

# **Zurich Financial Services UK Pension Scheme**

**Annual report and financial statements for  
the year ended 30 June 2017**

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

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# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### Welcome from the trustee chair



Welcome to the 2017 annual report. The trustees have had a busy year completing the triennial valuation as at 30 June 2016 and reviewing the investment strategy as well as all the regular trustee business. There have also been a number of changes to the trustee board during the year.

### ZPensionBuilder & ESExecs: Valuation & funding

A full scheme valuation was carried out as at 30 June 2016 and was formally signed off by the trustee, the Company and Scheme Actuary on 27 June 2017. The results show that the funding position of both the ZPensionBuilder and ESExecs sections has improved since the previous triennial valuation. You can read more about the valuation process and results on pages 22 to 27 and in the Trustee Newsflash! issued in July 2017.

Following a full valuation it is normal practice for the trustees to review the factors used when calculating members' benefits for consistency with the valuation assumptions. The trustees started this review during the second half of 2017.

### ZPensionBuilder: Investment

The trustees' investment strategy aims to find a balance between risk, control and maintaining growth. Over recent years we developed a programme to reduce the scheme's exposure to changes in interest rates by entering into interest rate swap contracts. This year the trustees took this a step further and agreed an allocation to Liability Driven Investment (LDI) along with an increase in the allocation to equities for the ZPensionBuilder section. Please see [pages 28 to 30](#) for more information on this revised strategy.

### ZCashBuilder: Governance and administration

The Pensions Regulator has issued a series of 'Codes of Practice' which set out the standards of conduct and practice that it expects trustee boards to meet in complying with their duties in legislation. In June 2017, we reviewed ZCashBuilder against Code 13 which covers the governance and administration of DC schemes. Following that review we were reassured that we are running a quality scheme which is likely to deliver good benefit outcomes for members.

### Changes to the board

Last year we reported that 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. As a result of Paul's

resignation Christian Jochum was appointed as interim chair to cover the period from Paul's departure to my appointment as chair of the trustee board and its Funding Committee with effect from 30 August 2016.

On 30 September 2016 Dave Hodges left the Company and therefore the trustee board. Dave had been a trustee for a number of years. Cécile Fresneau (Chief Underwriting Officer) was appointed to replace Dave with effect from 19 October 2016 and served as a trustee until 31 August 2017 when she also left the Company. The Company is currently considering a replacement for Cécile.

The term of office for three of the four member nominated trustees expired in August 2017, so a selection process was run during 2017 which considered employee and pensioner members of the scheme who put themselves forward for the role of trustee. Further details on this process are provided on [page 3](#). On 30 June 2017, the fourth member nominated trustee, Anna Fleming, resigned from the Board on leaving the Company. At the end of the selection process Tim Culling was appointed to replace Anna Fleming and Tom McKenna, Alan Wood and Graham Mearns were all appointed for another term from 15 August 2017. We thank Dave, Anna and Cécile for their contributions to the trustee board.

### UFS

On 1 January 2017 the Union of Finance Staff (UFS), a participating employer in the scheme, transferred its undertaking to the union Community and in doing so exited the scheme as a participating employer.

### Zurich Corporate Savings

On 12 October 2017 Zurich signed a new strategic partnership with Lloyds Banking Group (LBG) which sees the sale of Zurich Corporate Savings (ZCS) to LBG and Zurich becoming the exclusive partner to LBG in providing corporate protection solutions through Zurich Corporate Risk (ZCR). The trustees are currently considering the implications of this announcement for the Scheme.

I hope you enjoy reading this year's report and find it engaging and informative. If you have any comments or queries please contact Claire Calo (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**  
(Chair)

15 November 2017

### 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.

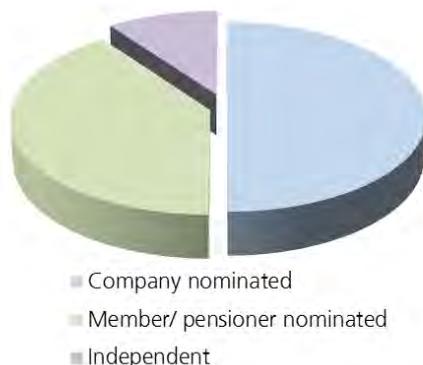
The trustee company, Zurich Financial Services UK Pension trustee Ltd, is responsible for managing the trust. Each trustee company director (usually referred to as a "trustee") has a legal duty to run the scheme in accordance with the governing trust deed and rules for the benefit of members and their 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 2017**



##### 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 run in 2017 as the term of office for three of the current member nominated trustees expired on 14 August 2017, the fourth member nominated trustee had already resigned on 30 June 2017.

##### Changes to the trustee board

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 Resigned 31 August 2017
Anna Fleming <i>Member nominated</i>	Resigned 30 June 2017
Tim Culling <i>Member nominated</i>	Appointed 15 August 2017
Tom McKenna <i>Member nominated</i>	Re-appointed 15 August 2017
Graham Mearns <i>Member nominated</i>	Re-appointed 15 August 2017
Alan Wood <i>Member nominated</i>	Re-appointed 15 August 2017

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### Trustees

 <p><b>Paul Trickett</b> Trustee Chair <i>Resigned 31 July 2016</i></p>	 <p><b>David Sims</b> Trustee Chair <i>Appointed 30 August 2016</i></p>	 <p><b>Christian Jochum</b> (Interim Trustee Chair <i>from 1 – 29 August 2016</i>) Head of Regional Investment Management Europe</p>	 <p><b>Graham Mearns</b> former Risk manager for Openwork <i>Re-appointed 15 August 2017</i></p>
 <p><b>BESTrustees</b> Represented by Clive Gilchrist Deputy Chair, BESTrustees</p>	 <p><b>Simon Clifford</b> Global Head of Life Technical Excellence</p>	 <p><b>Tom McKenna</b> Engineer Surveyor <i>Re-appointed 15 August 2017</i></p>	 <p><b>Gillian Mitchell</b> Group Head of Pensions &amp; Benefits</p>
 <p><b>Tim Culling</b> Former Head of Customer Care, Global Life <i>Appointed 15 August 2017</i></p>	 <p><b>Dave Hodges</b> Client Relations Director Zurich Corporate Savings <i>Resigned 30 September 2016</i></p>	 <p><b>Alan Wood</b> UFS National Officer <i>Re-appointed 15 August 2017</i></p>	<p>Company nominated</p> <p>Member/ pensioner nominated</p> <p>Independent trustee</p>
 <p><b>Anna Fleming</b> Chief Claims Officer UK General Insurance <i>Resigned 30 June 2017</i></p>	 <p><b>Cécile Fresneau</b> Chief Underwriting Officer UK General Insurance <i>Appointed 19 October 2016 Resigned 31 August 2017</i></p>		

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### Contacts



Emma Skuse  
Head of UK Pensions & Benefits



UK Pensions & Benefits Team

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

David Lidbury, Customer Services Manager  
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)

Further details on how to contact us are on page 20.

### **To contact the trustees:**

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

E-mail: [claire.calo@uk.zurich.com](mailto:claire.calo@uk.zurich.com)

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### Trustees' advisers

#### Investment managers

##### **ZCashBuilder**

Zurich Assurance Ltd



##### **ZPensionBuilder**

M & G Investments Insight 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

Barnett Waddingham LLP (from 01/01/2017)

**Barnett  
Waddingham**

Goldman Sachs (until 31/12/2016)



#### 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

David Lidbury, Zurich (until 08/01/2017)

Claire Calo, Zurich (from 09/01/2017)

### 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.

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<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)

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<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 focussed on the long term investment strategy and cyber security.

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 work 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

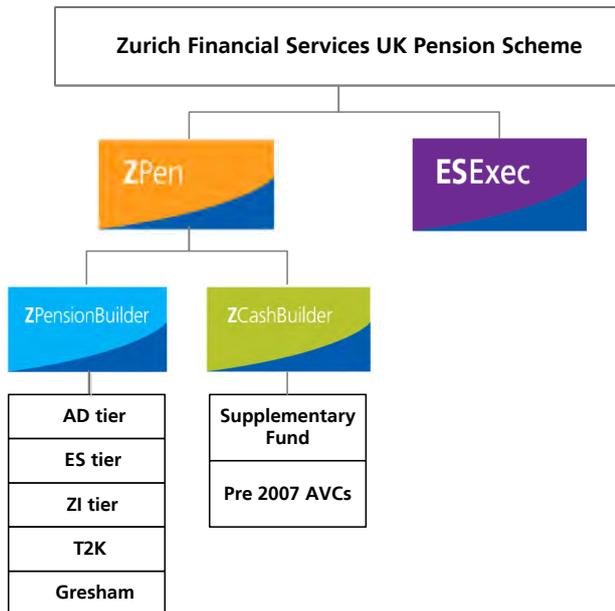
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<sup>6</sup> Additional Voluntary Contributions

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### 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

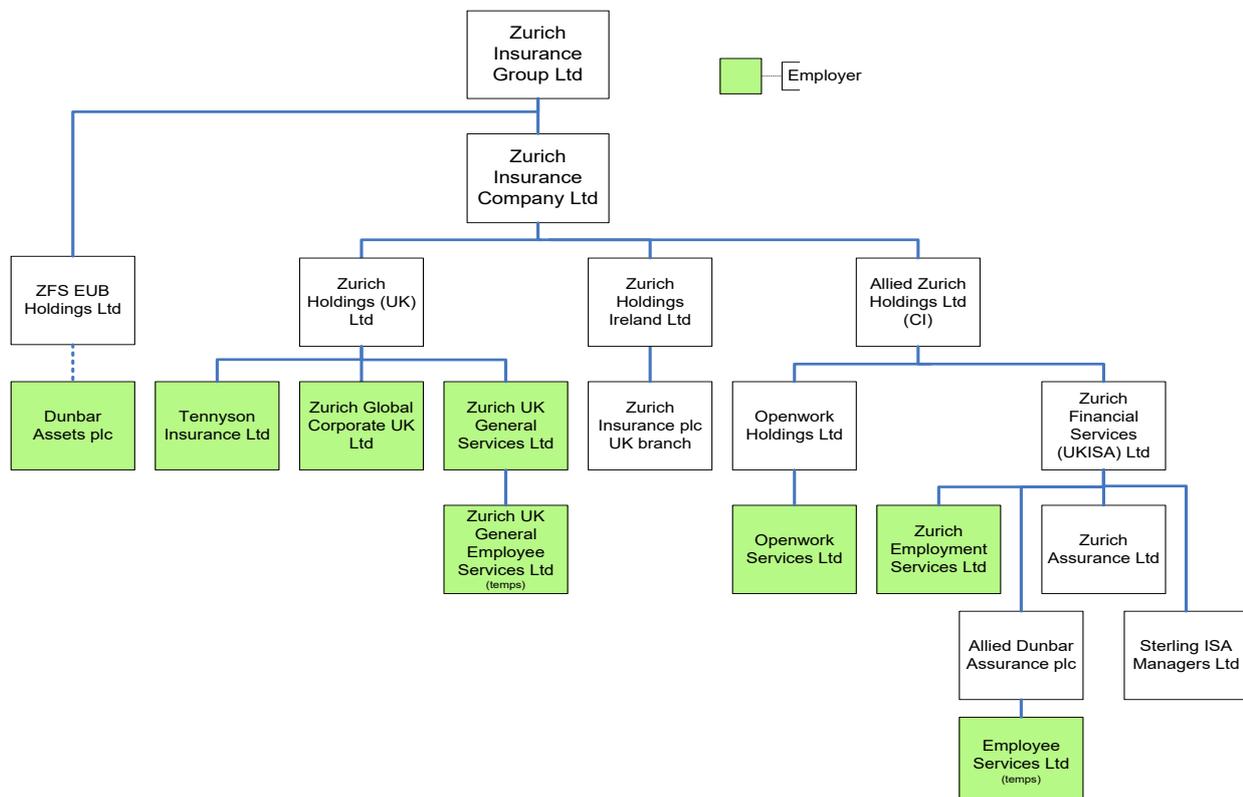
The trustee company, Zurich Financial Services UK Pension Trustee Limited, has 100 shares. Zurich Financial Services (UKISA) Limited holds 99 of these and the remaining share is held by Capita Fiduciary Group. The share held by Capita Fiduciary Group is a 'golden share'. Any amendment to the Articles 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.

On 1 January 2017 UFS, a participating employer of the scheme, transferred its undertakings to the union Community and at the transfer date exited the scheme as a participating employer. Zurich UK General Services Ltd entered into a Flexible Apportionment Arrangement (FAA) and assumed responsibility for UFS's obligations under Section 75 of the Pensions Act 1995.



**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 chair 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.

**Meetings this scheme year**

<b>July 2016</b>	Additional board meeting Funding committee
<b>September 2016</b>	Funding committee
<b>October 2016</b>	Quarterly board meeting Funding committee
<b>November 2016</b>	Annual risk day Funding committee (x2)
<b>December 2016</b>	Quarterly board meeting Additional board meeting
<b>January 2017</b>	Funding committee
<b>February 2017</b>	Funding committee
<b>March 2017</b>	Quarterly board meeting
<b>April 2017</b>	Funding committee
<b>May 2017</b>	Trustee training day Funding committee
<b>June 2017</b>	Quarterly board meeting



### 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 2017

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.

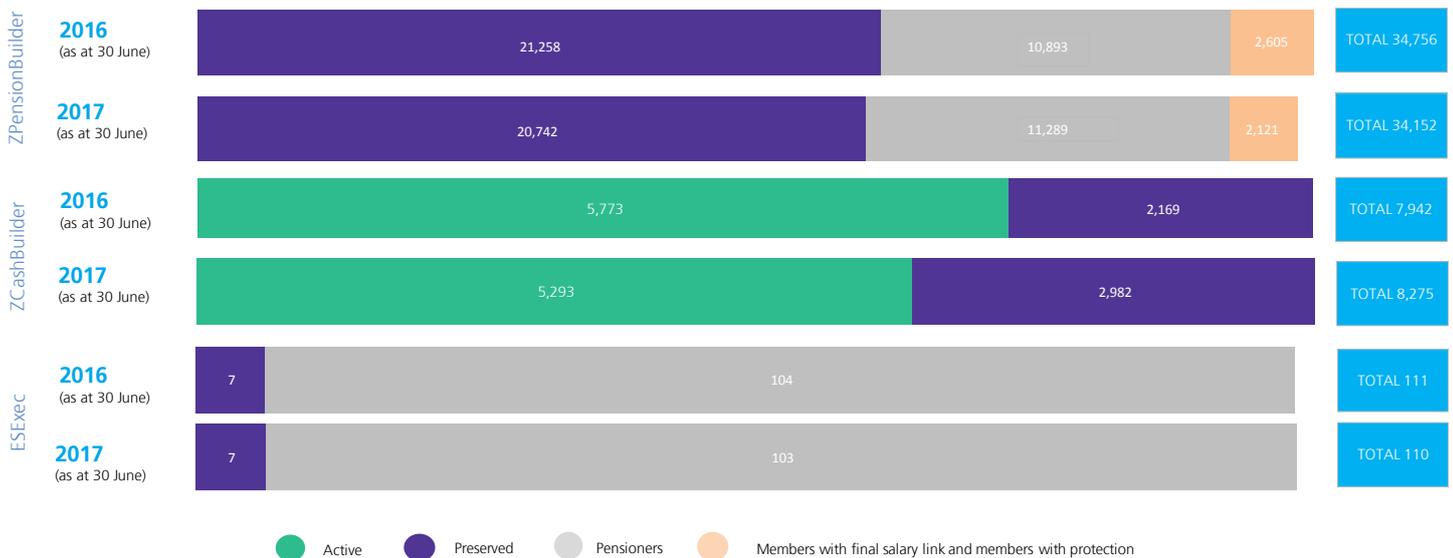
Following a further review of institutional investment in 2008, the IGG was set up to encourage ownership and promotion of the Myners' Principles. The IGG has updated the original Principles (aimed at defined benefit/final salary schemes) and also used these as a basis for their six Principles for defined 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 1,397 (2016:1,336) dependant members at the year end.

Members who transferred from ZPensionBuilder into ZCashbuilder on 1 January 2016 have final salary links.

Please note that the membership statistics have been adjusted to show a summary of member records, not where individual members sit. (Individuals can have more than one record and therefore a ZPB and ZCB liability).

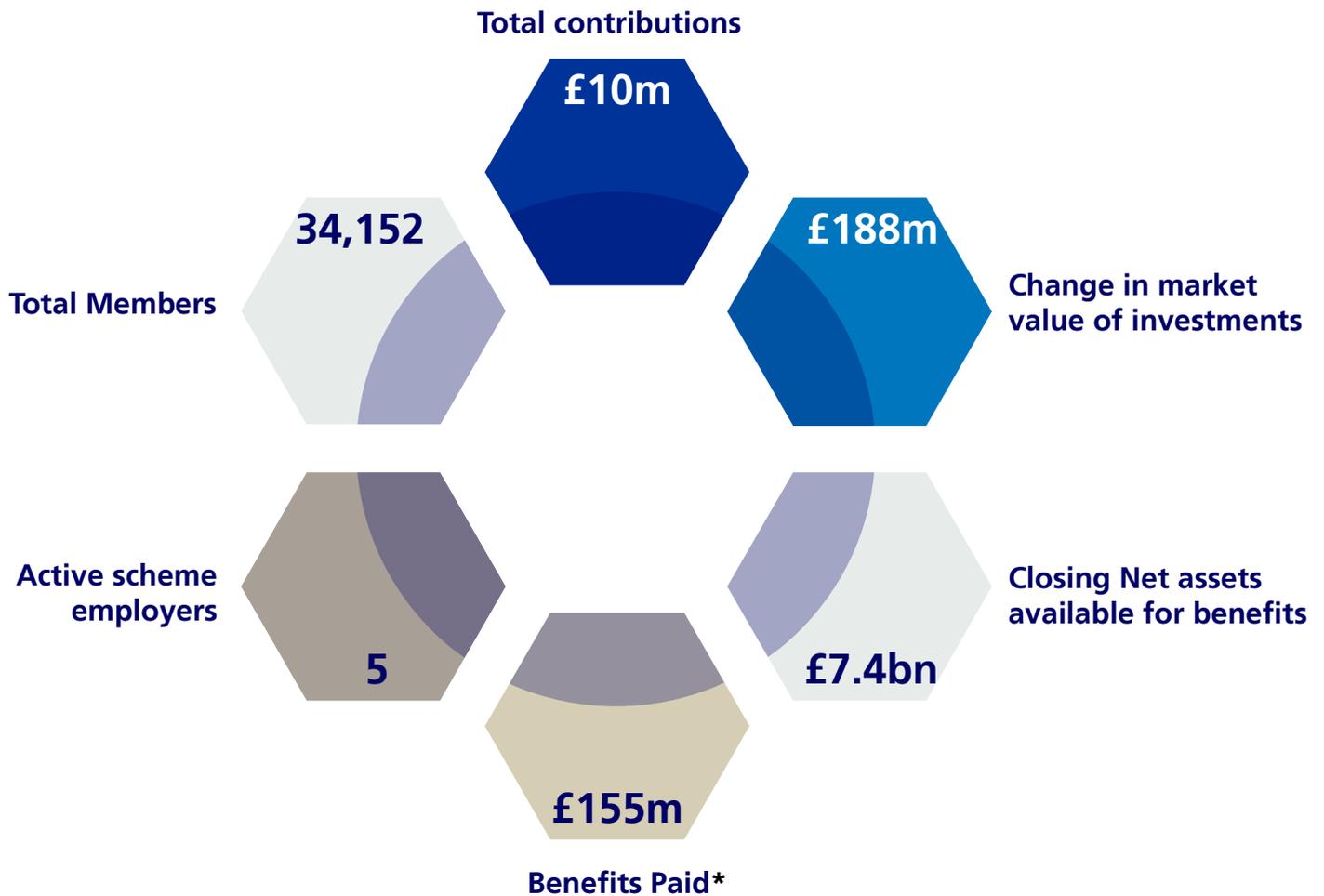
# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### Scheme Highlights

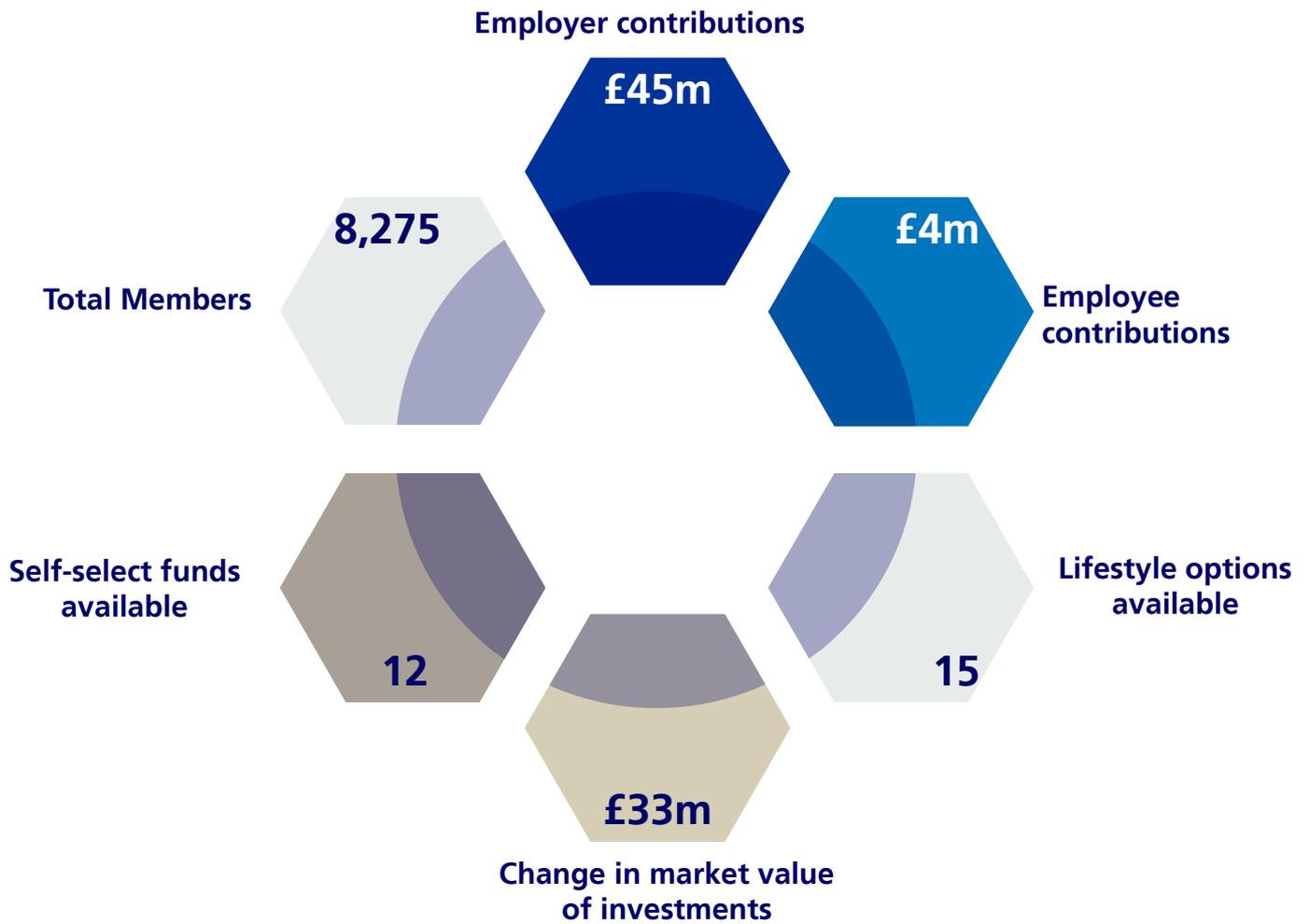
The following diagrams give highlights for each section in the year.

#### Scheme highlights - ZPensionBuilder section



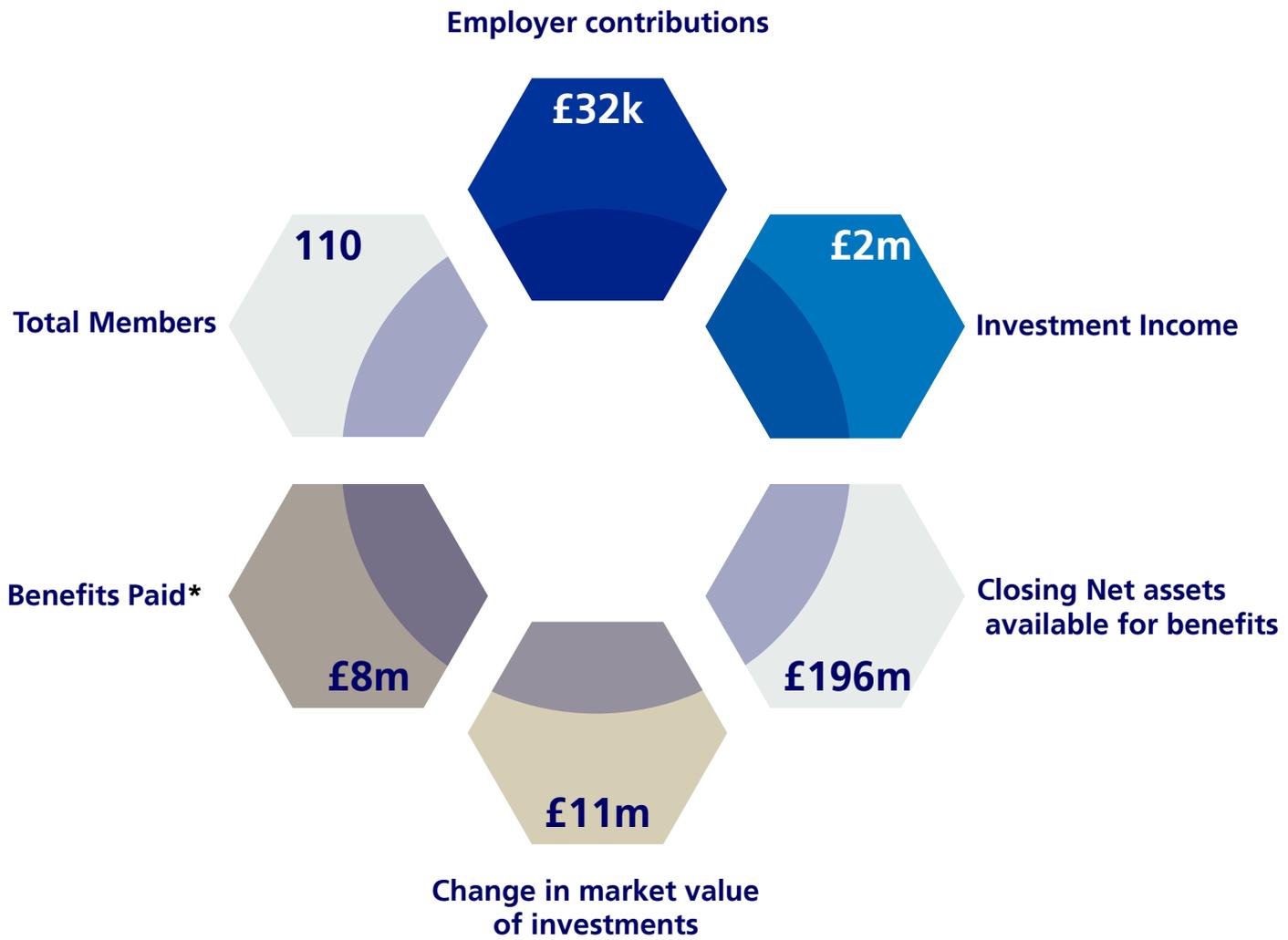
\*For a detailed breakdown of the benefits paid figure please see note 6 on page 45.

**Scheme highlights- ZCashBuilder section**





**Scheme highlights- ESExec section**



\*For a detailed breakdown of the benefits paid figure please see note 6 on page 45.

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### Statement regarding DC governance For the year ended 30 June 2017

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. e-Z plan is an arrangement for ZCashBuilder members who do not make any investment choices. 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.

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### 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 reviewed the processes and controls on engagement, 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 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 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 is 0.615%.

The trustees review charges and transaction costs on annual basis.

### 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 7. 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 Tim Culling, appointed 15 August 2017, who is required to complete this within six months of taking up office. Taking account

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

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 trustees 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 15 November 2017 and signed on their behalf by:



David Sims

**Chair: Zurich Financial Services UK Pension Trustee Ltd**

**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.

In addition, 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 runs a number of support sessions including:

- “The Pensions Power Up”, giving information via webinar 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” and “Your Retirement Options” 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 and the other sessions now available go to the Support section of the trustees’ website [www.zpen.info](http://www.zpen.info)

Faye is supported by Rich Cypher, Governance & Regional Pensions Support Manager.

Feedback is consistently very positive as employees appreciate the opportunity to discuss their position with a pensions expert.

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 (IFA). You can find an IFA at [www.unbiased.co.uk](http://www.unbiased.co.uk)

**Regional pensions support team**



**Faye Willetts**



**Rich Cypher**



# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### 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 2,600 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



# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### 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.

### Funding committee: Trustee members



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



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



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



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



**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*



**Brian Olvany**  
Executive Director – Head of  
Private Debt, Zurich  
*investment*  
Appointed 16/03/2017



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



**Stuart Tyler-Lloyd**  
Balance Sheet Chief Investment  
Officer  
*investment*  
Resigned 31/01/2017

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### Advisers

#### Investment advisers

Hymans Robertson

 HYMANS ROBERTSON

#### Investment analysts

Zurich Insurance Company, Investment Management



#### Scheme actuary

Mark Howard, FIA  
Barnett Waddingham

 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. The purpose of the valuation, completed as

at 30 June 2016, was to determine the current financial position of the ZPensionBuilder and ESEExec sections based on all benefits earned to 30 June 2016.

The steps in the valuation process were:

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

The actuary calculated the value of the benefits earned to 30 June 2016 for all members – the “technical provisions”. This included those who had preserved benefits<sup>7</sup> and those who had actually retired.

In making these 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 25.

#### Step 2: determining the funding level

The actuary compared the technical provisions in the ZPensionBuilder and ESEExec sections with the value of the assets in the relevant section of the fund. The result of this comparison is called the “funding level”. For valuation purposes the SLP is included as an asset of ZPensionBuilder, resulting in the fund being worth more than the value of the benefits earned so far, so there was a “surplus”. If the reverse applied, there would have been a “deficit”. The ESEExec section was also in surplus as at 30 June 2016.

A surplus or deficit does not necessarily mean that there is too much or too little cash 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 ESEExec sections may have different funding outcomes: for example, one could be in surplus and the other in deficit.

#### Step 3: agreeing the contribution rate

When the funding level was known, the trustees and the company considered the future funding requirements of the scheme. In light of the valuation showing a surplus for both sections the trustees agreed with the employer that no deficit reduction contributions were required at the current time, although the employer will continue to contribute towards the expenses of the Scheme.

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



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. 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 2016<sup>8</sup>**

The method and actuarial assumptions used for the valuation of the scheme at 30 June 2016 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.

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. The revised investment strategy agreed during the year (described on page 28) was factored into the discount rate used for the valuation as at 30 June 2016. The discount rate is then used to convert expected future cashflows into and out of the scheme into a single present value, which is referred to as "discounted" to the effective date of a valuation.

#### **Mortality**

"Mortality" means the age at which people are predicted, on average, to die. 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 life expectancy.

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 to retire before reaching age 60.

#### **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 company 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.

<sup>8</sup> Provided by Barnett Waddingham LLP

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

The key assumptions used as at 30 June 2016 were as follows:

Key Financial Assumptions/Data as at 30 June 2016	ZPen Section	ES Exec Section
Duration	20 years	14 years
Pre and post-retirement discount rate	3.06%pa tapering to 3.34%pa after 7 years	2.52%pa
Price inflation – RPI	3.04%pa	2.70%pa
Price inflation – CPI	2.24%pa	1.90%pa
Salary inflation	2.00%pa	n/a
Pension increases:		
– RPI with a maximum of 5%	2.93%pa	n/a
– RPI with a minimum of 3% and a maximum of 5%	3.50%pa	3.39%pa
– RPI with a minimum of 3% and a maximum of 7.5%	3.60%pa	n/a
– CPI with a maximum of 3%	1.92%pa	1.67%pa

### ZPensionBuilder

The asset backed contribution arrangement which was put in place for the ZPen section of the scheme following the previous valuation (30 June 2013) has continued to operate as expected. This involved the establishment of the Scottish Limited Partnership (SLP) which houses an asset that generates income of £60m a year.

This was valued at £893m at 30 June 2016 and is included in the total audited value of the assets for the ZPen section of £7,288m.

Using the method and assumptions agreed by the trustee, the ZPen section of the scheme had assets sufficient to cover 104% of its technical provisions as at 30 June 2016. This included the SLP as an asset and corresponded to a surplus of £304m.

The trustee has determined the level of the technical provisions having taken into account a review from PricewaterhouseCoopers LLP as to the strength of the company structure supporting the scheme and the ongoing SLP arrangement.

In light of the results of the valuation, the trustee has agreed with the employer that no deficit reduction contributions are required, which has been included in a new schedule of contributions dated 27 June 2017.

An amount of £4.4m will be paid by the employer each year to cover the expenses of running the ZPen section and the PPF levy.

	30 June 2013 £million	30 June 2014 £million	30 June 2015 £million	30 June 2016 £million
Assets (excluding AVCs/APCs)	4,621	4,948	5,559	6,395
Asset backed contribution (Scottish Limited Partnership)	n/a*	n/a*	782	893
Amount needed to provide benefits	5,236	5,679	6,586	6,984
(Shortfall)/surplus	(615)	(731)	(245)	304
Funding level	88%	87%	96%	104%

\* 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 2017

### ESExec section

The ES Executives' section of the Scheme had assets sufficient to cover 101% of its technical provisions as at 30 June 2016, corresponding to a surplus of £1.6m.

The audited asset value for the ES Executives Section of the Scheme was £192m.

In light of the results of the valuation, the Trustee has agreed with the employer that no deficit contributions are required from the employer, which has been included in a new schedule of contributions dated 27 June 2017.

An amount of £32,000 will be paid by the employer each year to cover running expenses.

The next valuation should be carried out with an effective date no later than 30 June 2019. A copy of the full report on the valuation at 30 June 2016 is available on our website [www.zpen.info](http://www.zpen.info).

By law, the statements from the scheme actuary on pages 62 to 64 must be included in this annual report.

	30 June 2013 £million	30 June 2014 £million	30 June 2015 £million	30 June 2016 £million
Assets(excluding AVCs/APCs)	157.1	160.3	170.9	192.3
Amount needed to provide benefits	165.2	167.9	180.7	190.7
(Shortfall)/surplus	(8.1)	(7.6)	(9.8)	1.6
Funding level	95%	95%	95%	101%

## **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 2016 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 27 June 2017.

Signature: 

Date: 27 June 2017

Name: Mark A J Howard

Qualification: Fellow of the Institute and Faculty of Actuaries

Address: St James's House  
St James's 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, ESExec 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 changes in long term investment strategy

In recent months the funding committee has reviewed the ZPensionBuilder long-term investment strategy alongside the triennial valuation process. The review identified the most significant risks faced by the scheme were interest and inflation rate risks.

The funding committee proposed changing the strategic asset allocation (SAA) to reduce these risks. They suggested amending the allocation as follows over a period of up to six years:

Since approval, the funding committee have carried out a thorough review process to select a specialised Liability Driven Investment (LDI) manager. This process resulted in Insight Investments being appointed on 26 April 2017. In May 2017 assets of c£2.6bn transitioned from Columbia Threadneedle to Insight Investments. The pace of transition to the new strategic asset allocation will be between 1 and 6 years depending on market conditions.

Asset Class	Previous SAA	Proposed SAA
Equities	19.5%	30.0%
Property	3.0%	5.0%
Corporate bonds	22.0%	22.0%
Gilts	25.5%	0.0%
Loans	5.0%	5.0%
Infrastructure	5.0%	5.0%
Index linked gilts	20.0%	3.0%
LDI	0.0%	30.0%

This also included targeting hedging ratios of 80% and 60% for interest and inflation risks respectively. By increasing the schemes hedging ratios the scheme will reduce its exposure to these risks whilst providing more exposure to growth assets. The trustees approved the investment strategy proposals in December 2016 after consultation with the company.

#### ZPensionBuilder & ESEExec 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 ESEExec separately but applies the same principles to both sections.

#### Statement of Investment Principles (SIP)

The SIP has been updated to reflect the changes in investment strategy. The SIP incorporates the new target asset allocation and hedging ratios applicable to the Liability Driven Investments. The allocation can be seen in more detail on page 29.

## Zurich Financial Services UK Pension Scheme

### Annual report for the year ended 30 June 2017

The table below shows the strategic asset allocation (SAA) as at 30 June 2017.

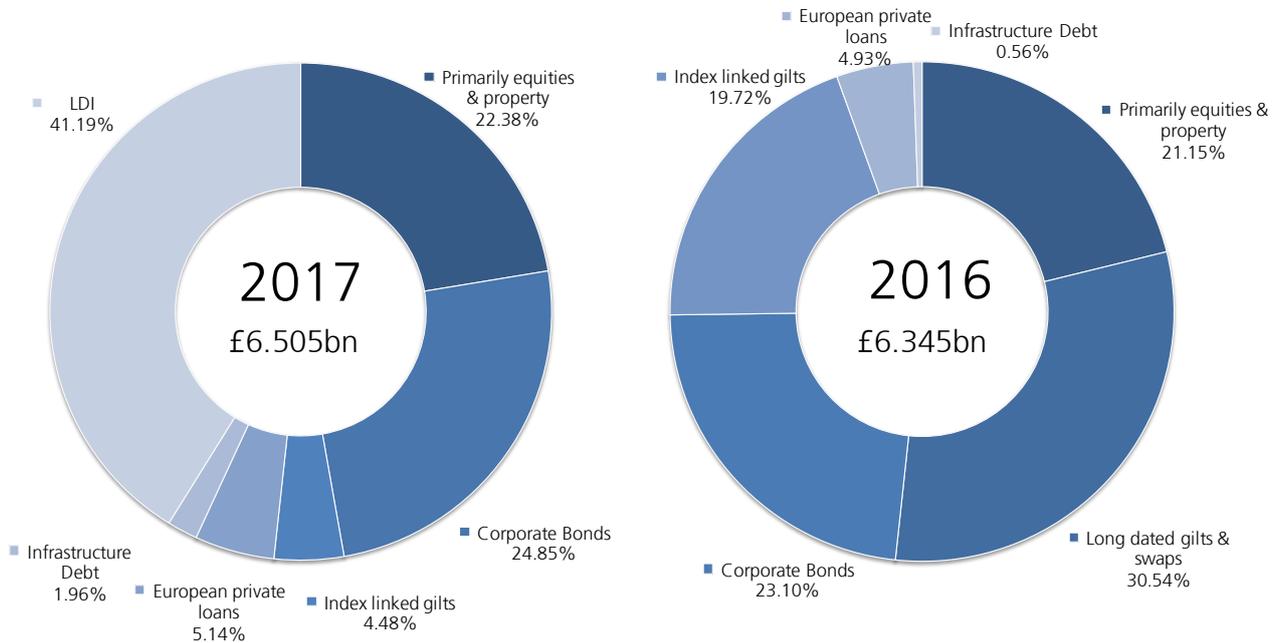
ZPensionBuilder	Current SAA	Target SAA
Equities	19.5%	30.0%
Property	3.0%	5.0%
Loans	5.0%	5.0%
Corporate Bonds and Infrastructure Debt	27.0%	27.0%
LDI	40.5%	30.0%
Index Linked Gilts	5.0%	3.0%
Hedging Ratio (Interest Rates)	66.0%	80.0%
Hedging Ratio (Inflation)	30.0%	60.0%

ESExec	SAA
Equities	16.5%
Property	3.5%
Corporate Bonds	28.0%
Gilts	25.0%
Index Linked Gilts	27.0%

# Zurich Financial Services UK Pension Scheme

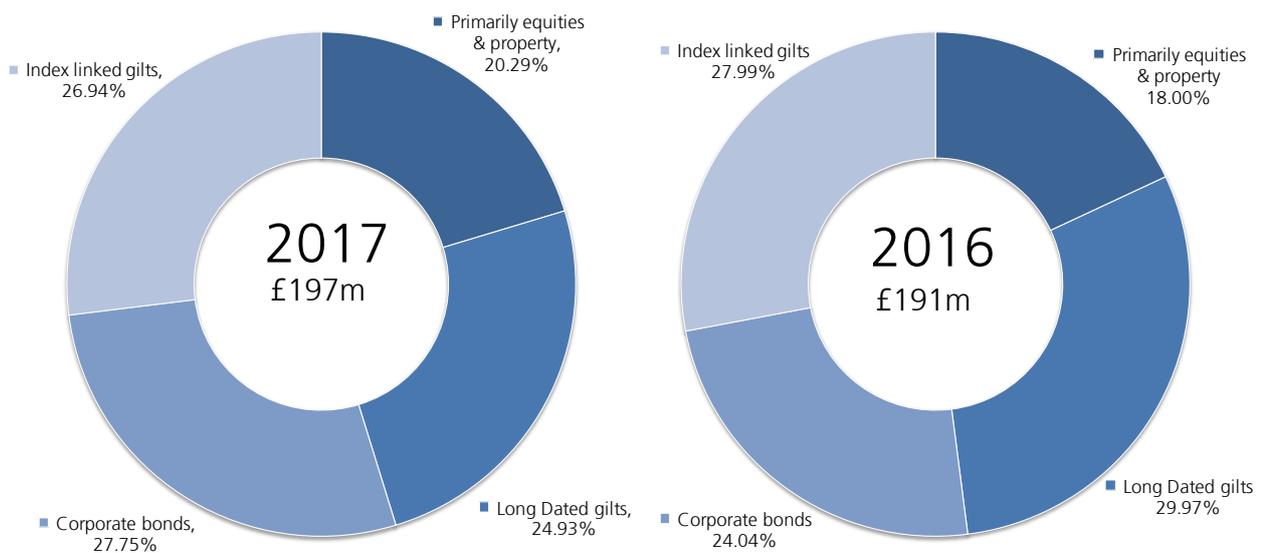
## Annual report for the year ended 30 June 2017

The actual distribution of investments for ZPensionBuilder at 30 June 2017 compared with 30 June 2016 is shown below.



As at 30 June 2017 the loan fund and approximately 50% of the corporate bond fund is managed by M&G Investment Management, the infrastructure allocation is managed by Macquarie Infrastructure Debt Investment Solutions and the LDI Fund is managed by Insight Investment. The rest of the investments are managed by Columbia Threadneedle Investments.

The actual distribution of investments for ESExec at 30 June 2017 compared with 30 June 2016 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 Statement of Investment Principles (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.

Northern Trust consistently ranks as one of the strongest global financial institutions in terms of

financial strength and stability. As at 30 June 2017, Northern Trust had one of the highest assigned credit ratings when compared to other US-based banking institutions.

### Interest in Scottish Limited Partnership

As detailed on [page 50](#), 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 2013 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 32](#) or on the charts on [page 30](#).

### Infrastructure Debt

Last 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 which finance infrastructure development and match the pension liabilities well.

The infrastructure debt portfolio has steadily increased over the last year as investment opportunities have arisen.

The scheme has made three investments in the year. These include investments into solar power, onshore wind and gas distribution.

At the 30 June 2017, the scheme had five investments in infrastructure debt.

### Liability Driven Investments

The trustee approved changes to the long term strategy in the year. Assets transitioned from Columbia Threadneedle to Insight Investments in May 2017. For more information go to [page 28](#).



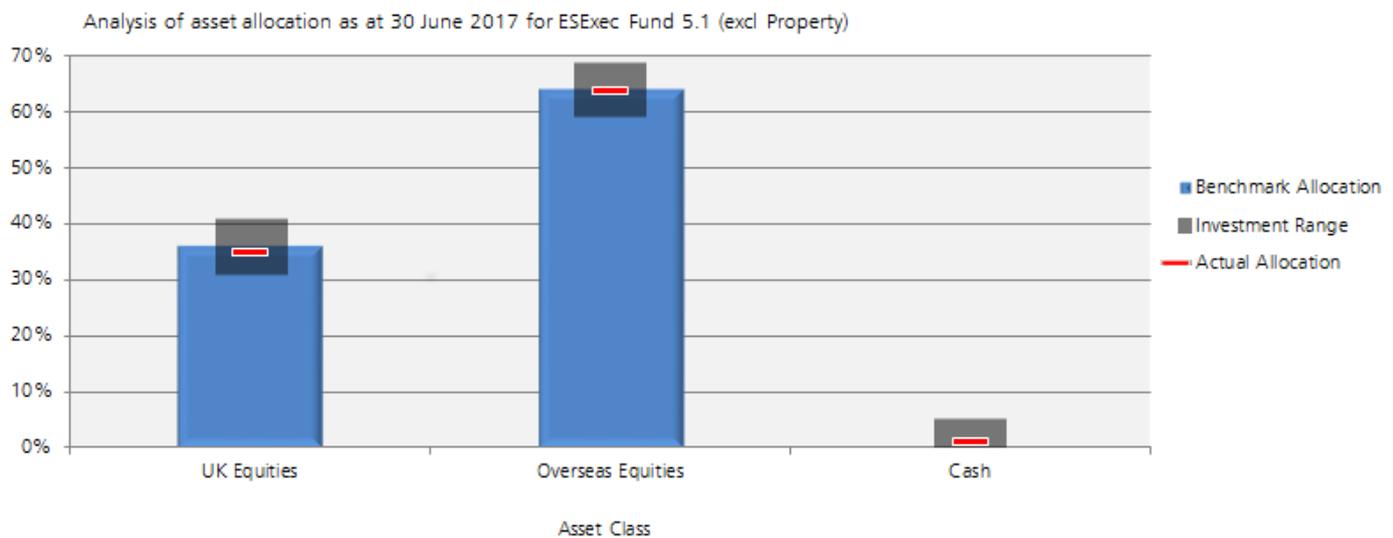
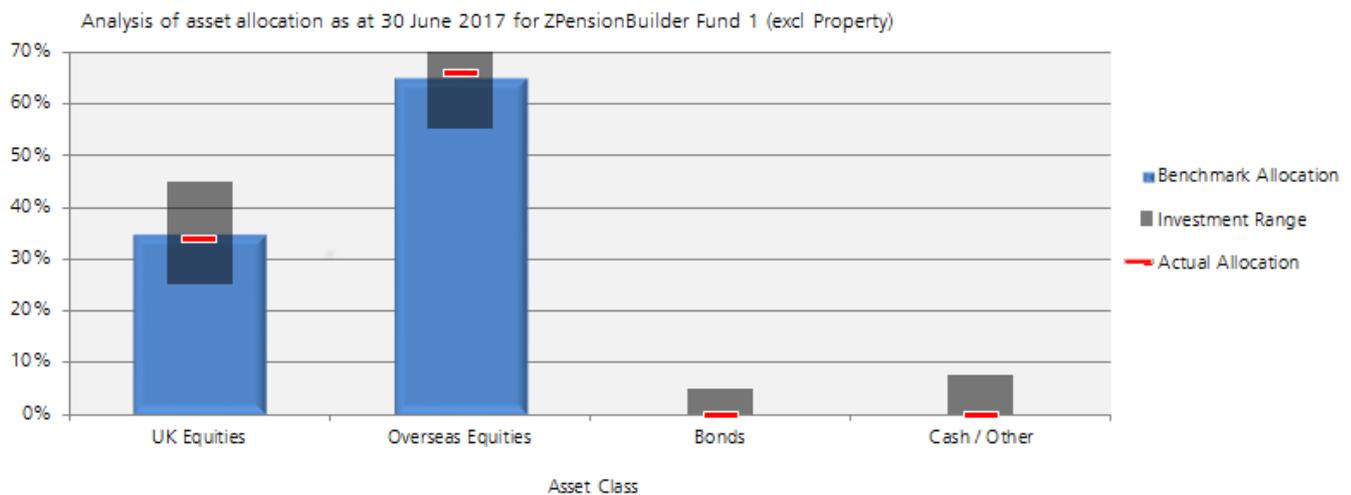
# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### 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 32 to 37](#).



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 2017

### 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 17 to 20.

### ZCashBuilder performance for the year ended 30 June 2017

The year to 30 June 2017 saw positive performance across the board. In particular the funds Aquila 50/50, Aquila world ex UK and L&G ethical performed particularly well achieving a return above 20% in the year. Other funds were broadly in line

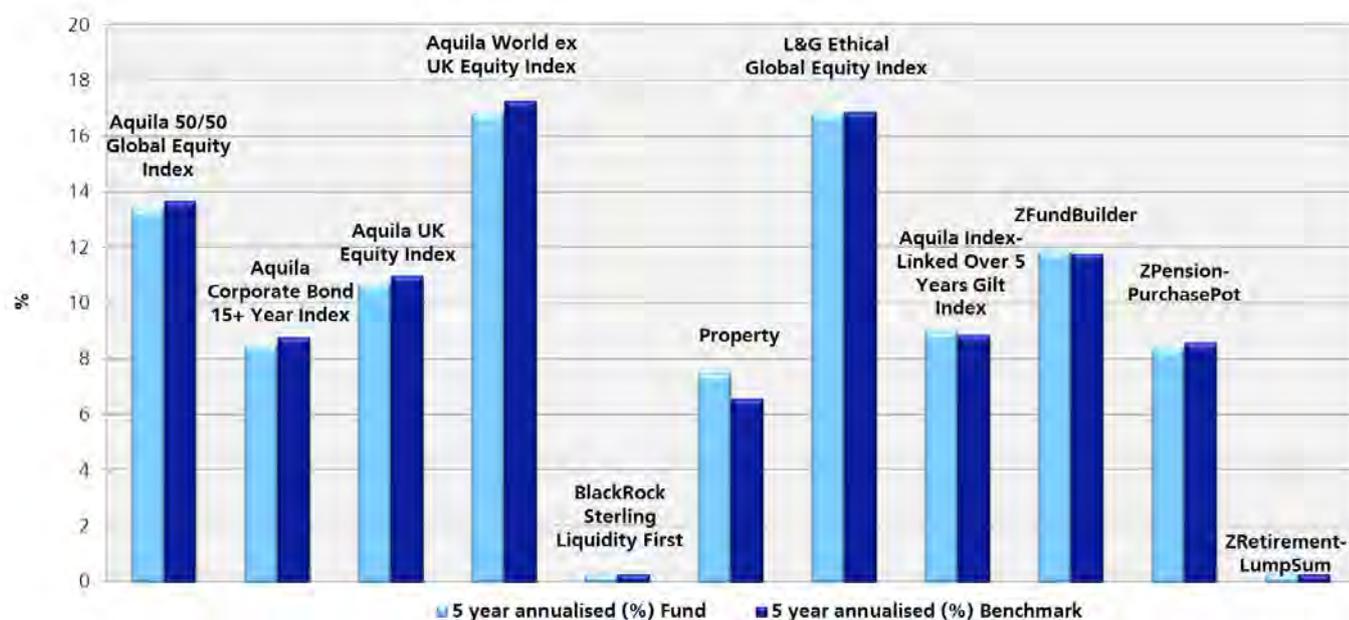
with benchmark. The Aquila UK Equity Index Fund and ZFundBuilder were broadly in line with the benchmark over 3 years and 5 years to 30 June 2017.

The property fund performed best when compared to the benchmark over the 3 years to June 2017. All other funds either outperformed or were broadly in line with benchmark.

Performance over a one, three and five year period is shown on [pages 33 to 34](#).

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 2017

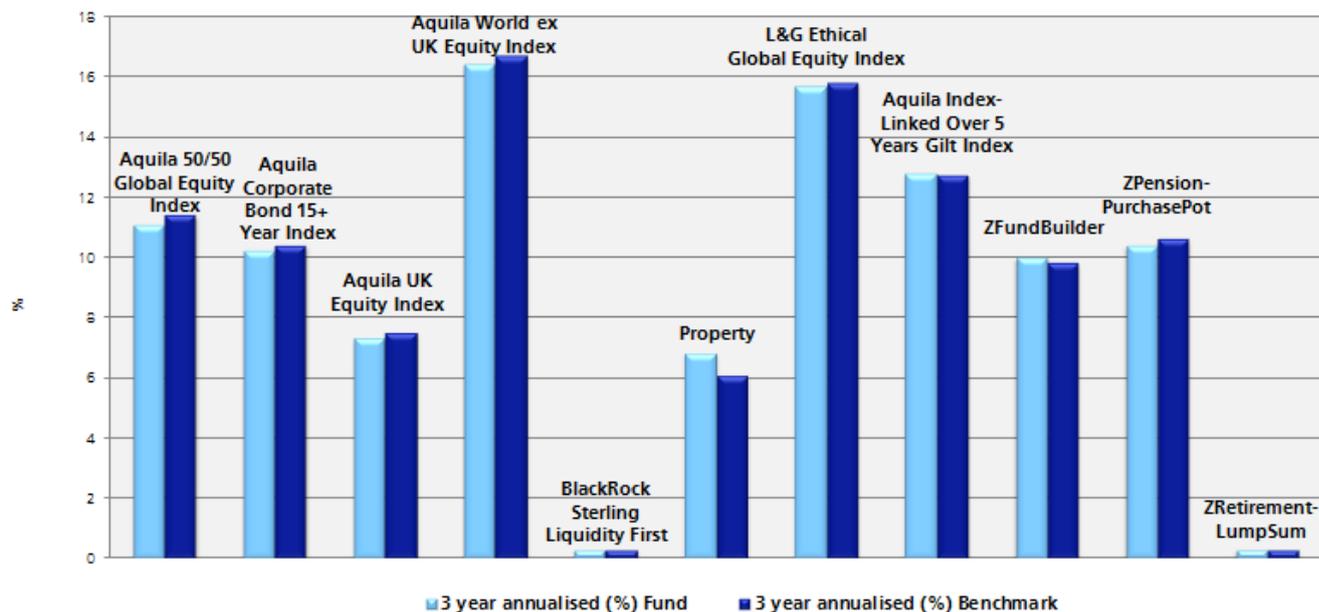


3 and 5 year data is not available for the e-Z plan funds as they were launched in quarter 1 2016.

# Zurich Financial Services UK Pension Scheme

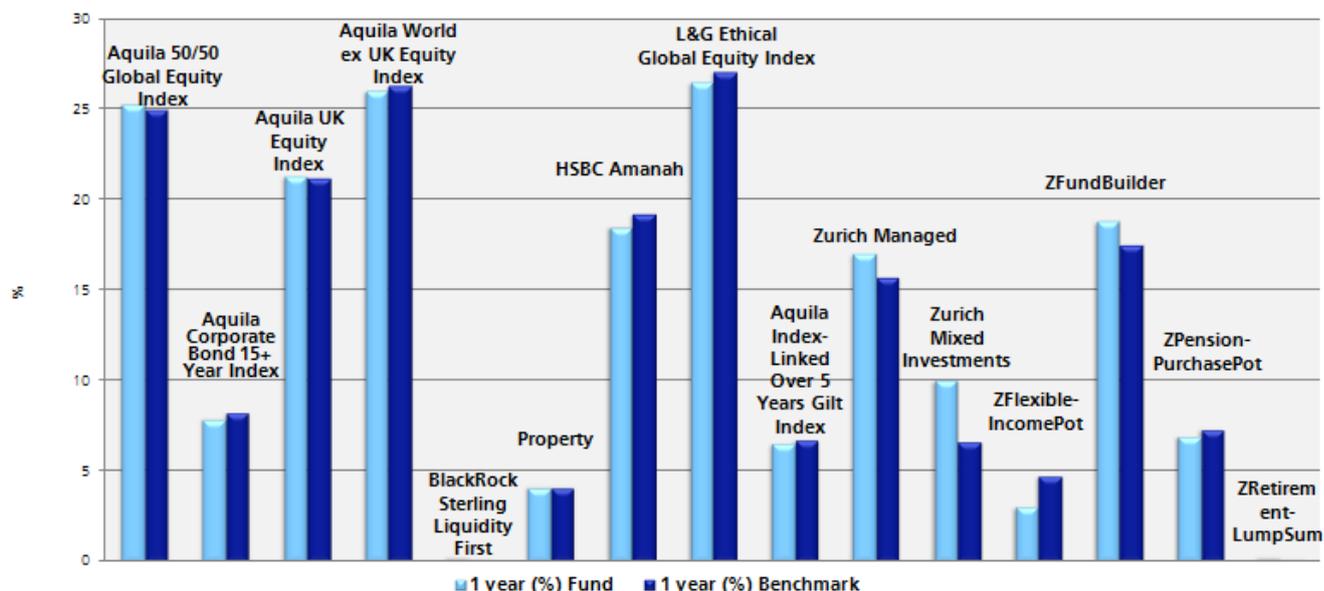
## Annual report for the year ended 30 June 2017

### ZCashBuilder performance for the three years ended 30 June 2017



Source: Zurich Assurance Ltd

### ZCashBuilder performance for one year ended 30 June 2017



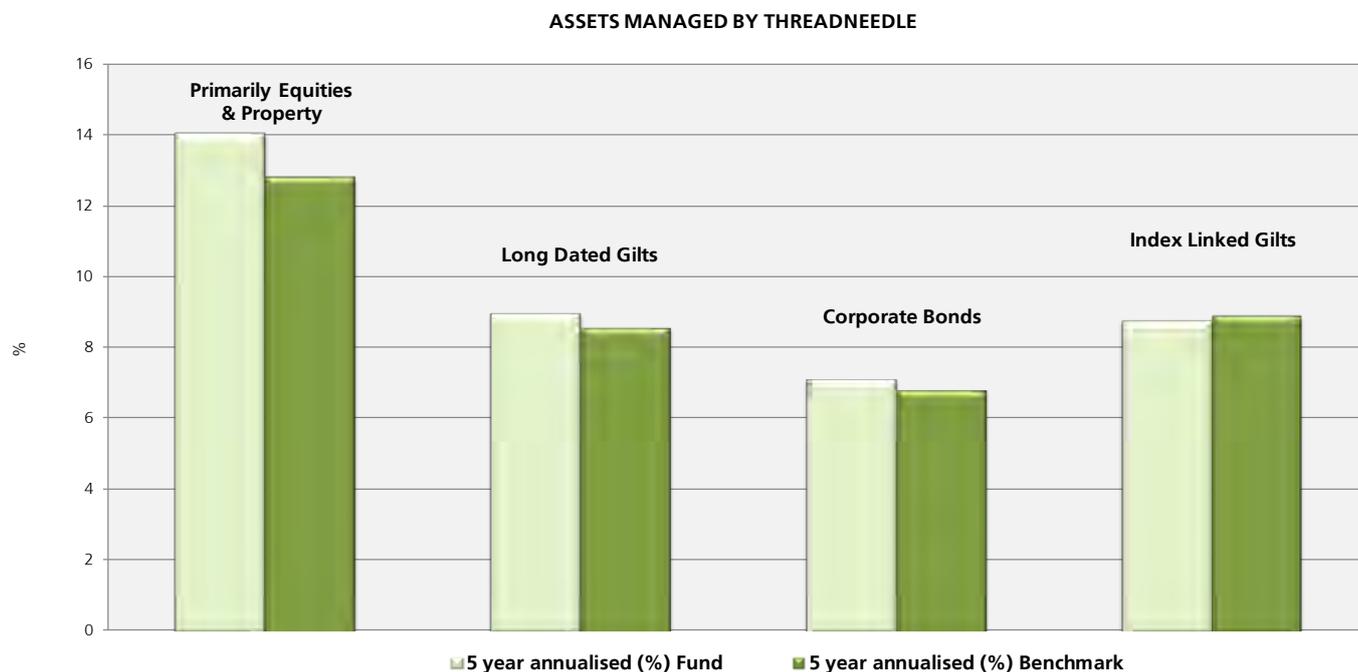
Source: Zurich Assurance Ltd

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

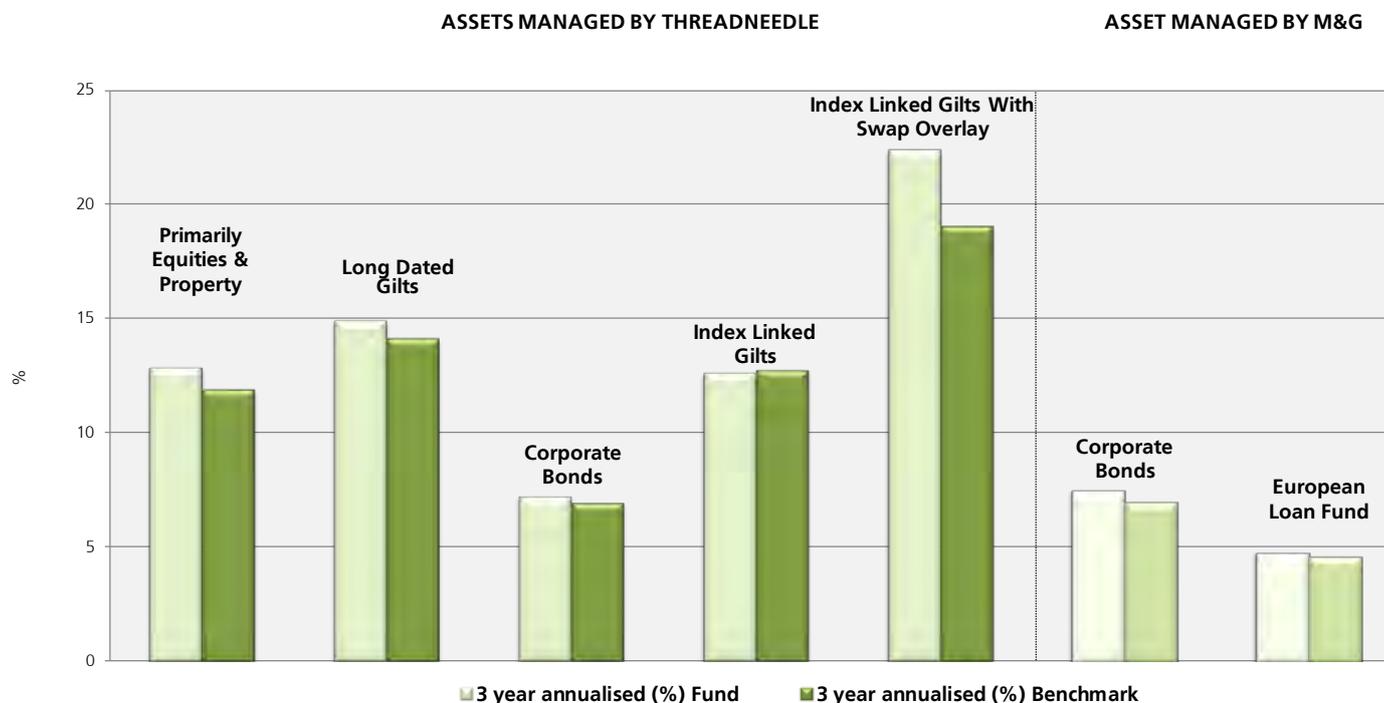
# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### ZPensionBuilder performance for the five years ended 30 June 2017



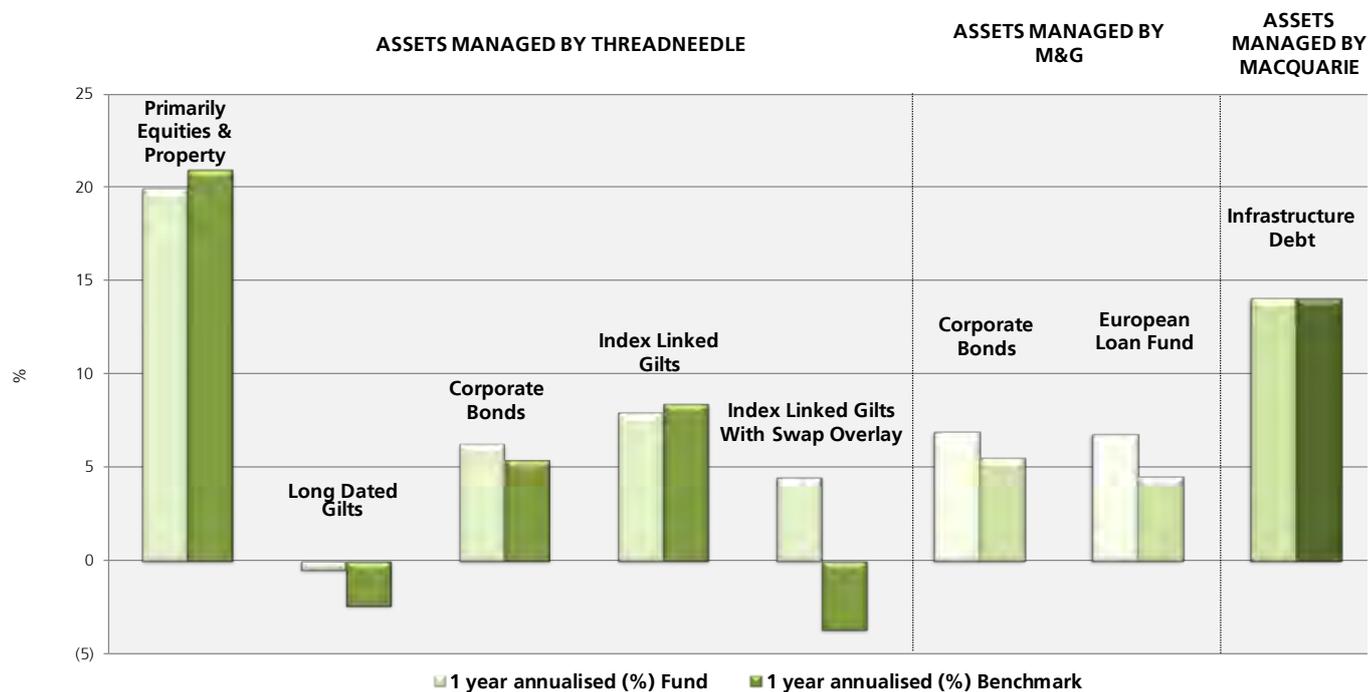
### ZPensionBuilder performance for the three years ended 30 June 2017



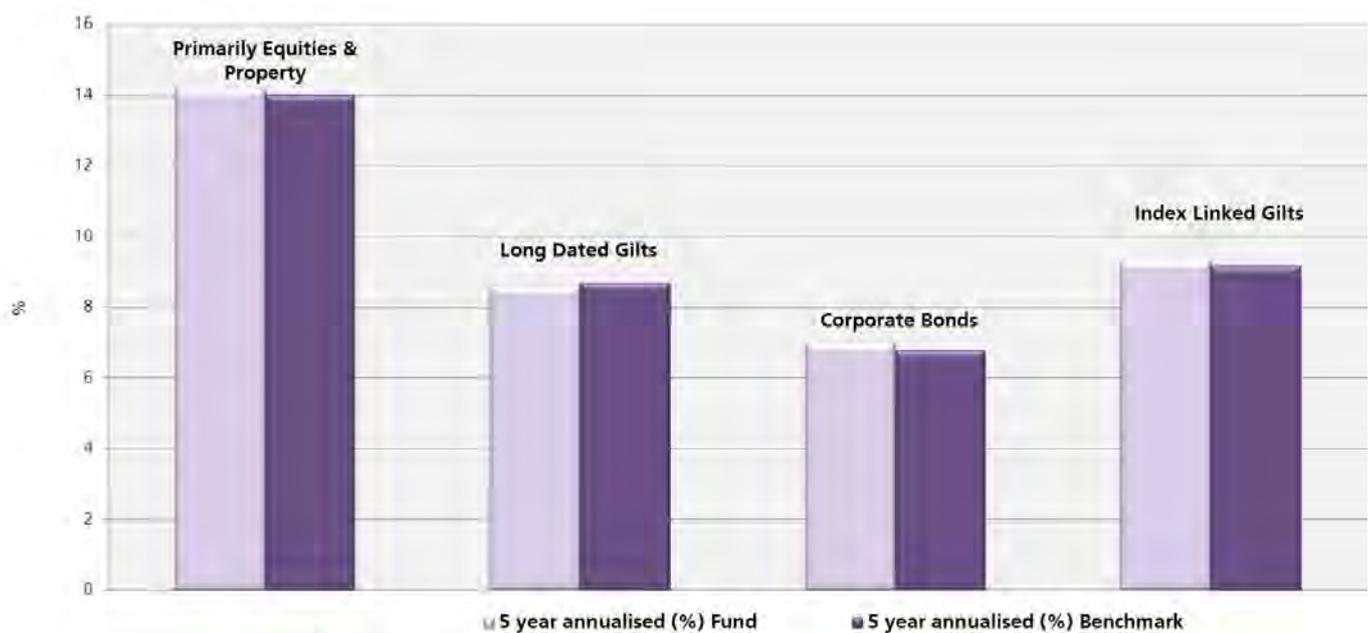
# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### ZPensionBuilder performance for one year ended 30 June 2017



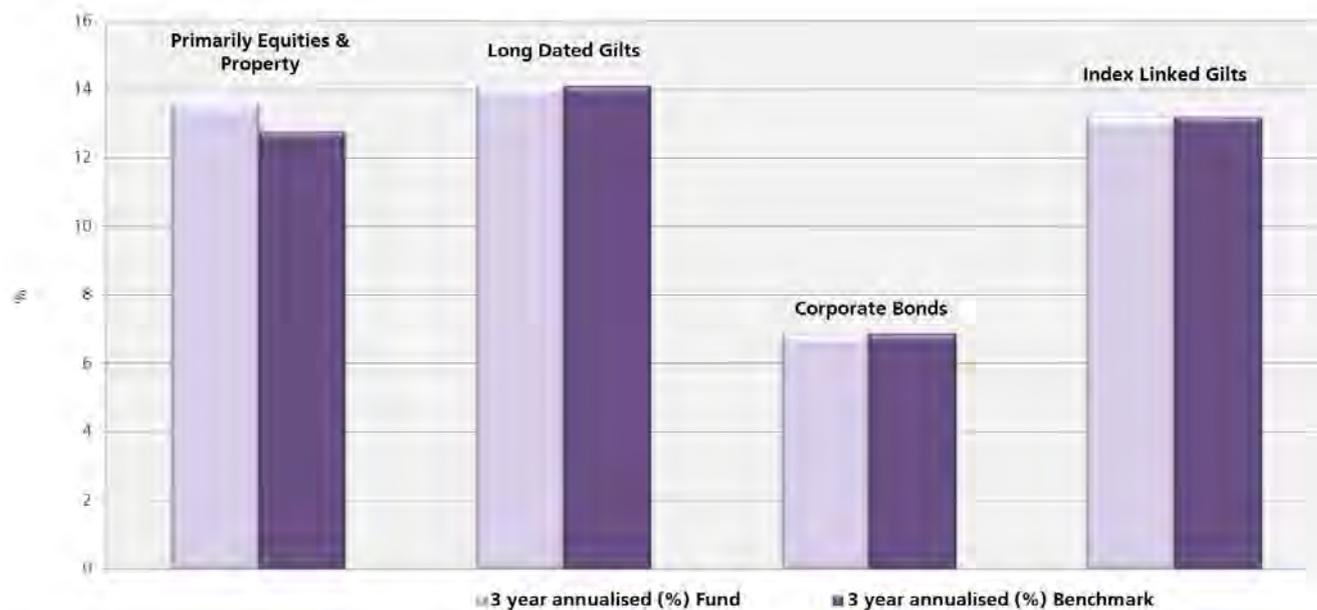
### ESExec performance for the five years ended 30 June 2017



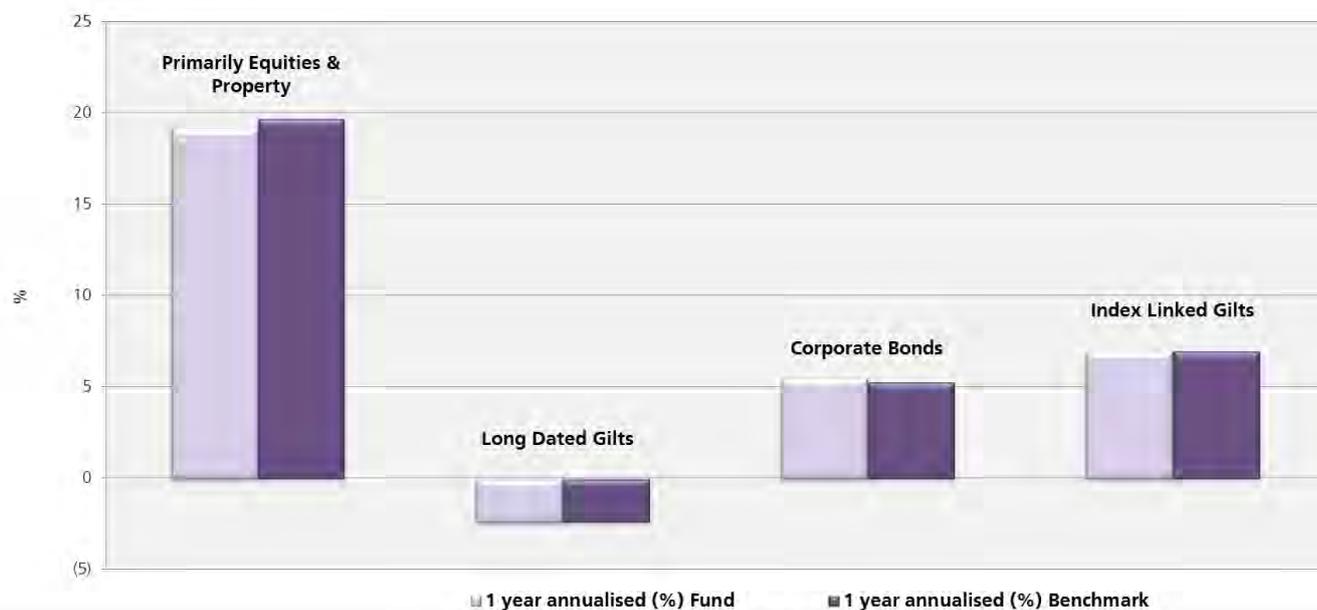
# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### ESExec performance for the three years ended 30 June 2017



### ESExec performance for one year ended 30 June 2017



### Looking ahead

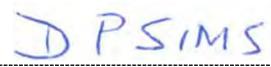
This report brings you highlights from the scheme year, but it doesn't end there of course. The funding committee continues to monitor the scheme's investments to ensure that the chosen investment strategy remains appropriate and the full trustee board receives regular updates on ZPensionBuilder's financial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

In recent months the trustees have reviewed the ZPensionBuilder long-term investment strategy alongside the triennial valuation process. The review highlighted the schemes ongoing exposures to interest and inflation rate risks. In response to these risks the trustees decided to implement a liability driven investment (LDI) programme with Insight. Assets of c£2.6bn transitioned from Columbia Threadneedle to Insight Investments in May 2017.

This will help to manage the funding volatility caused by movements in assets relative to the liabilities with respect to changes in interest rates and inflation and the maturity of the scheme. The implementation will take place over the next 6 years depending on market conditions.

The funding committee also continues to review 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. Information on the

The trustee board approves pages 3 – 38 and are signed on behalf of the trustee board:

Trustee name	David Sims
Signature	
Date	15 November 2017

fund choices available under ZCashBuilder can be seen on page 56.

### Statement of investment principles (SIP)

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 SIP 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 trustees recently approved a new investment strategy in December 2016 and the SIP has been updated to reflect the changes. The changes continue to reduce the schemes exposure to interest and inflation rate risks.

The latest SIP dated 26 June 2017 is available on [www.zpen.info](http://www.zpen.info).

The signing of the trustees' report also confirms the trustees' approval of the disclosures on pages 12 to 13.

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

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

#### Report on the audit of the financial statements

##### Opinion

In our opinion, Zurich Financial Services UK Pension Scheme's financial statements:

show a true and fair view of the financial transactions of the scheme during the year ended 30 June 2017, 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 (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and

contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

We have audited the financial statements, included in the report, which comprise: the statement of net assets available for benefits as at 30 June 2017; the fund account for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

##### Basis for opinion

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

##### Independence

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

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

the trustee's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

the trustee has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the scheme's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

##### Reporting on other information

The other information comprises all the information in the report other than the financial statements, our auditors' report thereon and our auditors' statement about contributions. The trustee is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so,

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

##### Responsibilities for the financial statements and the audit

###### *Responsibilities of the trustee for the financial statements*

As explained more fully in the statement of trustees' responsibilities, the trustee is responsible for the ensuring that the financial statements are prepared and for being satisfied that they show a true and fair view. The trustee is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustee is responsible for assessing the scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustee either intends to wind up the scheme, or has no realistic alternative but to do so.

###### *Auditors' responsibilities for the audit of the financial statements*

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

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

###### *Use of this report*

This report, including the opinion, has been prepared for and only for the trustee 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 16 November 2017



# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2014

### Financial statements

#### Fund account at 30 June 2017

Amount in £'000	Note	2017			2016				
		ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Employer contributions	3	9,533	45,279	32	54,844	31,485	40,612	1,737	73,834
Employee contributions	3	-	4,416	-	4,416	-	3,932	-	3,932
<b>Total contributions</b>		<b>9,533</b>	<b>49,695</b>	<b>32</b>	<b>59,260</b>	<b>31,485</b>	<b>44,544</b>	<b>1,737</b>	<b>77,766</b>
Transfers from other schemes	4	192	7,912	-	8,104	250	4,320	-	4,570
Other income	5	1,193	-	-	1,193	2,183	-	130	2,313
		<b>10,918</b>	<b>57,607</b>	<b>32</b>	<b>68,557</b>	<b>33,918</b>	<b>48,864</b>	<b>1,867</b>	<b>84,649</b>
Benefits	6	(155,187)	(8,514)	(8,071)	(171,772)	(151,401)	(8,747)	(8,009)	(168,157)
Payments to and on account of leavers	7	-	(294)	-	(294)	-	(453)	-	(453)
Transfers to other schemes	8	(140,998)	(8,972)	-	(149,970)	(43,161)	(4,587)	-	(47,748)
Other payments	9	(1,634)	-	-	(1,634)	(1,258)	-	-	(1,258)
Administrative expenses	10	(4,686)	-	(49)	(4,735)	(4,559)	-	(19)	(4,578)
		<b>(302,505)</b>	<b>(17,780)</b>	<b>(8,120)</b>	<b>(328,405)</b>	<b>(200,379)</b>	<b>(13,787)</b>	<b>(8,028)</b>	<b>(222,194)</b>
<b>Net (withdrawals)/ additions from dealings with members</b>		<b>(291,587)</b>	<b>39,827</b>	<b>(8,088)</b>	<b>(259,848)</b>	<b>(166,461)</b>	<b>35,077</b>	<b>(6,161)</b>	<b>(137,545)</b>
<b>Net returns on investments</b>									
Investment income	11	228,593	1	1,955	230,549	231,386	2	2,143	233,531
Change in market value of investments	12	188,431	32,853	10,608	231,892	891,843	7,008	25,246	924,097
Investment management expenses	13	(7,825)	-	(472)	(8,297)	(9,052)	-	(218)	(9,270)
		<b>409,199</b>	<b>32,854</b>	<b>12,091</b>	<b>454,144</b>	<b>1,114,177</b>	<b>7,010</b>	<b>27,171</b>	<b>1,148,358</b>
<b>Net increase in the fund</b>		<b>117,612</b>	<b>72,681</b>	<b>4,003</b>	<b>194,296</b>	<b>947,716</b>	<b>42,087</b>	<b>21,010</b>	<b>1,010,813</b>
<b>Opening net assets</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>
<b>Closing net assets</b>		<b>7,405,968</b>	<b>255,229</b>	<b>196,347</b>	<b>7,857,544</b>	<b>7,288,356</b>	<b>182,548</b>	<b>192,344</b>	<b>7,663,248</b>

The notes on pages 42 to 60 form part of these financial statements.

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### Financial statements

#### Statement of net assets available for benefits as at 30 June 2017

Amount in £'000	Note	2017							2016
		ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
<b>Investment assets</b>									
<b>Direct investments</b>									
Equities	12	1,218,937	-	-	1,218,937	1,098,455	-	-	1,098,455
Bonds	12	4,466,005	-	101,263	4,567,268	4,361,806	-	110,104	4,471,910
Pooled investment vehicles	15	574,930	245,248	94,339	914,517	544,291	172,754	80,298	797,343
Derivatives	16	137,218	-	-	137,218	235,011	-	-	235,011
Interest in SLP		860,000	-	-	860,000	893,000	-	-	893,000
AVC investments	12	-	9,955	-	9,955	-	10,058	-	10,058
Other investment balances	19	158,983	-	1,281	160,264	367,819	-	799	368,618
		<b>7,416,073</b>	<b>255,203</b>	<b>196,883</b>	<b>7,868,159</b>	<b>7,500,382</b>	<b>182,812</b>	<b>191,201</b>	<b>7,874,395</b>
<b>Investment liabilities</b>									
Derivatives	16	(4,298)	-	-	(4,298)	(7,223)	-	-	(7,223)
Other investment balances	19	(64,535)	-	(270)	(64,805)	(258,476)	-	(328)	(258,804)
		<b>(68,833)</b>	<b>-</b>	<b>(270)</b>	<b>(69,103)</b>	<b>(265,699)</b>	<b>-</b>	<b>(328)</b>	<b>(266,027)</b>
<b>Net investment assets</b>									
		<b>7,347,240</b>	<b>255,203</b>	<b>196,613</b>	<b>7,799,056</b>	<b>7,234,683</b>	<b>182,812</b>	<b>190,873</b>	<b>7,608,368</b>
Current assets	25	68,851	420	48	69,319	65,888	390	1,922	68,200
Current liabilities	26	(10,123)	(394)	(314)	(10,831)	(12,215)	(654)	(451)	(13,320)
<b>Net assets available for benefits</b>									
		<b>7,405,968</b>	<b>255,229</b>	<b>196,347</b>	<b>7,857,544</b>	<b>7,288,356</b>	<b>182,548</b>	<b>192,344</b>	<b>7,663,248</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 22 to 27 of the Annual Report and these financial statements should be read in conjunction with this report.

The notes on [pages 42 to 60](#) form part of these financial statements.

The financial statements on [pages 40 to 60](#) were approved by the trustees on 15 November 2017 and are signed on their behalf by:

Trustee name David Sims

Signature 

Date 15 November 2017

### Financial statements

#### Notes to the financial statements

##### 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, Bishop's 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"). The Trustee has elected to early-adopt the changes proposed by the FRC in Amendments to FRS 102 – Fair Value Hierarchy Disclosures to align the reporting standards more consistently with International Financial Reporting Standards (IFRS).

##### Accounting policies

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

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

### Financial statements

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

closing out the contract at the reporting 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 trustee's 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 investments have been valued by the investment manager based on the net present value of the future cash flows. The method used is the mark-to-model (MTM). Investments are only recognised once payment has been made. Any delayed drawdowns are shown as loan commitments.

#### 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 trustee's 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.

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### Financial statements

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

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. 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.

### 3. Contributions

Amount in £'000	2017			2016				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
<b>Employer contributions</b>								
Normal	-	45,279	-	45,279	24,885	40,612	-	65,497
Deficit funding	-	-	-	-	-	-	1,700	1,700
Augmentation	3,499	-	-	3,499	1,444	-	-	1,444
Group life premium	1,634	-	-	1,634	856	-	-	856
Expense contributions	4,400	-	32	4,432	4,300	-	37	4,337
	9,533	45,279	32	54,844	31,485	40,612	1,737	73,834
<b>Employee contributions</b>								
Additional voluntary contributions	-	4,416	-	4,416	-	3,932	-	3,932
	-	4,416	-	4,416	-	3,932	-	3,932
<b>Total</b>	<b>9,533</b>	<b>49,695</b>	<b>32</b>	<b>59,260</b>	<b>31,485</b>	<b>44,544</b>	<b>1,737</b>	<b>77,766</b>

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

In addition, an annual contribution of £4.4m is being paid to ZPensionBuilder to cover scheme expenses including the PPF Levy.

Other contributions of £32k are also paid to the ES Exec section of the scheme to cover expenses.

No deficit reduction contributions are required because the scheme is in surplus.

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### Financial statements

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

#### 4. Transfers from other schemes

Amount in £'000	2017			2016				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Individual transfers in from other plans	192	7,912	-	8,104	250	4,320	-	4,570
	192	7,912	-	8,104	250	4,320	-	4,570

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.

#### 5. Other income

Amount in £'000	2017			2016				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Claims on term insurance policies	1,193	-	-	1,193	1,112	-	-	1,112
Release of inter company balance	-	-	-	-	1,071	-	130	1,201
	1,193	-	-	1,193	2,183	-	130	2,313

Release of intercompany balance is due to the company writing off a long standing intercompany balance.

#### 6. Benefits

Amount in £'000	2017			2016				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Pensions	(128,462)	-	(8,071)	(136,533)	(121,004)	-	(7,949)	(128,953)
Commutation of pensions and lump sum retirement benefits	(22,524)	(8,502)	-	(31,026)	(27,183)	(8,733)	(60)	(35,976)
Lump sum death benefits	(1,821)	(12)	-	(1,833)	(1,992)	(14)	-	(2,006)
Annual allowance exceeded	(2,380)	-	-	(2,380)	(1,222)	-	-	(1,222)
	(155,187)	(8,514)	(8,071)	(171,772)	(151,401)	(8,747)	(8,009)	(168,157)

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.

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

Amount in £'000	2017			2016				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Purchase of annuities on retirement	-	(294)	-	(294)	-	(453)	-	(453)
	-	(294)	-	(294)	-	(453)	-	(453)

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### Financial statements

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

#### 8. Transfers to other schemes

Amount in £'000	2017			2016				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Individual transfers out to other schemes	(140,998)	(8,972)	-	(149,970)	(43,161)	(4,587)	-	(47,748)
	(140,998)	(8,972)	-	(149,970)	(43,161)	(4,587)	-	(47,748)

#### 9. Other payments

Amount in £'000	2017			2016				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Premiums on term insurance policies	(1,634)	-	-	(1,634)	(1,258)	-	-	(1,258)
	(1,634)	-	-	(1,634)	(1,258)	-	-	(1,258)

From 1 January 2016 the life insurance premium is being re-imbursed to the scheme by the company.

The invoice was paid after year end and has been accrued.

#### 10. 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	2017			2016				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Trustee Training	(10)	-	-	(10)	(11)	-	-	(11)
Trustee Fees	(138)	-	-	(138)	(95)	-	-	(95)
Auditor fees	(94)	-	-	(94)	(111)	-	-	(111)
Systems costs	(541)	-	-	(541)	(455)	-	-	(455)
Actuarial Fees	(681)	-	(39)	(720)	(232)	-	(14)	(246)
Payroll & Admin costs	(288)	-	(2)	(290)	(271)	-	(2)	(273)
Legal fees	(215)	-	-	(215)	(300)	-	-	(300)
Staff costs & Overheads	(1,254)	-	(1)	(1,255)	(1,276)	-	-	(1,276)
Industry Fees & PPF	(1,465)	-	(7)	(1,472)	(1,808)	-	(3)	(1,811)
	(4,686)	-	(49)	(4,735)	(4,559)	-	(19)	(4,578)

#### 11. Investment income

Amount in £'000	2017			2016				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Dividends from equities	30,243	-	-	30,243	29,994	-	-	29,994
Income from bonds	124,286	-	1,559	125,845	125,093	-	1,736	126,829
Net receipts from swaps	11,049	-	-	11,049	14,355	-	-	14,355
Annuity income	618	-	31	649	563	-	33	596
Interest on cash deposits	640	1	-	641	1,156	2	54	1,212
Income from SLP	60,000	-	-	60,000	60,000	-	-	60,000
Other investment income	1,757	-	365	2,122	225	-	320	545
	228,593	1	1,955	230,549	231,386	2	2,143	233,531

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

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

#### 12. 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	1,098,455	627,015	(720,373)	213,840	<b>1,218,937</b>
Bonds	4,361,806	1,039,915	(975,362)	39,646	<b>4,466,005</b>
Derivatives	227,788	42,295	(71,768)	(65,395)	<b>132,920</b>
Interest in SLP	893,000	-	-	(33,000)	<b>860,000</b>
Pooled investment vehicles	544,291	20,267	(14,529)	24,901	<b>574,930</b>
<b>ZPensionBuilder net investments</b>	<b>7,125,340</b>	<b>1,729,492</b>	<b>(1,782,032)</b>	<b>179,992</b>	<b>7,252,792</b>
Cash and cash equivalents	109,343	-	-	8,439	<b>94,448</b>
<b>ZPensionBuilder net investments</b>	<b>7,234,683</b>			<b>188,431</b>	<b>7,347,240</b>

##### ZCashBuilder

	Opening Value	Purchases and derivative payments	Sales proceeds and derivative receipts	Change in market value	Closing value
<b>Amount in £'000</b>					
Post 2007 ZCashBuilder Investments	172,754	56,236	(15,091)	31,349	<b>245,248</b>
AVC Investments	10,058	6	(1,613)	1,504	<b>9,955</b>
<b>ZCashBuilder net investments</b>	<b>182,812</b>	<b>56,242</b>	<b>(16,704)</b>	<b>32,853</b>	<b>255,203</b>

##### ESExec

	Opening Value	Purchases and derivative payments	Sales proceeds and derivative receipts	Change in market value	Closing value
<b>Amount in £'000</b>					
Bonds	110,104	8,533	(18,930)	1,556	<b>101,263</b>
Pooled investment vehicles	80,298	7,623	(2,634)	9,052	<b>94,339</b>
<b>ESExec net investments</b>	<b>190,402</b>	<b>16,156</b>	<b>(21,564)</b>	<b>10,608</b>	<b>195,602</b>
Cash and cash equivalents	471				<b>1,011</b>
<b>ESExec net investments</b>	<b>190,873</b>			<b>10,608</b>	<b>196,613</b>



# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### Financial statements

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

#### 13. Investment management expenses

Amount in £'000	2017				2016			
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
Administration	(64)	-	-	(64)	(58)	-	-	(58)
Management	(6,420)	-	(248)	(6,668)	(5,283)	-	(150)	(5,433)
Custody	(292)	-	(247)	(539)	(261)	-	(7)	(268)
Performance measurement	(45)	-	(11)	(56)	(38)	-	(10)	(48)
Performance fees	71	-	36	107	(1,800)	-	(51)	(1,851)
Other advisory fees	(1,075)	-	(2)	(1,077)	(1,612)	-	-	(1,612)
<b>Total</b>	<b>(7,825)</b>	<b>-</b>	<b>(472)</b>	<b>(8,297)</b>	<b>(9,052)</b>	<b>-</b>	<b>(218)</b>	<b>(9,270)</b>

#### 14. Investment transaction costs

Transaction costs are included in the cost of purchases and deducted from sales proceeds in the reconciliation in note 12. Direct transaction costs incurred are analysed as follows;

ZPB Amount in £'000	2017		2016	
	Equities	Total	Equities	Total
Futures	(730)	(730)	(724)	(724)
Commissions	(1,416)	(1,416)	(1,161)	(1,161)
<b>Total</b>	<b>(2,146)</b>	<b>(2,146)</b>	<b>(1,885)</b>	<b>(1,885)</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.

#### 15. Pooled investment vehicles

Amount in £'000	2017				2016			
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
<b>Pooled Investment Vehicles</b>								
<b>Threadneedle Pensions Ltd investments</b>								
Managed Funds - property	184,771	-	6,355	191,126	176,708	-	6,077	182,785
Managed funds - other	56,010	-	84,235	140,245	-	-	70,760	70,760
<b>Threadneedle Investment Funds</b>								
Managed funds - other	-	-	3,749	23,749	54,522	-	3,461	57,983
<b>M&amp;G Funds</b>								
European Loan Fund	334,149	-	-	334,149	313,061	-	-	313,061
Bonds	-	2,730	-	2,730	-	2,735	-	2,735
Cash	-	11,784	-	11,784	-	9,475	-	9,475
Diversified growth	-	198,234	-	198,234	-	134,388	-	134,388
Equity	-	29,570	-	29,570	-	23,357	-	23,357
Property	-	2,554	-	2,554	-	2,758	-	2,758
Shariah	-	376	-	376	-	41	-	41
<b>Total</b>	<b>574,930</b>	<b>245,248</b>	<b>94,339</b>	<b>914,517</b>	<b>544,291</b>	<b>172,754</b>	<b>80,298</b>	<b>797,343</b>

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### Financial statements

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

#### 16. Derivatives

ZPB Amount in £'000			2017			2016
	Assets	Liabilities	Total	Assets	Liabilities	Total
<b>Exchange traded</b>						
Futures	-	-	-	-	(1,953)	(1,953)
<b>Over-the-counter contracts</b>						
Forward foreign currency	140	(248)	(108)	109	(5,270)	(5,161)
Swaps	137,078	(4,050)	133,028	234,902	-	234,902
<b>Total</b>	<b>137,218</b>	<b>(4,298)</b>	<b>132,920</b>	<b>235,011</b>	<b>(7,223)</b>	<b>227,788</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:

**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:

#### Forward foreign currency

Type Amount in £'000	Expires within	Currency		Fair value	
		bought	sold	Asset	Liability
Sell GBP for EUR (1 contracts)	2 months	24	-	-	-
Sell EUR for GBP (4 contracts)	2 months	3,703	(4,350)	-	(118)
Sell USD for GBP (5 contracts)	2 months	13,049	(16,779)	140	-
Sell GBP for USD (3 contracts)	2 months	9,057	(7,098)	-	(130)
Sell MXN for USD (1 contracts)	2 months	226	(4,081)	-	-
Sell HKD for USD (1 contracts)	2 months	92	(720)	-	-
<b>Total</b>				<b>140</b>	<b>(248)</b>

#### Swaps

Type Amount in £'000	Expires within	Nominal value	Fair value	
			Asset	Liability
Pay 6 month LIBOR (10 contracts)	20-30 years	525,099,000	137,078	(4,050)
<b>Total</b>			<b>137,078</b>	<b>(4,050)</b>

The notional principal of the swap is the amount used to determine the value of the swapped interest receipts and payments. The terms of the swap contract requires collateral to be obtained or pledged depending whether the outstanding contracts position is a gain or loss. As at 30 June 2017, collateral of £143,850,000 (2016:£nil) relates to balances pledged by the counterparties to the scheme, held with the custodian and not recognised in the scheme's assets. As at 30 June 2017, collateral of £1,140,000

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### Financial statements

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

(2016:£229,586,000) relates to balances pledged by the scheme to the counterparties, held with the counterparties' custodian and derecognised as cash and recognised as a collateral receivable.

#### 17. 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 asset backed contribution (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. An independent pricing agent, appointed by the General Partner Company, 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%.

The Scottish Limited Partnership (SLP) was valued by an independent pricing agent at 30 June 2017 (£860m). This valuation was based on a number of assumptions and economic variables. The most important were:

- Assumed returns on scheme assets
- Volatility of returns on scheme assets
- Gilt yield curve
- Expected inflation
- An illiquidity premium
- Market Conditions
- Default recovery rate

All of the assumptions were applied when determining the fair value.

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.

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

Previously, 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.

From April 2007, members of ZPensionBuilder were allowed to make additional contributions into ZCashBuilder. Currently, 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 for each member and are not separately distinguishable.

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

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### Financial statements

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

#### 19. Cash and cash equivalents

Amount in £'000	2017			2016				
	ZPB	ZCB	ESExec	Total	ZPB	ZCB	ESExec	Total
<b>Investment assets</b>								
Cash-sterling	48,146	-	644	48,790	271,068	-	34	271,102
Cash-foreign currency	44,802	-	-	44,802	31,354	-	-	31,354
Variation margin	-	-	-	-	2,998	-	-	2,998
Income receivable	37,642	-	401	38,043	36,980	-	447	37,427
Income tax recoverable	1,759	-	-	1,759	1,780	-	2	1,782
Balances due from brokers	25,494	-	236	25,730	23,639	-	316	23,955
Obligation to return collateral	1,140	-	-	1,140	-	-	-	-
	<b>158,983</b>	<b>-</b>	<b>1,281</b>	<b>160,264</b>	<b>367,819</b>	<b>-</b>	<b>799</b>	<b>368,618</b>
<b>Investment liabilities</b>								
Balances due to brokers	(64,535)	-	(270)	(64,805)	(28,890)	-	(328)	(29,218)
Obligation to return collateral	-	-	-	-	(229,586)	-	-	(229,586)
	<b>(64,535)</b>	<b>-</b>	<b>(270)</b>	<b>(64,805)</b>	<b>(258,476)</b>	<b>-</b>	<b>(328)</b>	<b>(258,804)</b>
	<b>94,448</b>	<b>-</b>	<b>1,011</b>	<b>95,459</b>	<b>109,342</b>	<b>-</b>	<b>470</b>	<b>109,814</b>

#### 20. 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 can be allocated to members or not, and therefore available to the trustees to apply as specified in the scheme rules, as follows:

	2017	2016
	Total	Total
Not allocated to members	2,406	2,451
Allocated to members	252,797	180,361
	<b>255,203</b>	<b>182,812</b>

#### 21. 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.

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### Financial statements

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

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

Amount in £'000	1	2	3	2017 Total
<b>ZPensionBuilder section</b>				
<b>Direct investments</b>				
Equities and convertibles	1,211,061	1,810	6,066	1,218,937
Bonds	4,345,131	-	120,874	4,466,005
Derivatives	-	132,920	-	132,920
Interest in SLP	-	-	860,000	860,000
Pooled Investment Vehicles	37,345	352,814	184,771	574,930
Cash and cash equivalents	94,448	-	-	94,448
<b>ESExec section</b>				
Bonds	101,263	-	-	101,263
Pooled Investment Vehicles	-	-	94,339	94,339
Cash and cash equivalents	1,011	-	-	1,011
<b>ZCashBuilder section</b>				
Pooled investments	-	255,203	-	255,203
	<b>5,790,259</b>	<b>742,747</b>	<b>1,266,050</b>	<b>7,799,056</b>

The Interest in Scottish Limited Partnership (SLP) was independently priced by Barnett Waddingham as at 30 June. The valuation was based on a number of assumptions and economic variables. More details are shown in Note 17.

The bonds shown in category 3 relate to infrastructure debt. The debt has been priced using a Mark To Market Model which relies on financial assumptions. The significant assumptions relate to interest and inflation rates which are based on market information. The sensitivity of the valuation to 1% change in interest rates/ inflation rates expectations is £17m and £21m respectively.

The valuations of both assets are sensitive to reasonably possible alternative assumptions.

Category	1	2	3	2016 Total
<b>ZPensionBuilder 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 cash equivalents	77,482	31,861	-	109,343
<b>ESExec section</b>				
Bonds	110,104	-	-	110,104
Pooled Investment Vehicles	-	-	80,298	80,298
Cash and cash equivalents	-	471	-	471
<b>ZCashBuilder 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>

### Financial statements

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

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## 22. 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.

### 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 Section 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 table on the following page, the notes explain how the risk is managed and mitigated for the different classes:

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### Financial statements

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

Amount in £'000	2017	2016
	Total	Total
<b>ZPensionBuilder section</b>		
Bonds	4,466,005	4,361,806
Derivatives	132,920	227,788
SLP	860,000	893,000
Pooled Investment Vehicles	574,930	544,291
Cash and cash equivalents	94,448	109,343
<b>Total</b>	<b>6,128,303</b>	<b>6,136,229</b>
<b>ESExec section</b>		
Bonds	101,263	110,104
Pooled Investment Vehicles	94,339	80,298
Cash and cash equivalents	1,011	471
<b>Total</b>	<b>6,324,916</b>	<b>6,327,102</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 (Over The Counter). 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 16). 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 by a guarantee from Zurich Insurance Company Ltd and generates an income of £60m annually. Credit risk is reduced by Zurich Financial Services (UKISA) Limited, the Principal Employer, agreeing to procure that the employers become responsible for continuing payment of contributions of at least £60m per annum payable by 30 June each year (as explained in Note 17).

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 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.

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### Financial statements

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

##### 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 16). The exposure at the current and previous year-ends was:

Amount in '000	2017	2016
	Exposure	Exposure
Australian dollar (AUD)	2,293	1,992
Brazilian real (BRL)	15,075	7,880
British pound sterling (GBP)	6,536,292	6,425,187
Canadian dollar (CAD)	2,241	4,174
Czech koruna (CZK)	6,190	3,215
Danish krone (DKK)	10,417	9,574
Euro (EUR)	162,327	141,659
Hong Kong dollar (HKD)	27,341	28,008
Indonesian rupiah (IDR)	10,246	4,129
Japanese yen (JPY)	92,368	93,685
Malaysian ringgit (MYR)	-	2,293
Mexican peso (MXN)	16,544	10,957
New Taiwan dollar (TWD)	25,215	19,330
Norwegian krone (NOK)	2,365	1,410
Philippine peso (PHP)	1,949	5,822
Polish zloty (PLN)	10,961	6,174
South African rand (ZAR)	18,063	14,587
South Korean won (KRW)	25,362	14,106
Swedish krona (SEK)	21,409	14,368
Swiss franc (CHF)	21,752	30,406
Thai baht (THB)	7,952	8,817
Turkish lira (TRY)	5,935	2,943
United States dollar (USD)	331,048	322,267
<b>Total</b>	<b>7,353,345</b>	<b>7,172,983</b>

##### 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, 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.

The scheme has also recently reviewed its long-term investment strategy. The new strategy includes an allocation to Liability Driven Investments which reduces exposure to interest & inflation rate risks.



### Financial statements

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

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##### 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.

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

Given the nature of the SLP asset, sale to a third party purchaser is unlikely. Whilst this gives rise to illiquidity risk, the Trustees consider that the SLP meets the definition of a financial asset as defined by FRS 102 given the security of the future cash flows.

##### 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 and 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

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.

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### Financial statements

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

##### Credit risk

ZCashBuilder is subject to direct credit risk in relation to Zurich Assurance Ltd through its holdings in the above funds. 2017:£245,248,000 (2016: £172,754,000)

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.

### 23. Concentration of investments

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

Amount in £'000	2017		2016	
	Value	%	Value	%
<b>ZPensionBuilder</b>				
Interest in SLP	860,000	10.94%	893,000	11.65%
<b>Total</b>	<b>860,000</b>		<b>893,000</b>	

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### Financial statements

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

#### 24. Additional analysis of investments

Amount in £'000	2017			2016			Total
	ZPB	ZCB	ESExec	ZPB	ZCB	ESExec	
<b>Investment Assets</b>							
<b>Direct investments</b>							
<b>Equities and convertibles</b>							
UK quoted	438,915	-	-	438,915	408,753	-	408,753
Overseas quoted	780,022	-	-	780,022	689,702	-	689,702
<b>Equities and convertibles</b>	<b>1,218,937</b>	<b>-</b>	<b>-</b>	<b>1,218,937</b>	<b>1,098,455</b>	<b>-</b>	<b>1,098,455</b>
<b>Index linked securities</b>							
UK public sector	963,354	-	52,768	1,016,122	972,200	53,268	1,025,468
UK other	287,145	-	-	287,145	273,802	-	273,802
<b>Fixed Interest Securities</b>							
UK government securities	1,662,806	-	48,495	1,711,301	1,744,421	56,836	1,801,257
UK corporate bonds	757,148	-	-	757,148	683,453	-	683,453
Overseas government and corporate bonds	674,678	-	-	674,678	651,469	-	651,469
Infrastructure Debt	120,874	-	-	120,874	36,461	-	36,461
<b>Bonds</b>	<b>4,466,005</b>	<b>-</b>	<b>101,263</b>	<b>4,567,268</b>	<b>4,361,806</b>	<b>110,104</b>	<b>4,471,909</b>
<b>Derivatives</b>							
Foreign currency instruments	140	-	-	140	109	-	109
Swaps	137,078	-	-	137,078	234,902	-	234,902
<b>Derivatives</b>	<b>137,218</b>	<b>-</b>	<b>-</b>	<b>137,218</b>	<b>235,011</b>	<b>-</b>	<b>235,011</b>
<b>Interest in SLP</b>	<b>860,000</b>	<b>-</b>	<b>-</b>	<b>860,000</b>	<b>893,000</b>	<b>-</b>	<b>893,000</b>
<b>Pooled Investment Vehicles</b>							
<b>Threadneedle Pensions Ltd investments</b>							
Managed Funds - property	184,771	-	6,355	191,126	176,708	6,077	182,785
Managed funds - other	-	-	84,235	84,235	-	70,760	70,760
Exchange traded funds							
Threadneedle Investment Funds investments							
Managed funds - other	56,010	-	3,749	59,759	54,522	3,461	57,983
M&G European loan fund	334,149	-	-	334,149	313,061	-	313,061
Post 2007 ZCashBuilder Investments	-	245,248	-	245,248	-	172,754	172,754
<b>Pooled Investment Vehicles</b>	<b>574,930</b>	<b>245,248</b>	<b>94,339</b>	<b>914,517</b>	<b>544,292</b>	<b>172,754</b>	<b>797,344</b>
ZPen Supplementary funds	-	2,779	-	2,779	-	2,884	2,884
Pre 2007 AVCs	-	7,176	-	7,176	-	7,174	7,174
Balances due from brokers	25,494	-	236	25,730	23,639	316	23,955
Cash and deposits	92,948	-	644	93,592	302,422	34	302,456
Variation Margin	-	-	-	-	2,998	-	2,998
Income Receivable	37,642	-	401	38,043	36,980	447	37,427
Income Tax Recoverable	1,759	-	-	1,759	1,780	2	1,782
Obligation to return collateral	1,140	-	-	1,140	-	-	-
<b>Cash and cash equivalents</b>	<b>158,983</b>	<b>9,955</b>	<b>1,281</b>	<b>170,219</b>	<b>367,820</b>	<b>10,058</b>	<b>378,676</b>
<b>Total Assets</b>	<b>7,416,073</b>	<b>255,203</b>	<b>196,883</b>	<b>7,868,159</b>	<b>7,500,383</b>	<b>182,812</b>	<b>7,874,396</b>
<b>Investment Liabilities</b>							
<b>Derivatives</b>							
Foreign currency instruments	(248)	-	-	(248)	(5,270)	-	(5,270)
Swap liabilities	(4,050)	-	-	(4,050)	-	-	-
<b>Derivatives</b>	<b>(4,298)</b>	<b>-</b>	<b>-</b>	<b>(4,298)</b>	<b>(5,270)</b>	<b>-</b>	<b>(5,270)</b>
Fixed income futures	-	-	-	-	(1,953)	-	(1,953)
<b>Cash and cash equivalents</b>	<b>(64,535)</b>	<b>-</b>	<b>(270)</b>	<b>(64,805)</b>	<b>(260,429)</b>	<b>(328)</b>	<b>(260,757)</b>
<b>Total Liabilities</b>	<b>(68,833)</b>	<b>-</b>	<b>(270)</b>	<b>(69,103)</b>	<b>(265,699)</b>	<b>-</b>	<b>(266,027)</b>
<b>Total net investments</b>	<b>7,347,240</b>	<b>255,203</b>	<b>196,613</b>	<b>7,799,056</b>	<b>7,234,684</b>	<b>182,812</b>	<b>7,608,369</b>
<b>Current assets</b>	<b>68,851</b>	<b>420</b>	<b>48</b>	<b>69,319</b>	<b>65,888</b>	<b>390</b>	<b>68,200</b>
<b>Current liabilities</b>	<b>(10,123)</b>	<b>(394)</b>	<b>(314)</b>	<b>(10,831)</b>	<b>(12,215)</b>	<b>(654)</b>	<b>(13,320)</b>
<b>Net assets available for benefits</b>	<b>7,405,968</b>	<b>255,229</b>	<b>196,347</b>	<b>7,857,544</b>	<b>7,288,356</b>	<b>182,548</b>	<b>7,663,248</b>

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### Financial statements

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

#### 25. Current assets

Amount in £'000	2017			2016				
	ZPB	ZCB	ES Exec	Total	ZPB	ZCB	ES Exec	Total
Other debtors	3,179	99	-	3,278	343	107	107	557
Cash balances	65,672	321	48	66,041	65,545	283	1,815	67,643
	<b>68,851</b>	<b>420</b>	<b>48</b>	<b>69,319</b>	65,888	390	1,922	68,200

#### 26. Current liabilities

Amount in £'000	2017			2016				
	ZPB	ZCB	ES Exec	Total	ZPB	ZCB	ES Exec	Total
Unpaid benefits	1,333	384	-	1,717	2,090	654	-	2,744
Tax payable	1,949	-	199	2,148	1,841	-	195	2,036
Accrued Expenses	4,008	10	57	4,075	4,974	-	89	5,063
Amounts due to employer	2,833	-	58	2,891	3,310	-	167	3,477
	<b>10,123</b>	<b>394</b>	<b>314</b>	<b>10,831</b>	12,215	654	451	13,320

#### 27. Contractual commitments and contingent liabilities

At 30 June 2017 the scheme had undrawn commitments to fund infrastructure debt investments amounting to £87,521,346 (2016:£48,758,000). The timing of these commitments is detailed below:

01 August 2017 £6,458,615  
 01 January 2017 £8,399,605  
 01 June 2018 £11,083,157  
 27 June 2018 £18,307,000  
 01 September 2018 £7,113,833  
 01 November 2018 £3,277,883  
 01 January 2019 £2,430,251  
 27 June 2019 £18,307,000  
 27 June 2020 £12,144,000

There were no other contractual commitments or contingent liabilities at 30 June 2017.

#### 28. Related party transactions

Related party transactions and balances comprise:

- Contributions (note 3) include amounts in respect of five trustees and pensions paid (note 6) in respect of five trustees (2016: contributions five, 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 2017 was £255,203,000 (2016:£182,812,000). Of this total, £245,248,000 (2016: £172,754,000) is invested through a Group Investment Only Platform provided by Zurich Assurance Ltd and £6,100,934 (2016: £6,326,972) is invested elsewhere within the Zurich Group.
- As detailed in note 9, 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

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

### Financial statements

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

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.

- e) 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 note 26, as balances due to Zurich group of companies. At the year-end five trustees were in receipt of a pension from the scheme (2016: three). Pensions are calculated in line with the Trust Deed and Rules.

Other than the remuneration disclosed in note 10, the directors of Zurich Financial Services UK Pension Trustee Ltd and key management of the scheme had no material transactions with the scheme.

- f) 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.
- g) Fees and expenses of £138,000 (2016: £95,000) were paid to professional trustees in respect of their services to the scheme and to other trustees as out of pocket expenses.
- h) Other than those items disclosed above and elsewhere in the financial statements, there were no other related party transactions.
- i) All related party transactions were in accordance with the Trustees deed and rules.
- j) There were no indirect investments in the Zurich Group through any of the pooled investment vehicles.

### 29. 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 (2016: Nil)

### 30. Subsequent events

On 12 October 2017 Zurich signed a new strategic partnership with Lloyds Banking Group (LBG). The agreement sees the sale of Zurich Corporate Savings (ZCS) to LBG and Zurich becoming the exclusive partner to LBG in providing corporate protection solutions for their Commercial Banking customers, through Zurich Corporate Risk (ZCR).

The agreement involves a multi-year, exclusive distribution partnership to provide corporate protection solutions via Zurich Corporate Risk to LBG corporate customers as part of its Commercial Banking service.

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

**Opinion**

In our opinion, the contributions required by the schedules of contributions for the scheme year ended 30 June 2017 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 30 June 2015 and 27 June 2017.

We have examined Zurich Financial Services UK Pension Scheme's summary of contributions for the scheme year ended 30 June 2017 which is set out on the following page.

**Basis for opinion**

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 schedules of contributions and the timing of those payments.

**Responsibilities for the statements about contributions**

*Responsibilities of the trustee in respect of contributions*

As explained more fully in the statement of trustees' responsibilities, the scheme's trustee is 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 employers in accordance with relevant requirements.

*Auditors' responsibilities in respect of the statement about contributions*

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

*Use of this report*

This report, including the opinion, has been prepared for and only for the trustee 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*

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Bristol

Date 16 November 2017

# Zurich Financial Services UK Pension Scheme

## Annual report for the year ended 30 June 2017

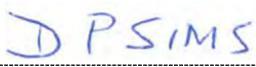
### Summary of Contributions for the year ended 30 June 2017

During the year ended 30 June 2017, the contributions payable to the scheme were as follows:

Amount in £'000	ZPB	ZCB	ESExec	2017 Total
<b>Contributions required by the schedules of contributions</b>				
Normal contributions	-	45,279	-	45,279
Deficit funding	-	-	-	-
Other contributions-	-	-	-	-
Group life premium	1,634	-	-	1,634
Expense contributions	4,400	-	32	4,432
	<b>6,034</b>	<b>45,279</b>	<b>32</b>	<b>51,345</b>
<b>Other contributions</b>				
Augmentations	3,499	-	-	3,499
Additional voluntary	-	4,416	-	4,416
<b>Total</b>	<b>9,533</b>	<b>49,695</b>	<b>32</b>	<b>59,260</b>

The actuary's certificates confirming the adequacy of the contribution rate is shown on the following pages.

The summary of contributions on this page was approved by the trustees on 15 November 2017 and is signed on their behalf by:

Trustee name	David Sims
Signature	
Date	15 November 2017

**Actuarial certification of schedule of contributions**

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**

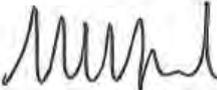
I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected, on 30 June 2013, to be met by the end of the period specified in the recovery plan dated .....28.....August.....2014.....

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

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

Employer: Barnett Waddingham LLP

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

ZPensionBuilder actuarial certificate 27 June 2017

**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 2016, to be met for the period for which the schedule is expected to be in force.

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 27 June 2017.

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: 27 June 2017

Name: Mark A J Howard

Qualification: Fellow of the Institute and Faculty of Actuaries

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

Employer: Barnett Waddingham LLP

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

## **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 2016, to be met for the period for which the schedule is expected to be in force.

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 27 June 2017.

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:	27 June 2017
Name:	Mark A J Howard	Qualification:	Fellow of the Institute and Faculty of Actuaries
Address:	St James's House St James's Square Cheltenham GL50 3PR	Employer:	Barnett Waddingham LLP