Zurich Insurance plc

Solvency and Financial Condition Report 2019

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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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

Contents

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)
FINMA	Swiss Financial Market Supervisory Authority
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
NEP	Net Earned Premium
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 Scenario
TPR	Temporary Permission Regime
TRP	Total Risk Profiling
UKISA	Zurich Financial Services (UKISA) Limited
UPR	Unearned Premium Reserve
WHO	World Health Organisation
Z-ECM	Zurich Economic Capital Model
ZIC	Zurich Insurance Company Ltd
ZIG	Zurich Insurance Group
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 ("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.

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 events. 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, 2019 was 132% (December 31, 2018: 143%). This ratio represented surplus funds of EUR 618m, in excess of the SCR.

At December 31, 2019 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.

Global Pandemic COVID-19

The financial information and commentary throughout this document are based on the numbers reported for the year ended December 31, 2019. Any impact from the COVID-19 event is not reflected in these numbers as it would relate to conditions which arose after December 31, 2019 and any impact is therefore classified as a subsequent non-adjusting event.

Update on COVID-19

Since the start of 2020, the outbreak of Coronavirus (COVID-19) has been declared a global pandemic by the World Health Organisation (WHO).

The Company is part of the Zurich Group which is coordinating its COVID-19 response on a global scale, allowing the pooling of expertise and allowing business units to leverage the strength of the Zurich Group. The potential impacts on the Company are being closely monitored with business continuity and crisis management plans in place to maintain the operational and financial resilience required to deliver for its customers.

COVID-19 can potentially impact the financial position of the Company in a number of ways; in particular due to financial market movements, the loss reporting and settlement patterns on earned business, and a revised outlook for future business. Given the evolving nature of the COVID-19 pandemic, it is not possible to accurately estimate all these impacts at this time.

Since December 31, 2019, the capital position of the Company has continued to fully meet its regulatory capital requirements despite significant falls in financial markets. In line with the Zurich Group policy of managing capital in its subsidiaries at a level above minimum requirements, the Company received a capital contribution of EUR 305m from its shareholders on March 23, 2020, to offset the impact of financial market movements since December 31, 2019. This transaction has been reported as a subsequent non-adjusting event in the Irish GAAP financial statements.

The above information regarding the potential impacts of COVID-19 on the Company is relevant and accurate at the time of writing; however as a result of the evolving situation, may not reflect the position at the time of reading.

Strategy

The Company's strategic ambition is to become the preferred insurer for its retail customers and to be the leader in underwriting capabilities and customer focus in the commercial sector. The Company's strategy is to focus on customers, simplify its business and innovate to meet customer expectations.

Executive Summary *continued*

The strategy of the Company builds on its unique footprint, its solid financial position, its balanced portfolio, its trusted brand and the skills, strengths and expertise of its people. The Company remains cost-driven and continues to simplify the organisation, increasing efficiencies. The Company targets profitable growth and aims to improve portfolio quality. It continues to sharpen its focus on customers, putting them at the core of the business to build long-term relationships and increase customer satisfaction and retention.

There were no material changes to the business profile of the Company during 2019, and there were no significant business or other events with a material impact on the Company during 2019.

The Company has established a team to respond to Brexit and its implications. Further detail is provided in the Risk Profile section below.

Business and Performance (Section A)

The net earned premium ("NEP") in 2019 was EUR 2,978m, resulting in a net profit before tax of EUR 802m under Irish Generally Accepted Accounting Principles ("GAAP"). After tax charges of EUR 210m, the net profit after tax was EUR 592m.

Underwriting result by geography:
Underwriting profits were EUR 36m in 2019. The improvement of EUR 108m in the underwriting result compared to 2018 was most notable in Spain; the 2018 result in Spain was impacted by a single large loss event. The improvement in the underwriting result in 2019 was partly offset by a single large loss event in Germany.

Underwriting result by line of business:
The underwriting profits of EUR 36m in 2019 reflected strong performances in the general liability and motor lines of business, driven by reductions in the value of claims relating to prior years' loss events. Adverse performance in the property lines of business was due to the impact of large loss events.

Investment return:
The investment return for 2019 was a profit of EUR 838m. The investment return comprised of investment income of EUR 194m and capital gains of EUR 644m.

The investment income in 2019 was adversely impacted by a fall in bond yields. The capital gains of EUR 644m in 2019 were driven by falling bond yields and credit spreads, positive real estate revaluations and a large profit on the sale of a preference share investment.

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 defence" 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.

There were no material changes to the system of governance during 2019.

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

These risks are measured using the Internal Model (which has been approved for use by the CBI under SII), and are managed and mitigated in line with the stated appetite, under the risk management system.

Other material 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. As regards to strategic risks, management has a process in place to identify and monitor these risks on an ongoing basis.

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 2019.

Brexit

The final outcome from the Brexit vote in 2016 has resulted in the UK formally leaving the EU on January 31, 2020. A transition period is in place until December 31, 2020, during which the regulatory landscape is unchanged. The Temporary Permission Regime ("TPR") will then commence for a period up to 3 years. Following the TPR, it will be necessary for the Company to have an end state solution in place for its UK business.

The Company has plans in place to both manage its business during the TPR and to have an end state solution in place by the end of the TPR, with the key objective being to avoid any negative impact on its customers and to ensure compliance with relevant regulatory requirements.

The analysis of the risks associated with Brexit was updated in 2019 based on latest developments.

Valuation for Solvency Purposes (Section D)

The Solvency II net assets at December 31, 2019 were EUR 2,459m, compared with Irish Generally Accepted Accounting Principles ("GAAP") net assets of EUR 2,562m.

In 2019 the Company implemented the IFRS 16 rules in respect of the valuation of operating leases, under both Solvency II and Irish GAAP. Other than this there were no changes during 2019 in the approach by the Company to valuing assets and liabilities according to both Solvency II and GAAP valuation principles. In addition to 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, 2019 was 132%. The eligible Own Funds (details below) were EUR 2,562m compared to the SCR of EUR 1,944m.

Own Funds

Economic profits generated during 2019 were EUR 232m, offset by a dividend paid of EUR 100m resulting in an increase in Own Funds during the year to EUR 2,562m.

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

At December 31, 2019 an amount of EUR 2,453m was classified as Tier 1 Own Funds and an amount of EUR 109m was classified as Tier 3 Own Funds. There were no Tier 2 Own Funds held at December 31, 2019.

Executive Summary *continued*

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, 2019.

SCR

The SCR value at December 31, 2019 was EUR 1,944m (December 31, 2018: EUR 1,704m).

There was no incidence of non-compliance with SCR coverage during 2019.

MCR

The Minimum Capital Requirement ("MCR") value at December 31, 2019 was EUR 817m and the MCR ratio at December 31, 2019 was 300%. Only the Tier 1 Own Funds were eligible to cover the MCR.

There was no incidence of non-compliance with the MCR coverage during 2019.

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. A primary aim of Solvency II is to provide a risk-based approach to calculating and monitoring the required levels of capital for insurance companies. Also introduced was 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 position.

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, 2019, 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 the CBI's Requirement for External Audit of Solvency II Regulatory Returns/Public Disclosures, 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 8, 2020.

A. Business and Performance

A.1 Business profile

Zurich Insurance plc ("ZIP" or the "Company") 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.

Description of the holders of qualifying holdings in excess of 10% in the Company:

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 simplified structure chart showing the positioning of ZIP within the legal structure of the Group is shown in Chart 1. This chart also notes the publicly available reports on solvency and financial condition across the Group.

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.

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, 2019, 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 showing all the shareholdings of ZIP in other Zurich Group companies is shown in Chart 2.

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

Approximately 83% 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

The final outcome from the Brexit vote in 2016 has resulted in the UK formally leaving the EU on January 31, 2020. A transition period is in place until December 31, 2020, during which the regulatory landscape is unchanged. The Temporary Permission Regime ("TPR") will then commence for a period up to 3 years. Following the TPR, it will be necessary to have an end state solution in place for the UK business.

The Company has plans in place to both manage its business during the TPR and to have an end state solution in place by the end of the TPR, with the key objective being to avoid any negative impact on its customers and to ensure compliance with relevant regulatory requirements.

The analysis of the risks associated with Brexit was updated in 2019 based on latest developments.

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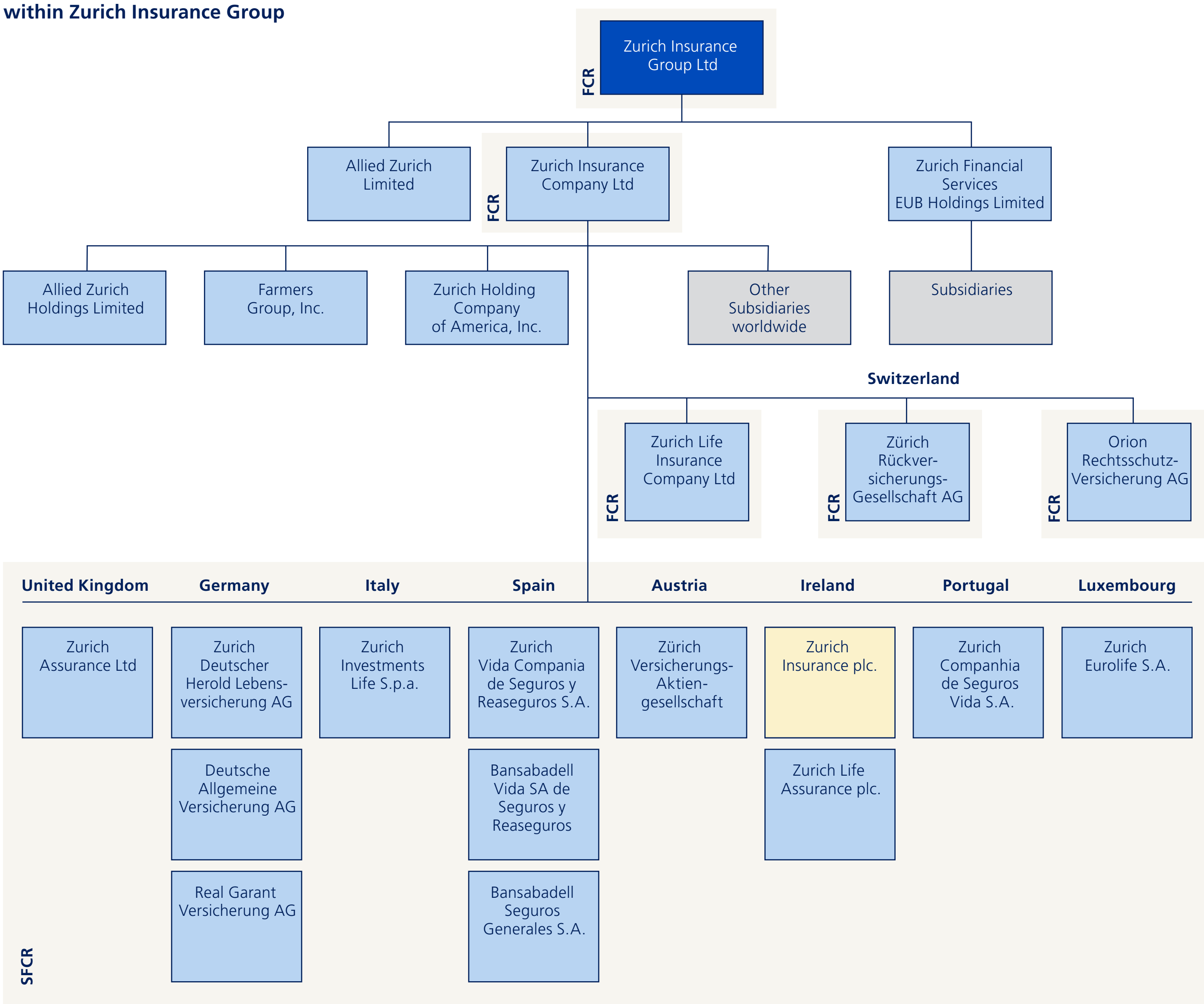
A. Business and Performance *continued*

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

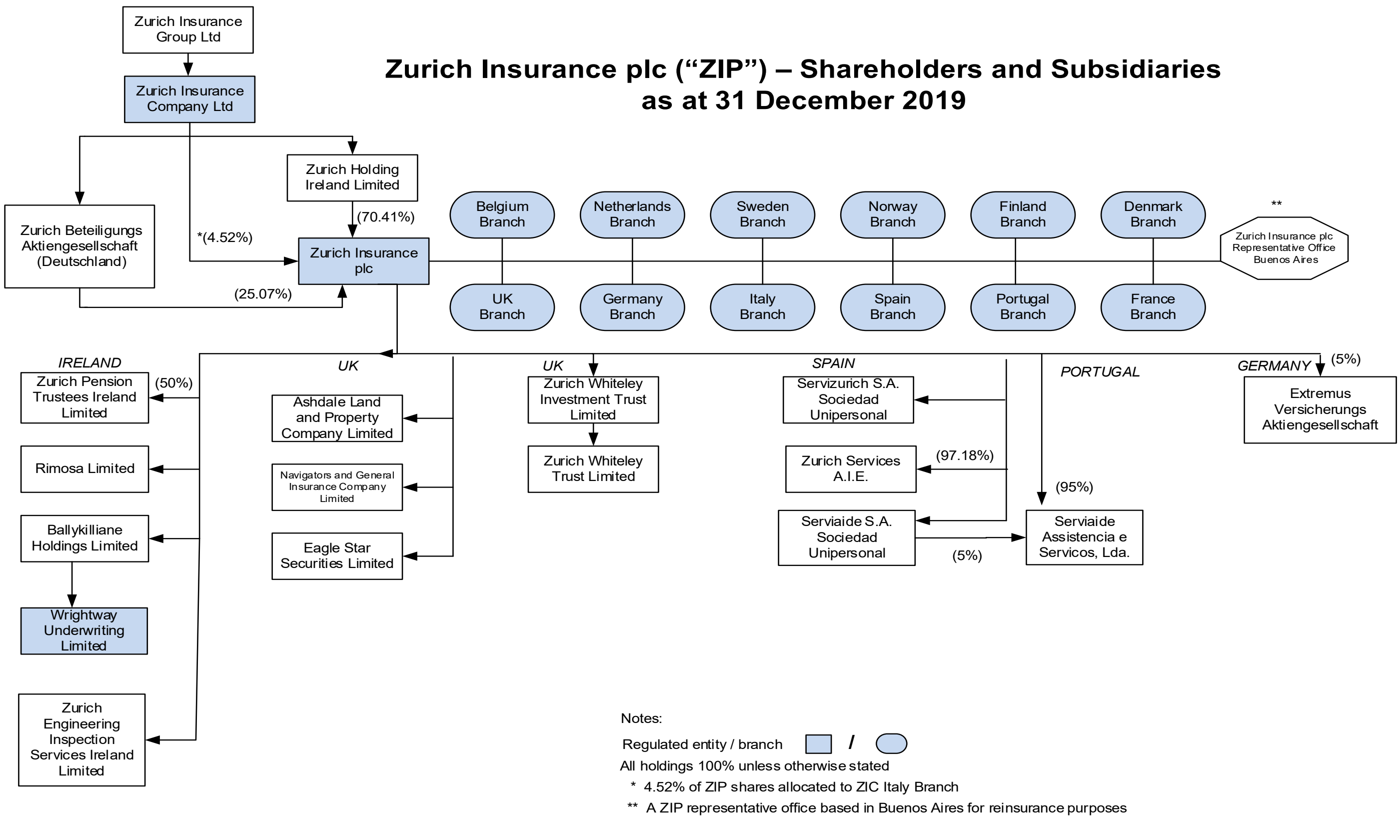


SFCR: Solvency and Financial Condition Report (Solvency II; from 2016) **FCR:** Financial Condition Report (Swiss regulation; from 2017)

Subsidiary Group of subsidiaries Current disclosure

Note: The purpose of the chart above is to provide a simplified overview of the Group's major subsidiaries (as reported at December 31, 2019), 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.

Chart 2: ZIP shareholders and subsidiaries



A. Business and Performance *continued*

A.2 Underwriting performance

Overview of financial performance

The values reported in Section A are prepared under Irish Generally Accepted Accounting Principles ("GAAP") for the year ended December 31, 2019. Underwriting profits earned were EUR 36m (2018: EUR 72m loss). The investment return was EUR 838m (2018: EUR 125m) and other income was EUR 2m (2018: EUR 1m). The total of other charges, interest and tax was EUR 284m (2018: EUR 202m). The resulting net profit after tax was EUR 592m (2018: EUR 148m loss).

The tables below detail the performance by location in 2019, the corresponding results for 2018, and a variance analysis.

Table 3 Underwriting performance by geographical location – 2019

in EUR thousands, for 2019	UK	Germany	Italy	Spain	Other branches	Total
Net Earned Premiums	944,835	751,111	524,342	382,565	375,206	2,978,059
Net Claims Incurred	(573,224)	(600,363)	(347,501)	(302,046)	(278,154)	(2,101,288)
Other Technical Income	8,933	7,216	(48)	2,337	1,555	19,993
Technical Expenses	(355,536)	(187,368)	(117,940)	(124,476)	(75,277)	(860,597)
Underwriting Result	**25,008**	**(29,404)**	**58,853**	**(41,620)**	**23,330**	**36,167**
Investment Return	442,324	185,338	94,128	63,890	52,105	837,785
Other Income	560	208	868	40	382	2,058
Other Charges	(33,417)	(12,308)	(1,119)	(10,645)	(12,189)	(69,678)
Interest	(1,674)	(54)	(530)	(296)	(1,439)	(3,993)
Tax	(31,236)	(111,463)	(59,284)	7,330	(15,741)	(210,394)
Net Income after Tax	**401,565**	**32,317**	**92,916**	**18,699**	**46,448**	**591,945**

Table 4 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	16,659	16,406	6,047	3,942	3,105	46,159
Technical Expenses	(338,592)	(256,632)	(132,775)	(182,262)	(75,338)	(985,599)
Underwriting Result	**(9,661)**	**44,559**	**54,049**	**(166,754)**	**5,971**	**(71,836)**
Investment Return	47,188	55,641	(32,843)	43,971	11,148	125,105
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	**(54,615)**	**40,516**	**245**	**(122,557)**	**(11,896)**	**(148,307)**

Table 5 Underwriting performance by geographical location – Variance

variance in EUR thousands	UK	Germany	Italy	Spain	Other branches	Total
Net earned premiums	6,833	(10,841)	7,477	(11,075)	7,008	(598)
Net claims incurred	52,506	(123,196)	(11,413)	80,028	11,840	9,765
Other technical income	(7,726)	(9,190)	(6,095)	(1,605)	(1,550)	(26,166)
Technical expenses	(16,944)	69,264	14,835	57,786	61	125,002
Underwriting result	**34,669**	**(73,963)**	**4,804**	**125,134**	**17,359**	**108,003**
Investment return	395,136	129,697	126,971	19,919	40,957	712,680
Other income	310	111	346	152	128	1,047
Other charges	60,293	3,749	4,703	(1,382)	(4,718)	62,645
Interest	(2,209)	(42)	(234)	(229)	(396)	(3,110)
Tax	(32,019)	(67,751)	(43,919)	(2,338)	5,014	(141,013)
Net income after tax	**456,180**	**(8,199)**	**92,671**	**141,256**	**58,344**	**740,252**

Net profit after tax for 2019 was EUR 740m favourable to 2018, driven by a higher underwriting result of EUR 108m and a higher investment return of EUR 713m. The total of other income/charges and interest were favourable by EUR 61m to the results for 2018. The tax charge in 2019 was higher by EUR 141m compared to 2018.

Total net earned premium in 2019 was overall largely unchanged from 2018, with offsetting variances in the individual branches.

As noted above, the underwriting result was EUR 108m favourable to 2018, largely driven by a reduction in the value of claims relating to prior years' loss events and lower technical expenses. The improvement in the result compared to 2018 was most notable in Spain; the 2018 result in Spain was impacted by a single large loss event. The improvement compared to 2018 was offset by a single large loss in the Surety business in Germany in 2019.

The investment return was EUR 713m higher in 2019 than 2018. The capital gains in 2019 were driven by falls in bond yields, favourably impacting bond values, positive real estate revaluations and a large profit on the sale of a preference share investment.

A tax charge of EUR 210m was incurred by the Company in 2019. The charge for 2019 included an accounting write down in the value of tax loss assets.

Underwriting performance by geographic location

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

UK

There was an underwriting profit of EUR 25m in 2019, EUR 35m favourable to the 2018 result. The improvement was driven by reduced weather related losses, reduced volume of large loss events and a transaction profit on the reinsurance of run-off business. The increase in net earned premium was largely driven by new business.

Germany

There was an underwriting loss of EUR 29m in 2019, EUR 74m adverse to the 2018 result. This was largely driven by a large loss in the Surety business in 2019, partly offset by a reduction in the value of claims relating to prior years' loss events for Surety business.

Italy

There was an underwriting profit of EUR 59m in 2019, EUR 5m favourable to the 2018 result. This was driven by lower losses for the current year business, reductions in the value of claims relating to prior years' loss events and lower technical expenses, offset by a higher volume of weather related losses.

A. Business and Performance *continued*

Spain

There was an underwriting loss of EUR 42m in 2019, EUR 125m favourable to the 2018 result. The 2018 result was adversely impacted by a single large loss event. The 2019 result benefited from lower technical expenses.

Other locations

There were underwriting profits of EUR 23m in 2019, EUR 17m favourable to the 2018 result. The underwriting result in 2019 benefited from lower losses in current year business and reductions in the value of claims relating to prior years' loss events, whereas the underwriting result in 2018 was adversely impacted by increases in the value of claims relating to prior years' events.

Underwriting performance by line of business

The tables below detail the performance by line of business in 2019, the corresponding results for 2018 and a variance analysis.

Table 6 Underwriting performance by line of business – 2019

in EUR thousands, for 2019	Fire and Other Damage to Property	Motor Vehicle Liability	General Liability	Motor Other	Other	Total
Net Earned Premiums	1,000,593	630,651	540,390	358,145	448,280	2,978,059
Net Claims Incurred	(753,658)	(495,367)	(272,630)	(240,843)	(338,790)	(2,101,288)
Other Technical Income	7,001	2,658	4,775	2,110	3,448	19,992
Technical Expenses	(389,920)	(110,576)	(143,409)	(80,757)	(135,935)	(860,597)
Underwriting Result	**(135,984)**	**27,366**	**129,126**	**38,655**	**(22,997)**	**36,166**

Table 7 Underwriting performance by line of business – 2018

in EUR thousands for 2018	Fire and other damage to property	Motor vehicle liability	General liability	Motor vehicle (non-liability)	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	3,629	46,159
Technical Expenses	(421,522)	(131,173)	(161,931)	(91,612)	(179,361)	(985,599)
Underwriting Result	**(205,605)**	**(2,605)**	**40,558**	**50,563**	**45,253**	**(71,836)**

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	27,425	(25,497)	(4,832)	6,408	(4,102)	(598)
Net claims incurred	22,325	44,263	77,885	(27,315)	(107,393)	9,765
Other technical income	(11,731)	(9,392)	(3,007)	(1,856)	(181)	(26,167)
Technical expenses	31,602	20,597	18,522	10,855	43,426	125,002
Underwriting result	**69,621**	**29,971**	**88,568**	**(11,908)**	**(68,250)**	**108,002**

Fire and other damage to property

The underwriting loss of EUR 136m in 2019 was driven by a number of large loss events during the year and the level of technical expenses. The result was EUR 70m favourable to the 2018 result due to a lower volume of weather related claims in 2019 and also the fact that the 2018 result was adversely impacted by a single large loss event in Spain.

Motor vehicle (liability)

The underwriting profit of EUR 27m in 2019 was EUR 30m favourable to the 2018 result, largely driven by reductions in the value of claims for prior years' loss events and reduced technical expenses.

General liability

The underwriting profit of EUR 129m in 2019 was EUR 89m favourable to the 2018 result, largely driven by transaction profits on the reinsurance of the run-off business in the UK and Germany. In addition, there were reductions in the value of the claims for prior years' loss events in the UK.

Other lines of business

The underwriting loss of EUR 23m was EUR 68m adverse to the 2018 result, driven by a large loss event in the Surety business in Germany, partly offset by a reduction in the value of claims relating to prior years' loss events for Surety business, also in Germany.

A. Business and Performance *continued*

A.3 Investment performance

The tables below detail the investment results in 2019, the corresponding results for 2018 and a variance analysis.

Table 9 Investment Performance – 2019

in EUR thousands for 2019	Investment Income	Gains/losses	Total Result
Equity Securities	14,892	16,566	31,458
Debt Securities (including preference shares)	151,032	517,706	668,738
Real Estate Held for Investment	36,928	107,672	144,600
Mortgage Loans	14	–	14
Other Loans	8,817	(2,696)	6,121
Other Investments	–	5,055	5,055
Investment result, gross	**211,810**	**644,303**	**856,113**
Investment expenses	(18,326)		(18,326)
Investment result, net	**193,484**	**644,303**	**837,787**

Table 10 Investment Performance – 2018

in EUR thousands for 2018	Investment Income	Gains/losses	Total Result
Equity Securities	63,128	(2,225)	60,903
Debt Securities (including preference shares)	153,011	(220,894)	(67,883)
Real Estate Held for Investment	32,745	116,889	149,634
Mortgage Loans	22	–	22
Other Loans	5,511	(29)	5,482
Other Investments	–	4,267	4,267
Investment result, gross	**254,403**	**(101,992)**	**152,411**
Investment expenses	(27,306)		(27,306)
Investment result, net	**227,097**	**(101,992)**	**125,105**

Table 11 Investment Performance – Variance

variance in EUR thousands	Investment Income	Gains/losses	Total Result
Equity Securities	(48,236)	18,791	(29,445)
Debt Securities (including preference shares)	(1,979)	738,600	736,621
Real Estate Held for Investment	4,183	(9,217)	(5,034)
Mortgage Loans	(8)	–	(8)
Other Loans	3,306	(2,667)	639
Other Investments	–	788	788
Investment result, gross	**(42,593)**	**746,295**	**703,702**
Investment expenses	8,980	–	8,980
Investment result, net	**(33,613)**	**746,295**	**712,682**

Key points to note in relation to investment performance in 2019 by asset class:

Equity securities

The reduction in investment income compared to 2018 was mainly driven by a decrease in the level of investments in the portfolio. Capital gains in 2019 reflected buoyant equity market returns over the year. This contrasted with capital losses incurred in 2018.

Debt securities (including preference shares)
The capital gains in 2019 were driven by tighter credit spreads and lower government bond yields during the year, whereas the capital losses in 2018 were largely attributable to wider credit spreads. In addition the capital gains for 2019 included a large profit on the sale of a preference share investment, the gain driven by lower yields since the acquisition of the investment.

Real estate
Higher capital gains in 2019 reflected favourable movements in the real estate markets in which the Company invested.

Other investments
This result largely relates to the performance on investment hedges; these gains were offset by losses on the underlying assets. There was an opposite effect in 2018, with losses on the investment hedges offsetting gains on the underlying assets.

Investment expenses
The expenses incurred were lower in 2019 than 2018. Investment expenses are reported at an aggregate level and are not allocated by asset class.

Note on securitised investments
Asset backed securities of EUR 479m were held at December 31, 2019, a reduction compared to EUR 632m 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 AA–. 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 charges of EUR 70m incurred in 2019 related to business reorganisation costs.

A tax charge of EUR 210m was incurred by the Company in 2019. This amount was based on the tax charge in 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. The charge for 2019 included an accounting write down in the value of tax loss assets.

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

Leasing arrangements
There were no financial lease arrangements as at December 31, 2019.

A number of branches have various operating leases for office space, IT and other equipment. Operating leases were accounted for in line with IFRS16 from 1 January 2019.

A.5 Any additional information

Other than as noted above, no other events occurred in 2019 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 Board is responsible for effective oversight of ZIP’s business. The Board may exercise its own powers or delegate as it deems appropriate to either persons or committees.

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 oversees the HR process for directors and senior management and, where appropriate, makes recommendations to the Board on HR Strategy and succession planning.

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

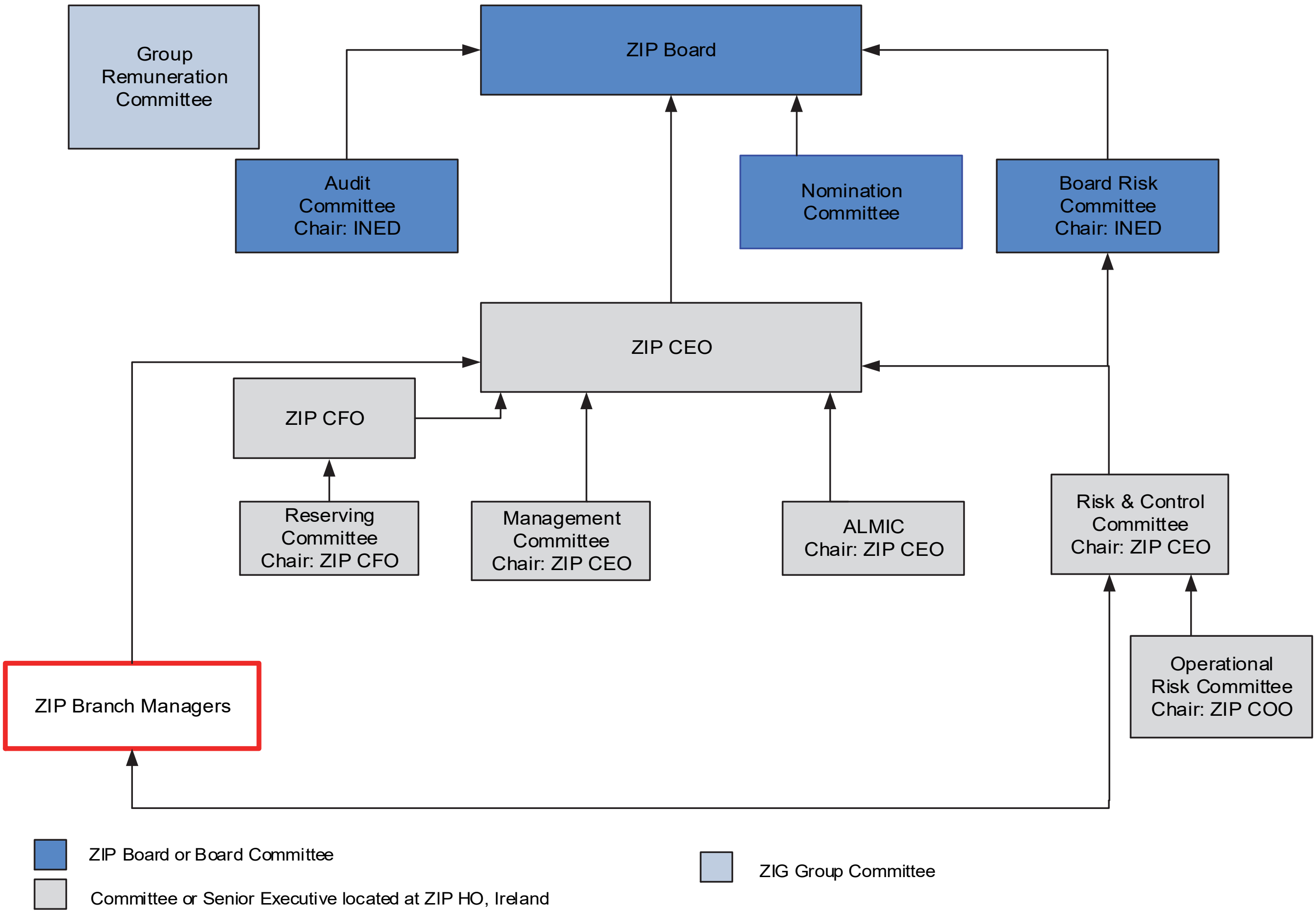
Executive Management and Management Committees

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.

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 business enablement, being a trusted advisor, independent challenge, monitoring and 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.

B. System of Governance *continued*

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 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
There were no material changes to the system of governance during 2019.

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 reviewed and adopted the Zurich Group Remuneration Rules ("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 and non-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.

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 2019

A number of reinsurance contracts were entered into with ZIC during the year, the principal arrangements being:

- Quota Share contracts across personal and commercial lines of business and for international business
- Non-proportional reinsurance contracts to protect against single large loss events in individual lines of business
- Reinsurance to protect against accumulated losses from natural and man-made catastrophe events
- Reinsurance to protect against adverse development in the liability lines of business

The non-proportional reinsurance contracts to protect against single large loss events were first entered in 2019.

The other reinsurance arrangements referred to above were also in place during 2018 with broadly similar terms and conditions.

In January 2019 term loans with Zurich Insurance Company ("ZIC") of EUR 369m and GBP 340m matured and the proceeds were invested in term loans of equal amounts with ZIC.

In December 2019, the Company disposed of preference shares in Zurich Financial Services (UKISA) Limited ("UKISA") for proceeds of GBP 387m, realising a large capital gain under Irish GAAP. The Company invested the proceeds in term loans with ZIC.

Also in December 2019 the Company invested the proceeds of maturing investments in term loans with ZIC. The total amount was €460m.

Various currency hedge instruments were entered into with ZIC during 2019 to mitigate foreign exchange risk.

All 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 common with all ZIP employees, 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

B. System of Governance *continued*

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.

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.

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 Enterprise Risk Management (ERM) framework embedded in the system of governance is designed to achieve this objective.

A "three lines of defence" 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 levels of risk exposure against the risk tolerances are measured, both at legal entity and branch level, using metrics defined as part of ZIP's risk appetite framework. 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.

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

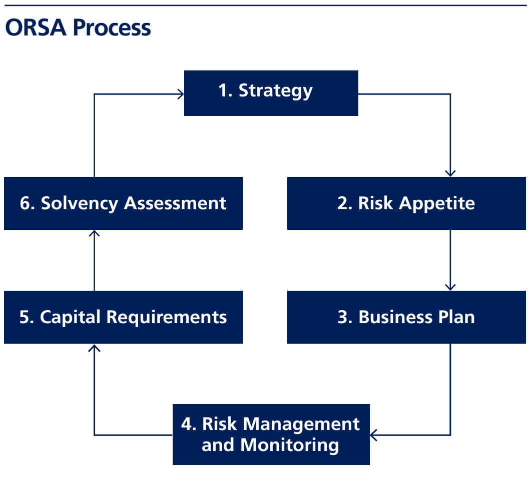
A key part of the ORSA process is the annual Total Risk Profiling (“TRP”) process, carried out by senior management in each location where the Company operates. This process enables the identification, assessment, mitigation and monitoring of risks that threaten the ability to achieve the strategic objectives 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.

B. System of Governance *continued*

Chart 4: 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. The internal model is used extensively throughout the business to manage risk in relation to capital and earnings. For example, the model is used to allocate economic capital as a reference point for numerous processes including insurance portfolio and asset portfolio management, business planning and pricing analysis. It is further used to monitor accumulations of risks especially natural catastrophe risks.

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 validation function is in place for the Internal Model which includes the requirement to produce an annual validation report for the Board.

The validation process is governed by a policy which is also approved by the Board. Certain aspects of the validation process are carried out independently by the Group Insurance Model Risk 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 2019.

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

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 support 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 the 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 the 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 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. System of Governance *continued*

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.

B.5 Internal audit function

As noted in Section B.1, the Internal Audit function for ZIP is outsourced to the Group Internal Audit team. A senior member of the Group Audit team 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 ZIP's risk management, internal control and governance processes.

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 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 whereas certain other functions are managed within the Company with an element of service support from outsourced service providers.

The 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	Ireland, 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	Ireland, Switzerland
Underwriting referrals	Switzerland
Pricing Center of Excellence	Slovakia, Switzerland
Claims – Large Referrals	Switzerland
Treasury Services	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, India
Telecommunications, call centres, documents, postal, printing, storage	UK, Germany, Spain, Italy, Portugal, France
Banking/investment services	UK, Germany, Italy, Bulgaria, USA
Underwriting delegated authority	UK
Underwriting support services	India, UK
IT services	UK, Germany, Spain, Italy, Portugal, Hungary, India, Czech Republic

B. System of Governance *continued*

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 main risks for ZIP. These include all the risks measured in the Internal Model and other risks not measured in the Internal Model.

The range of risks faced by the Company are typical of a non-life insurance company: 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 measuring of risks in the Internal Model results in 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 value of 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 across risk types would occur at the same time. Finally, a number of post aggregation steps are applied to reach the SCR. Further detail on the SCR calculation is provided in section E.

The elements of the SCR result of EUR 1,944m at December 31, 2019 are shown in the Appendix: QRT S25.03.21

The Own Funds available to meet the SCR at December 31, 2019 were EUR 2,562m and the SCR ratio was 132%. Therefore the Company had excess Own Funds of EUR 618m, over 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 Nat Cat risk detail below). The exposures at December 31, 2019 were the planned earned premiums for 2020 and the planned unearned premiums at December 31, 2020. There was no material change in the value of the exposure to these risks in 2019.
- 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 at December 31, 2019 were the insurance claims reserves booked at that date. There was no material change in the value of the exposure to this risk in 2019.
- Nat Cat risk: 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, 2019 were the sums insured which are expected to be exposed to Nat Cat risks in 2020. There was no material change in the value of the exposure to this risk in 2019.

As at December 31, 2019 there was significant reinsurance protection in place to protect against the underwriting exposures noted above, including extensive protection in place to mitigate the impact of natural catastrophe events. During 2019 the Company initiated a new reinsurance programme to provide protection against single large loss events. The other elements of the reinsurance programme were similar in 2019 as was in place for 2018.

Risk measure

The underwriting risks were measured by the Internal Model in both 2019 and 2018. For Nat Cat the measurement of risks in the Internal Model is enabled by the use of an external (industry recognised) Nat Cat model.

At December 31, 2019, the SCR for these risks (which were part of the diversified SCR of EUR 1,944m) was as follows:

- Premium, UPR & Reserve risks (the three risks combined): EUR 877m
- Nat Cat risk: EUR 271m

These values can be compared to the available Own Funds of EUR 2,562m at December 31, 2019, which are held to provide protection against a 1 in 200 year loss event, considering all modelled risk types.

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 monitored by the Head of Actuarial Function and reported to the Reserving Committee.

Risk mitigation

The scale and scope of the business, with insurance written in Ireland and out of 12 overseas branches, results in 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 reinsurance to protect against accumulated losses from natural and man-made catastrophe events. During 2019 the reinsurance strategy was updated to include protection against single large loss 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 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 and reported

Sensitivities
Underwriting risks the Company is sensitive to:

- Legal judgments and political decisions
- Movements in inflation and interest rates
- Uncertainty on frequency and valuation of individual large losses
- Environmental factors impacting the level of Nat Cat events
- Market competition/capacity and pricing adequacy
- Emerging trends in terrorism activity and pandemic events
- Technology trends impacting the business mix
- Future claims experience differs to historic loss development due to changing claims handling processes and claims environment

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, 2019 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 84m, equating to 4% of the diversified SCR.

a) Premium, unearned premium and reserve risk:

Probability	Severity (EUR m)	SCR ratio impact (ppt)
1 in 10 year losses	(397)	(20%)
1 in 50 year losses	(670)	(34%)

b) Nat Cat risk:

Probability	Severity (EUR m)	SCR ratio impact (ppt)
1 in 10 year losses	(84)	(4%)
1 in 50 year losses	(173)	(9%)

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 an increase in the value of the exposure to real estate during 2019, due to acquisitions and revaluations. There was a decrease in the exposure to equity risk in 2019.

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 2019.

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 exposure to either credit spread or sovereign spread risk in 2019.

Currency exchange rates

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. Euro is the main currency denomination of the geography in which ZIP 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.

The exposure to risk arises from foreign exchange transactions and holding non-Euro currencies, offset by currency hedges in place.

There was no material increase in the value of the exposure to this risk in 2019.

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 2019.

Debt securities

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

There was a decrease in the value of the exposure to this risk in 2019.

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 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 by the counterparty. The value of exposure to this risk is not material, as derivatives are used solely for hedging purposes.

Risk measure

These risks were measured by the Internal Model in both 2019 and 2018. The measurement of market risks in the Internal Model is supported by the use of an external (industry recognised) model.

At December 31, 2019 the SCR for these risks (which was part of the diversified SCR of EUR 1,944m) was EUR 548m.

This value can be compared to the available Own Funds of EUR 2,562m at December 31, 2019, which are held to provide protection against a 1 in 200 year loss event, considering all modelled risk types.

Risk concentration

There were no material risk concentrations at December 31, 2019. The largest value individual holdings are in government issued securities, which are held in order to match the maturity profile of the financial liabilities. Issuer limits are in place for non-government exposures to ensure no material concentations arise.

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.

C. Risk Profile *continued*

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

- Holding well diversified portfolios, across all asset classes
- 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, 2019 is shown below. For example, a one in 10 year market loss event would result in losses of EUR 252m, equating to 13% of the diversified SCR.

Probability	Severity (EUR m)	SCR ratio impact (ppt)
1 in 10 year losses	(252)	(13%)
1 in 50 year losses	(415)	(21%)

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, 2019) is set out in the table below.

	Severity (EUR m)	SCR ratio impact (ppt)
+25% on equity prices	73	4%
–25% on equity prices	(73)	(4%)
–50bp parallel shift on yields	0	0%
+50bp parallel shift on yields	(10)	(1%)
–50bp parallel shift on credit spreads	85	4%
+50bp parallel shift on credit spreads	(78)	(4%)

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 arising from third parties under existing reinsurance contracts. Such contracts are entered in accordance with the reinsurance strategy.

The counterparties are reinsurance entities 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 an increase in the value of these exposures in 2019, arising from quota share contracts entered into during the year, for run-off business in the UK and in Germany. These reinsurance arrangements are steps in the processes to ultimately dispose of these run-off portfolios. Both arrangements are fully collateralised minimising credit risk.

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 2019.

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 2019.

Risk measures
These credit risks were measured by the Internal Model in both 2019 and 2018. At December 31, 2019, the SCR for these risks (which were part of the diversified SCR of EUR 1,944m) was as follows:

- Third party reinsurance assets credit risk: EUR 70m
- Third party receivables credit risk: EUR 27m
- Intra Group assets: EUR 166m

These values can be compared to the available Own Funds at December 31, 2019 of EUR 2,562m, which are held to provide protection against a 1 in 200 year loss event, considering all modelled risk types.

Risk concentration
Concentration of credit risk towards third parties can arise from significant amounts due under reinsurance 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 2018 there were material concentrations of intra-Group assets at December 31, 2019, 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, 2019 is shown below. For example, a one in 10 year third party reinsurance loss event would result in losses of EUR 6m, equating to less than 1% of the diversified SCR.

a) Third party reinsurance assets

Probability	Severity (EUR m)	SCR ratio impact (ppt)
1 in 10 year losses	(6)	0%
1 in 50 year losses	(33)	(2%)

b) Third party receivables

Probability	Severity (EUR m)	SCR ratio impact (ppt)
1 in 10 year losses	(5)	0%
1 in 50 year losses	(16)	(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

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. Liquidity risk is not measured in the Internal Model. The risk is managed through the implementation of the Company's liquidity policy rather than the holding of risk capital. 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, 2019 was EUR 360m. 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 limits in place to protect 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 extreme negative cash flow scenarios is regularly tested and reported to the ALMIC. All liquidity stress tests were passed at December 31, 2019.

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; certain key services are received 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 2019.

Risk measure

The risks (sourced from the TDS process) were measured by the Internal Model in 2019 and 2018.

At December 31, 2019 the SCR for operational risk (which was part of the diversified SCR of EUR 1,944m), was EUR 447m. The value of the risk increased in 2019 following the annual reassessment of the various TDS scenarios.

This value can be compared to the available Own Funds of EUR 2,562m at December 31, 2019, which are held to provide protection against a 1 in 200 year loss event, considering all modelled risk types.

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 for risks which are not deemed to be operating or designed effectively. These action plans are tracked to closure.

Actual operational loss events and near misses 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 Operational Risk Committee ("ORC") and the Risk and Control Committee ("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, 2019 is shown below. For example, a one in 10 year operational loss event would result in losses of EUR 189m, equating to 10% of the diversified SCR.

Probability	Severity (EUR m)	SCR ratio impact (ppt)
1 in 10 year losses	(189)	(10%)
1 in 50 year losses	(321)	(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 2019.

Risk measure

The risks were measured by the Internal Model in both 2019 and 2018. At December 31, 2019, the SCR for pension risk (which was part of the diversified SCR of EUR 1,944m) was EUR 170m.

This value can be compared to the available Own Funds of EUR 2,562m at December 31, 2019., which are held to provide protection against a 1 in 200 year loss event, considering all modelled risk types.

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, 2019 is shown below. For example, a one in 10 year pension loss event would result in losses of EUR 83m, equating to 4% of the diversified SCR.

Probability	Severity (EUR m)	SCR ratio impact (ppt)
1 in 10 year losses	(83)	(4%)
1 in 50 year losses	(134)	(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 2019.

Risk measure
The risk was measured by the Internal Model in both 2019 and 2018. At December 31, 2019, the SCR for expense risk (which was part of the diversified SCR of EUR 1,944m) was EUR 280m.

This value can be compared to the available Own Funds of EUR 2,562m at December 31, 2019, which are held to provide protection against a 1 in 200 year loss event, considering all modelled risk types.

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, 2019 is shown below. For example, a one in 10 year expense event would result in losses of EUR 140m, equating to 7% of the diversified SCR.

Probability	Severity (EUR m)	SCR ratio impact (ppt)
1 in 10 year losses	(140)	(7%)
1 in 50 year losses	(224)	(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 2019 a number of scenarios in relation to Brexit were updated, 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, 2019, the impact of adding scenarios was to increase the SCR by EUR 91m.

C.7 Any other information

Stress scenarios in 2019

Background

A number of stresses and scenarios were calculated in 2019 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 2019 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 risks identified as part of the scenarios are addressed as part of the regular risk management activities of the Company.

Management actions

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

Global Pandemic COVID-19

Since the start of 2020, the outbreak of Coronavirus (COVID-19) has been declared a global pandemic by the World Health Organisation (WHO).

The Company is part of the Zurich Group which is coordinating its COVID-19 response on a global scale, allowing the pooling of expertise and allowing business units to leverage the strength of the Zurich Group. The potential impacts on the Company are being closely monitored on a daily basis with business continuity and crisis management plans in place to maintain the operational and financial resilience required to deliver for its customers.

This pandemic can potentially impact the Company in a number of ways, including:

- Movements in the financial markets adversely impacting the value of financial assets and liabilities
- Loss reporting and settlement patterns can be impacted and result in a greater level of reserving uncertainty. The ultimate impact on diversified exposures of the Company is likely to vary across branch and line of business
- Future earnings could be adversely impacted by lower customer retention and reduced new business. The impact of these will depend on how long the outbreak lasts and its effects on economic growth and consumer sentiment
- Operational impacts on the range and speed of services provided to customers and distributors

Given the evolving nature of the COVID-19 pandemic, it is not possible to accurately estimate all impacts at this point in time.

Since December 31, 2019, the capital position of the Company has continued to fully meet its regulatory capital requirements despite significant falls in financial markets. In line with the Zurich Group policy of managing capital in its subsidiaries at a level above minimum requirements, the Company received a capital contribution of EUR 305m from its shareholders on March 23, 2020, to offset the impact of financial market movements since December 31, 2019. This transaction has been reported as a subsequent non-adjusting event in the Irish GAAP financial statements.

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").

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.

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.

These 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 104m at December 31, 2019 (December 31, 2018: EUR 298m).

The variances in the valuations of assets and liabilities between the MCBS and the Irish GAAP Balance Sheet at December 31, 2019 are shown in the table below.

Table 15
Balance sheets

in EUR thousands, as at December 31 2019	Solvency II MCBS	Irish GAAP	Variance
Assets			
Goodwill		6,748	(6,748)
Intangible assets	–	111,274	(111,274)
Deferred acquisition costs	–	138,186	(138,186)
Deferred tax assets	5,384	4,046	1,338
Pension scheme surplus	70,450	70,450	–
Property, plant & equipment held for own use	234,429	234,317	112
Investments (other than assets held for index-linked and unit-linked contracts)	6,388,229	6,739,461	(351,232)
Loans and mortgages	2,244,047	1,708,517	535,530
Reinsurance recoverables	11,193,264	12,623,136	(1,429,872)
Deposits to cedants	10,634	10,634	–
Insurance & intermediaries receivables	528,108	1,555,108	(1,026,999)
Reinsurance receivables	543,900	279,734	264,166
Receivables (trade, not insurance)	440,727	438,800	1,927
Cash and cash equivalents	262,591	368,569	(105,978)
Any other assets, not elsewhere shown	195,828	394,193	(198,365)
Total assets	**22,117,591**	**24,683,172**	**(2,565,581)**
Liabilities			
Technical provisions – non-life	16,524,474	18,947,223	(2,422,749)
Technical provisions – life (excluding index-linked and unit-linked)	828,164	609,511	218,652
Provisions other than technical provisions	100,789	117,351	(16,562)
Pension scheme deficit	29,824	29,824	–
Deposits from reinsurers	10,289	10,289	–
Deferred tax liabilities	207,600	218,982	(11,382)
Derivative liabilities	1,841	1,841	–
Debts owed to credit institutions (incl. Bank Overdraft)	33,011	31,219	1,791
Financial liabilities other than debts owed to credit institutions	156,215	158,006	(1,792)
Insurance and intermediaries payables	118,963	155,222	(36,259)
Reinsurance payables	75,067	242,320	(167,254)
Payables (trade, not insurance)	862,219	859,515	2,705
Subordinated liabilities	103,579	103,602	(23)
Any other liabilities, not elsewhere shown	607,092	635,637	(28,545)
Total liabilities	**19,659,126**	**22,120,542**	**(2,461,417)**
Excess of assets over liabilities	**2,458,466**	**2,562,630**	**(104,164)**

D.1 Assets

Table 16 provides quantitative information on the variances 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 2019	Solvency II MCBS	Irish GAAP	Variance
Goodwill		6,748	(6,748)
Intangible assets	–	111,274	(111,274)
Deferred acquisition costs	–	138,186	(138,186)
Deferred tax assets	5,384	4,046	1,338
Pension scheme surplus	70,450	70,450	–
Property, plant & equipment held for own use	234,429	234,317	112
Investments (other than assets held for index-linked and unit-linked contracts)	6,388,229	6,739,461	(351,232)
Loans and mortgages	2,244,047	1,708,517	535,530
Reinsurance recoverables	11,193,264	12,623,136	(1,429,872)
Deposits to cedants	10,634	10,634	–
Insurance & intermediaries receivables	528,108	1,555,108	(1,026,999)
Reinsurance receivables	543,900	279,734	264,166
Receivables (trade, not insurance)	440,727	438,800	1,927
Cash and cash equivalents	262,591	368,569	(105,978)
Any other assets, not elsewhere shown	195,828	394,193	(198,365)
Total assets	**22,117,591**	**24,683,172**	**(2,565,581)**

As shown above the assets in the MCBS at December 31, 2019 were EUR 2,566m lower than those reported under Irish GAAP. The table below explains the reasons for these variances in the valuation of the assets between the MCBS and Irish GAAP at December 31, 2019. The largest variances are driven by the different approaches to measuring and classifying the insurance liabilities (technical provisions) in the MCBS compared to Irish GAAP, and the consequent impact on the related reinsurance asset values.

In 2019 the Company implemented the IFRS 16 rules in respect of the valuation of operating leases, under both Solvency II and Irish GAAP. Other than this there were no changes during 2019 in the approach by the Company to valuing assets and liabilities under both Solvency II and Irish GAAP valuation principles.

D. Valuation for Solvency Purposes *continued*

Table 17 Comparison of valuation bases – Assets

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)	In general, 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. There are also presentation differences in the MCBS compared to Irish GAAP; in particular accrued interest is reported in any other assets under Irish GAAP whereas it is reported in the underlying asset values in the MCBS.
Loans and Mortgages	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 Unearned Premium Provision (UPR) liability which is expected to be ceded to reinsurers. In the MCBS these ceded UPR liability is effectively replaced with the Premium Provision, whereby expected future claims and expense cashflows are netted against the expected future premium cashflows.
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 not yet due is netted in the Premium Provision and Claims Provision liabilities, 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 netted in the Premium Provision liability, hence the lower value of these assets in the MCBS.
Receivables (trade, not insurance)	Trade receivables include dividends, tax and other income, and are recognised at fair value in both the MCBS and under Irish GAAP. The variance relates to dividends receivable included in any other assets in Irish GAAP.
Any other assets, not elsewhere shown	Under Irish GAAP this balance includes accrued premiums not yet due. In the MCBS the value of accrued premiums is netted in the Premium Provision and Claims Provision liabilities, hence the lower value of these assets in the MCBS. The additional variance relates to the different classification of accrued interest and dividends receivable.

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, 2019 were EUR 2,204m lower than under Irish GAAP, as shown below.

Table 18 Comparison of Valuations – Technical Provisions

in EUR thousands, as at December 31 2019	Solvency II MCBS	Irish GAAP	Variance
General Liability	8,477,858	9,264,678	(786,820)
General Liability – Risk margin	122,031		122,031
Motor Vehicle Liability	2,765,173	3,287,458	(522,285)
Motor Vehicle Liability – Risk margin	70,358		70,358
Fire and Other Damage to Property	3,370,318	4,314,364	(944,046)
Fire and Other Damage to Property – Risk margin	55,004		55,004
Motor Non Liability	348,086	254,854	93,232
Motor Non Liability – Risk margin	7,895		7,895
Other*	1,279,814	1,825,869	(546,055)
Other – Risk margin*	27,936		27,936
Life **	791,718	609,511	182,207
Life – Risk margin **	36,446		36,446
Total	**17,352,638**	**19,556,734**	**(2,204,096)**

* 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.

D. Valuation for Solvency Purposes *continued*

The table below explains the variances in the value of the technical provisions between the MCBS and Irish GAAP at December 31, 2019.

Table 19 Comparison of valuation bases – Technical provisions

Item	
Unexpired risks i.e. insurance policies which are accounted, however the risk coverage period has not fully elapsed.	Under Irish GAAP the Unearned Premium Reserve (UPR) effectively represents the premium written on unexpired risks. The corresponding assets in Irish GAAP are 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. Also, 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 on the recognition 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	Under Solvency II a reserve is required for the value that another (re)insurer, taking on the insurers liabilities at the valuation date, would require over and above best estimate value. 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. there may be a retrospective change in legislation which increases the claim cost beyond that which has been allowed for
- 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 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.

Matching adjustment
No matching adjustment was applied to the valuation of the technical provisions in the MCBS at December 31, 2019.

Volatility adjustment
No volatility adjustment was applied to the valuation of the technical provisions in the MCBS at December 31, 2019.

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, 2019.

Transitional deduction
The transitional deduction was not used at December 31, 2019.

Recoverables from reinsurance contracts
There were reinsurance recoverables of EUR 11.2bn at December 31, 2019, 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 at December 31, 2019. No changes during the year were significant as standalone assumptions.

Special Purpose Vehicles
There were no special purpose vehicles at December 31, 2019.

D.3 Other liabilities

The other liabilities reported in the MCBS at December 31, 2019 were EUR 257m lower than in the Irish GAAP Balance Sheet as shown below.

Table 20 Comparison of Valuations – Other Liabilities

in EUR thousands, as at December 31 2019	Solvency II MCBS	Irish GAAP	Variance
Provisions other than technical provisions	100,789	117,351	(16,562)
Pension scheme deficit	29,824	29,824	–
Deposits from reinsurers	10,289	10,289	–
Deferred tax liabilities	207,600	218,982	(11,382)
Derivative liabilities	1,841	1,841	–
Debts owed to credit institutions (incl. Bank Overdraft)	33,011	31,219	1,791
Financial liabilities other than debts owed to credit institutions	156,215	158,006	(1,792)
Insurance and intermediaries payables	118,963	155,222	(36,259)
Reinsurance payables	75,067	242,320	(167,254)
Payables (trade, not insurance)	862,219	859,515	2,705
Subordinated liabilities	103,579	103,602	(23)
Any other liabilities, not elsewhere shown	607,092	635,637	(28,545)
Other Liabilities	**2,306,488**	**2,563,808**	**(257,320)**

D. Valuation for Solvency Purposes *continued*

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, 2019.

Table 21 Comparison of valuation bases – Other liabilities

Class of other liabilities	
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 in the MCBS under Solvency II accounting 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 valuations.
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 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.
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; this instrument is classified as Tier 3 Own Funds under Solvency II rules
- Amounts of EUR 125m due on operating leases with a term in excess of one year
- Pension scheme deficits of EUR 30m; the pension scheme obligations will be ultimately discharged when employees who are members of the pension schemes retire

Pension schemes

ZIP operates defined benefit pension schemes for its employees in certain branches. The pension scheme valuations are based on appropriate International Accounting Standards (IAS 19). There is no valuation difference between Solvency II and Irish GAAP. The liabilities of the pension schemes represent the present value of all projected cash flows discounted using the appropriate discount rate. These future cash flows include pension payments to currently retired members, deferred members and active members of the scheme. The assets in the pension schemes 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 2019	Market Value	Proportion
Equities	186	22%
Bonds	499	59%
Other	156	19%
Total Assets	**842**	

Deferred tax balances

The deferred tax balances recorded in the MCBS at December 31, 2019 included an amount of EUR 45m 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.

These carry forward tax losses were not subject to any time limitation and therefore can in principle be carried forward indefinitely.

There were EUR 267m of carry forward tax losses at December 31, 2019, which were not recorded in the MCBS, however may still be realised in value in the future.

D.4 Alternative methods for valuation

At December 31, 2019 invested assets of EUR 463m were valued using an alternative valuation method. The significant items included were as follows:

- Private debt securities of EUR 201m 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 262m were valued based on market values or, in a small number of cases, comparable securities. Adjustments were made for the credit profile, liquidity and trading of the syndicated loan securities

D.5 Any other information

Global Pandemic COVID-19

Loss reporting and settlement patterns will be impacted and result in a greater level of reserving uncertainty. The ultimate impact on the diversified exposures of the Company is likely to vary across branch and line of business.

E. Capital Management

Overview of capital management

Background

The Company manages its capital with primary focus on the Solvency II regime. The available financial resources under Solvency II are known as the Own Funds.

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

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

The ratio of Own Funds to the SCR is known as the SCR ratio. 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 realistic 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, 2019 was 132%, representing an excess of EUR 618m of Own Funds held over the SCR value. The corresponding metrics at December 31, 2018 were an SCR ratio of 143% and an excess value of EUR 727m 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 extreme event which could result in regulatory intervention in the running of the Company. The MCR ratio at December 31, 2019, was 300%.

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, other than the regulator, in the capital position of ZIP and how these are met.

Processes

A full production run of the Own Funds, SCR and MCR values takes place quarterly, 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 account of known movements in values since the previous quarterly report.

Changes in 2019

During 2019 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.

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

The calculation of Basic Own Funds takes place quarterly through the production of the MCBS. The MCBS is prepared using inputs from the finance reporting teams across the ZIP branches, 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") quarterly and the year-end Own Funds value is also approved by the Board.

Ancillary Own Funds are capital commitments to the Company which can qualify as Own Funds under Solvency II rules; there are defined criterion for what qualifies as Ancillary Own Funds. These items are not recorded in the economic balance sheet (MCBS). The Company held no Ancillary Funds at December 31, 2019.

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 between quarters 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 three years considering planned profit generation, planned changes in risk profile and planned capital activities. This planning is aligned with the production of the three year business plan, based on the business strategy approved by the Board.

Structure and tiering of Own Funds

The Own Funds of ZIP at December 31, 2019 were EUR 2,562m.

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 and are based on the deemed quality of the capital.

The Tier 1 Own Funds of ZIP at December 31, 2019 were EUR 2,453m comprising of

- Ordinary share capital (fully paid) EUR 8m
- Capital contribution (fully paid) EUR 90m
- Reconciliation Reserve EUR 2,355m

These items met the criteria for Tier 1 Own Funds 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. 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 31,2019	December 31,2018
MCBS : excess of Assets over Liabilities	2,458,466	2,327,305
Issued share capital	(8,158)	(8,158)
Share premium	–	–
Capital contribution	(90,041)	(90,041)
Deferred Tax	(5,384)	(7,925)
Reconciliation Reserve	**2,354,883**	**2,221,182**

There were no Tier 2 Own Funds at December 31, 2019.

The Tier 3 Own Funds at December 31, 2019 were EUR 109m, comprised of a subordinated loan of EUR 104m and deferred tax assets of EUR 5m.

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, 2019, all of the Tier 1 Own Funds were eligible and available for meeting the SCR and MCR.

E. Capital Management *continued*

At December 31, 2019, all of 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 2,453m, at December 31, 2019.

Of the Tier 3 Own Funds of EUR 109m, 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 2,562m 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, 2019 were previously approved by the CBI as Tier I capital.

No other amounts included in the Own Funds at December 31, 2019 required supervisory approval.

No amounts included in the Own Funds at December 31, 2019 were subject to transitional arrangements.

Deductions from Own Funds and transferability of Own Funds

No deductions from Own Funds were relevant at December 31, 2019 and no restrictions existed at December 31, 2019 which affected the transferability of Own Funds within the Company.

Changes in Own Funds

A comparison of the Own Funds at December 31, 2019 and December 31, 2018, were as follows:

Table 24 Changes in Own Funds

in EUR thousands	**December 31,2019**	**December 31,2018**
Tier 1	2,453,081	2,319,380
Tier 2	–	–
Tier 3	108,964	111,488
Total	**2,562,045**	**2,430,868**

There was an increase of EUR 134m in Tier 1 Own Funds during 2019, largely due to the economic profits generated during the year, offset by a dividend paid of EUR 100m.

There was a reduction of EUR 3m in Tier 3 Own Funds during 2019, due to a decrease in the value of deferred tax assets during the year.

There were no other movements in Own Funds during 2019 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 31,2019**	**December 31,2018**
Net Irish GAAP shareholders equity	2,562,630	2,029,499
Profit recognition	432,421	482,184
Value of claims provision	(141,212)	100,306
Risk Margin reserve	(319,670)	(264,971)
Intangible assets	(111,274)	(107,547)
Fair value investments	22,916	177,859
Other	–	(28,644)
Deferred Tax	12,656	(61,434)
MCBS excess assets over Liabilities	**2,458,466**	**2,327,251**

The key explanations for the reconciling items are as follows:

Profit recognition
- The profit is recognised in the MCBS at the recognition 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.
- 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 the value that another (re)insurer would require to take on insurance liabilities, above the best estimate value of the insurance liabilities. 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
- Certain investments are not reported at market value under Irish GAAP; whereas these are reported at market value in the MCBS. This adjustment is only relevant for a small 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 event, occurring in the next year. The SCR at December 31, 2019 was EUR 1,944m. 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, 2019 was EUR 817m.

The inputs used to calculate the MCR value are shown in the Appendix: QRT S.28.01.01. These inputs were the value of the technical provisions as at December 31, 2019 and the value of the written premium in 2019, both net of reinsurance.

Movements in SCR and MCR
The SCR increased by 14% during 2019, from EUR 1,704m to EUR 1,944m.

The drivers for changes in the SCR during 2019 were:

- Changes in exposures and risk profile
- Changes in business plan

E. Capital Management *continued*

Table 26 Analysis of SCR movements in 2019

EUR m	December 31,2019	December 31,2018	Variance
Premium, Reserve & UPR risk	877	848	29
Nat Cat risk	271	253	17
Market/ALM risk	548	610	(62)
Expense risk	280	248	32
Reinsurance credit risk	70	77	(7)
Receivables credit risk	27	28	(1)
Pension risk	170	149	21
Operational risk	447	412	35
Total undiversified risk	**2,689**	**2,626**	**64**
Diversified	36.3%	35.1%	1.2%
Aggregated risk (diversified)	**1,697**	**1,687**	**10**
Post-aggregation steps	247	17	230
SCR	**1,944**	**1,704**	**240**

The MCR increased by 7% during 2019, 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 earn a target return on economic capital; this economic capital is derived from the Internal Model
- Business planning and performance management reviews – using economic return metrics, derived from the Internal Model
- Risk management – the measurement of risks within the business includes the use of results from the Internal Model
- Purchase of reinsurance – results from the Internal Model are a key input to deciding on the level of reinsurance coverage purchased
- Investment portfolio mix – 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 by risk type for each ZIP branch and subsidiary, and also for the entire ZIP legal entity, and are then aggregated over risk types to produce the final 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 to determine the final value of the SCR which includes:

- Allowance for expected result in the following year
- Allowance for tax absorbency benefit
- Addition of certain scenarios (if necessary) to augment the modelling of individual risk types
- Addition of the dynamic model result, which measures credit risk with Group counterparties

The Internal Model is run on the Risk Modelling Platform which has been developed by the Zurich Group.

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 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.

The 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, 2019.

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 approved by the CBI to measure the Company's SCR better reflects the actual risk profile of the Company than the Standard Formula.

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

E. Capital Management *continued*

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 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 as calibrated to the equivalent of a 1 in 200 year loss event for the Company occurring in the next year. 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.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 2019.

E.6 Any other information

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, whilst considering the capital requirements of the legal entities of the Group. The Group endeavours that each EEA legal entity (including ZIP) maintains a sufficient capital buffer above the Solvency Capital Requirement ("SCR"). In addition to the capital and liquidity held within its legal entities, the Group holds substantial amounts of capital and liquidity centrally on Group level. These financial resources can be allocated to its legal entities as 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, to measure its capital strength. In the Z-ECM, the Group targets to hold capital to a level that is calibrated to "AA" financial strength, defined 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 reported Z-ECM ratio as at June 30, 2019 was 118% and the estimated Z-ECM ratio as at December 31, 2019 was 129%.

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.

Global Pandemic COVID-19

Since December 31, 2019, the capital position of the Company has continued to fully meet its regulatory capital requirements despite significant falls in financial markets. In line with the Zurich Group policy of managing capital in its subsidiaries at a level above minimum requirements, the Company received a capital contribution of EUR 305m from its shareholders on March 23, 2020, to offset the impact of financial market movements since December 31, 2019. This transaction has been reported as a subsequent non-adjusting event in the Irish GAAP financial statements.

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	5,384
Pension benefit surplus	R0050	70,450
Property, plant & equipment held for own use	R0060	234,429
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	6,388,229
Property (other than for own use)	R0080	1,136,653
Holdings in related undertakings, including participations	R0090	63,235
Equities	R0100	296,500
Equities – listed	R0110	292,524
Equities – unlisted	R0120	3,975
Bonds	R0130	4,764,068
Government Bonds	R0140	2,107,103
Corporate Bonds	R0150	2,141,186
Structured notes	R0160	27,057
Collateralised securities	R0170	488,722
Collective Investments Undertakings	R0180	123,478
Derivatives	R0190	3,610
Deposits other than cash equivalents	R0200	685
Other investments	R0210	–
Assets held for index-linked and unit-linked contracts	R0220	–
Loans and mortgages	R0230	2,244,047
Loans on policies	R0240	54
Loans and mortgages to individuals	R0250	21,709
Other loans and mortgages	R0260	2,222,284
Reinsurance recoverables from:	R0270	11,193,264
Non-life and health similar to non-life	R0280	10,942,081
Non-life excluding health	R0290	10,806,573
Health similar to non-life	R0300	135,507
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	251,184
Health similar to life	R0320	73,669
Life excluding health and index-linked and unit-linked	R0330	177,515
Life index-linked and unit-linked	R0340	–
Deposits to cedants	R0350	10,634
Insurance and intermediaries receivables	R0360	528,108
Reinsurance receivables	R0370	543,900
Receivables (trade, not insurance)	R0380	440,727
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	262,591
Any other assets, not elsewhere shown	R0420	195,828
Total assets	**R0500**	**22,117,591**

S.02.01.02

Balance Sheet, Liabilities

in EUR thousands, as of December 31

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	R0510	16,524,474
Technical provisions – non-life (excluding health)	R0520	16,254,867
TP calculated as a whole	R0530	–
Best Estimate	R0540	15,978,108
Risk margin	R0550	276,759
Technical provisions – health (similar to non-life)	R0560	269,607
TP calculated as a whole	R0570	–
Best Estimate	R0580	263,141
Risk margin	R0590	6,465
Technical provisions – life (excluding index-linked and unit-linked)	R0600	828,164
Technical provisions – health (similar to life)	R0610	311,021
TP calculated as a whole	R0620	–
Best Estimate	R0630	294,850
Risk margin	R0640	16,171
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	517,142
TP calculated as a whole	R0660	–
Best Estimate	R0670	496,868
Risk margin	R0680	20,275
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	100,789
Pension benefit obligations	R0760	29,824
Deposits from reinsurers	R0770	10,289
Deferred tax liabilities	R0780	207,600
Derivatives	R0790	1,841
Debts owed to credit institutions	R0800	33,011
Financial liabilities other than debts owed to credit institutions	R0810	156,215
Insurance & intermediaries payables	R0820	118,963
Reinsurance payables	R0830	75,067
Payables (trade, not insurance)	R0840	862,219
Subordinated liabilities	R0850	103,579
Subordinated liabilities not in BOF	R0860	–
Subordinated liabilities in BOF	R0870	103,579
Any other liabilities, not elsewhere shown	R0880	607,092
Total liabilities	**R0900**	**19,659,126**
Excess of assets over liabilities	**R1000**	**2,458,466**

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**
73,802	289,354	57,673	1,297,126	746,211	205,025	2,869,769	1,671,859	139,693
24	1,940	–	80,792	48,004	63,418	257,777	56,426	3,726
45,775	146,681	29,331	746,641	428,714	169,909	2,069,595	1,219,266	64,654
28,051	144,613	28,342	631,276	365,500	98,534	1,057,950	509,019	78,765
72,730	289,340	57,253	1,297,786	732,543	199,659	2,753,299	1,641,983	142,678
24	2,019	–	80,368	47,492	54,552	253,350	47,106	5,447
44,247	146,853	28,422	747,503	421,890	163,521	2,006,056	1,177,532	68,935
28,507	144,506	28,832	630,651	358,145	90,690	1,000,593	511,558	79,190
38,437	118,236	25,738	798,182	383,294	138,267	1,733,947	797,313	206,448
5	453	(1)	54,564	36,195	5,260	181,002	25,929	(5,074)
22,955	58,981	12,618	471,185	231,135	86,290	1,324,759	670,515	95,794
15,487	59,708	13,119	381,561	188,353	57,237	590,190	152,727	105,580
–	–	–	6	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	6	–	–	–	–	–
17,412	**61,343**	**7,416**	**223,228**	**142,776**	**43,956**	**592,038**	**249,306**	**40,258**
–	–	–	–	–	–	–	–	–

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**
98,411	64,052	121,417					7,634,392
3,578	106	1,835					517,625
			–	–	–	–	–
58,887	39,353	83,556	–	–	–	–	5,102,363
43,101	24,805	39,696	–	–	–	–	3,049,654
97,186	59,344	119,157					7,462,959
3,617	2,782	3,481					500,239
			–	–	–	–	–
58,132	38,167	83,883	–	–	–	–	4,985,140
42,671	23,958	38,756	–	–	–	–	2,978,058
51,855	19,595	1,883					4,313,196
2,714	4,269	2,106					307,421
			–	–	–	–	–
29,498	17,652	(4,747)	–	–	–	–	3,016,635
25,071	6,212	8,735	–	–	–	–	1,603,981
–	–	–					6
–	–	–					–
			–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	6
14,336	**16,856**	**12,264**	**–**	**–**	**–**	**–**	**1,421,190**
							–
–	**–**	**–**	**–**	**–**	**–**	**–**	**1,421,190**

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
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
(1,623)	–	–	–	26,079	43,217	–	–	67,673
–	–	–	–	13,881	16,691	–	–	30,572
(1,623)	–	–	–	12,198	26,525	–	–	37,101
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
								–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

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
340,431	2,199,450	1,758,797	1,171,272	982,773	311,143	6,763,865
7,410	59,915	161,080	2,134	11,957	875	243,371
–	–	–	–	–	–	–
199,181	1,484,218	1,149,932	650,933	608,615	169,652	4,262,531
148,661	775,147	769,944	522,473	386,115	142,365	2,744,705
328,167	2,202,307	1,651,273	1,169,710	944,973	300,586	6,597,016
7,343	53,034	160,560	3,634	18,361	790	243,721
–	–	–	–	–	–	–
189,325	1,483,415	1,089,259	646,534	509,546	159,424	4,077,504
146,185	771,926	722,573	526,809	453,788	141,953	2,763,233
157,713	1,285,838	895,954	704,940	551,273	172,194	3,767,913
1,125	27,605	92,412	839	12,992	350	135,322
–	–	–	–	–	–	–
87,051	857,041	648,218	404,670	337,449	92,807	2,427,235
71,787	456,402	340,148	301,109	226,816	79,737	1,476,000
–	–	6	–	–	–	6
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	6	–	–	–	6
61,649	**536,291**	**343,930**	**168,328**	**202,356**	**47,665**	**1,360,218**
						–
61,649	**536,291**	**343,930**	**168,328**	**202,356**	**47,665**	**1,360,218**

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

	Index-linked and unit-linked insurance			Other life insurance					
Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)
C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150
–	–			–			–	–	–
–	–			–			–	–	–
–		–	–		–	–	468,387	28,480	496,868
–		–	–		–	–	170,594	6,920	177,515
–		–	–		–	–	297,793	21,560	319,353
–	–			–			18,837	1,437	20,275
–	–			–			–	–	–
–		–	–		–	–	–	–	–
–	–			–			–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**487,224**	**29,918**	**517,142**

	Health insurance (direct business)					
		Contracts without options and guarantees	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		–	32,886	261,389	574	294,850
R0080		–	–	73,669	–	73,669
R0090		–	32,886	187,720	574	221,181
R0100	2,193			13,946	33	16,171
R0110	–			–	–	–
R0120		–	–	–	–	–
R0130	–			–	–	–
R0200	**35,079**	**–**	**–**	**275,335**	**607**	**311,021**

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**
	–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	–	–	–	–	–	–	–	–	–
	25,807	(36,329)	1,876	246,640	139,134	20,682	624,072	191,521	(16,550)
	11,511	(20,133)	2,575	139,297	62,445	30,958	388,138	161,074	(18,435)
	14,296	(16,196)	(699)	107,343	76,688	(10,277)	235,934	30,447	1,885
	33,818	197,174	40,795	2,518,533	208,953	271,646	2,746,246	8,243,667	370,961
	19,571	96,905	25,078	1,286,719	114,135	161,593	1,964,650	6,015,264	223,348
	14,247	100,270	15,717	1,231,814	94,818	110,052	781,595	2,228,402	147,613
	59,625	**160,846**	**42,671**	**2,765,173**	**348,086**	**292,327**	**3,370,318**	**8,435,187**	**354,411**
	28,543	**84,074**	**15,017**	**1,339,157**	**171,506**	**99,775**	**1,017,530**	**2,258,849**	**149,497**
	1,311	**3,996**	**1,159**	**70,358**	**7,895**	**5,940**	**55,004**	**120,872**	**8,658**
	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–
	60,936	164,841	43,830	2,835,532	355,982	298,268	3,425,322	8,556,060	363,069
	31,082	76,772	27,653	1,426,016	176,580	192,552	2,352,788	6,176,338	204,914
	29,854	88,069	16,176	1,409,515	179,401	105,716	1,072,534	2,379,722	158,156

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
	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–
	2,349	3,852	53,975	–	–	–	–	1,257,028
	615	3,631	36,303	–	–	–	–	797,979
	1,734	221	17,671	–	–	–	–	459,049
	164,098	21,707	166,625	–	–	–	–	14,984,222
	84,515	15,390	136,932	–	–	–	–	10,144,101
	79,584	6,317	29,692	–	–	–	–	4,840,120
	166,447	**25,559**	**220,599**	**–**	**–**	**–**	**–**	**16,241,250**
	81,318	**6,538**	**47,364**	**–**	**–**	**–**	**–**	**5,299,169**
	5,367	**379**	**2,285**	**–**	**–**	**–**	**–**	**283,225**
	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–
	171,814	25,937	222,884	–	–	–	–	16,524,474
	85,129	19,021	173,236	–	–	–	–	10,942,081
	86,685	6,917	49,648	–	–	–	–	5,582,393

Appendix *continued*

S.19.01.21

Non-life Insurance Claims Information

in EUR thousands, as of December 31

		–	1	2	3	4
	Year	C0010	C0020	C0030	C0040	C0050
Prior	R0100					
N-9	R0160	2,230,234	1,890,720	708,536	433,667	275,215
N-8	R0170	2,037,926	1,498,625	610,146	320,741	260,655
N-7	R0180	1,832,362	1,359,690	503,471	316,588	263,660
N-6	R0190	1,753,877	1,444,919	567,350	401,395	218,551
N-5	R0200	1,597,238	1,253,292	640,843	289,375	240,776
N-4	R0210	1,669,889	1,567,895	694,915	343,485	300,108
N-3	R0220	1,584,951	1,293,667	475,579	323,595	–
N-2	R0230	1,484,703	1,246,255	607,363	–	–
N-1	R0240	1,699,910	1,231,154	–	–	–
N	R0250	1,630,998	–	–	–	–

S.19.01.21

Non-life Insurance Claims Information

in EUR thousands, as of December 31

		–	1	2	3	4
	Year	C0200	C0210	C0220	C0230	C0240
Prior	R0100					
N-9	R0160	–	–	–	–	–
N-8	R0170	–	–	–	–	–
N-7	R0180	–	–	–	–	937,241
N-6	R0190	–	–	–	1,219,849	956,332
N-5	R0200	–	–	1,731,749	1,298,529	971,837
N-4	R0210	–	2,757,670	1,974,180	1,570,793	1,073,311
N-3	R0220	3,728,729	2,353,992	1,712,706	1,285,119	–
N-2	R0230	3,598,201	2,432,128	1,690,735	–	–
N-1	R0240	3,553,299	2,456,726	–	–	–
N	R0250	3,654,970	–	–	–	–

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				
5	6	7	8	9	10 & +			In Current year	Sum of years (cumulative)
C0060	C0070	C0080	C0090	C0100	C0110			C0170	C0180
					27,933,605		R0100	280,191	27,933,605
170,350	114,276	57,107	43,266	32,418	–		R0160	32,418	5,955,789
213,675	110,460	60,832	54,909	–	–		R0170	54,909	5,167,969
190,501	108,356	64,587	–	–	–		R0180	64,587	4,639,215
165,217	109,872	–	–	–	–		R0190	109,872	4,661,181
167,978	–	–	–	–	–		R0200	167,978	4,189,503
–	–	–	–	–	–		R0210	300,108	4,576,291
–	–	–	–	–	–		R0220	323,595	3,677,793
–	–	–	–	–	–		R0230	607,363	3,338,320
–	–	–	–	–	–		R0240	1,231,154	2,931,063
–	–	–	–	–	–		R0250	1,630,998	1,630,998
						Total	**R0260**	**4,803,173**	**68,701,727**

					Development year			
5	6	7	8	9	10 & +			Year end (discounted data)
C0250	C0260	C0270	C0280	C0290	C0300			C0360
					6,714,856		R0100	2,813,364
–	456,640	370,450	285,867	251,153	–		R0160	245,628
593,423	465,960	360,474	282,979	–	–		R0170	277,641
682,575	483,443	367,686	–	–	–		R0180	359,598
716,795	575,837	–	–	–	–		R0190	564,851
756,306	–	–	–	–	–		R0200	739,553
–	–	–	–	–	–		R0210	1,050,247
–	–	–	–	–	–		R0220	1,256,968
–	–	–	–	–	–		R0230	1,656,457
–	–	–	–	–	–		R0240	2,414,347
–	–	–	–	–	–		R0250	3,605,565
						Total	**R0260**	**14,984,219**

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	2,354,883	2,354,883			
Subordinated liabilities	R0140	103,579		–	–	103,579
An amount equal to the value of net deferred tax assets	R0160	5,384				5,384
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**	**2,562,045**	**2,453,081**	**–**	**–**	**108,964**
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**	**–**	**–**	**–**	**–**	**–**

S.23.01.01

Own funds

in EUR thousands, as of December 31

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	2,562,045	2,453,081	–	–	108,964
Total available own funds to meet the MCR	R0510	2,453,081	2,453,081	–	–	
Total eligible own funds to meet the SCR	R0540	2,562,045	2,453,081	–	–	108,964
Total eligible own funds to meet the MCR	R0550	2,453,081	2,453,081	–	–	
SCR	R0580	1,943,872				
MCR	R0600	817,274				
Ratio of Eligible own funds to SCR	R0620	132%				
Ratio of Eligible own funds to MCR	R0640	300%				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	2,458,466
Own shares (held directly and indirectly)	R0710	–
Foreseeable dividends, distributions and charges	R0720	–
Other basic own fund items	R0730	103,583
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	–
Reconciliation reserve	R0760	2,354,883
Expected profits		
Expected profits included in future premiums (EPIFP) – Life business	R0770	–
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	359,871
Total Expected profits included in future premiums (EPIFP)	**R0790**	**359,871**

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	547,697
102	Premium, Reserve & UPR Risk	876,606
103	Nat Cat Risk	270,577
104	Expense Risk	280,389
105	Operational Risk	446,927
106	Credit Risk	97,209
108	Pension Risk	169,731
109	Scenarios	90,666
110	Dynamic Model	165,527
111	Expected Result	169,563

		C0100
Calculation of Solvency Capital Requirement		
Total undiversified components	R0110	3,114,892
Diversification	R0060	(991,982)
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**	**1,943,872**
Capital add-ons already set	R0210	–
Solvency capital requirement	**R0220**	**1,943,872**
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	
Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	R0310	(179,037)
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	805,923

		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	28,543	28,051
Income protection insurance and proportional reinsurance	R0030	84,074	144,613
Workers' compensation insurance and proportional reinsurance	R0040	15,017	28,342
Motor vehicle liability insurance and proportional reinsurance	R0050	1,339,157	631,276
Other motor insurance and proportional reinsurance	R0060	171,506	365,500
Marine, aviation and transport insurance and proportional reinsurance	R0070	99,775	98,534
Fire and other damage to property insurance and proportional reinsurance	R0080	1,017,530	1,057,950
General liability insurance and proportional reinsurance	R0090	2,258,849	509,019
Credit and suretyship insurance and proportional reinsurance	R0100	149,497	78,765
Legal expenses insurance and proportional reinsurance	R0110	81,318	43,101
Assistance and proportional reinsurance	R0120	6,538	24,805
Miscellaneous financial loss insurance and proportional reinsurance	R0130	47,364	39,696
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	11,351

		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	540,534	
Total capital at risk for all life (re)insurance obligations	R0250		–

		C0070
Linear MCR	R0300	817,274
SCR	R0310	1,943,872
MCR cap	R0320	874,743
MCR floor	R0330	485,968
Combined MCR	R0340	817,274
Absolute floor of the MCR	R0350	3,700

		C0070
Minimum Capital Requirement	**R0400**	**817,274**

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