Zurich Life Assurance plc.

Zurich Life Assurance plc
Solvency and Financial Condition Report 2017

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Contents

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

Glossary of terms used in this report

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

Executive Summary

About Zurich Life Assurance plc

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

We have been meeting our customers' needs in Ireland for over 40 years and we are committed to the provision of excellent customer service. Our investment team, based in Blackrock, Co. Dublin, is responsible for funds under management of approximately €22.4 billion, of which pension assets amount to €10.1 billion (as of 31 December 2017).

We have won a number of industry awards in 2017, including Brokers Ireland 'Financial Broker Excellence Award' and 'Investment Excellence Award'. In 2017, we also won 'Best Life Assurance Company' and 'Best Innovation by a Life Assurance Company' awarded by LongBoat Analytics.

The Company's Solvency II SCR ratio (coverage of SCR by Own Funds) was 129% as of 31 December 2017.

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

The Group manages its capital to an AA level according to its internal economic model, Z-ECM. The estimate of the Z-ECM ratio as of 31 December 2017 was 132%.

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

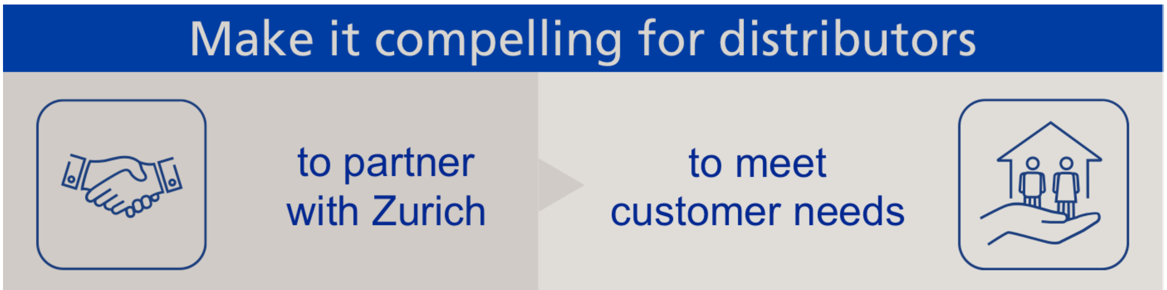
Business and Performance (Section A)

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

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

Our ultimate holding company is Zurich Insurance Group Ltd ("the Group") which is incorporated in Switzerland.

Business Strategy



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

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

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

Performance
Overall, the Company had a strong year in 2017 with record sales, increased New Business Value and continued underlying profit.

The company's overall underwriting performance in the financial statements was €60.8m for 2017 – reflecting strong unit-linked investment performance and stable demographic experience.

Investment income, based on the returns on shareholder assets and assets backing policyholder liabilities, was €1,044m in 2017 – up from €885m in 2016. Investment returns benefited from stronger growth in equity markets in 2017, offset by losses in the market value of bonds due to rising yields.

There were no material changes to the Company's business profile in 2017.

Executive Summary *continued*

System of Governance (Section B)
The focal point of the Company's system of governance is the board of directors (the Board) which directs all aspects of our business except where the Board is required, as a matter of law, to refer an issue to the Company's shareholders.

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

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

We employ a "three lines of defence" model that allows key functions such as Internal Audit, Actuarial, Compliance and Risk Management to review and challenge the running of the business by first line management, and to report their findings to the Board and other relevant committees. We also manage our business in accordance with a number of policies and strategies that underpin the Risk Management Framework and set out relevant objectives, processes and reporting procedures. Our key governing risk management documents are the Risk Appetite Statement, Risk Management Policy and the Zurich Risk Policy. Our key risk management processes include the Own Risk and Solvency Assessment (ORSA), ensuring that our solvency needs are adequately covered, and Risk and Control Self-Assessment (RCSA), ensuring the identification and control of risk in our everyday processes. Additionally, our Total Risk Profiling (TRP) process is used to identify strategic risks.

Risk Profile (Section C)
The Company manages a mix of risks typical to a life assurance company in Ireland.

Our key risks are Market, Underwriting, Credit and Operational risks. We have frameworks in place to monitor and manage all material risks, including those falling outside capital models; for example, liquidity risk and non-quantitative risks such as reputational risk. The frameworks involve the monitoring and measuring of risks, including sensitivity and scenario analysis as required and appropriate escalation routes and mitigation techniques.

We project the Company's risk profile over the duration of its business plan and have early warning systems in place to identify risk exposures that have potential to exceed the company's defined risk appetite over the business planning horizon.

In addition to key existing risks identified above, we also track emerging risks in line with the Emerging Risk Policy through the company's Emerging Risk Radar and Log. A number of risks have been identified, with Brexit and Digital Disruption being notable emerging risks at present.

There were no material changes to the Company's risk profile during 2017.

Valuation for Solvency Purposes (Section D)
The main differences between Solvency II and Irish GAAP valuations are driven by the economic valuations under Solvency II including the earlier recognition of profits and losses.

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

The most material movements in Solvency II Technical Provisions in 2017 were an increase of EUR 1.6 bn in Unit Reserves – mainly due to new business and positive fund growth.

Changes in demographic assumptions, in particular Italian and Domestic Single Premium investment lapse assumptions, and changes in unit cost assumptions on both Italian and Domestic business, also impacted SII Technical Provisions in 2017.

Capital Management (Section E)

Overview
Own Funds refers to the available financial resources, or excess of assets over liabilities, under the Solvency II regime. The Own Funds as of 31 December 2017 were €908m (€898m as of 31 December 2016), 100% of which were classified as Tier 1. Own funds generated of €93m in 2017 were offset by a dividend of €83m paid to the shareholder.

The Solvency Capital Requirement (SCR) is a measure of the capital required to be held under the Solvency II regime and amounted to €705m as of 31 December 2017 (€629m as of 31 December 2016). The main drivers of the increase were due to new business, the resulting increase in base technical provisions and positive fund growth on unit-linked business.

The Solvency II SCR ratio (coverage of SCR by Own Funds) was 129% as of 31 December 2017 (143% as of 31 December 2016). The Central Bank of Ireland (CBI) requires life offices to maintain solvency coverage at least 100% of the SCR. There was no incidence of non-compliance with this requirement in 2017.

The Minimum Capital Requirement (MCR) is the minimum level of available financial resources required and amounted to €189m as of 31 December 2017 (€175m as of 31 December 2016). This represented an MCR coverage ratio of 481% by Own Funds (516% as of 31st December 2016). There was no incidence of non-compliance with the MCR in 2017.

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

Zurich Group Capital Position
The Company is part of the Zurich Insurance Group (the "Group"). The Group manages its capital to an AA level according to its internal economic model, Z-ECM. The estimate of the Z-ECM ratio as of 31 December 2017 was 132%, well in excess of its 100%-120% target range.

Information on the SFCR

1. Requirements for the SFCR

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

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

2. Note on auditability

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

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

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

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

3. Note on materiality

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

4. Approval of the Solvency and Financial Condition Report

This report was reviewed and approved by the Board of Directors of Zurich Life Assurance plc on 25 April 2018.

A. Business and Performance

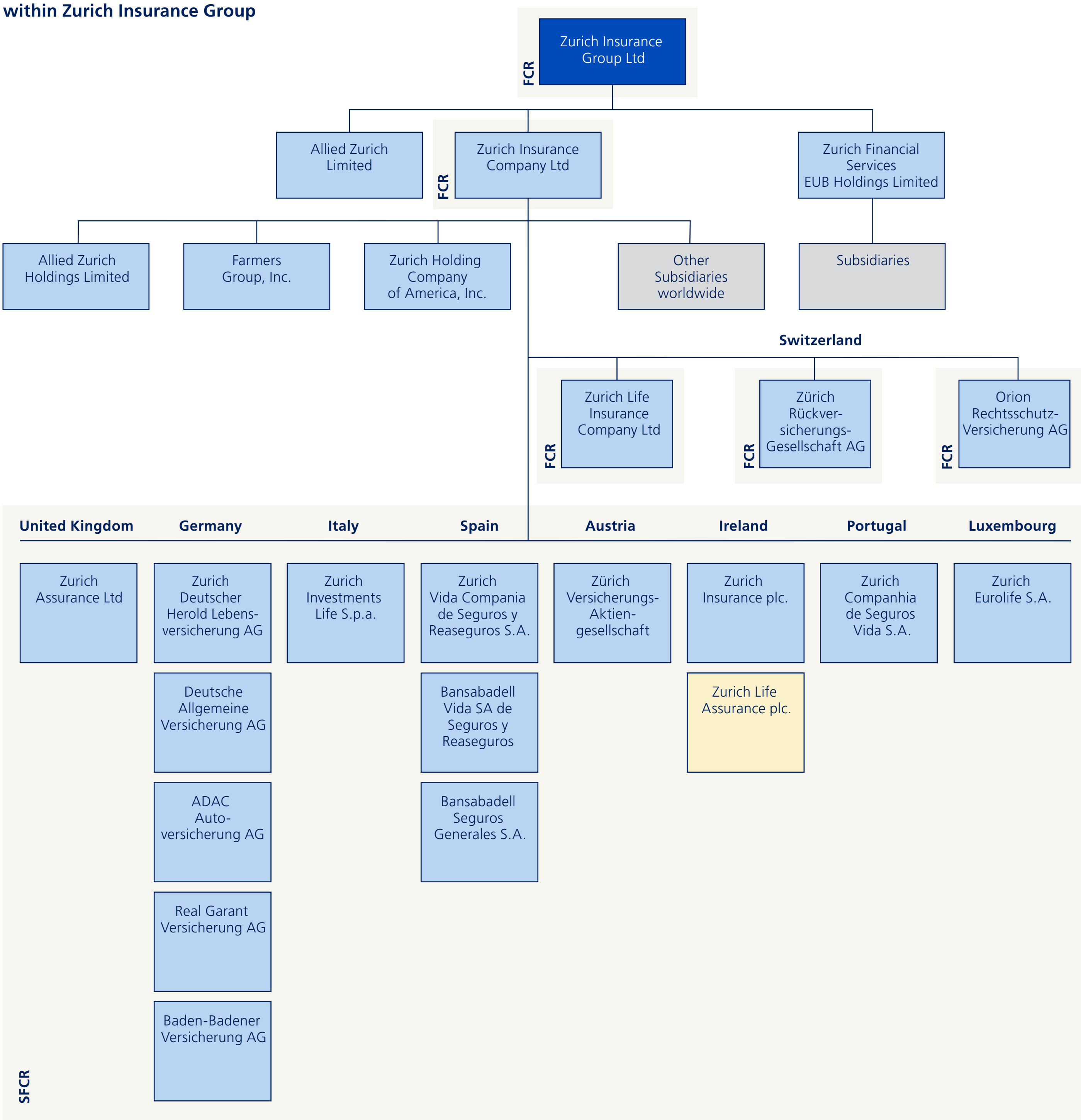
A.1 Business

Zurich Life Assurance plc (ZLAP)'s business profile

Name, location and legal form of the undertaking or the natural persons that are direct and indirect holders of qualifying holdings in the undertaking, with a description of all subsidiaries	ZLAP is registered in Ireland under company number 58098 as a public limited company and has its registered office at Zurich House, Frascati Road, Blackrock, County Dublin, Ireland. ZLAP has a regulated branch in Italy.
Name and contact details of the supervisory authority responsible for financial supervision and, where applicable, name and contact details of the group supervisor	ZLAP is authorized and regulated by the Central Bank of Ireland ("CBI"), New Wapping Street, North Wall Quay, Dublin 1. Group supervision of Zurich Insurance Group Ltd and its subsidiaries is carried out by the Swiss Financial Market Supervisory Authority ("FINMA"), Laupenstrasse 27, CH-3003 Bern, Switzerland.
Name and contact details of the external auditor of the undertaking	PricewaterhouseCoopers, Chartered Accountants and Statutory Audit Firm, One Spencer Dock, North Wall Quay, Dublin 1.
List of material related undertakings including the name, legal form, country, proportion of ownership interest held and, if different, proportion of voting rights held	Zurich Trustee Services Limited (ZTSL), incorporated in Ireland: ZLAP has a 100% qualifying holding. Zurich Pension Trustee Ireland Limited, incorporated in Ireland: ZTSL and Zurich Insurance plc each have a 50% qualifying holding. Timosa Limited (in members' voluntary liquidation), incorporated in Ireland: ZLAP has a 100% qualifying holding.
Description of the holders of qualifying holdings in the undertaking	Direct: Zurich Holding Ireland Limited, incorporated in Ireland, has a 100% qualifying holding. Indirect: Zurich Insurance Company Ltd incorporated in Switzerland, has a 100% qualifying holding. Zurich Insurance Group Ltd incorporated in Switzerland, has a 100% qualifying holding.
Proportion of ownership interest held and, if different, the proportion of voting rights held	Zurich Holding Ireland Limited has a 100% shareholding and voting power in ZLAP.
Where the undertaking belongs to a group, details of the undertaking's position within the legal structure of the group	Zurich Holding Ireland Limited, which holds 100% in ZLAP, is 100% owned by Zurich Insurance Company Ltd. A simplified group structure is provided in section B.1
Undertaking's material lines of business and material geographical areas where it carries out business	The company is an authorised life insurance undertaking pursuant to the European Union (Insurance and Reinsurance) Regulations 2015. It is authorised to conduct life, pensions and annuity business, which are its core businesses in Ireland. ZLAP sells life insurance business in Germany on a Freedom of Services basis. We have also sold savings business into the United Kingdom on a Freedom of Services basis. ZLAP's Italian Branch sells savings business in Italy on a Freedom of Establishment basis. Further information on other lines of business and geographical areas is provided in section A.2
Any significant business or other events that have occurred with material impact on the undertaking	A term loan, totalling €75m was advanced to Zurich Insurance Company Ltd (ZIC) during 2017. ZIC repaid the loan on 21 December 2017 and ZLAP paid a dividend, totalling approximately €83m, to its shareholder, Zurich Holdings Ireland Limited (ZHIL), on the same date.

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)

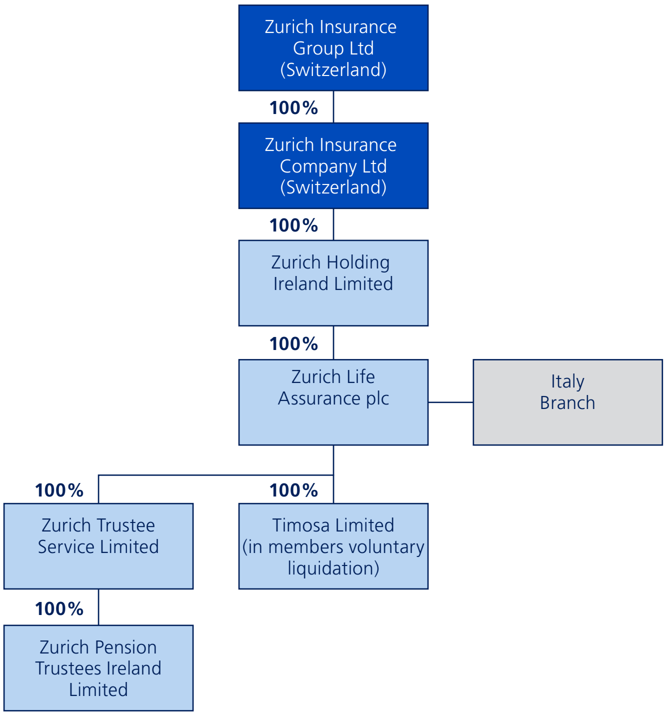
Subsidiary Group of subsidiaries Current disclosure

Note: The purpose of the chart above is to provide a simplified overview of the Group's major subsidiaries (as reported at December 31, 2017), with special focus on the public reporting of their solvency and financial condition. Please note that this is a simplified representation showing entities that must publish such a report and therefore it may not comprehensively reflect the detailed legal ownership structure of the entities included in the overview. The ordering of the legal entities under each country is not indicative of ownership; these are independent legal entities.

Summary Group Structure

A summary group structure is provided below.

Summary Group Structure Zurich Life Assurance plc



A. Business and Performance *continued*

A.2 Underwriting Performance

Since the Company prepares its financial statements in accordance with FRS 101, the underwriting performance information given in this section is on that basis. ZLAP attained a Profit on Ordinary Activities (before tax) of €60.818m in the 2017 financial statements. This decreased from the profit (before tax) of €70.836m in the 2016 financial statements. (Underwriting performance versus the prior year was stable; the decrease in profit was driven by a reduction in shareholder investment returns.)

Underwriting Performance by Solvency II Line of Business

The below table shows the 2017 underwriting performance by Solvency II line of business, with the prior year information shown directly below it for comparison:

2017 Underwriting Performance by SII Line of Business

in EUR thousands, as of 31 December 2017	Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Total
(+) Net Premiums Written	20,969	153,184	2,794,536	167,787	3,136,477
(-) Net Claims Incurred	7,850	187,771	1,922,720	87,786	2,206,126
(-) Net Change in Technical Provisions	(2,290)	54,442	1,562,702	27,016	1,641,869
(+) Investment Income	677	26,391	993,749	21,445	1,042,262
(-) Total Expenses	8,131	12,033	199,240	49,546	268,949
Total Underwriting Performance	**7,955**	**11,823**	**17,131**	**24,885**	**61,794**

2016 Underwriting Performance by SII Line of Business

in EUR thousands, as of 31 December 2016	Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Total
(+) Net Premiums Written	18,246	120,699	2,315,163	141,377	2,595,485
(-) Net Claims Incurred	8,410	185,226	1,712,245	90,947	1,996,828
(-) Net Change in Technical Provisions	(6,158)	-29,663	1,188,431	6,173	1,158,784
(+) Investment Income	0	49,470	799,068	24,040	872,579
(-) Total Expenses	12,830	11,544	183,398	44,605	252,378
Total Underwriting Performance	**3,164**	**3,061**	**30,157**	**23,693**	**60,075**

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

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

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

2017 saw an increase in new business for ZLAP with net premiums 20% higher than those in 2016. The increase in sales led to an increase in acquisition expenses which leads to a decrease in currrent year profits on the unit-linked line of business. The increase in net claims is mainly due to an increase in the total number of policies. Investment growth was strong in 2017 and this is further explored in Section A.3.

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

- Total net premiums written were significantly higher in 2017, particularly on Index-linked and unit-linked insurance and Insurance with profit participation business, as ZLAP achieved a record level of sales in 2017. This is also the main driver of the large increase in the Net Change in Technical Provisions on Index-linked and unit-linked insurance.

- The Total Underwriting Performance for Health Insurance was impacted in 2017 by a refinement in overhead expense allocation, which moved some overhead expenses between Other Life and Health. The underlying underwriting performance for Health insurance was similar in both periods.

Underwriting Performance by Country

The 2017 underwriting performance by material geographical area is detailed below, with the prior year information shown directly below it for comparison.:

2017 Underwriting Performance by material geographical area

in EUR thousands, as of 31 December 2017	Ireland	Italy	Germany	Other	Total
(+) Net Premiums Written	2,533,615	570,428	26,061	6,372	3,136,477
(-) Net Claims Incurred	1,424,734	724,892	1,118	55,382	2,206,126
(-) Net Change in Technical Provisions	1,742,760	(69,089)	10	(31,812)	1,641,869
(+) Investment Income	822,263	199,830	-	20,169	1,042,262
(-) Total Expenses	160,975	94,303	9,083	4,588	268,949
Total Underwriting Performance	**27,409**	**20,152**	**15,850**	**(1,617)**	**61,794**

2016 Underwriting Performance by material geographical area

in EUR thousands, as of 31 December 2016	Ireland	Italy	Germany	Other	Total
(+) Net Premiums Written	1,946,872	614,520	22,159	11,934	2,595,485
(-) Net Claims Incurred	1,315,813	622,150	587	58,277	1,996,828
(-) Net Change in Technical Provisions	1,221,928	27,288	12	(90,444)	1,158,784
(+) Investment Income	768,385	139,993	0	(35,800)	872,579
(-) Total Expenses	147,775	91,535	7,658	5,410	252,378
Total Underwriting Performance	**29,741**	**13,540**	**13,901**	**2,892**	**60,075**

The material geographical areas were profitable in 2017.

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

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

The Other category includes small books of Swedish, Spanish and UK business (closed to new business in 2017).

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

- Net premiums written in Ireland were significantly higher in 2017 as ZLAP achieved a record level of sales in 2017. This is also the main driver of the large increase in the Net change in Technical Provisions in Ireland.

A. Business and Performance *continued*

- The "Other" business is dominated by the UK book of business whose administration is outsourced. There was a small negative in 2017 as there are fixed costs which are incurred regardless of volume of business, which were not covered due to low volume of business in 2017.
- Net Claims Incurred in Italy were significantly higher in 2017 due to elevated lapse experience. Italian business is unit-linked, so higher claims due to elevated lapse experience impact are offset by a corresponding change in technical provisions. This elevated lapse experience has been reflected in an increase to the best estimate Italian lapse assumptions as part of the Q3 2017 annual demographic review.

Reconciliation from the Solvency II Information

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

Reconciliation from the SII information

in EUR thousands	2017	2016
Underwriting Performance above	61,794	60,075
Shareholder Investment Return	(976)	10,761
Profit on Ordinary Activities Before Shareholder Tax	**60,818**	**70,836**

The -€0.976m of investment return for 2017 above relates to returns on shareholder assets which are mainly invested in bonds and cash. The reduction in return from €10.761m in 2016 to €0.976m in 2017 is mainly driven by market movements on bonds (yields generally increasing in 2017) and the negative returns currently available on short-term cash deposits.

Note – the 2016 figures shown above have been restated in 2017. Methodology for the financial statements requires upfront fees to be recognised over the lifetime of the policy which results in the creation a liability in respect of deferred origination fees. This liability was not allocated across the lines of business or geographical areas in the first two tables in the 2016 report, but has now been allocated across the lines of business or geographical areas in the first two tables (with the 2016 figures re-stated accordingly). The movement in the deferred origination fees can vary from year to year and depends on mix of business sold, persistency experience and investment growth.

A.3 Investment Performance

Income from investments of €1,043.581m is included in the 2017 financial statements. This increased from €885.310m in the 2016 financial statements.

Income from Investments

in EUR thousands	2017	2016
Equities	603,995	429,974
Bonds	18,670	172,886
Unit Trusts	426,575	275,364
Deposits	(5,659)	7,086
Total	**1,043,581**	**885,310**

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

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

Equities

The investment return on equities includes dividend income and capital gains resulting from strong growth in equity markets. Equity markets increased by more in 2017 than 2016.

Bonds
Falling yields in 2016 led to gains in bond holdings. However, yields increased in 2017 which led to losses on the bond holdings in unit-linked and shareholder funds. Coupon payments on bonds held also contribute positively to the investment result in both years.

Unit Trusts
Unit Trusts are mainly held by policyholders through unit-linked funds. The returns depend on the assets that the unit trust is invested in. The unit-trusts in ZLAP's unit-linked funds are mainly invested in equities and benefited from the strong growth in equity markets in 2017

Deposits
Interest is paid on cash deposits. The negative interest rate environment has impacted the returns on deposits. Currency re-valuations have also had a negative impact on the value of cash balances in 2017.

Investment Management Expenses include interest payable and the indirect costs, including the relevant staff, accommodation and computer costs of acquiring and managing all types of investments.

Article 293 of the Commission delegated Regulation (EU) 2015/35 requires the company to include information about any gains and losses recognised directly in equity. Unrealised losses of €39.444m were recognised directly in the equity in the 2017 ZLAP financial statements.

Article 293 of the Commission delegated Regulation (EU) 2015/35 also requires the company to include information about any investments in securitisation. No investments are securitised.

A.4 Performance of Other Activities

Other technical income in the financial statements of €280m comprises mainly fees for policy administration and asset management services arising from unit-linked contracts and investment & insurance contracts with discretionary participation features. This increased from €258m in 2016 due to a growing book of unit-linked business (growth driven by strong new business sales and positive investment market performance). These fees are a component of total underwriting performance and are reflected in the relevant total underwriting performance tables above.

Guideline 2 of the EIOPA Guidelines on Reporting and Public Disclosure requires the company to describe in general the leasing arrangements in relation to each material leasing arrangement. ZLAP have entered into various operating leases as lessee for office space and equipment. ZLAP had no financial lease arrangements as of 31 December 2017.

A.5 Any Other Information

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

B. System of Governance

B.1 General Information on the system of governance

The Board

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

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

- approve the corporate objectives and set the strategy to achieve them
- ensure that the organisation conducts its affairs in an ethical, legal and responsible manner
- set and oversee a robust and transparent organisational structure with effective communication and reporting channels
- set and oversee an 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
- determine 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 levels
- monitor and assess compliance with ZLAP's policies and principles
- review the effectiveness of ZLAP's systems of internal control

Committees of the ZLAP Board

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

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

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

The Board has elected not to establish a remuneration committee or nominations committee and instead relies on similar committees which exist 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 ZLAP's business. ZLAP appointed a Head of Life and Pensions (HLP) in 2017 which is a new role approved by the CBI. The HLP has executive authority to manage ZLAP's Irish domestic business. The CEO retains direct responsibility for ZLAP's cross border business. The following key management committees have been established to assist and support the CEO and other senior management in fulfilling their responsibilities:

1. The **Management Committee** assists and supports the CEO in managing, controlling and overseeing all the business and operations of ZLAP. It is chaired by the HLP who reports directly to the CEO.

2. 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.

   Note that an **Operational Risk Committee** was established in early 2018 and will assist the CEO and Chief Risk Officer in managing and overseeing ZLAP's operational risk management and internal control activities. The committee is chaired by the Chief Operating Officer (COO).

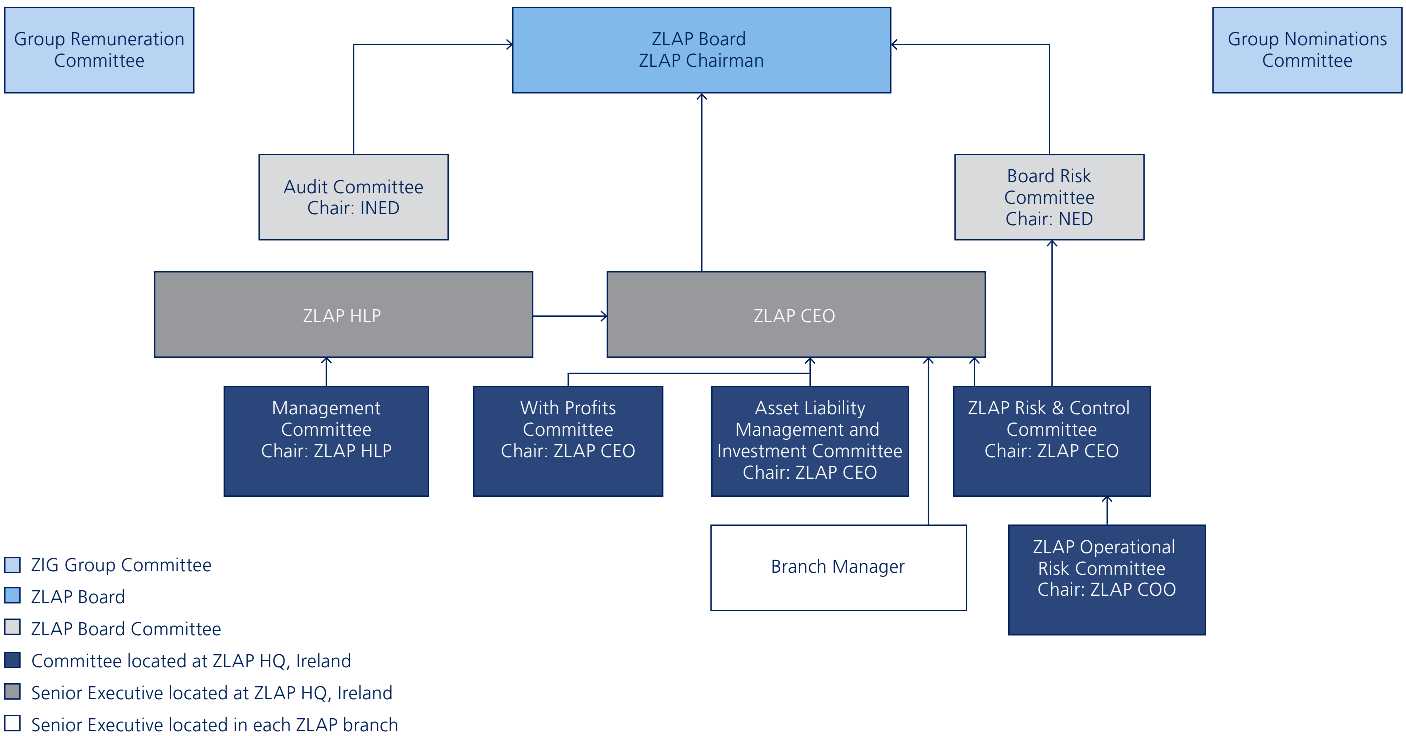
3. The **Asset Liability Management and Investment Committee** ("ALMIC") assists the CEO in managing and overseeing the investment of ZLAP's portfolio of investment assets in accordance with the investment strategy.

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

ZLAP has a single branch in Italy (on a Freedom of Establishment basis) which performs sales, marketing, new business preparation and client services liaison functions. As part of ZLAP, the branch is subject to the system of governance detailed in this section. A Branch Manager is responsible for the operation of the sales branch and monitoring local compliance and risk in accordance with guidelines issued by ZLAP.

The governance reporting structure is summarised in the chart below.

ZLAP'S system of governance



Key Functions

ZLAP's key functions are as follows:

- The Risk Management function, led by the ZLAP Chief Risk Officer, is responsible for facilitating the implementation and effective operation of the ZLAP Enterprise Risk Management (ERM) Framework, reporting on risk exposures and making recommendations to the Board on risk appetite and other risk management matters. Further information on the risk management system is contained in Section B.3 of this report.
- The Compliance function, led by the ZLAP Chief Compliance Officer, is responsible for promoting an ethics-based culture, delivering compliance solutions and providing assurance. Among other things, the Compliance function advises the Board on compliance with laws and regulations, assesses impact of changes in the external legal environment and assesses the adequacy of measures taken by ZLAP to prevent non-compliance. Further information on the Compliance function is contained in Section B.4 of this report.
- The Internal Audit function, led by the ZLAP Head of Internal Audit, is responsible for providing independent and objective assurance to the Board, the Audit Committee and the RCC on the adequacy and effectiveness of ZLAP's risk management, internal control and governance processes. Further information on the Internal Audit function is contained in Section B.5 of this report.
- The Actuarial function, led by the ZLAP Head of Actuarial Function, is responsible for carrying out the actuarial activities of ZLAP including the provision of regular reports to the Board on technical provisions. Further information on the Actuarial function is contained in Section B.6 of this report.

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 and has the right to receive all relevant information and be appropriately resourced to perform their respective role(s).

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

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

Table : ZLAP Key Functions

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

Overview of Remuneration and ZLAP's Remuneration Policy

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

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

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

For senior employees a proportion of their remuneration is deferred over the long term and is dependent on company performance. The performance based target shares guaranteed under the LTIP only vest if certain performance criteria are met over a three year period and then one half of the vested shares are further restricted from sale for an additional period of three years.

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 2017

A term loan, totalling €75m was advanced to Zurich Insurance Company Ltd (ZIC) during 2017. ZIC repaid the loan on 21 December 2017 and ZLAP paid a dividend, totalling approximately €83m, to its shareholder, Zurich Holdings Ireland Limited (ZHIL), on the same date.

Material changes in the system of governance

With the exception of the appointment of a Head of Life and Pensions and the establishment of an Operational Risk Committee, there were no material changes to the system of governance during 2017.

B.2 Fit and proper requirements

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

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

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

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

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

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

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

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

Risk management in ZLAP

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

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

ZLAP's Board conducted a review of the Company's ERM Framework, using an independent external consultant, in 2017, with improvement actions relating to governance and processes identified and progressed throughout the year. Improvement actions were also identified and progressed based on findings from internal audits and regulatory reviews.

Three lines of defence

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

- **First line:** Business management takes risks and is responsible for day-to-day risk management

B. System of Governance *continued*

- **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 provides independent assurance regarding the effectiveness of the risk management framework and controls.

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

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

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

The approach to articulating the ZLAP risk appetite will continue to evolve in response to developing industry practice and market changes. ZLAP has maintained compliance with the solvency capital limits of the Board approved risk appetite throughout 2017. ZLAP has also remained compliant with current regulatory capital requirements over the reporting period.

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

The Own Risk and Solvency Assessment (ORSA) approach

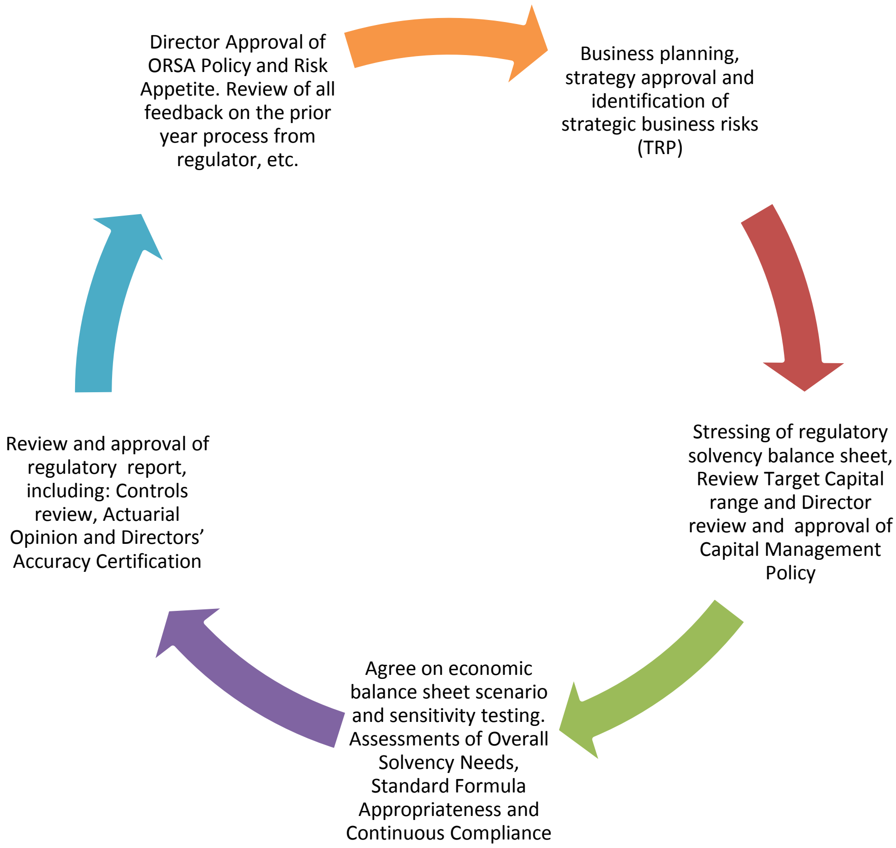
ZLAP defines the Own Risk and Solvency Assessment (ORSA) as the entirety of the processes and procedures employed to identify, assess, manage, monitor and report the short and long-term risks the Company faces. The process includes an analysis of the capital required to cover these risks, both currently and over the business planning horizon. The outcome of the processes and procedures is the main basis for ZLAP's ORSA report, which is the result of cooperation among various functional areas including Risk Management, Finance, Legal, Compliance, Actuarial, Audit and others. Key elements of the ORSA report include consideration of:

- Overall Solvency Needs, taking into account the specific risk profile, approved risk tolerance limits and the business strategy of the undertaking;
- Compliance, on a continuous basis, with the capital requirements and with the requirements regarding technical provisions; and
- The significance with which the risk profile of the undertaking deviates from the assumptions underlying the Solvency Capital Requirement.

Requirements in relation to Overall Solvency Needs relate to the identification, quantification and management of material risks facing ZLAP, both immediately and over the period of the business plan. These material risks, and ZLAP's ability to withstand them in terms of economic and solvency capital, are considered through the use of adverse shock stresses and scenarios quantified both immediately and over the period of the business plan. Reverse stress testing and qualitative risk assessments are also considered in terms of how they are being monitored and managed appropriately by ZLAP.

The ORSA process is embedded within the ZLAP ERM framework and is also aligned with the capital management process within ZLAP. The risk and capital assessments and conclusions arising are used within business decision-making processes, including the ongoing development of ZLAP's strategy, business planning, product development and capital management policy. The Board is responsible for directing and overseeing the ORSA process, challenging its outcome and reviewing and approving the ORSA policy and ORSA report.

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



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

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

The cornerstone of the ORSA is the assessment of the current risk profile as well as an assessment of regulatory capital requirements including:

- Consideration of the current and likely future risks inherent to the business, and ZLAP's ERM and capital management framework taking into account its nature, scale and complexity
- An analysis of the solvency position under current and stressed conditions
- A forward-looking assessment of the solvency position over the planning horizon
- Reviewing and setting targets for capital ratios (Overall Solvency Needs) based on the above risk analyses

The ORSA process takes place annually with the final output being the ORSA report, which is reviewed and approved by the Board before being submitted to the Central Bank of Ireland (CBI). In 2017 the ORSA report was presented at the Board meeting in November and was finalised and issued in early December.

B. System of Governance *continued*

Additionally, the ORSA will be updated when required to reflect material changes in ZLAP's risk profile including major acquisitions or divestments, major shifts in product mix or major changes in the business, operating or external environment.

B.4 Internal control system

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

Risk & Control Identification – Top-down approach: ZLAP adopts principles and tools used by the Zurich Group in relation to internal control, with adaptation to local requirements. The controls required range across financial reporting and the wider operation such as for unit pricing, underwriting and claims management.

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

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

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

Internal and external auditors also regularly report conclusions, observations and recommendations that arise as a result of their independent reviews and testing of internal controls over financial reporting and operations at ZLAP level.

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

The RCSA framework is supported by the following:

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

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

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

Compliance function

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

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

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

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

B.5 Internal Audit function

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

The Board has approved an Internal Audit Policy which provides for the development of a risk-based audit plan, based on the full spectrum of business risks and any specific concerns raised by the Audit Committee or other stakeholders. The Audit Committee is responsible for approving the annual audit plan. The audit plan is executed in accordance with defined operating standards, which incorporate and comply with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA). In 2016 the Group engaged KPMG to evaluate compliance with these standards. This evaluation confirmed that the function generally conforms to the standards. The function also participated in a CBI thematic market-wide review on Internal Audit functions in 2017.

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

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

B.6 Actuarial function

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

The high level responsibilities of the Actuarial function are:

- Co-ordination and validation of the calculation of technical provisions
- Opining on ZLAP's underwriting policy and on the adequacy of its reinsurance arrangements, in line with the requirements of the Solvency II Directive
- Contributing to the effective implementation of the risk management system

B. System of Governance *continued*

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

The Actuarial function also provides independent and objective assurance to the Audit Committee in respect of the valuation of ZLAP's technical provisions.

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.

ZLAP enters into outsourcing arrangements with service providers (either within the Group or external to the Group) only where it has identified material 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. These benefits may include increasing the efficiency of a particular process and/or availing of specific expertise. The risks associated with outsourcing to service providers are recognised and appropriately managed in accordance with ZLAP's Outsourcing Policy which provides that:

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

The ZLAP Chief Operating Officer has management responsibility for the implementation of outsourcing governance and owns, maintains and updates the Outsourcing Policy. The Board has overall responsibility.

Any proposal to outsource a critical or important function or activity (CIFA) in ZLAP is thoroughly examined by those with approval authority within ZLAP before any decision to taken to proceed. The proposed arrangement is then notified to the CBI in advance of the commencement of the proposed arrangement to allow for appropriate consultation with the CBI if required.

A renewal of an outsourcing agreement with an Italian provider was deemed as a new CIFA outsourcing arrangement in 2017. This has been added to the list below, with relevant regulations and policies followed in relation to its approval at Board level. A further arrangement with an Italian provider in relation to documentation management was declassified as a CIFA in 2017.

CIFAs which have been outsourced by ZLAP are set out below:

CIFA providers

Service Provider	Services Provided	Jurisdiction
Zurich Group	Internal Audit	Switzerland
Zurich Group	Production of Solvency II yield curve and other aspects of standard formula support	Switzerland
Zurich Group	Management of IT infrastructure, support and maintenance	Ireland & Switzerland
Zurich Group	Application support and maintenance for some applications	Ireland & Switzerland
Zurich Group	Policy administration services for Swedish & Spanish propositions	Isle of Man
Zurich Group	Policy administration services for German propositions	Germany
External	Payroll application support and maintenance	Ireland
External	Policy administration services for UK propositions	Ireland
External	Certain fund management services	Ireland & Germany
External	Printing and posting of policy holder literature	Ireland
External	Policy administration services for Italian and German propositions	Ireland & Poland
External	IT support for application software, technical support and consultancy	Italy
External	Management of IT infrastructure, support and maintenance	Ireland & Switzerland
External	Application support and maintenance for some applications	Ireland & Switzerland

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 take account of the nature, scale and complexity of the risks inherent in ZLAP's business. The reviews are reported to the Board or one of its Committees and typically involve feedback from the relevant management functions (including, where appropriate, the key functions).

The ZLAP system of governance is considered to be adequate in relation to the nature, scale and complexity of the risks inherent in ZLAP's business. This view was affirmed by an assessment that took place following organisational changes.

C. Risk Profile

Introduction – Risk Strategy and Appetite

ZLAP's Risk Strategy is to target an appropriate balance of risks in achieving its business plan objectives, whilst seeking to reduce or eliminate those risks that do not support this objective where it is cost-effective to do so.

In line with the profile of business it sells as an authorised Life Insurer, ZLAP has a preference for the following risk types, which may be accepted in a controlled fashion as they can be rewarded sufficiently by the generation of positive value to the business:

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

Additional risks (e.g. expense, lapse, operational, reputational, etc.) are an unavoidable aspect of running a business. ZLAP acknowledges that these risks cannot be eliminated completely in a cost-effective way, but can be avoided or managed to acceptable levels using Enterprise Risk Management techniques.

The Risk Strategy and wider Risk Appetite Framework take account of ZLAP's business strategy which includes targets relating principally to sustainable earnings and cash generation. ZLAP's Risk Appetite Framework consists of three pillars as set out below:

ZLAP's Risk Appetite Framework

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

Overview of Key Risks

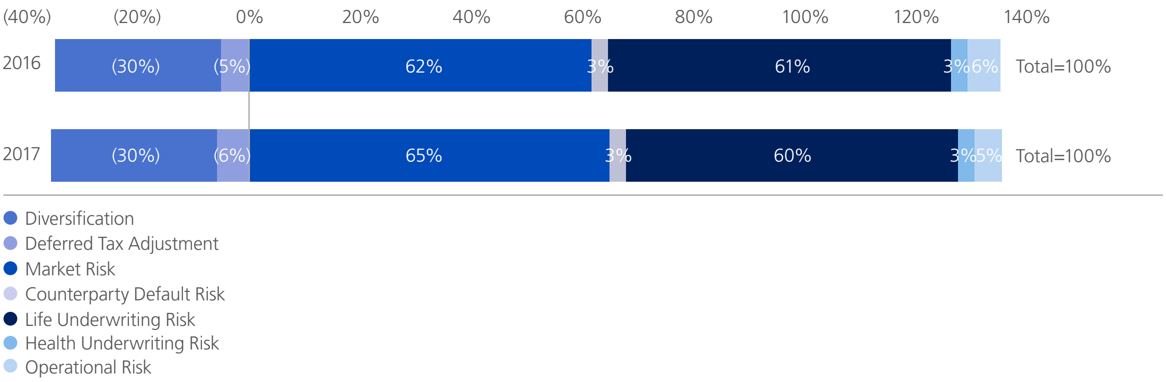
ZLAP manages a mix of risks typical to a life assurance company in Ireland. Its key risks include underwriting, market, insurance, credit and operational risks. ZLAP has frameworks in place to monitor and manage all material risks as described in this chapter.

ZLAP's Solvency Capital Requirement (SCR) at year ends 2016 and 2017 is shown below, split by risk type. This is a breakdown of the capital ZLAP needs to hold to cover its risks according to the regulatory requirements under Solvency II. As can be seen, the risk profile remained broadly stable during the period.

Solvency Capital Requirement split by risk type

In EUR thousands, as of 31 December	2017	2016
Market Risk	458,742	391,606
Counterparty Default Risk	19,796	20,100
Life Underwriting Risk	423,090	384,767
Health Underwriting Risk	20,176	15,856
Diversification	(211,088)	(186,620)
Basic SCR	710,715	625,709
Operational Risk	38,257	38,247
Deferred Tax Adjustment	(44,131)	(34,474)
Total SCR	**704,841**	**629,482**

Solvency Capital Requirement split by risk type
Percentage of Total SCR



C.1 Underwriting risk

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

- Mortality risk – where actual claims experience on life insurance policies is higher than expected
- Longevity risk – where annuitants live longer than expected
- Morbidity risk – where health-related claims are higher than expected
- Lapse risk – where policies are discontinued and contributions reduced prior to the maturity of contracts at a higher rate than expected
- Expense risk – where expenses incurred in acquiring and administering policies are higher than expected

Risk concentrations

Concentration risk can arise from a single (direct or indirect) exposure or group of exposures with the potential to produce losses large enough to threaten an institution's health or its ability to maintain its core business. In relation to underwriting risks, concentrations could arise with respect to large life insurance and critical illness exposures and significant individual annuity amounts. Management of concentrations is discussed in the "Risk mitigation techniques" section below.

Analysis of sensitivities for underwriting risk

Given the nature of its business, ZLAP's financial results are based on a number of assumptions reflecting both historical experience as well as views on expected future developments.

Bearing these "best estimate" assumptions in mind, ZLAP also carries out stress and scenario testing as part of the Own Risk and Solvency Assessment (ORSA) process, which includes testing of material underwriting risks. (Assumptions may include assumed future management actions, which are discussed further in section D.2.)

The projected solvency impacts resulting from a range of credible adverse scenarios, including sensitivities to individual risks and scenarios where several key risks interact, are analysed. This helps ZLAP understand the resilience of its financial condition to a range of future developments and helps inform business planning as well as other decision-making.

A selection of individual stresses in respect of the main underwriting risks is set out in the table below, as of 31 December 2017:

C. Risk Profile *continued*

Underwriting Risk Sensitivities

Sensitivity	Solvency Coverage Impact
	%
A 10% increase in Renewal Expenses	- 4%
5% increase in pensioner Longevity	- 3%
A 10% increase in Lapses	+1%
5% increase in assured life Mortality	0%
5% increase in Morbidity	0%

A 10% increase in lapses results in an increase to the solvency coverage impact. The increase in lapses reduces both Own Funds and the SCR – with the SCR reduction being slightly larger than the Own Funds reduction which increases the solvency coverage.

ZLAP's sensitivity to mortality and morbidity risks is limited through the use of reinsurance, as discussed in the next section.

Given ZLAP's current and best estimate future solvency levels, none of the above sensitivities represents a material risk to ZLAP's financial strength.

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

Risk mitigation techniques

ZLAP has a board-approved Reinsurance Strategy appropriate to the company's overall risk profile which governs its reinsurance arrangements. A high proportion of ZLAP's mortality and morbidity risks are ceded to reinsurers. ZLAP has also taken steps to control its longevity exposure by using reinsurance.

Additionally, ZLAP applies strong new business underwriting standards and monitors the dynamics of emerging experience to ensure any adverse trends in mortality and morbidity are identified in a timely manner. ZLAP applies local underwriting and claims policies and procedures that are consistent with Zurich Risk Policy and regulatory requirements.

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

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

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

C.2 Market risk

Market risk is the risk associated with ZLAP's balance sheet positions where the value or cash flow depends on financial markets. Key risk factors include:

- Equity (share) prices
- Interest rate movements
- Currency exchange rates

ZLAP is exposed to risks from price fluctuations on equity securities which could affect reported income, surplus and regulatory capital position. ZLAP is exposed to market movements from unit-linked contracts given that these affect the amount of fee income earned when the fee income level is dependent on asset values. Therefore, the value of in-force unit-linked business can be negatively affected by adverse movements in equity markets.

Interest rate risk is the risk of loss resulting from changes in interest rates. ZLAP is exposed to interest rate risk including from debt securities, reserves for insurance contracts, liabilities for investment contracts, employee benefit plans and loans and receivables. On unit-linked contracts, ZLAP is exposed to fluctuations in interest rates in so far as they affect the amount of fee income earned if the fee income level is dependent on the asset values.

Currency risk is the risk of loss resulting from changes in exchange rates. ZLAP's primary currency exposure relates to loss of future fees on unit-linked business where policyholder assets are invested in non-Eurozone assets.

Risk concentrations

In respect of market risk, concentrations may arise relating to exposures from individual issuers of equities and bonds (both Euro and non-Euro assets). Management of concentrations is discussed in the "Risk mitigation techniques" section below.

Analysis of market risk sensitivities

Given the nature of its business, ZLAP's financial results are based on a number of assumptions reflecting both historical experience as well as views on expected future developments.

Bearing these "best estimate" assumptions in mind, ZLAP also carries out stress and scenario testing as part of the ORSA process which includes stress testing of market risks (e.g. equity shocks, interest rate up and down shocks). (Assumptions may include assumed future management actions, which are discussed further in section D.2.)

The projected solvency impacts resulting from a range of credible adverse scenarios, including sensitivities to individual risks and scenarios where several key risks interact, are analysed. This helps ZLAP understand the resilience of its financial condition to a range of future developments and helps inform business planning as well as other decision-making.

A selection of individual stresses in respect of the main market risks are set out in the table below, as of 31 December 2017:

Market Risk Sensitivities

Sensitivity	**Solvency Coverage Impact**
	%
Interest Rates +0.5%	+5%
Interest Rates -0.5%	- 7%
Equity Values +25%	0%
Equity Values -25%	- 5%
Bond Spreads +0.5%	- 10%
Bond Spreads -0.5%	+11%
FX -25%	- 5%

Given the level of ZLAP's current and best estimate future solvency levels, none of the above sensitivities represents a material risk to ZLAP's financial strengthGiven.

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

Risk mitigation techniques

ZLAP manages its market risk through its investment strategy which is set by the Board and its Investment Risk Policy which is Board-approved. The company's Asset-Liability Management & Investment Committee (ALMIC) monitors investment risks and adherence to Investment Guidelines designed to limit these risks. The guidelines are consistent with those detailed in the Zurich Risk Policy and are reviewed on a regular basis.

ZLAP's in-house investment and actuarial teams work together to ensure investment holdings match the underlying policyholder liability profiles and actively review asset and liability profiles to ensure that any rebalancing necessary to allow for experience variations is carried out in a timely manner. ZLAP has implemented hedging programmes in relation to interest rate guarantees and is evaluating options to further mitigate market risks during the planning horizon.

C. Risk Profile *continued*

ZLAP also invests its assets in accordance with the 'Prudent Person Principle' as set out in Solvency II legislation. The aim of the principle is to ensure that ZLAP only invests in assets and instruments whose risks the company can properly identify, measure, monitor, manage, control and report, and appropriately take into account in the assessment of its overall solvency needs.

ZLAP's approach to this principle includes the risk mitigation techniques identified in sections C2 – C4 of this document.

Concentration risks are managed in line with ZLAP's Concentration Risk Policy. For example:

- The company's Asset-Liability Management & Investment Committee (ALMIC) meets quarterly and monitors investment risks and oversees adherence to Investment Guidelines designed to limit these risks (these are monitored by the Investment Back Office). The guidelines are consistent with those detailed in the Zurich Risk Policy and are reviewed on a regular basis.
- Trading limits and external delegated authorities of individual dealers are agreed by the CIO and CFO.
- Aggregate market risk limits are in place at a portfolio level as part of ZLAP's Risk Appetite Framework

C.3 Credit risk

Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfil their financial obligations. ZLAP's exposure to credit risk is derived from assets such as debt securities, cash instruments and derivatives, as well as with respect to reinsurance counterparties. ZLAP has limited credit exposure with respect to receivables such as payments due from policyholders, intermediaries and other insurance companies.

Risk concentrations

Concentrations may arise in relation to the types of exposures outlined above. Management of concentrations is discussed in the "Risk mitigation techniques" section below.

Risk mitigation techniques

ZLAP's objective in managing credit risk exposures is to maintain them within parameters that reflect its strategic objectives and risk tolerance. Sources of credit risk are assessed and monitored, and there are policies to manage the specific risks within the various subcategories of credit risk. To assess counterparty credit risk, ZLAP uses ratings assigned by external rating agencies, qualified third parties, such as asset managers, and internal rating assessments.

The following techniques are employed to manage credit risk concentrations, in line with ZLAP's Concentration Risk Policy:

- ZLAP's credit risks are monitored by the company's ALMIC
- ZLAP applies strict asset quality and diversification guidelines
- ZLAP's Reinsurance strategy sets out exposure limits per reinsurer linked to credit rating
- ZLAP maintains a range of collateral arrangements in respect of certain derivative exposures
- Credit risk guidelines have been established in line with ZLAP's Risk Management Policy (supplemented by Zurich Risk Policy) and are managed in close cooperation with Group Investment Management and Group Risk Management.

Analysis of credit risk sensitivities

As part of the ORSA process, ZLAP considers scenario analysis with respect to credit risks. The results of the analysis showed no significant exposures with respect to credit risk – for instance, a one-step rating downgrade across all our banking partners has an immaterial impact on our regulatory solvency position.

C.4 Liquidity risk

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

Expected profit included in future premiums
Article 295 of the Delegated Regulations requires that ZLAP provide the value of its Expected Profit Included in Future Premiums. As of 31 December 2017, the company's Expected Profit Included in Future Premiums was €132m.

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

- Unit liabilities being matched to policyholder liabilities having regard to the nature, term and currency of the liabilities
- Non-unit liabilities being generally cashflow-matched with liquid, investment-grade fixed interest assets
- Excess invested assets being held mainly in liquid, investment-grade bonds and deposits with highly rated banks

Analysis of liquidity risk sensitivities
Projections under a number of credible adverse scenarios that would impact liquidity over the duration of the business plan are prepared for the ALMIC annually. The most recent exercise, conducted in Q4 2017, identified the most significant stresses as being severe equity shock, severe FX shock and a combination of these. These shocks are extreme in nature; with the exception of the combined equity/FX shock, in all cases ZLAP maintained liquidity in excess of its Liquidity Policy requirement.

In addition to the ALMIC's annual review, ZLAP's monthly Liquidity Forum monitors short term (1 month) and medium term (3 months) liquidity needs of the business.

C.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events such as outsourcing, catastrophes, legislation, or external fraud including cyber-attack (discussed further below in this section).

Risk concentrations
The potential for operational concentration risks for ZLAP arises principally from exposures to key service providers who perform critical or important functions or activities (CIFAs). Key person dependency may be considered a form of concentration risk. Certain members of staff may be regarded as high value assets for ZLAP and their departure or absence could result in loss of strategic and technical capabilities. Another form of operational concentration risk faced by ZLAP is custodian risk. A failure on the part of our primary custodian could weaken the company's financial position.

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

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

In particular, with regard to managing concentrations:

- ZLAP manages its third party concentration risks through its outsourcing framework as described in section B.7;
- ZLAP manages its key person dependency risk through succession planning, individual development plans and annual objective setting for staff, and a comprehensive training framework for all employees; and
- Custodian risk is factored into ZLAP's contingency planning. ZLAP engages with good quality custodians and assets are ring-fenced.

C. Risk Profile *continued*

Analysis of operational risk sensitivities

ZLAP carries out stress and scenario testing as part of the ORSA process which includes stress testing of operational risks. As part of ZLAP's Top Down Scenario framework to identify and measure operational risks a scenario-based approach is applied to assess, model and quantify the operational risks under extreme circumstances. For ZLAP key scenarios relate to IT system design and availability risks, and reserving risk. The results of the analysis showed no significant exposures with respect to operational risk given the risk mitigation techniques outlined above.

Cyber risk

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

ZLAP operates strong preventative and detective controls around monitoring and remediation of cyber threats through the activities of its Information Security function, with regular reporting to the Board Risk Committee and Risk & Control Committee. ZLAP's Information Security department maintains a risk dashboard in relation to cyber risk and present at the risk committees quarterly. Periodic Risk assessments in respect of information security risks are undertaken by ZLAP.

Cyber security was a key focus area for ZLAP in 2017, including at Board/BRC level during the year. An auditor assurance exercise in respect of the governance and oversight of ZLAP's approach to Cyber security was completed in 2017 confirming that a comprehensive controls environment was in place. Recommendations for further improvement were adopted by ZLAP's Board. ZLAP has considered cyber threats as part of its ORSA scenario analysis. Furthermore, as parts of ZLAP's economic capital model, operational losses and required capital arising from cyber risk are captured through operational risk quantification (Top-Down Scenarios process), whilst business risks capture quantifications of lapse and new business risks.

C.6 Other material risks

Strategic risk

Strategy is defined as the long term plan of action designed to allow the achievement of goals and aspirations. 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

Examples of themes underlying strategic risks relate to the macro-economic and political environment, the company's competitive position and internal initiatives around systems and processes.

Reputational risk

Risks include acts or omissions by ZLAP or any of its employees that could damage ZLAP or the Group's reputation and lead to a loss of trust among its stakeholders. Every risk type has potential consequences for Zurich's reputation. Effectively managing each type of risk helps reduce threats to Zurich's reputation.

Group risk

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

Emerging risks

Emerging risks are typically either:

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

A notable emerging risk at present relates to 'Brexit'. The manner in which Brexit will be executed remains uncertain and could take different forms. During 2017 key exposures for ZLAP were identified and underwent detailed assessment. Other emerging risks identified include the impact of digital disruption on the insurance and pensions industry.

Staff pension scheme risks

ZLAP participates in the Zurich Ireland Staff Pension Scheme alongside other Irish Zurich entities. Elements of the pension scheme carry defined benefit liabilities. Key risks in respect of the pension scheme are those relating to longevity improvements, market exposures (equity and interest rates) and credit risk.

Other risks relating to the pension scheme include those in respect of governance (e.g. trustee responsibilities), administration (e.g. errors in payments) and employer covenant.

Risk mitigation techniques and their effectiveness

Strategic risks: ZLAP works to reduce unintended risks of strategic business decisions through its risk assessment processes and tools. As part of regular risk assessment processes, the Board and senior management assess key strategic risk scenarios for the company as a whole, including scenarios for emerging risks and their strategic implications. In particular, ZLAP performs an annual Total Risk Profiling (TRP) exercise, which is a strategic risk assessment of the business. The TRP helps identify, measure and manage risks that threaten ZLAP's achievement of its strategic objectives.

Reputation risks: ZLAP and the Group endeavour to preserve their reputation by adhering to applicable laws and regulations, and by following the core principles of Zurich Group's code of conduct, focussing on purpose and values. Reputational risk is further mitigated by ZLAP's adherence to the CBI's Fitness & Probity regime, and the Group's Remuneration Rules.

Group risks: ZLAP employs a comprehensive risk management framework which is applicable to overseeing Group risk and which follows best practice approaches in relation to, amongst other matters, project governance, business continuity, IT risk standards and outsourcing. These practices are supported by regular risk assessment and a well-embedded control framework. In any case ZLAP's exposure to intra-group concentrations is relatively limited. For example, dependence on operational services (e.g. data centres) is closely monitored, with critical intra-group services in scope for ZLAP's outsourcing framework as discussed in section B.7. ZLAP monitors requirements in respect of each critical intra-group service through a dashboard maintained by the Outsourcing Framework Manager. These include a need for appropriate contractual clauses, service level agreements being in place and in-scope services being subject to appropriate business continuity/disaster recovery testing.

Emerging risks: In line with its Emerging Risk Policy, ZLAP tracks medium/longer term risks (3+ years), as well as risks that may take shape more quickly but are still too uncertain to allow for specific analysis or mitigation at this point in time, through identification and assessment linked to its Total Risk Profiling and Risk & Control Self-Assessment processes.

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

Pension Scheme risks: The pension scheme is managed by pension trustees, in accordance with the pension deed. Risks explicitly allowed for in ZLAP's economic capital model include longevity improvements, investment credit risks and market risks (equity market shock and fall in interest rates). The regulator capital model also recognises market and credit risks on the staff pension scheme. Additionally, iIn line with local market practices, the scheme is treated as ring-fenced for regulatory purposes. Any pension scheme deficit, calculated on an IAS19 basis, is also recognised as a deduction from available capital in both economic capital and solvency capital calculations. In addition, the Zurich Pension Fund maintains a register of scheme risks which are considered by trustees on a quarterly basis. The trustees review risk ratings and consider mitigating actions as appropriate. If necessary, the trustees will submit proposals to senior management for their decision.

Analysis of risk sensitivities

Strategic & reputation risks: As part of its annual ORSA process ZLAP carries out scenario analyses which include quantitative and/or qualitative impact assessments of strategic and reputational risks. The results of the most recent analysis showed no significant exposures with respect to these risks given the risk mitigation techniques outlined above, and mitigating actions assigned to specific risks as required.

C. Risk Profile *continued*

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

Reputational risks are monitored on an ongoing basis by teams including Compliance, Service Quality and Legal. In addition ZLAP tracks Key Risk Indicators in respect of reputational risk on a quarterly basis through its Risk & Controls Dashboard. Trigger thresholds requiring further focus/escalation have been established for each of these KRIs.

Group risks: Group-related risks are in scope for Board and BRC discussions around emerging risks, and may be tracked in ZLAP's risk register with additional remedial actions assigned if appropriate. Furthermore, ZLAP monitors requirements in respect of each critical intra-group service through a dashboard maintained by the Outsourcing Framework Manager. These include a need for appropriate contractual clauses, service level agreements being in place and in-scope services being subject to appropriate business continuity/disaster recovery testing. Aggregated metrics are also tracked in ZLAP's Risk & Controls Dashboard on a quarterly basis.

Emerging risks: Impacts and mitigating actions have been identified for ZLAP's main risk exposures relating to Brexit. Other risks (not material at this stage) have also been considered. In line with ZLAP's business continuity planning process, a response group was established prior to the Brexit referendum; the group is now migrating to a broader planning forum with wider functional representation. Brexit also fed into ZLAP's ORSA scenario analysis during 2017. Exposures identified will continue to be monitored as negotiations continue between the EU and UK.

The likelihood and potential impact of digital disruption and other emerging risks continue to be monitored.

Pension Scheme risks: Risks explicitly allowed for in ZLAP's economic capital model include longevity improvements, investment credit risks and market risks (equity market shock and fall in interest rates). The regulatory capital model also recognises market and credit risks on the staff pension scheme.

C.7 Any other information

Off-balance sheet positions and special purpose vehicles

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

D. Valuation for Solvency Purposes

D.1 Assets

Valuation for solvency purposes

Asset Classes

in EUR thousands, as of December 31	Mark to Market 2017	Mark to Model 2017	Other valuation 2017	Solvency II Value 2017	Solvency II Value 2016
Property, plant & equipment held for own use	-	-	1,622	1,622	883
Participations	-	-	246	246	246
Equities	381,942	-	-	381,942	400,547
Bonds	2,655,983	-	-	2,655,983	2,616,547
Derivatives	-	42,720	-	42,720	54,473
Deposits other than cash equivalents	404,377	-	-	404,377	458,213
Assets held for index-linked and unit-linked contracts	17,543,624	-	-	17,543,624	15,943,837
Loans and mortgages	-	-	94	94	398
Reinsurance recoverables	-	136,766	-	136,766	146,903
Insurance & intermediaries receivables	-	-	22,893	22,893	23,455
Reinsurance receivables	-	-	22,178	22,178	24,756
Receivables (trade, not insurance)	-	-	96,825	96,825	80,696
Cash and cash equivalents	-	-	47,867	47,867	36,277
Any other assets, not elsewhere shown	-	-	112,650	112,650	94,099
Total Assets	**20,985,927**	**179,486**	**304,374**	**21,469,787**	**19,881,330**

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

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

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

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

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

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

D. Valuation for Solvency Purposes *continued*

i. Participations (Subsidiaries): Equity method accounting.

ii. Loans and mortgages: Carried at nominal value.

iii. Insurance, reinsurance & intermediaries receivables: Measured at cost.

iv. Cash and Cash Equivalents: Carried at nominal value.

v. Receivables/any other assets not elsewhere shown: Measured at cost.

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

Comparison to Financial Statements

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

Asset Classes

in EUR thousands, as of 31 December 2017	**Solvency II**	**Irish GAAP**	**Reported Difference**
Deferred acquisition costs	–	492,461	(492,461)
Intangible assets	–	5,341	(5,341)
Deferred tax assets	–	–	–
Pension benefit surplus	–	–	–
Property, plant & equipment held for own use	1,622	1,622	–
Holdings in related undertakings, including participations	246	246	–
Equities	381,942	381,942	–
Bonds	2,655,983	2,655,983	–
Deposits other than cash equivalents	404,377	404,377	–
Derivatives	42,720	42,720	–
Assets held for index-linked and unit-linked contracts	17,543,624	17,543,624	–
Loans and mortgages	94	94	–
Reinsurance Recoverables	136,766	354,069	(217,303)
Insurance and intermediaries receivables	22,893	22,893	–
Reinsurance receivables	22,178	22,178	–
Receivables (trade, not insurance)	96,825	94,896	1,929
Cash and cash equivalents	47,867	47,867	–
Any other assets, not elsewhere shown	112,650	112,519	130
Total assets	**21,469,787**	**22,182,832**	**(713,046)**

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

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

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

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

4. "Receivables, (trade, not insurance)" – Current income tax receivables.

5. "Any other assets, not elsewhere shown" – This item mainly consists of indemnity balances, pre-paid expenses and policyholder taxes and reinsured notified claims. The difference arises due to a reinsurance impairment of €130k required in the financial statements but not required under Solvency II.

D.2 Technical provisions

Technical Provisions overview

The table below shows the regulatory technical provisions as of 31 December 2017 by line of business , with the same information as of 31 December 2016 shown below it for comparison:

2017 Technical provisions by line of business

in EUR thousands, as of 31 December 2017	Gross Best Estimate	Risk Margin	Reinsurance Recoverables
Insurance with Profit Participation	1,577,853	16,334	0
Index-linked and unit-linked insurance	17,194,538	177,998	(47,978)
Other life insurance	987,293	10,220	(34,217)
Health insurance	80,702	5,097	(54,571)
Total	**19,840,387**	**209,649**	**(136,766)**

2016 Technical provisions by line of business

in EUR thousands, as of 31 December 2016	Gross Best Estimate	Risk Margin	Reinsurance Recoverables
Insurance with Profit Participation	1,582,846	16,922	0
Index-linked and unit-linked insurance	15,647,639	167,283	(47,277)
Other life insurance	991,020	10,595	(50,658)
Health insurance	79,872	8,239	(48,967)
Total	**18,301,378**	**203,038**	**(146,903)**

Best Estimate Liability (BEL) Methodology:

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

- Calculating the current unit reserve by multiplying units held by valuation price
- Projecting the expected liability cash-flows for each future year using best-estimate deterministic assumptions
- Discounting each of these cash-flows back to the valuation date using the relevant Solvency II risk-free rate of return
- Summing the resultant discounted cash-flows and the value of units currently held

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

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

D. Valuation for Solvency Purposes *continued*

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

Assumptions

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

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

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

The annual review of assumptions took place in Q3 2017. Mortality, morbidity and persistency assumptions were updated as part of this review.

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

1. **EIOPA Risk-Free Yield Curve** – This is provided by EIOPA.

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

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

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

Indication of the level of uncertainty

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

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

Technical Provisions – Reconciliation to financial statements

The following table sets out the differences between the valuation of liabilities for ZLAP under Solvency II and the valuation of assets in the ZLAP financial statements. The information is shown for both 31 December 2017 and for the prior year, 31 December 2016, for comparison.

2017 Reconciliation to Financial Statements

in EUR thousands, as of 31 December 2017	Gross Financial Statements TPs	Gross SII TPs	Difference
Insurance with Profit Participation	1,629,564	1,594,187	35,377
Index-linked and unit-linked insurance	17,718,447	17,372,536	345,911
Other life insurance	1,423,211	997,514	425,697
Health insurance	84,909	85,800	(891)
Total	**20,856,130**	**20,050,036**	**806,093**

2016 Reconciliation to Financial Statements

in EUR thousands, as of 31 December 2016	Gross Financial Statements TPs	Gross SII TPs	Difference
Insurance with Profit Participation	1,633,185	1,599,768	33,417
Index-linked and unit-linked insurance	16,109,708	15,814,922	294,786
Other life insurance	1,382,904	1,001,615	381,289
Health insurance	79,999	88,111	(8,112)
Total	**19,205,796**	**18,504,416**	**701,380**

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

Risk Margin

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

Unit Linked and Insurance with Profit Participation Policies
Under Solvency II, the discounted value of all future cash flows (within the contract boundary) is included. Typically, the future cashflows will reflect future expected profits so that the inclusion of the future cashflows reduces the BEL below the value of the unit held by policyholders. The value of future cashflows is not included in the financial statements for this line of business.

Term Protection policies (included in Other Life and Health insurance lines of business above)
Under Solvency II, all future cash flows are projected on a best estimate basis and discounted to the reporting date using the EIOPA Solvency II swap curve. As this business is expected to be profitable in the future under best estimate assumptions, this results in a negative technical provision for this business. In the financial statements, the technical provisions for individual protection products are calculated separately for each annual cohort of business using prudent assumptions set at the time that each cohort was sold. Negative reserve amounts are not permitted.

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

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

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

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

D. Valuation for Solvency Purposes *continued*

Recoverables from reinsurance contracts and special purpose vehicles

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

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

There are no special purpose vehicles within ZLAP.

D.3 Other liabilities

Valuation for Solvency Purposes

The following table provides a summary of the items making up the "Other Liabilities" figure as shown in the Quantitative Report Template S.02.01.b as of 31 December 2017, with the previous year's figures as of 31 December 2016 shown below for comparison. Full details of the differences between the financial statements and Solvency II are also included:

2017 Other Liabilities

in EUR thousands, as of 31 December 2017	SII Value	Financial Statements Value	Difference
Provisions other than technical provisions	167,019	167,019	0
Pension benefit obligations	57,382	57,382	0
Deferred tax liabilities	44,131	8,410	35,721
Derivatives	4,352	4,352	0
Debts owed to credit institutions	10,312	10,312	0
Insurance & intermediaries payables	78,936	78,936	0
Reinsurance payables	27,541	27,541	0
Payables (trade, not insurance)	92,321	89,906	2,416
Any other liabilities, not elsewhere shown	29,883	109,415	(79,532)
Total	**511,879**	**553,274**	**(41,395)**

2016 Other Liabilities

in EUR thousands, as of 31 December 2016	SII Value	Financial Statements Value	Difference
Provisions other than technical provisions	139,290	139,290	0
Pension benefit obligations	65,502	65,502	0
Deferred tax liabilities	34,466	11,426	23,040
Derivatives	26,226	26,226	0
Debts owed to credit institutions	14,716	14,716	0
Insurance & intermediaries payables	71,669	71,669	0
Reinsurance payables	28,217	28,217	0
Payables (trade, not insurance)	80,147	80,467	(320)
Any other liabilities, not elsewhere shown	18,726	101,957	(83,231)
Total	**478,959**	**539,470**	**(60,511)**

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

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

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

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

Defined Benefit Plan Assets

In EUR Thousands	Market Value	Proportion
Equities	92,151	32%
Bonds	189,763	66%
Cash and deposits	5,065	2%
Total	286,979	

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

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

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

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

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

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

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

D. Valuation for Solvency Purposes *continued*

D.4 Alternative methods for valuation

Mark to Model Valuation Approach

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

D.5 Any other information

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

E. Capital Management

E.1 Own funds

Objectives of Capital Management

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

Also calculated under Solvency II is the Minimum Capital Requirement (Solvency II MCR). In the event that Own Funds is less than the MCR then this is an event which likely results in regulatory intervention in the running of the company.

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

Structure of the Own Funds

The table below shows the structure of the Own Funds as of 31 December 2017 and 31 December 2016:

Structure of the Own Funds

in EUR thousands, as of December 31	**2017**	**2016**
Ordinary share capital (gross of own shares)	17,688	17,688
Share premium account related to ordinary share capital	282,992	282,992
Reconciliation reserve	607,191	597,274
Total Own Funds	**907,872**	**897,954**

There have been no changes to the ordinary share capital or share premium account during 2017. The ordinary share capital and share premium arising is not subordinated and has no restricted duration.

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

The reconciliation reserve has increased by €9.917m in 2017 despite paying a dividend of €83m to the Zurich Insurance Group in December 2017. This is mainly due to profits that emerged on existing business and positive economic conditions.

The Company's ordinary share capital, share premium arising on ordinary share capital and reconciliation reserve are all available as tier 1 unrestricted own funds as per Article 69 (a) of the Delegated Regulation. The Own Funds splits into the various tiers as of 31 December 2017 and 31 December 2016 is shown below:

Structure of the Own Funds

in EUR thousands, as of December 31	**2017**	**2016**
Tier 1 – unrestricted	907,872	897,954
Tier 1 – restricted	–	–
Tier 2	–	–
Tier 3	–	–
Total	**907,872**	**897,954**

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

The company does not expect to have any tier 1 restricted own funds, tier 2 own funds or tier 3 own funds over the course of its current business planning horizon, from 2018 to 2020.

E. Capital Management *continued*

All Own Funds are available to meet the Solvency Capital Requirement and Minimum Capital Requirement as of 31 December 2017 and at the prior reporting period, 31 December 2016, for comparison:

Structure of the Own Funds 2017

in EUR thousands, as of 31 December 2017	Total	Tier 1 – unrestricted
Total available own funds to meet the SCR	907,872	907,872
Total available own funds to meet the MCR	907,872	907,872

Structure of the Own Funds 2016

in EUR thousands, as of 31 December 2016	Total	Tier 1 – unrestricted
Total available own funds to meet the SCR	897,954	897,954
Total available own funds to meet the MCR	897,954	897,954

Reconciliation to Financial Statements

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

Reconciliation to Financial Statements

in EUR thousands	2017	2016
Solvency II Own Funds	**907,872**	**897,954**
SII Technical Provisions to Financial Statements Reserves	(806,095)	(701,382)
Reinsurance Differences	217,172	184,819
SII Deferred Tax to Financial Statements Deferred Tax	35,721	23,040
Deferrals of Acquisition Income & Expenses	412,929	397,648
Other Intangible Assets	5,341	9,110
Payables (trade, not insurance)	2,416	(320)
Receivables	(1,929)	0
Financial Statements Equity	**773,427**	**810,855**

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

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

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

Further analysis of own funds

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

E.2 Solvency Capital Requirement and Minimum Capital Requirement

SCR and MCR

The Solvency Capital Requirement (SCR) is a measure of the capital required to be held under the Solvency II regime. The Minimum Capital Requirement (MCR) is the minimum level of available financial resources required. The following table shows the SCR and MCR as of 31 December 2017 and 31 December 2016:

SCR and MCR

in EUR thousands, as of December 31	2017	2016
Solvency Capital Requirement	704,841	629,482
Minimum Capital Requirement	188,691	174,509

SCR split by risk module or category

ZLAP uses the standard formula to calculate the Solvency Capital Requirement. The table below shows the Solvency Capital Requirement as of 31 December 2017 and 31 December 2016 split by risk module:

SCR split by risk module or category

in EUR thousands, as of December 31	2017	2016
Market risk	449,135	381,343
Counterparty default risk	19,381	19,573
Life underwriting risk	414,229	374,684
Health underwriting risk	19,753	15,440
Diversification	(206,667)	(181,729)
Basic Solvency Capital Requirement	**695,831**	**609,311**
Adjustment due to Ring Fenced Fund	14,884	16,398
Operational risk	38,257	38,247
Loss-absorbing capacity of deferred taxes	(44,131)	(34,474)
Solvency capital requirement	**704,841**	**629,482**

Specific disclosures regarding the SCR

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

Minimum Capital Requirement Inputs

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

Minimum Capital Requirement Inputs

in EUR thousands	2017	2016
Linear MCR	188,691	174,509
SCR	704,841	629,482
MCR Cap	317,178	283,267
MCR Floor	176,210	157,371
Combined MCR	188,691	174,509
Absolute Floor of MCR	3,700	3,700
MCR	**188,691**	**174,509**

Material Changes in SCR and MCR

The SCR has increased as expected as the business has grown. The current split of the SCR among the risk modules (shown in the table above) is very similar to the mix of risk modules at the end of 2016. Solvency Coverage fell in 2017 due to the payment of a dividend to Zurich Insurance Group. This had a large impact on Own Funds but only a small secondary impact on the SCR.

E. Capital Management *continued*

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

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

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

ZLAP uses the standard formula to calculate the Solvency Capital Requirement.

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

Throughout 2017, ZLAP was compliant with the Minimum Capital Requirement and Solvency Capital Requirement.

E.6 Any other information

Financial strength of the Zurich Group

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

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

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

The year end 2017 Z-ECM ratio was 132%, well in excess of its 100% – 120% target range.

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

Appendix

S.02.01.02

Balance Sheet, Assets

in EUR thousands, as of December 31

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	–
Deferred tax assets	R0040	–
Pension benefit surplus	R0050	–
Property, plant & equipment held for own use	R0060	1,622
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	3,485,268
Property (other than for own use)	R0080	–
Holdings in related undertakings, including participations	R0090	246
Equities	R0100	381,942
Equities – listed	R0110	381,942
Equities – unlisted	R0120	–
Bonds	R0130	2,655,983
Government Bonds	R0140	2,655,983
Corporate Bonds	R0150	–
Structured notes	R0160	–
Collateralised securities	R0170	–
Collective Investments Undertakings	R0180	–
Derivatives	R0190	42,720
Deposits other than cash equivalents	R0200	404,377
Other investments	R0210	–
Assets held for index-linked and unit-linked contracts	R0220	17,543,624
Loans and mortgages	R0230	94
Loans on policies	R0240	–
Loans and mortgages to individuals	R0250	94
Other loans and mortgages	R0260	–
Reinsurance recoverables from:	R0270	136,766
Non-life and health similar to non-life	R0280	–
Non-life excluding health	R0290	–
Health similar to non-life	R0300	–
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	88,788
Health similar to life	R0320	54,571
Life excluding health and index-linked and unit-linked	R0330	34,217
Life index-linked and unit-linked	R0340	47,978
Deposits to cedants	R0350	–
Insurance and intermediaries receivables	R0360	22,893
Reinsurance receivables	R0370	22,178
Receivables (trade, not insurance)	R0380	96,825
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	47,867
Any other assets, not elsewhere shown	R0420	112,650
Total assets	**R0500**	**21,469,787**

Appendix *continued*

S.02.01.02

Balance Sheet, Liabilities

in EUR thousands, as of December 31

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	R0510	–
Technical provisions – non-life (excluding health)	R0520	–
TP calculated as a whole	R0530	–
Best Estimate	R0540	–
Risk margin	R0550	–
Technical provisions – health (similar to non-life)	R0560	–
TP calculated as a whole	R0570	–
Best Estimate	R0580	–
Risk margin	R0590	–
Technical provisions – life (excluding index-linked and unit-linked)	R0600	2,677,501
Technical provisions – health (similar to life)	R0610	85,800
TP calculated as a whole	R0620	–
Best Estimate	R0630	80,702
Risk margin	R0640	5,097
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	2,591,701
TP calculated as a whole	R0660	–
Best Estimate	R0670	2,565,146
Risk margin	R0680	26,554
Technical provisions – index-linked and unit-linked	R0690	17,372,536
TP calculated as a whole	R0700	–
Best Estimate	R0710	17,194,538
Risk margin	R0720	177,998
Contingent liabilities	R0740	–
Provisions other than technical provisions	R0750	167,019
Pension benefit obligations	R0760	57,382
Deposits from reinsurers	R0770	–
Deferred tax liabilities	R0780	44,131
Derivatives	R0790	4,352
Debts owed to credit institutions	R0800	10,312
Financial liabilities other than debts owed to credit institutions	R0810	–
Insurance & intermediaries payables	R0820	78,936
Reinsurance payables	R0830	27,541
Payables (trade, not insurance)	R0840	92,321
Subordinated liabilities	R0850	–
Subordinated liabilities not in BOF	R0860	–
Subordinated liabilities in BOF	R0870	–
Any other liabilities, not elsewhere shown	R0880	29,883
Total liabilities	**R0900**	**20,561,915**
Excess of assets over liabilities	**R1000**	**907,872**

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
37,340	153,259	2,794,688	247,257	–	–	–	–	3,232,543
16,371	74	152	79,470	–	–	–	–	96,066
20,969	153,184	2,794,536	167,787	–	–	–	–	3,136,477
37,035	153,259	2,794,688	246,971	–	–	–	–	3,231,953
16,253	74	152	79,328	–	–	–	–	95,807
20,782	153,184	2,794,536	167,643	–	–	–	–	3,136,146
21,600	187,771	1,922,720	164,854	–	–	–	–	2,296,945
13,751	–	–	77,068	–	–	–	–	90,819
7,850	187,771	1,922,720	87,786	–	–	–	–	2,206,126
4,910	(3,621)	1,608,739	40,306	–	–	–	–	1,650,334
7,148	–	–	14,498	–	–	–	–	21,646
(2,239)	(3,621)	1,608,739	25,809	–	–	–	–	1,628,688
8,131	**12,033**	**199,240**	**49,546**	**–**	**–**	**–**	**–**	**268,949**
								–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**268,949**

Appendix *continued*

S.05.02.01

Premiums, claims and expenses by country, Life

in EUR thousands, as of December 31

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

Home Country	Top 5 countries (by amount of gross premiums written) – life obligations					Total Top 5 and home country
C0150	C0160	C0170	C0180	C0190	C0200	C0210
	IT	DE	SE	GB	ES	
C0220	C0230	C0240	C0250	C0260	C0270	C0280
2,619,956	570,449	35,767	4,767	1,050	555	3,232,543
86,340	20	9,706	–	–	–	96,066
2,533,615	570,428	26,061	4,767	1,050	555	3,136,477
2,619,366	570,449	35,767	4,767	1,050	555	3,231,953
86,081	20	9,706	–	–	–	95,807
2,533,285	570,428	26,061	4,767	1,050	555	3,136,146
1,505,520	724,892	11,151	6,051	48,637	694	2,296,945
80,786	–	10,032	–	–	–	90,819
1,424,734	724,892	1,118	6,051	48,637	694	2,206,126
1,738,413	(68,974)	11,855	542	(31,821)	318	1,650,334
9,802	–	11,844	–	–	–	21,646
1,728,612	(68,974)	10	542	(31,821)	318	1,628,688
160,975	**94,303**	**9,083**	**1,231**	**3,308**	**48**	**268,949**
						–
	–	–	–	–	–	**268,949**

Appendix *continued*

S.12.01.02

Life and Health SLT Technical Provisions

in EUR thousands, as of December 31

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

S.12.01.02

Life and Health SLT Technical Provisions

in EUR thousands, as of December 31

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

Insurance with profit participation	Index-linked and unit-linked insurance	Contracts without options and guarantees	Contracts with options or guarantees	Other life insurance	Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)
C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150
–	–			–			–	–	–
–	–			–			–	–	–
1,577,853		16,962,662	231,876		977,885	9,409	–	–	19,759,684
–		47,978	–		75,531	(41,313)	–	–	82,195
1,577,853		16,914,684	231,876		902,354	50,722	–	–	19,677,489
16,334	177,998			10,220			–	–	204,552
–	–			–			–	–	–
–		–	–		–	–	–	–	–
–	–			–			–	–	–
1,594,187	17,372,536	–	–	997,514	–	–	–	–	19,964,236

	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		80,795	(92)	–	–	80,702
R0080		33,078	21,493	–	–	54,571
R0090		47,717	(21,585)	–	–	26,131
R0100	5,097			–	–	5,097
R0110	–			–	–	–
R0120		–	–	–	–	–
R0130	–			–	–	–
R0200	85,800	–	–	–	–	85,800

Appendix *continued*

S.22.01.21

Impact of long term guarantees and transitional measures

in EUR thousands, as of December 31		Amount with LTG measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical provisions	R0010	19,840,387	–	–	–	–
Basic own funds	R0020	907,872	–	–	–	–
Eligible own funds to meet SCR	R0050	907,872	–	–	–	–
SCR	R0090	704,841	–	–	–	–
Eligible own funds to meet MCR	R0100	907,872	–	–	–	–
Minimum Capital Requirement	**R0110**	**188,691**	**–**	**–**	**–**	**–**

S.23.01.01

Own funds

in EUR thousands, as of December 31

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	17,688	17,688		–	
Share premium account related to ordinary share capital	R0030	282,992	282,992		–	
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	607,191	607,191			
Subordinated liabilities	R0140	–		–	–	–
An amount equal to the value of net deferred tax assets	R0160	–				–
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	–	–	–	–	–
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	–				
Deductions						
Deductions for participations in financial and credit institutions	R0230	–	–	–	–	–
Total basic own funds after deductions	**R0290**	**907,872**	**907,872**	**–**	**–**	**–**
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	–			–	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	R0310	–			–	
Unpaid and uncalled preference shares callable on demand	R0320	–			–	–
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	–			–	–
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	–			–	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	–			–	–
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	–			–	
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	–			–	–
Other ancillary own funds	R0390	–			–	–
Total ancillary own funds	**R0400**	**–**	**–**	**–**	**–**	**–**

Appendix *continued*

S.23.01.01

Own funds

in EUR thousands, as of December 31

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	907,872	907,872	–	–	–
Total available own funds to meet the MCR	R0510	907,872	907,872	–	–	
Total eligible own funds to meet the SCR	R0540	907,872	907,872	–	–	–
Total eligible own funds to meet the MCR	R0550	907,872	907,872	–	–	
SCR	**R0580**	**704,841**				
MCR	**R0600**	**188,691**				
Ratio of Eligible own funds to SCR	**R0620**	**129%**				
Ratio of Eligible own funds to MCR	**R0640**	**481%**				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	907,872
Own shares (held directly and indirectly)	R0710	–
Foreseeable dividends, distributions and charges	R0720	–
Other basic own fund items	R0730	300,680
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	–
Reconciliation reserve	**R0760**	**607,191**
Expected profits		
Expected profits included in future premiums (EPIFP) – Life business	R0770	132,344
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	–
Total Expected profits included in future premiums (EPIFP)	**R0790**	**132,344**

S.25.01.21

Solvency Capital Requirement – for undertakings on Standard Formula

in EUR thousands, as of December 31		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	458,742		No
Counterparty default risk	R0020	19,796		
Life underwriting risk	R0030	423,090	No	No
Health underwriting risk	R0040	20,176	No	No
Non-life underwriting risk	R0050	–	No	No
Diversification	R0060	(211,088)		
Intangible asset risk	R0070	–		
Basic Solvency Capital Requirement	**R0100**	**710,715**		

		C0100
Calculation of Solvency Capital Requirement		
Operational risk	R0130	38,257
Loss-absorbing capacity of technical provisions	R0140	–
Loss-absorbing capacity of deferred taxes	R0150	(44,131)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	**R0200**	**704,841**
Capital add-on already set	R0210	–
Solvency capital requirement	**R0220**	**704,841**
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirement for remaining part	R0410	634,228
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	70,613
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

Appendix *continued*

S.28.01.01

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

in EUR thousands, as of December 31		C0010	
MCR(NL) Result	R0010	–	
		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020	–	–
Income protection insurance and proportional reinsurance	R0030	–	–
Workers' compensation insurance and proportional reinsurance	R0040	–	–
Motor vehicle liability insurance and proportional reinsurance	R0050	–	–
Other motor insurance and proportional reinsurance	R0060	–	–
Marine, aviation and transport insurance and proportional reinsurance	R0070	–	–
Fire and other damage to property insurance and proportional reinsurance	R0080	–	–
General liability insurance and proportional reinsurance	R0090	–	–
Credit and suretyship insurance and proportional reinsurance	R0100	–	–
Legal expenses insurance and proportional reinsurance	R0110	–	–
Assistance and proportional reinsurance	R0120	–	–
Miscellaneous financial loss insurance and proportional reinsurance	R0130	–	–
Non-proportional health reinsurance	R0140	–	–
Non-proportional casualty reinsurance	R0150	–	–
Non-proportional marine, aviation and transport reinsurance	R0160	–	–
Non-proportional property reinsurance	R0170	–	–

S.28.01.01

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

in EUR thousands, as of December 31		C0040	
MCR(L) Result	R0200	188,691	
		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance/ SPV) total capital at risk
		C0050	C0060
Obligations with profit participation – guaranteed benefits	R0210	1,330,134	
Obligations with profit participation – future discretionary benefits	R0220	247,719	
Index-linked and unit-linked insurance obligations	R0230	17,146,560	
Other life (re)insurance and health (re)insurance obligations	R0240	979,208	
Total capital at risk for all life (re)insurance obligations	R0250		16,812,196

		C0070
Linear MCR	R0300	188,691
SCR	R0310	704,841
MCR cap	R0320	317,178
MCR floor	R0330	176,210
Combined MCR	R0340	188,691
Absolute floor of the MCR	R0350	3,700

		C0070
Minimum Capital Requirement	**R0400**	**188,691**

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