30 June each year.

The funding level has remained broadly unchanged since the last full valuation on 30 June 2013. Although the investment return assumption fell significantly from the update at 30 June 2014 (mainly due to the fall in gilt yields), the majority of this has been offset by the good performance of the assets and the deficit reduction contributions paid.

There are no active members and hence no one is building future benefits under ESExec. Therefore there is no need for regular contributions to support

future benefits. But Zurich has agreed with the trustees to make an annual contribution of £37,000 each year to cover the expenses of running the ESExec section and the PPF levy.

.....

A copy of the full report on the valuation at 30 June 2013 is available on our website [www.zpen.info](http://www.zpen.info).

By law, the statements from the scheme actuary on [pages 60 to 62](#) must be included in this annual report. The wording complies with guidelines issued by the Institute and Faculty of Actuaries.

	30 June 2012 £million	30 June 2013 £million	30 June 2014 £million	30 June 2015 £million
Assets (excluding AVCs/APCs)	£154.3	£157.1	£160.3	£170.9
Amount needed to provide benefits	£177.9	£165.2	£167.9	£180.7
Surplus/(Shortfall)	(£23.6)	(£8.1)	(£7.6)	(£9.8)
Funding level	87%	95%	95%	95%

## Scheme highlights (ZPensionBuilder section)

34,756

Total members

£7.3bn

Closing net assets available for benefits

£31m

Total contributions

5

Active scheme employers

£151m

Benefits paid

£892m

Change in market value of investments

## Scheme highlights (ZCashBuilder section)

7,942

Total members

15

Lifestyle options available

£7m

Change in market value of investments

12

Self-select funds available

£41m

Employer contributions

£4m

Employee contributions

## Certification of the calculation of technical provisions

### Zurich Financial Services UK Pension Scheme

*ZPen Section and ES Executives' Section*

#### Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 30 June 2013 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the Statement of Funding Principles dated 28 August 2014.

Signature:



Date:

28 August 2014

Name:

Mark A J Howard

Qualification:

Fellow of the Institute and Faculty of Actuaries

Address:

St James House  
St James Square  
Cheltenham  
GL50 3PR

Employer:

Barnett Waddingham LLP

### Investment Management

#### Investment strategy and principles

The funding committee keeps the investment strategy under review, developing proposals for the trustee board for future strategies, and then implementing them once they are agreed. Within the committee's remit it can appoint investment managers, agree fees, carry out the necessary consultation with the company and decide the best tactics for working toward the final strategy. The committee also reviews the investment managers, custodian and advisers and provides oversight of the

day to day investment activity carried out by the managers and internal teams.

The committee is responsible for managing investment strategy in each section of the scheme being ZPensionBuilder, EExec and ZCashBuilder, which are described in more detail below.

When considering investment strategy the committee will look at actively and passively managed options. Actively managed means we expect the managers to beat the market whilst in a passively managed option the manager will ensure that the spread of investments within the fund is similar to the spread in the relevant market index.

#### ZPensionBuilder & EExec distribution of investments

The overriding objective for the trustees and the funding committee is to design and put in place an investment strategy that will deliver sufficient cash to pay benefits when they fall due by reaching an appropriate balance between risk, seeking returns through growth assets and the extent to which the assets should be distributed to match its liabilities (this is known as the strategic asset allocation). The committee considers the investment strategy for ZPensionBuilder and EExec separately but applies the same principles to both sections.

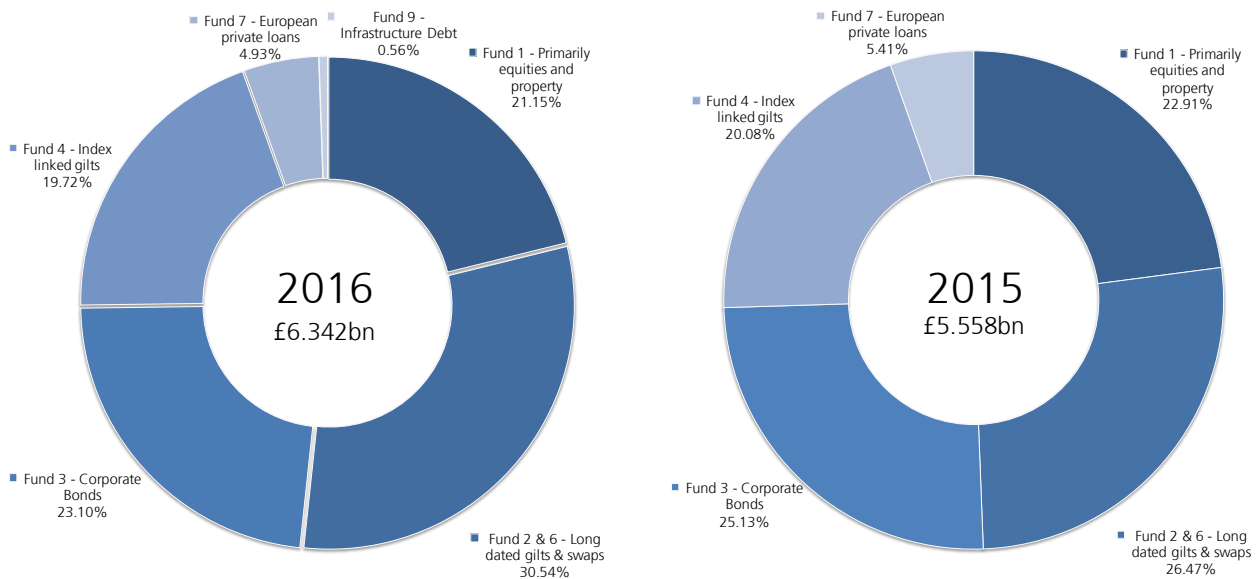
The table below shows the strategic asset allocation as at 30 June 2016.

Asset type	ZPensionBuilder (%)	EExec (%)
<b>Growth assets</b>		
<i>Equities</i>	19.5	16.5
<i>Real estate</i>	3	3.5
<i>Loans</i>	5	-
<b>Liability matching assets</b>		
<i>Corporate bonds</i>	22	28
<i>Infrastructure debt</i>	5	-
<i>Gilts</i>	25.5	25
<i>Index linked gilts</i>	20	27
	100	100

# Zurich Financial Services UK Pension Scheme

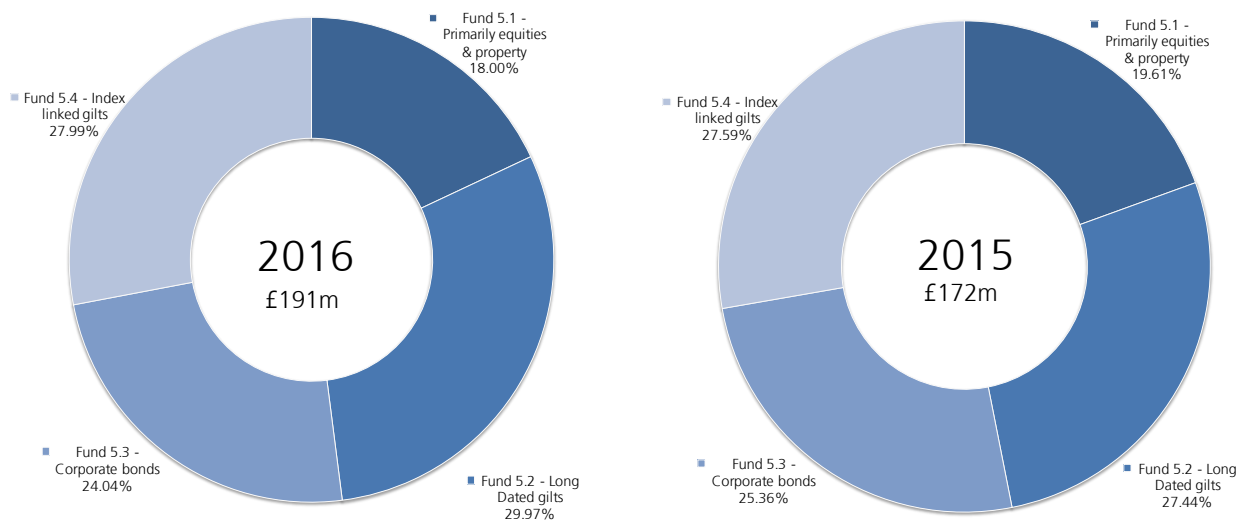
## Annual report for the year ended 30 June 2016

The actual distribution of investments for ZPensionBuilder at 30 June 2016 compared with 30 June 2015 is shown below.



As at 30 June 2016 the loan fund and approximately 50% of the corporate bond fund was managed by M&G Investment Management, the infrastructure allocation is managed by Macquarie Infrastructure Debt Investment Solutions. The rest of the investments were managed by Columbia Threadneedle Investments.

The actual distribution of investments for ESExec at 30 June 2016 compared with 30 June 2015 is shown below.



All the investments for the ESExec section are managed by Columbia Threadneedle Investments.

### Management and custody of investments

The trustees have delegated management of investments to professional investment managers listed on [page 6](#). These managers, which are regulated by the Financial Conduct Authority in the United Kingdom, manage the investments within the restrictions set out in investment management agreements which are designed to ensure that the objective and policies set out in the SIP are followed.

The mandates put in place by the trustees specify how rights attaching to the scheme's segregated investments are acted upon. This includes active voting participation and consideration of social, ethical and environmental factors when making investment decisions. The trustees have less influence over the underlying investments within pooled investment vehicles held by the scheme but review the managers' policies and statements of compliance in respect of these matters.

The trustees have appointed the Northern Trust Company to act as custodian for the scheme investments, other than:

- Pooled investment vehicles, where the manager makes its own arrangements for custody of underlying investments;
- Additional Voluntary Contributions and other investments which are in the form of insurance policies, where the master policy documents are held by the trustees.

The investments held with Northern Trust are held in a designated nominee account in the name of the trustee of the scheme. The trustees receive reports each month covering the assets held by the custodians and transactions in the month. These are monitored by the trustees and, if appropriate, followed up with the custodian on a timely basis. The

custodian is independent of the investment managers and provides a check on the recording of the assets of the scheme and their performance

### Interest in Scottish Limited Partnership

As detailed on [page 48](#), on 31 July 2014 the scheme acquired an interest in a Scottish Limited Partnership (SLP), funded by a special contribution from the employer of £697m. The partnership agreement is structured to provide the scheme with an annual income of £60m. However as the interest in the SLP is a vehicle solely for the purpose of addressing the funding deficit, it is not considered as part of the asset allocation or the investment performance information and is therefore not included in the tables on [page 30 or on the charts on page 28](#).

### Infrastructure Debt

During the year, the trustees agreed an investment into infrastructure debt. Infrastructure is the physical systems of a nation such as transportation, communication, sewage, water, electricity systems, prisons, schools and hospitals. These investments are long-term loans to finance infrastructure development and match the pension liabilities well.

The trustees assessed various investment managers and decided that Macquarie Infrastructure Debt Investment Solutions should be appointed. The trustees entered into an agreement on 15 March 2016.

The infrastructure debt portfolio will increase over time as investment opportunities which match the trustees' investment criteria arise.

At the 30 June 2016, the scheme had two investments in infrastructure debt.

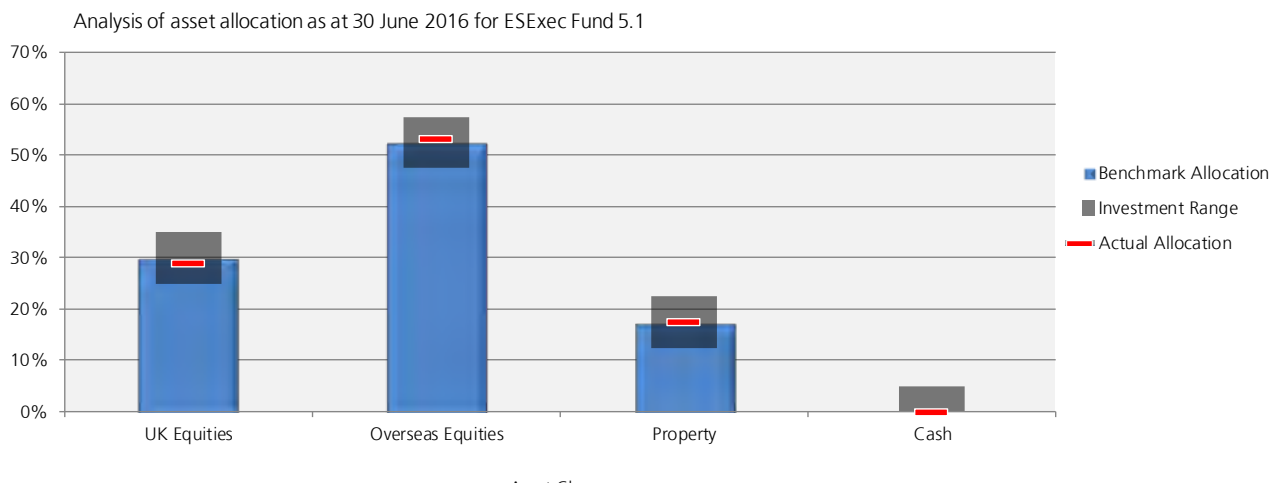
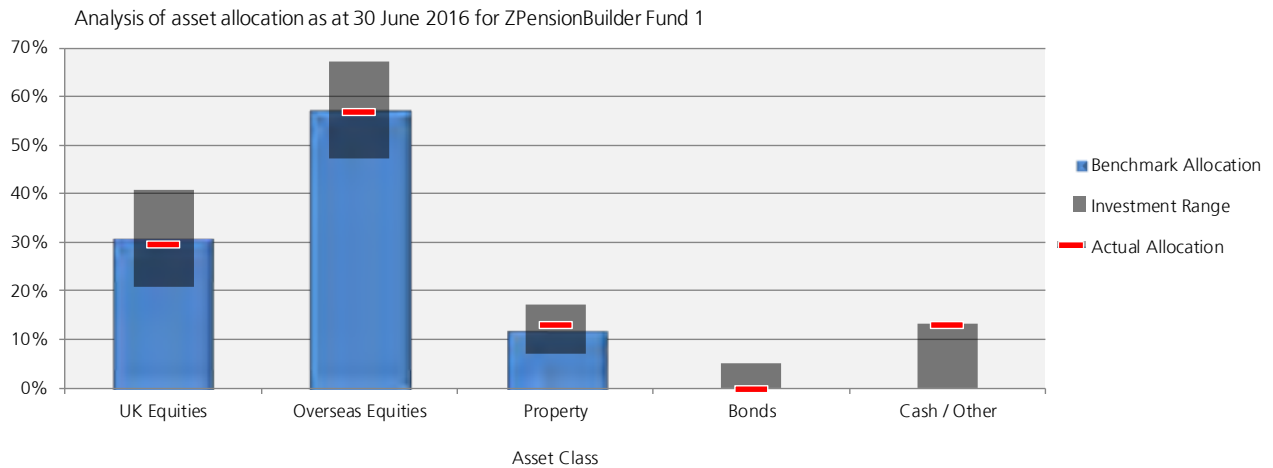
# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### Investment performance

In the actively managed portfolios, the trustees set the benchmark allocation against which performance is measured and then allow the investment manager discretion to manage investments within ranges around these benchmarks in order to accommodate short term changes between different markets and also to allow the manager to add value by being over or under the benchmark weight in different types of assets.

The diagrams below show the benchmarks, ranges and actual allocation at the year-end for the ZPensionBuilder growth fund (fund 1) and the ESExec section growth fund (fund 5.1). All other funds are 100% invested in their specific asset classes. Full details of the performance are given on [pages 33 to 35](#).



The trustees have considered the nature, disposition, marketability, security and valuation of the scheme's investments and consider them to be appropriate relative to the reasons for holding each class of

investment. The trustees have also considered whether the asset allocation is in accordance with the SIP. More details about investments are given in the notes to the financial statements.

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### ZCashBuilder Investments

The funding committee is also responsible for providing members of ZCashBuilder with a suitable range of funds in which to invest. When considering this they start with the same principles as they apply to the ZPensionBuilder investment strategy. You can read more about the investment options in the Statement regarding DC governance on [pages 15 to 17](#).

### ZCashBuilder performance for the year ended 30 June 2016

The year to 30 June 2016 saw positive performance with the exception of the Aquila UK Equity Index

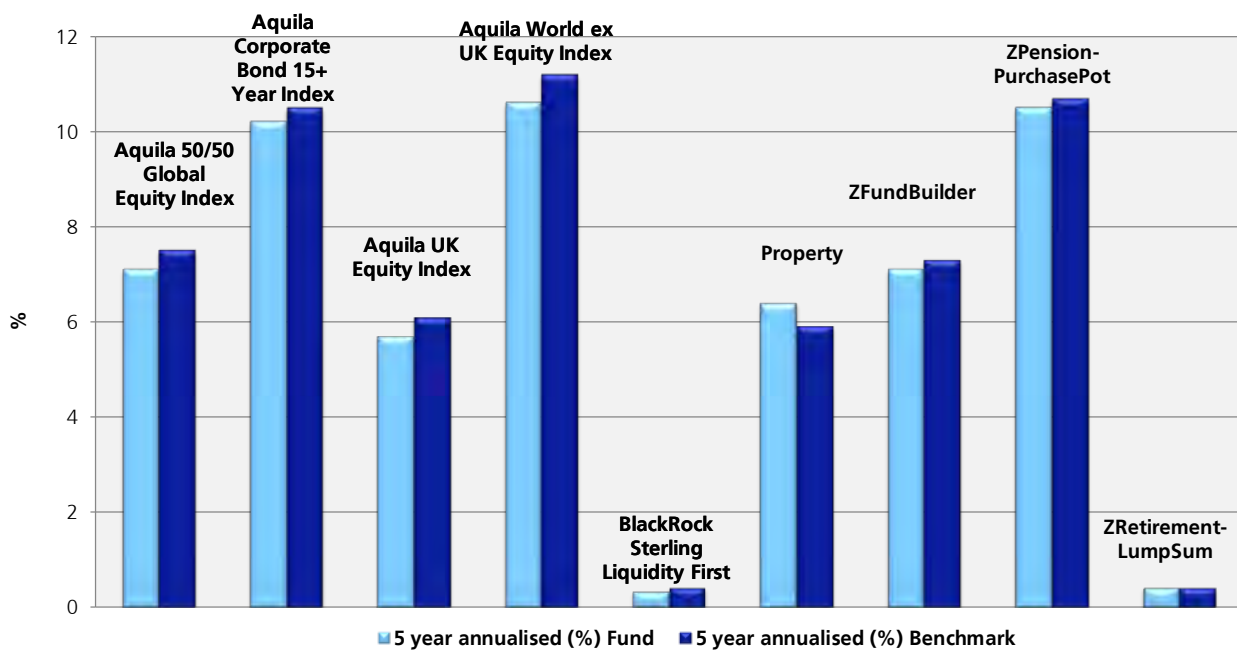
Fund and ZFundBuilder; all other funds were broadly in line with benchmark. The Aquila UK Equity Index Fund and ZFundBuilder were broadly in line with the benchmark over 3 years and 5 years to 30 June 2016.

Over the 3 years to 30 June 2016 all funds either outperformed or were broadly in line with benchmark.

Performance over a one, three and five year period is shown on [pages 31 to 35](#).

The trustees continue to monitor the performance of these funds on a quarterly basis to ensure they remain appropriate during the prevailing market conditions.

### ZCashBuilder performance for the five years ended 30 June 2016



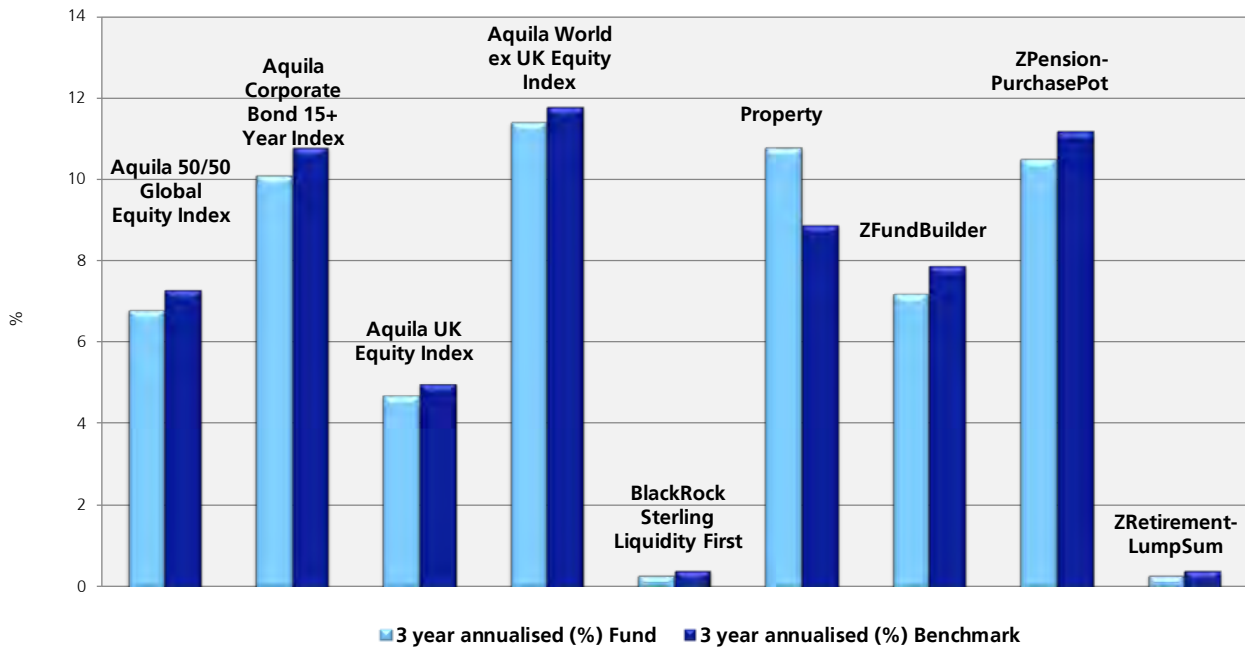
3 and 5 year data is not available for the e-Z plan funds as they were launched in quarter 1 2016.



# Zurich Financial Services UK Pension Scheme

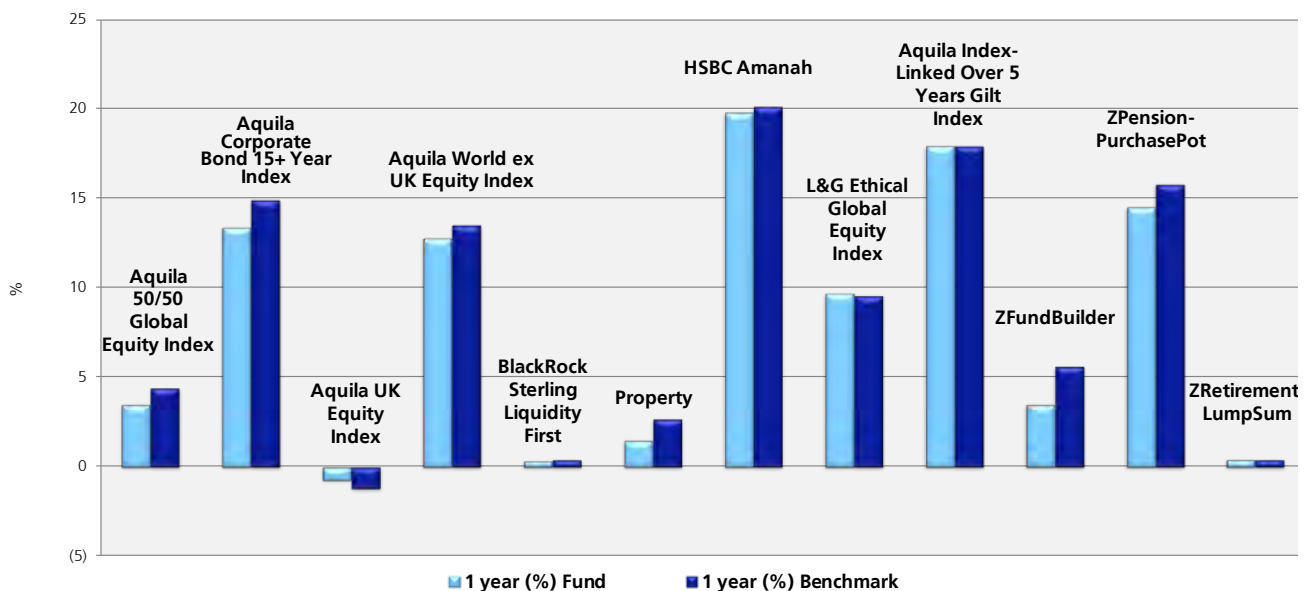
## Annual report for the year ended 30 June 2016

### ZCashBuilder performance for the three years ended 30 June 2016



Source: Zurich Assurance Ltd

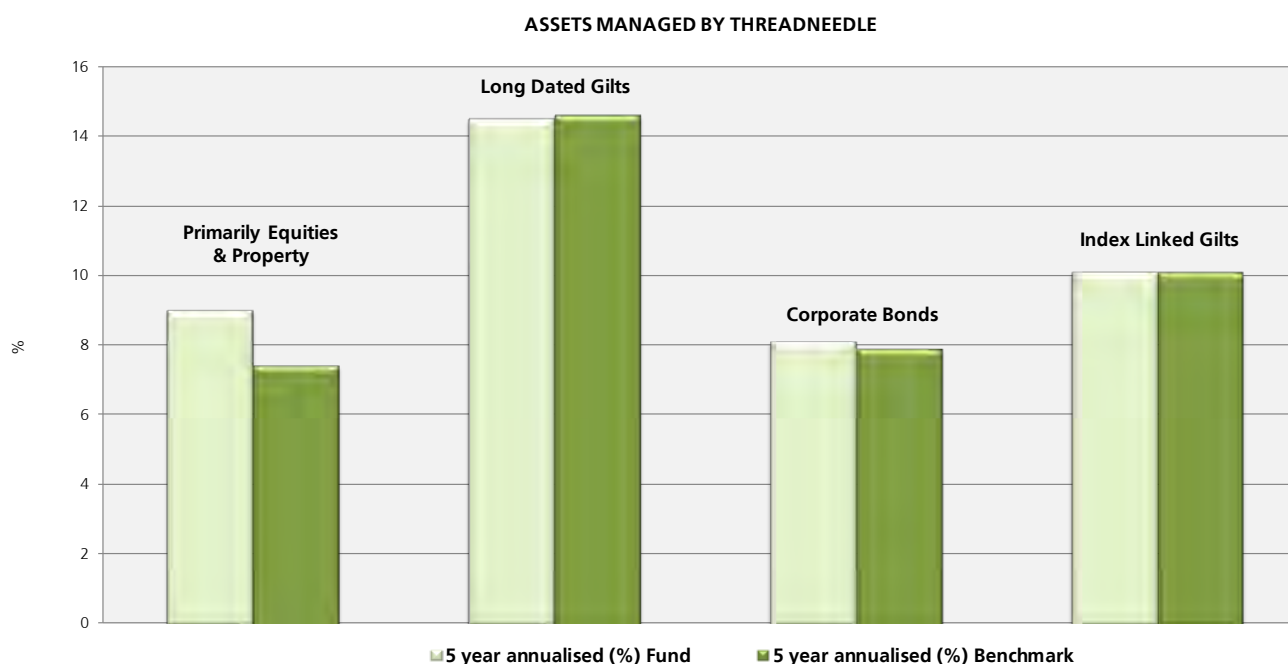
### ZCashBuilder performance for one year ended 30 June 2016



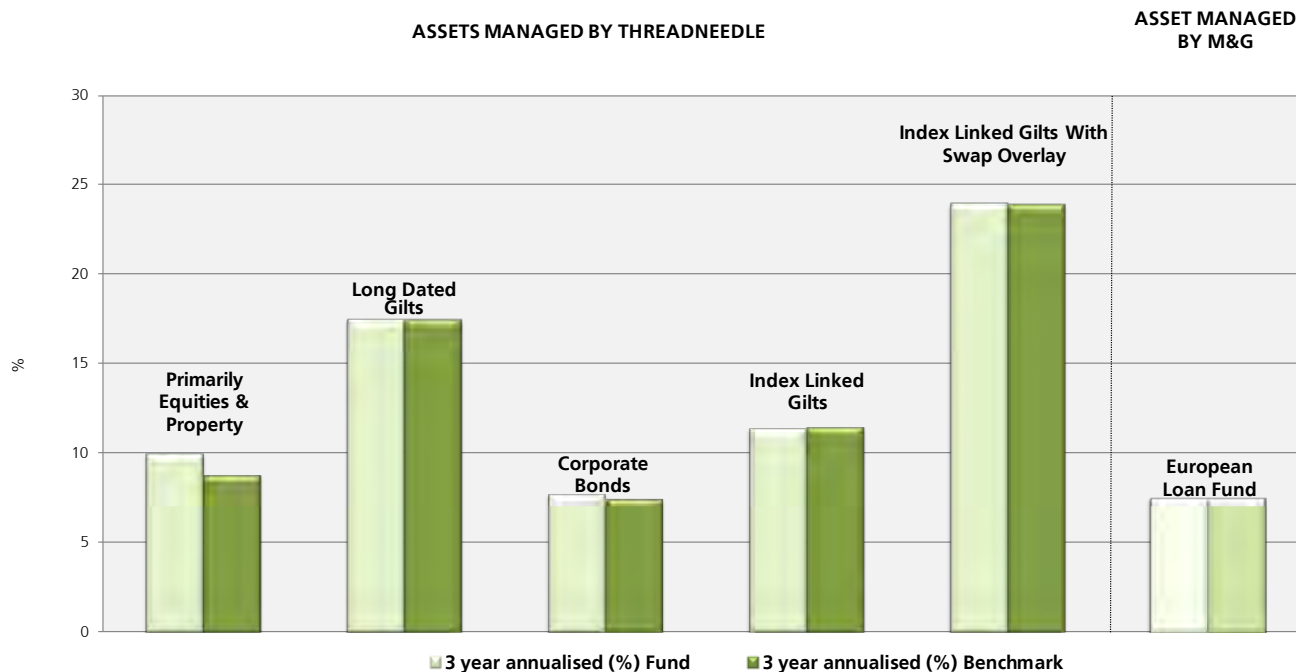
Source: Zurich Assurance Ltd

Members make their investment selections online at [www.zpen.info](http://www.zpen.info).

ZPensionBuilder performance for the five years ended 30 June 2016



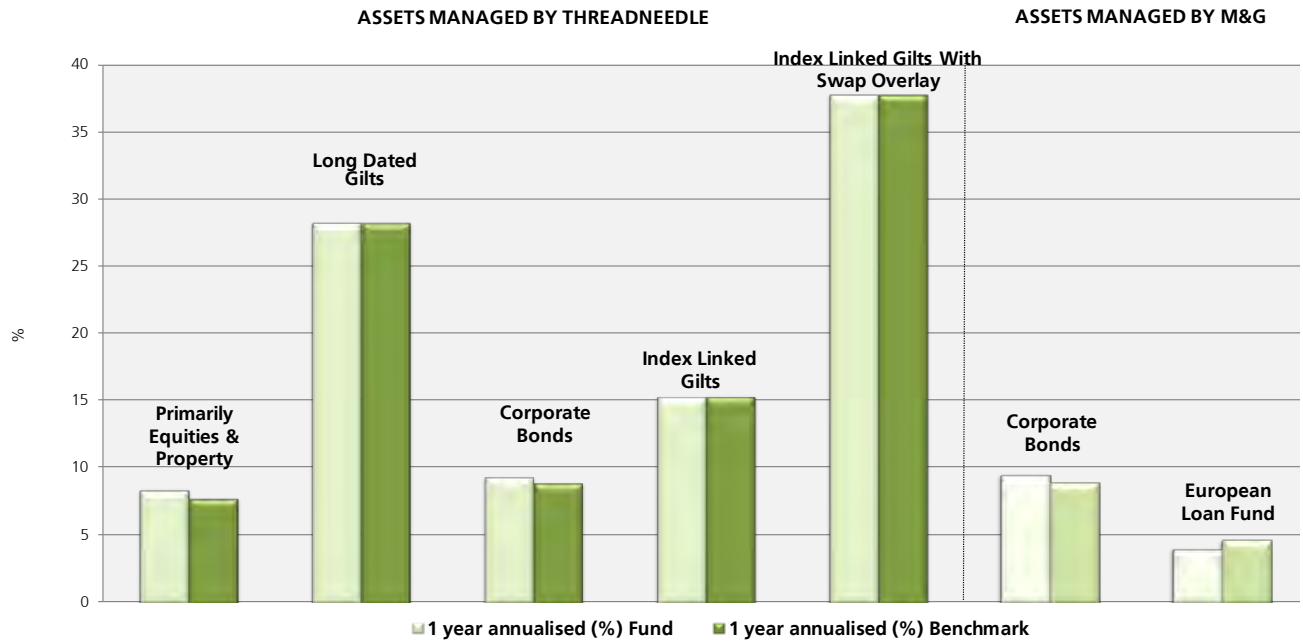
ZPensionBuilder performance for the three years ended 30 June 2016



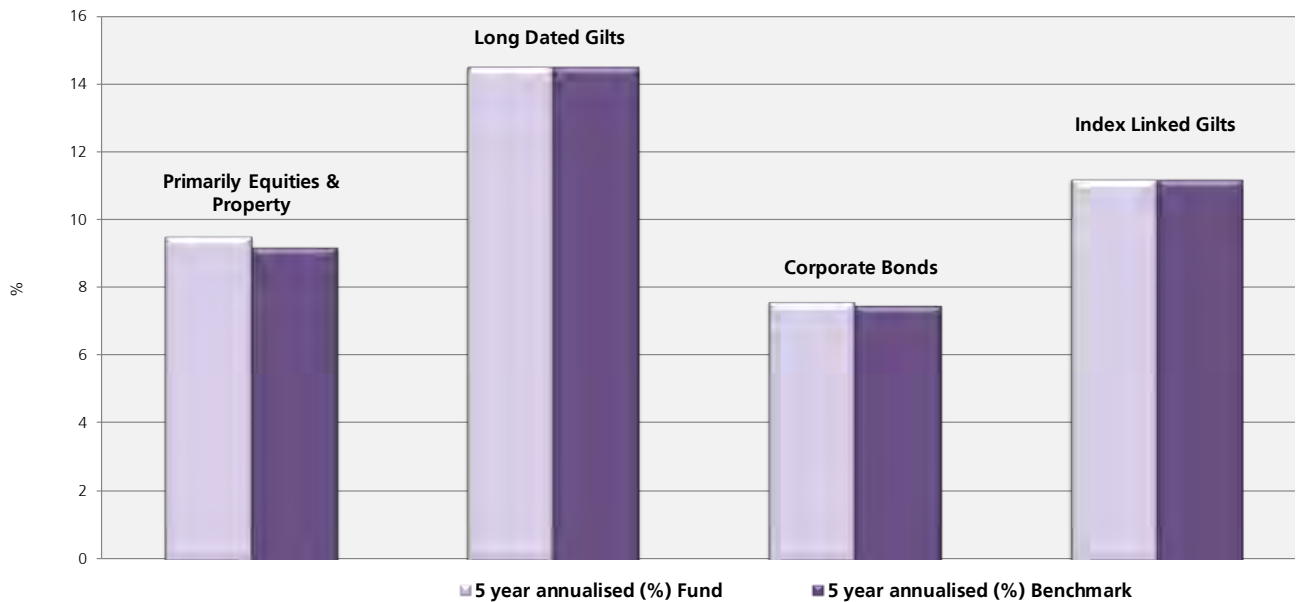
# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### ZPensionBuilder performance for one year ended 30 June 2016



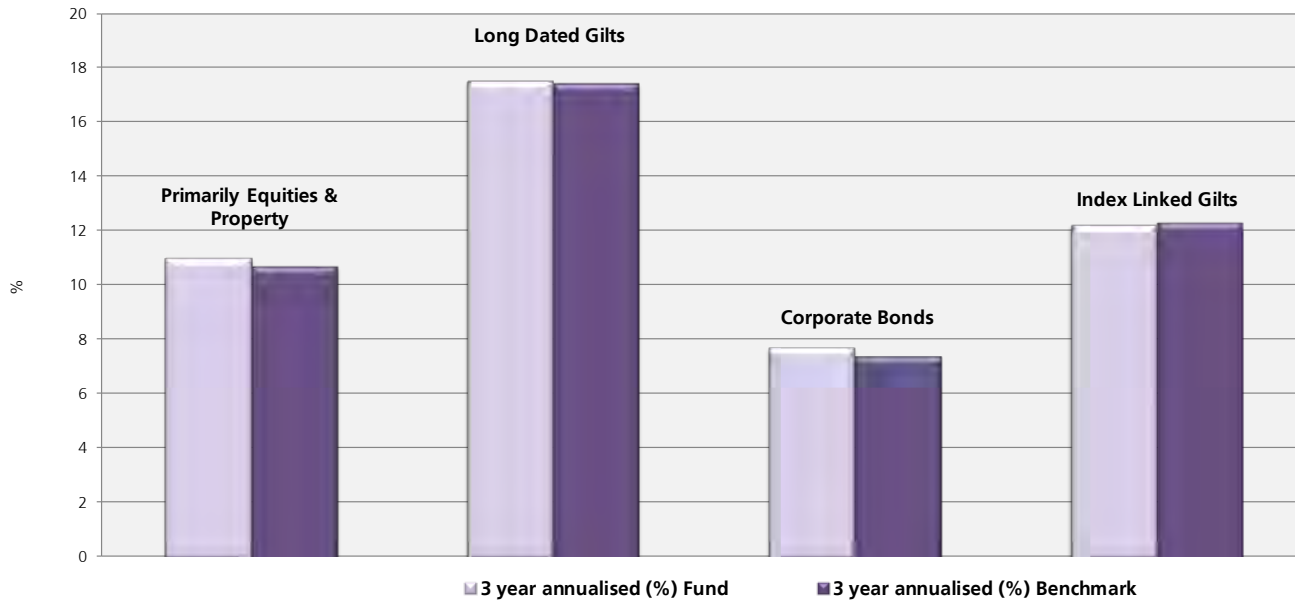
### ESExec performance for the five years ended 30 June 2016



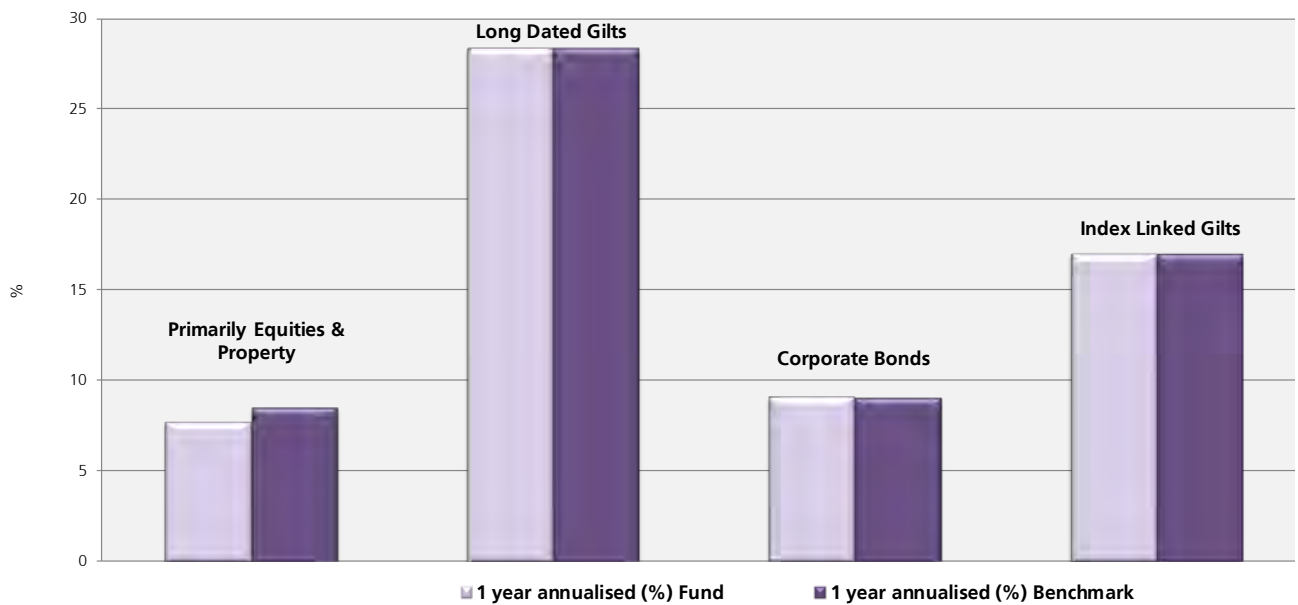
# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### ESExec performance for the three years ended 30 June 2016



### ESExec performance for one year ended 30 June 2016



### Looking ahead


This report brings you highlights from the scheme year, but it doesn't end there of course. The funding committee continues to monitor the scheme's investments to ensure that the chosen investment strategy remains appropriate and the full trustee board receives regular updates on ZPensionBuilder's financial position from the actuary.

Over recent years the trustees have developed a programme to reduce exposure to interest rates by entering into £500m nominal interest rate swap contracts. A 5% allocation to infrastructure debt has also been agreed, which will allow the scheme to benefit from the returns associated with investing in less liquid asset classes.

The trustees are currently reviewing the ZPensionBuilder long-term investment strategy alongside the triennial valuation process.

The funding committee has also undertaken a detailed review of the funds and choices currently offered under ZCashBuilder, following the Chancellor of the Exchequer's pension reform announcement in his budget speech on the 19 March 2014. The changes allow individuals more freedom and choice on how they take their retirement fund. Further

The trustee board approves pages 3 – 36 and are signed on behalf of the trustee board:

Trustee name	David Sims
Signature	
Date	7 December 2016

information on the new fund choices under ZCashBuilder can be seen on [page 53](#).

### Statement of investment principles

In accordance with section 35 of the Pensions Act 1995 the trustees, after consultation with Zurich Financial Services (UKISA) Limited and the investment manager, have drawn up a statement of investment principles governing decisions about investments for the purposes of the scheme, which they review on a regular basis. The statement describes the trustees' investment objectives and how investments are chosen, what kinds of investments they hold, the balance between different types of investment, their approach to risk and how they monitor the investment performance. The latest statement of investment principles dated 3 December 2014 is available on [www.zpen.info](http://www.zpen.info) and is expected to be updated following the completion of the actuarial valuation currently in progress.

The signing of the trustees' report also confirms the trustees' approval of the disclosures on [pages 13 to 14](#).

## **Independent auditors' report to the trustees of the Zurich Financial Services UK Pension Scheme**

### **Report on the financial statements**

#### **Our opinion**

In our opinion the financial statements, defined below:

- show a true and fair view of the financial transactions of the scheme during the year ended 30 June 2015, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

#### **What we have audited**

Zurich Financial Services UK Pension Scheme's financial statements comprise:

- the net assets statement as at 30 June 2015;
- the fund account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the trustees have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

#### **What an audit of financial statements involves**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the scheme's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the trustees; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the trustees' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements. We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Our responsibilities and those of the trustees**

As explained more fully in the statement of trustees' responsibilities, the trustees are responsible for the preparation of the financial statements and being satisfied that they show a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the trustees as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, 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.

#### **PricewaterhouseCoopers LLP**

Chartered Accountants and Statutory Auditors  
Bristol  
Date

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### Financial Statements

#### Fund Account for the year ended 30 June 2016

Amount in £'000	Note	2016			2015				
		ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Employer contributions		31,485	40,612	1,737	73,834	754,973	20,876	1,737	777,586
Employee contributions		-	3,932	-	3,932	-	1,697	-	1,697
<b>Total contributions</b>	4	<b>31,485</b>	<b>44,544</b>	<b>1,737</b>	<b>77,766</b>	754,973	22,573	1,737	779,283
Transfers from other schemes	5	250	4,320	-	4,570	97	1,215	-	1,312
Other income	6	2,183	-	130	2,313	342	-	-	342
		<b>33,918</b>	<b>48,864</b>	<b>1,867</b>	<b>84,649</b>	755,412	23,788	1,737	780,937
Benefits	7	151,401	8,747	8,009	168,157	135,834	4,000	7,831	147,665
Payments to and on account of leavers	8	-	453	-	453	-	557	-	557
Transfers to other schemes	9	43,161	4,587	-	47,748	33,088	4,190	4,014	41,292
Other payments	10	1,258	-	-	1,258	637	-	-	637
Administrative expenses	11	4,559	-	19	4,578	6,036	-	65	6,101
		<b>(200,379)</b>	<b>(13,787)</b>	<b>(8,028)</b>	<b>(222,194)</b>	(175,595)	(8,747)	(11,910)	(196,252)
<b>Net additions/ (withdrawals) from dealings with members</b>		<b>(166,461)</b>	<b>35,077</b>	<b>(6,161)</b>	<b>(137,545)</b>	579,817	15,041	(10,173)	584,685
<b>Net returns on investments</b>									
Investment income	12	231,386	2	2,143	233,531	219,540	1	2,134	221,675
Change in market value of investments	13	891,843	7,008	25,246	924,097	615,861	9,133	19,285	644,279
Investment management expenses	14	(9,052)	-	(218)	(9,270)	(9,115)	-	(261)	(9,376)
		<b>1,114,177</b>	<b>7,010</b>	<b>27,171</b>	<b>1,148,358</b>	826,286	9,134	21,158	856,578
<b>Net increase in the fund</b>		<b>947,716</b>	<b>42,087</b>	<b>21,010</b>	<b>1,010,813</b>	1,406,103	24,175	10,985	1,441,263
<b>Opening net assets</b>		<b>6,340,640</b>	<b>140,461</b>	<b>171,334</b>	<b>6,652,435</b>	4,934,537	116,286	160,349	5,211,172
<b>Closing net assets</b>		<b>7,288,356</b>	<b>182,548</b>	<b>192,344</b>	<b>7,663,248</b>	6,340,640	140,461	171,334	6,652,435

The notes on pages 40 to 57 form part of these financial statements.

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### Financial statements

#### Statement of net assets available for benefits as at 30 June 2016

Amount in £'000	Note	2016							2015
		ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
<b>Investment assets</b>									
Equities	13	1,098,455	-	-	1,098,455	1,069,209	-	-	1,069,209
Bonds	13	4,361,806	-	110,104	4,471,910	3,807,371	-	94,012	3,901,383
Pooled investment vehicles	16	544,291	172,754	80,298	797,343	503,366	127,527	76,508	707,401
Interest in SLP		893,000	-	-	893,000	782,000	-	-	782,000
Derivatives	17	235,011	-	-	235,011	91,263	-	-	91,263
AVC investments		-	10,058	-	10,058	-	11,146	-	11,146
Other investment balances	20	367,819	-	799	368,618	185,862	-	1,414	187,276
		<b>7,500,382</b>	<b>182,812</b>	<b>191,201</b>	<b>7,874,395</b>	<b>6,439,071</b>	<b>138,673</b>	<b>171,934</b>	<b>6,749,678</b>
<b>Investment liabilities</b>									
Derivatives	17	(7,223)	-	-	(7,223)	(1,178)	-	-	(1,178)
Other investment balances	20	(258,476)	-	(328)	(258,804)	(97,531)	-	(318)	(97,849)
		<b>(265,699)</b>	<b>-</b>	<b>(328)</b>	<b>(266,027)</b>	<b>(98,709)</b>	<b>-</b>	<b>(318)</b>	<b>(99,027)</b>
<b>Net investment assets</b>									
		<b>7,234,683</b>	<b>182,812</b>	<b>190,873</b>	<b>7,608,368</b>	<b>6,340,362</b>	<b>138,673</b>	<b>171,616</b>	<b>6,650,651</b>
Current assets	26	65,888	390	1,922	68,200	15,761	2,247	299	18,307
Current liabilities	27	(12,215)	(654)	(451)	(13,320)	(15,483)	(459)	(581)	(16,523)
<b>Total assets available for benefits</b>									
		<b>7,288,356</b>	<b>182,548</b>	<b>192,344</b>	<b>7,663,248</b>	<b>6,340,640</b>	<b>140,461</b>	<b>171,334</b>	<b>6,652,435</b>

The financial statements summarise the transactions of the scheme and deal with the net assets available for benefits at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which takes into account such obligations for the defined benefit section, is dealt with in the funding benefits in ZPensionBuilder & ESEExec section on [pages 20 to 24](#) of the Annual Report and these financial statements should be read in conjunction with this report.

The notes on [pages 40 to 57](#) form part of these financial statements.

The financial statements on [pages 38 to 57](#) were approved by the trustees on 7 December 2016 and are signed on their behalf by:

Director            David Sims

Signature        



### 1. General information

The scheme was established to provide retirement benefits to employees. For a brief history of the scheme please see the trustee's report. The address of the scheme's principal office is The Grange, Bishops Cleeve Cheltenham, Gloucestershire, GL52 8XX.

The scheme has a defined benefit ("ZPB") section which is no longer open to new members and as of 31 December 2015 closed to future accrual, and a defined contribution ("ZCB") section which is open to new members and is used as an auto-enrolment scheme by the employers.

The scheme is a registered pension scheme under the Chapter 2, Part 4 of the Finance Act 2004. This means that contributions by the employers and employees are normally eligible for tax relief and income and capital gains earned by the scheme receive preferential tax treatment.

### 2. Basis of preparation

The individual financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS) 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ("FRS 102") and the guidance set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised November 2014) ("the SORP"). This year the scheme has taken up the early adoption of FRED 62.

### 3. Accounting policies

The following principal accounting policies, which have been applied consistently, have been adopted in the preparation of the financial statements.

The scheme has adopted FRS 102 in these financial statements for the first time. Details of the transition to FRS 102 are disclosed in note 32. The scheme's functional and presentational currency is pounds sterling (GBP).

#### a) Investment valuation and classification

Investment assets and liabilities are included in the financial statements at fair value. Where separate bid and offer prices are available, the bid price is used for investment assets and the offer price for investment liabilities. Otherwise,

the closing single price, single dealing price or most recent transaction price is used.

Where quoted or other unit prices are not available, the trustees adopt valuation techniques appropriate to the class of investment. Details of the valuation techniques and principal assumptions are given in the notes to the financial statements where used.

The methods of determining fair value for the principal classes of investments are:

- Equities, bonds and certain pooled investment vehicles which are traded on an active market are included at the quoted price, which is normally the bid price.
- Unitised pooled investment vehicles which are not traded on an active market but where the manager is able to demonstrate that they are priced daily, weekly or at each month end, and are actually traded on substantially all pricing days are included at the price provided by the manager at or before the year end.
- The value of other equities, bonds and pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated by the trustees. Where the value of a pooled investment vehicle is primarily driven by the fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value unless there are restrictions or other factors which prevent realisation at that value, in which case adjustment is made.
- Exchange traded futures are valued at the difference between exchange settlement prices and inception prices.
- Swaps are valued at the net present value of future cash flows arising therefrom.
- Forward exchange contracts are valued at the gain or loss that would arise from closing out the contract at the reporting

**Financial statements**

**Notes to the financial statements (continued)**

date by entering into an equal and opposite contract at that date.

- With profits insurance policies (including those held as AVC investments) are reported at the policy value provided by the insurer based on cumulative reversionary bonuses declared and the current terminal bonus.
- Unitised insurance policies are valued on the same basis as pooled investment vehicles with similar characteristics.
- The trustees interest in the Scottish Limited Partnership (SLP) has been valued by the trustees, having consulted with its advisers, at fair value. The fair value is calculated by an independent pricing agent using a discounted cash flow model based on the expected present value of future cash flows, arising over the partnership arrangement.
- The infrastructure debt investment has been valued by the investment manager based on the net present value of the future cash flows.

**b) Investment income**

Income from equities, and any pooled investment vehicles which distribute income, is accounted for on the date stocks are quoted ex-dividend/ interest.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. In the case of pooled investment vehicles which are accumulation funds, change in market value also includes income, net of withholding tax, which is reinvested in the fund.

Income from bonds is accounted for on an accruals basis and includes income bought and sold on purchases and sales of bonds. Other interest on cash and short-term deposits and income from other investments is accounted for on an accruals basis. Accrued income is excluded from the market value of investments.

Income arising from the trustees interest in the SLP is accounted for in accordance with the agreement under which it is paid.

Receipts or payments under swap contracts, representing the difference between the swapped cash flows, are included in investment income.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Other investment management expenses are accounted for on an accruals basis and shown separately within investment returns.

Investment income includes withholding taxes. Withholding tax is accrued on the same basis as investment income. Where withholding tax is not recoverable, this is shown as a separate expense within investment returns.

Income arising from annuity policies is accounted for on an accruals basis and included in investment income and the pensions paid included in pension payments.

**c) Foreign currencies**

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year end.

Foreign currency transactions are translated into sterling at the spot exchange rate at the date of the transaction.

Gains and losses arising on conversion or translation are dealt with as part of the change in market value of investments.

**d) Contributions**

Normal contributions from both the employer and members are accounted for on an accruals basis in the payroll period to which they relate. In the case of member contributions this is when deducted from pay.

All contributions payable under salary sacrifice arrangements are classified as employer contributions.

Employers' augmentation contributions are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, when received.

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### Financial statements

#### Notes to the financial statements (continued)

Additional personal contributions from the members are accounted for, on an accruals basis, in the month deducted from the payroll.

Employers' deficit funding contributions, contributions to purchase the interest in the SLP and other contributions are accounted for in accordance with the agreement under which they are being paid, or in the absence of an agreement, on a receipt basis.

Other contributions made by the employer to reimburse costs and levies payable by the trustees are accounted for on the same basis as the corresponding expense.

#### e) Benefits

Where members can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date of retirement and the date the option is exercised.

Other benefits are accounted for on an accruals basis on the date of retirement, death or leaving the scheme as appropriate. Refunds and opt-outs are accounted for when the trustees are notified of the member's decision to leave the scheme.

Where the trustees agree or are required to settle tax liabilities on behalf of a member (such as where lifetime or annual allowances are exceeded) with a consequent reduction in that member's benefits receivable from the scheme,

any taxation due is accounted for on the same basis as the event giving rise to the tax liability and shown separately within benefits.

#### f) Transfers to and from other schemes

Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers or other Zurich group companies or payable to the pension schemes of new employers for members who have left the scheme. They are accounted for on a cash basis or, where the trustees have agreed to accept the liability in advance of receipt of funds, on an accruals basis from the date of the agreement.

#### g) Other expenses and other income

Other income, administrative expenses, premiums on term insurance policies and investment management expenses are accounted for on an accruals basis.

## 4. Contributions

Amount in £'000	2016			2015				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
<b>Employer contributions</b>								
Normal	24,885	40,612	-	65,497	51,867	20,876	-	72,743
Deficit funding	-	-	1,700	1,700	-	-	1,700	1,700
Augmentation	1,444	-	-	1,444	1,806	-	-	1,806
Interest in SLP	-	-	-	-	697,000	-	-	697,000
Group life premium	856	-	-	856	-	-	-	-
Expense contributions	4,300	-	37	4,337	4,300	-	37	4,337
	<b>31,485</b>	<b>40,612</b>	<b>1,737</b>	<b>73,834</b>	754,973	20,876	1,737	777,586
<b>Employee contributions</b>								
Additional voluntary contributions	-	3,932	-	3,932	-	1,697	-	1,697
<b>Total</b>	<b>31,485</b>	<b>44,544</b>	<b>1,737</b>	<b>77,766</b>	754,973	22,573	1,737	779,283

Employer normal contributions include contributions in respect of salary sacrifice arrangements made available to certain members by the Employer.

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### Financial statements

#### Notes to the financial statements (continued)

In addition, an annual contribution of £4.3m is being paid to ZPensionBuilder to cover scheme expenses including the PPF Levy.

An annual deficit contribution of £1.7m is paid to the ES Exec section. Other contributions of £37k are also paid to the ES Exec section of the scheme to cover expenses.

#### 5. Transfers from other schemes

Amount in £'000	2016			2015				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Individual transfers in from other schemes	250	4,320	-	4,570	97	1,215	-	1,312
	250	4,320	-	4,570	97	1,215	-	1,312

Transfers in to ZPensionBuilder are received from other schemes within the Zurich group of companies worldwide.

Transfers in to ZCashBuilder are individual transfers from other schemes.

#### 6. Other income

Amount in £'000	2016			2015				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Claims on term insurance policies	1,112	-	-	1,112	342	-	-	342
Release of inter company balance	1,071	-	130	1,201	-	-	-	-
	2,183	-	130	2,313	342	-	-	342

#### 7. Benefits

Amount in £'000	2016			2015				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Pensions	121,004	-	7,949	128,953	114,824	-	7,831	122,655
Commutation of pensions and lump sum retirement benefits	27,183	8,733	60	35,976	19,878	3,997	-	23,875
Lump sum death benefits	1,992	14	-	2,006	499	3	-	502
Taxation where lifetime or annual allowance exceeded	1,222	-	-	1,222	633	-	-	633
	151,401	8,747	8,009	168,157	135,834	4,000	7,831	147,665

Taxation arising on benefits paid or payable is in respect of members whose benefits have exceeded the lifetime or annual allowance and who elected to take lower benefits from the scheme in exchange for the scheme's settling their tax liability.

#### 8. Payments to and on account of leavers

Amount in £'000	2016			2015				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Purchase of annuities on retirement	-	453	-	453	-	557	-	557
	-	453	-	453	-	557	-	557

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### Financial statements

#### Notes to the financial statements (continued)

#### 9. Transfers to other schemes

Amount in £'000	2016				2015			
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Individual transfers out to other schemes	<b>43,161</b>	<b>4,587</b>	-	<b>47,748</b>	33,088	4,190	4,014	41,292
	<b>43,161</b>	<b>4,587</b>	-	<b>47,748</b>	33,088	4,190	4,014	41,292

#### 10. Other payments

Amount in £'000	2016				2015			
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Premiums on term insurance policies	<b>1,258</b>	-	-	<b>1,258</b>	637	-	-	637
	<b>1,258</b>	-	-	<b>1,258</b>	637	-	-	637

#### 11. Administrative expenses

All administrative expenses are borne by the scheme. Settlement of the administrative expenses is made initially by the Zurich group and recharged quarterly to the scheme.

Amount in £'000	2016				2015			
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Trustee Training	<b>11</b>	-	-	<b>11</b>	11	-	-	11
Trustee Fees	<b>95</b>	-	-	<b>95</b>	101	-	-	101
Auditor fees	<b>111</b>	-	-	<b>111</b>	85	-	-	85
Systems costs	<b>455</b>	-	-	<b>455</b>	465	-	-	465
Actuarial Fees	<b>232</b>	-	<b>14</b>	<b>246</b>	385	-	7	392
Payroll & Admin costs	<b>271</b>	-	<b>2</b>	<b>273</b>	275	-	2	277
Legal fees	<b>300</b>	-	-	<b>300</b>	442	-	-	442
Consultancy Fees	-	-	-	-	376	-	-	376
Staff costs & Overheads	<b>1,276</b>	-	-	<b>1,276</b>	1,268	-	49	1,317
Industry Fees & PPF	<b>1,808</b>	-	<b>3</b>	<b>1,811</b>	2,628	-	7	2,635
	<b>4,559</b>	-	<b>19</b>	<b>4,578</b>	6,036	-	65	6,101

#### 12. Investment income

Amount in £'000	2016				2015			
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Dividends from equities	<b>29,994</b>	-	-	<b>29,994</b>	24,629	-	-	24,629
Income from bonds	<b>125,093</b>	-	<b>1,736</b>	<b>126,829</b>	123,469	-	1,794	125,263
Net receipts/(payments) from swaps	<b>14,355</b>	-	-	<b>14,355</b>	10,640	-	-	10,640
Annuity income	<b>563</b>	-	<b>33</b>	<b>596</b>	529	-	30	559
Interest on cash deposits	<b>1,156</b>	<b>2</b>	<b>54</b>	<b>1,212</b>	254	1	-	255
Income from SLP	<b>60,000</b>	-	-	<b>60,000</b>	60,000	-	-	60,000
Other investment income	<b>225</b>	-	<b>320</b>	<b>545</b>	19	-	310	329
	<b>231,386</b>	<b>2</b>	<b>2,143</b>	<b>233,531</b>	219,540	1	2,134	221,675

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### Financial statements

#### Notes to the financial statements (continued)

#### 13. Reconciliation of net investments – ZPensionBuilder

	Opening Value	Purchases and derivative payments	Sales proceeds and derivative receipts	Change in market value	Closing value
<b>Amount in £'000</b>					
Equities	1,069,209	479,119	(501,305)	51,432	<b>1,098,455</b>
Bonds	3,807,371	724,773	(744,966)	574,627	<b>4,361,806</b>
Derivatives	90,085	17,589	(12,028)	132,142	<b>227,788</b>
Interest in SLP	782,000	-	-	111,000	<b>893,000</b>
Pooled investment vehicles	503,366	21,043	-	19,882	<b>544,291</b>
<b>ZPensionBuilder net investments</b>	<b>6,252,031</b>	<b>1,242,524</b>	<b>(1,258,299)</b>	<b>889,083</b>	<b>7,125,340</b>
Cash and other net investment balances	88,331			2,760	<b>109,343</b>
<b>ZPensionBuilder net investments</b>	<b>6,340,362</b>			<b>891,843</b>	<b>7,234,683</b>

#### 13. Reconciliation of net investments - ZCashBuilder

	Opening Value	Purchases and derivative payments	Sales proceeds and derivative receipts	Change in market value	Closing value
<b>Amount in £'000</b>					
Pooled investments	127,527	48,563	(9,735)	6,399	<b>172,754</b>
AVC investments	11,146	9	(1,706)	609	<b>10,058</b>
<b>ZCashBuilder net investments</b>	<b>138,673</b>	<b>48,572</b>	<b>(11,441)</b>	<b>7,008</b>	<b>182,812</b>

#### 13. Reconciliation of net investments- ESExec

	Opening Value	Purchases and derivative payments	Sales proceeds and derivative receipts	Change in market value	Closing value
<b>Amount in £'000</b>					
Bonds	94,012	9,729	(12,550)	18,913	<b>110,104</b>
Pooled investment vehicles	76,508	6,270	(8,813)	6,333	<b>80,298</b>
<b>ESExec net investments</b>	<b>170,520</b>	<b>15,999</b>	<b>(21,363)</b>	<b>25,246</b>	<b>190,402</b>
Cash and other net investment balances	1,096				<b>471</b>
<b>ESExec net investments</b>	<b>171,616</b>			<b>25,246</b>	<b>190,873</b>

#### 14. Investment management expenses

Amount in £'000	2016								2015
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total	
Administration	64	-	-	64	37	-	-	37	37
Management	5,211	-	150	5,361	5,856	-	171	6,027	6,027
Custody	327	-	7	334	286	-	9	295	295
Performance measurement	38	-	10	48	32	-	13	45	45
Performance fees	1,800	-	51	1,851	1,756	-	68	1,824	1,824
Other advisory fees	1,612	-	-	1,612	1,148	-	-	1,148	1,148
	<b>9,052</b>	<b>-</b>	<b>218</b>	<b>9,270</b>	<b>9,115</b>	<b>-</b>	<b>261</b>	<b>9,376</b>	<b>9,376</b>

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### Financial statements

#### Notes to the financial statements (continued)

#### 15. Investment transaction costs

Transaction costs are included in the cost of purchases and deducted from sales proceeds in the reconciliation in note 13. Direct transaction costs incurred are analysed as follows;

ZPensionBuilder Amount in £'000	2016		2015	
	Equities	Total	Equities	Total
Futures	724	724	928	928
Commissions	1,161	1,161	1,044	1,044
<b>Total</b>	<b>1,885</b>	<b>1,885</b>	<b>1,972</b>	<b>1,972</b>

In addition to the direct transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the trustees to quantify such indirect transaction costs.

#### 16. Pooled investment vehicles

Amount in £'000	2016				2015			
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
<b>Pooled investment vehicles</b>								
<b>Threadneedle Pensions Ltd investments</b>								
Managed funds - property	176,708	-	6,077	182,785	159,898	-	6,340	166,238
Managed funds - other	-	-	70,760	70,760	-	-	66,994	66,994
<b>Threadneedle investment funds</b>								
Managed funds - other	54,522	-	3,461	57,983	42,238	-	3,174	45,412
<b>M&amp;G funds</b>								
European loan fund	313,061	-	-	313,061	301,230	-	-	301,230
Bonds	-	2,735	-	2,735	-	6,187	-	6,187
Cash	-	9,475	-	9,475	-	6,680	-	6,680
Diversified growth	-	134,388	-	134,388	-	92,602	-	92,602
Equity	-	23,357	-	23,357	-	19,907	-	19,907
Property	-	2,758	-	2,758	-	2,151	-	2,151
Shariah	-	41	-	41	-	-	-	-
<b>Total</b>	<b>544,291</b>	<b>172,754</b>	<b>80,298</b>	<b>797,343</b>	<b>503,366</b>	<b>127,527</b>	<b>76,508</b>	<b>707,401</b>

#### 17. Derivatives

ZPensionBuilder Amount in £'000	2016			2015		
	Assets	Liabilities	Total	Assets	Liabilities	Total
<b>Exchange traded</b>						
Futures	-	(1,953)	(1,953)	669	(1,050)	(381)
<b>Over-the-counter contracts</b>						
Forward foreign currency	109	(5,270)	(5,161)	1,020	(128)	892
Swaps	234,902	-	234,902	89,574	-	89,574
<b>Total</b>	<b>235,011</b>	<b>(7,223)</b>	<b>227,788</b>	<b>91,263</b>	<b>(1,178)</b>	<b>90,085</b>

#### Objectives and policies for holding derivatives

The trustees have authorised the use of derivative financial instruments by their investment managers as part of their investment strategy as follows:

#### Derivatives

The trustees also use the following derivatives to manage risk:

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### Financial statements

#### Notes to the financial statements (continued)

**Forwards:** The scheme has overseas investments which mean that the value of the schemes assets can be affected by movements in foreign currencies. The scheme's investment managers use forwards to reduce some of the exposure to currency risk.

**Futures:** The schemes investment managers use futures to hedge against the risk of movements in foreign currency and interest rates associated with holding non-sterling bonds.

**Swaps:** The trustees decided to reduce exposure to changes in interest rates in ZPensionBuilder. When interest rate yields fall the present value of the benefits increases and therefore the funding gap increases to the extent that the benefit liabilities are not fully backed by sufficiently long-dated bonds. Entering into interest rate swap contracts with a bank helps to protect against this effect. The trustees considered this approach carefully before formally deciding that the scheme should enter into long dated interest rate swaps.

Outstanding derivative financial instruments at the year-end are summarised as follows:

#### Futures

Type	Expires	Economic	Fair value	
Amount in £'000	within	exposure	Asset	Liability
FUT SEP 16 EURX EUR-BOBL	Less than one year	(6,107)	-	(51)
FUT SEP 16 EURX EUR-BUND	Less than one year	(9,028)	-	(164)
FUT SEP 16 10 YR T-NOTES	Less than one year	(9,948)	-	(271)
FUT SEP 16 CBT UL T-BONDS	Less than one year	(21,470)	-	(1,467)
<b>Total</b>		<b>(46,553)</b>	<b>-</b>	<b>(1,953)</b>

Included within cash balances is an asset of £2,998,000 (2015: £3,776,000) in respect of initial and variation margins arising from open futures contracts at the year end.

#### Forward foreign currency

Type	Expires	Currency	Currency	Fair value	
Amount in £'000	within	bought	sold	Asset	Liability
Sell CHF for EUR (1 contracts)	2 months	949	(1,032)	-	(4)
Sell GBP for EUR (3 contracts)	2 months	908	(720)	35	-
Sell EUR for GBP (12 contracts)	2 months	28,492	(36,206)	-	(1,603)
Sell USD for GBP (5 contracts)	2 months	43,978	(63,671)	-	(3,647)
Sell USD for TRY (1 contracts)	2 months	482	(167)	-	-
Sell GBP for USD (3 contracts)	2 months	587	(422)	17	-
Sell HKD for USD (1 contracts)	2 months	1,799	(13,955)	-	-
Sell JPY for USD (1 contracts)	2 months	95	(9,743)	-	-
Sell MXN for USD (1 contracts)	2 months	363	(6,792)	-	(4)
Sell THB for USD (1 contracts)	2 months	94	(3,330)	-	-
Sell ZAR for USD (1 contracts)	2 months	592	(8,897)	-	(12)
Sell USD for ZAR (1 contracts)	2 months	26,918	(1,763)	57	-
<b>Total</b>				<b>109</b>	<b>(5,270)</b>

#### Swaps

Type	Expires	Nominal	Fair value	
Amount in £'000	within	value	Asset	Liability
<b>Interest rate swaps</b>				
Pay variable for fixed (6 month LIBOR)	20-30 years	500,000	234,902	-
<b>Total</b>			<b>234,902</b>	<b>-</b>



# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### Financial statements

#### Notes to the financial statements (continued)

The notional principal of the swap is the amount used to determine the swapped receipts and payments. Collateral of £230,000,000 (2015: £101,000,000) is held for the unrealised gain on swaps. This is held in an allocated account with the counterparties' custodians and is not included within scheme assets.

### 18. Other investments

Special contributions were made to ZPensionBuilder on 31 July 2014, on condition they were used to purchase an interest in a Scottish Limited Partnership (SLP). The ABC arrangement is structured by way of loans guaranteed by Zurich and will generate an annual income stream for ZPensionBuilder of £60 million, with the first income payment paid in June 2015. The income stream will cease after 24 years, or sooner, if certain funding conditions are met (or if certain prescribed events occur).

Although the ABC arrangement was not put in place until 31 July 2014, it was intended to eliminate the deficit at 30 June 2013. A pricing agent, jointly appointed by the trustees and Zurich, has determined that the aggregate value as at 30 June 2013 of the pension scheme's interest in the SLP plus the payment of £48.2 million under the previous schedule of contributions amounts to £615 million. Therefore at 30 June 2013 the funding level would have been 100%.

Should the SLP arrangement fail to operate as expected (e.g. due to changes in future legislation), Zurich Financial Services (UKISA) Limited, the Principal Employer, has agreed to procure that the employers become responsible for continuing payment of contributions of at least £60m per annum payable by 30 June each year. The period over which these future payments will then be made will depend on the circumstances at the time.

### 19. Additional voluntary contribution (AVC) investments

The scheme made AVC arrangements available whereby members of the defined benefit arrangement were able to pay additional contributions which were invested in with-profits policies, unit linked, supplementary and traditional money purchase on a defined contribution basis. This arrangement was withdrawn in 2007 but individuals contributing at the time were allowed to continue contributing into ZCashBuilder.

Members of ZCashBuilder are allowed to pay contributions at a higher rate than required in the scheme rules. These contributions are co-invested with other ZCashBuilder assets and are not separately distinguishable.

AVC assets shown in the financial statements relate to supplementary funds and pre 2007 AVCs.

### 20. Cash and other net investment balances

Amount in £'000	2016			2015				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
<b>Investment assets</b>								
Cash-sterling	271,068	-	34	271,102	116,741	-	583	117,324
Cash-foreign currency	31,354	-	-	31,354	11,103	-	-	11,103
Variation margin	2,998	-	-	2,998	3,776	-	-	3,776
Income receivable	36,980	-	447	37,427	35,233	-	413	35,646
Income tax recoverable	1,780	-	2	1,782	1,209	-	2	1,211
Balances due from brokers	23,639	-	316	23,955	17,800	-	416	18,216
	<b>367,819</b>	<b>-</b>	<b>799</b>	<b>368,618</b>	<b>185,862</b>	<b>-</b>	<b>1,414</b>	<b>187,276</b>
<b>Investment liabilities</b>								
Balances due to brokers	(28,890)	-	(328)	(29,218)	(18,185)	-	(318)	(18,503)
Obligation to return collateral	(229,586)	-	-	(229,586)	(79,346)	-	-	(79,346)
	<b>(258,476)</b>	<b>-</b>	<b>(328)</b>	<b>(258,804)</b>	<b>(97,531)</b>	<b>-</b>	<b>(318)</b>	<b>(97,849)</b>

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### Financial statements

#### Notes to the financial statements (continued)

### 21. Defined contribution assets

ZCashBuilder section investments purchased by the scheme are allocated to provide benefits to the individuals on whose behalf corresponding contributions are paid. The investment manager holds the investment units on a pooled basis for the trustees. The scheme administrator allocates investment units to members. The trustees may hold investment units representing the value of employer contributions that have been retained by the scheme that relate to members leaving the scheme prior to vesting.

ZCashBuilder investment assets are allocated to members and not allocated to members, and therefore available to the trustees to apply as specified in the scheme rules, as follows:

	2016	2015
	Total	Total
Not allocated to members	2,451	2,409
Allocated to members	180,361	136,264
	<b>182,812</b>	<b>138,673</b>

### 22. Fair value of investments

The fair value of investments has been determined using the following hierarchy:

A fair value measurement is categorised in its entirety on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

- Level 1: The unadjusted quoted price in an active market for identical assets at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The scheme's investments have been included at fair value within these categories as follows:

Category				2015
Amount in £'000	1	2	3	Total
<b>ZPension-Builder section</b>				
<b>Direct investments</b>				
Equities and convertibles	1,064,327	2,362	2,520	1,069,209
Bonds	3,807,371	-	-	3,807,371
Derivatives	-	90,085	-	90,085
Interest in SLP	-	-	782,000	782,000
Pooled Investment Vehicles	-	343,469	159,898	503,367
Cash and other net investment balances	50,366	37,964	-	88,330
<b>ESExec section</b>				
Bonds	94,012	-	-	94,012
Pooled Investment Vehicles	-	-	76,508	76,508
Cash and other net investment balances	-	1,096	-	1,096
<b>ZCash-Builder section</b>				
Pooled investments	-	138,673	-	138,673
<b>Total</b>	<b>5,016,076</b>	<b>613,649</b>	<b>1,020,926</b>	<b>6,650,651</b>

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### Financial statements

#### Notes to the financial statements (continued)

Category				2016
Amount in £'000	1	2	3	Total
<b>ZPension-Builder section</b>				
<b>Direct investments</b>				
Equities and convertibles	1,092,226	-	6,229	1,098,455
Bonds	4,323,952	1,393	36,461	4,361,806
Derivatives	-	227,788	-	227,788
Interest in SLP	-	-	893,000	893,000
Pooled Investment Vehicles	-	441,804	102,487	544,291
Cash and other net balances	77,482	31,861	-	109,343
<b>EExec section</b>				
Bonds	110,104	-	-	110,104
Pooled Investment Vehicles	-	-	80,298	80,298
Cash and other net investment balances	-	471	-	471
<b>ZCash-Builder section</b>				
Pooled investments	-	182,812	-	182,812
	<b>5,603,764</b>	<b>886,129</b>	<b>1,118,475</b>	<b>7,608,368</b>

### 23. Investment risks

#### Types of risk relating to investments

FRS 102 requires the disclosure of information in relation to certain investment risks.

**Credit risk:** this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

**Market risk:** this comprises currency risk, interest rate risk and other price risk.

- **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustees determine their investment strategy after taking advice from a professional investment adviser. The scheme has exposure to these risks because of the investments it makes in following the investment strategy set out below. The Trustees manage investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the scheme's investment managers and monitored by the Trustees by regular reviews of the investment portfolio.

Further information on the Trustees' approach to risk management, credit and market risk is set out below. This does not include the legacy insurance policies nor AVC investments as these are not considered significant in relation to the overall investments of the scheme.

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### Financial statements

#### Notes to the financial statements (continued)

#### Investment strategy

The investment objective of the ZPensionBuilder section is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits of the ZPensionBuilder payable under the trust deed and rules as they fall due.

#### Credit risk

The scheme is subject to credit risk because the scheme directly invests in bonds, infrastructure debt arrangements, European loans, over-the-counter ("OTC") derivatives and has cash balances. The scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles. The scheme is also indirectly exposed to credit risks arising on some of the financial instruments held by the pooled investment vehicles.

A summary of exposures to credit risk is given in the following table, the notes below which explain how the risk is managed and mitigated for the different classes:

<b>Investments exposed to credit risk</b>	<b>2016</b>	<b>2015</b>
<b>Amount in £'000</b>	<b>Total</b>	<b>Total</b>
<b>ZPensionBuilder section</b>		
Bonds	4,361,806	3,807,371
Derivatives	227,788	90,085
Interest in SLP	893,000	782,000
Pooled investment vehicles	544,291	503,366
Cash and other net investment balances	109,343	88,331
<b>ESExec section</b>		
Bonds	110,104	94,012
Pooled investment vehicles	80,298	76,508
Cash and other net investment balances	471	1,096
	<b>6,327,101</b>	<b>5,442,769</b>

Credit risk arising on bonds held directly is mitigated by investing in government bonds where the credit risk is minimal, or corporate bonds which are rated at least investment grade. Credit risk arising on other investments is mitigated by investment mandates requiring all counterparties to be at least investment grade credit rated or at a rating agreed in the Investment Management Agreement.

The Trustees consider financial instruments or counterparties to be of investment grade if they are rated at BBB- or higher by Standard & Poor's or Fitch, or rated at Baa3 or higher by Moody's, the Trustees also rely upon the investment manager's internal rating system in some instances.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or OTC. OTC derivative contracts are not guaranteed by any regulated exchange and therefore the scheme is subject to risk of failure of the counterparty. The credit risk for OTC swaps is reduced by collateral arrangements (see note 17). Credit risk also arises on forward foreign currency contracts. There are no collateral arrangements for these contracts.

Credit risk also arises within other investments including the interest in an SLP which is ultimately secured on loans receivable from Zurich Financial Services (UKISA) Limited, the principal employer, and generate an income of £60m annually. Credit risk is reduced by requiring annual payment directly from the principal employer should the SLP fail, as explained in note 18.

Cash is held within financial institutions which are at least investment grade credit rated.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustees carry out due diligence checks on the appointment of new pooled

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### Financial statements

#### Notes to the financial statements (continued)

investment managers and on an ongoing basis monitor any changes to the operating environment of the pooled manager. Pooled investment arrangements used by the scheme comprise unit linked insurance contracts and authorised unit trusts.

Indirect credit risk arises in relation to underlying investments held in the bond pooled investment vehicle. This risk is mitigated by only investing in funds which hold at least investment grade credit rated investments.

The information about exposures to and mitigation of credit risk above applied at both the current and previous year end.

#### Currency risk

The scheme is subject to currency risk because some of the scheme's investments are held in overseas markets, either as segregated investments (direct exposure) or via pooled investment vehicles (indirect exposure). The Trustees have set a benchmark limit on some portfolios to overseas currency exposure of 15% of the total portfolio value which is achieved through a currency hedging policy utilising forward foreign currency contracts (see note 17). The exposure at the current and previous year-ends was:

Amount in '000	2016 Exposure	2015 Exposure
Australian dollar (AUD)	1,992.31	1,990.29
Brazilian real (BRL)	7,879.92	5,621.45
British pound sterling (GBP)	6,425,186.61	4,814,623.56
Canadian dollar (CAD)	4,174.37	0.11
Chilean peso (CLP)	0.00	1,528.64
Czech koruna (CZK)	3,214.77	2,587.35
Danish krone (DKK)	9,574.32	11,381.69
Euro (EUR)	141,659.03	128,841.64
Hong Kong dollar (HKD)	28,008.37	36,069.60
Indonesian rupiah (IDR)	4,129.21	4,102.30
Japanese yen (JPY)	93,685.01	88,102.81
Malaysian ringgit (MYR)	2,293.21	1,058.11
Mexican peso (MXN)	10,957.31	9,640.26
New Taiwan dollar (TWD)	19,329.82	17,492.59
Norwegian krone (NOK)	1,409.84	1,330.13
Philippine peso (PHP)	5,822.47	5,132.89
Polish zloty (PLN)	6,174.12	2,690.83
Singapore dollar (SGD)	0.12	1,064.22
South African rand (ZAR)	14,587.02	11,065.45
South Korean won (KRW)	14,105.80	16,627.89
Swedish krona (SEK)	14,368.08	12,660.06
Swiss franc (CHF)	30,405.97	23,836.79
Thai baht (THB)	8,816.86	6,088.72
Turkish lira (TRY)	2,942.63	2,911.93
United States dollar (USD)	1,156,267.05	349,730.85
<b>Total</b>	<b>8,006,984.22</b>	<b>5,556,180.16</b>

### Financial statements

#### Notes to the financial statements (continued)

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##### Interest rate risk

The scheme is subject to interest rate risk because some of the scheme investments are held in bonds, swaps, gilts and an interest in a SLP. The trustee has set a benchmark limit of the total investment in bonds and gilts which can be seen in the Strategic Asset Allocation on page 27, in addition to this, the scheme holds interest rate swaps. If interest rates fall, the value of the liability matching assets will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly if interest rates rise the liability matching assets will fall in value, as will the actuarial liabilities because of an increase in the discount rate.

##### Other price risk

Other price risk arises principally in relation to the scheme's return seeking assets which includes directly held equities, equities held in pooled vehicles, Real Estate and Loans. The scheme has set a target asset allocation to each of these asset classes as can be seen in the strategic asset allocation table on page 27.

The scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

##### ZCashBuilder section

##### Investment strategy

The Trustees' objective is to make available to members of the scheme an appropriate range of investment options designed to generate income and capital growth, which together with new contributions from members and their employer, will provide a retirement amount with which the member can purchase a pension annuity (or other type of retirement product). The SIP outlines the investment objectives and strategy for the ZCashBuilder assets of the scheme.

The investment funds offered to members include white labelled funds provided by Zurich Assurance Ltd. These funds are specifically created for this scheme which are invested in other funds available through Zurich Assurance Ltd's platform. The list of white labelled funds and other self-select funds are as follows, some of these funds form part of e-Z plan:

- ZFlexibleIncomePot (White Labelled)
- ZFundBuilder (White Labelled)
- ZPensionPurchasePot (White Labelled)
- ZRetirementLumpSum (White Labelled)
- 50/50 Global Equity Index
- UK Equity Index
- World ex UK Index
- Corporate Bond 15+ Year Index
- Sterling Liquidity
- Property Fund
- Index Linked Over 5 Year Gilt Index
- Zurich Managed Fund
- Zurich HSBC Amanah 2 ZP
- Zurich L&G Ethical Global Equity Index 2 ZP
- Zurich Mixed Investments 2 ZP

### Financial statements

#### Notes to the financial statements (continued)

The Trustee along with the aid of their investment adviser has decided the asset allocation of the above white labelled funds and monitors the performance of the underlying funds. The day to day management of the underlying investments of the funds is the responsibility of the underlying fund managers.

The risks disclosed here relate to the ZCashBuilder section's investments as a whole. Members are able to choose their own investments from the range of funds offered by the Trustees and therefore may face a different profile of risks from their individual choices compared with the Section as a whole.

#### Credit risk

ZCashBuilder is subject to direct credit risk in relation to Zurich Assurance Ltd through its holdings in the above funds.

Zurich Assurance Ltd is regulated by the Financial Conduct Authority and maintains separate funds for its policy holders.

ZCashBuilder is subject to indirect and market risk arising from the underlying investments held in the funds. Member level risk exposures will be dependent on the funds invested in by members.

ZFundBuilder, the default growth fund where most members will be invested up until five years before their selected retirement age has a 10% allocation to bonds, gilts and cash which therefore limits the credit risk to the majority of the members.

Members can self-select other funds which are more exposed to credit risk, but these tend to be well diversified as they are passively managed against benchmarks.

#### Market risk

ZCashBuilder is subject to indirect foreign exchange, interest rate and other price risk arising from the underlying financial instruments held in the funds managed by the underlying fund managers.

#### 24. Concentration of investments

Investments accounting for more than 5% of the net assets of the scheme were:

Amount in £'000	2016		2015	
	Value	%	Value	%
<b>ZPensionBuilder</b>				
Interest in SLP	893,000	11.65%	782,000	11.76%
<b>Total</b>	<b>893,000</b>		<b>782,000</b>	

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### Financial statements

#### Notes to the financial statements (continued)

#### 25. Additional analysis of investments

Amount in £'000	2016			2015				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
<b>Investment Assets</b>								
<b>Direct investments</b>								
<b>Equities</b>								
UK quoted	408,753	-	-	408,753	400,888	-	-	400,888
Overseas quoted	689,702	-	-	689,702	668,321	-	-	668,321
<b>Index linked securities</b>								
UK public sector	972,200	-	53,268	1,025,468	858,366	-	47,271	905,637
UK other	273,802	-	-	273,802	253,265	-	-	253,265
<b>Fixed Interest Securities</b>								
UK government securities	1,744,421	-	56,836	1,801,257	1,421,237	-	46,741	1,467,978
UK corporate bonds	683,453	-	-	683,453	641,015	-	-	641,015
Overseas government and corporate bonds	651,469	-	-	651,469	633,488	-	-	633,488
<b>Derivatives</b>								
Foreign currency instruments	109	-	-	109	1,020	-	-	1,020
Swaps	234,902	-	-	234,902	89,574	-	-	89,574
Interest in SLP	893,000	-	-	893,000	782,000	-	-	782,000
Fixed income futures	-	-	-	-	669	-	-	669
<b>Infrastructure</b>								
Infrastructure Debt	36,461	-	-	36,461	-	-	-	-
<b>Pooled Investment Vehicles</b>								
<b>Threadneedle Pensions Ltd investments</b>								
Managed Funds - property	176,708	-	6,077	182,785	159,898	-	6,340	166,238
Managed funds - other	-	-	70,760	70,760	42,238	-	66,994	109,232
<b>Threadneedle Investment Funds investments</b>								
Managed funds - other	54,522	-	3,461	57,983	-	-	3,174	3,174
European loan fund	313,061	-	-	313,061	301,230	-	-	301,230
Post 2007 ZCashBuilder Investments	-	172,754	-	172,754	-	127,527	-	127,527
ZPen Supplementary funds	-	2,884	-	2,884	-	3,530	-	3,530
Pre 2007 AVCs	-	7,174	-	7,174	-	7,616	-	7,616
Balances due from brokers	23,639	-	316	23,955	17,800	-	416	18,216
Cash and deposits	302,422	-	34	302,456	127,844	-	583	128,427
Variation Margin	2,998	-	-	2,998	3,776	-	-	3,776
Income Receivable	36,980	-	447	37,427	35,233	-	413	35,646
Income Tax Recoverable	1,780	-	2	1,782	1,209	-	2	1,211
	<b>7,500,382</b>	<b>182,812</b>	<b>191,201</b>	<b>7,874,395</b>	<b>6,439,071</b>	<b>138,673</b>	<b>171,934</b>	<b>6,749,678</b>
<b>Investment Liabilities</b>								
Foreign currency instruments	(5,270)	-	-	(5,270)	(128)	-	-	(128)
Fixed income futures	(1,953)	-	-	(1,953)	(1,050)	-	-	(1,050)
Balances due to brokers	(28,890)	-	(328)	(29,218)	(18,185)	-	(318)	(18,503)
Obligation to return collateral	(229,586)	-	-	(229,586)	(79,346)	-	-	(79,346)
	<b>(265,699)</b>	<b>-</b>	<b>(328)</b>	<b>(266,027)</b>	<b>(98,709)</b>	<b>-</b>	<b>(318)</b>	<b>(99,027)</b>
<b>Total net investments</b>	<b>7,234,683</b>	<b>182,812</b>	<b>190,873</b>	<b>7,608,368</b>	<b>6,340,362</b>	<b>138,673</b>	<b>171,616</b>	<b>6,650,651</b>
Current assets	65,888	390	1,922	68,200	15,761	2,247	299	18,307
Current liabilities	(12,215)	(654)	(451)	(13,320)	(15,483)	(459)	(581)	(16,523)
<b>Net assets available for benefits</b>	<b>7,288,356</b>	<b>182,548</b>	<b>192,344</b>	<b>7,663,248</b>	<b>6,340,640</b>	<b>140,461</b>	<b>171,334</b>	<b>6,652,435</b>

#### 26. Current assets

Amount in £'000	2016			2015				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Other debtors	343	107	107	557	559	2,112	-	2,671
Cash balances	65,545	283	1,815	67,643	15,202	135	299	15,636
	<b>65,888</b>	<b>390</b>	<b>1,922</b>	<b>68,200</b>	<b>15,761</b>	<b>2,247</b>	<b>299</b>	<b>18,307</b>

Included in the DC bank balances is £58,000 (2015:£15,000) which is not allocated to members. All other DC current assets are allocated to members.



# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

### Financial statements

#### Notes to the financial statements (continued)

#### 27. Current liabilities

Amount in £'000	2016			2015				
	ZPB	ZCB	ES Exec	Total	ZPB	ZCB	ES Exec	Total
Unpaid benefits	2,090	654	-	2,744	1,578	459	-	2,037
Tax deducted from pensions	1,841	-	195	2,036	1,843	-	183	2,026
Accrued Expenses	4,974	-	89	5,063	3,087	-	63	3,150
ZES creditor	3,310	-	167	3,477	8,975	-	335	9,310
	<b>12,215</b>	<b>654</b>	<b>451</b>	<b>13,320</b>	15,483	459	581	16,523

ZES refers to Zurich Employment Services Ltd

#### 28. Contractual commitments and contingent liabilities

At 30 June 2016 the scheme had undrawn commitments to fund an infrastructure debt investment amounting to £48,758,000 (2014-Nil). The timing of these commitments is detailed below:

27 June 2018 £18,307,000

27 June 2019 £18,307,000

27 June 2020 £12,144,000

There were no other significant contractual commitments or contingent liabilities at 30 June 2016 (2015: no significant) other than the liability to pay future pensions.

#### 29. Related party transactions

Related party transactions and balances comprise:

- Contributions (note 4) include amounts in respect of five Trustees and pensions paid (note 7) in respect of three Trustees (2015: Contributions three, Pensions three)
- APCs, pre 2007 AVCs and the ZPen Supplementary funds held in unit linked and with profits funds, some of which are provided by members of the Zurich group, are subject to annual management charges.
- These typically range from 0.24% to 0.95% of the fund value. The change in market value of these investments is net of this charge.
- Contributions made to ZCashBuilder, ZPen Supplementary funds and the pre 2007 AVC funds, are invested in a variety of unit linked and with profits funds, some of which are provided by companies within the Zurich group. The total value of these funds at 30 June 2016 was £182,812,000 (2015: £138,673,000). Of this total, £172,754,000 (2015: £114,761,000) is invested through a Group Investment Only Platform provided by Zurich Assurance Ltd and £6,326,972 (2015: £7,275,000) is invested elsewhere within the Zurich Group.
- As detailed in note 10, following advice from the scheme actuary, the trustees agreed to take out a life insurance policy to cover lump sum death benefits. From 30 September 2009 this benefit has been insured with Zurich Assurance Ltd. The company has agreed to make an additional contribution to the scheme to cover this cost since the scheme changes as at 31 December 2015.
- The scheme does not hold any investment in shares of Zurich group or in any other company or person connected with these companies.
- All administrative expenses are initially settled by Zurich Employment Services and then recharged to the scheme on a quarterly basis. Amounts due to be settled at 30 June 2016 are disclosed in

### Financial statements

#### Notes to the financial statements (continued)

note 27, as balances due to Zurich group of companies. At the year-end three trustees were in receipt of a pension from the scheme (2015: three) Pensions are calculated in line with the Trust Deed and Rules.

Other than the remuneration disclosed in note 11, the trustees of Zurich Financial Services UK Pension Trustee Ltd and key management of the scheme had no material transactions with the scheme.

- h) On the 31 July 2014 the scheme received a special contribution from the employer of £697m used to purchase an interest in Zurich (Scotland) Limited Partnership. The scheme has received income of £60m from Zurich (Scotland) Limited Partnership where the other partners are companies in the employer group including Zurich Employment Services Limited and Zurich UK General Services Limited.
- i) Fees and expenses of £95,000 (2015: £101,000) were paid to professional trustees in respect of their services to the scheme and to other trustees as out of pocket expenses.
- j) Other than those items disclosed above and elsewhere in the financial statements, there were no other related party transactions.

### 30. Employer related investments

The trustees have taken legal advice that their interest in the SLP does not constitute an employer related investment.

The scheme did not hold any employer related investments during the year or at the year end. (2015:Nil)

### 31. Subsequent events

On 23 June 2016 the UK electorate voted to leave the European Union. This decision is expected to begin an exit process that could take up to two years to complete under the relevant legislation and the UK remains a member of the European Union until such time as this process is affected. The result of the referendum is likely to result in a period of uncertainty for the UK economy and financial markets and potentially significant volatility in the valuation of investment assets, including fluctuations from the impact in foreign exchange rates. The longer term impact of the referendum decision is clearly yet to be determined. The Trustee will keep the situation under review over the coming months, including implications for investment strategy and risk management.

There were no other subsequent events requiring disclosure in the financial statements.

### 32. Transition to FRS 102

This is the first year that the Scheme has presented financial statements under FRS 102 and the SORP. The last financial statements under existing UK GAAP and the previous SORP (revised May 2007) were for the year ended 30 June 2015. The date of transition to FRS 102 was 1 July 2015.

In applying FRS 102, there have been no changes in previously reported net assets.

**Independent auditors' statement about contributions to the trustees of the Zurich Financial Services UK Pension Scheme**

**Our opinion**

In our opinion, the contributions required by the schedule of contributions for the scheme year ended 30 June 2016 as reported in Zurich Financial Services UK Pension Scheme's summary of contributions have in all material respects been paid in accordance with the schedules of contributions certified by the scheme actuary on 21 December 2015 and 30 June 2015.

**What we have examined**

Zurich Financial Services UK Pension Scheme's summary of contributions for the scheme year ended 30 June 2016 is set out on the following page.

**What an examination of the summary of contributions involves**

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have, in all material respects, been paid in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme under the schedule of contributions and the timing of those payments.

We test and examine information, using sampling and other techniques, to the extent

we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

**Our responsibilities and those of the trustees**

As explained more fully in the statement of trustees' responsibilities, the scheme's trustees are responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the scheme by the employer in accordance with relevant requirements.

It is our responsibility to provide a statement about contributions and to report our opinion to you.

This report, including the opinion, has been prepared for and only for the trustees as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, 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.

**PricewaterhouseCoopers LLP**

Chartered Accountants and Statutory Auditors  
Bristol

Date

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2016

During the year, the contributions payable to the scheme were as follows:

Amount in £'000	2016				2015			
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ES Exec	Total
<b>Contributions required by the schedule of contributions</b>								
Normal contributions	24,885	40,612	-	65,497	51,867	20,876	-	72,743
Deficit funding	-	-	1,700	1,700	-	-	1,700	1,700
To purchase an interest in SLP	-	-	-	-	697,000	-	-	697,000
Group life premium	856	-	-	856	-	-	-	-
Expense contributions	4,300	-	37	4,337	4,300	-	37	4,337
	<b>30,041</b>	<b>40,612</b>	<b>1,737</b>	<b>72,390</b>	<b>753,167</b>	<b>20,876</b>	<b>1,737</b>	<b>775,780</b>
<b>Other contributions</b>								
Augmentations	1,444	-	-	1,444	1,806	-	-	1,806
Additional voluntary	-	3,932	-	3,932	-	1,697	-	1,697
<b>Total</b>	<b>31,485</b>	<b>44,544</b>	<b>1,737</b>	<b>77,766</b>	<b>754,973</b>	<b>22,573</b>	<b>1,737</b>	<b>779,283</b>

The actuary's certificate confirming the adequacy of the contribution rate is shown on the following page.

The summary of contributions on this page was approved by the trustees on 7 December 2016 and is signed on their behalf by:

Director            David Sims

Signature          

**Actuarial certification of schedule of contributions**

**ZPensionBuilder actuarial certificate 28 August 2014**

**Certification of the schedule of contributions**

**Zurich Financial Services UK Pension Scheme  
ZPen Section**

**Adequacy of rates of contributions**

I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective can be expected to be met by the end of the period specified in the Recovery Plan dated 28 August 2014.

I also certify that the rates of contribution shown in this schedule are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the statement of funding principles and any recovery plan.

**Adherence to statement of funding principles**

I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 28 August 2014.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Signature: 

Name: Mark Howard

Date: 28 August 2014

Qualification: Fellow of the Institute and Faculty of Actuaries

Address: St James House  
St James Square  
Cheltenham  
GL50 3PR

Employer: Barnett Waddingham LLP

**ZPensionBuilder actuarial certificate 30 June 2015**

**Zurich Financial Services UK Pension Scheme**  
**ZPen Section**

**Adequacy of rates of contributions**

I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 30 June 2013 to be met by the end of the period specified in the Recovery Plan dated 28 August 2014

I also certify that the rates of contribution shown in this schedule are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the statement of funding principles and any recovery plan

**Adherence to statement of funding principles**

I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 28 August 2014.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Signature:



Date:

30 June 2015

Name:

Mark Howard

Qualification:

Fellow of the Institute and Faculty of Actuaries

Address:

St James House  
St James Square  
Cheltenham  
GL50 3PR

Employer:

Barnett Waddingham LLP

**Actuarial certification of schedule of contributions (continued)**

**ESExec actuarial certificate**

**Certification of the schedule of contributions**

**Zurich Financial Services UK Pension Scheme  
ES Executives' Section**

**Adequacy of rates of contributions**

I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected, on 30 June 2013, to be met by the end of the period specified in the recovery plan dated 28 August 2014.

I also certify that the rates of contribution shown in this schedule are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the statement of funding principles and any recovery plan.

**Adherence to statement of funding principles**

I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 28 August 2014.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Signature: 

Date: 28 August 2014

Name: Mark Howard

Qualification: Fellow of the Institute and Faculty of Actuaries

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Cheltenham  
GL50 3PR

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