Zurich Life Assurance plc.

Zurich Life Assurance plc
Solvency and Financial Condition Report 2018



Zurich Life Assurance plc.

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All amounts in the Solvency and Financial Condition Report, unless otherwise stated, are shown in Euros, rounded to the nearest hundred thousand with the consequence that the rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts.

Glossary of terms used in this report

ALM	Asset Liability Matching
ALMIC	Asset Liability Management and Investment Committee
BEL	Best Estimate Liability
Board	ZLAP Board of Directors
CBI	Central Bank of Ireland
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIO	Chief Investments Officer
CIFA	Critical or Important Functions or Activities
CRO	Chief Risk Officer
EIOPA	European Insurance and Occupational Pensions Authority
ERM	Enterprise Risk Management
FCR	Financial Condition Report (Swiss regulation)
FINMA	Swiss Financial Market Supervisory Authority
FoE	Freedom of Establishment
FoS	Freedom of Services
GAAP	Generally Accepted Accounting Principles
Group	Zurich Insurance Group of companies
HoAF	Head of Actuarial Function
IAS19	International Accounting Standard concerning employee benefits
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Auditors
INED	Independent Non-Executive Director
LTIP	Long Term Incentive Plans
MCR	Minimum Capital Requirement
ORSA	Own Risk and Solvency Assessment
OSN	Overall Solvency Needs
QRTs	Quantitative Reporting Templates
RACE	Risk and Control Engine
RCC	Risk and Control Committee
RCSA	Risk and Control Self-Assessment
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SST	Swiss Solvency Test
STIP	Short Term Incentive Plans
TRP	Total Risk Profiling
UWP	Unitised with-profits
Z-ECM	Zurich Economic Capital Model
ZIC	Zurich Insurance Company Ltd
ZIG	Zurich Insurance Group of companies
ZLAP	Zurich Life Assurance plc
ZRR	Zurich Remuneration Rules
ZTSL	Zurich Trustee Services Ltd

Executive Summary

About Zurich Life Assurance plc

Zurich Life Assurance plc ('the Company') is one of Ireland's most successful life insurance companies, offering a full range of Pension, Investment and Protection products.

We have been meeting our customers' needs in Ireland for over 40 years and we are committed to the provision of excellent customer service. Our investment team, based in Blackrock, Co. Dublin, is responsible for funds under management of approximately €20.8 billion (at 31/12/2018).

We won a number of industry awards in 2018 including, for the second year in a row, the Brokers Ireland 'Financial Broker Excellence Award', the Product Excellence Award', and 'Investment Excellence Award'.

The Company's Solvency II Solvency Capital Requirement (SCR) ratio (coverage of SCR by Own Funds) was 138% at 31/12/2018.

The Company is a part of the Zurich Insurance Group ('the Group'), a leading multi-line insurance group that serves its customers in global and local markets. With about 53,000 employees, it provides a wide range of general insurance and life insurance products and services in more than 210 countries. The Group's customers include individuals, small businesses, and mid- sized and large companies, including multinational corporations. The Group is headquartered in Zurich, Switzerland, where it was founded in 1872.

The Group manages its capital to an AA level according to its internal economic capital model, Z-ECM. The latest confirmed Z-ECM ratio was 135% at 30/06/2018, well in excess of its 100%-120% target range.

For more information, visit our website www.zurich.ie

Business and Performance (Section A)

Business Overview
The Company has grown strongly since it was established in 1977. Our domestic business mix is typical of the Irish market, including unit-linked, guaranteed protection, unitised with-profit, annuity, group protection and reviewable protection.

We also write life assurance business in various European markets under EU Freedom of Services and Freedom of Establishment provisions, primarily investments and term protection in Italy and Germany respectively.

Our ultimate holding company is Zurich Insurance Group Ltd which is incorporated in Switzerland.

Business Strategy



The Company has a Board-approved strategy in place which sets out the Company's objectives over a three-year period. Our strategic aspiration is to make it compelling for distributors to partner with Zurich to meet customer needs. Our success to date has been based on our ability to understand and respond to the needs of our distribution partners and customers across all areas of our business (e.g. products, pricing, investment offering, technology and service).

Furthermore, we have identified 5 key areas of focus where we can differentiate ourselves from our competitors and take advantage of the identified opportunities in the market. These are:

- Relationships;
- Ease of doing business;
- Innovation;
- Agility; and
- Investment Performance



Performance
Overall, the Company had a strong year in 2018 with record sales, increased New Business Value and continued underlying profit.

The Company's overall underwriting performance in the financial statements was €63.4m for 2018. This is an increase of €1.6m from the underwriting performance of €61.8m in 2017.

Investment income, based on the returns on shareholder assets and assets backing policyholder liabilities, was -€676m in 2018 compared with +€1,044m in 2017. Investment income is dependent on the performance of the financial markets. Investment returns were negative in 2018 due to a fall in the equity markets after having grown strongly in 2017. Investment income on policyholder unit linked assets is closely matched by a corresponding movement in policyholder unit linked liabilities.

There were no material changes to the Company's business profile in 2018.

Executive Summary *continued*

System of Governance (Section B)

ZLAP's board of directors ('the Board') is responsible for the governance and oversight of all aspects of the Company's business.

The Board has delegated broad executive powers to the Chief Executive Officer ('CEO') to manage and operate the Company's business on a day to day basis.

To support the Board and CEO in dispensing their responsibilities, the Company has established a number of committees – these committees meet regularly to discuss and escalate matters as appropriate.

The Company employs a "three lines of defence" model in support of its system of governance. The second line consists of three control functions, Actuarial, Compliance and Risk Management who monitor and challenge the activities of the first line business units such as finance, marketing and product development. The Actuarial function is also responsible for providing certain assurances to the Board in relation to the Company's ability to meet its obligations to policyholders. The third line consists of the Internal Audit function which provides independent assurance to the Board on the adequacy and effectiveness of the risk management framework, internal control system and other elements of the system of governance.

The Company manages its business in accordance with a number of policies and strategies that underpin the Risk Management Framework. The Risk Management Framework considers all risks related to the Company's business, setting out processes which enable those risks to be identified, managed, monitored and mitigated appropriately. The key governing risk management documents are the Company's Risk Appetite Statement, Risk Management Policy, Enterprise Risk Management Framework and the Zurich Risk Policy. The Zurich Risk Policy consists of a suite of risk management processes and procedures that set out the Group's standards for effective risk management that are adopted by the Company as appropriate.

Our key risk management processes include the Own Risk and Solvency Assessment ('ORSA') which considers holistic view of the risks faced by the Company on a forward looking basis including an assessment of overall solvency needs, and the Risk and Control Self-Assessment ('RCSA') which enables the identification and control of risk in our everyday processes. Additionally, our Total Risk Profiling ('TRP') process is used to identify strategic risks.

Risk Profile (Section C)

The Company manages a mix of risks typical to a life assurance company in Ireland.

Our key risks are Market, Underwriting, Credit and Operational risks. We have frameworks in place to monitor and manage all material risks. The frameworks set requirements around the monitoring and measuring of risks, including sensitivity and scenario analysis as required, as well as risk mitigation techniques and the governance around decision making in respect of appropriate risk management. Risks which are less quantifiable through stress testing or other means such as reputational risk are included in these frameworks.

The Company forecasts its financial position incorporating planned new business and other business initiatives for the duration of its business plan under both best estimate and adverse conditions at least annually. This enables the Company to identify risks to its ongoing financial strength and to take any steps necessary to reduce or remove those risks. The Company has also set thresholds for important risk metrics, defined in the Risk Appetite Statement, which are monitored on a more regular basis. Should the metrics approach or exceed the thresholds, appropriate actions will be taken to manage the risk.

In addition to existing risks, the Company also tracks emerging risks in line with its Emerging Risk Policy. A number of risks have been identified, with Brexit uncertainty and Digital Disruption being notable emerging risks at present.

In 2018 the Company implemented a derivative program to reduce its exposure to market risk arising from future fund based fee income. There were no other material changes to the Company's risk profile during 2018.

Valuation for Solvency Purposes (Section D)

The main differences between Solvency II and Irish GAAP valuations are driven by the economic valuations under Solvency II including the earlier recognition of profits and losses.

In addition to the valuation differences, there are a number of classification differences between Solvency II and Irish GAAP relating to differing accounting treatments under the regimes.

Solvency II Technical Provisions remained relatively stable in 2018 as high new business volumes were offset by negative fund growth.

Changes in demographic assumptions, in particular Italian and Domestic Pension lapse assumptions, and changes in unit cost assumptions on the Italian business, also impacted SII Technical Provisions in 2018.

Capital Management (Section E)

Overview
Own Funds refers to the available financial resources, or excess of assets over liabilities, under the Solvency II regime. The Own Funds at 31/12/2018 were €782m (€908m at 31/12/2017), 100% of which were classified as Tier 1. The decrease in the Own Funds in 2018 is mainly driven by a dividend of €110m paid to the shareholder and the effect of negative economic conditions on the Company's future fund based fee income.

The SCR is a measure of the capital required to be held under the Solvency II regime and amounted to €565m at 31/12/2018 (€705m at 31/12/2017). The main driver of the decrease in SCR was the implementation of a derivative program to reduce market risk on future fund based fee income.

The Solvency II SCR ratio (coverage of SCR by Own Funds) was 138% at 31/12/2018 (129% at 31/12/2017). The Central Bank of Ireland ('CBI') requires life offices to maintain solvency coverage of at least 100% of the SCR. There was no incidence of non-compliance with this requirement in 2018.

The Minimum Capital Requirement ('MCR') is the minimum level of available financial resources required and amounted to €198m at 31/12/2018 (€189m at 31/12/2017). The Company's MCR coverage ratio was 395% (coverage of MCR by Own Funds) at 31/12/2018 (481% at 31/12/2017). There was no incidence of non-compliance with the MCR in 2018.

It is possible for companies to apply certain long-term guarantee measures such as the matching adjustment and the volatility adjustment when calculating liabilities. Similarly there are transitional measures which can apply for a period of years after the introduction of Solvency II. These measures require approval by the CBI. The Company is not presently using any such measures.

Zurich Group Capital Position
The Company is part of the Zurich Insurance Group ('the Group'). The Group manages its capital to an AA level according to its internal economic capital model, Z-ECM, calibrated with a confidence level of 99.95 percent. The latest confirmed Z-ECM ratio was 135% at 30 June 2018, well in excess of its 100%-120% target range.

Zurich Group's requirement to hold capital which is sufficient to meet claims with a confidence level of 99.95 percent is significantly more onerous than the Solvency II requirement which requires a confidence level of 99.5 percent.

Information on the SFCR

1. Requirements for the SFCR

Solvency II became effective on 1 January 2016 for all insurance companies and groups regulated in the European Union. One of the primary aims of Solvency II is to provide a more risk-based approach to calculating and monitoring the required levels of capital for insurance companies. It also introduced a requirement for insurance companies to produce a publicly available Solvency and Financial Condition Report to assist customers and other stakeholders in understanding the types of business written, how it is managed and the overall financial condition of the Company, including the amount of regulatory capital required by and available to the Company.

For insurance companies regulated by the CBI, the Solvency and Financial Condition Report is produced in accordance with Article 52 of the Statutory Instrument 485 of 2015, Articles 290 to 303 of the Commission delegated Regulation (EU) 2015/35 and the EIOPA guidelines on reporting and public disclosure (B05-15-109).

2. Note on auditability

In accordance with CBI regulation, sections of this report are subject to review by the statutory auditors, PricewaterhouseCoopers. The narrative sections in scope for review are the following:

- Assets
- Technical Provisions
- Other liabilities
- Alternative methods for valuation
- Solvency Capital Requirement and Minimum Capital Requirement
- Own funds
- Any other information (D.5 and E.6)

These sections relate to the following Quantitative Reporting Templates ('QRTs') which are included in the appendix:

- S.02.01.02
- S.12.01.02
- S.23.01.01
- S.25.01.21
- S.28.01.01

3. Note on materiality

Information to be disclosed is considered to be material if its omission or misstatement could influence the decision-making or the judgement of the users of the document, including the CBI.

4. Approval of the Solvency and Financial Condition Report

This report was reviewed and approved by the Board of Directors of Zurich Life Assurance plc on 10 April 2019.

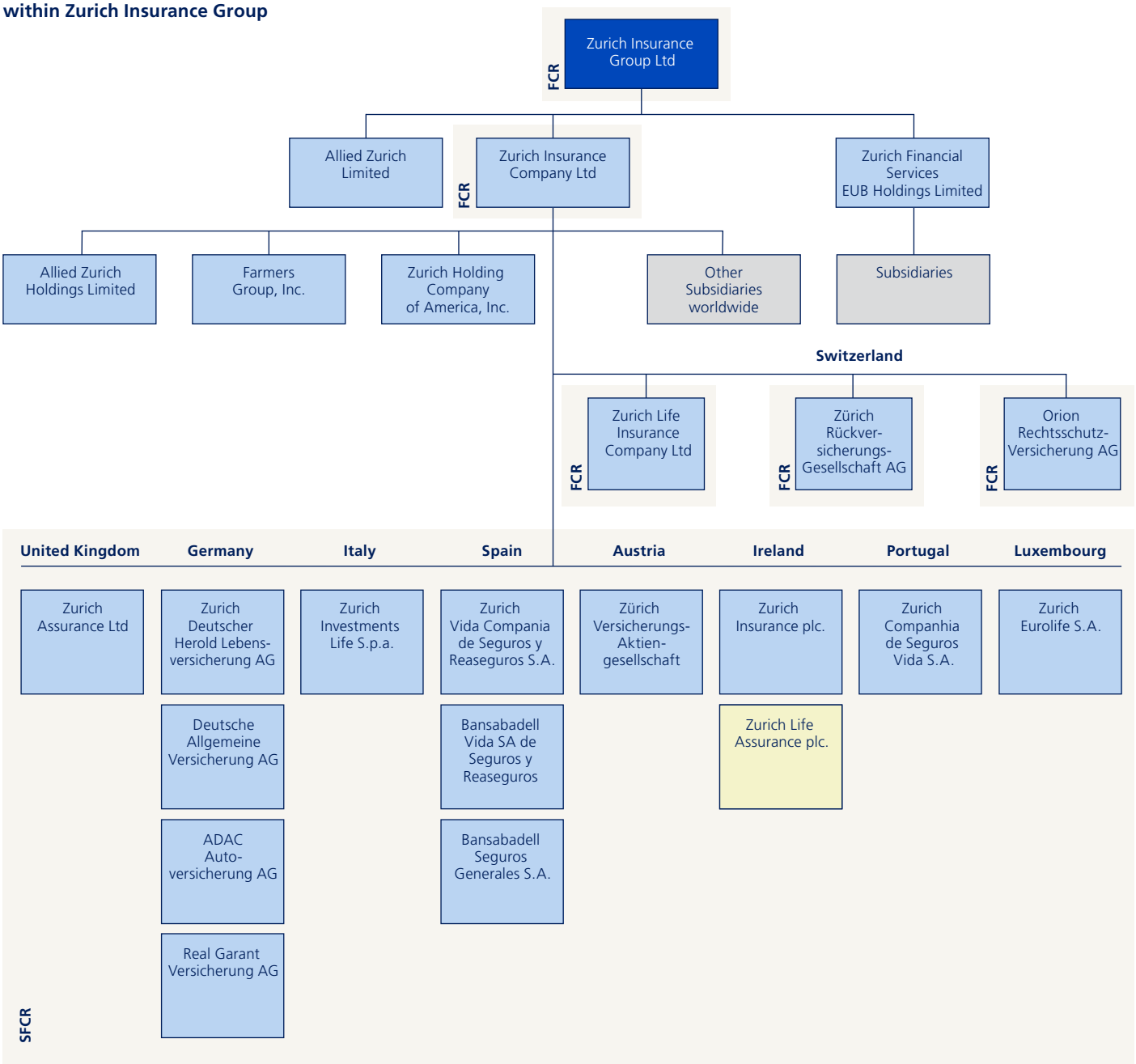
A. Business and Performance

A.1 Business

Zurich Life Assurance plc (ZLAP)'s business profile	Name, location and legal form of the undertaking or the natural persons that are direct and indirect holders of qualifying holdings in the undertaking, with a description of all subsidiaries	ZLAP is registered in Ireland under company number 58098 as a public limited company and has its registered office at Zurich House, Frascati Road, Blackrock, County Dublin, Ireland. ZLAP has a regulated branch in Italy.
	Name and contact details of the supervisory authority responsible for financial supervision and, where applicable, name and contact details of the group supervisor	ZLAP is authorized and regulated by the Central Bank of Ireland ('CBI'), New Wapping Street, North Wall Quay, Dublin 1. Group supervision of Zurich Insurance Group Ltd and its subsidiaries is carried out by the Swiss Financial Market Supervisory Authority ('FINMA'), Laupenstrasse 27, CH-3003 Bern, Switzerland.
	Name and contact details of the external auditor of the undertaking	PricewaterhouseCoopers, Chartered Accountants and Statutory Audit Firm, One Spencer Dock, North Wall Quay, Dublin 1.
	List of material related undertakings including the name, legal form, country, proportion of ownership interest held and, if different, proportion of voting rights held	Zurich Trustee Services Limited ('ZTSL'), incorporated in Ireland: ZLAP has a 100% qualifying holding. Zurich Pension Trustee Ireland Limited, incorporated in Ireland: ZTSL and Zurich Insurance plc each have a 50% qualifying holding.
	Description of the holders of qualifying holdings in the undertaking	Direct: Zurich Holding Ireland Limited ('ZHIL'), incorporated in Ireland, has a 100% qualifying holding. Indirect: Zurich Insurance Company Ltd incorporated in Switzerland, has a 100% qualifying holding. Zurich Insurance Group Ltd incorporated in Switzerland, has a 100% qualifying holding.
	Proportion of ownership interest held and, if different, the proportion of voting rights held	ZHIL has a 100% shareholding and voting power in ZLAP.
	Where the undertaking belongs to a group, details of the undertaking's position within the legal structure of the group	ZHIL, which holds 100% in ZLAP, is 100% owned by Zurich Insurance Company Ltd. A simplified group structure is provided in Section B.1
	Undertaking's material lines of business and material geographical areas where it carries out business	The Company is an authorised life insurance undertaking pursuant to the European Union (Insurance and Reinsurance) Regulations 2015. It is authorised to conduct life, pensions and annuity business, which are its core businesses in Ireland. ZLAP sells life insurance business in Germany on a Freedom of Services basis. We have also sold savings business into the United Kingdom on a Freedom of Services basis. ZLAP's Italian Branch sells savings business in Italy on a Freedom of Establishment basis. Further information on other lines of business and geographical areas is provided in Section A.2
	Any significant business or other events that have occurred with material impact on the undertaking	ZLAP paid a dividend, totalling approximately €110m, to its shareholder, ZHIL in December 2018.

A. Business and Performance *continued*

Chart 1: Public reporting on solvency and financial condition within Zurich Insurance Group



SFCR: Solvency and Financial Condition Report (Solvency II; from 2016) **FCR:** Financial Condition Report (Swiss regulation; from 2017)

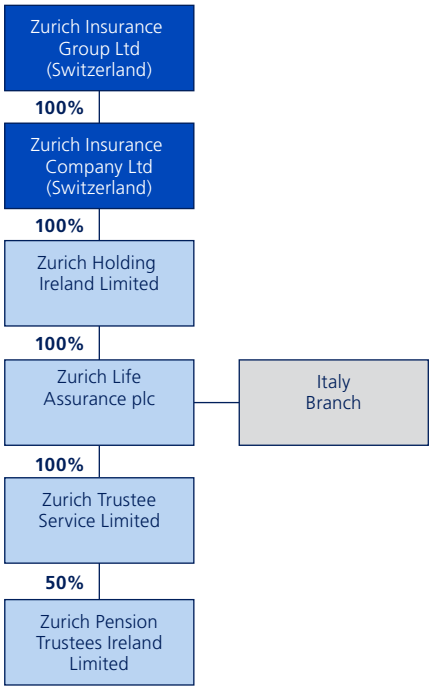
Subsidiary Group of subsidiaries Current disclosure

Note: The purpose of the chart above is to provide a simplified overview of the Group's major subsidiaries (as reported at December 31, 2018), with special focus on the public reporting of their solvency and financial condition. Please note that this is a simplified representation showing entities that must publish such a report and therefore it may not comprehensively reflect the detailed legal ownership structure of the entities included in the overview. The ordering of the legal entities under each country is not indicative of ownership; these are independent legal entities.

Summary Group Structure

A summary group structure is provided below. The voluntary liquidation of the Timosa Limited subsidiary, which was ongoing during 2017, was completed in 2018.

Summary Group Structure Zurich Life Assurance plc



Note that ZLAP has a 100% qualifying holding in Zurich Trustee Services Limited ('ZTSL'). ZTSL is incorporated in Ireland. ZTSL and Zurich Insurance plc each have a 50% qualifying holding in Zurich Pension Trustees Ireland Limited ('ZPTIL'). ZPTIL is incorporated in Ireland.

A. Business and Performance *continued*

A.2 Underwriting Performance

Since the Company prepares its financial statements in accordance with the FRS 101 accounting standard, the underwriting performance information given in this section is on that basis. ZLAP attained a Profit on Ordinary Activities (before tax) of €88.3m in the 2018 financial statements. This increased from the profit (before tax) of €60.8m in the 2017 financial statements. Underwriting performance versus the prior year was stable; the increase in profit was driven by an increase in shareholder investment returns.

Underwriting Performance by Solvency II Line of Business

The below table shows the 2018 underwriting performance by Solvency II line of business, with the prior year information shown directly below it for comparison:

2018 Underwriting Performance by SII Line of Business

in EUR millions, as of 31 December 2018

	Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Total
Net Premiums Written	22.8	223.7	2,901.9	131.4	3,279.9
Net Claims Incurred	-7.7	-172.6	-2,135.6	-85.2	-2,401.3
Net Changes in Technical Provisions	1.2	-62.0	219.9	14.0	173.2
Investment Income	-0.4	31.3	-763.3	25.6	-706.8
Total Expenses	-9.8	-12.6	-215.0	-44.3	-281.7
Total Underwriting Performance	**6.1**	**7.8**	**7.9**	**41.5**	**63.4**

2017 Underwriting Performance by SII Line of Business

in EUR millions, as of 31 December 2017

	Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Total
Net Premiums Written	20.9	153.1	2,794.5	167.8	3,136.4
Net Claims Incurred	-7.8	-187.7	-1,922.7	-87.8	-2,206.1
Net Changes in Technical Provisions	2.3	32.0	-1,649.2	-27.0	-1,641.9
Investment Income	0.6	26.4	993.7	21.4	1,042.3
Total Expenses	-8.1	-12.0	-199.2	-49.6	-268.9
Total Underwriting Performance	**7.9**	**11.8**	**17.1**	**24.8**	**61.8**

The Health Insurance Line of Business includes critical illness and income protection products. The Other Life Insurance category mainly consists of annuity and term protection policies. Underwriting profits on these business lines depend on mortality, morbidity and longevity experience. The Company uses a panel of highly-rated reinsurance providers to mitigate the impact of the risks associated with changes in demographic experience.

Insurance with Profit Participation is composed of any unit-linked policies where more than 50% of their investments are invested in ZLAP's Unitised With-Profits funds. The Index-Linked and Unit-Linked Insurance category is ZLAP's largest line of business and contains all other unit-linked policies. The Company's fee income on this business is generally taken as a percentage of the funds under management and will move with the value of those underlying funds.

There are some additional factors which impact across all of the Company's product lines such as persistency and expenses. Persistency levels can have a very significant impact on the value of the Company's business. To a large extent persistency experience is dependent on external drivers (e.g. level of discretionary income in the economy), but the Company can (and does) take action to ensure that it is in policyholders interests to retain their Zurich policies for the duration of the original term. The overall level of expense incurred by the Company is largely under the control of management. Expense control receives significant focus both from local management and from the Zurich Group.

Key points to note in relation to the differences between the two periods are:

- Total net premiums written were higher in 2018, particularly on unit-linked business, as ZLAP achieved a record level of domestic sales in 2018.
- Profits on the Index-linked and unit-linked insurance category reduced by €4.5m due to a one off impact on Technical Provisions from a change in the persistency assumption on the Italian portfolio. Profits on the Index-linked and unit-linked insurance category reduced by a further €4m due to a reduction in new business inflows on the Italian portfolio.
- Underwriting profits on the Other Life line of business increased significantly driven by favourable demographic risk experience and a one off gain from an enhanced transfer value program on the Company's Defined Benefit Pension Scheme.

Underwriting Performance by Country

The 2018 underwriting performance by material geographical area is detailed below, with the prior year information shown directly below it for comparison.

2018 Underwriting Performance by material geographical area

in EUR millions, as of 31 December 2018	Ireland	Italy	Germany	Other	Total
Net Premiums Written	2,995.4	249.7	29.6	5.2	3,279.9
Net Claims Incurred	-1,593.3	-765.4	-1.1	-41.5	-2,401.3
Net Changes in Technical Provisions	-730.8	838.9	0	65.1	173.2
Investment Income	-475.2	-208.4	-	-23.2	-706.8
Total Expenses	-163.1	-102.6	-10.3	-5.7	-281.7
Total Underwriting Performance	**33.1**	**12.1**	**18.2**	**-0.1**	**63.4**

2017 Underwriting Performance by material geographical area

in EUR millions, as of 31 December 2017	Ireland	Italy	Germany	Other	Total
Net Premiums Written	2,533.6	570.4	26.1	6.4	3,136.5
Net Claims Incurred	-1,424.7	-724.9	-1.1	-55.4	-2,206.1
Net Changes in Technical Provisions	-1,742.8	69.1	-	31.8	-1,641.9
Investment Income	822.3	199.8	-	20.2	1,042.3
Total Expenses	-160.9	-94.3	-9.1	-4.6	-268.9
Total Underwriting Performance	**27.5**	**20.1**	**15.9**	**-1.6**	**61.8**

The material geographical areas were profitable in 2018.

The Company's domestic business mix is typical of the Irish market, including unit-linked, guaranteed protection, unitised with-profit, annuity, group protection and reviewable protection.

Since 2006, the Company has sold products into European markets under the European Freedom of Services ('FoS') framework. The Company sells a guaranteed term assurance product into Germany which is open to new business. The Company also sold a single premium unit-linked product and a regular premium unit-linked product with third party guarantees in to the Italian market through the FoS framework which are now closed to new business. The Company launched similar products under the Freedom of Establishment ('FoE') framework through ZLAP's Italian Branch which was established in late 2009. ZLAP's Italian Branch is expected to close to new business in 2019.

The 'Other' category includes small books of Swedish, Spanish and UK business which closed to new business prior to 2018.

Key points to note in relation to the differences between the two periods are:

- Net premiums written in Ireland were significantly higher in 2018 as ZLAP achieved a record level of sales in 2018.
- Profits on the Italian portfolio reduced by €4.5m due to a one off impact from a change in the persistency assumption on the Italian portfolio. Profits on the Italian portfolio reduced by a further €4m due to a reduction in new business inflows.

A. Business and Performance *continued*

- The "Other" business is dominated by the UK book of business whose administration is outsourced. Underwriting performance was slightly negative in 2018 as there are fixed costs which are incurred regardless of volume of business, which were not covered by income due to the low volumes of business remaining in this portfolio.

Reconciliation from the Solvency II Information

The reconciliation from the underwriting information above to the profit reported in the financial statements is as follows:

Reconciliation from the SII information

in EUR millions, as of 31 December	2018	2017
Underwriting Performance above	63.4	61.8
Shareholder Investment Return	24.9	-1.0
Profit on Ordinary Activities before Tax	**88.3**	**60.8**

The €24.9m of investment return for 2018 above relates to returns on shareholder assets.

In 2018 the Company implemented a derivative program to reduce its exposure to market risk on future fund based fee income. The 2018 investment return on the derivatives was €23.7m due to the sharp fall in equity markets in Q4 2018. This is the main driver of the increase in Shareholder investment return between 2017 and 2018.

A.3 Investment Performance

Investment income, based on the returns on shareholder assets and assets backing policyholder liabilities, was -€675.6m in 2018 compared with +€1,043.6m in 2017. Investment Income is dependent on the performance of the financial markets. Investment returns were negative in 2018 due to a fall in the equity markets after having grown strongly in 2017. Investment income on policyholder unit linked assets is closely matched by a corresponding movement in policyholder unit linked liabilities.

Income from Investments

in EUR millions, as of 31 December	2018	2017
Equities	-239.7	604.0
Bonds	66.2	18.7
Unit Trusts	-485.2	426.6
Deposits	-16.8	-5.7
Total	**-675.6**	**1,043.6**

The investment income shown above includes both the return on shareholder assets and assets backing the policyholder liabilities.

The key points to note on the investment return are listed below:

Equities
The investment return on equities includes dividend income and capital gains/losses from equity market performance. 2017 saw strong growth in equity markets. 2018 was a more volatile year, ending with a sharp fall in equity markets in Q4 which caused the overall return for the year to be negative.

Bonds
The investment return on bonds includes coupon payments and capital gains/losses from bond market performance. Investment returns on bonds are low due to the low interest rate environment.

Unit Trusts
Unit Trusts are mainly held by policyholders through unit-linked funds. The returns depend on the assets that the unit trust is invested in. The unit-trusts in ZLAP's unit-linked funds are mainly invested in equities. Investment returns on Unit Trusts were negative in 2018 due to the fall in the equity markets.

Deposits
Interest is paid on cash deposits. The negative interest rate environment has impacted the returns on deposits.

Investment management expenses of €14.8m in 2018 include interest payable and the indirect costs, including the relevant staff, accommodation and computer costs of acquiring and managing all types of investments.

Article 293 of the Commission delegated Regulation (EU) 2015/35 requires the Company to include information about any gains and losses recognised directly in equity. Unrealised losses of €75.9m were recognised directly in the equity in the 2018 ZLAP financial statements.

Article 293 of the Commission delegated Regulation (EU) 2015/35 also requires the Company to include information about any investments in securitisation. The Company held no securitised assets at 31/12/2018.

A.4 Performance of other activities

Other technical income in the financial statements of €294.8m comprises mainly fees for policy administration and asset management services arising from unit-linked contracts and investment & insurance contracts with discretionary participation features. This increased from €280.1m in 2017 due to a growing book of unit-linked business (growth driven by strong new business sales). These fees are a component of total underwriting performance and are reflected in the relevant total underwriting performance tables above.

Guideline 2 of the EIOPA Guidelines on Reporting and Public Disclosure requires the Company to describe in general the leasing arrangements in relation to each material leasing arrangement. ZLAP have entered into various operating leases as lessee for office space and equipment. ZLAP had no financial lease arrangements at 31/12/2018.

A.5 Any other Information

Pursuant to Article 293 of the Commission delegated Regulation (EU) 2015/35 no additional material information on ZLAP's business and performance has been identified.

B. System of Governance

B.1 General Information on the system of governance

The Board

ZLAP's board of directors ('the Board') is responsible for the governance and oversight of all aspects of ZLAP's business.

The Board operates in accordance with clearly defined terms of reference. Amongst other matters, the Board:

- approves the corporate objectives and sets the strategy to achieve them
- ensures that the organisation conducts its affairs in an ethical, legal and responsible manner
- sets and oversees a robust and transparent organisational structure with effective communication and reporting channels
- sets and oversees an effective internal control framework that includes well-functioning risk management, actuarial, compliance and internal audit functions as well as an appropriate financial reporting and accounting framework
- determines policies on key areas such as: risk, reserving, compliance, internal audit, outsourcing, fitness and probity, business continuity, accounting, staff remuneration and board diversity
- sets risk appetite and overall risk tolerance levels
- monitors and assesses compliance with ZLAP's policies and principles
- reviews the effectiveness of ZLAP's systems of internal control

Following the resignation of the Chair of the ZLAP Board during 2018, a new independent non-executive director was appointed to the role of Chair of the Board.

Committees of the ZLAP Board

The Board has established the following committees which report directly to it:

The **Audit Committee** assists the Board in controlling, overseeing and coordinating ZLAP's internal and external audit activities and processes. It monitors the financial reporting process and reviews the annual financial statements and regulatory filings, as well as overseeing the activities of the Compliance function.

The **Board Risk Committee** serves as a focal point for oversight of risk management. It reviews current exposures and makes recommendations to the Board on ZLAP's risk appetite and future risk strategy as well as overseeing the Risk Management function.

The Nomination Committee assists and supports the Board on matters relating to the composition and membership of the Board and senior appointments within the Company. Amongst other things, it makes recommendations to the Board on the appointment of new Board members and other senior roles in the Company and oversees succession planning and compliance with corporate governance requirements in relation to the composition and membership of the Board.

The Board has determined that it is appropriate for ZLAP to rely on the Zurich Group Remuneration Committee for support and recommendations in relation to remuneration rather than establish its own Remuneration Committee.

Executive Management and Management Committees

The Board has delegated broad executive powers to the CEO to manage and operate ZLAP's business. ZLAP appointed a Head of Life and Pensions ('HLP') in 2017 which is a new role approved by the CBI. The HLP has executive authority to manage ZLAP's Irish domestic business.

The CEO retains direct responsibility for ZLAP's cross-border business. The following key management committees have been established to assist and support the CEO and other senior management in fulfilling their responsibilities:

1. The **Management Committee** assists and supports the ZLAP CEO in managing and overseeing the business and operations of ZLAP's business. The Management Committee reports to the HLP who in turn reports to the CEO.

2. The **Asset Liability Management and Investment Committee** ('ALMIC') assists the CEO in managing and overseeing the investment of ZLAP's portfolio of investment assets in accordance with the investment strategy.

3. The **With-Profits Committee** considers the report of the Head of Actuarial Function on unitised with-profits dividends to be added to policyholders' investment accounts and material unitised with-profits matters.

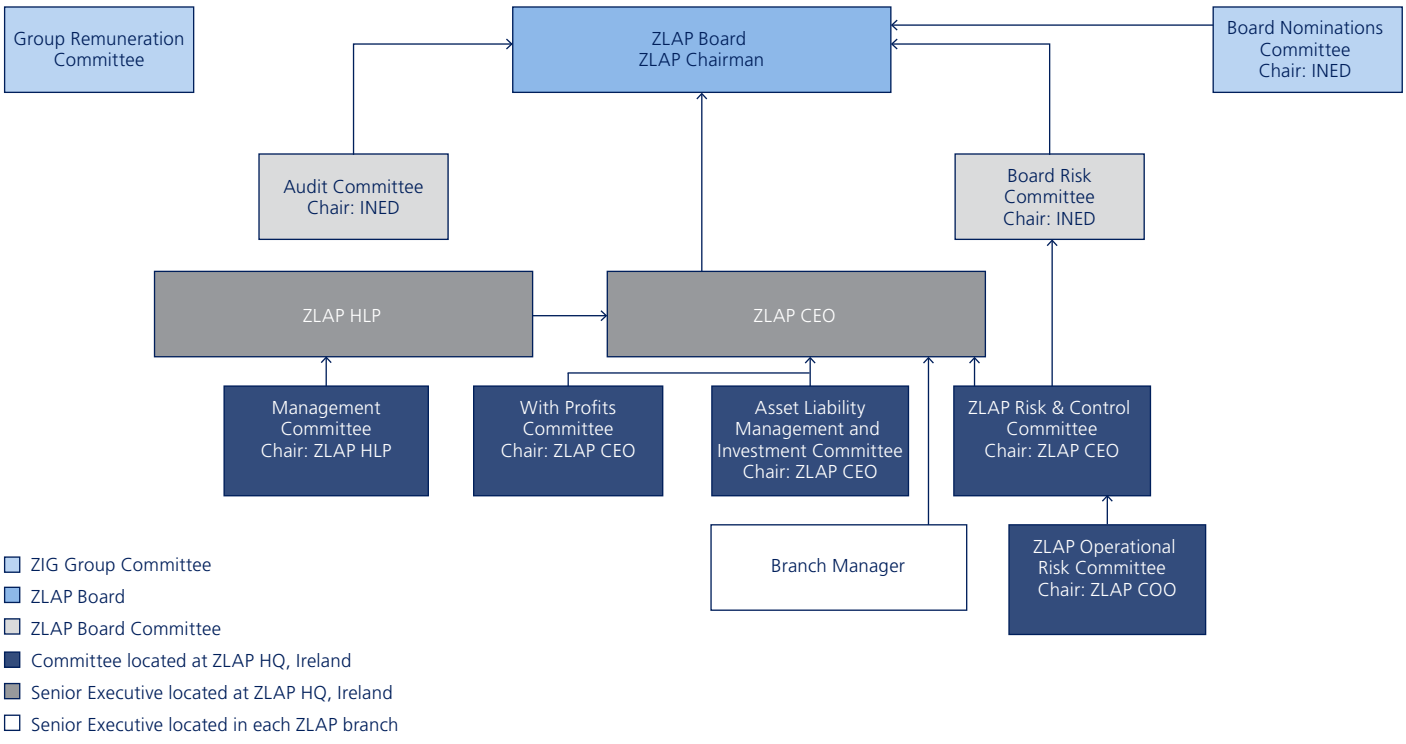
4. The **Risk and Control Committee** ('RCC') assists the CEO and members of the Management Committee by providing an integrated assurance forum to manage, control, oversee and co-ordinate risk management, compliance and internal control activities.

5. The **Operational Risk Committee** ('ORC') assists the CEO and Chief Risk Officer ('CRO') in managing and overseeing ZLAP's operational risk management and internal control activities. The ORC is chaired by the Chief Operating Officer ('COO').

ZLAP has a branch in Italy which operates on a freedom of establishment basis ('ZLAP Italy Branch'). ZLAP Italy Branch performs sales, marketing, new business preparation and client services liaison functions. As part of ZLAP, ZLAP Italy Branch is subject to the system of governance detailed in this section. A Branch Manager is responsible for the operation of the branch on a day to day basis and monitoring local compliance and risk in accordance with guidelines issued by ZLAP. All other cross border business is written by ZLAP on a freedom of services basis.

The governance reporting structure is summarised in the chart below.

ZLAP'S system of governance



Key Functions

ZLAP's key functions are as follows:

- The Risk Management function, led by the ZLAP Chief Risk Officer, is responsible for facilitating the implementation and effective operation of the ZLAP Enterprise Risk Management ('ERM') Framework, reporting on risk exposures and making recommendations to the Board on risk appetite and other risk management matters. Further information on the risk management system is contained in Section B.3 of this report.

B. System of Governance *continued*

- The Compliance function, led by the ZLAP Chief Compliance Officer, is responsible for promoting an ethics-based culture, delivering compliance solutions and providing assurance. Among other things, the Compliance function advises the Board on compliance with laws and regulations, assesses the impact of changes in the external legal environment and assesses the adequacy of measures taken by ZLAP to prevent non-compliance. Further information on the Compliance function is contained in Section B.4 of this report.

- The Internal Audit function, led by the ZLAP Head of Internal Audit, is responsible for providing independent and objective assurance to the Board, the Audit Committee and the RCC on the adequacy and effectiveness of ZLAP's risk management, internal control and governance processes. Further information on the Internal Audit function is contained in Section B.5 of this report.

- The Actuarial function, led by the ZLAP Head of Actuarial Function, is responsible for carrying out the actuarial activities of ZLAP including the provision of regular reports to the Board on Technical Provisions. Further information on the Actuarial function is contained in Section B.6 of this report.

Each of the Risk Management, Compliance and Actuarial functions reports to and has access to the Board independent of their own management reporting line to the CEO and has the right to receive all relevant information and be appropriately resourced to perform their respective role(s).

ZLAP's Internal Audit function is provided by the Zurich Group Internal Audit function. An appropriate service level agreement requires that sufficient resources with appropriate capability and competence are provided to deliver the audits contained in ZLAP's approved annual internal audit plan. If the independence or objectivity of the Internal Audit function is impaired, this must be disclosed to the Chairperson of the Audit Committee so that appropriate action can be taken.

The table below summarises the regularity with which each of these functions reports to the Board (and/or Board Committee).

Table : ZLAP Key Functions

Function name	Responsible role title	Report mechanism into Board
Risk Management Function	Chief Risk Officer	• Report to the Board Risk Committee (quarterly) • Report to the Board (periodically as required)
Compliance Function	Chief Compliance Officer	• Report to the Audit Committee (quarterly)
Internal Audit Function	Head of Internal Audit	• Report to the Audit Committee (quarterly)
Actuarial Function	Head of Actuarial Function	• Report to the Board as required (e.g. annual Actuarial Function report)

Overview of Remuneration and ZLAP's Remuneration Policy

The Board has determined that it is appropriate for ZLAP to rely on the Zurich Group Remuneration Committee rather than establish its own Remuneration Committee. The Board has adopted the Zurich Group Remuneration Rules ('ZRR') as ZLAP's remuneration policy without material deviation.

The ZRR establish a balanced and effectively managed remuneration system for employees which ensures competitive total remuneration opportunities for which the resulting awards are adjusted depending on the results achieved. The short and long-term incentive plans (STIP and LTIP) aim to align the remuneration architecture with the achievement of key financial objectives, the execution of the business strategy, the risk management framework and the operational plans. The ZLAP Board satisfies itself that the remuneration policy does not encourage excessive risk taking.

The variable remuneration is largely determined by the achievements against pre-defined financial measures which are aligned with the meeting of strategic objectives. For the most senior employees the remuneration architecture is structured in a way that puts more emphasis on the variable remuneration elements with a higher weighting, on average, towards the long-term.

For senior employees a proportion of their remuneration is deferred and is dependent on Company performance. The performance based target shares guaranteed under the LTIP only vest if certain performance criteria are met over a three year period.

Independent non-executive members of the Board receive fixed remuneration as an annual fee which is not subject to the achievement of any specific performance criteria. Board members (with the exception of Independent Non-Executive Directors) and key function holders are, where relevant, members of their respective country pension schemes and all arrangements are subject to the standard rules of those schemes. The rules regarding supplementary pension or early retirement arrangements for these individuals are the same as for other employees.

Material Transactions with Zurich Group companies during 2018

ZLAP paid a dividend, totalling approximately €110m, to its shareholder, Zurich Holdings Ireland Limited ('ZHIL'), in 2018.

Material changes in the system of governance

With the exception of the appointment of an Independent Non-Executive Director ('INED') as Chair of the Board, and the establishment of a ZLAP Nominations Committee, there were no material changes to the system of governance during 2018.

B.2 Fit and proper requirements

Insurance companies must be satisfied that people who perform certain roles comply with standards known as the Fitness and Probity Standards which are issued by the CBI.

The Fitness and Probity Standards apply to people who are likely to significantly influence the conduct of the business of ZLAP or who ensure its compliance with relevant obligations. They also apply to people who deal directly with customers, for example in an advisory capacity or with respect to claims and complaints.

The Fitness and Probity Standards require those performing these roles to be competent and capable, honest, ethical, act with integrity and be financially sound.

The Board has approved a policy and implemented controls to ensure that it meets these requirements. The Company will carry out checks in advance of a person being appointed to such a role to obtain:

- Evidence of compliance with certain minimum competency standards
- Evidence of professional qualification(s)
- Evidence of Continuing Professional Development (where applicable)
- Record of interview and application
- References
- Record of previous experience
- Satisfactory checks in relation to Central Bank records, sanctions, directorships, judgements, bankruptcies

A person will neither be appointed to a role nor be allowed to remain in a role unless ZLAP is satisfied with the checks carried out.

People who perform these roles are required to certify annually that they agree to abide by the Fitness and Probity Standards and that they will notify ZLAP of any material changes to the information previously provided. In the event changes have occurred, the relevant checks will be re-performed to ensure the individual continues to comply with the relevant standards.

B.3 Risk management system including the own risk and solvency assessment

Risk management in ZLAP

Taking risk is inherent to the insurance business but such risk-taking should only be made in an informed and disciplined manner, and within a pre-determined risk appetite and tolerance. To facilitate a structured approach to risk-taking, an ERM system is embedded in ZLAP's system of governance.

B. System of Governance *continued*

The ERM system is designed to support ZLAP's decision-making procedures by providing consistent, reliable and timely risk information and protecting ZLAP's capital from risks that exceed established risk tolerances. ZLAP's ERM system considers risks from both a top down and bottom up perspective. The ZLAP Chief Risk Officer ('CRO') is responsible for the implementation and effective operation of the ERM framework across ZLAP. The CRO reports risk matters to the CEO and senior management through the Operational Risk Committee and Risk and Control Committee and to the Board through the Board Risk Committee.

Three lines of defence
A "three lines of defence" approach runs through ZLAP's risk governance structure, so that risks are clearly identified, owned and managed:

- **First line:** Front line functions such as finance, marketing and product development who are responsible for day-to-day risk management.

- **Second line:** The Risk Management function oversees the overall risk management framework and oversees the implementation of the ERM framework. The Compliance and Actuarial functions, help the business manage and control specific types of risks.

- **Third line:** The Internal Audit function provides independent assurance regarding the effectiveness of the risk management framework and controls.

As part of the ERM system, the Risk Management function supports the Board in setting risk tolerance limits and evaluates breaches and potential breaches as part of the Risk Appetite Framework described below. The Risk Management function and other functions such as Compliance and Actuarial develop and operate methodologies to identify, manage and mitigate designated types of risks. The Risk Management function monitors overall risks, including specific risk-types, and escalates through the system of governance any risk exposures that exceed ZLAP's risk tolerance. The ERM system is used extensively for decision-making across the business including strategy setting, business planning, product development, and capital management.

Risk Appetite Framework
The Board is responsible for ensuring that the rules and procedures for decision-making within the entity are well defined, transparent and supported through appropriate risk management and culture. The Board has approved a Risk Appetite Statement which details the Company's willingness and capacity to take risk, based on:

- Capital adequacy and available liquidity;
- A reasonable balance of risk and return, aligned with economic and financial objectives; and
- Protection of the ZLAP and Zurich brand and reputation through promotion and embedding of ZLAP and Zurich values and ethics throughout the organisation.

ZLAP has maintained compliance with the solvency capital and liquidity limits of the Board approved risk appetite throughout 2018. ZLAP has also remained compliant with applicable regulatory capital requirements over the reporting period.

Other governing policies
Alongside the Risk Appetite Statement, the Board has also approved a ZLAP Risk Management Policy and adopted Zurich Group Risk Policy which set our principles and standards for Company-wide risk management. They specify ZLAP's risk tolerance, risk limits and authorities, reporting requirements, procedures to approve any exceptions and procedures for referring risk issues to senior management and the Board. Limits are specified per risk type. Regular assessments verify that requirements are met.

The Own Risk and Solvency Assessment ('ORSA')

The ORSA is a key risk management tool for considering the ongoing suitability and sustainability of the Company's strategy in the context of its financial position and risk profile. It provides the Board with both quantitative and qualitative assessments of the risks which the Company is exposed to.

A key focus of the ORSA is the assessment of ZLAP's ability to incur losses while continuing to meet its policyholder obligations. ZLAP holds assets over and above those required to meet a best estimate of its policyholder obligations, this excess is referred to as risk capital. The ORSA process includes an analysis of the risk capital required to cover losses arising from a broad range of risks, both currently and over the business planning horizon, to ensure with a high degree of confidence that policyholder obligations will continue to be met in those adverse scenarios. This analysis is one of the primary components of ZLAP's ORSA report, which is the result of cooperation among various functional areas including Risk Management, Finance, Legal, Compliance, Actuarial, Audit and others.

The Board is responsible for directing and overseeing the annual ORSA process, challenging the findings and recommendations, and reviewing and approving the ORSA policy and ORSA report. The ORSA is conducted over the course of the year with the final output being the ORSA report, which is reviewed and approved by the Board before being submitted to the CBI. In 2018, the final version of the ORSA report was presented at the November Board meeting for approval and subsequently submitted to the CBI.

Outside of the normal annual process, an update to the ZLAP ORSA would be triggered by a material change in ZLAP's risk profile including major acquisitions or divestments, major shifts in product mix or major changes in the business, operating or external environment.

Key elements of the ORSA report include:

- An assessment of the significance with which the risk profile of the undertaking deviates from the assumptions underlying the Solvency Capital Requirement;
- An assessment of Overall Solvency Needs ('OSN'), taking into account the specific risk profile, approved risk tolerance limits and the business strategy of the Company; and
- Confirmation of compliance, on a continuous basis, with the capital requirements and with the requirements regarding Technical Provisions.

ZLAP's OSN assessment relates to the Company's view of its risk profile and related risk capital requirements whereby a level of risk capital in excess of the regulatory requirement is determined which enables the Company to continue to meet regulatory requirements in adverse scenarios. In determining the OSN the Company engages in an exercise to consider the identification, quantification and management of material risks facing ZLAP, both immediately and over the period of the business plan. These material risks, and ZLAP's ability to withstand them, are considered through the use of adverse shock stress and scenario testing quantified both immediately and over the period of the business plan.

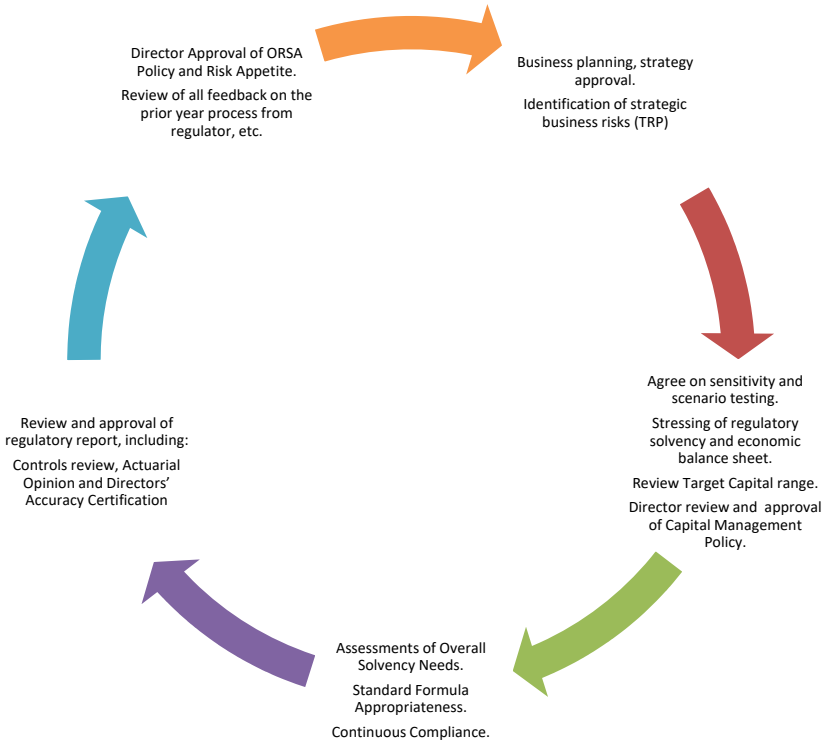
Stress testing involves assessing the impact of an adverse event or set of conditions related to one risk to which the Company is exposed whereas scenario testing involves an adverse event or set of conditions related to two or more risks. Reverse stress testing, where the Company considers extreme risk events, and qualitative risk assessments are also considered. Through the scenario and stress testing exercise and the qualitative assessments the ORSA provides the Board with a holistic view of the Company's resilience to adverse conditions such as reduced levels of new business or a wider economic strain. Where appropriate, the Board may instruct further assessments to be carried out or actions to be taken should the ORSA bring to light any areas where such activities may benefit the Company.

The Company considers two main risk capital metrics based on a regulatory view and an internal view. The regulatory view, set out in legislation, prescribes how the Company should determine its risk capital using a methodology known as 'the Standard Formula'. The Standard Formula, while adequately addressing the risks faced by the Company, was not designed specifically for ZLAP and as such the Company has separately determined its own methodology, or internal view, for assessing risk capital. The Company considers the impact of stress and scenario testing on both risk capital metrics.

The ORSA process is embedded within ZLAP's ERM framework. Processes within ZLAP such as the Company's capital management process align with the ORSA. The risk and capital assessments and conclusions arising from the ORSA are used within business decision-making processes, including the ongoing development of ZLAP's strategy, business planning, product development and capital management policy.

B. System of Governance *continued*

ZLAP's ORSA process is summarised in the following diagram:



Governance of the ORSA process is set out in ZLAP's ORSA Policy which is approved by the Board. This policy sets out the following:

- Roles and responsibilities within the ORSA process;
- Processes and procedures for conducting the ORSA, including the forward looking assessment of own risks and solvency;
- Links with the overall Risk and Capital Management System; and
- Frequency and timeline of the ORSA report production.

The 2018 ORSA process concluded, amongst other things, that ZLAP is currently operating within its risk appetite and is projected to remain within risk appetite, in terms of both regulatory risk capital and its internal view of risk capital, for the duration of its business plan.

B.4 Internal control system

ZLAP's internal control system consists of a number of elements. The purpose of these elements is to be complementary and thus foster a comprehensive and effective system overall. The elements are outlined below.

ZLAP adopts principles and tools used by the Zurich Group in relation to internal controls, with adaptation to local requirements. ZLAP's internal control system covers operational processes across all areas of the business.

Accountability for each control lies with a senior executive in ZLAP and delegation of responsibility follows a transparent approach subject to governance rules (e.g. control delegate must have sufficient knowledge to perform the control). The certification process, attesting to the implementation and effectiveness of controls, is managed via the Zurich Group's Risk and Control Engine ('RACE') tool.

The ZLAP Risk Management function supports other functional management in the implementation of the risk and control framework across ZLAP and provides challenge as to the effectiveness of the risk controls in place. The Risk Management function ensures the internal control framework is consistently applied by enabling ZLAP-wide monitoring of the certification process and engaging with local risk management teams when deviations occur.

Risk & Control Identification – Bottom-up approach: The Company's bottom-up approach to risk management comprises its Risk and Control Self-Assessment ('RCSA') framework, the focus of which is the identification and assessment of the Company's risks and the corresponding controls. The aims of the framework are to have a clearly defined process in place for coordinating risk assessments with the first line of defence and to provide a mechanism for the identification, discussion, assessment, management and monitoring of existing/emerging risks and relevant controls, with challenge and support being provided by the Risk Management function in the second line.

The RCSA framework is supported by the following:

- A Board-approved policy;
- A Risk Taxonomy to guide identification and categorization of risk types;
- A "Risk Champions Forum" to foster engagement and two-way discussions between the First Line and Risk Management;
- Regular attestation to risks and controls by the First Line, and challenge by Risk Management; and
- Use of action plans to remediate controls requiring improvement.

Control deficiencies and respective remedial actions are tracked on RACE and reported to the ORC, RCC and the Board Risk Committee on a quarterly basis.

Operational controls effectiveness is overseen by ZLAP's Operational Risk Committee and reported upwards to the Risk and Control Committee and the Audit Committee.

Other elements: Other key elements of ZLAP's internal controls system include administrative and accounting procedures, appropriate reporting arrangements at all levels of the company and an established Compliance function which is described below.

Compliance function

ZLAP's Compliance function is underpinned by a Compliance Policy and a Compliance Plan. The compliance policy defines the responsibilities, competencies and reporting duties of the Compliance function. The compliance plan sets out the planned activities of the compliance function taking into account all relevant areas of the activities of ZLAP and their exposure to compliance risk.

ZLAP's Compliance function provides policies and guidance, business advice, training and assurance of appropriate compliance controls within its mandate. The Compliance function also supports ZLAP's management in maintaining and promoting a culture of compliance and ethics consistent with Zurich Group's core values and code of conduct.

Through a comprehensive program the Compliance function implements, embeds and monitors internal compliance with policies and guidance. As part of that program all employees receive regular training on compliance and ethics. Each year, all ZLAP employees confirm their understanding of and compliance with Zurich's code of conduct and relevant internal policies.

The ZLAP Chief Compliance Officer facilitates and supports ZLAP in complying with all applicable regulatory and other compliance requirements. The Chief Compliance Officer is responsible for identifying, documenting, advising, communicating, monitoring and reporting compliance with regulatory requirements and/or changes in such requirements to the CEO, the Audit Committee and the RCC.

B.5 Internal Audit function

The Internal Audit function for ZLAP is provided by the Zurich Group. The Head of Internal Audit for ZLAP is responsible for providing assurance to the Board and the Audit Committee on the adequacy and effectiveness of the risk management framework, internal control system and other elements of the system of governance.

B. System of Governance *continued*

The Board has approved an Internal Audit policy which provides for the development of a risk-based audit plan, based on the full spectrum of business risks and any specific concerns raised by the Audit Committee or other stakeholders. The Audit Committee is responsible for approving the annual audit plan. The audit plan is executed in accordance with defined operating standards, which incorporate and comply with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors ('IIA').

Key issues observed by the Internal Audit function as part of their audit work are communicated to the responsible management function, the CEO and the Audit Committee using a suite of reporting tools.

The Internal Audit function has operational independence to carry out its tasks and to report to and advise the Board (via the Audit Committee). The Internal Audit Policy provides that if the independence or objectivity of the Internal Audit function is impaired, then details of the impairment must be disclosed to the chairperson of the Audit Committee and will be disclosed in the audit report to the Board.

B.6 Actuarial function

The ZLAP Head of Actuarial Function ('HoAF') is responsible for the Actuarial function and for the tasks carried out by that function under Solvency II and the requirements of the CBI's Domestic Actuarial Regime in Ireland. All Actuarial function staff report to the HoAF.

The high level responsibilities of the Actuarial function are:

- Co-ordination and validation of the calculation of Technical Provisions
- Opining on ZLAP's underwriting policy, the adequacy of its reinsurance arrangements and the company's ORSA
- Contributing to the effective implementation of the risk management system

As part of its key function role the Actuarial function provides independent and objective assurance to the Board and Board Risk Committee. To this end the Actuarial function reports to the Board on its activities via a written report submitted at least annually, documenting the tasks performed, identifying any deficiencies where relevant and giving recommendations as to how they should be remedied.

The Actuarial function also provides assurance to the Audit Committee in respect of the valuation of ZLAP's Technical Provisions.

B.7 Outsourcing

The Company can enter into outsourcing arrangements where it has identified a material benefit in doing so. The benefits may include increased efficiencies, reduced risk exposure, availing of specific expertise or reduced costs.

The Company seeks to ensure that any outsourcing arrangement does not increase operational risk or impact on the quality of service to our customers. The Company has a Board approved outsourcing policy which sets out the risk management principles and requirements for managing outsourcing arrangements.

Key principles of the policy are that:

- decisions to outsource are thoroughly reviewed and appropriately approved
- regulatory requirements, including those relating to critical or important functions or activities are met; and
- capability, risk and control assessments are conducted prior to service commencement and providers are effectively monitored during the life of an arrangement

The Board and senior management retain overall responsibility for outsourced activities.

Critical activities that have been outsourced by the Company are as follows:

CIFA providers

Service Provider	Services Provided	Jurisdiction
Zurich Group	Internal Audit	Switzerland
Zurich Group	Management of IT Infrastructure, Support and Maintenance	Ireland & Switzerland
Zurich Group	Policy Administration Services for Swedish & Spanish propositions	Isle of Man
Zurich Group	Policy Administration Services for German propositions	Germany
External	Payroll application support and maintenance	Ireland
External	Policy Administration Services for UK propositions	Ireland
External	Certain Fund Management services	Ireland & Germany
External	Printing and Posting of policyholder literature	Ireland
External	Policy Administration Services for Italian and German propositions	Ireland & Poland
External	IT Support for application software, technical support and consultancy	Italy
External	Management of IT Infrastructure, Support and Maintenance	Ireland & Switzerland
External	Application Support and Maintenance for some applications	Ireland & Switzerland
External	Certain fund management services	Ireland
External	Application support and maintenance for an investment application	U.K.

B.8 Any other information

Assessment of system of governance

ZLAP reviews and, where appropriate, makes enhancements to its system of governance on an ongoing basis. During each calendar year, internal reviews are performed that consider the adequacy of individual components of the system of governance. The reviews take account of the nature, scale and complexity of the risks inherent in ZLAP's business. The reviews are reported to the Board or one of its Committees and typically involve feedback from the relevant management functions (including, where appropriate, the key functions). ZLAP is satisfied that its system of governance is adequate in relation to the nature, scale and complexity of the risks inherent in ZLAP's business.

C. Risk Profile

Introduction – Risk Strategy and Appetite

ZLAP's risk strategy represents its overall attitude and culture with respect to accepting and managing risk. ZLAP's Risk Strategy is to target an appropriate balance of risks in pursuit of its business plan objectives, whilst seeking to reduce or eliminate those risks which do not add value or align to the business plan.

In line with the profile of business that the Company sells as an authorised Life Insurer, ZLAP has a preference for the following risk types, which may be accepted in a controlled fashion as they can be sufficiently rewarded through profit generation or efficient use of available assets:

- Market
- Life Insurance underwriting (mortality, morbidity and longevity)
- Credit (investment and reinsurance)

Additional risks such as expense, lapse, or operational risk are an unavoidable aspect of the Company's business model. ZLAP acknowledges that these risks cannot be eliminated completely in a cost-effective way, but can be avoided or managed to acceptable levels using ERM techniques.

The Risk Strategy and supporting Risk Appetite Framework provides a boundary to the types and level of risks accepted within ZLAP's business plan. The Risk Appetite Framework consists of three pillars. The three pillars and how each of them is articulated are set out in the table below.

ZLAP's Risk Appetite Framework

Capital & Liquidity	Earnings	Reputation & Brand
Maintain capital and liquidity levels to meet claims and regulatory / other requirements with a high degree of confidence	Take sufficient (acceptable) risks to achieve target profits and cash generation in a sustainable fashion	Protect reputation and brand through adequate governance and stakeholder consideration

Overview of key risks

ZLAP manages a mix of risks typical to a life assurance Company in Ireland. Its key risks include underwriting, market, credit (default), and operational risks. ZLAP has frameworks in place to monitor and manage all material risks as described in this section.

ZLAP's SCR at year end 2017 and 2018 is shown overleaf, split by risk type. This is a breakdown of the risk capital that ZLAP needs to hold to cover its risks according to the regulatory requirements under Solvency II. As can be seen, under this measure, the Company's exposure to market risk has decreased significantly in 2018.

ZLAP implemented a new derivative hedging programme in 2018 which has resulted in a large decrease in the capital held in respect of market risks. ZLAP is indirectly exposed to equity and FX risk in unit-linked funds because the value of future fund-based fee income is proportional to the value of the assets in the funds. The derivative strategy protects the Company from reductions in the value of future fund-based fee income due to falls in US equity values or adverse US dollar movements by creating a derivative asset which compensates the Company for the loss of value.

The increase in Counterparty Risk SCR is driven by the management charge derivative programme as a new counterparty exposure has been introduced. The large fall in equity markets in 2018 and the 2018 persistency assumption changes reduced ZLAP's expected future profits on unit linked business. The reduction in expected future profits is the driver for the reduction in Life Underwriting Risk SCR.

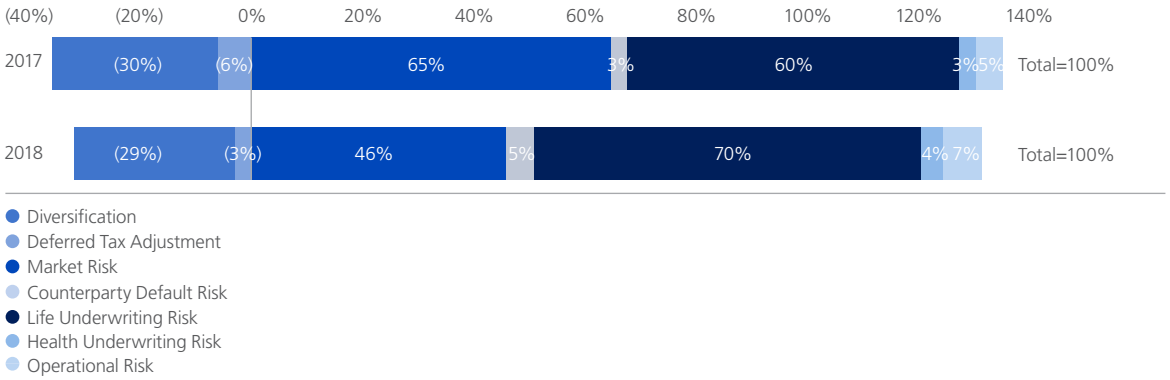
It can be seen from the table overleaf that the risk capital arising from the other risk categories is largely stable over 2018.

Solvency Capital Requirement split by risk type

In EUR millions, as of 31 December	2018	2017
Market Risk	258.5	458.7
Counterparty Default Risk	27.3	19.8
Life Underwriting Risk	394.8	423.1
Health Underwriting Risk	23.3	20.2
Diversification	-163.7	-211.1
Operational Risk	40.1	38.3
Deferred Tax Adjustment	-15.1	-44.1
Total SCR	**565.3**	**704.8**

The proportion of the SCR arising from each risk type, shown below, has changed over the year as a result of the reduced contribution from market risk relative to the other risk types

Solvency Capital Requirement split by risk type
Percentage of Total SCR



C.1 Underwriting risk

Underwriting risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities. Key underwriting risks are as follows:

- Mortality risk – where actual claims experience resulting from the death of policyholders is higher than expected
- Longevity risk – where policyholders, annuitants in particular, live longer than expected
- Morbidity risk – where actual claims experience resulting from the ill-health of policyholders is higher than expected
- Lapse risk – where policies are discontinued or contributions are reduced at a higher rate than expected
- Expense risk – where expenses incurred in acquiring and administering policies are higher than expected

Risk concentrations

Concentration risk can arise from a large individual exposure or from an exposure to a group of interconnected insured individuals. Concentration risk, if not managed appropriately, could have the potential to produce losses large enough to threaten the Company's business plan and, in severe events, its ongoing capacity to continue its operations. In relation to underwriting risks, concentrations could arise with respect to large aggregated life insurance and critical illness exposures, such as where the Company provides insurance to the employees of a large Company, and exposure to individual policyholders with large insurance amounts or benefits. Management of concentrations is discussed in the risk mitigation techniques section below.

C. Risk Profile *continued*

Analysis of underwriting risk sensitivities

Given the nature of its business, ZLAP's solvency position is derived based partly on a number of assumptions related to underwriting risks which reflect both historical experience as well as views on expected future developments. These assumptions reflect the Company's best estimate of future claims, persistency and expenses that will arise on existing policies. When assessing its SCR the Company considers quantitatively the impact should future experience deviate materially from the best estimate assumptions.

ZLAP also carries out stress and scenario testing as part of the ORSA process (see section B3), which includes assessment of underwriting risks. This enables management and the Board to better understand the Company's resilience to adverse outcomes in respect of underwriting risks, both now and into the future, which helps inform business planning as well as other decision-making processes

A selection of individual stresses in respect of the underwriting risks discussed is set out in the table below, at 31/12/2018:

Underwriting Risk Sensitivities

Sensitivity	Solvency Coverage Impact
	%
A 10% increase in Renewal Expenses	- 5%
5% increase in pensioner Longevity	- 4%
A 10% increase in Lapses	+2%
5% increase in assured life Mortality	0%
5% increase in Morbidity	0%

A 10% increase in future lapses results in an increase to the solvency coverage. The increase in lapses reduces both the SCR and the Company's available assets or Own Funds - as the reduction in the SCR is proportionately more than the reduction in the Own Funds, the overall impact is an increase in the solvency coverage.

ZLAP's exposure to mortality and morbidity risks is limited through the use of reinsurance. As a result an adverse change in mortality or morbidity experience relative to assumptions does not have a significant impact on the solvency coverage. The use of reinsurance is discussed further in the next section.

Given ZLAP's robust current and best estimate of future solvency coverage levels, adverse changes to future experience at the levels tested by the sensitivities would not represent a material threat to ZLAP's financial strength. However, the Company continues to monitor these and larger stresses or combinations of stresses through the ORSA and other processes.

The interaction between risks within ZLAP's aggregate portfolio is also actively monitored as part of ZLAP's portfolio-based risk appetite.

Risk mitigation techniques

Reinsurance is the means by which an insurance company transfers (some or all of) the cost of meeting policyholder claims to a third party (a reinsurance company) in return for an agreed payment. ZLAP has a Board-approved Reinsurance Policy appropriate to the Company's overall risk profile which governs its reinsurance arrangements. A high proportion of ZLAP's mortality and morbidity risks are transferred to reinsurers. ZLAP has also taken steps to manage its longevity exposure by using reinsurance. In the event that a reinsurer fails to meet its obligations in relation to the business covered by the reinsurance agreement, ZLAP would still be required to meet the full cost of the claim. This is discussed further in Section C.3.

Additionally, ZLAP applies strong new business underwriting standards which enables the Company to better understand the risks that it is accepting and, in some instances, to decline business where the risks are considered to be unacceptable. ZLAP applies local underwriting and claims policies and procedures that are consistent with the Zurich Risk Policy and regulatory requirements. The Company monitors longevity, mortality, and morbidity experience to enable the identification of any emerging trends in a timely manner.

Specific measures to manage lapse risk include identifying lapse trends, aligning customer service with customer expectations and structuring contracts in an appropriate manner.

Measures to manage expense risk include ongoing monitoring and analysis and seeking appropriate expense efficiencies through process improvements.

Concentration risks are managed in line with ZLAP's Concentration Risk Policy. This includes the use of underwriting limits, catastrophe reinsurance, retention limits per individual life insured (with amounts above these limits being reinsured) and the setting of aggregate Risk Appetite limits at a portfolio level.

C.2 Market risk

Market risk is the risk of loss associated with assets and liabilities where their value or cash flow depends on financial markets. Key risk factors include:

- Equity (share) price movements
- Interest rate movements
- Bond yield spread movements
- Currency exchange rates

Equity rate risk is the risk of loss resulting from changes in equity values. ZLAP is exposed to risks from price fluctuations on equity securities which could affect reported income, surplus and its regulatory capital position. While ZLAP does not hold significant amounts of equities directly an exposure to equity risk emerges from other sources. ZLAP receives a fee income on unit-linked business which is proportional to the value of the assets under management across its fund range. Therefore, the Company's fee income will reduce if the value of the equities in those funds falls.

Interest rate risk is the risk of loss resulting from changes in interest rates. ZLAP is exposed to interest rate risk due to investments, typically into bond assets, held in respect of expected future policyholder claims, unit-linked-fund values, employee benefit plans and loans and receivables. The Company engages in an asset-liability matching ('ALM') process to manage the interest rate risk which arises in respect of future policyholder claims.

Currency risk is the risk of loss resulting from changes in exchange rates. Similarly to equity risk, ZLAP's primary currency exposure relates to the loss of fee income from unit-linked funds where policyholder assets are invested in non-Euro denominated assets.

Risk concentrations

In respect of market risk, concentrations may arise relating to exposures from individual issuers of equities and bonds (both Euro and non-Euro assets) as well as through large exposures to single asset classes or exposures by industrial or geographic sector. Management of concentrations is discussed in the risk mitigation techniques section below.

Analysis of market risk sensitivities

ZLAP's profitability and solvency coverage depend on a number of market risk factors. ZLAP carries out stress and scenario testing as part of the ORSA process (see Section B.3) which includes stress testing of market risks such as equity risk and interest rate risk. This enables management and the Board to better understand the Company's resilience to adverse outcomes in respect of market risks, both now and into the future, which helps inform business planning as well as other decision-making processes.

A selection of individual stresses in respect of the market risks discussed are set out in the table below, at 31/12/2018:

Market Risk Sensitivities

Sensitivity	Solvency Coverage Impact
	%
A 0.5% increase in Interest Rates	+4%
A 0.5% decrease in Interest Rates	- 6%
A 25% increase in Equity Values	+2%
A 25% decrease in Equity Values	- 1%
A 0.5% increase in Bond Spreads	- 12%
A 0.5% decrease in Bond Spreads	+14%
A 25% decrease in FX exchange rates	0%

C. Risk Profile *continued*

Extreme but plausible stress and scenario testing in respect of these risks are considered by the Company through the ORSA and the OSN process when determining required levels of risk capital. The Company also monitors the outcome of market risk sensitivities on a regular basis.

The interaction between risks within ZLAP's aggregate portfolio is also actively monitored as part of ZLAP's portfolio-based risk appetite.

Risk mitigation techniques

ZLAP manages its market risk through its Investment Strategy and Investment Risk Policy which are both approved by the Board. The ALMIC (see Section B.1) monitors investment risks and adherence to Investment Guidelines which have been designed to manage these risks within acceptable limits. The guidelines are consistent with those detailed in the Zurich Risk Policy and are reviewed on a regular basis.

ZLAP's in-house investment and actuarial teams work together to ensure investment holdings match the underlying policyholder liability profiles. The asset and liability profiles are regularly reviewed, enabling management to take any steps necessary to rebalance the asset profile in a timely manner.

In 2018 the Company implemented a derivative program to reduce its exposure to market risk arising from future fee income linked to policyholder equity investments. Another key use of derivatives is an embedded interest rate risk hedging programme designed to mitigate the risks associated with contractual benefit options on a block of the Company's in-force business the present value of which is linked to current interest rates.

ZLAP also invests its assets in accordance with the 'Prudent Person Principle' as set out in Solvency II legislation. Aligned to this principle ZLAP must only invest in assets and financial instruments whose risks the Company can properly identify, measure, monitor, manage, control and report, and appropriately take into account in the assessment of its OSN. The Company must also ensure that its portfolio of assets is of sufficient quality and security and that the Company's liquidity needs have been taken into account as part of the asset selection process. ZLAP's approach to this principle includes the risk mitigation techniques identified in Sections C.2 to C.4 of this document.

Concentration risks are managed in line with ZLAP's Concentration Risk Policy. Concentration risk management in respect of market risk includes the following:

- The ALMIC meets quarterly and monitors investment risks and oversees adherence to Investment Guidelines which have been designed to manage these risks within acceptable limits (these guidelines are monitored by the Company's Investment Back Office). The guidelines are consistent with those detailed in the Zurich Risk Policy and are reviewed on a regular basis.
- Trading limits and external delegated authorities of individual dealers are agreed by the Chief Investment Officer ('CIO') and the HoAF.
- Aggregate market risk limits are in place at a portfolio level as part of ZLAP's Risk Appetite Framework.

C.3 Credit risk

Credit risk is the risk associated with a loss arising from counterparties (including exposure to intra-group entities) failing to fulfil their financial obligations or where there is an increased likelihood that they will fail to do so in the future. ZLAP's exposure to credit risk is derived from assets such as bonds, bank holdings and derivatives, as well as with respect to reinsurance counterparties. ZLAP has limited credit exposure with respect to operational payments due, such as those from policyholders, intermediaries and other insurance companies.

ZLAP does not seek credit risk exposure in the same way as it seeks underwriting and market risk exposure. Credit risk arises out of operational necessity, such as the exposure to banks that hold cash on the Company's behalf, or as a result of risk transfer or reduction, such as exposure to reinsurance counterparties following the transfer of underwriting risk.

Risk concentrations
Concentrations may arise in relation to the types of exposures outlined above.

Management of concentrations is discussed in the "Risk mitigation techniques" section below.

Risk mitigation techniques
The Company cannot avoid credit risk due to operational necessity. In some instances the Company accepts and manages credit risk which arises as a result of other risk management practices such as reinsurance. ZLAP's objective in managing credit risk exposures is to maintain the exposures that arise within parameters that appropriately reflect the Company's strategic objectives and Risk Appetite Framework. Sources of credit risk are assessed and monitored, and there are policies to manage the specific risks which arise. To assess counterparty credit risk, ZLAP uses ratings assigned by external rating agencies, qualified third parties such as asset managers, and internal rating assessments.

ZLAP maintains a Concentration Risk Policy which sets out the Company's standards when considering the associated risks. The following techniques are employed to manage credit risk concentrations across the Company:

- Credit risk is monitored by the ALMIC which receives updates on the credit quality of the Company's material counterparties.
- Strict asset quality and diversification guidelines have been established for counterparties.
- The Company engages with a panel of reinsurance counterparties and the Reinsurance Strategy sets out exposure limits per reinsurer linked to credit rating.
- Amounts owed by reinsurers in respect of claims incurred are monitored regularly in line with agreed timelines.
- Ring fenced fund arrangements are in place with the Company's custodians to secure its assets in the event that the custodian bank fails.
- The Company places cash deposits with a range of banks, limiting the exposure to any individual counterparty.
- Collateral arrangements are maintained in respect of certain derivative exposures.
- Credit risk guidelines have been established in line with ZLAP's Risk Management Policy (supplemented by Zurich Risk Policy) and are managed in close cooperation with Group Investment Management and Group Risk Management.

Analysis of credit risk sensitivities
As part of the ORSA process, ZLAP considers scenario analysis with respect to credit risks. Analysis has shown that the Company's profitability and financial strength are not unduly sensitive to changes to the credit quality of counterparties. While stress and scenario testing is useful in the assessment of credit risk, this risk type can be more appropriately assessed through qualitative analysis of the processes in place to manage this risk. The failure of a highly rated counterparty is considered to be a remote possibility and, as well as this, the interconnectedness of large reinsurance and banking institutions for example, can mean that a potential credit risk event is difficult to predict and assess using quantitative means.

C.4 Liquidity risk

Liquidity risk is the risk that ZLAP may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. Liquidity risk could materialise where there is a mismatch in timing or amount between incoming and outgoing cashflows.

The Company avoids liquidity risk and engages in regular monitoring and risk management processes which enable it to meet its obligations as they fall due.

Risk concentrations
The Company does not have any material concentrations of liquidity risk.

Risk mitigation techniques
ZLAP's Liquidity Policy outlines the framework in place for managing liquidity risk which includes:

- The Company holds the assets underlying its unit-linked liabilities enabling claims on unit-linked polices to be met as they arise.
- Where the assets underlying the unit-linked funds are themselves illiquid, policy terms and conditions allow the Company to defer claims for a period while assets are sold to generate cash. This ability to defer claims protects those policyholders who remain invested into the future.

C. Risk Profile *continued*

- Non-unit liabilities are generally cashflow-matched with highly rated bonds which can be sold quickly to generate cash in most market conditions.
- Assets in excess of those which match policyholder liabilities are mainly invested in liquid, highly rated bonds and deposits with highly rated banks.

As well as having risk mitigation techniques in place to manage liquidity risk, the fee income from the existing portfolio of unit-linked funds provides a regular amount of cash to the Company which can be invested in appropriate assets or used to meet cash outflow.

Analysis of liquidity risk sensitivities

The ALMIC considers the appropriateness of the Company's current and projected liquid asset position. To enable the ALMIC to perform this review, the liquidity position is projected over the duration of the business plan under a number of credible adverse scenarios. The most recent exercise, conducted in Q3 2018 concluded that the Company's liquidity position is expected to increase each year over the business planning period using best estimate projections. The exercise identified the most significant market risks to the liquidity position as being severe equity and FX shocks, while business related events such as increased lapse rates and new business also reduced the liquidity position. The Company's liquidity position remained in excess of an internally defined lower threshold in all the assessed projections.

In addition to the ALMIC's review, ZLAP's monthly Liquidity Forum monitors the short term (1 month) and medium term (3 months) liquidity needs of the business. The current liquidity position is also monitored through the Company's risk appetite reporting.

As with credit risk, the Company's exposure to liquidity risk also benefits from qualitative analysis where potential sources of risk are considered.

Expected profit included in future premiums

Solvency II regulations require the Company to provide the value of its Expected Profit Included in Future Premiums ('EPIFP'). The EPIFP reflects the amount of profit that the Company expects to generate from future premiums that are anticipated by the Company. At 31/12/2018, the Company's EPIFP was €112.6m.

C.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events such as outsourcing, catastrophes, external fraud or cyber-attack.

Risk concentrations

The potential for concentrations of operational risks arises principally from exposures to key service providers who perform critical or important functions or activities ('CIFAs'). Key person dependency may also be considered a form of concentration risk. Certain members of staff may be regarded as high value assets and their departure or absence could result in loss of strategic and technical capabilities.

Risk mitigation techniques

The Company's control frameworks (as described in Section B.4) are a key component in mitigating operational risks. Guidelines for assessing, mitigating and monitoring operational risk are set out in the Zurich Risk Policy. Other proactive risk activities include:

- Oversight of controls effectiveness in the Operational Risk, Risk and Control and Audit Committees;
- Information security and cyber-security practices and reviews;
- Oversight teams monitoring the work of third party service providers;
- Monitoring quality and operational performance indicators on a regular basis;
- Appropriate research of market conditions and regulatory requirements before launching new products;
- Maintaining and testing business continuity and disaster recovery plans;
- An annual risk-based schedule of internal audits; and
- Staff awareness campaigns on matters including business continuity, oversight of third parties and information security.

In particular, with regard to managing concentrations:

- The Company manages its third party concentration risks through its outsourcing framework as described in Section B.7; and
- The Company manages its key person dependency risk through succession planning, individual development plans and annual objective setting for staff, and a comprehensive training framework for all employees.

Analysis of operational risk sensitivities

Stress and scenario testing is carried out as part of the ORSA process which includes stress testing of operational risks. A Top Down Scenario framework to identify and measure operational risks comprises of a scenario-based approach to assess, model and quantify the operational risks under moderate and extreme circumstances. The results of this analysis showed no significant exposures with respect to operational risk given the risk mitigation techniques outlined above.

Cyber risk

A specific type of operational sub-risk exists with respect to cyber-attacks. Cyber risk relates to the possibility of disruption or financial/reputational loss arising from vulnerabilities being exploited in ZLAP's control environment around interconnected IT systems. Cyber risk can arise from a variety of sources.

The Company operates strong preventative and detective controls around monitoring and remediation of cyber threats through the activities of its Information Security function, with regular reporting to the BRC and RCC. ZLAP's Information Security department maintains a risk dashboard in relation to cyber risk which is presented at the quarterly risk committees. Periodic risk assessments in respect of information security risks are also undertaken.

C.6 Other material risks

This section summarises the material risks to which the Company is exposed other than those already discussed.

Strategic risk

The Company's strategy is defined as the long term plan which enables it to achieve its business objectives. Strategic risk is the risk that unexpected events result in the Company's objectives not being achieved or materially delayed or that inappropriate objectives lead to missed business opportunities. Drivers of the risk include:

- Inadequate assessment of strategic plans;
- Ineffective implementation of strategic plans;
- Company disruption as a result of transforming the business;
- Inadequate resource management; and
- Inadequate or inappropriate response to a changing market or regulatory environment.

ZLAP has a defined strategy and set of objectives which it is pursuing. While there are risks associated with achieving strategic objectives, having no defined strategy is not a viable alternative.

Reputational risk

Maintaining a good reputation is a key consideration for any service provider. This is of particular importance to the life insurance industry as customers will want to engage with a Company that they trust to provide them or their family with protection over a long period of time. Acts or omissions by ZLAP or any of its employees that are not in the best interest of its customer base could damage the Company's reputation, and that of the wider Zurich Group, leading to a loss of trust among its customers, existing and potential, as well as other stakeholders. An act on the part of the Company or any of its employees which has a serious impact to the Company's reputation over a protracted period of time could be detrimental to its viability as a participant in the market.

Group risk

Group risk is the risk of loss resulting from the failure of a Group company as a going concern, or from the failure of a Group company to provide key outsourced services to ZLAP. The Group provides some of the outsourced services set out in Section B.7. ZLAP may also have credit exposures to Group from time to time relating to intra-group loans or risk transfer.

C. Risk Profile *continued*

Emerging risks

Emerging risks are typically either:

- Existing risks, whose characteristics have the potential to adversely change, or
- New risks driven by either internal change in the business or from a range of external factors including macro-economic, political, social or regulatory.

If the Company is ill-prepared for changes to the business environment this may lead to losses or missed opportunities. Current examples of emerging risks relate to the dynamic digital landscape which has the potential to disrupt the traditional sales channels and changing trends in population life expectancy which could result in losses should future changes not be appropriately factored into the price of insurance products sold.

Staff pension scheme risks

ZLAP participates in the Zurich Ireland Staff Pension Scheme alongside other Zurich entities based in Ireland. Elements of the pension scheme carry defined benefit liabilities which guarantee members a minimum benefit amount on retirement. The pension scheme holds a portfolio of assets which are invested to meet the cost of those guarantees. However, if the value of the assets is assessed to be less than the expected cost of the guaranteed benefits this may result in one or both of increased annual contributions from ZLAP to the pension scheme or one-off large contributions to reduce the excess of liability cost over asset value. Key risks in respect of the pension scheme are those relating to longevity risk, market exposures (primarily equity and interest rate risk) and credit risk.

Regulatory risk

The insurance industry is highly regulated. ZLAP must adhere to regulations arising from a number of different sources. In Ireland ZLAP engages with regulators such as the CBI and the Pensions Authority. ZLAP must also comply with regulations or guidelines issued at an EU wide level and, as part of a Swiss Insurance Group, the Company is also subject to any Group wide regulatory requirements from the Swiss regulator. The Company must also comply with non-insurance specific regulations which relate to the way it does business. An example of this in recent times relates to the heightened responsibilities and controls around data protection. Given all of these sources of potential regulatory changes the Company is exposed to the risk that regulatory changes are introduced which are costly to implement or disrupt the Company's business model or strategic objectives. An example of a change currently being implemented is a revised profit accounting basis known as IFRS 17 which will come into effect on 01/01/2022 and will change how the Company's reported profits emerge.

Risk mitigation techniques

Strategic risks: Risk management processes are embedded within the Company's strategic development and review processes. As part of regular risk assessment processes, the Board and senior management assess key strategic risk scenarios for the Company as a whole, including scenarios for emerging risks and their strategic implications. In particular, ZLAP performs an annual Total Risk Profiling ('TRP') exercise, which is a strategic risk assessment of the business. The TRP helps identify, measure and manage risks that threaten the achievement of ZLAP's strategic objectives.

Reputation risks: ZLAP and the Group endeavour to preserve their reputations by adhering to applicable laws and regulations, and by following the core principles of Zurich Group's code of conduct, focussing on purpose and values. Reputational risk is further mitigated by ZLAP's adherence to the CBI's Fitness & Probity regime, and the Group's Remuneration Rules. The Company also strives to treat its customers fairly, providing new customers with value for money products and providing existing customers with good after sale customer service.

Group risks: ZLAP employs a comprehensive Risk Management Framework which is applicable to overseeing Group risk in relation to, amongst other matters, project governance, business continuity, IT risk standards and outsourcing. This oversight is supported by regular risk assessment and a well-embedded control framework. ZLAP monitors the requirements in respect of each critical intra-group service through a dashboard maintained by the Outsourcing Framework Manager. Requirements include appropriate contractual clauses, service level agreements and in-scope services being subject to appropriate business continuity and disaster recovery testing.

Emerging risks: In line with its Emerging Risk Policy, ZLAP monitors emerging risks through an identification and assessment linked to its TRP and RCSA processes. These are medium/longer term risks (3+ years) as well as risks that may take shape more quickly but are still too uncertain to allow for specific analysis or mitigation at the point of assessment.

Emerging Risks, reported through ZLAP's Emerging Risk Radar and Log, are a standing agenda item for the Risk and Control Committee and Board Risk Committee.

Pension Scheme risks: The pension scheme is managed by pension trustees, in accordance with the pension deed. In line with local market practices, the scheme is treated as ring-fenced for regulatory purposes. Any pension scheme deficit, calculated on an IAS19 basis, is also recognised as a Company liability in both internal capital and solvency capital calculations. In addition, the Zurich Pension Fund maintains a register of scheme risks which are considered by trustees on a quarterly basis. The trustees review risk ratings and consider mitigating actions as appropriate. If necessary, the trustees will submit proposals to senior management for their decision.

Regulatory risk: The Company monitors the regulatory horizon to ensure that it is aware of all relevant changes applicable to the business. The Company's Compliance Function assists the business in its preparations to comply with the relevant new or revised requirements. The Company also inputs to industry representative bodies which provide an industry perspective to regulators on proposed changes.

Analysis of risk sensitivities

Strategic and reputation risks: As part of its annual ORSA process the Company carries out scenario analyses which includes quantitative and qualitative impact assessments of strategic and reputational risks. The results of the most recent analysis did not highlight any risk additional to those which had been considered as part of the strategic planning processes.

Strategic risks are rated in terms of probability and impact in agreement with Executive Management, alongside mitigating actions which are monitored throughout the year. The progress of these actions, as well as evolution in the nature of each risk's profile, serves to keep focus on effectively managing the risks identified. The progress of actions is also monitored as part of risk reporting and delays in actions are noted in ZLAP's Risk and Controls Dashboard, which is presented to the Board and Senior Management on a quarterly basis.

Reputational risks are monitored on an ongoing basis by teams including Compliance, Service Quality and Legal. In addition, ZLAP tracks indicators of reputational risk on a quarterly basis through its Risk and Controls Dashboard. Trigger thresholds which if exceeded require further focus or escalation have been established for each of these indicators. Quantitatively, the ORSA also assesses scenarios involving reducing levels of new business and high levels of lapses which could be the result of a reputational risk event.

Group risks: ZLAP monitors requirements in respect of each critical intra-group service through a dashboard maintained by the Outsourcing Framework Manager. These include a need for appropriate contractual clauses, service level agreements being in place and in-scope services being subject to appropriate business continuity and disaster recovery testing. Aggregated metrics are also tracked in ZLAP's Risk and Controls Dashboard on a quarterly basis.

Emerging risks: The likelihood and potential impact of emerging risks can, by the nature of the risk, be difficult to quantify in a quantitative manner. The potential impact of emerging risks can be sized in some instances, for example the potential impact of an emerging trend in mortality improvements rates can be determined by applying an extreme but plausible stress to current mortality assumptions. This analysis allows the Company to understand the possible impacts should a severe and adverse trend emerge.

Pension Scheme risks: Risks explicitly allowed for in ZLAP's internal capital model when considering the pension scheme include longevity improvements, investment credit risks and market risks (equity market shock and fall in interest rates). The regulatory capital model also recognises market and credit risks on the staff pension scheme. This analysis provides the Company with insights into the sources of risk associated with the pension scheme and the potential impacts.

Regulatory risk: Regulatory risks are typically assessed qualitatively rather than quantitatively. This is not always the case as with the implementation of the IFRS 17 accounting basis mentioned previously where the impact on emerging profit can be determined and assessed. The Company also monitors and reports on indicators relating to the operational effectiveness of maintaining compliance with regulatory and internal standards.

C.7 Any other information

Off-balance sheet positions and special purpose vehicles

ZLAP does not have exposure arising from off-balance sheet positions or transfers to special purpose vehicles.

D. Valuation for Solvency Purposes

D.1 Assets

Valuation for solvency purposes

Asset Classes

in EUR millions, at 31 December	Mark to Market 2018	Mark to Model 2018	Other valuation 2018	Solvency II Value 2018	Solvency II Value 2017
Property, plant & equipment held for own use			1.2	1.2	1.6
Participations			0.0	0.0	0.2
Equities	376.1			376.1	381.9
Bonds	2,622.6			2,622.6	2,655.9
Derivatives		97.6		97.6	42.7
Deposits other than cash equivalents	446.5			446.5	404.4
Assets held for index-linked and unit-linked contracts	17,224.1			17,224.1	17,543.6
Loans and mortgages			0.1	0.1	0.1
Reinsurance recoverables		187.5		187.5	136.8
Insurance & intermediaries receivables			12.5	12.5	22.9
Reinsurance receivables			29.8	29.8	22.2
Receivables (trade, not insurance)			93.2	93.2	96.8
Cash and cash equivalents			100.1	100.1	47.9
Any other assets, not elsewhere shown			122.9	122.9	112.7
Total Assets	**20,669.2**	**285.1**	**359.8**	**21,314.1**	**21,469.8**

The asset valuation methodologies applied for solvency purposes are as follows:

Assets valued using mark to market methods:
The fair value of instruments traded in active markets is based on quoted prices provided by third party data providers as at the valuation date. In certain cases prices are provided using other valuation techniques, but where all significant valuation inputs are based on observable market data these assets are considered as mark to market.

Assets valued using mark to model methods:
The mark to model valuation approach relates to pricing techniques where at least one of the significant inputs is not based on observable market data and applies to the valuation of the following ZLAP assets:

1. Reinsurance Recoverables

Future cash flows associated with reinsurance obligations are projected using the Company's main financial projection system and discounted back to the reporting date using the prescribed EIOPA Solvency II risk free swap curve.

2. Derivatives

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value are recognised immediately in the balance sheet. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate.

Assets valued using other methods:
The majority of items that are disclosed under the "other valuation" heading are items that are recorded at their nominal amount, adjusted for the probability of default of the counterparty.

1. Participations (Subsidiaries): Equity method accounting.
2. Loans and mortgages: Carried at nominal value.
3. Insurance, reinsurance & intermediaries receivables: Measured at cost.
4. Cash and Cash Equivalents: Carried at nominal value.
5. Receivables/any other assets not elsewhere shown: Measured at cost.

The 'nominal value' is the face-value of the asset. The 'measured at cost' value is the amount that ZLAP expects to receive.

Comparison to Financial Statements

The following table sets out the differences between the valuation of assets for ZLAP under Solvency II and the valuation of assets in the ZLAP financial statements.

Asset Classes

in EUR millions, at 31 December 2018	Solvency II	Financial Statements	Reported Difference
Deferred acquisition costs	0	475.8	-475.8
Intangible assets	0	3.5	-3.5
Deferred tax assets	0	0	0
Property, plant & equipment held for own use	1.2	1.2	0
Holdings in related undertakings, including participations	0	0	0
Equities	376.1	376.1	0
Bonds	2,622.6	2,622.6	0
Deposits other than cash equivalents	446.5	446.5	0
Derivatives	97.6	97.6	0
Assets held for index-linked and unit-linked contracts	17,224.1	17,224.1	0
Loans and mortgages	0.1	0.1	0
Reinsurance Recoverables	187.5	371.5	-184.0
Insurance and intermediaries receivables	12.5	12.5	0
Reinsurance receivables	29.8	29.8	0
Receivables (trade, not insurance)	93.2	93.2	0
Cash and cash equivalents	100.1	100.1	0
Any other assets, not elsewhere shown	122.9	122.8	0.1
Total assets	**21,314.1**	**21,977.3**	**-663.2**

The level of details included in the above table reflects the detail required in the quantitative reporting template S.02.01.b. Differences between the Solvency II values and the financial statements arise due to methodology differences:

1. "Deferred acquisition costs" is an intangible asset in the financial statements and has no equivalent under Solvency II. Costs that vary with and are directly related to the acquisition of new and renewal business, including for example commissions and certain underwriting and policy issue expenses, are deferred and subsequently amortised over a defined period.

2. "Intangible" assets, such as software, are an accounting concept. They can be recognised under Solvency II only when they can be sold separately and a valuation can be derived from a quoted market price, in an active market, for the same or a similar asset.

3. Reinsurance Assets: In the financial statements and under Solvency II, liabilities have been stated gross of reinsurance with a reinsurance asset shown in respect of the value of the ceded business. The calculation of the reinsurance asset differs between the financial statements and Solvency II in line with the difference in the liability calculation outlined in section D.2.

D. Valuation for Solvency Purposes *continued*

4. "Any other assets, not elsewhere shown" – This item mainly consists of indemnity balances, pre-paid expenses and policyholder taxes and reinsured notified claims. The difference arises due to a reinsurance impairment of €143k required in the financial statements but not required under Solvency II.

D.2 Technical Provisions

Technical Provisions overview

The table below shows the regulatory Technical Provisions at 31/12/2018 by line of business, with the same information at 31/12/2017 shown below it for comparison:

2018 Technical provisions by line of business

in EUR millions, as of 31 December 2018	Technical Provisions calculated as a whole	Gross Best Estimate	Risk Margin	Reinsurance Recoverables
Insurance with Profit Participation	1,756.0	-25.8	17.2	0
Index-linked and unit-linked insurance	17,233.8	-254.5	168.6	-40.7
Other life insurance	88.2	920.2	10.0	-78.8
Health insurance	11.6	87.6	5.9	-68.0
Total	**19,089.5**	**727.6**	**201.7**	**-187.5**

2017 Technical provisions by line of business

in EUR millions, as of 31 December 2017	Technical Provisions calculated as a whole	Gross Best Estimate	Risk Margin	Reinsurance Recoverables
Insurance with Profit Participation	1,604.1	-26.3	16.3	0
Index-linked and unit-linked insurance	17,576.4	-381.9	178.0	-47.9
Other life insurance	94.8	892.5	10.2	-34.2
Health insurance	12.8	67.9	5.1	-54.6
Total	**19,288.1**	**552.3**	**209.6**	**-136.8**

Note: The 2017 figures shown above have been re-categorised in 2018. ZLAP previously included all Technical Provisions in the Best Estimate category. From 2018, the Technical Provisions are split between Technical Provisions calculated as a whole and Best Estimate. These categories are further explained below.

Technical Provisions as a whole methodology:

Under Solvency II regulations, certain Technical Provisions can be calculated "as a whole" instead of best estimate plus Risk Margin. For ZLAP the unit reserve (calculated by multiplying units held by valuation price) is classified as Technical Provisions as a whole. The value of these liabilities is based on the market price of the underlying financial instruments. The calculation of the reserves in this category is unchanged compared to the prior year.

Best Estimate Liability ('BEL') methodology:

The BEL for non-profit (conventional and unit-linked) and unitised with-profits business is calculated on an individual policy basis using a deterministic valuation approach and best estimate assumptions. Under this approach, the BEL is derived by:

- Projecting the expected (non-unit related) liability cash-flows for each future year using best-estimate deterministic assumptions;
- Discounting each of these cash-flows back to the valuation date using the relevant Solvency II risk-free rate of return; and
- Summing the resultant discounted cash-flows.

The value of options and guarantees attached to Unitised With Profits business is calculated using a stochastic approach, based on 1,000 economic scenarios. Within this stochastic model, the economic simulations are generated from a market-consistent risk-neutral model and the best estimate non-economic assumptions are applied deterministically. Under this approach, the BEL is derived by:

- Projecting the liability cash-flows arising within the unitised with-profits fund using realistic deterministic non-economic assumptions for each year in the future under a wide range of market consistent economic scenarios;
- Discounting each of these cash-flows back to the valuation date to determine the liability value across all simulations; and then
- Taking the average across all of the stochastic scenarios.

Risk Margin methodology:
The Risk Margin is calculated as per the prescribed Solvency II cost-of-capital approach. This requires the SCR to be calculated for each year in the future. ZLAP's approach to projecting the SCR is to use appropriate risk factors in order to project the individual components of the SCR. These risk factors are taken from ZLAP's financial projection model which projects cash-flows using best-estimate assumptions. Any hedgeable market or counterparty risk is excluded from the SCR projections.

Assumptions

The assumptions used in the calculation of the Technical Provisions can be classified into three distinct groups: demographic, economic and future management actions.

The demographic assumptions used in all financial reporting measures, including the calculation of Technical Provisions, are reviewed annually by the Actuarial Function and submitted to the Board for approval. In cases where ZLAP has sufficient experience data to produce a credible basis, the standard approach is to use actual experience to set assumptions. In cases where ZLAP does not yet have sufficient experience data to derive a credible basis, the approach will necessarily vary with the nature of the assumption being set. In such cases ZLAP's own experience data may be supplemented by any or all of the following:

- Industry experience studies and standard table publications
- Data sourced from reinsurance providers
- Experience and industry knowledge from other areas of the Zurich Group

The annual review of assumptions took place in Q3 2018. Mortality, morbidity, longevity and persistency assumptions were updated as part of this review.

Economic assumptions are updated at each quarterly reporting period. Expense unit costs are reviewed in detail once per annum and are increased in line with expense inflation on a quarterly basis. The main economic assumptions relevant for the calculation of ZLAP's Technical Provisions are:

1. **Term Structure of Risk-Free Interest Rates** – This is provided by EIOPA (the EIOPA Risk-Free Swap Curve).

2. **Expense unit costs** – The unit costs are based on a set of best estimate expenses for the next calendar year and adjusted for any expenses which are not expected to recur in the long term. The investigation also provides a split of expenses between initial and renewal, and between direct and overhead.

3. **Expense inflation** – This is determined quarterly by using market observable data on inflation.

Under the Solvency II regime, companies are permitted to include the impact of future management actions in the calculation of the Technical Provisions provided these assumptions meet the criteria set out in Article 23 of the Solvency II Delegated Acts. Management actions are subject to annual approval by the Board.

Indication of the level of uncertainty

The Technical Provisions are calculated within controlled systems and subject to multiple reviews to ensure they are accurate. Procedures and processes are in place to identify any potential issues or errors in the calculation.

One example of estimates in the Technical Provisions is the set of assumptions underlying the calculation of the Technical Provisions outlined above. These assumptions are reviewed annually and are subject to several review points before approval by the Board. An exercise to analyse the expected sensitivity of the Technical Provisions to changes in various assumptions is also performed and ensures that the impact of changes is well understood. The results of this sensitivity analysis were discussed in Section C.

D. Valuation for Solvency Purposes *continued*

Reconciliation to Financial Statements

The following table sets out the differences between the valuation of liabilities for ZLAP under Solvency II and the valuation of liabilities in the ZLAP financial statements. The information is shown for both 31/12/2018 and for the prior year, 31/12/2017, for comparison.

2018 Reconciliation to Financial Statements

in EUR millions, as of 31 December 2018	Gross Financial Statements	Gross SII TPs	Difference
Insurance with Profit Participation	1,783.3	1,747.5	35.8
Index-linked and unit-linked insurance	17,366.4	17,148.0	218.4
Other life insurance	1,376.7	1,018.3	358.4
Health insurance	95.4	105.1	-9.7
Total	**20,621.7**	**20,018.8**	**602.9**

2017 Reconciliation to Financial Statements

in EUR millions, as of 31 December 2017	Gross Financial Statements	Gross SII TPs	Difference
Insurance with Profit Participation	1,629.6	1,594.2	35.4
Index-linked and unit-linked insurance	17,718.4	17,372.5	345.9
Other life insurance	1,423.2	997.5	425.7
Health insurance	84.9	85.8	-0.9
Total	**20,856.1**	**20,050.0**	**806.1**

The main differences between the Solvency II and Financial Statements liabilities are described below.

Risk Margin

Solvency II Technical Provisions include a Risk Margin. The Risk Margin is essentially the difference between the best estimate of the liabilities, and the amount that undertakings would be expected to require in order to take on and meet the insurance obligations. The Risk Margin has been allocated across all four Solvency II lines of business in proportion to the Solvency II BEL. There is no Risk Margin requirement in the liabilities in the financial statements.

Unit Linked and Insurance with Profit Participation Policies

Under Solvency II, the discounted value of all future cash flows (within the contract boundary) is included. Typically, the future cash flows will reflect future expected profits so that the inclusion of the future cash flows reduces the BEL below the value of the units held by policyholders. The value of future cash flows is not included in the financial statements for this line of business.

Term Protection policies (included in Other Life and Health insurance lines of business above)

Under Solvency II, all future cash flows are projected on a best estimate basis and discounted to the reporting date using the EIOPA Solvency II risk-free swap curve. As this business is expected to be profitable in the future under best estimate assumptions, this results in a negative Technical Provision for this business. In the financial statements, the Technical Provisions for individual protection products are calculated separately for each annual cohort of business using prudent assumptions set at the time that each cohort was sold. Negative reserve amounts are not permitted.

Matching Adjustment

The Company does not apply the matching adjustment referred to in Article 77b of Directive 2009/138/EC.

Volatility Adjustment

The Company does not use the volatility adjustment referred to in Article 77d of Directive 2009/138/EC.

Transitional risk free interest rate-term structure

The Company does not apply the transitional risk-free interest rate-term structure referred to Article 308c of Directive 2009/138/EC.

Transitional deduction

The Company does not apply the transitional deduction referred to in Article 308d of Directive 2009/138/EC.

Recoverables from reinsurance contracts and special purpose vehicles

ZLAP has a number of reinsurance arrangements with reinsurance providers that are both internal and external to the Zurich Group. These cover individual and group mortality, morbidity, longevity and unit-linked risks. The reinsurance recoverables in respect of the reinsurance arrangements in place within ZLAP are calculated on an individual policy basis (or individual group basis for group business) using the same deterministic valuation approach and best estimate assumptions that were used to calculate the gross best estimate liability. Under this approach, the Reinsurance Recoverables are derived by:

- Projecting the expected reinsurance cash-flows for each future year using best-estimate deterministic assumptions;
- Discounting each of these cash-flows back to the valuation date using EIOPA's Solvency II risk-free swap curve; and
- Summing the resultant discounted cash flows.

There are no special purpose vehicles within ZLAP.

D.3 Other liabilities

Valuation for solvency purposes

The following table provides a summary of the items making up the "Other Liabilities" figure as shown in the Quantitative Report Template S.02.01.b at 31/12/2018, with the previous year's figures 31/12/2017 shown below for comparison. Full details of the differences between the financial statements and Solvency II are also included:

2018 Other Liabilities in EUR millions, as of 31 December 2018

	SII Value	Financial Statements Value	Difference
Provisions other than technical provisions	186.9	186.9	0
Pension benefit obligations	21.3	21.3	0
Deferred tax liabilities	15.1	13.0	2.1
Derivatives	18.4	18.4	0
Debts owed to credit institutions	7.9	7.9	0
Insurance & intermediaries payables	66.0	66.0	0
Reinsurance payables	31.2	31.2	0
Payables (trade, not insurance)	122.5	122.5	0
Any other liabilities, not elsewhere shown	44.4	107.2	-62.8
Total	**513.7**	**574.4**	**-60.7**

2017 Other Liabilities in EUR millions, as of 31 December 2017

	SII Value	Financial Statements Value	Difference
Provisions other than technical provisions	167.0	167.0	0
Pension benefit obligations	57.4	57.4	0
Deferred tax liabilities	44.1	8.4	35.7
Derivatives	4.4	4.4	0
Debts owed to credit institutions	10.3	10.3	0
Insurance & intermediaries payables	78.9	78.9	0
Reinsurance payables	27.5	27.5	0
Payables (trade, not insurance)	92.3	89.9	2.4
Any other liabilities, not elsewhere shown	29.9	109.4	-79.5
Total	**511.9**	**553.3**	**-41.4**

D. Valuation for Solvency Purposes *continued*

Main details of the valuation of these items for solvency purposes are:

Provisions other than Technical Provisions: The main item included is outstanding claims (i.e. policies where we have been notified of a claim but the payment is not settled). The full value of the amount being paid out is included. There is no valuation difference between Solvency II and the financial statements.

Pension benefit obligations: ZLAP operate a defined benefit pension scheme which is still open to new members. The pension scheme valuation is based on appropriate International Accounting Standards (IAS 19). The full value of the deficit (assets minus liabilities) is included in the liability line "Pension benefit obligations". There is no valuation difference between Solvency II and the financial statements.

The liabilities represent the present value of all projected cash flows discounted using the appropriate discount rate. These future cash flows include pension payments to currently retired members, deferred members and active members of the scheme. The defined benefit plan assets are a combination of bonds, equities and cash. A breakdown of the assets is included below:

Defined Benefit Plan Assets

in EUR millions, as of 31 December 2018	Market Value	Proportion
Equities	76.8	31%
Bonds	164.8	67%
Cash and deposits	4.9	2%
Total	246.5	

Deferred tax liabilities: Deferred taxes under Solvency II are calculated based on the difference between the Solvency II values ascribed to assets and liabilities and the values ascribed to the same assets and liabilities for tax purposes. This difference is multiplied by the undertaking's tax rate. The timing of the recognition of profit over the lifetime of business differs between Solvency II and the financial statements due to difference in methodology. This results in a tax difference arising as shown in the "Deferred tax liability" line of the above table. In the financial statements a tax value has been attributed to Italian branch losses brought forward from previous years, these losses may be carried forward indefinitely until they are used for Italian tax purposes.

Derivatives: Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value are recognised immediately in the balance sheet. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. There is no valuation difference between Solvency II and the financial statements.

Debts owed to credit institutions: Main item included here is recently issued uncashed cheques. The full face value of the cheques issued is included. There is no valuation difference between Solvency II and the financial statements.

Insurance & intermediaries payables: Main items included are payments to policyholders (i.e. policies where we have been notified of an encashment but the payment is not yet settled) and agents and intermediaries (i.e. commission). The full value of the amount being paid is included. There is no valuation difference between Solvency II and the financial statements.

Reinsurance payables: Reinsurance premiums owed but not yet paid to reinsurance counterparties. The full value of the amount which will be paid is included. There is no valuation difference between Solvency II and the financial statements.

Payables (trade, not insurance): Main items included are tax deducted at source but not yet due to revenue (including payroll tax, Italian Withholding tax and exit tax) where the full value of the obligation to revenue is included and collateral obligations from derivative trading which are marked to market.

Any other liabilities, not elsewhere shown: Main items included under Solvency II are expenses and VAT incurred but not yet settled where the full value of the expense due to be paid is included. The difference between Solvency II and the financial statements is due to the Deferred Origination Costs and Deferred Front-End Fees. These are intangible liabilities in the financial statements which facilitate the recognition of origination fees over the life time of the contracts to which those fees relate. Solvency II methodology recognises these fees as they are incurred.

D.4 Alternative methods for valuation

Mark to Model Valuation Approach
ZLAP values all assets and liabilities at market value where possible. However, the future cash flows associated with insurance obligations cannot be determined on the basis of the market price of financial instruments. The value of Technical Provisions associated with these future cash flows will therefore be calculated as the sum of the Best Estimate Liability plus Risk Margin using "Mark to Model" techniques. Details on the mark to model valuation approach underlying the calculation of the Best Estimate Liability and the Risk Margin (including the justification for the appropriateness of the valuation approach adopted and information on the assumptions underlying the calculation), are provided in Section D.2 of this document. Assets valued under the Mark to Model Approach were discussed in Section D.1.

D.5 Any other information

No additional material information on the valuation of assets and liabilities has been identified.

E. Capital Management

E.1 Own funds

Objectives of Capital Management

Own Funds refers to the available financial resources, or excess of assets over liabilities in the Solvency II Balance Sheet. Under the Solvency II regime, the CBI requires ZLAP to hold Own Funds in excess of 100% of the SCR. For ZLAP, the SCR is calculated in accordance with the Solvency II Standard Formula. The SCR is based on a mixture of formula driven calculations and stress tests calibrated to a 1 in 200 year probability level. In the event that the level of Own Funds is less than 100% of SCR (or trending towards that level in the next three months) then the ZLAP Board must approve a remediation plan for submission to the CBI, within two months of the date of the breach.

Also calculated under Solvency II is the Minimum Capital Requirement ('MCR'). This is a lower benchmark than the SCR. In the event that Own Funds is less than the MCR it is likely that the CBI would then intervene in the running of the Company.

The Company maintains an efficient capital structure consistent with the regulatory and market requirements of its business. The objective of Own Funds management is to maintain, at all times, sufficient own funds to cover the SCR and MCR with an appropriate buffer. The Company's approach to developing the Business Plan each year is focussed on understanding the best-estimate of profit expected to emerge in each of the following 3 years.

Structure of the Own Funds

The table below shows the structure of the Solvency II Own Funds at 31/12/2018 and 31/12/2017:

Structure of the Own Funds

in EUR millions, as of 31 December	2018	2017
Ordinary share capital (gross of own shares)	17.7	17.7
Share premium account related to ordinary share capital	283.0	283.0
Reconciliation reserve	480.9	607.2
Total Own Funds	**781.6**	**907.9**

There have been no changes to the ordinary share capital or share premium account during 2018. The ordinary share capital and share premium arising is not subordinated and has no restricted duration.

The reconciliation reserve equals the excess of assets over liabilities less other basic own fund items, as at the reporting date. This reconciliation reserve mainly consists of the expected future profits included in the Technical Provisions and any past profits that have not been transferred as dividends to Zurich Insurance Group. The reconciliation reserve therefore can be sensitive to experience variances and will be subject to the risk sensitivities discussed in Section C.

The reconciliation reserve has decreased by €126.3m in 2018. This is mainly due to the payment of a dividend of €110m to the Zurich Insurance Group in December 2018 and negative economic conditions.

The Company's ordinary share capital, share premium arising on ordinary share capital and reconciliation reserve are all available as tier 1 unrestricted Own Funds as per Article 69 (a) of the Delegated Regulation. The Own Funds splits into the various tiers at 31/12/2018 and 31/12/2017 is shown below:

Structure of the Own Funds

in EUR millions, as of 31 December	2018	2017
Tier 1 – unrestricted	781.6	907.9
Tier 1 – restricted	-	–
Tier 2	-	–
Tier 3	-	–
Total	**781.6**	**907.9**

The Company has no tier 1 restricted Own Funds (per Article 80 of the Delegated Regulations), no tier 2 Own Funds (per Article 72 of the Delegated Regulations) and no tier 3 Own Funds (per Article 76 of the Delegated Regulations).

The Company does not expect to have any tier 1 restricted Own Funds, tier 2 Own Funds or tier 3 Own Funds over the course of its current business planning horizon, from 2019 to 2021.

All Own Funds are available to meet the SCR and MCR at 31/12/2018 and at the prior reporting period, 31/12/2017, for comparison:

Structure of the Own Funds 2018

in EUR millions, as of 31 December 2018	Total	Tier 1 – unrestricted
Total available own funds to meet the SCR	781.6	781.6
Total available own funds to meet the MCR	781.6	781.6

Structure of the Own Funds 2017

in EUR millions, as of 31 December 2017	Total	Tier 1 – unrestricted
Total available own funds to meet the SCR	907.9	907.9
Total available own funds to meet the MCR	907.9	907.9

Reconciliation to Financial Statements

The following table illustrates the differences between equity as shown in the financial statements and the excess of assets over liabilities as calculated for solvency purposes:

Reconciliation to Financial Statements

in EUR millions, as of 31 December	2018	2017
Solvency II Own Funds	**781.6**	**907.9**
SII Technical Provisions to Financial Statements Reserves	-602.9	-806.1
Reinsurance Differences	183.9	217.2
SII Deferred Tax to Financial Statements Deferred Tax	2.1	35.7
Deferrals of Acquisition Income & Expenses	413.0	412.9
Other Intangible Assets	3.5	5.3
Payables (trade, not insurance)	0	2.4
Receivables	0	-1.9
Financial Statements Equity	**781.1**	**773.4**

Solvency II Own Funds are calculated in line with the Solvency II Directive and associated guidance. Financial Statements Equity is calculated in line with FRS 101.

The main items giving rise to the difference between the financial statements Equity and Solvency II Own Funds are:

- **Reserving:** Financial statement reserve calculations include some allowance for prudence. Under Solvency II, the Technical Provisions include the discounted value of all future cash flows within the contract boundaries. Solvency II Technical Provisions include a Risk Margin. The main reserving differences are discussed further in Section D.2.
- **Reinsurance:** This is due to the reserving differences and is discussed in Section D.1.
- **Tax:** Tax assets and liabilities under each measure reflect the timing of the recognition of profits and will therefore necessarily differ due to the other items listed here.
- **Deferrals of Acquisition Income and Expenses:** Methodology for the financial statements requires upfront costs and fees to be recognised over the lifetime of the policy which results in the creation of assets in respect of deferred acquisition and origination costs and a liability in respect of deferred origination fees. Solvency II methodology recognises these costs and fees as they are incurred.
- **Other Intangible Assets:** Intangible assets are a financial statements accounting concept. They can be recognised under Solvency II only when they can be sold separately and a valuation can be derived from a quoted market price, in an active market, for the same or a similar intangible asset.

Further analysis of own funds

None of the Company's Own Funds are subject to transitional arrangements and the Company has no ancillary Own Funds. No deductions are applied to Own Funds and there are no material restrictions affecting their availability and transferability.

E. Capital Management *continued*

E.2 Solvency Capital Requirement and Minimum Capital Requirement

SCR and MCR

The SCR is a measure of the capital required to be held under the Solvency II regime. The MCR is the minimum level of available financial resources required. The following table shows the SCR and MCR at 31/12/2018 and at 31/12/2017:

SCR and MCR

in EUR millions, as of 31 December	2018	2017
Solvency Capital Requirement	565.3	704.8
Minimum Capital Requirement	197.8	188.7

SCR split by risk module or category

ZLAP uses the Standard Formula to calculate the SCR. The table below shows the SCR at 31/12/2018 and 31/12/2017 split by risk module:

SCR split by risk module or category

in EUR millions, as of 31 December	2018	2017
Market risk	250.6	449.1
Counterparty default risk	26.5	19.4
Life underwriting risk	382.7	414.2
Health underwriting risk	22.6	19.8
Diversification	-158.7	-206.7
Basic Solvency Capital Requirement	**523.7**	**695.8**
Adjustment due to Ring Fenced Fund	16.5	14.9
Operational risk	40.1	38.3
Loss-absorbing capacity of deferred taxes	-15.1	-44.1
Solvency Capital Requirement	**565.3**	**704.8**

Specific disclosures regarding the SCR

ZLAP does not use a simplified calculation for any risk-module or sub-module in the SCR. No undertaking-specific parameters or capital add-ons are used in the calculation.

Minimum Capital Requirement Inputs

The MCR is based on a percentage of the Technical Provisions, where the percentage depends on the Line of Business of the Technical Provisions. The MCR Cap and Floor are percentages of the SCR. The absolute minimum that the MCR can be equal to is €3.7m.

Minimum Capital Requirement Inputs

in EUR millions, as of 31 December	2018	2017
Linear MCR	197.8	188.7
SCR	565.3	704.8
MCR Cap	254.3	317.2
MCR Floor	141.3	176.2
Combined MCR	197.8	188.7
Absolute Floor of MCR	3.7	3.7
MCR	**197.8**	**188.7**

Material Changes in SCR and MCR

The SCR reduced by €140m in 2018 to €565m. The main drivers are:

- The introduction of the Management Charge Derivative Program which reduced ZLAP's exposure to market risk on future fund based fee income.
- The large fall in equity markets in 2018 and the 2018 persistency assumption changes reduced ZLAP's expected future profits on unit linked business. This is the driver of the reduction in Life Underwriting Risk.
- The increase in Counterparty Risk SCR is driven by the management charge derivative programme as a new counterparty exposure has been introduced.

- New business growth which contributes to an increase in risk across all modules.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

ZLAP is not using the duration based equity risk sub-module in the calculation of the SCR.

E.4 Differences between the standard formula and any internal model used

ZLAP uses the Standard Formula to calculate the SCR.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

Throughout 2018, ZLAP was compliant with the MCR and SCR.

E.6 Any other information

Financial strength of the Zurich Group

ZLAP is part of the Zurich Insurance Group ('ZIG' or 'the Group'). The Group pools risk, capital and liquidity centrally as much as possible, considering local legal requirements. The Group endeavours to maintain a sufficient capital buffer above the Solvency Capital Requirement (SCR) at local level. In addition to the capital and liquidity held within ZLAP, ZIG holds a substantial amount of capital and liquidity centrally at Group level. This centrally held capital can be deployed into subsidiaries if needed, and therefore provides resilience to absorb potential losses caused by very large risk events. The solvency and financial condition of ZLAP therefore must be understood in the context of the resilience and stability of the Group.

The Group manages its capital to maximize long-term shareholder value while maintaining financial strength within its 'AA' target range, and meeting regulatory, solvency and rating agency requirements. In particular, the Group endeavours to manage its shareholders' equity in the financial statements to balance maximization of shareholder value and constraints imposed by its economic framework, rating agencies and regulators.

Internally, the Group uses its Zurich Economic Capital Model ('Z-ECM'), which also forms the basis of the Swiss Solvency Test (SST) model. Z-ECM targets a total capital level that is calibrated to an 'AA' financial strength. Zurich defines the Z-ECM capital required as being the capital required to protect the Group's policyholders in order to meet all of their claims with a confidence level of 99.95 percent over a one-year time horizon. Zurich's requirement to hold capital which is sufficient to meet claims with a confidence level of 99.95 percent is significantly more onerous than the Solvency II requirement which requires a confidence level of 99.5 percent.

The latest confirmed Z-ECM ratio was 135% at 30 June 2018, well in excess of its 100% - 120% target range.

The Group discloses more information on its risk and capital management in its risk review, an integral part of Zurich Insurance Group's annual report available on www.zurich.com.

Appendix

S.02.01.02

Balance Sheet, Assets

in EUR thousands, as of December 31		Solvency II value
		C0010
Assets		
Intangible assets	R0030	–
Deferred tax assets	R0040	–
Pension benefit surplus	R0050	–
Property, plant & equipment held for own use	R0060	1,244
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	3,542,762
Property (other than for own use)	R0080	–
Holdings in related undertakings, including participations	R0090	1
Equities	R0100	376,077
Equities – listed	R0110	376,077
Equities – unlisted	R0120	–
Bonds	R0130	2,622,558
Government Bonds	R0140	2,622,558
Corporate Bonds	R0150	–
Structured notes	R0160	–
Collateralised securities	R0170	–
Collective Investments Undertakings	R0180	–
Derivatives	R0190	97,650
Deposits other than cash equivalents	R0200	446,476
Other investments	R0210	–
Assets held for index-linked and unit-linked contracts	R0220	17,224,080
Loans and mortgages	R0230	72
Loans on policies	R0240	–
Loans and mortgages to individuals	R0250	72
Other loans and mortgages	R0260	–
Reinsurance recoverables from:	R0270	187,499
Non-life and health similar to non-life	R0280	–
Non-life excluding health	R0290	–
Health similar to non-life	R0300	–
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	146,800
Health similar to life	R0320	67,987
Life excluding health and index-linked and unit-linked	R0330	78,812
Life index-linked and unit-linked	R0340	40,700
Deposits to cedants	R0350	–
Insurance and intermediaries receivables	R0360	12,487
Reinsurance receivables	R0370	29,770
Receivables (trade, not insurance)	R0380	93,233
Own shares (held directly)	R0390	–
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	–
Cash and cash equivalents	R0410	100,053
Any other assets, not elsewhere shown	R0420	122,906
Total assets	**R0500**	**21,314,105**

S.02.01.02

Balance Sheet, Liabilities

in EUR thousands, as of December 31		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	R0510	–
Technical provisions – non-life (excluding health)	R0520	–
TP calculated as a whole	R0530	–
Best Estimate	R0540	–
Risk margin	R0550	–
Technical provisions – health (similar to non-life)	R0560	–
TP calculated as a whole	R0570	–
Best Estimate	R0580	–
Risk margin	R0590	–
Technical provisions – life (excluding index-linked and unit-linked)	R0600	2,870,863
Technical provisions – health (similar to life)	R0610	105,071
TP calculated as a whole	R0620	11,551
Best Estimate	R0630	87,638
Risk margin	R0640	5,883
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	2,765,792
TP calculated as a whole	R0660	1,844,191
Best Estimate	R0670	894,400
Risk margin	R0680	27,200
Technical provisions – index-linked and unit-linked	R0690	17,147,958
TP calculated as a whole	R0700	17,233,785
Best Estimate	R0710	(254,467)
Risk margin	R0720	168,641
Contingent liabilities	R0740	–
Provisions other than technical provisions	R0750	186,883
Pension benefit obligations	R0760	21,307
Deposits from reinsurers	R0770	–
Deferred tax liabilities	R0780	15,068
Derivatives	R0790	18,412
Debts owed to credit institutions	R0800	7,881
Financial liabilities other than debts owed to credit institutions	R0810	–
Insurance & intermediaries payables	R0820	66,020
Reinsurance payables	R0830	31,222
Payables (trade, not insurance)	R0840	122,472
Subordinated liabilities	R0850	–
Subordinated liabilities not in BOF	R0860	–
Subordinated liabilities in BOF	R0870	–
Any other liabilities, not elsewhere shown	R0880	44,414
Total liabilities	**R0900**	**20,532,500**
Excess of assets over liabilities	**R1000**	**781,605**

Appendix *continued*

S.05.01.02

Premiums, claims and expenses by line of business, Life

in EUR thousands, as of December 31

Premiums written	
Gross	R1410
Reinsurers' share	R1420
Net	R1500
Premiums earned	
Gross	R1510
Reinsurers' share	R1520
Net	R1600
Claims incurred	
Gross	R1610
Reinsurers' share	R1620
Net	R1700
Changes in other technical provisions	
Gross	R1710
Reinsurers' share	R1720
Net	R1800
Expenses incurred	**R1900**
Other expenses	**R2500**
Total expenses	**R2600**

	Line of Business for: life insurance obligations					Life reinsurance obligations		Total
	Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	39,215	223,811	2,902,046	217,757	–	–	–	–	3,382,830
	16,374	65	123	86,336	–	–	–	–	102,898
	22,841	223,746	2,901,924	131,421	–	–	–	–	3,279,932
	38,545	223,811	2,902,046	216,758	–	–	–	–	3,381,160
	15,965	65	123	85,693	–	–	–	–	101,846
	22,580	223,746	2,901,924	131,065	–	–	–	–	3,279,315
	22,797	172,668	2,135,709	158,989	–	–	–	–	2,490,164
	15,049	28	29	73,774	–	–	–	–	88,880
	7,748	172,640	2,135,680	85,216	–	–	–	–	2,401,284
	10,487	153,693	(352,060)	(46,500)	–	–	–	–	(234,380)
	8,338	–	–	16,389	–	–	–	–	24,727
	2,149	153,693	(352,060)	(62,889)	–	–	–	–	(259,108)
	9,825	**12,594**	**215,009**	**44,294**	**–**	**–**	**–**	**–**	**281,722**
									–
	–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**281,722**

Appendix *continued*

S.05.02.01

Premiums, claims and expenses by country, Life

in EUR thousands, as of December 31

	R1400
Premiums written	
Gross	R1410
Reinsurers' share	R1420
Net	R1500
Premiums earned	
Gross	R1510
Reinsurers' share	R1520
Net	R1600
Claims incurred	
Gross	R1610
Reinsurers' share	R1620
Net	R1700
Changes in other technical provisions	
Gross	R1710
Reinsurers' share	R1720
Net	R1800
Expenses incurred	**R1900**
Other expenses	**R2500**
Total expenses	**R2600**

	Home Country		Top 5 countries (by amount of gross premiums written) – life obligations				Total Top 5 and home country
	C0150	C0160	C0170	C0180	C0190	C0200	C0210
		IT	DE	SE	ES	GB	
	C0220	C0230	C0240	C0250	C0260	C0270	C0280
	3,086,934	249,694	41,005	4,005	679	513	3,382,830
	91,498	18	11,382	–	–	–	102,898
	2,995,437	249,676	29,623	4,005	679	513	3,279,932
	3,085,265	249,694	41,005	4,005	679	513	3,381,160
	90,446	18	11,382	–	–	–	101,846
	2,994,819	249,676	29,623	4,005	679	513	3,279,315
	1,672,537	765,407	10,673	6,649	897	34,002	2,490,164
	79,276	–	9,604	–	–	–	88,880
	1,593,261	765,407	1,069	6,649	897	34,002	2,401,284
	643,611	(827,154)	12,576	(7,230)	(1,260)	(54,922)	(234,380)
	12,162	–	12,565	–	–	–	24,727
	631,449	(827,154)	11	(7,230)	(1,260)	(54,922)	(259,108)
	163,096	**102,637**	**10,318**	**1,214**	**47**	**4,410**	**281,722**
							–
		–	–	–	–	–	**281,722**

Appendix *continued*

S.12.01.02

Life and Health SLT Technical Provisions

in EUR thousands, as of December 31

Technical provisions calculated as a whole	**R0010**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020
Technical provisions calculated as a sum of BE and RM	
Best Estimate	
Gross Best Estimate	**R0030**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080
Best estimate minus recoverables from reinsurance/SPV and Finite Re – total	R0090
Risk Margin	**R0100**
Amount of the transitional on Technical Provisions	
Technical Provisions calculated as a whole	R0110
Best estimate	R0120
Risk margin	R0130
Technical provisions – total	**R0200**

S.12.01.02

Life and Health SLT Technical Provisions

in EUR thousands, as of December 31

Technical provisions calculated as a whole
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole
Technical provisions calculated as a sum of BE and RM
Best Estimate
Gross Best Estimate
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default
Best estimate minus recoverables from reinsurance/SPV and Finite Re – total
Risk Margin
Amount of the transitional on Technical Provisions
Technical Provisions calculated as a whole
Best estimate
Risk margin
Technical provisions – total

	Index-linked and unit-linked insurance				Other life insurance				
Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)
C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150
1,756,040	17,233,785			88,152			–	–	19,077,976
–	40,700			–			–	–	40,700
(25,766)		(248,473)	(5,994)		909,712	10,454	–	–	639,933
–		–	–		43,486	35,326	–	–	78,812
(25,766)		(248,473)	(5,994)		866,226	(24,872)	–	–	561,121
17,185	168,641			10,015			–	–	195,841
–	–			–			–	–	–
–		–	–		–	–	–	–	–
–	–			–			–	–	–
1,747,459	17,147,958	–	–	1,018,332	–	–	–	–	19,913,750

		Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
			Contracts without options and guarantees	Contracts with options or guarantees			
		C0160	C0170	C0180	C0190	C0200	C0210
	R0010	11,551			–	–	11,551
	R0020	–			–	–	–
	R0030		70,577	17,061	–	–	87,638
	R0080		34,618	33,369	–	–	67,987
	R0090		35,959	(16,308)	–	–	19,650
	R0100	5,883			–	–	5,883
	R0110	–			–	–	–
	R0120		–	–	–	–	–
	R0130	–			–	–	–
	R0200	105,071	–	–	–	–	105,071

Appendix *continued*

S.22.01.21

Impact of long term guarantees and transitional measures

in EUR thousands, as of December 31		Amount with LTG measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical provisions	R0010		–	–		
Basic own funds	R0020		–	–		
Eligible own funds to meet SCR	R0050	–	–	–	–	–
SCR	R0090		–	–		
Eligible own funds to meet MCR	R0100		–	–		
Minimum Capital Requirement	**R0110**		**–**	**–**		

S.23.01.01

Own funds

in EUR thousands, as of December 31

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	17,688	17,688		–	
Share premium account related to ordinary share capital	R0030	282,992	282,992		–	
Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	R0040	–	–		–	
Subordinated mutual member accounts	R0050	–		–	–	–
Surplus funds	R0070	–	–			
Preference shares	R0090	–		–	–	–
Share premium account related to preference shares	R0110	–		–	–	–
Reconciliation reserve	R0130	480,924	480,924			
Subordinated liabilities	R0140	–		–	–	–
An amount equal to the value of net deferred tax assets	R0160	–				–
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	–	–	–	–	–
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	–				
Deductions						
Deductions for participations in financial and credit institutions	R0230	–	–	–	–	–
Total basic own funds after deductions	**R0290**	**781,605**	**781,605**	**–**	**–**	**–**
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	–			–	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	R0310	–			–	
Unpaid and uncalled preference shares callable on demand	R0320	–			–	–
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	–			–	–
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	–			–	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	–			–	–
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	–			–	
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	–			–	–
Other ancillary own funds	R0390	–			–	–
Total ancillary own funds	**R0400**	**–**	**–**	**–**	**–**	**–**

Appendix *continued*

S.23.01.01

Own funds

in EUR thousands, as of December 31

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	781,605	781,605	–	–	–
Total available own funds to meet the MCR	R0510	781,605	781,605	–	–	
Total eligible own funds to meet the SCR	R0540	781,605	781,605	–	–	–
Total eligible own funds to meet the MCR	R0550	781,605	781,605	–	–	
SCR	**R0580**	**565,251**				
MCR	**R0600**	**197,782**				
Ratio of Eligible own funds to SCR	**R0620**	**138%**				
Ratio of Eligible own funds to MCR	**R0640**	**395%**				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	781,605
Own shares (held directly and indirectly)	R0710	–
Foreseeable dividends, distributions and charges	R0720	–
Other basic own fund items	R0730	300,680
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	–
Reconciliation reserve	**R0760**	**480,924**
Expected profits		
Expected profits included in future premiums (EPIFP) – Life business	R0770	112,634
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	–
Total Expected profits included in future premiums (EPIFP)	**R0790**	**112,634**

S.25.01.21

Solvency Capital Requirement – for undertakings on Standard Formula

in EUR thousands, as of December 31		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	258,484		No
Counterparty default risk	R0020	27,317		
Life underwriting risk	R0030	394,799	No	No
Health underwriting risk	R0040	23,340	No	No
Non-life underwriting risk	R0050	–	No	No
Diversification	R0060	(163,698)		
Intangible asset risk	R0070	–		
Basic Solvency Capital Requirement	**R0100**	**540,242**		

		C0100
Calculation of Solvency Capital Requirement		
Operational risk	R0130	40,076
Loss-absorbing capacity of technical provisions	R0140	–
Loss-absorbing capacity of deferred taxes	R0150	(15,068)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	**R0200**	**565,251**
Capital add-on already set	R0210	–
Solvency capital requirement	**R0220**	**565,251**
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirement for remaining part	R0410	516,854
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	48,397
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

Appendix *continued*

S.28.01.01

Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

in EUR thousands, as of December 31		C0010
MCR(NL) Result	R0010	–

		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020	–	–
Income protection insurance and proportional reinsurance	R0030	–	–
Workers' compensation insurance and proportional reinsurance	R0040	–	–
Motor vehicle liability insurance and proportional reinsurance	R0050	–	–
Other motor insurance and proportional reinsurance	R0060	–	–
Marine, aviation and transport insurance and proportional reinsurance	R0070	–	–
Fire and other damage to property insurance and proportional reinsurance	R0080	–	–
General liability insurance and proportional reinsurance	R0090	–	–
Credit and suretyship insurance and proportional reinsurance	R0100	–	–
Legal expenses insurance and proportional reinsurance	R0110	–	–
Assistance and proportional reinsurance	R0120	–	–
Miscellaneous financial loss insurance and proportional reinsurance	R0130	–	–
Non-proportional health reinsurance	R0140	–	–
Non-proportional casualty reinsurance	R0150	–	–
Non-proportional marine, aviation and transport reinsurance	R0160	–	–
Non-proportional property reinsurance	R0170	–	–

S.28.01.01

Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

in EUR thousands, as of December 31		C0040
MCR(L) Result	R0200	197,782

		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance/ SPV) total capital at risk
		C0050	C0060
Obligations with profit participation – guaranteed benefits	R0210	1,532,115	
Obligations with profit participation – future discretionary benefits	R0220	198,159	
Index-linked and unit-linked insurance obligations	R0230	16,938,618	
Other life (re)insurance and health (re)insurance obligations	R0240	960,707	
Total capital at risk for all life (re)insurance obligations	R0250		18,074,850

		C0070
Linear MCR	R0300	197,782
SCR	R0310	565,251
MCR cap	R0320	254,363
MCR floor	R0330	141,313
Combined MCR	R0340	197,782
Absolute floor of the MCR	R0350	3,700

		C0070
Minimum Capital Requirement	**R0400**	**197,782**

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