Zurich Insurance plc

Solvency and Financial Condition Report 2018

Disclaimer and Cautionary Statement

Zurich Insurance plc ("ZIP") has prepared and is required to disclose this report as an authorised insurance undertaking in accordance with and pursuant to Commission Delegated Regulation (EU) 2015/35 of October 10, 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (as amended and supplemented from time to time) (the "Regulation").

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Certain statements in this report are forward-looking statements, including, but not limited to, statements that are predictions of or indicate future events, trends, plans or objectives of ZIP or any other member of the Group. Forward-looking statements include statements regarding ZIP's or any other member of the Group's targeted profit, return on equity targets, expenses, pricing conditions, dividend policy and underwriting and claims results, as well as statements regarding ZIP's or any other member of the Group's understanding of general economic, financial and insurance market conditions and expected developments. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and plans and objectives of ZIP or any other member of the Group to differ materially from those expressed or implied in the forward-looking statements (or from past results). Factors such as (i) general economic conditions and competitive factors, particularly in key markets; (ii) the risk of a global economic downturn; (iii) performance of financial markets; (iv) levels of interest rates and currency exchange rates; (v) frequency, severity and development of insured claims events; (vi) mortality and morbidity experience; (vii) policy renewal and lapse rates; and (viii) changes in laws and regulations and in the policies of regulators may have a direct bearing on the results of operations of ZIP and/or any other member of the Group and on whether the targets will be achieved. Neither ZIP nor any other member of the Group undertake any obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information, future events or circumstances or otherwise.

It should be noted that past performance is not a guide to future performance.

This report is not intended to be, and shall not constitute or contain, an offer or an invitation of any kind for the sale or purchase of securities of ZIP or any other member of the Group in any jurisdiction.

Any person requiring advice on this report should consult an independent advisor.

THIS COMMUNICATION DOES NOT CONTAIN AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES; SECURITIES MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES ABSENT REGISTRATION OR EXEMPTION FROM REGISTRATION, AND ANY PUBLIC OFFERING OF SECURITIES TO BE MADE IN THE UNITED STATES WILL BE MADE BY MEANS OF A PROSPECTUS THAT MAY BE OBTAINED FROM THE ISSUER AND THAT WILL CONTAIN DETAILED INFORMATION ABOUT THE COMPANY AND MANAGEMENT, AS WELL AS FINANCIAL STATEMENTS.

Zurich Insurance 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 thousand or million, 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 and Liability Management
ALMIC	Asset Liability Management and Investment Committee
Board	ZIP Board of Directors
CBI	Central Bank of Ireland
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIFA	Critical or Important Functions or Activities
Company	Zurich Insurance plc
CRO	Chief Risk Officer
DAC	Deferred Acquisition Costs
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ENID	Events not in Data
ERM	Enterprise Risk Management
FCR	Financial Condition Report (Swiss regulation)
FRNs	Floating Rate Notes
GAAP	Generally Accepted Accounting Principles
Group	Zurich Insurance Group of companies
HR	Human Resources
IFRS	International Financial Reporting Standards
LTIP	Long Term Incentive Plans
Man Made Cat	Man-made catastrophe
MCBS	Market Consistent Balance Sheet
MCR	Minimum Capital Requirement
Nat Cat	Natural Catastrophe
ORC	Operational Risk Committee
ORSA	Own Risk and Solvency Assessment
Own Funds	Available financial resources under Solvency II rules
PwC	PricewaterhouseCoopers
QRTs	Quantitative Reporting Templates
RACE	Risk and Control Engine
RCC	Risk and Control Committee
Repos	Sale and Repurchase transactions
SAA	Strategic Asset Allocation
SCR	Solvency Capital Requirement
SF	Standard Formula
SFCR	Solvency and Financial Condition Report
SST	Swiss Solvency Test
STIP	Short Term Incentive Plans
TDS	Top Down Scenarios
TRP	Total Risk Profiling
UPR	Unearned Premium Reserve
Z-ECM	Zurich Economic Capital Model
ZIC	Zurich Insurance Company Ltd
ZIP	Zurich Insurance plc
ZIP HO	Zurich Insurance plc Head Office
ZRR	Zurich Group Remuneration Rules

Executive Summary

Overview

Zurich Insurance plc ("ZIP" or "the Company") is an insurance company head quartered in Dublin. The company offers a broad range of non-life insurance products and services to a wide variety of retail and commercial customers. Business is written from Ireland and out of 12 regulated branches in the European Economic Area ("EEA").

The Company is regulated by the Central Bank of Ireland ("CBI") under the Solvency II framework, which applies across the EEA.

ZIP is an indirect wholly owned subsidiary of Zurich Insurance Company Ltd, the principal operating company in the Zurich Insurance Group, with headquarters in Zurich, Switzerland. ZIC is a wholly-owned subsidiary of Zurich Insurance Group Ltd, a company listed on the Swiss SIX Stock Exchange.

Financial strength

The Solvency II framework requires that the Company holds economic capital to cover the impact of a 1 in 200 year adverse event/series of adverse advents. This is known as the Solvency Capital Requirement ("SCR"). The SCR for the Company is measured using an Internal Model which has been approved for use by the CBI.

The SCR ratio of the Company at December 31, 2018 was 143% (December 31, 2017: 135%). This ratio represented surplus funds of EUR 727m, over the 100% SCR.

At December 31, 2018 the financial strength of ZIP was rated "AA-" by Standard & Poors and "A+" by A.M. Best.

The Zurich Group manages its capital to maximise long-term shareholder value while maintaining financial strength within its "AA" target range, and meeting regulatory, solvency and rating agency requirements.

Strategy

The strategy of the company is to deliver long term competitive advantage focused on continuing to increase profitability and consolidating the position as a leading European underwriter for property and casualty. The Company aims to expand customer relationships, simplify the business and reduce costs. At the operating level the Company continues to reduce complexity and increase accountability, enhance technical excellence and strengthen ties to commercial customers, and seek to enhance offerings to individuals by monitoring and aiming to increase customer satisfaction and retention.

There were no material changes to the business profile of the Company during 2018, and there were no significant business or other events with a material impact on the business during 2018.

ZIP has established a team to prepare for Brexit and its implications. The ongoing developments and uncertainties of Brexit are monitored and plans will be adapted as necessary.

Executive Summary *continued*

Business and Performance (Section A)

The net earned premium ("NEP") in 2018 was EUR 2,979m, resulting in a net loss before tax of EUR 79m. After tax charges of EUR 69m, the net loss after tax was EUR 148m.

Underwriting result by geography:
Underwriting losses were EUR 72m in 2018. The main driver of these losses was the result in Spain. These losses were partly offset by strong performances in Germany and Italy.

Underwriting result by line of business:
Underwriting losses of EUR 72m resulted from poor performance in the property line of business which was impacted by large loss events and weather claims. This was offset by good performance in the other lines of business driven by reductions in the value of claims for prior years' loss events and improvement in the loss ratios.

Investment return:
The investment return for 2018 was a profit of EUR 125m. The investment return comprised of investment income of EUR 227m and capital losses of EUR 102m.

The investment income in the year was impacted negatively by lower re-investment yields for maturing assets, due to the prevailing interest rate environment.

The capital losses during the year arose from losses on debt securities and equity portfolios partly offset by gains in real estate.

System of Governance (Section B)

The ZIP Board of directors (the "Board") directs all aspects of the business and sets the corporate objectives and strategy to achieve them.

The Board meets on a regular basis, with the meetings normally held in the Head Office in Dublin. The senior management team is based in Dublin and is responsible for implementing the strategy for the company, supported by managers in each ZIP branch.

The Board has the ultimate responsibility for compliance with applicable regulatory requirements. The Board has established an extensive system of governance, which includes risk management and internal control systems together with a number of committees and key functions (Internal Audit, Actuarial, Compliance and Risk Management), to ensure the sound and prudent management of the company's business.

The Company employs a "three lines of defense" model that allows the key functions to review and independently challenge the running of the business, and report findings to the Board and other committees.

With the exception of the decision taken in Q3 2018 to establish the Nomination Committee, which replaced the Human Resources Committee, there were no material changes to the system of governance during 2018.

Risk Profile (Section C)

The current material risks for the Company are:

- Underwriting risk: The risk of loss arising from unexpected high frequency or severity of insurance claims
- Market risk: The risk of unexpected loss arising from adverse financial market movements
- Credit risk: The risk of loss arising from counterparties failing to fulfil their financial obligations
- Operational risk: The risk of unexpected loss arising from the failure of internal processes, personnel or systems, or from unexpected external events
- Expense risk: The risk of loss arising from adverse movement in the ratio of operating expenses to business volume.
- Pension risk: The risk of fluctuations in the net asset values of defined benefit pension schemes

All these risks are measured using the Internal Model, and are managed and mitigated in line with the stated risk appetite, under the risk management system.

Other risks for the Company are liquidity risk, strategic risk and reputation risk, which are not measured by the Internal Model, however are managed under the risk management system.

Risk concentrations exist in certain areas, such as exposure to insurance claims that may arise from natural and man-made catastrophe events, exposure to external factors such as inflation, and exposure to counterparty default risk. These risk concentrations are mitigated by management actions. An example is the reinsurance purchased against the impact of catastrophe events, up to the level of a 1 in 250 year event.

There were no material changes to the risk profile during 2018.

The uncertainties for the company associated with Brexit have been subject to close scrutiny during the year, with a number of potential scenarios considered and appropriate mitigating actions being planned.

Valuation for Solvency Purposes (Section D)

The Solvency II net assets at December 31, 2018 were EUR 2,327m, compared with Irish Generally Accepted Accounting Principles ("GAAP") net assets of EUR 2,030m.

There was no change during 2018 in the approach by the Company to valuing assets and liabilities according to Solvency II and GAAP valuation principles. In addition to the valuation differences, there are also a number of classification differences between Solvency II and GAAP.

Capital Management (Section E)

The Solvency Capital Requirement ("SCR") ratio for the Company at December 31, 2018 was 143%. The Own Funds were EUR 2,431m compared to the SCR of EUR 1,704m.

Own Funds

Economic losses generated during 2018 were EUR 185m, resulting in the reduction in Own Funds during the year to EUR 2,431m.

Under Solvency II, the Own Funds are classified in 3 tiers (Tier 1 being the highest quality), based on defined criteria.

At December 31, 2018 an amount of EUR 2,319m was classified as Tier 1 Own Funds and an amount of EUR 112m was classified as Tier 3 Own Funds. There were no Tier 2 Own Funds held at December 31, 2018.

(Excluding Tier 3 Own Funds the SCR ratio at December 31, 2018 was 136%).

No Solvency II transitional measures were availed of and there was no benefit taken for the Solvency II matching or volatility adjustment, in the valuation of Own Funds as at December 31, 2018.

SCR

The SCR value at December 31, 2018 was EUR 1,704m (December 31, 2017: EUR 1,933m).

There was no incidence of non-compliance with SCR coverage during 2018.

MCR

The Minimum Capital Requirement ("MCR") value at December 31, 2018 was EUR 767m and the MCR ratio at December 31, 2018 was 302%.

There was no incidence of non-compliance with the MCR coverage during 2018.

Information on the SFCR

1. Requirements for the SFCR

Solvency II became effective on January 1, 2016 for all insurance companies and groups regulated in the European Union. The aim of Solvency II is to provide a 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 ("SFCR") to assist customers and other stakeholders in understanding the types of business written, how the business is managed and the overall financial condition of the Company, including the regulatory capital coverage.

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

Included in the Appendix to this report are those Quantitative Reporting Templates ("QRTs") for year ended December 31, 2018, as required to be included according to Article 5 of Commission Implementing Regulation (EU) 2015/2452.

2. Note on auditability

The following QRTs were audited by PricewaterhouseCoopers ("PwC"):

- Balance Sheet (S02.01.02)
- Life and Health SLT Technical Provisions (S12.01.02)
- Non-life Technical Provisions (S17.01.02)
- Non-life Insurance Claims Information (S19.01.21)
- Own Funds (S23.01.01)

In accordance with CBI regulation, narrative sections of this report (sections D and E.1) were reviewed by the statutory auditors PwC for consistency with the related QRTs.

3. Note on materiality

Information disclosed is considered as material if its omission or misstatement could influence the decision-making or the judgment 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 on April 12, 2019.

A. Business and Performance

A.1 Business profile

Zurich Insurance plc ("ZIP") is a non-life insurance company headquartered in Dublin.

ZIP is the principal legal entity of the Zurich Group for writing non-life insurance business in Europe.

The Company writes non-life insurance business in the domestic market in Ireland and out of 12 regulated branches, established in the following European Economic Area ("EEA") countries: UK, Italy, Spain, Portugal, Germany, Sweden, Finland, Norway, Denmark, France, Belgium and the Netherlands.

Zurich Group

ZIP is an indirect wholly owned subsidiary of Zurich Insurance Company Ltd ("ZIC"), the principal operating company in the Zurich Insurance Group with headquarters in Zurich, Switzerland. ZIC is a wholly-owned subsidiary of Zurich Insurance Group Ltd, a company listed on the Swiss SIX Stock Exchange.

A simplified structure chart (Chart 1) showing the positioning of ZIP within the legal structure of the Group is shown at the end of this section A.1, which also notes the publicly available reports on solvency and financial condition across the Group.

Description of the holders of qualifying holdings:

Table 1
Qualifying holdings (in excess 10%)

Name of entity with a qualifying holding in ZIP	Country of incorporation	Shareholding & voting power
Direct		
Zurich Holding Ireland Limited	Ireland	70.41%
Zurich Beteiligungs-Aktiengesellschaft (Deutschland)	Germany	25.07%
Indirect		
Zurich Insurance Company Ltd	Switzerland	100%
Zurich Insurance Group Ltd	Switzerland	100%

A detailed structure chart (Chart 2) showing all the shareholders of ZIP is shown at the end of this section A.1.

Name and contact details of the supervisory authority for the Company
ZIP is authorised by the Central Bank of Ireland ("CBI"), New Wapping Street, North Wall Quay, Dublin 1, Ireland.

Name and contact details of the supervisory authority for the Group
Group supervision of Zurich Insurance Group Ltd and its subsidiaries is carried out by the Swiss Financial Market Supervisory Authority ("FINMA") (Address: Laupenstrasse 27, 3003 Berne, Switzerland).

Name and contact details of the external auditor for the Company
PricewaterhouseCoopers ("PwC"), Ireland, One Spencer Dock, North Wall Quay, Dublin 1, Ireland.

A. Business and Performance *continued*

List of material related undertakings including the name, legal form, country, proportion of ownership interest held and, if different, proportion of voting rights held

The list of ZIP's material subsidiaries at December 31, 2018, was as follows.

Table 2 Material related undertakings

Name of Related Undertaking	Activity	Legal Form	Country of incorporation	Shareholding and voting power
Wrightway Underwriting Limited	Underwriting agency	Limited Company	Ireland	100%
Serviaide S.A. Sociedad Unipersonal	Service provider to companies in Zurich Group	Limited Company	Spain	100%
Servizurich S.A. Sociedad Unipersonal	Service provider to companies in Zurich Group	Limited Company	Spain	100%

A detailed structure chart (Chart 2) showing all the subsidiaries of ZIP is shown at the end of this section A.1.

Material lines of business and material geographical areas where business is carried out

Approximately 84% of the business is written through the branches in UK, Germany, Italy and Spain.

The major lines of business written by ZIP are as follows:

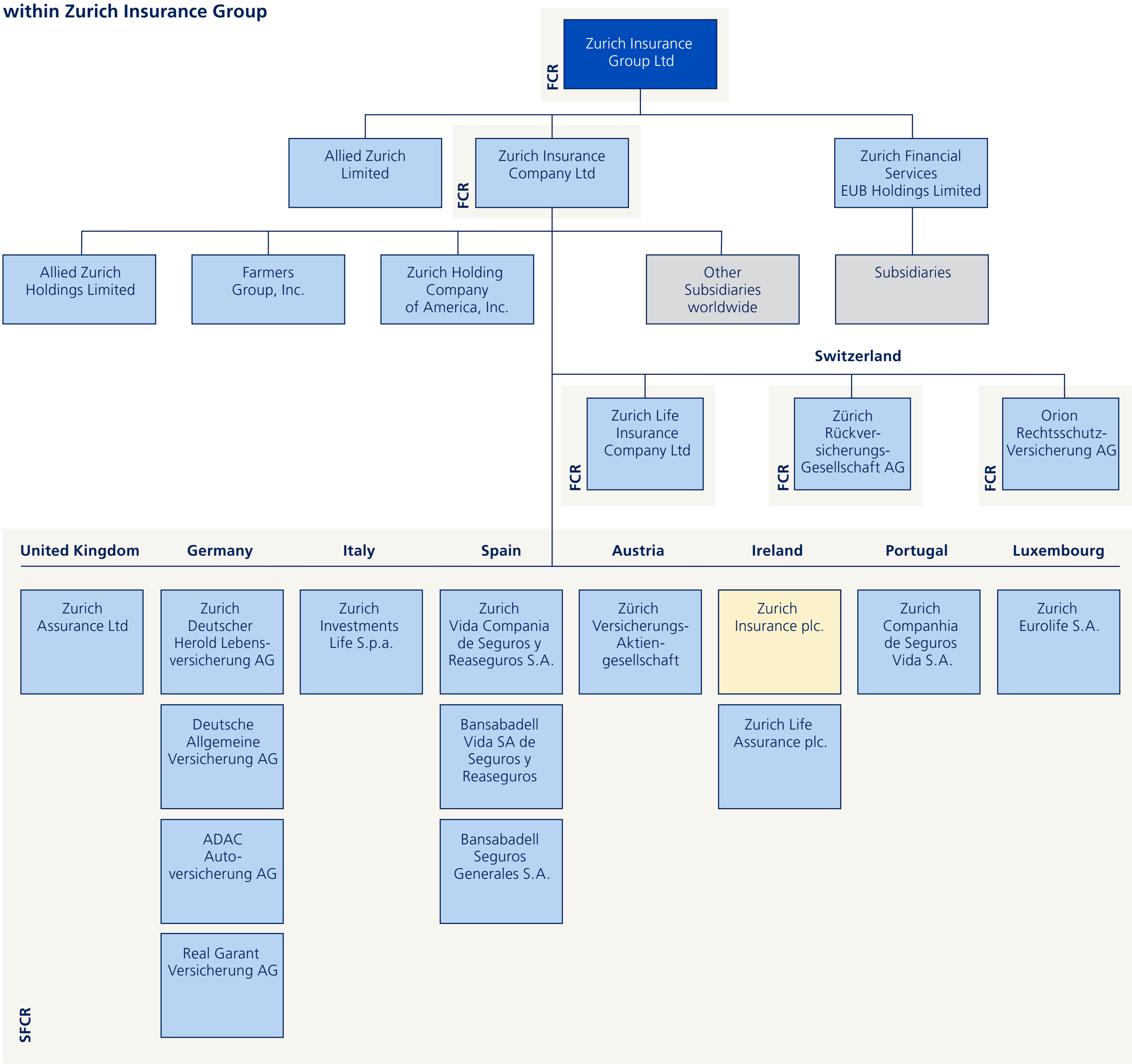
- Fire and other damage to property
- Motor vehicle liability
- General liability
- Motor vehicle non-liability

Any significant business or other events that have occurred with material impact on ZIP

There were no significant business or other events in 2018 which had a material impact on the Company. The implications of Brexit continue to be assessed based on the available information.

The Company completed the portfolio transfer of its run-off German Branch Medmal business to a third party with effect from November 30, 2018; the value of the gross reserves transferred were EUR 304m. In addition the Company completed the portfolio transfer of its run-off UK Building Guarantee portfolio business to a third party with effect from March 31, 2018; the value of the gross reserves transferred were EUR 78m.

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



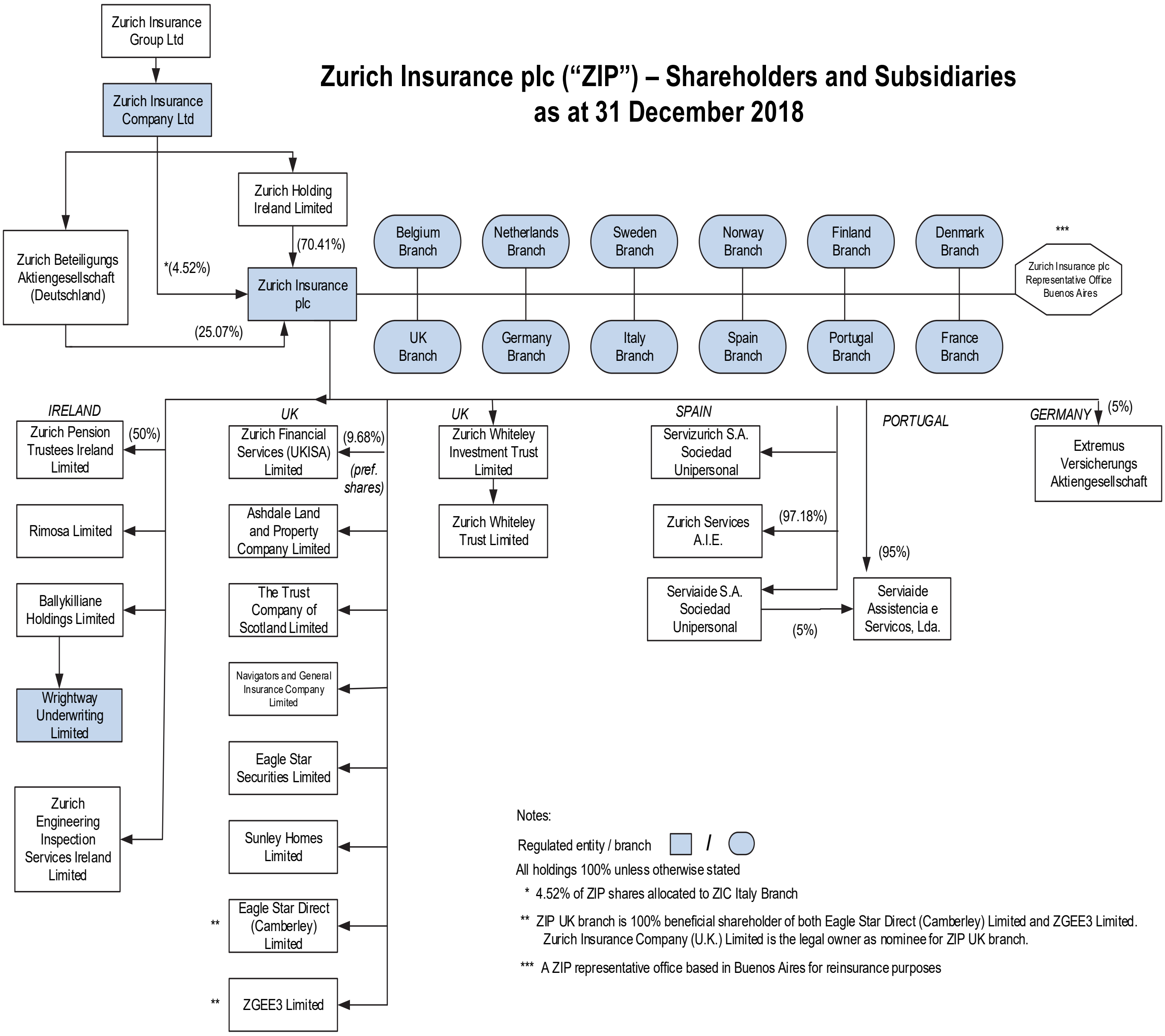
SFCR: Solvency and Financial Condition Report (Solvency II; from 2016) **FCR:** Financial Condition Report (Swiss regulation; from 2017)

☐ 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.

A. Business and Performance *continued*

Chart 2: ZIP shareholders and subsidiaries



A.2 Underwriting performance

Overview of financial performance

The values reported in section A are prepared under Irish Generally Accepted Accounting Principles ("GAAP") for year ended December 31, 2018. Underwriting losses incurred were EUR 72m (2017: EUR 48m profit). Investment income (after expenses) was EUR 125m (2017: EUR 321m) and other income was EUR 1m (2017: EUR 9m), which was offset by other charges, interest and tax totalling EUR 202m (2017: EUR 212m). The resulting net loss after tax was EUR 148m (2017: EUR 166m profit).

The tables below detail the performance by location in 2018, with a comparison to the 2017 results, and a variance analysis.

Table 3 Underwriting performance by geographical location – 2018

in EUR thousands, for 2018	UK	Germany	Italy	Spain	Other branches	Total
Net Earned Premiums	938,002	761,952	516,865	393,640	368,198	2,978,657
Net Claims Incurred	(625,730)	(477,167)	(336,088)	(382,074)	(289,994)	(2,111,053)
Other Technical Income	16,658	16,406	6,047	3,942	3,105	46,158
Technical Expenses	(338,593)	(256,632)	(132,775)	(182,262)	(75,338)	(985,600)
Underwriting Result	**(9,663)**	**44,559**	**54,049**	**(166,754)**	**5,971**	**(71,838)**
Investment Return	58,303	64,206	(29,870)	48,266	18,546	159,451
Investment Management Expenses	(11,115)	(8,565)	(2,973)	(4,295)	(7,398)	(34,346)
Other Income	250	97	522	(112)	254	1,011
Other Charges	(93,710)	(16,057)	(5,822)	(9,263)	(7,471)	(132,323)
Interest	535	(12)	(296)	(67)	(1,043)	(883)
Tax	783	(43,712)	(15,365)	9,668	(20,755)	(69,381)
Net Income after Tax	**(54,617)**	**40,516**	**245**	**(122,557)**	**(11,896)**	**(148,309)**

A. Business and Performance *continued*

Table 4 Underwriting performance by geographical location – 2017

in EUR thousands for 2017

	UK	Germany	Italy	Spain	Other branches	Total
Net Earned Premiums	935,582	781,728	529,246	386,262	363,840	2,996,658
Net Claims Incurred	(622,793)	(453,213)	(315,268)	(384,224)	(310,906)	(2,086,404)
Other Technical Income	29,055	16,659	1,457	5,916	3,272	56,359
Technical Expenses	(366,388)	(247,445)	(129,620)	(113,226)	(62,179)	(918,858)
Underwriting Result	**(24,544)**	**97,729**	**85,815**	**(105,272)**	**(5,973)**	**47,755**
Investment Return	163,418	67,681	33,182	59,796	21,370	345,447
Investment Management Expenses	(6,607)	(6,762)	(2,143)	(3,446)	(5,486)	(24,444)
Other Income	538	7,743	31	(1)	346	8,657
Other Charges	(94,555)	(9,658)	(1,422)	(9,566)	(7,028)	(122,229)
Interest	–	(5,472)	(277)	(69)	(1,048)	(6,866)
Tax	(13,342)	(19,497)	(38,769)	(26,625)	15,467	(82,766)
Net Income after Tax	**24,908**	**131,764**	**76,417**	**(85,183)**	**17,648**	**165,554**

Table 5 Underwriting performance by geographical location – Variance

variance in EUR thousands

	UK	Germany	Italy	Spain	Other branches	Total
Net earned premiums	2,420	(19,776)	(12,381)	7,378	4,358	(18,001)
Net claims incurred	(2,937)	(23,954)	(20,820)	2,150	20,912	(24,649)
Other technical income	(12,397)	(253)	4,590	(1,974)	(167)	(10,201)
Technical expenses	27,795	(9,187)	(3,155)	(69,036)	(13,159)	(66,742)
Underwriting result	**14,881**	**(53,170)**	**(31,766)**	**(61,482)**	**11,944**	**(119,593)**
Investment return	(105,115)	(3,475)	(63,052)	(11,530)	(2,824)	(185,996)
Investment management expenses	(4,508)	(1,803)	(830)	(849)	(1,912)	(9,902)
Other income	(288)	(7,646)	491	(111)	(92)	(7,646)
Other charges	845	(6,399)	(4,400)	303	(443)	(10,094)
Interest	535	5,460	(19)	2	5	5,983
Tax	14,125	(24,215)	23,404	36,293	(36,222)	13,385
Net income after tax	**(79,525)**	**(91,248)**	**(76,172)**	**(37,374)**	**(29,544)**	**(313,863)**

Net loss after tax for 2018 was EUR 314m adverse to 2017, driven by a lower underwriting result of EUR 120m, lower investment return of EUR 196m and higher other net charges of EUR 10m. This was partly offset by a lower tax charge of EUR 13m.

There was a reduction of EUR 18m in net earned premiums during 2018. This was largely as a consequence of management actions taken during 2017 to maintain and improve profitability. The weakening of the GBP exchange rate versus the Euro also impacted the value of the net earned premiums as reported in Euro, the reporting currency of the Company.

The underwriting result was EUR 120m adverse to 2017, due to less favourable prior years' experience in 2018 and higher technical expenses partly offset by improved current year loss ratios. The deterioration in the underwriting result compared to 2017 was most notable in Spain, driven by the impact of a large loss on current year loss ratios, and in Germany due to an increase in the value of claims for prior year's loss events compared to a decrease in 2017.

The investment return was EUR 196m lower in 2018 than 2017. This was due to lower reinvestment yields, a smaller asset base and a rise in bond yields impacting bond values.

A tax charge of EUR 69m was incurred by the Company during the year. This amount was based on the calculation of a tax charge for each of the 13 countries where the Company has permanent establishments. The tax regulations are different across the 13 countries, reflecting each country's fiscal policies, and this includes variations in the tax rates applied.

Underwriting performance by geographic location

Drivers of underwriting performance, particular to certain branches, are further analysed below.

UK

There was an underwriting loss of EUR 10m in 2018, EUR 15m favourable to the 2017 result. The improvement was driven by improved attritional experience and lower technical expenses. Offsetting this impact was less favourable prior years' experience and an increase in weather related claims. The increase in net earned premium was largely driven by new business.

Germany

There was an underwriting profit of EUR 45m in 2018, EUR 53m adverse to the 2017 result. This was driven by an increase in the value of claims related to prior years' loss events and higher commission expense. Offsetting this impact was improvement in the current year experience compared to 2017. Lower net earned premiums were a consequence of re-underwriting initiatives.

Italy

There was an underwriting profit of EUR 54m in 2018, EUR 32m adverse to the 2017 result. This was driven by less favourable prior years' experience in 2018 compared to 2017 and an increase in the value of claims relating to the current year. Lower net earned premiums were a result of the market conditions.

Spain

There was an underwriting loss of EUR 167m in 2018, EUR 61m adverse to the 2017 result. The underwriting result in 2018 was adversely impacted by a large property loss and higher technical expenses. The increase in net earned premium was largely driven by higher renewals.

Other locations

There were underwriting profits of EUR 6m in 2018, EUR 12m favourable to the 2017 result. The underwriting result in 2018 benefited from favourable current year experience and a reduction in the value of claims relating to prior years' loss events. Offsetting were higher technical expenses incurred.

Underwriting performance by line of business

The table below details the performance in 2018 by material line of business, with a comparison to the 2017 results, and a variance analysis.

Table 6 Underwriting performance by line of business – 2018

in EUR thousands, for 2018	Fire and Other Damage to Property	Motor Vehicle Liability	General Liability	Motor Other	Other	Total
Net Earned Premiums	973,168	656,148	545,222	351,737	452,382	2,978,657
Net Claims Incurred	(775,983)	(539,630)	(350,515)	(213,528)	(231,397)	(2,111,053)
Other Technical Income	18,732	12,050	7,782	3,966	3,628	46,158
Technical Expenses	(421,522)	(131,173)	(161,931)	(91,612)	(179,362)	(985,600)
Underwriting Result	**(205,605)**	**(2,605)**	**40,558**	**50,563**	**45,251**	**(71,838)**

A. Business and Performance *continued*

Table 7 Underwriting performance by line of business – 2017

in EUR thousands for 2017	Fire and other damage to property	Motor vehicle liability	General liability	Motor vehicle (non-liability)	Other	Total
Net Earned Premiums	949,989	665,086	576,497	362,039	443,047	2,996,658
Net Claims Incurred	(670,334)	(557,836)	(403,284)	(284,106)	(170,844)	(2,086,404)
Other Technical Income	25,731	9,334	7,922	3,614	9,758	56,359
Technical Expenses	(395,041)	(113,603)	(161,468)	(70,297)	(178,449)	(918,858)
Underwriting Result	**(89,655)**	**2,981**	**19,667**	**11,250**	**103,512**	**47,755**

Table 8 Underwriting performance by line of business – Variance

variance in EUR thousands	Fire and other damage to property	Motor vehicle liability	General liability	Motor vehicle (non-liability)	Other	Total
Net earned premiums	23,179	(8,938)	(31,275)	(10,302)	9,335	(18,001)
Net claims incurred	(105,649)	18,206	52,769	70,578	(60,553)	(24,649)
Other technical income	(6,999)	2,716	(140)	352	(6,130)	(10,201)
Technical expenses	(26,481)	(17,570)	(463)	(21,315)	(913)	(66,742)
Underwriting result	**(115,950)**	**(5,586)**	**20,891**	**39,313**	**(58,261)**	**(119,593)**

Fire and other damage to property

The underwriting loss of EUR 206m in 2018 was EUR 116m adverse to the 2017 result. The 2018 result was adversely impacted by a large loss event in Spain and weather related loss events in the UK and Italy. There was also an increase in the value of claims for prior years' loss events.

Motor vehicle (liability)

The underwriting loss of EUR 3m in 2018 was EUR 6m adverse to the 2017 result, largely driven by an increase in technical expenses. Offsetting this impact was a reduction in the value of claims for prior years' loss events. Lower net earned premiums were a result of underwriting actions, market conditions and the weakening of the GBP versus the Euro.

General liability

The underwriting profit of EUR 41m in 2018 was a EUR 21m improvement on the 2017 result largely driven by improvement in current year loss performance. Lower net earned premiums were a result of underwriting actions and the weakening of the GBP versus the Euro.

Other lines of business

The underwriting profit of EUR 45m was EUR 58m adverse to the 2017 result driven by less favourable prior years' experience in 2018 compared to 2017 and an increase in the value of claims relating to the current year.

A.3 Investment performance

The investment results for 2018 are shown below with comparison to the 2017 results, and a variance analysis.

Table 9 Investment performance – 2018

in EUR thousands for 2018	Investment Income	Capital gains/losses	Total Result
Cash and Cash Equivalents	(14)	–	(14)
Equity Securities	64,501	(81,558)	(17,057)
Debt Securities	151,637	(141,561)	10,076
Real Estate Held for Investment	39,786	116,889	156,675
Mortgage Loans	22	–	22
Other Loans	5,511	(29)	5,482
Other Investments	–	4,267	4,267
Investment result, gross	**261,443**	**(101,992)**	**159,451**
Investment expenses	(34,346)	–	(34,346)
Investment result, net	**227,097**	**(101,992)**	**125,105**

Table 10 Investment performance – 2017

in EUR thousands for 2017	Investment Income	Capital gains/losses	Total Result
Cash and Cash Equivalents	(50)	–	(50)
Equity Securities	42,445	32,817	75,262
Debt Securities	176,483	8,362	184,845
Real Estate Held for Investment	35,726	58,123	93,849
Mortgage Loans	30	–	30
Other Loans	6,609	6	6,615
Other Investments	–	(15,104)	(15,104)
Investment result, gross	**261,243**	**84,204**	**345,447**
Investment expenses	(24,444)		(24,444)
Investment result, net	**236,799**	**84,204**	**321,003**

Table 11 Investment performance – Variance

variance in EUR thousands	Investment Income	Capital gains/losses	Total Result
Cash and Cash Equivalents	36	–	36
Equity Securities	22,056	(114,375)	(92,319)
Debt Securities	(24,846)	(149,923)	(174,769)
Real Estate Held for Investment	4,060	58,766	62,826
Mortgage Loans	(8)	–	(8)
Other Loans	(1,098)	(35)	(1,133)
Other Investments	–	19,371	19,371
Investment result, gross	**200**	**(186,196)**	**(185,996)**
Investment expenses	(9,902)	–	(9,902)
Investment result, net	**(9,702)**	**(186,196)**	**(195,898)**

Key points to note in relation to investment performance by asset class:

Equity securities

Capital losses in 2018 reflected weak equity market returns over the year. This contrasted with the positive returns witnessed in 2017.

Debt securities

The lower return in 2018 was largely attributable to wider credit spreads, with changes in government bond yields having a small mixed impact. Returns in 2017 were modestly positive as tighter credit spreads offset increases in government bond yields.

A. Business and Performance *continued*

Real estate
Higher capital gains in 2018 reflected favourable movements in the real estate markets in which the Company invested.

Other investments
The result for other investments related to investment hedges. The gains incurred in 2018 were offset by losses on the underlying assets. There was an opposite effect in 2017, with losses on hedges offset by gains on the underlying assets.

Investment expenses
The expenses incurred were higher in 2018 than 2017. Investment expenses are reported at an aggregate level and are not allocated by asset class.

Note on securitised investments
Asset backed securities of EUR 632m were held at December 31, 2018. The valuation reflects the fair value of those securities, based on quoted prices where available or alternatively based on recognised valuation approaches. The average credit rating of this portfolio was A+. The majority of holdings are the highest AAA grade. Investment guidelines and monitoring controls are in place for the external managers who manage these portfolios, to ensure adherence to the investment strategy of the Company, as approved by the Board.

A.4 Performance of other activities

Other income included third party interest income.

Other charges included business simplification costs and defined benefit pension expenses.

(Refer to Table 3 for values for the above items).

Leasing arrangements
There were no financial lease arrangements at December 31, 2018.

A number of branches have entered into various operating leases as lessee for office space or computer and other equipment.

Charges under operating leases are recorded as incurred over the life of the lease terms.

A.5 Any additional information

Other than as noted above, no other events occurred in 2018 which had a material impact on the business or performance of the Company.

B. System of Governance

B.1 General information on the system of governance

The Board

The focal point of the Zurich Insurance plc ("ZIP") system of governance is its board of directors (the "Board") which directs all aspects of ZIP's business except where the Board is required, as a matter of law, to refer an issue to ZIP's shareholders.

The terms of reference of the Board provide that it will, amongst other matters:

- Approve the corporate objectives and set the strategy to achieve them
- Ensure that the organisation conducts its affairs in an ethical, legal and responsible manner
- Set and oversee a robust and transparent organisational structure with effective communication and reporting channels
- Set and oversee an adequate and 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
- Set and oversee policies on key areas such as: risk, reserving, compliance, internal audit, outsourcing, fitness and probity, business continuity, accounting, staff remuneration and board diversity
- Set risk appetite and overall risk tolerance limits
- Set and oversee the strategy for the management of material risks including, inter alia, liquidity risk
- Approve material changes to the Internal Model

Committees of the Board

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

- The **Audit Committee** assists the Board in controlling, overseeing and coordinating internal and external audit activities and processes. It also monitors the financial reporting process and reviews the annual financial statements and regulatory filings, as well as overseeing the activities of the Compliance function and reviewing key actuarial reports, including reports on the valuation of the technical provisions and sensitivities therein.
- The **Board Risk Committee** serves as a focal point for oversight of the Enterprise Risk Management ("ERM") framework. It reviews current exposures and makes recommendations to the Board on risk appetite and future risk strategy as well as overseeing the Risk Management function.
- The **Nomination Committee** assists and supports the Board in considering personnel matters. It assists the Board on decisions relating to the appointment of directors and senior management and related matters including succession planning, diversity and compliance with relevant HR policies.

The Board has elected not to establish a remuneration committee and instead relies on the similar committee which exists at Group level.

Executive Management and Management Committees

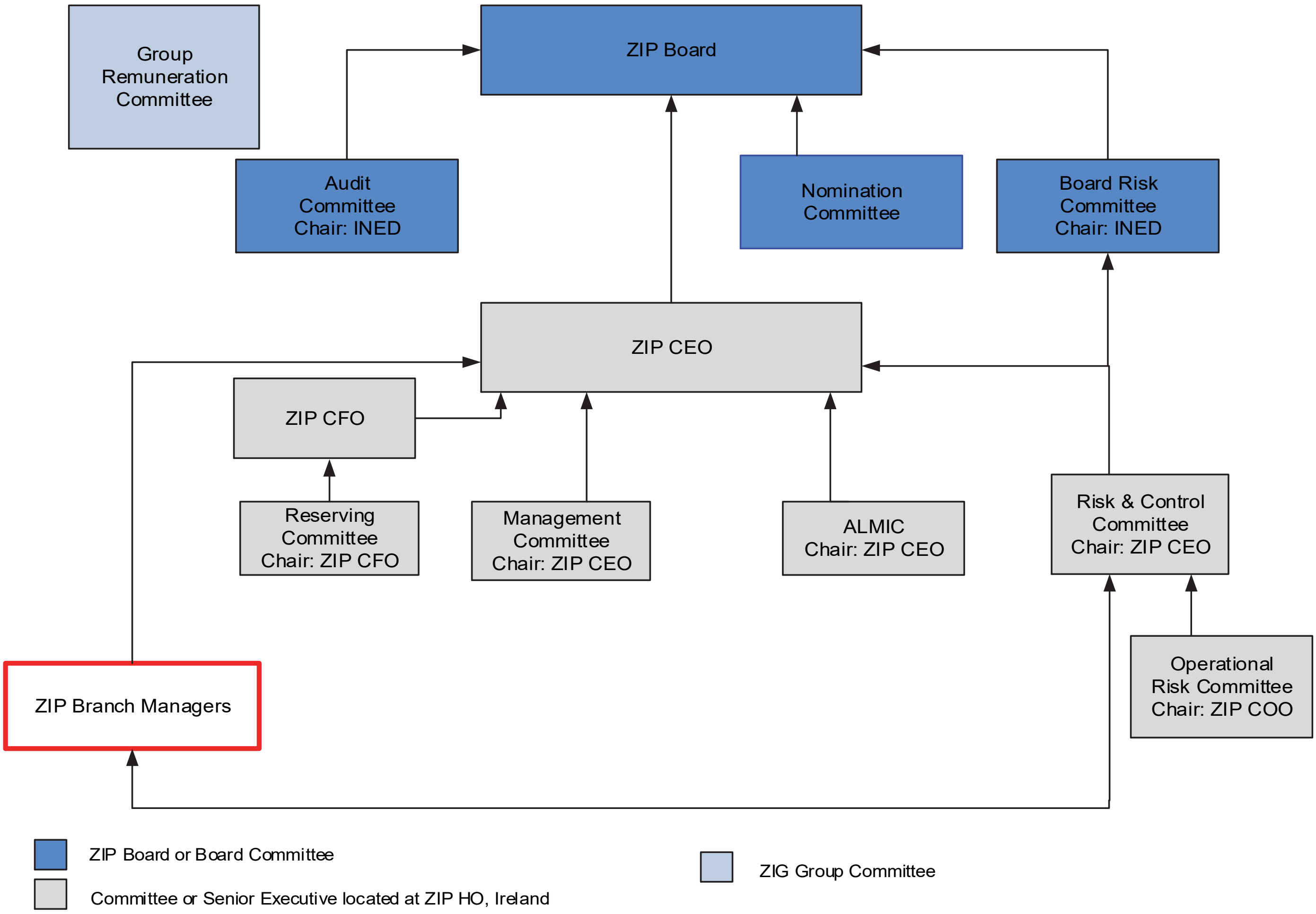
The Board has delegated broad executive powers to the Chief Executive Officer ("CEO") to manage and operate ZIP's business. The following key management committees have been established to assist and support the CEO and other senior management in fulfilling their responsibilities:

- The **Management Committee** assists and supports the CEO in managing and overseeing all the business and operations of ZIP including its branches.
- 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.
- The **Asset Liability Management and Investment Committee** ("ALMIC") assists the CEO and the Chief Financial Officer ("CFO") in managing and overseeing the investment of ZIP's portfolio of investment assets in accordance with the investment strategy.
- The **Reserving Committee** assists the CEO, CFO and the Head of Actuarial Function in managing, controlling, overseeing and co-ordinating ZIP's reserving activities.
- The **Operational Risk Committee** ("ORC") assists the CEO and Chief Risk Officer ("CRO") in managing, controlling, overseeing and co-ordinating operational risk management and internal control activities.

B. System of Governance *continued*

The governance reporting structure is summarised in the chart below.

Chart 3: Summary corporate governance reporting structures



Key functions

- The **Risk Management** function, led by the CRO is responsible for facilitating the implementation and effective operation of the ERM framework, reporting on risk exposures and making recommendations to the Board on risk appetite and other risk management matters. The Risk Management function is also responsible for the appropriateness of the methodology (and related aspects) of the Internal Model. Further information on the risk management system is contained in section B.3 of this report.
- The **Compliance** function, led by the 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 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 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 ZIP'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 Head of Actuarial Function, is responsible for carrying out the actuarial activities of ZIP, including the provision of regular reports to the Board on the valuation of technical provisions. The Actuarial function co-operates closely with the Risk Management function on matters relating to the Internal Model. 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 or CFO as the case may be), and has the right to receive all relevant information and be appropriately resourced to perform their respective role.

The Internal Audit function is outsourced to the Group Internal Audit function. An appropriate service level agreement is in place to ensure that sufficient resources with appropriate capability and competence are provided to deliver the audits contained in ZIP's approved internal audit plan. If the independence or objectivity of the Internal Audit function is impaired, details of the impairment must be disclosed to the Chairperson of the Audit Committee and will be disclosed to the Chair of the Audit Committee who will be responsible for reporting it to the Board.

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

Table 12
ZIP 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 Audit Committee (quarterly) • Report to the Board as required (e.g. annual Actuarial Function report)

Branch governance

A branch manager is appointed, who is responsible for the business and operations in each branch. Each branch manager reports to the CEO.

Branch management committees are in place to assist and support the branch manager to develop, manage and oversee the business of the branch and to implement ZIP's strategy, policies and business plans in the branch.

Branch risk and control committees assist and support the branch manager to manage and oversee the internal audit, risk management, compliance and internal control activities in the branch.

Material changes in the system of governance

With the exception of the decision taken in Q3 2018 to establish the Nomination Committee, which replaced the Human Resources Committee, there were no material changes to the system of governance during 2018.

Remuneration

The Board has determined that it is appropriate for ZIP to rely on the Group Remuneration Committee rather than establish its own remuneration committee. The Board has adopted the Zurich Group Remuneration ("ZRR") Rules as ZIP'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 ZIP 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, including those individuals who hold positions considered as key risk taker roles, a large proportion of their remuneration is deferred over the long term and is dependent on long-term Company performance. The performance based target shares guaranteed under the LTIP only vest if certain performance criteria are met.

B. System of Governance *continued*

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 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

In September 2018, the Company acquired Baden-Badener Versicherung Aktiengesellschaft ("BBV") from Zurich Beteiligungs-Aktiengesellschaft (Deutschland), another company in the Zurich Group. This acquisition was a preliminary step to effect a cross-border merger of BBV into the Company. The High Court of Ireland confirmed the cross-border merger of BBV into the company with effect from October 5, 2018. As a result of the cross-border merger, the Company acquired all the assets and liabilities of BBV and BBV was dissolved without going into liquidation, the assets and liabilities merged in to ZIP had values of EUR 128m and EUR 90m respectively.

A number of reinsurance contracts were entered into with Zurich Insurance Company Ltd ("ZIC") during the year, the principal arrangements being:

- Whole Account Quota Share contract on personal and commercial lines of business
- Reinsurance of international programme business
- Catastrophe event protection

All of these reinsurance arrangements were also in place during 2017 with broadly similar terms and conditions.

Term loans totalling EUR 373.5m and GBP 195m with a duration of one year were advanced to ZIC during the year. These replaced term loans of equal amounts with ZIC which matured during the year.

In addition a term loan of GBP 140m with 3 month duration was advanced to ZIC in December 2018. This replaced an EMTN instrument of the same value which matured in December 2018.

Currency hedge instruments were entered into with ZIC during 2018 to mitigate foreign exchange risk.

Intra-group transactions are entered into on commercial terms, similar to third-party transactions, and all material transactions are subject to approval by the Board.

B.2 Fit and proper requirements

Irish insurance companies must be satisfied that persons who perform specified roles comply with the Fitness and Probity Standards which are issued by the Central Bank of Ireland ("CBI") and the Company fully implements this requirement. In addition these persons are required to comply with the Company's Code of Conduct, which outlines the ethical standards required in carrying out their roles.

The Fitness and Probity Standards apply to people who are likely to significantly influence the conduct of the business of ZIP 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 fit and proper policy and implemented controls to ensure that it meets these requirements. Checks are carried out in advance of any 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)
- References
- Record of previous experience
- Satisfactory checks in relation to CBI records, sanctions, directorships, judgements, bankruptcies

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

Persons 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 the Company 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

Overview of the risk management system

Taking risk is inherent to the insurance business; however such risk-taking needs to be made in an informed and disciplined manner, and within a pre-determined risk appetite and tolerance. The ERM framework embedded in the system of governance is designed to achieve this objective.

A "three lines of defense" approach is applied across the Company, so that risks are clearly identified, assessed, owned, managed and monitored as follows:

- First line: business managers take risks in carrying out their roles and are responsible for day-to-day risk management
- Second line: the Risk Management function oversees the overall risk management framework, and helps manage risk. Other governance and control functions, such as Compliance and Actuarial, help the business manage and control specific types of risks
- Third line: the Internal Audit function, amongst other duties, provides independent assurance regarding the adequacy and effectiveness of the risk management framework, internal controls and governance processes

Implementation of the risk management system

The Board is responsible for ensuring that the rules and procedures for decision-making are well defined, transparent and supported through appropriate risk management and culture. At least annually the Board approves a risk appetite statement which details the Company's willingness and capacity to accept volatility to achieve its strategic objectives, based on:

- Capital and liquidity adequacy
- Earnings target levels and stability
- Financial flexibility and stability
- A reasonable balance of risk and return, aligned with economic and financial objectives
- Protection of the brand and reputation through promotion and embedding of ZIP and Group values and ethics throughout the organisation

The Board requires periodic assurance from management that its risk management requirements are being met. To achieve this, risk tolerances are approved by the Board at least annually as part of the setting of risk appetite. The risk tolerances define the maximum willingness to take risk, both on an overall basis and also with respect to individual types of risks. The risk tolerances are set with due regard for circumstances that may give rise to increased risk. The ERM framework is designed to support decision-making by providing consistent, reliable and timely risk information, thereby protecting the business from undesired deviations from its risk appetite and strategy.

The output from the risk management system, and in particular from the Internal Model, is used across the Company in business decisions such as underwriting, reinsurance purchasing and investment management.

The risk management function

As part of the ERM framework, the Risk Management function coordinates with other functions, including Compliance, Legal, Actuarial and Finance, to develop and operate methodologies to identify, manage and mitigate designated types of risk. The Risk Management function measures and reports the actual risk profile against the agreed risk tolerances, both overall and for specific risk types, to identify breaches or potential breaches. This is done using data from the Internal Model and other information, with escalation taking place through the system of governance as required.

B. System of Governance *continued*

The CRO is responsible for the implementation and effective operation of the ERM framework across ZIP. The CRO regularly reports risk matters to the CEO and senior management through the RCC and to the Board through the Board Risk Committee.

Risk policy

The Board has approved a risk management policy, which refers to the Zurich Group risk policy, as its primary risk governance document. For each type of risk, the policy specifies the requirements, roles and responsibilities, monitoring and reporting procedures, and describes the parameters for acceptable risk-taking. Periodic assessments are carried out across the organisation to verify that the requirements of the policy are being met.

The Own Risk and Solvency Assessment

The Own Risk and Solvency Agreement ("ORSA") is an overarching process which brings together the results from various processes employed by the Company as part of its ERM framework. The ORSA process consolidates the various outputs and provides an analysis of the risk capital required to be held in respect of all of the Company's risks, both currently and over the business planning horizon. The ORSA process is embedded within the ERM framework, and is aligned with capital management activities. The risk and capital assessments in the ORSA take account of ZIP's risk profile, its approved risk appetite and its business strategy. The assessments and conclusions arising from the ORSA are used in the Company's business decision-making processes, including decisions about:

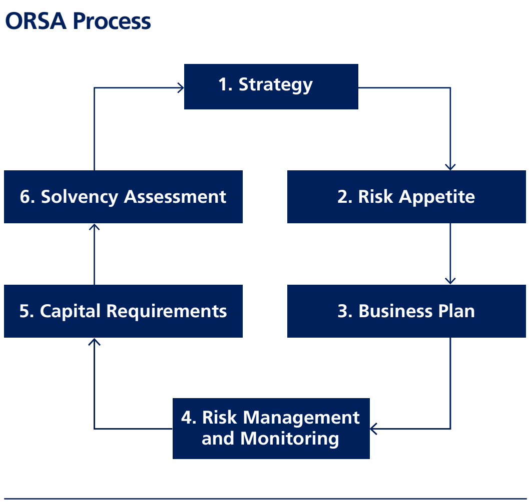
- whether the Company's strategy remains appropriate
- whether to retain, transfer or otherwise mitigate risks
- how best to optimise the Company's management of capital
- which segments to underwrite and how to establish appropriate premium levels
- whether the business plan is aligned with risk appetite
- other strategic matters relevant to risk appetite

A key part of the ORSA process is the annual Total Risk Profiling ("TRP") process, carried out by senior management in each location where the Company operates. This process enables the identification, assessment, mitigation and monitoring of risks that threaten the ability to achieve the strategic objectives and business plan, and informs the stress tests and scenarios that are considered in the ORSA report.

The Risk Management function manages the ORSA process and drafts the ORSA report which is reviewed by management and recommended for approval by the Board prior to submission to the CBI. Other functions contribute to the ORSA as appropriate, particularly in defining appropriate scenarios and stress tests for inclusion.

The Board is responsible for directing and overseeing the ORSA process. It plays an active role in the ORSA, challenging its outcome and suggesting a range of adverse scenarios to test. As part of the ORSA, the Board also challenges the assumptions behind the calculation of the SCR to ensure that they are appropriate in view of the assessment of the risks.

Chart 3: ZIP ORSA process



The ORSA process is governed by the ORSA policy, which includes the following:

- Roles and responsibilities within the ORSA process
- Processes and procedures for conducting the ORSA
- Links with the wider risk and capital management frameworks
- Frequency and timeline for production of the ORSA report

The cornerstone of the ORSA is an assessment of the current and planned risk profiles, together with stress tests of those profiles and a determination of the resulting capital requirements, including:

- An analysis of the current capital position under stressed conditions
- Consideration of the current and likely future risks inherent to the business strategy and plan as identified by the ERM framework
- A forward-looking assessment of the risk capital position over the planning horizon and implications for strategy
- Determination of the Company’s overall solvency needs, including its target capital ratio in accordance with its risk appetite

The ORSA process takes place annually, with more frequent updates only where necessary, to reflect material changes in the risk profile including major acquisitions or divestments, major shifts in product mix, or other major changes in the business, operating or external environment.

Internal Model governance

ZIP uses an internal model approved by the CBI for calculating its regulatory Solvency Capital Requirement (“SCR”). The model measures the capital required for each of the material risks to which ZIP is exposed to and aggregates the results to produce the SCR.

While the SCR represents the capital required by regulation, the Board targets to hold a higher level of capital in its risk appetite statement. The appropriate buffer capital over the SCR is set annually and serves to mitigate short term volatility in the capital ratio and hence to reduce the likelihood of breaching the regulatory capital requirement.

The Board has approved an Internal Model governance policy to ensure appropriate governance of the Internal Model. The policy is reviewed and approved by the Board at least annually. The CRO has been delegated responsibility by the Board for implementing the policy, in particular the appropriateness of the Internal Model methodology, which is also reviewed at least annually. The CRO may approve minor changes to the methodology, while major changes must be approved by the Board (on the recommendation of the CRO) and the CBI.

The CRO is also responsible for ensuring that an appropriate independent validation function is in place for the Internal Model which includes the requirement to produce an annual validation report for the Board.

The independent validation process is governed by a policy which is also approved by the Board. Certain aspects of the validation function are carried out by the Group model risk management team under a service level agreement.

The CRO is supported in the oversight of model governance by the Capital Model Forum, which meets at least quarterly and includes representatives from relevant management functions.

The CFO has responsibility for the calculation of the SCR using the Internal Model and the operation of the related internal controls, and is supported in this role by representatives from the Finance, Actuarial and Risk Management functions. The CRO and CFO both report to the Board (or one of its committees) in relation to the methodology and operation of the Internal Model.

There were no material changes to the Internal Model governance during 2018.

The model change policy was updated during the year in line with regulatory guidance.

B. System of Governance *continued*

B.4 Internal control system

The Company has adopted principles and tools used by the Group in relation to internal controls, with adaptation to local requirements. The controls operate across all financial reporting processes (including Internal Model results production) and the wider operations, including underwriting and claims management.

Accountability for the design and operational effectiveness of each control resides with relevant management function in ZIP in each location where there are business operations. The responsibility for performing the relevant controls may be delegated by management, subject to certain conditions (e.g. the control delegate must have sufficient knowledge to perform the control). The certification process is managed using the Risk and Control Engine ("RACE") tool.

The Risk Management and Finance functions support the implementation of the internal control framework and ensure the framework is consistently applied. They do this by monitoring and reporting on the certification process and following up with relevant personnel when exceptions occur.

Control deficiencies require remediation action plans to be put in place and these action plans are tracked on RACE and reported to the ORC, RCC and the Board Risk Committee on a quarterly basis.

Internal and external auditors also regularly report their conclusions, observations and recommendations that arise as a result of their independent reviews and testing of the internal controls.

Other key elements of the internal control system include administrative and accounting procedures, appropriate reporting arrangements at all levels of the Company, and the activities of the Compliance function which are described below.

Compliance function

The 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 activities undertaken within the Company and their respective exposures to compliance risk.

As part of a comprehensive program, the Compliance function implements and monitors compliance policies and guidance and ensures that all employees receive regular compliance training, including annual training on the Zurich Group Code of Conduct.

The Chief Compliance Officer facilitates and supports compliance with applicable regulatory requirements. Local compliance officers in each branch are accountable for the execution of the compliance plan in their respective branch.

The Chief Compliance Officer operates under the ultimate responsibility of, and reports to, the Board. The branch compliance officers report to the branch manager and also to the Chief Compliance Officer.

B.5 Internal audit function

As indicated in Section B.1 of this report, the Internal Audit function for ZIP is outsourced to the Group Internal Audit team. A representative of the Group is appointed as the Head of Internal Audit for ZIP and 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.

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

The Internal Audit function has operational independence to carry out its tasks and to report to and advise the Board (through 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 Head of Actuarial Function is responsible for the Actuarial function and for the tasks carried out by that function in accordance with the Solvency II framework and the requirements of the CBI's Domestic Actuarial Regime in Ireland. All actuarial function staff report to the Head of Actuarial Function.

The primary responsibilities of the Actuarial function are:

- Co-ordination and validation of the calculation of technical provisions
- Opining on the Company's underwriting policy and on the adequacy of the Company's reinsurance arrangements
- Contributing to the effective implementation of the risk management system

The Actuarial function provides independent and objective assurance to the Board and its committees. In particular, the Actuarial function reports to the Board on its activities 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 independent and objective assurance to the Audit Committee in respect of the valuation of technical provisions.

The Actuarial function is independent of the operational management of the business and of the activities it reviews as part of its control responsibilities. It receives relevant inputs from other functions, with appropriately governed processes in place for the production and delivery of those inputs.

B.7 Outsourcing

Outsourcing refers to an arrangement by which a business capability that would otherwise be performed by a unit or function within a Company is, instead, performed by a service provider.

The Company enters into outsourcing arrangements with service providers (either within the Group or external to the Group) only where it has identified benefits in doing so and provided that the arrangement is not likely to undermine the continuous and satisfactory service to policyholders, impair the quality of the Company's system of governance or unduly increase operational risk. The benefits arising from outsourcing include increased efficiencies within particular processes and/or the ability to avail of specific expertise. The risks associated with outsourcing to service providers are recognised and appropriately managed in accordance with the Company's outsourcing policy which provides, amongst other things, that:

- All regulatory requirements, including those relating to critical or important functions or activities ("CIFA"), are met.
- Risk and control assessments should be conducted prior to any decision to outsource a CIFA and then periodically during the life of the outsourcing arrangement.
- CIFA's service providers should be selected and managed in such a way as to avoid undue concentration risk.

The Chief Operating Officer has management responsibility for outsourcing governance. The Board has the overall responsibility.

Any proposal to outsource a CIFA is thoroughly examined by those with approval authority before any decision is taken to proceed. The proposed arrangement is notified to the CBI to allow for appropriate consultation if required.

Internal Audit is the only function of the Company which is fully outsourced. Certain other functions are managed within the Company with an element of service support from outsource providers.

B. System of Governance *continued*

CIFA activities which are outsourced to counterparties within the Group are shown in the following table:

Table 13 Outsourcing to Zurich Group

Activity or Function that is outsourced	Location of service provider
Internal Audit Function	Switzerland
Accounting systems	Switzerland
Actuarial services	Switzerland
Investment Management services	Switzerland
International Product Underwriting	Switzerland
Financial Accounting and Reporting services	Poland
Global Catastrophe Management	Switzerland
Investment Accounting & Administration	Switzerland, Ireland, Spain, Hong Kong
Risk and Control of Strategic Suppliers	Switzerland
Solvency II support services	Switzerland
IT services	Switzerland
Underwriting referrals	Switzerland
Pricing Center of Excellence	Slovakia
Claims – Large Referrals	Switzerland
Treasury Services	Ireland
Asset Management	Ireland
Auxiliary support services (including tax, accounting and treasury) provided to Spain Branch via Economic Interest Group Company	Spain
Assistance services to customers of Spain Branch	Spain

The CIFA activities which are outsourced to external third parties are:

Table 14 Outsourcing to external suppliers

Activity or Function that is outsourced	Location of service provider
Claims handling services	UK, Spain, Italy, Ireland, Netherlands, Belgium, Sweden, France, Canada
Telecommunications, call centers, documents, postal, printing, storage	UK, Germany, Spain, Italy, Portugal
Banking/investment services	UK
Underwriting delegated authority	UK, Netherlands
Underwriting support services	India
Sales & distribution	Ireland
IT services	UK, Germany, Spain, Italy, Portugal

B.8 Any other information

Assessment of system of governance

During each calendar year, internal reviews are performed that consider the adequacy of individual components of the system of governance. The reviews are overseen by the Board or one of its Committees and typically involve feedback from the relevant management functions (including, where appropriate, the key functions).

The ZIP system of governance is considered to be adequate in relation to the nature, scale and complexity of the risks inherent in ZIP's business.

Other material information

No other information regarding the system of governance is considered material for the purpose of this report.

C. Risk Profile

Introduction
This section analyses the risks faced by the Company as at December 31, 2018. These include all the risks measured in the Internal Model, which has been approved for use by the Central Bank of Ireland ("CBI") under Solvency II.

The risks faced by the Company are typical of a non-life insurance Company. These risks include: Underwriting risk, Market risk, Credit risk, Liquidity risk, Operational risk, Pension risk, Expense risk, Strategic risk and Reputational risk. A framework is in place to monitor and mitigate these risks, as described in this section.

The modelling of risks in the Internal Model enables the calculation of Solvency Capital Requirement ("SCR"), which represents the modelled value of an adverse 1 in 200 year event (an event with a 0.5% probability of occurring in the next year for the Company). The SCR value is calculated by modelling the 1 in 200 year losses for individual risks and then aggregating and applying diversification on the basis that not all of the 1 in 200 year modelled losses would occur at the same time. Finally, a number of post aggregation steps are applied to reach the final SCR. Further detail on the SCR calculation is provided in section E.

The elements of the SCR result of EUR 1,704m at December 31, 2018 are shown in the Appendix: QRT S25.03.21

The available financial resources ("Own Funds") to meet the SCR at December 31, 2018 were EUR 2,431m and the SCR ratio was 143%. Therefore at December 31, 2018 the Company had excess Own Funds of EUR 727m, after providing for the SCR.

C.1 Underwriting risk

This risk refers to the potential economic loss arising from an unexpectedly high frequency of insurance claims and/or an unexpectedly high severity of insurance claims.

In the Internal Model the underwriting risk is measured under the following categories:

- Premium & unearned premium reserve ("UPR") risk: the risk measured is that insurance claims from the insurance business in the next year (unexpired and future risks) will deviate adversely from the expected insurance claims. The risks for future insurance claims relating to natural catastrophe ("Nat Cat") events are measured separately (see below). The exposures used to measure premium risk at December 31, 2018 were the planned earned premiums for 2019 and the exposures used to measure UPR risk at December 31, 2018, were the planned unearned premiums (Solvency II valuation basis) at December 31, 2019. There was no material change in the value of the exposures to these risks in 2018.
- Reserve risk: the risk measured is that for expired risks the insurance claims reserves booked prove to be insufficient to cover the ultimate value of the claims. The exposures used for measuring reserve risk at December 31, 2018 were the insurance claims reserves booked at that date. There was no material change in the value of the exposure to this risk in 2018.
- Nat Cat: the risk measured is that insurance claims in the next year due to natural catastrophe events (affecting multiple insurance policies) will deviate adversely from the expected claims for such events. The exposures used for measuring Nat Cat risk at December 31, 2018 were the sums insured which are expected to be exposed to Nat Cat risks in 2019. There was no material change in the value of the exposure to this risk in 2018.

As at December 31, 2018 there was significant reinsurance protection in place to protect against gross losses from underwriting exposures including protection against the impact of catastrophe events. There was similar protection in place as at December 31, 2017.

Risk measure
The underwriting risks were measured by the Internal Model in both 2018 and 2017. For Nat Cat the measurement of risk in the Internal Model is supported by the use of an external (industry recognised) model. At December 31, 2018, the stand-alone capital required for these risks (which were part of the diversified SCR of EUR 1,704m) was as follows:

- Premium, UPR & Reserve risks (the three risks combined): EUR 848m
- Nat Cat risk: EUR 253m

These values represented the losses that could occur in the extremely unlikely occurrence of a 1 in 200 year event and can be compared to the available Own Funds of EUR 2,431m at December 31, 2018.

C. Risk Profile *continued*

Risk concentrations

Premium, UPR and Nat Cat Risks

The main area of concentration risk arises from potential Nat Cat and man-made catastrophe events. The potential concentrations of Nat Cat risk are identified by mapping exposures of the Company to peril regions, and modelling the potential losses, with reinsurance purchased to appropriately manage these exposures to the agreed risk appetite. The level of this reinsurance cover is reviewed and approved annually. The experience in monitoring potential exposures from Nat Cat is also applicable to the concentrated risks posed by man-made catastrophes. Exposures to losses in the workers' injury and property lines of business are reviewed, to identify areas of significant concentrations, and appropriate action is taken to mitigate as necessary. Other lines of business are also assessed, such as liability and motor, although the concentration risk across these lines is not as significant.

Reserve risk

Concentration risk can arise where external factors (e.g. court judgments, widespread inflation) can affect an entire class of business and thereby the value of all of the insurance claim reserves held in that class. Such potential events are reviewed and considered by the Head of Actuarial Function and reported to the Reserving Committee.

Risk mitigation

Considering the scale and scope of the business (with insurance written in Ireland and out of 12 overseas branches) there is significant diversification of underwriting risks, due to the relative independence of the drivers of adverse insurance claims in each location.

In addition, the implementation of the reinsurance strategy, approved annually by the ZIP Board of directors (the "Board"), cedes significant underwriting risks through proportional and non-proportional reinsurance treaties and facultative single-risk placements. This includes the purchase of reinsurance to protect against accumulated losses from natural and man-made catastrophe events.

Premium, UPR and Nat Cat risks

An extensive underwriting governance framework is in place, with the objective of minimising unintended risk taking.

The key aspects of the framework are:

- Limits in place to underwriting authority, with specific approvals required for transactions involving new products or where established capacity limits may be exceeded.
- Guidelines are issued to ensure accurate and consistent setting of premiums and implementation of these guidelines is subject to regular review.
- A variety of reserving and modelling methods used to aid understanding of the risks inherent in the insurance business being written.
- A "Virtuous Circle" process is in place to ensure a culture of continuous collaboration between underwriting, actuarial, claims, sales and distribution, finance, risk management and risk engineering teams. The objective is to communicate, inform and ensure a common understanding, interpretation and approach to managing the risks being written.
- Potential new emerging risk exposures are monitored through an emerging risk group, which has cross-functional expertise to identify, assess and recommend actions for such risks.
- Regular reviews by management of the underwriting results by line of business, with actions taken on growing or reducing the different businesses based on both past and expected performance.
- For Nat Cat risk an industry recognised model is used to identify accumulations and perils (principally windstorm, earthquake and flood). The output from this model, adapted for the specifics of the Company where deemed necessary, is used to inform future underwriting and pricing decisions and guide the levels of reinsurance purchased against potential losses from Nat Cat events.

Reserve risk

The implementation of ZIP's reserving policy, along with the "Virtuous Circle" process described above, mitigates the risk that the insurance claims reserves are misstated, and thereby could be subject to future unexpected losses.

The reserves booked are valued based on the work performed by qualified and experienced actuaries, taking into consideration the latest available facts, historical trends and past payment patterns. In reaching the final booked amounts, actuarial analyses are performed as appropriate. The insurance claims reserves are regularly reviewed by the Head of Actuarial Function and reported to the Reserving Committee, including the sensitivities in the reserves held for different lines of business.

Monitoring of risk mitigation

There are a number of tools used for risk mitigation, in particular:

- The underwriting performance for each business is reviewed by management on a regular basis as part of the financial performance reviews. Actions are taken to address issues identified
- The value of the insurance reserves is reviewed quarterly at the Reserving Committee, which includes analysis of why estimates have changed from quarter to quarter
- The performance of reinsurance contracts is monitored regularly

Sensitivities

Underwriting risks for the Company are sensitive to:

- Legal judgments and political decisions
- Movements in inflation and interest rates
- Uncertainty on valuation of individual large losses
- Environmental factors impacting the level of Nat Cat events
- Market competition/capacity
- Emerging trends in terrorism activity
- Technology trends impacting the business mix

A systematic process is in place to capture specific instances of how these uncertainties could affect each line of business, and these are reviewed at the Reserving Committee.

Results from the Internal Model are used to measure potential losses with different likelihoods. For illustration, a selection of the modelled sensitivities as at December 31, 2018 is shown below. The amounts reflect the severity of losses, net of reinsurance, that are modelled to occur at a stated frequency. For example, a one in 10 year Nat Cat loss event would result in losses of EUR 82m, equating to 5% of the SCR.

a) Premium, unearned premium and reserve risk:

Probability	Severity (EUR m)	SCR ratio impact (ppt)
1 in 10 year losses	(389)	(23%)
1 in 50 year losses	(650)	(38%)

b) Nat Cat risk:

Probability	Severity (EUR m)	SCR ratio impact (ppt)
1 in 10 year losses	(82)	(5%)
1 in 50 year losses	(168)	(10%)

C. Risk Profile *continued*

C.2 Market risk (including investment credit risk)

Market risk

This risk refers to the potential economic loss arising from adverse financial market movements. This risk arises from the holding of financial assets and liabilities whose values are subject to such movements. The main risk factors are analysed below.

Equities and real estate market prices

Exposure to these risks arises from holdings of common stocks and equity unit trusts and from direct holdings in property. Exposure also arises from investments in listed property companies and property funds, and holdings of property debt securities such as mortgages and mortgage-backed securities.

The risk measured is that market prices for equities and real estate will move adversely, resulting in unexpected losses.

There was no material change in the value of exposures to these risks during 2018.

Interest rates

Exposure to this risk arises mainly from holdings of debt securities, loans and receivables, and from the financial liabilities held for insurance claims and other liabilities.

Movements in interest rates are largely driven by central bank monetary policies and expected changes in the economic and inflation outlook. The risk is measured by considering the impact of changes in interest rates and/or changes in the shape of yield curves, impacting the values of assets and financial liabilities and resulting in unexpected losses. A cornerstone of mitigating the interest rate risk is to match the maturity profile of the insurance claims reserves with a similar maturity profile for the related assets.

There was no material change in the value of the exposure to this risk in 2018.

Credit spreads and sovereign spreads

The main exposure to spread risks arises from holdings of corporate debt securities and holdings of Euro-zone government bonds. For corporate debt securities the risk measured is that there will be movement in credit spreads, for example driven by an increase in the expected probability of default, thereby impacting the value of the assets and resulting in unexpected losses. For Euro-zone government bonds, the risk measured is that there will be movement in sovereign spreads, thereby impacting the value of the bonds and resulting in unexpected losses.

There was no material change in the value of the exposure to credit spread risk in 2018. There was a reduction in sovereign spread risk due to reduced holdings of Euro-zone government bonds.

Currency exchange rates

The exposure to this risk arises from holding non-Euro currencies, offset by currency hedges in place.

The risk measured is that there will be exchange rate movements resulting in unexpected losses, as reported in Euro, the reporting currency for the Company. The Euro is the currency denomination of the large part of the geography in which the Company operates. However certain cashflows are denominated in other currencies, mainly the British pound and smaller amounts in Danish krone, Swedish krona, Norwegian krone and the U.S. dollar.

There was no material change in the value of the exposure to this risk in 2018.

Investment credit risk

This risk refers to the potential economic loss arising from third parties (external to the Group) failing to fulfil their financial obligations on investment instruments. (The credit risk relating to such obligations with Group counterparties is covered in section C.3).

The exposure to this risk arises from the holding of investment assets as detailed below.

Cash and cash equivalents
The exposures to this risk are the holdings of cash and cash equivalents in financial institutions and in money market funds. The risk arising is that the institutions would default or partially default, on their obligations.

There was no material change in the value of the exposure to this risk in 2018.

Debt securities
The exposures to this risk are the debt securities held. The risk arising is that the counterparties would default or partially default on their obligations. The counterparties include governments and corporates.

There was no material change in the value of the exposure to this risk in 2018.

Sale and Repurchase Agreements
A portion of the government bond portfolio is subject to Sale and Repurchase transactions ("Repos"). This entails the lending of government bonds to a third party in exchange for cash. The quantity of government bonds that can be used as an asset in Repo transactions is restricted, ensuring that the Company always has significant holdings of highly liquid bonds available. The cash received is then invested in Floating Rate Notes ("FRNs"), for which market risk is measured, in line with other investments. The investment in FRNs is structured to ensure that any interest rate risk is minimised, as the cash borrowings and FRNs have similar interest rate durations. Investment guidelines for the FRN portfolio are in place for the asset managers setting out limits relating to credit quality and issuer exposure. The portfolio is required to have an average credit quality of A+ in order to limit credit risk.

The credit risk arising from Repos is that the counterparties would default or partially default on their obligations to return the government bonds, though this risk is significantly mitigated by the cash collateral provided by the counterparties.

Derivatives
The exposure to this risk arises from derivative instruments entered into, and the risk arising is that there would be a default/partially default by the counterparties. Derivatives are entered into solely for hedging currency and equity exposures. There was no material change to the value of derivative exposures in 2018.

Risk measure
These risks were measured by the Internal Model in both 2018 and 2017. The measurement of market risks in the Internal Model is supported by the use of an industry recognised model.

At December 31, 2018 the stand-alone capital required for these risks (which was part of the diversified SCR of EUR 1,704m) was EUR 610m.

This value represented the losses that could occur in the extremely unlikely occurrence of a 1 in 200 year event and can be compared to the Own Funds of EUR 2,431m at December 31, 2018.

Risk concentration
There were no material risk concentrations at December 31, 2018. The largest value individual holdings are in government issued securities, which are held in order to match the profile of the financial liabilities. Issuer limits are in place for non-government exposures.

C. Risk Profile *continued*

Risk mitigation

Prudent person principle

Under Solvency II it is a requirement that investments are managed in accordance with the prudent person principle, which compels companies to invest in a manner to ensure the security, quality, liquidity and profitability of the investment portfolio. Market and investment credit risks for the Company are managed in accordance with the "prudent person principle". The investment management team targets excess risk adjusted returns relative to liabilities, by applying a systematic and structured investment process. The Company is focused on asset and liability management and when formulating its strategic asset allocation ("SAA"), it takes both asset and liability exposures into account. The SAA includes limits on exposures to specific asset classes, such as equities and real estate. The market risk capital requirement associated with the SAA, and the actual values versus the upper and lower limits for the various asset classes, are monitored on an ongoing basis. The investment team monitors the portfolio using the Company's investment applications which provide up-to-date views of the portfolio and its risk exposures. A comprehensive reporting package is prepared for the quarterly Asset Liability Management and Investment Committee ("ALMIC") meetings. Updates from the ALMIC meetings are given to the Board.

Other processes and policies in place to reinforce the prudent person principle are:

- Holding well diversified equity and real estate portfolios
- Having a liquidity policy that specifies limits on holdings of less liquid assets and subjects the portfolio to extreme stress scenario analysis
- Due diligence on asset managers prior to appointing them to manage mandates
- Using established custodian banks to safeguard invested securities
- The use of derivatives solely for hedging purposes.
- Investments which are not admitted to trading on a regulated financial market are subject to restriction through limits on both asset classes and less liquid assets.

Monitoring of risk mitigation

The performance of the investment portfolio is reviewed quarterly in the ALMIC, with reporting on adherence to the SAA and compliance with the investment risk management policies. These include adherence to the limits on holdings of an individual issuer and appropriate matching of the maturity profile of financial assets with that of the financial liabilities.

Sensitivities

Market and investment credit risks for the Company are sensitive to:

- Macro-economic performance
- Political developments
- Demographic trends
- Environmental factors

Results from the Internal Model are used to measure potential losses with different likelihoods. A selection of the modelled sensitivities as at December 31, 2018 is shown below.

Probability	Severity (EUR m)	SCR ratio impact (ppt)
1 in 10 year losses	(269)	(16%)
1 in 50 year losses	(456)	(27%)

The risks associated with the Company's investment portfolio are monitored in detail at the ALMIC. A selection of sensitivities to financial market events, (as at December 31, 2018) is set out in the table below.

	Severity (EUR m)	SCR ratio impact (ppt)
+25% on equity prices	95	6%
–25% on equity prices	(95)	(6%)
–50bp parallel shift on yields	(9)	(1%)
+50bp parallel shift on yields	(0)	(0%)
–50bp parallel shift on credit spreads	100	6%
+50bp parallel shift on credit spreads	(92)	(5%)

C.3 Credit risk

This risk refers to the potential economic loss arising from counterparties failing to fulfil their financial obligations, other than those risks for third party investments (see Section C.2).

This credit risk is measured separately for:

- Third party reinsurance assets
- Third party receivables
- Intra-Group assets

Third party reinsurance assets

The exposures to this risk are balances due from third parties under existing reinsurance contracts. Such contracts are entered in accordance with the reinsurance strategy.

The counterparties are reinsurance companies and the risk measured is that these counterparties would default or partially default on their obligations. The potential loss of value due to rating migration risk is also measured; this is the potential reduction in the value of reinsurance assets if counterparties were downgraded. There was no material change in the value of the exposures to this risk during 2018.

Third party receivables

The exposures are premiums due from counterparties and amounts due on co-insurance arrangements and other contractual obligations. The counterparties are policyholders, agents, brokers, intermediaries and other insurance companies, and the risk measured is that the counterparties would default/partially default on their obligations. There was no material change in the value of the exposure to this risk in 2018.

Intra-Group assets

The exposures are amounts due from Group counterparties in respect of reinsurance contracts, loans, investments and other amounts due under contractual obligations. The risk measured is that the Group counterparties would default or partially default on their obligations. Also measured is the rating migration risk, the potential reduction in the value of the assets if the counterparty was downgraded. There was no material change in the value of the exposure to this risk in 2018.

Risk measures

These credit risks were measured by the Internal Model in both 2018 and 2017. The Dynamic Model ("DM") is that part of the Internal Model which is used to measure credit risk on intra-Group assets. At December 31, 2018, the stand-alone capital required for these risks (which were part of the diversified SCR of EUR 1,704m) was as follows:

- Third party reinsurance assets credit risk: EUR 77m
- Third party receivables credit risk: EUR 28m
- Intra Group assets: EUR 164m

These values represent the losses that could occur in the extremely unlikely occurrence of a 1 in 200 year event for each risk type, and can be compared to the available Own Funds at December 31, 2018 of EUR 2,431m.

Risk concentration

Concentration of credit risk towards third parties can arise from significant amounts due under re-insurance contracts. This is subject to monitoring on an on-going basis to ensure that concentrations are acceptable, based on the credit rating of the counterparty or the collateral provided.

Similar to 2017 there were material concentrations of intra-Group assets at December 31, 2018, largely due to the reinsurance contracts in place. These risks are mitigated as outlined below.

C. Risk Profile *continued*

Risk mitigation

Third party reinsurance assets

A minimum credit rating of "A–" is standard for long duration reinsurance arrangements and "BBB–" for short duration reinsurance arrangements, with exceptions requiring approval by management. The balances due from reinsurers are reviewed on a periodic basis against limits, which are set according to credit ratings. Collateral is requested to mitigate credit risks where deemed necessary and there are limits and quality criteria in place for acceptable collateral.

Third party receivables

The objective is to minimise overdue balances, whilst maintaining customer relationships. Overdue accounts are escalated as required. Policies and standards are in place to manage and monitor credit risk related to intermediaries. Intermediaries are required to maintain segregated cash accounts for policyholder money and must satisfy minimum requirements on capitalisation, reputation and experience, and provide short-dated business credit terms.

Intra-group assets

Exposures are monitored and reported on a regular basis, based on the financial strength of the Group counterparties. The financial strength of the Group counterparty can be assessed using detailed financial data, rather than using external ratings.

Monitoring of risk mitigation

The level of overdue balances by location and by duration, is monitored at least quarterly. Actions are initiated to address any issues identified in this review.

As noted, the financial strength of relevant Group counterparties is monitored on a regular basis, including their capital position.

Sensitivities

Credit risk for the Company is sensitive to:

Third party reinsurance assets

- Occurrence of large loss events and or natural catastrophe events impacting financial resources of reinsurers

Third party receivables

- Economic indicators impacting collections (e.g. unemployment rates).

Intra-group assets

- Deterioration in capital ratios of counterparties
- Adverse business performance of counterparties

Results from the Internal Model are used to measure the potential losses with different likelihoods. A selection of the modelled sensitivities as at December 31, 2018 is shown below:

a) Third party reinsurance assets

Probability	**Severity (EUR m)**	**SCR ratio impact (ppt)**
1 in 10 year losses	(8)	0%
1 in 50 year losses	(37)	(2%)

b) Third party receivables

Probability	**Severity (EUR m)**	**SCR ratio impact (ppt)**
1 in 10 year losses	(6)	0%
1 in 50 year losses	(17)	(1%)

C.4 Liquidity risk

Liquidity risk is the risk of insufficient liquid financial resources being available to meet financial obligations when they fall due.

Risk measure and risk concentration

Liquidity risk is not measured in the Internal Model. The risk is managed through the implementation of a liquidity policy rather than holding risk capital. As a general insurance company, ZIP is not vulnerable to mass surrenders or other such calls on its liquidity, as may happen to other financial institutions. The most likely events that could cause liquidity issues are:

- Claims arising from a catastrophe event, possibly combined with a default on related reinsurance
- Bank default event

There are a number of sources of liquidity for the Company including:

- Portfolio of readily available realisable government bonds
- Cash held in local bank accounts
- Cash held in the central cash pool
- Sales of securities other than government bonds
- Closing of Repo transactions

The liquidity position is reported to the ALMIC on a quarterly basis, with the elements of the investment portfolio analysed by liquidity quality on a rating of 1 to 4, from strongest to weakest. For example highly rated Government bonds are classified as rating 1.

Expected profit included in future premiums

The total amount of expected net profit in future premiums at December 31, 2018 was EUR 438m. These expected future profits are not relied on in planning available liquidity.

Risk mitigation

As noted, liquidity risk is the risk of insufficient liquid financial resources being available to meet financial obligations when they fall due. To mitigate this risk a cash allocation is mandatory as part of the SAA.

In addition, there are a limits applied to maintain liquidity as follows:

- Limits are in place on mismatches between assets and liabilities of different currencies
- Limits are in place on concentration for debt security holdings, tapering with credit quality to minimise counterparty default risk
- Limits are in place for holdings of assets deemed less liquid such as real estate

Liquidity risk tests

The resilience to modelled catastrophic claim events, bank failures and other negative cash flow scenarios is regularly tested and reported to the ALMIC, by testing that level 1 and level 2 assets (i.e. assets that could be comfortably sold within one year) cover projected insurance claims payable in the next two years plus the addition of a stress event. As at December 31, 2018, this was evidenced to be the case.

C. Risk Profile *continued*

C.5 Operational risk

Operational risk relates to the risk of losses due to inadequate or failed internal processes or systems, failure of personnel, the impact from external events such as failures in outsourcing arrangements, changes in legislation or tax laws, and external fraud, including cyber attacks.

This includes the risk from outsourcing to Group counterparties; the Company receives certain critical services from Group counterparties.

A Top Down Scenario ("TDS") framework is used to identify and measure operational risks. Under the TDS, a scenario-based approach is applied to assess, model and quantify the operational risks under extreme circumstances. The assessment is made in each location where the Company operates. For every scenario, the management in each branch are required to estimate the frequency and the severity of possible losses, both from a most likely and a worst case perspective. Results are then aggregated.

There was no material change to the value of the exposures to this risk during 2018.

Risk measure

The risks (sourced from the TDS process) were measured by the Internal Model in both 2018 and 2017.

At December 31, 2018 the stand-alone capital required for operational risk (which was part of the diversified SCR of EUR 1,704m), was EUR 412m. The value of the risk increased in 2018 following the annual reassessment of the various TDS scenarios.

This value represented the loss that could occur in the extremely unlikely occurrence of a 1 in 200 year event and can be compared to the Own Funds of EUR 2,431m at December 31, 2018.

Risk concentration

Many of the risk drivers are country specific (e.g. laws, regulations, projects, customer facing activities), which then results in risk diversification when the risks are aggregated.

Concentration of risk can arise from processes and systems that are shared across locations and also where changes in legislative, regulatory or tax laws are implemented on a Europe-wide basis. These risks are monitored closely at the Operational Risk Committee ("ORC") and other relevant committees.

Risk mitigation

The effective operation of the internal control system is an important mitigating factor for operational risk, and the implementation of this system is monitored on an ongoing basis. Action plans are required in the event of control failures and these action plans are tracked to closure.

Actual operational loss events exceeding a threshold are documented and evaluated. These events are recorded on a dedicated database and necessary action is taken to help avoid their re-occurrence.

In addition there are a number of other tools used to minimise the risk of operational losses.

- Risk policies set out escalation procedures for reporting security and data breaches, loss events, business disruptions, fraud, financial crime and other concerns
- Changes to risk exposures are reported on a quarterly basis to the ORC and RCC
- Risk awareness and understanding of controls is achieved through communication to staff and training
- Data held by business partners is protected through contractual arrangements and controls that are designed to secure data in accordance with both regulatory requirements and the information security policies
- Risks associated with strategic suppliers are regularly assessed to verify that suppliers remain financially viable and able to deliver services, and also to manage geographic and supplier concentration risks

Actions are taken to reduce the likelihood of events occurring that could lead to a disruption of business including:

- Understanding the organisation's environment, vulnerabilities, and business processes
- Identifying potential disruptions that pose risk to continuity of operations
- Understanding the potential consequences of such events
- Implementing strategies to mitigate the risk of business disruption
- Maintaining a crisis management response capability that is flexible, trained and readily available at short notice

Monitoring of risk mitigation

The status of operational risks is reviewed quarterly at the ORC and RCC meetings. These committees receive inputs from the equivalent forums in each of the locations where the business operates. Issues are escalated to the Board Risk Committee as appropriate.

Sensitivities

Operational risk for the Company is subject to the following sensitivities:

- Legal judgments and political decisions
- Environmental factors
- Technology trends
- Project activity
- Recruitment and training procedures

Results from the Internal Model are used to measure the potential losses with different likelihoods. A selection of the modelled sensitivities as at December 31, 2018 is shown below.

Probability	Severity (EUR m)	SCR ratio impact (ppt)
1 in 10 year losses	(165)	(10%)
1 in 50 year losses	(288)	(17%)

C. Risk Profile *continued*

C.6 Other material risks

C.6.1 Pension risk

This risk refers to the potential economic loss due to the assets held in defined benefit pension funds being insufficient to meet the obligations to the members of the pension funds when these obligations become due, resulting in the Company potentially being required to bridge the shortfall.

The elements of this risk measured in the Internal Model are:

- Longevity risk: The risk that mortality of scheme members is different from that which is expected
- Market risk: The risk associated with the movement in the values of the assets and liabilities in the pension fund schemes, where the values can be impacted by movements in financial markets

There was no material change in the value of the exposure to this risk during 2018.

Risk measure

The risks were measured by the Internal Model in both 2018 and 2017. At December 31, 2018, the stand-alone capital required (which was part of the diversified SCR of EUR 1,704m) was EUR 149m.

This value represented the losses that could occur in the extremely unlikely occurrence of a 1 in 200 year event and can be compared to the available Own Funds of EUR 2,431m at December 31, 2018.

Risk concentration

Pension risk for the Company arises in a small number of schemes. The concentration risk within the schemes is managed either by internal management or by external pension trustees, dependent on the nature of the scheme.

Risk mitigation

The pension schemes are monitored on an ongoing basis in order to decide whether any actions need to be taken to ensure the liabilities can be met. External pension consultants are engaged to produce a full actuarial valuation report on the pension schemes every three years, with estimates provided for the other years. If necessary the pension trustees will submit proposals to internal management (e.g. revised funding plan) for their approval.

Monitoring of risk mitigation

The position of the pension schemes is reviewed by internal management and/or the pension trustees on a regular basis and an annual report is prepared for each scheme which is provided to the Company's management.

Sensitivities

Movements in interest rates and mortality rates are the key sensitivities for pension risk. Results from the Internal Model are used to measure the potential losses with different likelihoods. A selection of the modelled sensitivities as at December 31, 2018 is shown below.

Probability	**Severity (EUR m)**	**SCR ratio impact (ppt)**
1 in 10 year losses	(73)	(4%)
1 in 50 year losses	(118)	(7%)

Other sensitivities for pension risk which are not measured in the Internal Model (such as changes in the mix of single/married members or changes in inflation rates) are assessed annually, to ensure they continue not to be material.

C.6.2 Expense Risk

This risk is the potential economic loss due to adverse development in the value of expenses, relative to business volumes.

The main components of the expense base are commission costs and administration expenses.

There was no material change in the value of the exposure to this risk during 2018.

Risk measure
The risk was measured by the Internal Model in both 2018 and 2017. At December 31, 2018, the capital required for this risk (which was part of the diversified SCR of EUR 1,704m) was EUR 248m.

This value represented the losses that could occur in the extremely unlikely occurrence of a 1 in 200 year event and can be compared to the available Own Funds of EUR 2,431m at December 31, 2018.

Risk concentration
The majority of the risk drivers are country specific (e.g. changes in business volumes) which then results in significant risk diversification when the risks are aggregated.

Risk mitigation
Expenses are monitored by the management in each location on an ongoing basis and corrective actions are taken where necessary to address adverse trends, such as changes in business volumes.

Monitoring of risk mitigation
The expense performance for each business is reviewed by management on a regular basis as part of the overall financial performance reviews.

Sensitivities
Adverse movements in the volume of business, changes in commission rates, wage inflation or technology developments are key sensitivities for this risk. Results from the Internal Model are used to measure the potential losses with different likelihoods. A selection of the modelled sensitivities as at December 31, 2018 is shown below.

Probability	Severity (EUR m)	SCR ratio impact (ppt)
1 in 10 year losses	(123)	(7%)
1 in 50 year losses	(197)	(12%)

C.6.3 Strategic risk
Strategic risk is the risk that unexpected losses will occur due to not achieving strategic targets. Drivers of the risk are:

- Inadequate assessment of strategic plans
- Ineffective implementation of strategic plans
- Unexpected changes to assumptions underlying strategic plans

Risk measure
Strategic risk is not explicitly measured in the Internal Model, as the risks of not delivering on strategy are captured elsewhere in the Internal Model such as in the Premium risk, Operational risk and Expense risk modules.

Risk concentration
This risk exists across the locations where the Company operates with significant geographical diversification arising.

Risk mitigation
Strategic risks are managed through risk assessment processes and tools, including the Total Risk Profiling (“TRP”) process. This process enables identification, assessment, mitigation and monitoring of risks that threaten the ability to achieve the strategic objectives and business plan. Using the TRP process, senior management has identified the current strategic risks to include changes in tax laws, information security risks, geopolitical risk and risks associated with Brexit. All risks identified on the TRP are assigned actions to mitigate.

Sensitivities
In 2018 a number of scenarios in relation to Brexit were explored, including the impact on capital requirements. The scenarios assessed indicated a range of possible impacts, with capital actions also identified which could restore SCR coverage, if required.

C. Risk Profile *continued*

C.6.4 Reputation risk
This is the risk of economic loss due to losing the trust of stakeholders.

Risk measure
Reputation risk is not explicitly measured in the Internal Model as the risks are captured elsewhere in the Internal Model, such as in the Premium risk, Operational risk and Expense risk modules.

Risk concentration
The risks exist at all the locations where the Company operates and where management and employees have the responsibility to maintain the good reputation of the Company.

Risk mitigation
All risks, if materialising, also have potential consequences for reputation; therefore effectively managing each type of risk helps reduce the threat of reputation risk. Reputation is preserved by adhering to applicable laws and regulations, and by following the core values and principles of the Group Code of Conduct, which details good business practices. Each employee is required to carry out training on these topics, at least annually.

C.6.5 Scenarios
Scenarios are defined by the Company as events which could negatively impact the economic capital and are not fully reflected in the modelling of the individual risk types in the Internal Model.

Certain scenarios can be added to augment the SCR. At December 31, 2018, the impact of adding scenarios was to increase the SCR by EUR 115m.

C.7 Any other information

Stress scenarios in 2018

Background
A number of stress scenarios were calculated in 2018 based on reasonably foreseeable events, albeit with a low probability of occurring. The calculation of these scenarios allowed the Board to compare the impact of these events relative to the capital coverage of the Company, and thereby consider the resilience of the Company to such events. The calculation of the scenarios also allowed the Board to validate the SCR as measured in the Internal Model.

Processes and reporting
The scenarios were defined with the involvement of the Board. The impact of the scenarios was measured using historical data, supplemented by models and expert judgments, and the results were reported in the 2018 Own Risk and Solvency Assessment ("ORSA"), which was approved by the Board and submitted to the CBI.

Results
Of the stress tests and scenarios considered, none were identified which would reduce the level of assets below the level of liabilities and so directly threaten ZIP's ability to meet its obligations to policyholders. A number of scenarios, including the more extreme Brexit outcomes and the scenario describing a severe economic crisis, were found to reduce the value of Own Funds below the level of the SCR and so would require recovery plans to be developed.

It was concluded that the scenarios are being covered within the risk management system of the Company and are taken account of in the strategy and business model of the Company.

Management actions
Management actions were identified which could restore the Own Funds, the most impactful of these being a reduction in the level of dividends to be paid over the plan period.

D. Valuation for Solvency Purposes

Solvency II and Irish GAAP valuations

The methods and assumptions used for the valuation of assets, technical provisions and other liabilities, follow the approaches prescribed under Solvency II valuation rules and Irish Generally Accepted Accounting Principles ("GAAP").

Solvency II valuation rules are used to produce the economic balance sheet which is known as the Market Consistent Balance Sheet ("MCBS"). The fundamental accounting principle in Solvency II is that assets and liabilities are recorded according to the value of expected future cashflows, the cashflow accounting principle.

The statutory financial statements of the Company are prepared in accordance with Irish GAAP (accounting standards issued by the Financial Reporting Council of the UK and adopted by the Institute of Chartered Accountants in Ireland and Irish law) and thus Irish GAAP rules apply in the valuation process.

The different accounting rules result in significant differences in the values of assets and liabilities, with a resulting difference in the net value of assets of EUR 298m at December 31, 2018 (December 31, 2017: EUR 313m).

The variances in the valuations of assets and liabilities between the MCBS and Irish GAAP at December 31, 2018 are shown in the table below.

Table 15
Balance sheets

in EUR thousands as at December 31, 2018	Solvency II MCBS	Irish GAAP	Difference
Assets			
Goodwill	–	6,748	(6,748)
Intangible assets	–	107,547	(107,547)
Deferred acquisition costs	–	103,490	(103,490)
Deferred tax assets	7,925	22,106	(14,181)
Pension benefit surplus	–	–	–
Property, plant & equipment held for own use	124,558	124,558	–
Investments (other than assets held for index-linked and unit-linked contracts)	8,415,610	8,465,999	(50,389)
Loans and mortgages	1,055,345	761,397	293,948
Reinsurance recoverables	9,537,737	11,190,038	(1,652,301)
Deposits to cedants	11,454	11,454	–
Insurance & intermediaries receivables	600,419	1,612,114	(1,011,695)
Reinsurance receivables	435,824	248,062	187,762
Receivables (trade, not insurance)	436,091	501,923	(65,832)
Cash and cash equivalents	471,826	471,639	187
Any other assets, not elsewhere shown	177,525	291,440	(113,915)
Total assets	**21,274,314**	**23,918,515**	**(2,644,201)**
Liabilities			
Technical provisions – non-life	15,768,312	18,567,068	(2,798,756)
Technical provisions – life (excluding index-linked and unit-linked)	715,000	560,504	154,496
Provisions other than technical provisions	178,152	167,064	11,088
Pension benefit obligations	6,693	6,693	–
Deposits from reinsurers	12,965	12,965	–
Deferred tax liabilities	131,693	84,440	47,253
Derivative liabilities	2,966	2,966	–
Debts owed to credit institutions (incl. Bank Overdraft)	36,001	36,001	–
Financial liabilities other than debts owed to cr. institut.	9,474	9,474	–
Insurance and intermediaries payables	201,156	230,144	(28,988)
Reinsurance payables	65,328	370,950	(305,622)
Payables (trade, not insurance)	879,113	879,057	56
Subordinated liabilities	103,563	103,602	(39)
Any other liabilities, not elsewhere shown	836,594	858,088	(21,494)
Total liabilities	**18,947,010**	**21,889,016**	**(2,942,006)**
Excess of assets over liabilities	**2,327,304**	**2,029,499**	**297,805**

D. Valuation for Solvency Purposes *continued*

D.1 Assets

Table 16 provides quantitative information on the variance between the valuation of assets in the MCBS compared to the values reported under Irish GAAP.

Table 16
Comparison of Asset Valuations

in EUR thousands as at December 31, 2018	Solvency II MCBS	Irish GAAP	Variance
Goodwill	–	6,748	(6,748)
Intangible assets	–	107,547	(107,547)
Deferred acquisition costs	–	103,490	(103,490)
Deferred tax assets	7,925	22,106	(14,181)
Pension scheme surpluses	–	–	–
Property, plant & equipment held for own use	124,558	124,558	–
Investments (other than assets held for index-linked and unit-linked contracts)	8,415,610	8,465,999	(50,389)
Loans and mortgages	1,055,345	761,397	293,948
Reinsurance recoverables	9,537,737	11,190,038	(1,652,301)
Deposits to cedants	11,454	11,454	–
Insurance & intermediaries receivables	600,419	1,612,114	(1,011,695)
Reinsurance receivables	435,824	248,062	187,762
Receivables (trade, not insurance)	436,091	501,923	(65,832)
Cash and cash equivalents	471,826	471,639	187
Any other assets, not elsewhere shown	177,525	291,440	(113,915)
Total assets	**21,274,314**	**23,918,515**	**(2,644,201)**

As shown above the assets in the MCBS at December 31, 2018 were EUR 2,644m lower than those reported under Irish GAAP. The table below explains the reasons for the variances in the valuation of the assets between the MCBS and Irish GAAP at December 31, 2018. The largest variances relate to the different approaches to measuring and classifying the insurance (technical) provisions in the MCBS compared to Irish GAAP, and the consequent impact on the related reinsurance asset values.

Table 17 Comparison of valuation bases – Assets

Asset class	Asset class
Goodwill	Goodwill is reported in Irish GAAP subject to valuation checks. In the MCBS goodwill is not an identifiable and separable asset in the market place and as such does not represent an "economic value" that can be separately sold or transferred.
Intangible Assets	Intangible Assets are reported in Irish GAAP subject to valuation checks. In the MCBS intangible assets are recognised 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.
Deferred acquisition costs ("DAC")	DAC is recognised at cost in Irish GAAP and amortised on a periodic basis that reflects the earning pattern of the associated unearned premiums. DAC is not recognised in the MCBS as it does not have a future cash flow.
Deferred tax assets	Deferred tax assets are recognised in Irish GAAP for expected future tax credits. In the MCBS, deferred tax is further applied to the valuation differences that arise between the MCBS and Irish GAAP values.
Investments (other than assets held for index-linked and unit-linked contracts) Loans and Mortgages	In most cases financial assets are measured at fair value in both Irish GAAP and the MCBS. The fair values of financial assets traded in active markets are based on quoted bid prices on the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. Assets that are not traded in an active market are valued using an internal valuation with inputs based on the best information available about the assumptions that market participants would use when pricing the asset. Further information can be found in section D.4. The following assets were valued at cost/amortised cost in Irish GAAP and at fair value in the MCBS: – Debt securities held to maturity. – Preference shares. There are also presentation differences in the MCBS compared to Irish GAAP; in particular accrued interest is reported as receivables under Irish GAAP whereas it is reported under investments in the MCBS. Certain loans and mortgages are classified as investments under Irish GAAP, whereas all are classified as loans and mortgages in the MCBS.
Reinsurance recoverables	Under Irish GAAP this balance includes the share of the UPR liability which is expected to be ceded to reinsurers. In the MCBS these ceded UPR liability is reflected in the ceded Premium Provision Liability, which consists of the expected future reinsurance recoveries offset by premiums payable to reinsurers. As a consequence of these conceptual differences between UPR under Irish GAAP and the Premium Provision in the MCBS, the related reinsurance recoverable asset has a significantly lower value in the MCBS.
Insurance and intermediaries receivables	Under Irish GAAP this balance represents all the premiums due from policyholders and intermediaries, on expired and unexpired risks. In the MCBS the value of the premiums due on unexpired risks is netted in the Premium Provision Liability, hence the lower value of these assets in the MCBS.
Reinsurance receivables	Under Irish GAAP this balance represents all the reinsurance balances contractually due to be collected. In the MCBS the value of the future reinsurance receivables on unexpired risks is included in the Premium Provision Liability, hence the lower value of these assets in the MCBS.
Receivables (trade, not insurance)	Trade receivables include tax and other income, and are recognised at fair value in both the MCBS and Irish GAAP. The variance relates to the different classification of accrued interest.
Any other assets, not elsewhere shown	Under Irish GAAP this balance includes accrued premiums. In the MCBS the value of accrued premiums is included in the Premium Provision liability, hence the lower value of these assets in the MCBS.

D. Valuation for Solvency Purposes *continued*

D.2 Technical provisions

The technical provisions are set to cover unpaid losses and future expenses which arise from the writing of insurance policies. The technical provision calculation takes into account factors that can influence their value, some of which are subjective and some of which are dependent on future events. These factors include future inflation projections, historical trends and patterns of loss payments, pending levels of unpaid claims and types of coverage. In addition, court decisions and economic conditions may affect the ultimate cost of claims settlement and, as a result, the estimation of technical provisions.

The time required to learn of and settle claims can vary significantly by line of business. Short-tail claims, such as those for motor-vehicle and property damage, are normally reported soon after the incident and are generally settled within months of the incident. Long-tail claims such as bodily injury, asbestos related and product liability, can take years to develop and additional time to settle. For these long-tail claims, information concerning the event, such as the required medical treatment for bodily injury claims, may not be readily available. Accordingly, the analysis of claims for long-tail lines of business is generally more challenging and subject to greater uncertainties than for short-tail claims. ZIP uses a number of generally accepted actuarial methods to estimate and evaluate the amount of technical provisions required.

Although the underlying principles are aligned, there are significant differences in the measurement and classification of technical provisions in the MCBS, compared to Irish GAAP.

The gross technical provisions in the MCBS at December 31, 2018 were EUR 2,644m lower than under Irish GAAP, as shown below.

Table 18 Comparison of valuations – Technical provisions

in EUR thousands as of December 31, 2018	Solvency II MCBS	Irish GAAP	Difference
Liabilities			
General Liability	8,401,624	9,397,096	(995,472)
General Liability- Risk margin	129,509	–	129,509
Motor Vehicle Liability	2,824,371	3,364,686	(540,315)
Motor Vehicle Liability – Risk margin	54,035	–	54,035
Fire and Other Damage to Property	2,826,038	3,776,634	(950,596)
Fire and Other Damage to Property – Risk margin	35,491	–	35,491
Motor non liability	300,722	258,090	42,632
Motor non liability – Risk margin	5,892	–	5,892
Other*	1,172,606	1,770,562	(597,956)
Other – Risk margin*	18,023	–	18,023
Life**	692,980	560,504	132,476
Life- Risk margin**	22,020	–	22,020
Total	**16,483,311**	**19,127,572**	**(2,644,261)**

* Other lines of business include income protection, credit and surety, legal expenses, medical expenses, marine, aviation, other transport insurance and miscellaneous insurance.

** Life balances relate to claims settled by annuities rather than a single payment.

The table below explains the variances in the value of the technical provisions between the MCBS and Irish GAAP at December 31, 2018.

Table 19 Comparison of valuation bases – Technical provisions

Item	Variance between MCBS and Irish GAAP
Unexpired risks i.e. insurance policies which are accounted, however the risk coverage period has not fully elapsed.	Under Irish GAAP the UPR effectively represents the premium written on unexpired risks. The corresponding assets in Irish GAAP are booked as premiums received or receivable. In the MCBS (and in accordance with Solvency II accounting rules) the UPR liability is effectively replaced with the Premium Provision, which consists of the expected future claims and expense payments, offset by expected future premiums on existing policies. The definition of insurance policy boundaries and inception dates is wider in the MCBS than under Irish GAAP, for example including a category of bound but not incepted policies.
Discounting (time value of money)	Under Irish GAAP discounting is only applied to annuity reserves. In the MCBS discounting is applied to all of the Technical Provisions, reducing the value of these liabilities.
Profit recognition	Under Irish GAAP profits and losses arising from insurance policies are booked as they occur over the duration of the insurance policies. In the MCBS profits and losses arising are booked at the inception of the insurance policies.
Margin for uncertainty/ ENID	In line with the ZIP Reserving Policy there is the option under Irish GAAP to book margin in addition to the best estimate of Technical Provisions, based on the expert judgement of the management. This is not allowed for in the MCBS where the Technical Provisions are booked at best estimate. However there is an explicit requirement to consider booking additional reserves in the MCBS for Events not in Data (“ENID”). These are potential future claims which are not reflected in the history of past claims development.
Risk margin	In the MCBS a reserve is required for the value that another (re)insurer, taking on the liabilities at the valuation date, would require over and above best estimate. There is no requirement for an equivalent reserve under Irish GAAP.

Indication of the level of uncertainty

The technical provision calculation takes into account factors that can influence their value, some of which are subjective and some of which are dependent on future events. These factors include future inflation projections, historical trends and patterns of loss payments, pending levels of unpaid claims and types of coverage. In addition, court decisions and economic conditions may affect the ultimate cost of claims settlement and, as a result the estimation of technical provisions.

The main sources of uncertainty with regard to the future cost of existing claims include the following:

- The final settlement cost of open claims cannot be known precisely, as it depends on factors such as court decisions on liability or the prognosis for recovery from injuries
- Material adverse or favourable developments in large claims may occur
- Actual future claims inflation may differ from that assumed
- The social, legal, technological or economic environment may differ from that assumed, e.g. it is expected that the Ogden Discount Rate in the UK will be reviewed during 2019 which will impact the level of claims reserves
- Change in the underlying mix of business or types of coverage over time or the emergence of new claim types or other events not included in the historical data may result in a different claims development pattern from that extrapolated from the historical data
- Additional uncertainty stems from future expenses and premiums

Significant additional uncertainty arises in relation to the technical provisions for future claims where the potential loss event has not yet occurred. There is significant uncertainty around what the actual loss ratio from this future business will ultimately be and consequently uncertainty in the value of future profits included in the MCBS.

The valuation of the technical provisions includes assumptions around certain future management actions such as assuming a similar reinsurance structure will continue in place and certain underwriting or claims initiatives are achieved. Again as these are future events there is a degree of uncertainty in the extent to which these actions may occur.

An active approach is taken by management to identify sources of uncertainty, quantify them and take actions to mitigate their potential impact.

D. Valuation for Solvency Purposes *continued*

Matching adjustment
No matching adjustment was applied to the valuation of the technical provisions in the MCBS at December 31, 2018.

Volatility adjustment
No volatility adjustment was applied to the valuation of the technical provisions in the MCBS at December 31, 2018.

Transitional risk free interest rate-term structure
The transitional risk free interest rate-term structure was not used in the valuation of technical provisions in the MCBS at December 31, 2018.

Transitional deduction
The transitional deduction was not used at December 31, 2018.

Recoverables from reinsurance contracts
There were reinsurance recoverables of EUR 9.5bn at December 31, 2018, as reported in the MCBS. These largely related to the proportional reinsurance contracts in place.

Change in assumptions
Standard actuarial assumptions were updated in the course of setting the level of technical provisions. No changes during the year were significant as standalone assumptions.

Special Purpose Vehicles
There were no special purpose vehicles at December 31, 2018.

D.3 Other liabilities

The other liabilities reported in the MCBS at December 31, 2018 were EUR 298m lower than under Irish GAAP as shown below.

Table 20 Comparison of Valuations – Other Liabilities

in EUR thousands as at December 31, 2018	MCBS	Irish GAAP	Variance
Provisions other than technical provisions	178,152	167,064	11,088
Pension benefit obligations	6,693	6,693	–
Deposits from reinsurers	12,965	12,965	–
Deferred tax liabilities	131,693	84,440	47,253
Derivative liabilities	2,966	2,966	–
Debts owed to credit institutions (incl. Bank Overdraft)	36,001	36,001	–
Financial liabilities other than debts owed to cr. institut.	9,474	9,474	–
Insurance and intermediaries payables	201,156	230,144	(28,988)
Reinsurance payables	65,328	370,950	(305,622)
Payables (trade, not insurance)	879,113	879,057	56
Subordinated liabilities	103,563	103,602	(39)
Any other liabilities, not elsewhere shown	836,594	858,088	(21,494)
Total other liabilities	**2,463,698**	**2,761,444**	**(297,746)**

The table below explains the reasons for the significant variances in the valuations for other liabilities between Irish GAAP and in the MCBS at December 31, 2018.

Table 21 Comparison of valuation bases – Other liabilities

Class of other liabilities	Valuation for MCBS & Irish GAAP
Provisions other than technical provisions	In both the MCBS and Irish GAAP these provisions are valued at the best estimate of the cost required to settle the present obligation at the balance sheet date. The variance is due to an amount of deferred income recorded in Irish GAAP; this income is not deferred under MCBS principles.
Deferred tax liabilities	Deferred tax liabilities are recognised in Irish GAAP for expected future tax charges. In the MCBS, further deferred tax is applied to the valuation differences that arise between the MCBS and Irish GAAP.
Insurance & intermediaries payables	All insurance and intermediaries' payable are measured at fair value and reported in other liabilities under Irish GAAP. In the MCBS any such liabilities which relate to unexpired risks are reported in the technical provisions, as they relate to future cashflows.
Reinsurance payables	All reinsurance payables are measured at fair value. In the MCBS any such liabilities which relate to unexpired risks are reported in the technical provisions, as they relate to future cashflows.
Other liabilities	All other liabilities are measured at fair value and reported in other liabilities under Irish GAAP. In the MCBS any such liabilities which relate to unexpired risks are reported in the technical provisions, as they relate to future cashflows.

Duration of liabilities (other than technical provisions)

The liabilities (other than technical provisions) are short term in nature, that is they will be discharged in less than one year, except for:

- A subordinated loan of EUR 104m which has no maturity date
- Amounts of EUR 124m due on operating leases with a term in excess of one year
- Pension scheme net liabilities of EUR 7m, which are ultimately discharged as employees who are members of the pension schemes retire

Pension benefit obligations

ZIP operates defined benefit pension scheme for certain of its employees. 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 Irish GAAP. The liabilities represent the present value of all projected cash flows discount 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 other assets including cash. A breakdown of the assets is included below.

Table 22 Defined Benefit Scheme Assets

in EUR millions as at December 31, 2018	Market Value	Proportion
Assets		
Equities	156	21%
Bonds	451	61%
Other	133	18%
Total assets	**740**	

D. Valuation for Solvency Purposes *continued*

Deferred tax assets

The deferred tax balances recorded in the MCBS at December 31, 2018 included an amount of EUR 150m relating to carry forward tax losses. These carry forward tax losses were booked only following the passing of a recoverability test, which is carried out in each branch where carry forward tax losses exist. The recoverability test is designed in accordance with recognised accounting principles and requires evidencing the ability to effectively use the carry forward tax losses against future taxable profits.

The carry forward tax losses of the Company recorded in the MCBS at December 31, 2018 were not subject to any time limitation and therefore can in principle be carried forward indefinitely. In addition the Company had EUR 186m of carry forward tax losses at December 31, 2018, which were not recorded in the MCBS, in accordance with recognised accounting principles.

D.4 Alternative methods for valuation

At December 31, 2018 invested assets of EUR 757m were valued using an alternative valuation method. The significant items included were as follows:

- Preference shares of EUR 341m for which there is no active market, were valued by calculating the present value of future interest receipts to perpetuity and discounted using the yield appropriate to the credit risk and structure of the security
- Private debt securities of EUR 175m were valued using comparable publicly quoted debt securities. Adjustments were made to the valuation for the credit profile and liquidity of the private debt securities
- Syndicated loan securities of EUR 241m were valued using either market value or, in a small number of cases, comparable securities. Adjustments were made to the valuation for the credit profile, liquidity and trading of the syndicated loan securities

D.5 Any other information

There is no other material information regarding the valuation of assets and liabilities for solvency purposes.

E. Capital Management

Overview of capital management

Background

The Solvency II capital requirements are known as the Solvency Capital Requirement ("SCR") and the Minimum Capital Requirement ("MCR"). The SCR value significantly exceeds the MCR value. The regulatory capital requirement is that Own Funds (the available financial resources under Solvency II rules) should exceed the SCR; the MCR is a relevant metric only in extreme capital distress situations.

The SCR and MCR for Zurich Insurance Plc ("ZIP") are measured using an Internal Model, which has been approved for use by the Central Bank of Ireland ("CBI").

The ratio of Own Funds to the SCR is known as the SCR ratio. The regulatory requirement is for the SCR ratio to be at least 100%. If the SCR ratio is less than 100% (or trending towards that level in the next 3 months) then the CBI must be notified and in the event that the SCR ratio is below 100% then a recovery plan must be approved by the ZIP Board of directors (the "Board") and provided to the CBI within 2 months of the date of the breach. This plan should include the actions to restore the SCR ratio above 100% within 6 months, from the date of the breach.

The SCR ratio at December 31, 2018 was 143%, representing an excess of EUR 727m of Own Funds held over the SCR value. The equivalent metrics at December 31, 2017 were an SCR ratio of 135% and an excess value of EUR 682m of Own Funds held over the SCR value.

The MCR calculation is based on the business volume and mix; the ratio of Own Funds to the MCR is known as the MCR ratio. If the MCR ratio is below 100%, or trending below 100%, then this is an event which could result in regulatory intervention in the running of the Company. The MCR ratio at December 31, 2018, was 302%.

Capital Management Policy

The primary objective of the capital management policy for the Company is to meet the regulatory requirement for the SCR ratio to be at least 100% on an ongoing basis. Processes and reporting are in place to meet this objective. The capital management policy outlines the actions available to the management and Board at different levels of the SCR ratio. The capital management policy also outlines the expectations of other stakeholders in the capital position of ZIP and how these are met.

Processes

Quarterly a full production run of the Own Funds, SCR and MCR values takes place, with the results reported to the Board and filed with the CBI. Between quarters the values of the Own Funds and the SCR are monitored on a regular basis, taking into account known movements in values since the previous quarterly report.

Changes in 2018

During 2018 there was no material change in the capital management objectives, policies or processes of the Company.

E.1 Own Funds

Own Funds

The Own Funds are the sum of Basic Own Funds and Ancillary Own Funds.

The excess of assets over liabilities in the Market Consistent Balance Sheet ("MCBS"), subject to certain adjustments applied in accordance with Solvency II rules, gives the value of the Basic Own Funds.

The calculation of Basic Own Funds for the Company takes place quarterly through the production of the MCBS. The MCBS is prepared using inputs from the finance reporting teams across the ZIP locations, on a common accounting platform, then aggregated by the ZIP Head Office finance team in Dublin. There are extensive controls in place throughout the process to provide assurance on the results. The timelines for the quarterly production of the MCBS are set to meet regulatory quarterly reporting requirements. The value of the Own Funds is approved by the Chief Financial Officer ("CFO") on a quarterly basis, whilst annually the Own Funds value is approved by the Board.

E. Capital Management *continued*

Ancillary Own Funds are items of capital allowed under Solvency II rules, however not recorded on the MCBS. The Company held no Ancillary Funds at December 31, 2018.

Between the quarterly production runs, an estimate of the Own Funds value is calculated on a regular basis to provide an input to an estimated SCR ratio. The drivers considered in the estimate of Own Funds include, amongst other items, the impact of financial market movements and the incidence of large insurance losses.

Planning of Own Funds

Annually the Own Funds are planned forward for a three year period considering profit generation, changes in risk profile and capital activities. This planning is aligned with the production of the three year business plan, based on the business strategy approved by the Board. Variances of the actual Own Funds value against the planned Own Funds value are monitored and reported throughout the year.

Structure and tiering of Own Funds

The Own Funds of ZIP at December 31, 2018 were EUR 2,431m.

Tiering is applied to the Own Funds, in accordance with the Solvency II rules. The tiering rules determine the eligibility of Own Funds to meet the SCR and MCR, based on their quality.

The Tier 1 Own Funds of ZIP at December 31, 2018 were EUR 2,319m comprising of

- Ordinary share capital (fully paid) EUR 8m
- Capital contribution (fully paid) EUR 90m
- Reconciliation Reserve EUR 2,221m

These items met the criteria for Tier 1 Own Funds, as set out in the Solvency II regulations, including the availability to immediately absorb future losses.

The reconciliation reserve equals the excess of assets over liabilities, less other basic Own Fund items, such as share capital. It includes the earned economic profits. Its future value is subject to volatility, as illustrated by the sensitivities reported in Section C. The calculation of the reconciliation reserve is shown in the table below.

Table 23 Reconciliation reserve

in EUR thousands	December 31,2018	December 31,2017
MCBS: excess of Assets over Liabilities	2,327,305	2,511,914
Issued share capital	(8,158)	(8,158)
Share premium	–	(2,871,273)
Capital contribution	(90,041)	(90,041)
Deferred Tax	(7,925)	(24,998)
Reconciliation Reserve	**2,221,181**	**(482,555)**

The increase in the value of the reconciliation reserve during 2018 was due to a capital reduction process approved by the High Court of Ireland which reduced the entire share premium account to nil.

There were no Tier 2 Own Funds at December 31, 2018.

The Tier 3 Own Funds at December 31, 2018 were EUR 112m, comprised of a subordinated loan of EUR 104m and deferred tax assets of EUR 8m.

There was no significant change during the year in the value of the subordinated loan, which is provided by Zurich Insurance Company ("ZIC"). The loan has no specified repayment date.

Eligibility and availability of Own Funds

At December 31, 2018 the Tier 1 Own Funds were eligible and available for meeting the SCR and MCR.

At December 31, 2018 the Tier 3 Own Funds were eligible and available for meeting the SCR however were not eligible or available for meeting the MCR. In any event the Tier 1 Own Funds far exceeded the MCR.

Duration and loss absorbency of Own Funds

There was no time limitation to the Tier 1 Own Funds of EUR 2,319m, at December 31, 2018.

Of the Tier 3 Own Funds of EUR 112m, the EUR 104m subordinated loan was perpetual in nature, however this loan can be requested to be redeemed by the lender or the borrower with a minimum notice of 5 years.

The total Own Funds of EUR 2,431m were available to absorb losses; no triggers were required for creating their loss absorbency.

Own Funds requiring supervisory approval or subject to transitional arrangements

Capital contributions of EUR 90m held at December 31, 2018 were previously approved by the CBI as Tier I capital.

No other amounts included in the Own Funds at December 31, 2018 required supervisory approval.

No amounts included in the Own Funds at December 31, 2018 were subject to transitional arrangements.

Deductions from Own Funds and transferability of Own Funds

No deductions from Own Funds were relevant at December 31, 2018 and no restrictions existed at December 31, 2018 which affected the transferability of Own Funds within the Company.

Changes in Own Funds

The Own Funds at December 31, 2018 and December 31, 2017, were as follows:

Table 24 Changes in Own Funds

in EUR thousands	December 31,2018	December 31,2017
Tier 1	2,319,380	2,486,916
Tier 2	–	–
Tier 3	111,488	128,545
Total	**2,430,868**	**2,615,461**

There was a decrease of EUR 168m in Tier 1 Own Funds during 2018 driven by an economic losses in the year.

There was a reduction of EUR 17m in Tier 3 Own Funds during 2018, due to a decrease in the value of deferred tax assets during the year. There were no other movements in Own Funds during 2018 and no capital instruments were issued or redeemed.

Reconciliation to Irish GAAP Shareholders equity

Table 25 Reconciliation of Irish GAAP shareholders equity to MCBS excess assets over liabilities

in EUR thousands	December 31,2018	December 31,2017
Net Irish GAAP shareholders equity	2,029,499	2,198,874
Profit recognition	532,653	530,541
Value of claims provision	49,906	(15,611)
Risk Margin reserve	(264,971)	(262,653)
Intangible assets	(107,547)	(110,647)
Fair value investments	177,859	228,026
Other	(28,659)	2,985
Deferred Tax	(61,434)	(59,601)
MCBS excess assets over Liabilities	**2,327,306**	**2,511,914**

E. Capital Management *continued*

The explanations for the main reconciling items between Irish Generally Accepted Accounting Principles ("GAAP") Shareholders equity and the MCBS net assets are as follows:

Profit recognition

- Profit is recognised in the MCBS at the valuation date of the insurance contracts, whereas under Irish GAAP the profits and losses are recognised over the duration of the insurance contracts. The recognition of profit in the MCBS is based on the expected future cash flows, discounted for time value of money
- A wider scope of insurance contracts is considered in the MCBS compared to Irish GAAP (in accordance with Solvency II contract boundary and contract recognition rules)

Value of claims provision

- Discounting adjustments (for the time value of money) are applied in the MCBS, when valuing all future insurance claims; under Irish GAAP these discounting adjustments are only applied for future claims which will be paid by annuities. (The discounting effect for these annuities is higher under Irish GAAP than in the MCBS)
- There is a requirement to book additional reserves in the MCBS, such as for Events not in Data ("ENID") and non-claims handling expenses required to run off the reserves

Risk margin reserve

- In the MCBS this reserve is intended to be the value that another (re)insurer taking on the liabilities would require, above the best estimate value of the insurance reserves. There is no requirement for an equivalent reserve under Irish GAAP

Intangible assets and deferred acquisition costs

- These assets recorded in Irish GAAP are considered to have nil value in the MCBS, as they do not generate future cash flows

Fair value investments

- Investments which are not reported at market value under Irish GAAP are adjusted to market value in the MCBS. This adjustment is only relevant for part of the investment portfolio, such as the assets designated as held for maturity in Irish GAAP.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

SCR

The SCR is the modelled value of a 1 in 200 year loss of Own Funds occurring in the next year. The SCR at December 31, 2018 was EUR 1,704m. The breakdown of this result is shown in the Appendix: QRT 25.03.21.

MCR

The MCR value is based on the business volume and business mix. The MCR is subject to a minimum value of 25% of the SCR or a maximum value of 45% of the SCR.

The MCR at December 31, 2018 was EUR 767m, capped at 45% of the SCR value.

The inputs used to calculate the MCR value are shown in the Appendix: QRT S.28.01.01. These inputs are the technical provisions at December 31, 2018 and the written premium in 2018, both net of reinsurance.

Movements in SCR and MCR

The SCR decreased by 12% during 2018, from EUR 1,933m to EUR 1,704m.

The drivers for changes in the SCR during 2018 were:

- Changes in exposures and risk profile
- Changes in plan economic profits
- Changes implemented to the Internal Model, of which one was defined as major and was approved by the CBI

Table 26 Analysis of SCR movements in 2018

EUR m	December 31,2018	December 31,2017	Variance
Premium, Reserve & UPR risk	848	893	(45)
Nat Cat risk	253	224	29
Market/ALM risk	610	632	(22)
Expense risk	248	268	(20)
Reinsurance credit risk	77	66	11
Receivables credit risk	28	27	1
Pension risk	149	178	(29)
Operational risk	412	379	33
Total undiversified risk	**2,626**	**2,669**	**(43)**
Diversification	35.1%	35.3%	(0.2%)
Aggregated risk (diversified)	**1,687**	**1,709**	**(22)**
Post-aggregation steps			
Expected result	(96)	39	(135)
Loss absorbing capacity of deferred tax	(166)	(139)	(27)
Dynamic Model result	164	106	58
Scenarios	115	219	(104)
SCR	**1,704**	**1,933**	**(229)**

The MCR decreased by 12% during 2018, with similar drivers to the SCR.

Purposes for which ZIP is using the Internal Model

In addition to using an Internal Model for the calculation of the SCR, the Internal Model is used widely by the Company, in particular for:

- Pricing – the setting of premium values to include the cost of economic capital; this economic capital is derived from the Internal Model
- Business planning and performance management reviews – using economic return metrics, based on the economic capital, from the Internal Model
- Risk management – the measurement of risks within the business is often based on the results of the Internal Model.
- Purchase of reinsurance – the Internal Model measures underwriting risks and these results are a key input to deciding on the level of reinsurance coverage purchased
- Investment portfolio mix – the market risk results from the Internal Model are used in setting the strategic asset allocation (“SAA”). In addition the economic return on investments is monitored relative to the level of economic capital deployed, derived from the Internal Model

Scope of the Internal Model in terms of business units and risk categories

Internal Model results are produced for each Branch and each subsidiary and then aggregated to produce the overall results. The risk types measured in the internal model are shown above and described in Section C.

Methods used in the Internal Model for the probability distribution forecast

The probability distribution forecast is an estimation of the probabilities for modelled future outcomes. In the Internal Model 200,000 simulations of risk type results for the following year are generated. The modelling of natural catastrophe risk and market risk makes use of external industry recognised models. These simulated results by risk type are aggregated to produce the aggregated probability distribution forecast. The aggregation is achieved by applying a copula to the sum of the individual risk type results, to reflect the diversification effect. A copula is a statistical method used to help calculate the association or dependence between variables.

The 199,000th adverse result of the aggregated results is then selected, being the equivalent of 1 in a 200 year loss for the Company.

The final production steps then take place – an allowance for the expected result in the following year, allowance for the tax absorbency benefit, the addition of certain scenarios (if necessary) to augment the modelling of individual risk types and the addition of the dynamic model result, which measures credit risk with Group counterparties, to finally determine the value of the SCR.

The Internal Model is run on the Risk Modelling Platform which was developed in-house.

E. Capital Management *continued*

Data used in Internal Model

A policy is in place for ensuring the data used in the Internal Model is accurate, complete and appropriate. Roles and responsibilities are defined and documented for each of the steps in the SCR result production process.

Central to the data policy is the ongoing adherence to the risk based control framework, which applies to all elements of the SCR result production process. Compliance with controls, across all relevant locations in the SCR production process, is recorded on a central database.

Data used in the Internal Model is in scope for the annual review by the Independent Validation function.

SCR disclosures

Irish law avails of the disclosure exemption proposed under Article 51(2) of the Solvency II Directive, until December 31, 2020.

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

The duration-based equity risk sub-module was not used at December 31, 2018.

E.4 Differences between the Standard Formula and the Internal Model used

The Standard Formula is designed by the European Insurance and Occupational Pensions Authority ("EIOPA") to fit the business profile of an average insurance company in the European Economic Area ("EEA"), for example a company predominantly exposed to insurance risks in one country. The business profile of ZIP does not fit with the business profile of an average insurance company in the EEA given the scale and size of its operations, writing insurance business in Ireland and out of 12 regulated branches in the EEA.

The Internal Model used by the Company to measure its SCR (and approved by the CBI to do so) better reflects the actual risk profile of the Company.

The divergence of the Internal Model and Standard Formula approaches is shown in the table below.

Table 27 Comparison between the Standard Formula and the Internal Model

Risk Type & comparative view	Internal Model ("IM")	Standard Formula ("SF")
Premium, UPR & Reserve Risk	The volatility factors applied are based on historical experience of the Company, supplemented with expert judgment. Geographical diversification is based on correlation factors between branches and segments. Non proportional reinsurance is allowed for appropriately in the modelling. Additional Reserve risk scenarios are added to allow for further volatility due to events that may not have occurred in the past but that may impact the reserves in the future. These are based on the ENIDs developed as part of the Solvency II Technical Provisions (SII TPs) process.	The volatility factors are based on market wide experience, with the calibration being appropriate for an average sized insurer in the EEA, which would operate in a single market, with a limited product and customer base.
Man Made Cat	Man Made Cat risks are allowed for by using a set of man-made catastrophe scenarios developed by looking at possible man-made catastrophe events.	The Man Made Cat risks are measured based on defined shocks.
Nat Cat	An exposure-based probabilistic model populated with actual Company exposure data is used and there is the facility to reflect the various forms of policy conditions.	Industry wide scenarios are used.
Lapse/Expense Risk	Expense risk is measured as the risk of a loss that arises if the actual expenses loading exceeds the expected expense loading.	The lapse risk is calculated as the potential increase in technical provisions resulting from the discontinuance of 40% of the insurance policies.
Market Risk	The risk is derived from simulations of assets and liabilities, covering a wide range of financial market impacts. The calibration is done using market factors which are sourced externally.	Defined shocks are applied to assets and liabilities. The shock factors are applied to asset classes and do not consider the granular asset positions held.
Operational Risk	The modelling considers the actual operational loss history of the Company and relevant industry factors, to inform the identification and assessment of operational risk scenarios, including their likelihood and severity.	A formula is applied; the key elements of the formula are earned premiums and technical provisions.
Pension Risk	Pension market risk is measured using the market risk model. Pension longevity risk is measured based on industry data.	The Pension market risk is measured using the market risk model. Pension longevity risk is not considered.
Diversification	A copula approach is applied for risk type aggregation which allows for tail dependence but remains comparatively simple to calibrate. The main set of input parameters is the bi-variate dependence matrix across risk types.	The Variance Covariance aggregation method is used, which produces only point estimates of the diversification benefit, rather than distributions.
Tax absorbency	The tax absorbency is based on the estimate of future plan profits following a loss event, with limits applied to the plan profits considered.	No standard methodology for the tax calculation, though guidance is provided.
Scenarios	Certain scenarios are added if necessary in the SCR. These scenarios are intended to augment the SCR for risks that are not adequately reflected in the modelling of the individual risk types.	The Standard Formula does not include additional scenarios to augment the SCR.
Credit risk/ Dynamic Default Model	Credit risk for third parties is based on external ratings and historic trends. The credit risk for balances with Group counterparties is assessed by simulating loss events impacting the counterparties, against which balances are held.	Credit risk for Group counterparties is calculated in the same way as for external counterparties, based on a simple formula.

Structure and other detail on the Internal Model

The Internal Model measures the SCR over a one year forward time horizon calibrated to the equivalent of a 1 in 200 year loss event for the Company. In this regard, the Internal Model meets the Solvency II rules to provide the appropriate level of protection to policyholders and other beneficiaries, and has been approved for use by the CBI.

E. Capital Management *continued*

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

There were no incidences of non-compliance with the MCR or SCR during 2018.

E.6 Any other information

Capital transactions in 2018

On November 13, 2018, the High Court of Ireland confirmed that the capital of the Company be reduced by EUR 2,871m, such reduction to be effected by reducing the amount of the share premium account from EUR 2,871m to nil and crediting the proceeds to the Company's reserves. The Board subsequently passed a Board resolution to offset EUR 1,346m of the distributable profits created by the capital reduction against the negative "Other Reserves" line item on Company's Irish GAAP balance sheet, which had the effect of eliminating the "Other Reserves". The offset of the "Other Reserves" line item was a balance sheet book-keeping restructuring exercise.

This transaction had no impact on the value of the Own Funds held by the Company.

Zurich Group capital position

ZIP is a company which 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 sufficient capital buffer above the Solvency Capital Requirement ("SCR") at local level. In addition to the capital and liquidity held within ZIP, the Group holds substantial amounts of capital and liquidity centrally on Group level. These financial resources can be allocated to subsidiaries if needed, and therefore provide resilience to absorb potential losses caused by very large risk events. The solvency and financial condition of ZIP therefore should 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 International Financial Reporting Standards ("IFRS") shareholders' equity 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 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.

The Z-ECM ratio as at June 30, 2018 was 135%.

The Group discloses more information on its risk and capital management in its risk review, an integral part of the 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	7,925
Pension benefit surplus	R0050	–
Property, plant & equipment held for own use	R0060	124,558
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	8,415,610
Property (other than for own use)	R0080	977,255
Holdings in related undertakings, including participations	R0090	64,202
Equities	R0100	381,699
Equities – listed	R0110	378,104
Equities – unlisted	R0120	3,595
Bonds	R0130	6,810,438
Government Bonds	R0140	2,811,299
Corporate Bonds	R0150	3,338,151
Structured notes	R0160	25,208
Collateralised securities	R0170	635,780
Collective Investments Undertakings	R0180	173,510
Derivatives	R0190	7,833
Deposits other than cash equivalents	R0200	673
Other investments	R0210	–
Assets held for index-linked and unit-linked contracts	R0220	–
Loans and mortgages	R0230	1,055,345
Loans on policies	R0240	98
Loans and mortgages to individuals	R0250	10,994
Other loans and mortgages	R0260	1,044,252
Reinsurance recoverables from:	R0270	9,537,737
Non-life and health similar to non-life	R0280	9,328,537
Non-life excluding health	R0290	9,192,905
Health similar to non-life	R0300	135,632
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	209,200
Health similar to life	R0320	61,762
Life excluding health and index-linked and unit-linked	R0330	147,438
Life index-linked and unit-linked	R0340	–
Deposits to cedants	R0350	11,454
Insurance and intermediaries receivables	R0360	600,419
Reinsurance receivables	R0370	435,824
Receivables (trade, not insurance)	R0380	436,091
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	471,826
Any other assets, not elsewhere shown	R0420	177,525
Total assets	**R0500**	**21,274,314**

Appendix *continued*

S.02.01.02

Balance Sheet, Liabilities

in EUR thousands, as of December 31

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	R0510	15,768,312
Technical provisions – non-life (excluding health)	R0520	15,492,446
TP calculated as a whole	R0530	–
Best Estimate	R0540	15,254,299
Risk margin	R0550	238,147
Technical provisions – health (similar to non-life)	R0560	275,866
TP calculated as a whole	R0570	–
Best Estimate	R0580	271,062
Risk margin	R0590	4,804
Technical provisions – life (excluding index-linked and unit-linked)	R0600	715,000
Technical provisions – health (similar to life)	R0610	284,248
TP calculated as a whole	R0620	–
Best Estimate	R0630	273,765
Risk margin	R0640	10,483
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	430,752
TP calculated as a whole	R0660	–
Best Estimate	R0670	419,215
Risk margin	R0680	11,537
Technical provisions – index-linked and unit-linked	R0690	–
TP calculated as a whole	R0700	–
Best Estimate	R0710	–
Risk margin	R0720	–
Contingent liabilities	R0740	–
Provisions other than technical provisions	R0750	178,152
Pension benefit obligations	R0760	6,693
Deposits from reinsurers	R0770	12,965
Deferred tax liabilities	R0780	131,693
Derivatives	R0790	2,966
Debts owed to credit institutions	R0800	36,001
Financial liabilities other than debts owed to credit institutions	R0810	9,474
Insurance & intermediaries payables	R0820	201,156
Reinsurance payables	R0830	65,328
Payables (trade, not insurance)	R0840	879,113
Subordinated liabilities	R0850	103,563
Subordinated liabilities not in BOF	R0860	–
Subordinated liabilities in BOF	R0870	103,563
Any other liabilities, not elsewhere shown	R0880	836,594
Total liabilities	**R0900**	**18,947,009**
Excess of assets over liabilities	**R1000**	**2,327,305**

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Appendix *continued*

S.05.01.02

Premiums, claims and expenses by line of business, non-life

in EUR thousands, as of December 31

Premiums written	
Gross – Direct Business	R0110
Gross – Proportional reinsurance accepted	R0120
Gross – Non-proportional reinsurance accepted	R0130
Reinsurers' share	R0140
Net	R0200
Premiums earned	
Gross – Direct Business	R0210
Gross – Proportional reinsurance accepted	R0220
Gross – Non-proportional reinsurance accepted	R0230
Reinsurers' share	R0240
Net	R0300
Claims incurred	
Gross – Direct Business	R0310
Gross – Proportional reinsurance accepted	R0320
Gross – Non-proportional reinsurance accepted	R0330
Reinsurers' share	R0340
Net	R0400
Changes in other technical provisions	
Gross – Direct Business	R0410
Gross – Proportional reinsurance accepted	R0420
Gross – Non- proportional reinsurance accepted	R0430
Reinsurers'share	R0440
Net	R0500
Expenses incurred	**R0550**
Other expenses	**R1200**
Total expenses	**R1300**

Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)								
Medical expense insurance	**Income protection insurance**	**Workers' compensation insurance**	**Motor vehicle liability insurance**	**Other motor insurance**	**Marine, aviation and transport insurance**	**Fire and other damage to property insurance**	**General liability insurance**	**Credit and suretyship insurance**
C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**
68,490	300,359	50,784	1,328,575	709,282	179,103	2,624,463	1,577,391	132,475
–	2,243	–	87,244	49,424	45,832	227,350	59,119	12,085
42,292	148,257	25,854	765,865	407,743	140,022	1,862,765	1,122,648	61,700
26,198	154,345	24,929	649,954	350,963	84,913	989,049	513,862	82,860
69,991	292,783	50,430	1,348,210	709,916	182,523	2,603,818	1,587,727	134,610
–	2,365	–	86,909	49,020	41,583	207,330	57,629	7,365
42,846	148,017	25,678	778,971	407,199	137,627	1,837,980	1,124,886	58,276
27,145	147,132	24,752	656,148	351,737	86,479	973,168	520,470	83,699
42,124	136,164	25,223	818,921	332,567	90,907	1,604,567	1,056,197	48,943
–	656	(1)	48,220	27,870	23,391	246,955	37,150	43,235
25,604	67,326	(11,930)	477,384	191,118	83,063	1,240,945	883,741	56,298
16,521	69,494	37,152	389,757	169,319	31,235	610,577	209,606	35,880
–	–	–	(970)	(383)	–	–	–	–
–	–	–	–	(6)	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	(970)	(389)	–	–	–	–
21,167	**57,589**	**7,772**	**294,736**	**149,348**	**42,833**	**651,097**	**289,221**	**42,765**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

Appendix *continued*

S.05.01.02

Premiums, claims and expenses by line of business, non-life

in EUR thousands, as of December 31

Premiums written	
Gross – Direct Business	R0110
Gross – Proportional reinsurance accepted	R0120
Gross – Non-proportional reinsurance accepted	R0130
Reinsurers' share	R0140
Net	R0200
Premiums earned	
Gross – Direct Business	R0210
Gross – Proportional reinsurance accepted	R0220
Gross – Non-proportional reinsurance accepted	R0230
Reinsurers' share	R0240
Net	R0300
Claims incurred	
Gross – Direct Business	R0310
Gross – Proportional reinsurance accepted	R0320
Gross – Non-proportional reinsurance accepted	R0330
Reinsurers' share	R0340
Net	R0400
Changes in other technical provisions	
Gross – Direct Business	R0410
Gross – Proportional reinsurance accepted	R0420
Gross – Non- proportional reinsurance accepted	R0430
Reinsurers'share	R0440
Net	R0500
Expenses incurred	**R0550**
Other expenses	**R1200**
Total expenses	**R1300**

	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)			Line of business for: accepted non-proportional reinsurance				
	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	Total
	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	93,611	51,486	123,189					7,239,208
	3,654	11,248	575					498,775
				–	–	–	–	–
	56,285	38,796	79,404	–	–	–	–	4,751,631
	40,979	23,938	44,360	–	–	–	–	2,986,351
	92,943	53,468	117,677					7,244,094
	3,673	10,473	3,673					470,020
				–	–	–	–	–
	55,995	39,738	78,247	–	–	–	–	4,735,458
	40,621	24,203	43,102	–	–	–	–	2,978,656
	49,132	18,736	42,857					4,266,340
	2,814	7,686	1,050					439,024
				–	–	–	–	–
	29,859	20,631	33,000	–	–	–	–	3,097,039
	22,086	5,791	10,907	–	–	–	–	1,608,325
	–	–	–					(1,353)
	–	–	–					(6)
				–	–	–	–	–
	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	(1,359)
	19,736	**22,532**	**25,084**	**–**	**–**	**–**	**–**	**1,623,880**
								–
	–	**–**	**–**	**–**	**–**	**–**	**–**	**1,623,880**

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
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
(1,634)	–	–	–	19,358	59,274	–	–	76,998
–	–	–	–	10,747	32,893	–	–	43,641
(1,634)	–	–	–	8,611	26,380	–	–	33,357
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
								–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

Appendix *continued*

S.05.02.01

Premiums, claims and expenses by country, non-life

in EUR thousands, as of December 31

	R0010
Premiums written	
Gross – Direct Business	R0110
Gross – Proportional reinsurance accepted	R0120
Gross – Non-proportional reinsurance accepted	R0130
Reinsurers' share	R0140
Net	R0200
Premiums earned	
Gross – Direct Business	R0210
Gross – Proportional reinsurance accepted	R0220
Gross – Non-proportional reinsurance accepted	R0230
Reinsurers' share	R0240
Net	R0300
Claims incurred	
Gross – Direct Business	R0310
Gross – Proportional reinsurance accepted	R0320
Gross – Non-proportional reinsurance accepted	R0330
Reinsurers' share	R0340
Net	R0400
Changes in other technical provisions	
Gross – Direct Business	R0410
Gross – Proportional reinsurance accepted	R0420
Gross – Non- proportional reinsurance accepted	R0430
Reinsurers'share	R0440
Net	R0500
Expenses incurred	**R0550**
Other expenses	**R1200**
Total expenses	**R1300**

Home Country			Top 5 countries (by amount of gross premiums written) – non-life obligations			Total Top 5 and home country
C0010	C0020	C0030	C0040	C0050	C0060	C0070
	GB	DE	IT	ES	PT	
C0080	C0090	C0100	C0110	C0120	C0130	C0140
319,336	2,234,220	1,696,999	1,121,261	860,700	270,698	6,503,213
5,254	72,472	170,298	6,471	20,035	561	275,091
–	–	–	–	–	–	–
177,373	1,548,610	1,098,352	618,453	499,396	145,896	4,088,080
147,218	758,081	768,945	509,279	381,339	125,363	2,690,224
329,454	2,248,674	1,673,514	1,131,698	872,820	259,991	6,516,150
5,035	53,901	170,568	6,454	20,276	915	257,150
–	–	–	–	–	–	–
185,230	1,516,040	1,089,628	624,431	504,370	139,647	4,059,345
149,260	786,535	754,454	513,721	388,726	121,259	2,713,956
191,183	1,154,591	755,879	678,943	666,506	153,278	3,600,380
4,710	57,176	104,584	(5)	6,185	232	172,882
–	–	–	–	–	–	–
121,936	745,900	559,914	402,306	309,028	118,307	2,257,391
73,958	465,867	300,549	276,632	363,662	35,203	1,515,871
–	–	(1,353)	–	–	–	(1,353)
–	–	–	–	(6)	–	(6)
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	(1,353)	–	(6)	–	(1,359)
77,780	**530,881**	**442,541**	**201,635**	**246,112**	**42,794**	**1,541,743**
						–
77,780	**530,881**	**442,541**	**201,635**	**246,112**	**42,794**	**1,541,743**

Appendix *continued*

Technical Provisions – Reconciliation to financial statements

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

Insurance with profit participation	Index-linked and unit-linked insurance	Index-linked and unit-linked insurance: Contracts without options and guarantees	Index-linked and unit-linked insurance: Contracts with options or guarantees	Other life insurance	Other life insurance: Contracts without options and guarantees	Other life insurance: 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
–	–			–			–	–	–
–	–			–			–	–	–
–		–	–		–	–	393,142	26,073	419,215
–		–	–		–	–	141,575	5,862	147,438
–		–	–		–	–	251,567	20,211	271,777
–	–			–			10,624	913	11,537
–	–			–			–	–	–
–		–	–		–	–	–	–	–
–	–			–			–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**403,766**	**26,986**	**430,752**

	Health insurance (direct business)	Health insurance (direct business): Contracts without options and guarantees	Health insurance (direct business): Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
	C0160	C0170	C0180	C0190	C0200	C0210
R0010	–			–	–	–
R0020	–			–	–	–
R0030		–	33,886	239,160	718	273,765
R0080		–	–	61,762	–	61,762
R0090		–	33,886	177,398	718	212,003
R0100	1,531			8,924	28	10,483
R0110	–			–	–	–
R0120		–	–	–	–	–
R0130	–			–	–	–
R0200	**35,417**	**–**	**–**	**248,085**	**746**	**284,248**

Appendix *continued*

S.17.01.02

Non-life 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	R0050
Technical provisions calculated as a sum of BE and RM	
Best estimate	
Premium provisions	
Gross	R0060
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140
Net Best Estimate of Premium Provisions	R0150
Claims provisions	
Gross	R0160
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240
Net Best Estimate of Claims Provisions	R0250
Total Best estimate – gross	**R0260**
Total Best estimate – net	**R0270**
Risk margin	**R0280**
Amount of the transitional on Technical Provisions	
Technical Provisions calculated as a whole	R0290
Best estimate	R0300
Risk margin	R0310
Technical provisions – total	
Technical provisions – total	R0320
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total	R0330
Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total	R0340

Direct business and accepted proportional reinsurance								
Medical expense insurance	**Income protection insurance**	**Workers' compensation insurance**	**Motor vehicle liability insurance**	**Other motor insurance**	**Marine, aviation and transport insurance**	**Fire and other damage to property insurance**	**General liability insurance**	**Credit and suretyship insurance**
C0020	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	–	–
26,624	(38,969)	2,484	269,507	129,272	(1,417)	477,747	161,957	(38,527)
9,485	(20,976)	2,598	135,007	54,925	9,928	290,536	125,239	(7,625)
17,139	(17,994)	(114)	134,500	74,347	(11,345)	187,211	36,717	(30,903)
37,550	207,650	35,723	2,554,864	171,451	288,805	2,348,291	8,201,460	246,934
21,122	100,313	23,090	1,273,061	88,461	168,627	1,615,959	5,009,186	127,369
16,428	107,337	12,633	1,281,803	82,990	120,178	732,332	3,192,274	119,565
64,174	**168,681**	**38,207**	**2,824,371**	**300,722**	**287,388**	**2,826,038**	**8,363,416**	**208,407**
33,567	**89,344**	**12,520**	**1,416,303**	**157,336**	**108,833**	**919,543**	**3,228,991**	**88,663**
1,018	**3,133**	**653**	**54,035**	**5,892**	**4,521**	**35,491**	**128,856**	**3,356**
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
65,192	171,814	38,861	2,878,406	306,614	291,909	2,861,529	8,492,272	211,763
30,607	79,337	25,688	1,408,068	143,386	178,555	1,906,495	5,134,425	119,744
34,585	92,477	13,173	1,470,338	163,228	113,354	955,035	3,357,847	92,019

Appendix *continued*

S.17.01.02

Non-life 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	R0050
Technical provisions calculated as a sum of BE and RM	
Best estimate	
Premium provisions	
Gross	R0060
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140
Net Best Estimate of Premium Provisions	R0150
Claims provisions	
Gross	R0160
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240
Net Best Estimate of Claims Provisions	R0250
Total Best estimate – gross	**R0260**
Total Best estimate – net	**R0270**
Risk margin	**R0280**
Amount of the transitional on Technical Provisions	
Technical Provisions calculated as a whole	R0290
Best estimate	R0300
Risk margin	R0310
Technical provisions – total	
Technical provisions – total	R0320
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total	R0330
Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total	R0340

Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance				
Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–	–	–
2,150	(1,115)	45,739	–	–	–	–	1,035,451
931	668	30,154	–	–	–	–	630,870
1,219	(1,782)	15,585	–	–	–	–	404,581
158,985	21,964	216,233	–	–	–	–	14,489,910
80,887	14,606	174,987	–	–	–	–	8,697,667
78,099	7,358	41,246	–	–	–	–	5,792,243
161,135	**20,849**	**261,972**	**–**	**–**	**–**	**–**	**15,525,361**
79,318	**5,576**	**56,831**	**–**	**–**	**–**	**–**	**6,196,824**
3,512	**197**	**2,287**	**–**	**–**	**–**	**–**	**242,951**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
164,647	21,046	264,259	–	–	–	–	15,768,312
81,818	15,273	205,141	–	–	–	–	9,328,537
82,829	5,773	59,118	–	–	–	–	6,439,775

Appendix *continued*

S.19.01.21

Non-life Insurance Claims Information

in EUR thousands, as of December 31

	Year	–	1	2	3	4
		C0010	C0020	C0030	C0040	C0050
Prior	R0100					
N-9	R0160	2,355,955	1,707,751	650,776	381,921	309,431
N-8	R0170	2,223,148	1,879,253	704,178	467,113	273,646
N-7	R0180	2,029,874	1,487,386	677,875	318,747	258,196
N-6	R0190	1,829,509	1,542,379	499,497	314,423	261,555
N-5	R0200	2,007,960	1,437,412	563,077	399,447	216,644
N-4	R0210	1,594,553	1,247,486	633,579	288,106	239,243
N-3	R0220	1,667,465	1,561,307	692,538	340,760	–
N-2	R0230	1,581,006	1,288,083	473,092	–	–
N-1	R0240	1,482,111	1,239,912	–	–	–
N	R0250	1,696,978	–	–	–	–

S.19.01.21

Non-life Insurance Claims Information

in EUR thousands, as of December 31

	Year	–	1	2	3	4
		C0200	C0210	C0220	C0230	C0240
Prior	R0100					
N-9	R0160	–	–	–	–	–
N-8	R0170	–	–	–	–	–
N-7	R0180	–	–	–	–	–
N-6	R0190	–	–	–	–	916,632
N-5	R0200	–	–	–	1,191,902	935,828
N-4	R0210	–	–	1,686,398	1,267,162	950,473
N-3	R0220	–	2,687,851	1,923,080	1,531,631	–
N-2	R0230	3,656,798	2,302,436	1,676,202	–	–
N-1	R0240	3,529,636	2,386,115	–	–	–
N	R0250	3,477,703	–	–	–	–

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**		**–**	**–**		

					Development year				Sum of years
5	6	7	8	9	10 & +			In Current year	(cumulative)
C0060	C0070	C0080	C0090	C0100	C0110			C0170	C0180
					26,784,029		R0100	276,566	26,784,029
178,968	96,179	129,039	54,331	38,171	–		R0160	38,171	5,902,522
169,211	113,441	56,900	43,200	–	–		R0170	43,200	5,930,089
211,865	108,750	60,809	–	–	–		R0180	60,809	5,153,502
189,247	107,824	–	–	–	–		R0190	107,824	4,744,433
164,288	–	–	–	–	–		R0200	164,288	4,788,829
–	–	–	–	–	–		R0210	239,243	4,002,967
–	–	–	–	–	–		R0220	340,760	4,262,070
–	–	–	–	–	–		R0230	473,092	3,342,181
–	–	–	–	–	–		R0240	1,239,912	2,722,022
–	–	–	–	–	–		R0250	1,696,978	1,696,978
						Total	**R0260**	**4,680,842**	**69,329,623**

					Development year			
5	6	7	8	9	10 & +			Year end (discounted data)
C0250	C0260	C0270	C0280	C0290	C0300			C0360
					4,848,417		R0100	2,623,017
–	–	463,549	422,479	423,168	–		R0160	409,552
–	449,355	364,893	282,489	–	–		R0170	270,738
583,147	459,219	355,601	–	–	–		R0180	341,622
669,863	475,607	–	–	–	–		R0190	455,979
704,070	–	–	–	–	–		R0200	676,403
–	–	–	–	–	–		R0210	913,442
–	–	–	–	–	–		R0220	1,478,152
–	–	–	–	–	–		R0230	1,619,440
–	–	–	–	–	–		R0240	2,317,474
–	–	–	–	–	–		R0250	3,384,091
						Total	**R0260**	**14,489,910**

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
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	8,158	8,158		–	
Share premium account related to ordinary share capital	R0030	–	–		–	
Iinitial 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	2,221,182	2,221,182			
Subordinated liabilities	R0140	103,563		–	–	103,563
An amount equal to the value of net deferred tax assets	R0160	7,925				7,925
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	90,041	90,041	–	–	–
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**	**2,430,868**	**2,319,380**	**–**	**–**	**111,488**
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**	**–**	**–**	**–**	**–**	**–**

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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	2,430,868	2,319,380	–	–	111,488
Total available own funds to meet the MCR	R0510	2,319,380	2,319,380	–	–	
Total eligible own funds to meet the SCR	R0540	2,430,868	2,319,380	–	–	111,488
Total eligible own funds to meet the MCR	R0550	2,319,380	2,319,380	–	–	
SCR	**R0580**	**1,704,217**				
MCR	**R0600**	**766,898**				
Ratio of Eligible own funds to SCR	**R0620**	**143%**				
Ratio of Eligible own funds to MCR	**R0640**	**302%**				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	2,327,305
Own shares (held directly and indirectly)	R0710	–
Foreseeable dividends, distributions and charges	R0720	–
Other basic own fund items	R0730	106,124
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	–
Reconciliation reserve	**R0760**	**2,221,182**
Expected profits		
Expected profits included in future premiums (EPIFP) – Life business	R0770	–
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	438,291
Total Expected profits included in future premiums (EPIFP)	**R0790**	**438,291**

Appendix *continued*

S.25.03.21

Solvency Capital Requirement – for undertakings on Full Internal Models

in EUR thousands, as of December 31 Unique number of component	Components description	Calculation of the Solvency Capital Requirement
C0010	C0020	C0030
101	Market/ALM Risk	610,151
102	Premium, Reserve & UPR Risk	847,809
103	Nat Cat Risk	253,297
104	Expense Risk	248,019
105	Operational Risk	412,231
106	Credit Risk	105,199
108	Pension Risk	148,918
109	Scenarios	115,106
110	Dynamic Model	163,594
111	Expected Result	(95,945)

		C0100
Calculation of Solvency Capital Requirement		
Total undiversified components	R0110	2,808,380
Diversification	R0060	(938,410)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional)	R0160	
Solvency capital requirement excluding capital add-on	**R0200**	**1,704,217**
Capital add-ons already set	R0210	–
Solvency capital requirement	**R0220**	**1,704,217**
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	
Amount/estimate of the overall loss-absorbing capacity of deferred taxes	R0310	(165,754)
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

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	889839	

		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	33,567	26,198
Income protection insurance and proportional reinsurance	R0030	89,344	154,345
Workers' compensation insurance and proportional reinsurance	R0040	12,520	24,929
Motor vehicle liability insurance and proportional reinsurance	R0050	1,416,303	649,954
Other motor insurance and proportional reinsurance	R0060	157,336	350,963
Marine, aviation and transport insurance and proportional reinsurance	R0070	108,833	84,913
Fire and other damage to property insurance and proportional reinsurance	R0080	919,543	989,049
General liability insurance and proportional reinsurance	R0090	3,228,991	513,862
Credit and suretyship insurance and proportional reinsurance	R0100	88,663	82,860
Legal expenses insurance and proportional reinsurance	R0110	79,318	40,979
Assistance and proportional reinsurance	R0120	5,576	23,938
Miscellaneous financial loss insurance and proportional reinsurance	R0130	56,831	44,360
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	10,159.37835	

		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	–	
Obligations with profit participation – future discretionary benefits	R0220	–	
Index-linked and unit-linked insurance obligations	R0230	–	
Other life (re)insurance and health (re)insurance obligations	R0240	483,780	
Total capital at risk for all life (re)insurance obligations	R0250		–

		C0070
Linear MCR	R0300	899,999
SCR	R0310	1,704,217
MCR cap	R0320	766,898
MCR floor	R0330	426,054
Combined MCR	R0340	766,898
Absolute floor of the MCR	R0350	3,700

		C0070
Minimum Capital Requirement	**R0400**	**766,898**

Zurich Insurance plc
Zurich House
Ballsbridge Park
Dublin 4
Ireland

www.zurich.com/zip

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