

**ZURICH FINANCIAL SERVICES (UKISA) LIMITED**

**REPORTS AND FINANCIAL STATEMENTS**

**31 DECEMBER 2013**

**COMPANY REGISTRATION NUMBER 01860680**

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**Zurich Financial Services (UKISA) Limited (company registration number 01860680)**

The directors present the strategic report, their report and the audited financial statements for Zurich Financial Services (UKISA) Limited ("the Company") for the year ended 31 December 2013

**STRATEGIC REPORT**

The principal activity of the Company is that of an investment holding company. The Company's main source of income is dividends received from its subsidiaries.

The results for the year are set out on page 6. The loss for the year before taxation amounted to £42.2m (2012: loss of £18.5m). After taking taxation and distributions (see note 17) into account, the amount transferred from reserves was £65.2m (2012: £46.5m).

The Company's 2013 loss before taxation mainly represents amounts written off fixed asset investments, interest payable on loans from fellow group undertakings and preference share payments.

At 31 December 2013, the Company had net assets of £1,966.3m (2012: £2,033.5m) representing mainly the value of its investment in group undertakings, amounts owed by subsidiary undertakings and cash, net of amounts owed to subsidiary and group undertakings.

On 26 June 2013, Zurich Insurance Company ("ZIC"), a fellow group undertaking, provided a loan of £32.0m to the Company at a fixed interest rate of 0.84% with a maturity date of 29 November 2013.

On 26 June 2013, the Company made a capital injection of £19.3m to Zurich Employment Services Limited ("ZES"), see note 11 for more details.

On 30 September 2013, Zurich Assurance Ltd ("ZAL"), a subsidiary undertaking, provided a loan of £38.0m to the Company at a fixed interest rate of 1.28% with a maturity date of 30 September 2014. The proceeds of this loan were used to repay the previous loan from ZAL of £38.0m.

On 1 October 2013, ZIC provided a loan of £28.0m to the Company at a fixed interest rate of 0.62% with a maturity date of 29 November 2013.

On 29 November 2013, ZIC provided a loan of £80.0m to the Company at a fixed interest rate of 0.73% with a maturity date of 29 April 2014. On the same date the previous loans of £32.0m and £28.0m from ZIC were repaid.

Given the nature of the business, the Company's directors are of the opinion that no additional key performance indicators are necessary for an understanding of the development, performance and position of the business other than the performance and position shown in the profit and loss account, statement of total recognised gains and losses, and balance sheet on pages 6 and 7.

The principal risks and uncertainties faced by the Company are mainly in respect of financial instruments. The Company's financial instruments and its exposure to the risks and uncertainties in respect of those financial instruments are summarised in note 15.

The directors do not expect any material changes in the principal activity or the underlying performance of the business in the foreseeable future.

The directors are satisfied that the Company has access to adequate resources to continue in operational existence for the foreseeable future and, accordingly, it is appropriate to continue to use the going concern basis in preparing the financial statements.

By order of the Board

Secretary 

Name IAN RITCHIE

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

Date 16 APRIL 2014

## **Zurich Financial Services (UKISA) Limited**

### **DIRECTORS' REPORT**

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#### **Financial Instruments**

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The Company's principal activity is subject mainly to financial risks. The Company's financial instruments and its exposure to financial risks are summarised in note 15.

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#### **Dividends and Preference Share Payments**

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The directors do not recommend the payment of a final dividend for the year (2012: £nil).

Preference share payments in respect of the non redeemable cumulative preference shares totalling £16.8m (2012: £16.8m) were recognised in the year.

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#### **Subsequent Events**

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On 2 April 2014 the Company received a dividend of £140,000,000 from Eagle Star Holdings Limited.

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#### **Directors**

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The directors who held office during the year and up to the date of signing the financial statements are given below:

E U Angehrn	
J R Dyke	(resigned 25 October 2013)
N J Evans	(appointed 25 March 2014)
N A Freshwater	(appointed 25 October 2013)
S Lewis	
D J Pender	(resigned 1 July 2013)
G P J Shaughnessy	
P Sutton	
O C Tengio	

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

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#### **Statement of Directors' Responsibilities**

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The following statement sets out the responsibilities of the directors in relation to the financial statements of the Company. The report of the auditors shown on pages 4 and 5 sets out their responsibilities in relation to the financial statements.

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

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

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

## Zurich Financial Services (UKISA) Limited

### DIRECTORS' REPORT (continued)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

By order of the Board

Secretary



Name

Ian Ritchie

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

Date

16 April 2014

## **Zurich Financial Services (UKISA) Limited**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF ZURICH FINANCIAL SERVICES (UKISA) LIMITED**

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

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##### **Our opinion**

In our opinion the financial statements, defined below

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

This opinion is to be read in the context of what we say in the remainder of this report

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

The financial statements (the "financial statements"), which are prepared by Zurich Financial Services (UKISA) Limited, comprise

- the balance sheet, as at 31 December 2013,
- the profit and loss account for the year then ended,
- the statement of total recognised gains and losses,
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information

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

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

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

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

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

In addition, we read all the financial and non-financial information in the Reports and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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#### **Opinion on matter prescribed by the Companies Act 2006**

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In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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#### **Other matters on which we are required to report by exception**

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##### **Adequacy of accounting records and information and explanations received**

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

- we have not received all the information and explanations we require for our audit, or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns

We have no exceptions to report arising from this responsibility.

## **Zurich Financial Services (UKISA) Limited**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF ZURICH FINANCIAL SERVICES (UKISA) LIMITED (continued)**

#### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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

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

As explained more fully in the Statement of Directors' Responsibilities set out on pages 2 and 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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



Sue Morling (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Bristol

Date

16 April 2014

**Zurich Financial Services (UKISA) Limited****PROFIT AND LOSS ACCOUNT****for the year ended 31 December 2013**

	Note	2013 £m	2012 £m
Income from Shares in Group Undertakings	2	-	33 0
Administrative Expenses		(2.2)	(2 2)
<b>Operating (Loss)/Profit</b>		<b>(2.2)</b>	<b>30 8</b>
Net Amounts Written Off Fixed Asset Investments	11	(18 3)	(28 4)
<b>(Loss)/Profit on Ordinary Activities Before Interest and Taxation</b>		<b>(20.5)</b>	<b>2 4</b>
Interest Receivable and Similar Income	6	1.6	1 7
Interest Payable and Similar Charges	7	(6 5)	(5 7)
Preference Share Payments	8	(16 8)	(16 8)
Foreign Exchange Losses		-	(0 1)
<b>Loss on Ordinary Activities Before Taxation</b>		<b>(42.2)</b>	<b>(18 5)</b>
Tax on Loss on Ordinary Activities	10	10 6	11 4
<b>Loss for the Financial Year</b>		<b>(31.6)</b>	<b>(7 1)</b>

All amounts above are in respect of continuing operations

There are no material differences between the Loss on Ordinary Activities Before Taxation and the Loss for the Financial Year stated above and their historical cost equivalents

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES****for the year ended 31 December 2013**

	Note	2013 £m	2012 £m
<b>Loss for the Financial Year</b>		<b>(31.6)</b>	<b>(7 1)</b>
(Losses)/Gains Recognised on the Pension Scheme	22	(2.6)	1 0
Movement in Deferred Tax Relating to the Pension Scheme	22	0.2	(0 5)
<b>Total Recognised Losses Relating to the Year</b>		<b>(34.0)</b>	<b>(6 6)</b>

**Zurich Financial Services (UKISA) Limited****BALANCE SHEET****at 31 December 2013**

	Note	2013 £m	2012 £m
<b><u>Fixed Assets</u></b>			
Investments			
Investments in Group Undertakings	11	2,312 0	2,311 0
Loans to Subsidiary Undertakings	15	21 0	21 0
		<u>2,333.0</u>	<u>2,332 0</u>
<b><u>Current Assets</u></b>			
Debtors	12	6.7	6 9
Cash at Bank and in Hand		9.3	9 8
		<u>16 0</u>	<u>16 7</u>
Creditors Amounts Falling Due Within One Year	13	(142.8)	(76 8)
<b>Net Current Liabilities</b>		<u>(126 8)</u>	<u>(60 1)</u>
<b>Total Assets Less Current Liabilities</b>		<b>2,206.2</b>	<b>2,271 9</b>
Creditors Amounts Falling Due After More Than One Year	14	(234.0)	(234 0)
<b>Net Assets before Provisions for Employee Retirement Benefits</b>		<u>1,972.2</u>	<u>2,037 9</u>
Provisions for Employee Retirement Benefits	22	(5.9)	(4 4)
<b>Net Assets</b>		<u>1,966 3</u>	<u>2,033 5</u>
<b><u>Capital and Reserves</u></b>			
Called Up Share Capital	16	1,492 1	1,492 1
Capital Reserve	17	190 0	190 0
Profit and Loss Account	17	(160 7)	(93 1)
<b>Total Shareholder's Funds</b>	17	<u>1,521.4</u>	<u>1,589 0</u>
Subordinated Loans Designated as Equity	18	444 9	444 5
<b>Capital and Reserves Attributable to Equity Holders of the Company</b>		<u>1,966.3</u>	<u>2,033 5</u>

The financial statements on pages 6 to 21 were approved by the Board on 16 April 2014 and were signed on its behalf by

Director



Name

NEIL EVANS



**NOTES TO THE FINANCIAL STATEMENTS**

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**1 Accounting Policies**

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**1.1 Basis of Presentation**

The financial statements have been prepared in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards

The accounting policies have been consistently applied to all years presented

The Company has taken advantage of the exemption contained within section 401 of the Companies Act 2006 and Financial Reporting Standard ("FRS") 2 'Accounting for Subsidiary Undertakings' and has not produced consolidated financial statements for the year ended 31 December 2013, since it is a wholly owned subsidiary undertaking of a parent company that prepares consolidated financial statements

**1.2 Cash Flow Statement**

The Company qualifies as exempt from the requirement to produce a cash flow statement under FRS 1 'Cash Flow Statements (Revised 1996)' since it is a wholly owned subsidiary undertaking of a parent company that prepares publicly available consolidated financial statements

**1.3 Going Concern**

The going concern basis has been applied as the Directors are satisfied that the Company has access to sufficient cash resources to meet its liabilities for the foreseeable future

**1.4 Pension Costs**

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

**ZPen Section**

The majority of active members in ZPen are employees of either ZES or Zurich UK General Services Limited ("ZUKGS") In December 2008 ZES and ZUKGS agreed an allocation basis to apportion the underlying assets and liabilities and pension costs for the defined benefit scheme within ZPen, to be applied from 31 December 2008 onwards As a result ZES and ZUKGS have applied defined benefit accounting in their respective accounts, effective from 31 December 2008

**ES Executives' Section**

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

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

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

**1.5 Dividends**

Dividends receivable from group undertakings are recognised in the year in which the dividends are paid

## **Zurich Financial Services (UKISA) Limited**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

#### **1. Accounting Policies (continued)**

##### **1 6 Fixed Asset Investments**

Shares in group undertakings are valued at cost or, where there has been impairment in value, at their recoverable amount being the higher of net asset value or value in use

The impairment of the group undertakings is considered when there is an indication that impairment may be required

##### **1 7 Subordinated Loans Designated as Equity**

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

##### **1 8 Foreign Currencies**

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

##### **1 9 Preference Shares**

The £160.0m non redeemable cumulative preference shares issued by the Company on 19 December 2008 are classified within creditors amounts falling due in more than one year in the Balance Sheet to reflect the contractual obligation to make cash payments

##### **1 10 Deferred Tax**

Deferred tax liabilities and deferred tax assets are recognised, using the liability method, on all material timing differences. Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax balances are not discounted. Deferred tax is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total recognised gains and losses. Deferred tax assets are recognised to the extent that it is more likely than not that they are recoverable

##### **1 11 Interest Receivable**

Interest income on bank deposits is accounted for on an accruals basis

#### **2 Income from Shares in Group Undertakings**

	<b>2013 £m</b>	<b>2012 £m</b>
<b>Dividends</b>		
Eagle Star Holdings Limited	-	33.0
<b>Total</b>	-	33.0

**NOTES TO THE FINANCIAL STATEMENTS (continued)****3. Auditors' Remuneration**

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

	<b>2013</b>	<b>2012</b>
	<b>£000</b>	<b>£000</b>
<b>Audit Services*</b>		
Auditors' remuneration in respect of audit services	<b>11</b>	<b>9</b>
<b>Total</b>	<b>11</b>	<b>9</b>
<b>Other Services</b>		
Audit of the Company's subsidiaries	<b>1,595</b>	<b>1,365</b>
Audit related assurance services	<b>356</b>	<b>366</b>
Other services not covered above	<b>132</b>	<b>149</b>
<b>Total</b>	<b>2,083</b>	<b>1,880</b>

**4. Employee Information**

Staff are not employed directly by the Company and accordingly the Company does not incur direct staff or pension costs. The pension costs of the Company relate to past employees of the Zurich Insurance Group Ltd ("ZIG") group. The costs of staff working for the Company in 2013 and 2012 have been borne by another group undertaking.

The principal disclosures in respect of these staff appear in the financial statements of ZES, copies of which can be obtained from The Secretary, Zurich Employment Services Limited, The Zurich Centre, 3000 Parkway, Whiteley, Fareham PO15 7JZ.

**5 Directors' Remuneration**

The remuneration received by the directors of the Company in respect of their services to the Company and its subsidiary undertakings in the year is detailed below

	<b>2013</b>	<b>2012</b>
	<b>£m</b>	<b>£m</b>
Aggregate remuneration	<b>0.9</b>	<b>0.7</b>
Aggregate remuneration – highest paid director	<b>0.8</b>	<b>0.7</b>

The remuneration received by the directors was in respect of their role as directors of subsidiary undertakings of the Company.

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

**6 directors** (2012: **5 directors**) were not paid in respect of their services as director to the Company or any of its subsidiary undertakings.

## **Zurich Financial Services (UKISA) Limited**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

#### **5. Directors' Remuneration (continued)**

Of the **2 directors** (2012 2 directors) who received remuneration in respect of their services to the Company or any of its subsidiary undertakings during the year

- **1 director** (2012 1 director) who served during the year was a member of a defined contribution pension scheme, the associated pension costs of which are accounted for in ZES. The aggregate value of company contributions paid, or treated as paid, in respect of this defined contribution scheme for this director in the year was £42,630 (2012 £24,150)
- **1 director** (2012 1 director) who served during the year is a member of a defined benefit pension scheme.
- **2 directors** (2012 2 directors) who served during the year are members of long-term incentive schemes
- **No director** (2012 no director) who served during the year exercised options over shares in ZIG in the year
- **1 director** (2012 no director) who served during the year received £7,833 compensation for loss of office

The value of the highest paid director's accrued annual pension benefits at 31 December 2013 was £nil (2012 £nil) The highest paid director is a member of a defined contribution scheme (2012 was a member) The aggregate value of company contributions paid, or treated as paid, in respect of that defined contribution scheme for that director in the year was £42,630 (2012 £24,150) The highest paid director did not exercise options over shares in ZIG in the year (2012 did not exercise share options) The highest paid director is a member of a long-term incentive scheme (2012 was a member) The highest paid director has not changed during the course of the year

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

The directors' remuneration in 2013 and 2012 was borne by the respective subsidiary undertakings

#### **6. Interest Receivable and Similar Income**

	<b>2013</b>	<b>2012</b>
	<b>£m</b>	<b>£m</b>
Interest on loans to subsidiary undertakings	<b>1.5</b>	<b>1.6</b>
Interest receivable on cash at bank	<b>0.1</b>	<b>0.1</b>
<b>Total</b>	<b>1.6</b>	<b>1.7</b>

#### **7. Interest Payable and Similar Charges**

	<b>2013</b>	<b>2012</b>
	<b>£m</b>	<b>£m</b>
Interest on loans from group undertakings	<b>4.8</b>	<b>4.6</b>
Interest on loans from subsidiary undertakings	<b>0.6</b>	<b>0.2</b>
Other finance charges (note 22)	<b>1.1</b>	<b>0.9</b>
<b>Total</b>	<b>6.5</b>	<b>5.7</b>

#### **8. Preference Share Payments**

	<b>2013</b>	<b>2012</b>
	<b>£m</b>	<b>£m</b>
<b>Accrued payments on preference shares</b>		
10.99% (2012 10.49%) non-redeemable cumulative preference shares of £1 each	<b>16.8</b>	<b>16.8</b>
<b>Total</b>	<b>16.8</b>	<b>16.8</b>

Under the terms of the preference share agreement, the interest rate was increased from 10.49% to 10.99% on 19 December 2013

**Zurich Financial Services (UKISA) Limited****NOTES TO THE FINANCIAL STATEMENTS (continued)****9. Distribution for Interest Payable on Subordinated Loans Designated as Equity**

	2013 £m	2012 £m
Distribution on £450 0m subordinated loan at an effective interest rate of 7.56%	33.6	33.6
Distribution on £140 0m subordinated loan at an effective interest rate of 6.70%	-	5.8
<b>Total</b>	<b>33.6</b>	<b>39.4</b>

The £140 0m subordinated loan from Zurich Finance (UK) plc was repaid on 16 August 2012

**10. Tax on Loss on Ordinary Activities****(a) Analysis of credit for the year**

	2013 £m	2012 £m
<b>Current Tax:</b>		
- UK corporation tax on losses for the year	(9.8)	(11.5)
- Adjustment in respect of prior years	(0.5)	(0.1)
<b>Total Current Tax</b>	<b>(10.3)</b>	<b>(11.6)</b>
<b>Deferred Tax:</b>		
- Origination and reversal of timing differences	(0.3)	0.2
<b>Total Deferred Tax</b>	<b>(0.3)</b>	<b>0.2</b>
<b>Tax on Loss on Ordinary Activities</b>	<b>(10.6)</b>	<b>(11.4)</b>

**(b) Factors affecting the tax credit for the year**

The tax assessed for the year is lower (2012: lower) than the effective rate of corporation tax in the UK of 23.25% (2012: 24.5%). The differences are explained below:

	2013 £m	2012 £m
Loss on ordinary activities before taxation	(42.2)	(18.5)
Loss on ordinary activities multiplied by the effective rate of corporation tax in the UK of 23.25% (2012: 24.5%)	(9.8)	(4.5)
Effects of:		
- Dividend income not taxable for tax purposes	-	(8.1)
- Preference share payments not deductible for tax purposes	3.9	4.1
- Income not taxable for tax purposes	(0.2)	(0.2)
- Expenses not deductible for tax purposes	4.1	6.8
- Distributions paid on subordinated loans treated as equity deductible for tax purposes	(7.8)	(9.6)
- Adjustments to tax credit in respect of prior years	(0.5)	(0.1)
<b>Current tax credit for the year</b>	<b>(10.3)</b>	<b>(11.6)</b>

**(c) Factors affecting future tax charges**

The UK corporation tax rate reduced from 24% to 23% with effect from 1 April 2013.

Further reductions to the UK corporation tax rate to 21% with effect from 1 April 2014 and then to 20% with effect from 1 April 2015 were substantively enacted on 2 July 2013.

**Zurich Financial Services (UKISA) Limited****NOTES TO THE FINANCIAL STATEMENTS (continued)****11. Investments in Group Undertakings**

	<b>2013</b>	<b>2012</b>
	<b>£m</b>	<b>£m</b>
Shares in group undertakings	<b>2,312.0</b>	2,311.0
Cost	<b>3,318.7</b>	3,299.4

The principal subsidiary undertakings of the Company as at 31 December 2013 are set out in note 23

The directors have considered the value of each of the Company's investments in subsidiary undertakings as at 31 December 2013 and are satisfied that the value of each investment is not less than the amount at which it is stated in the balance sheet

The movement in the year comprises

	<b>2013</b>
	<b>£m</b>
At 1 January	<b>2,311.0</b>
Additions	19.3
Impairments	(19.3)
Reversal of previous impairment	1.0
<b>At 31 December</b>	<b>2,312.0</b>

**Additions**

On 26 June 2013, the Company subscribed for 1,928,000,000 ordinary shares of £0.01 each in ZES for a consideration of £19.3m

**Impairments**

The value of the Company's investments in the following group undertakings was impaired in the year as follows

	<b>2013</b>	<b>2012</b>
	<b>£m</b>	<b>£m</b>
Allied Dunbar Assurance plc	-	9.1
Zurich Employment Services Limited	<b>19.3</b>	19.3
<b>Total</b>	<b>19.3</b>	28.4

The impairments made on the Company's investments in the following group undertakings in prior years have been reversed as indicated below

	<b>2013</b>	<b>2012</b>
	<b>£m</b>	<b>£m</b>
Allied Dunbar Assurance plc	<b>1.0</b>	-
<b>Total</b>	<b>1.0</b>	-

**12 Debtors**

	<b>2013</b>	<b>2012</b>
	<b>£m</b>	<b>£m</b>
Amounts owed by fellow group undertakings (see note 15)	<b>0.1</b>	6.1
Corporation Tax recoverable	<b>5.4</b>	-
Other debtors	<b>1.2</b>	0.8
<b>Total</b>	<b>6.7</b>	6.9

**Zurich Financial Services (UKISA) Limited****NOTES TO THE FINANCIAL STATEMENTS (continued)****13. Creditors: Amounts Falling Due Within One Year**

	<b>2013</b>	<b>2012</b>
	<b>£m</b>	<b>£m</b>
Amounts owed to subsidiary undertakings (see note 15)	<b>61.3</b>	62.7
Amounts owed to fellow group undertakings (see note 15)	<b>81.3</b>	1.0
Corporation tax payable	-	12.8
Other creditors	<b>0.2</b>	0.3
<b>Total</b>	<b>142.8</b>	76.8

Included within the amounts owed to subsidiary undertakings is a senior loan of £38.0m (2012 £38.0m) from ZAL. The loan has a fixed interest rate of 1.28%, with a maturity date of 30 September 2014. Included within the amounts owed to group undertakings is a senior loan of £80.0m (2012 £nil) from ZIC. The loan has a fixed interest rate of 0.73% with a maturity date of 29 April 2014.

**14. Creditors: Amounts Falling Due After More Than One Year**

	<b>2013</b>	<b>2012</b>
	<b>£m</b>	<b>£m</b>
Amounts owed to group undertakings		
Subordinated Loans	<b>74.0</b>	74.0
10.99% (2012 10.49%) non redeemable cumulative preference shares of £1 each	<b>160.0</b>	160.0
<b>Total</b>	<b>234.0</b>	234.0

On 23 May 2011, the Company entered into a Subordinated Loan Agreement with Zurich Finance (Luxembourg) S.A. The outstanding loan amount of £74.0m (2012 £74.0m) matures on 30 June 2020 and interest is charged on the outstanding amount at 6.22% (2012 6.22%).

Holders of the non redeemable cumulative preference shares are not entitled to receive notice of general meetings nor entitled to attend or vote at such meetings. On 19 December 2013, under the terms of the agreement the rate of interest was increased from 10.49% to 10.99% of the nominal value of the non redeemable cumulative preference shares. The holders of the non redeemable cumulative preference shares shall not be entitled to participate further in the profits of the Company.

Should the Company have insufficient reserves available for distribution, the Company is prohibited from paying dividends. When distributable reserves become available, the non redeemable cumulative preference dividends are cumulative as to prior years, shall be payable in priority to any other dividend and are recognised in the Profit and Loss Account accordingly.

**15. Financial Instruments and Financial Risk**

At 31 December 2013, the Company had the following financial assets:

- Loans to subsidiary undertakings shown in the table below

	<b>2013</b>	<b>2013</b>	<b>2013</b>	<b>2012</b>	<b>2012</b>	<b>2012</b>
	<b>£m</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>£m</b>	<b>Interest Rate</b>	<b>Maturity Date</b>
<b>Variable interest lending</b>						
Sterling ISA Managers Limited	<b>5.0</b>	<b>3.01%</b>	<b>undated</b>	5.0	3.87%	undated
<b>Total variable interest lending</b>	<b>5.0</b>			5.0		

**Zurich Financial Services (UKISA) Limited****NOTES TO THE FINANCIAL STATEMENTS (continued)****15. Financial Instruments and Financial Risk (continued)**

	2013 £m	2013 Interest Rate	2013 Maturity Date	2012 £m	2012 Interest Rate	2012 Maturity Date
<b>Fixed interest lending</b>						
Sterling ISA Managers Limited	10.0	9.43%	undated	10.0	9.43%	undated
Sterling ISA Managers Limited	2.0	9.43%	undated	2.0	9.43%	undated
Sterling ISA Managers Limited	4.0	6.46%	31 May 21	4.0	6.46%	31 May 21
<b>Total fixed interest lending</b>	<b>16.0</b>			<b>16.0</b>		
<b>Total loans to subsidiary undertakings</b>	<b>21.0</b>			<b>21.0</b>		

In addition to this predominantly fixed interest lending, the Company was owed £0.1m (2012 £6.1m) from fellow group undertakings for accrued interest and other trading balances.

At 31 December 2013, the Company had the following financial liabilities:

- £118.0m (2012 £38.0m) of senior loans, £74.0m (2012 £74.0m) of subordinated loans and £160.0m (2012 £160.0m) of non-redeemable preference shares shown in the table below.

	2013 £m	2013 Fixed Interest Rate	2013 Maturity Date	2012 £m	2012 Fixed Interest Rate	2012 Maturity Date
Amounts owed to subsidiary undertakings						
Senior loans	38.0	1.28%	30 Sep 14	38.0	1.90%	30 Sep 13
Amounts owed to fellow group undertakings						
Senior loans	80.0	0.73%	29 Apr 14	-	-	-
Amounts owed to fellow group undertakings						
Subordinated loans	74.0	6.22%	30 Jun 20	74.0	6.22%	30 Jun 20
Non Redeemable Cumulative Preference Shares	160.0	10.99%	undated	160.0	10.49%	undated
<b>Total</b>	<b>352.0</b>			<b>272.0</b>		

At 31 December 2013, in addition to the above fixed interest borrowings, the Company owed £23.3m (2012 £24.7m) to subsidiary undertakings and £1.3m (2012 £1.0m) to fellow group undertakings for accrued interest and other trading balances.

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

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

The Company has access to a \$1.3bn credit facility as part of a \$3.2bn credit facility provided to the ZIG group.



**Zurich Financial Services (UKISA) Limited****NOTES TO THE FINANCIAL STATEMENTS (continued)****16. Called Up Share Capital**

	2013 £m	2012 £m
<b>Allotted, issued and fully paid:</b>		
Ordinary shares of £1 each	1,492.1	1,492.1

**17 Reconciliation of Movement in Shareholder's Funds and Statement of Reserves**

	Share Capital	Capital Reserve	Profit & loss account	Total 2013	Total 2012
	£m	£m	£m	£m	£m
Opening shareholder's funds	1,492.1	190.0	(93.1)	1,589.0	1,495.0
Loss for the financial year	-	-	(31.6)	(31.6)	(7.1)
Distributions paid on subordinated loans classified as equity (see note 9)	-	-	(33.6)	(33.6)	(39.4)
Capital Contributions	-	-	-	-	140.0
Actuarial (losses) / gains on pension scheme after tax	-	-	(2.4)	(2.4)	0.5
<b>Closing shareholder's funds</b>	<b>1,492.1</b>	<b>190.0</b>	<b>(160.7)</b>	<b>1,521.4</b>	<b>1,589.0</b>

Allied Zurich Holdings Limited ("the Parent Company") made a capital contribution of £140.0m into the Company on 16 August 2012

The capital contributions that the Company received from the Parent Company are shown in the capital reserve. The directors consider the capital reserve to be distributable.

**18. Subordinated Loans Designated as Equity**

	2013 £m	2012 £m
Subordinated Loans Designated as Equity	444.9	444.5

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

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

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

The issue costs on the £450.0m loan are amortised using the effective interest method to allocate all cash flows over the amortisation period, which is the 19 years ending on the interest rate reset date of 2 October 2022. An effective interest rate of 7.56% (2012: 7.56%) was used for the calculation of the amortisation on the loan.

At 31 December 2013, the fair value of the undated subordinated loan was £517.4m (2012: £486.3m). This has been calculated as the present value of future cash flows using a discount rate of 5.09% (2012: 6.13%).

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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**19. Related Party Transactions**

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The Company has taken advantage of an exemption from FRS 8 'Related Party Disclosures' not to disclose transactions with ZIG group undertakings since it is a wholly owned subsidiary undertaking within that group. Balances with ZIG group undertakings are shown on the balance sheet and in notes 12, 13, 14, 15 and 18.

No contract of significance existed at any time during the year in which a director or key manager was materially interested or which requires disclosure as a related party transaction as defined under FRS 8.

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**20. Capital Commitments**

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On 29 March 2011 the Company agreed a loan facility with ZES of £192.8m. Under the terms of the loan agreements, any drawings made by ZES would incur interest at a rate per annum to be notified by the Company at the time of the drawing. The facility matures on 30 June 2020.

On 30 September 2013 the loan facility to the Parent Company for €50.0m matured and was replaced by a loan facility for US \$50.0m. Under the terms of the loan facility agreement, any drawings made by the Parent Company would incur interest at a rate of LIBOR + 30 basis points. The facility matures on 30 September 2014.

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**21. Commitments and Contingent Liabilities**

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Allied Zurich Limited ("AZ") has provided qualifying third party indemnity provisions (as defined in Section 234(2) of the Companies Act 2006) for the benefit of the directors of AZ and also, under section 236(5) of the Companies Act 2006, to the directors of associated UK companies of the ZIG group and the Company. Up to August 2009, the Company provided a counter-indemnity to AZ in respect of UKISA group companies. From August 2009, the Company provided qualifying third party indemnity provisions to newly appointed directors of the Company or other companies within the UKISA group.

On 23 April 2009, the Company entered into a debt conversion agreement with its subsidiary undertaking, Sterling ISA Managers Limited ("SIML"). Subject to certain terms and conditions, the agreement provides for SIML to require that the Company convert certain loans that remain outstanding to ordinary share capital up to a maximum amount of £22.0m (2012: £22.0m). Loans with an indefinite term totalling £17.0m (2012: £17.0m) were convertible under this agreement at the balance sheet date.

The directors have assessed the liabilities arising under the above and in their opinion there is no current need to recognise an obligation.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**22. Pensions and Post-Retirement Benefits**

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

ZPen Section

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

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

ES Executives' Section

The Company continues to apply defined benefit accounting in respect of the pension scheme arrangements of the ES Executives' Section. The date of the last full actuarial valuation of the ES Executives' Section was 30 June 2010, although the values for the scheme's assets and liabilities are based on updated information provided at 31 December 2013. The valuation of the scheme is carried out by Independent Actuaries. The assets are held separately from those of the Company in independently administered funds. There are currently no active members in the ES Executives' Section.

Principal actuarial assumptions are as follows:

	2013	2012
Rate of increase for pensions in payment	3.6%	3.2%
Discount rate	4.4%	4.4%
Rate of inflation - RPI	3.6%	3.2%
Rate of inflation - CPI	2.6%	2.4%

Mortality rates are based on the standard tables, 85% of PNMA00 for males and 85% of PNFA00 for females. Mortality improvements are allowed through the use of the CMI core projection model issued in 2012, with projections applicable to individual members' year of birth with a long-term rate of improvement of 1%.

The assets / (liabilities) of the scheme reported in the Company and the expected rates of returns were:

	Long term rate of return expected at 31 December		Long term rate of return expected at 31 December	
	2013	2013	2012	2012
	£m	%	£m	%
Equities	26.8	7.6	28.2	6.4
Bonds	124.7	5.0	119.6	3.4
Other	4.9	5.5	7.9	6.4
<b>Total market value of assets</b>	<b>156.4</b>		<b>155.7</b>	
<b>Present value of scheme liabilities</b>	<b>(163.8)</b>		<b>(161.1)</b>	
<b>Pension scheme deficit</b>	<b>(7.4)</b>		<b>(5.4)</b>	

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**22. Pensions and Post-Retirement Benefits (continued)**

Equity investments and bonds that are held in plan assets are quoted and valued at the current bid price

Reconciliation of present value of scheme liabilities

	2013 £m	2012 £m
<b>1 January</b>	<b>(161.1)</b>	<b>(160.6)</b>
Current service cost	(0.1)	-
Interest cost	(6.9)	(7.5)
Benefits paid	7.9	8.7
Actuarial loss	(3.6)	(1.7)
<b>31 December</b>	<b>(163.8)</b>	<b>(161.1)</b>

Sensitivity analysis of scheme liabilities

	% Change in assumption	Impact on scheme liabilities
Discount	1% decrease	£1.0m increase
Inflation	1% decrease	£0.5m decrease
Life expectancy	10% increase	£19.0m increase

To illustrate the sensitivity analysis above, a 1% decrease in the discount rate leads to a revised rate of 4.36%, a reduction of 4.4 basis points

Reconciliation of fair value of scheme assets

	2013 £m	2012 £m
<b>1 January</b>	<b>155.7</b>	<b>153.3</b>
Expected return on plan assets	5.8	6.6
Benefits paid	(7.9)	(8.7)
Employer contributions	1.7	1.7
Other costs	0.1	0.1
Actuarial gain	1.0	2.7
<b>31 December</b>	<b>156.4</b>	<b>155.7</b>

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

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields at the balance sheet date. Expected returns on equity investments reflect long term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was a gain of £6.8m (2012: £9.3m)

Analysis of amounts reported in the profit and loss are as follows

	2013 £m	2012 £m
Interest cost	6.9	7.5
Expected return on plan assets	(5.8)	(6.6)
<b>Reported in profit and loss account</b>	<b>1.1</b>	<b>0.9</b>

The amount reported in the profit and loss account in 2013 and 2012 is included within interest payable and similar charges, other finance charges (see note 7)

**NOTES TO THE FINANCIAL STATEMENTS (continued)****22. Pensions and Post-Retirement Benefits (continued)**Actuarial valuation

The last full valuation at 30 June 2010 showed a deficit of £9.7m, as a consequence of which, and following agreement in December 2010, the Company agreed to make deficit reduction contributions of £1.7m per annum to the ES Executives' Section from 1 January 2011, by 30 June each year, for a period of 7 years. The valuation at 30 June 2013 is underway, with the results expected by September 2014.

Amounts for current and previous four years

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Defined benefit obligation	(163.8)	(161.1)	(160.6)	(140.2)	(130.9)
Plan assets	156.4	155.7	153.3	142.2	136.5
<b>(Deficit)/surplus</b>	<b>(7.4)</b>	<b>(5.4)</b>	<b>(7.3)</b>	<b>2.0</b>	<b>5.6</b>
Recognition of asset ceiling	-	-	-	(2.0)	(5.6)
<b>Deficit</b>	<b>(7.4)</b>	<b>(5.4)</b>	<b>(7.3)</b>	<b>-</b>	<b>-</b>

Total amount recognised in statement of total recognised gains and losses – movements

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Experience adjustment on plan assets	1.0	2.7	8.3	6.5	8.4
Experience adjustment on plan liabilities	(3.6)	(1.7)	(20.5)	(11.2)	(1.3)
Movement in recognition of asset ceiling	-	-	2.0	3.6	(5.6)
Amount recognised in the statement of total recognised gains and losses	(2.6)	1.0	(10.2)	(1.1)	1.5
Related deferred tax recognised in the statement of total recognised gains and losses	0.2	(0.5)	2.5	0.3	(0.4)
<b>Total</b>	<b>(2.4)</b>	<b>0.5</b>	<b>(7.7)</b>	<b>(0.8)</b>	<b>1.1</b>

Analysis of amounts reported in balance sheet are as follows

	2013 £m	2012 £m
Pension scheme deficit	(7.4)	(5.4)
Deferred tax asset	1.5	1.0
<b>Reported in balance sheet</b>	<b>(5.9)</b>	<b>(4.4)</b>

At 31 December 2013, as a result of the enacted changes in the corporation tax rate to 21% with effect from 1 April 2014 and then to 20% with effect from 1 April 2015, deferred tax balances have been re-measured at 20% (2012: 23%) on the basis that materially all timing differences are expected to reverse at that rate.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****23. Principal Subsidiary Undertakings****At 31 December 2013**

<b>Company and country of registration or incorporation</b>	<b>Share class</b>	<b>Percentage of nominal value held by the Company</b>	<b>Percentage of nominal value held by subsidiary undertakings</b>
<b>England and Wales</b>			
Zurich Assurance Ltd	ordinary		100 0
Allied Dunbar Assurance plc	ordinary	100 0	
Eagle Star Holdings Limited	ordinary	100 0	
Sterling ISA Managers Limited	ordinary	100 0	
Zurich Employment Services Limited	ordinary	100 0	
Zurich Employment Services Limited	deferred	100 0	
Zurich Intermediary Group Limited	ordinary	100 0	
Zurich Finance (UK) plc	ordinary	100 0	

The principal country in which each of the above named subsidiary undertakings operates is its country of registration or incorporation. The Company has taken advantage of section 410 of the Companies Act 2006 and listed only those operating subsidiary undertakings which, in the opinion of the directors, principally affected the amounts shown in the financial statements.

There has been no change in the percentage of nominal value held by the Company in the principal subsidiary undertakings listed above in the year, apart from the holding in Allied Dunbar Assurance plc which increased to 100% following the acquisition of the one ordinary share previously owned by a third party.

**24. Ultimate Parent Company**

The Company's ultimate parent company and ultimate controlling party is Zurich Insurance Group Ltd, which is incorporated in Switzerland. Zurich Insurance Group Ltd is the parent company of the largest group of companies, of which the Company is a wholly owned subsidiary, for which group accounts are drawn up. Zurich Insurance Company Ltd, which is incorporated in Switzerland, is the parent company of the smallest group of companies, of which the Company is a wholly owned subsidiary, for which group accounts are drawn up. Copies of the consolidated financial statements of Zurich Insurance Group Ltd and Zurich Insurance Company Ltd can be obtained from the Secretary of that company at the following address:

Mythenquai 2  
8002 Zurich  
Switzerland

**25. Subsequent Events**

On 2 April 2014 the Company received a dividend of £140,000,000 from Eagle Star Holdings Limited.