Zurich Insurance plc ("ZIP")

ZURICH®

Solvency and Financial Condition Report 2016

Disclaimer and Cautionary Statement

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

Save only to the extent required by the Regulation or other applicable law, neither ZIP nor any member of the Zurich Insurance Group of companies (collectively, the "Group") nor any of their respective officers, employees, consultants, advisers, representatives or agents:

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(b) accepts any liability (including without limitation, any liability arising from fault or negligence on the part of any of them) for any direct, indirect or consequential loss or damage whatsoever or howsoever arising from any use of this report or otherwise arising in connection with it.

Certain statements in this report are forward-looking statements, including, but not limited to, statements that are predictions of or indicate future events, trends, plans or objectives of ZIP or any member of the Group. Forward-looking statements include statements regarding ZIP's or the Group's targeted profit, return on equity targets, expenses, pricing conditions, dividend policy and underwriting and claims results, as well as statements regarding ZIP's or the Group's understanding of general economic, financial and insurance market conditions and expected developments. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and plans and objectives of ZIP or the Group to differ materially from those expressed or implied in the forward-looking statements (or from past results). Factors such as (i) general economic conditions and competitive factors, particularly in key markets; (ii) the risk of a global economic downturn; (iii) performance of financial markets; (iv) levels of interest rates and currency exchange rates; (v) frequency, severity and development of insured claims events; (vi) mortality and morbidity experience; (vii) policy renewal and lapse rates; and (viii) changes in laws and regulations and in the policies of regulators may have a direct bearing on the results of operations of ZIP and/or the Group and on whether the targets will be achieved. ZIP or the Group undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information, future events or circumstances or otherwise.

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

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

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

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

Zurich Insurance plc ("ZIP")

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

Glossary of terms used in this report

ALM	Asset and Liability Management
ALMIC	Asset Liability Management and Investment Committee
BE	Best Estimate
Board	ZIP Board of Directors
CBI	Central Bank of Ireland
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIFA	Critical or Important Functions or Activities
CRO	Chief Risk Officer
DAC	Deferred Acquisition Costs
DM	Dynamic Model
EEA	European Economic Area
ENID	Events not in Data
EPIFP	Expected profits included in future premiums
ERM	Enterprise Risk Management
FCR	Financial Condition Report (Swiss regulation)
FINMA	Swiss Financial Market Supervisory Authority
FRNs	Floating Rate Notes
GAAP	Generally Accepted Accounting Principles
Group	Zurich Insurance Group of companies
HR	Human Resources
IM	Internal Model
LTIP	Long Term Incentive Plans
Man Made Cat	Man-made catastrophe
MCBS	Market Consistent Balance Sheet
MCR	Minimum Capital Requirement
Nat Cat	Natural Catastrophe
ORSA	Own Risk and Solvency Assessment
PWC	PricewaterhouseCoopers
QRTs	Quantitive Reporting Templates
RACE	Risk and Control Engine
RCC	Risk and Control Committee
Repos	Sale and Repurchase transactions
RM	Risk Margin
SAA	Strategic Asset Allocation
SCR	Solvency Capital Requirement
SF	Standard Formula
SFCR	Solvency and Financial Condition Report
SPV	Special Purpose Vehicle
SST	Swiss Solvency Test
STIP	Short Term Incentive Plans
TDS	Top Down Scenarios
TRP	Total Risk Profiling
UPR	Unearned Premium Reserve
ZIC	Zurich Insurance Company Ltd
ZIP	Zurich Insurance plc
ZIP HO	Zurich Insurance plc Head Office
ZRR	Zurich Remuneration Rules

Executive summary

Business and performance (Section A)

Zurich Insurance plc ("ZIP") is a non-life insurance company headquartered in Dublin. It underwrites business from Ireland and out of 12 regulated branches in the EEA.

ZIP is a wholly owned subsidiary of Zurich Insurance Group Ltd, the global insurance group with headquarters in Zurich, Switzerland.

ZIP offers a broad range of non-life insurance products and services to a wide variety of personal, commercial and corporate customers.

The gross written premiums in 2016 were EUR 8,092m and the net income after tax in 2016 was EUR 95m.

At December 31, 2016 the financial strength of ZIP was rated 'AA-' by Standard & Poor's and 'A+' by A.M. Best.

There were no material changes to ZIP's business profile in 2016.

System of governance (Section B)

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

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

The Board has the ultimate responsibility for compliance with applicable regulatory requirements and the Board has established an extensive system of governance to ensure the sound and prudent management of the company's business.

ZIP employs a "three lines of defence" model that allows the key functions (Internal Audit, Actuarial, Compliance and Risk Management) to review and independently challenge the running of the business, and report findings to the Board and other committees.

There were no material changes to ZIP's system of governance in 2016.

Risk profile (Section C)

Material risks for ZIP at December 31, 2016 were:

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

The risks are measured using an Internal (economic risk) Model, and are managed under the risk management system.

There were no material changes to ZIP's risk profile in 2016.

Financial condition at December 31, 2016 (Sections D & E)

EUR 2,694m
Financial resources (Own Funds) under Solvency II

EUR 2,046m
Capital requirements (SCR) under Solvency II

132%
Solvency II SCR ratio*

*The regulatory requirement is to hold a ratio of at least 100% SCR.

ZIP is part of the Zurich Insurance Group (the "Group"). As of January 1, 2017, the Group had a solvency ratio of 227% as measured by the Swiss Solvency Test, which has equivalence with the Solvency II regulatory regime applicable to ZIP. The Group manages its capital to an AA level according to its internal economic model.

Information on the SFCR

1. Requirements for the SFCR

Solvency II became effective on January 1, 2016 for all insurance companies and groups regulated in the European Union. The aim of Solvency II is to provide a 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, narrative sections of this report are subject to audit review by the statutory auditors, PricewaterhouseCoopers. The narrative sections D, E.1 and E.6 are in scope for audit review.

These narrative sections relate to the following Quantitative Reporting Templates (“QRTs”), which are also subject to audit review by PricewaterhouseCoopers and are included in the Appendix:

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

3. Note on materiality

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

4. Approval of the Solvency and Financial Condition Report

This report was reviewed and approved by the Board on May 17, 2017.

A. Business and Performance

A.1 Business profile

Zurich Insurance plc ("ZIP") is registered in Ireland under company number 13460 as a public limited company and has its registered office at Zurich House, Ballsbridge Park, Dublin 4, Ireland.

ZIP is the Group's main legal entity for writing non-life insurance business in Europe and has its head office in Dublin.

ZIP writes non-life insurance business in the domestic market in Ireland and out of 12 regulated branches, established in the following countries: UK, Italy, Spain, Portugal, Germany, Sweden, Finland, Norway, Denmark, France, Belgium and the Netherlands.

Zurich Group

ZIP is an indirect wholly owned subsidiary of Zurich Insurance Group Ltd, the global insurance group with headquarters in Zurich, Switzerland.

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

Description of the holders of qualifying holdings

Table 1: Qualifying holdings (in excess 10%)

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

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

Name and contact details of the supervisory authority responsible for financial supervision

ZIP is authorised by the Central Bank of Ireland ("CBI"), New Wapping Street, North Wall Quay, Dublin 1, Ireland.

Name and contact details of the group supervisory authority

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

Name and contact details of the external auditor of ZIP

PricewaterhouseCoopers, Ireland, One Spencer Dock, North Wall Quay, Dublin 1, Ireland.

A. Business and Performance *continued*

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

The list of ZIP's material subsidiaries at December 31, 2016, was as follows.

Table 2: Material related undertakings

Name of Related Undertaking	Activity	Legal Form	Country of incorporation	Shareholding and voting power
Wrightway Underwriting Limited	Underwriting agency	Limited Company	Ireland	100%
AIDE Asistencia, Seguros y Reaseguros S.A. Sociedad Unipersonal	Insurance and reinsurance provider for assistance business	Limited Company	Spain	100%
Servizurich S.A. Sociedad Unipersonal	Service provider to companies in Zurich Group	Limited Company	Spain	100%

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

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

Approximately 85% of the business is written through the branches in UK, Germany, Italy and Spain.

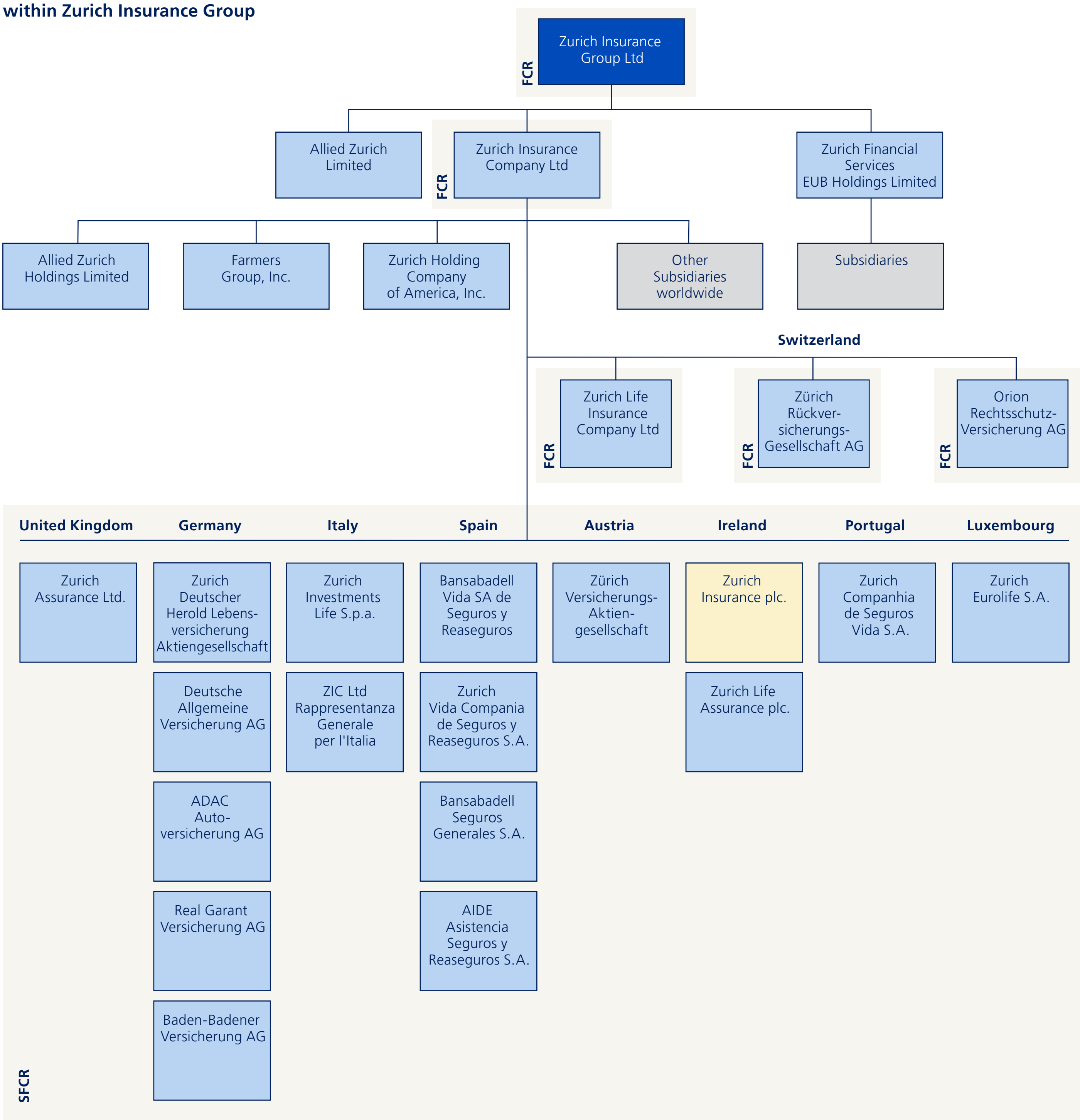
The major lines of business written by ZIP are as follows:

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

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

In February 2017, the Lord Chancellor in the UK ruled that the discount rate applied to UK personal injury awards would change from 2.5% to -0.75%. This will result in increased settlement values for UK personal injury insurance claims and thereby required a substantial increase in the related insurance provisions booked as at December 31, 2016.

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



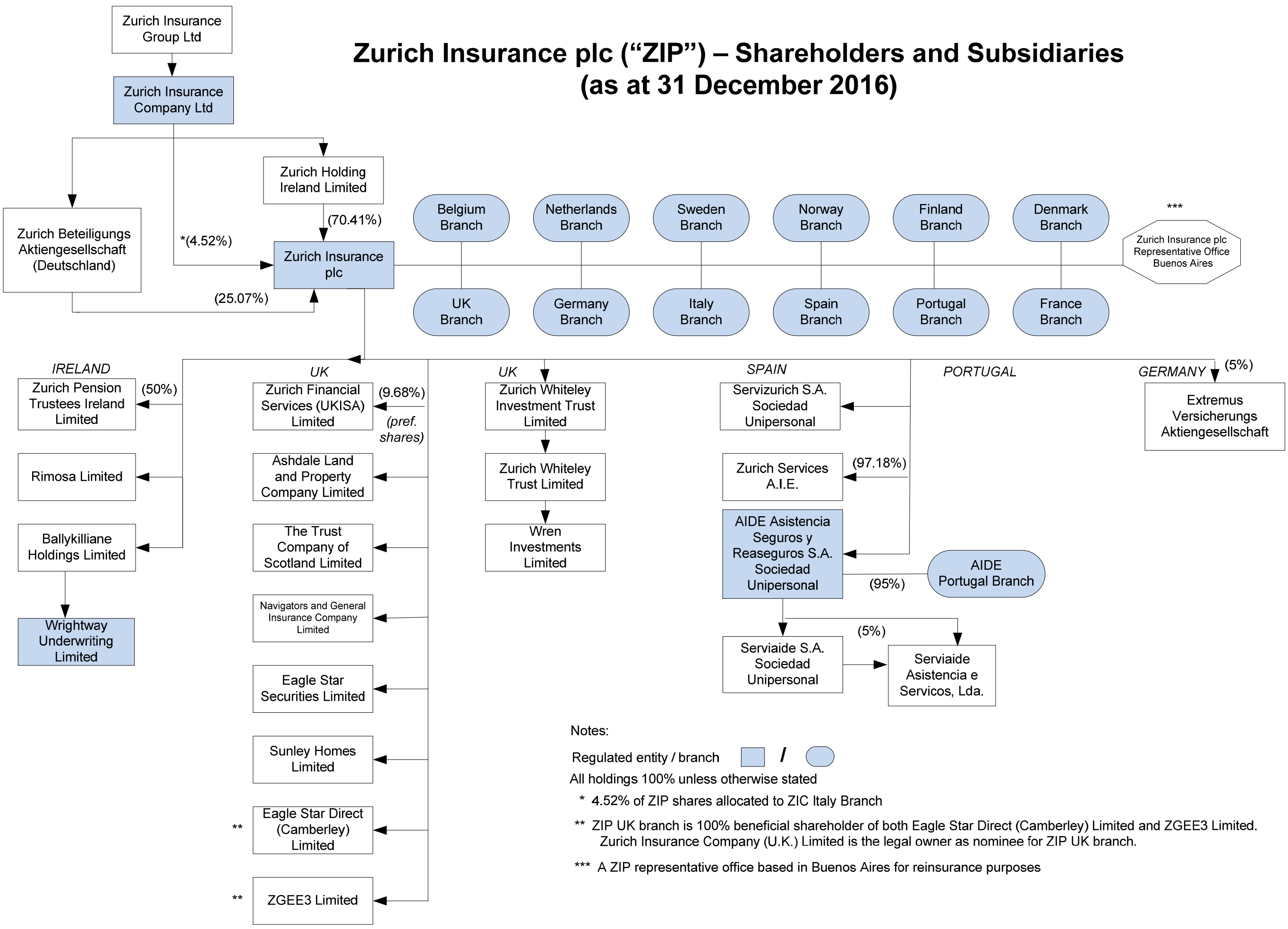
SFCR: Solvency and Financial Condition Report (Solvency II; from 2016) **FCR:** Financial Condition Report (Swiss regulation; from 2017)

☐ Subsidiary/branch ☐ Group of subsidiaries/branches ☐ Current disclosure

Note: The purpose of the chart above is to provide a simplified overview of the Group's major subsidiaries and branches (as reported at December 31, 2016), with special focus on the public reporting of their solvency and financial condition. Please note that this is a simplified representation showing entities that must publish such a report and therefore it may not comprehensively reflect the detailed legal ownership structure of the entities included in the overview. The ordering of the legal entities under each country is not indicative of ownership; these are independent legal entities.

A. Business and Performance *continued*

Chart 2: ZIP Shareholders and subsidiaries



A.2 Underwriting performance

Overview of financial performance

The values reported in sections A.2 and A.3 are under Irish Generally Accepted Accounting Principles ("GAAP") as reported in ZIP's statutory financial statements for year ended December 31, 2016. Underwriting losses incurred were EUR 178m. Investment income (after expenses) was EUR 428m and other income was EUR 12m, which was offset by other charges, interest and tax totalling EUR 167m. The resulting net income after tax was EUR 95m, as shown below:

Table 3: Performance by geographical location

in EUR thousands, for 2016	UK	Germany	Italy	Spain	Other branches*	Total
Net Earned Premiums	1,028,273	826,329	542,225	402,961	355,953	3,155,741
Net Claims Incurred	(933,848)	(536,921)	(358,417)	(367,015)	(245,455)	(2,441,656)
Other technical income	23,701	15,203	3,168	6,817	2,664	51,553
Technical expenses	(340,624)	(264,456)	(150,007)	(112,086)	(76,162)	(943,335)
Underwriting result	**(222,498)**	**40,155**	**36,969**	**(69,323)**	**37,000**	**(177,697)**
Investment return	285,604	83,202	30,447	31,874	23,850	454,977
Investment management expenses	(8,886)	(6,961)	(2,425)	(3,632)	(5,350)	(27,254)
Other income	320	8,721	57	2,938	111	12,147
Other charges	(42,977)	(13,705)	(23,558)	(26,412)	(4,154)	(110,806)
Interest	-	(5,755)	(300)	(67)	(1,152)	(7,274)
Tax	12,141	(11,844)	(24,250)	(16,883)	(8,576)	(49,412)
Net income after tax	**23,704**	**93,813**	**16,940**	**(81,505)**	**41,729**	**94,681**

*Other branches include Ireland, France, Portugal, Netherlands, Belgium, Sweden, Denmark, Finland and Norway.

The underlying underwriting results improved across all the locations in 2016, due to actions taken to improve the selection and pricing of the business written, and to reduce the expenses.

Drivers of performance, particular to certain branches, are detailed below.

Underwriting performance by geographic location

UK

The adverse impact of the UK Lord Chancellor's ruling in early 2017, that the discount rate applied to personal injury awards would reduce from 2.5% to -0.75%, resulted in a significant increase in the insurance provisions booked at December 31, 2016, and was the main driver for the underwriting losses incurred. Offsetting this, the result benefitted from a low level of catastrophe events and a reduction in the value of claims for weather events which occurred in 2015.

Germany

The underwriting result benefitted from a low level of catastrophe events, a low frequency of mid-sized claims and a reduction in the value of claims for prior year loss events in the commercial business.

Italy

The underwriting result benefitted from the low level of catastrophe events and a reduction in the value of claims for prior year loss events.

Spain

The main driver for the underwriting losses incurred was a significant increase in the value of claims for prior year loss events in the commercial business.

A. Business and Performance *continued*

Other locations

There were reductions in the value of claims for prior year loss events in the Nordic (Sweden, Finland, Norway and Denmark) and Benelux (Belgium and Netherlands) branches, offset by increases in the value of claims for prior year loss events in France.

Underwriting performance by line of business

The table below details the performance in 2016 by material line of business.

Table 4: Performance by line of business

in EUR thousands, for 2016	Fire and other damage to property	Motor vehicle liability	General liability	Motor vehicle (non-liability)	Other*	Total
Net earned premiums	1,010,934	718,666	616,524	369,619	439,998	3,155,741
Net claims incurred	(594,285)	(663,359)	(700,932)	(284,106)	(198,974)	(2,441,656)
Other technical income	18,280	11,929	9,701	4,370	7,273	51,553
Technical expenses	(396,539)	(135,786)	(147,283)	(80,316)	(186,224)	(943,335)
Underwriting result	**38,390**	**(68,550)**	**(221,990)**	**9,567**	**62,073**	**(177,697)**

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

Fire and other damage to property

The underwriting profits were largely driven by the low levels of adverse weather and other catastrophe events. Offsetting, there was a high incidence of large loss events in the UK and Germany.

Motor vehicle (liability and non-liability)

The underwriting losses were driven by the adverse impact of the UK Lord Chancellor ruling and an increase in the frequency and value of mid-sized claims in the UK, Spain, Germany and Ireland.

General liability

The underwriting losses were driven by the adverse impact of the UK Lord Chancellor ruling and the increase in the value of claims for prior year loss events in the Spanish commercial business.

Other lines of business

The underwriting profits were largely driven by a reduction in the value of claims for prior year loss events in the German credit and surety business.

A.3 Investment performance

The investment results for 2016 are shown in the table below under Irish GAAP, as reported in ZIP's statutory financial statements for year ended December 31, 2016.

Table 5: Investment results

in EUR thousands, for 2016	Investment income	Capital gains/losses	Total result
Cash and Cash Equivalents	413	–	413
Equity Securities	49,377	27,172	76,549
Debt Securities	207,577	93,342	300,919
Real Estate Held for Investment	33,666	19,616	53,282
Mortgage Loans	40	–	40
Other Loans	7,095	64	7,159
Other Investments	326	16,289	16,615
Investment result, gross	**298,494**	**156,483**	**454,977**
Investment expenses	(27,255)	–	(27,255)
Investment result, net	**271,239**	**156,483**	**427,722**

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

Equity securities
The capital gains reflected favourable movements in the equity markets in which the company invested.

Debt securities
Falling yields resulted in capital gains on the existing holdings.

Real estate
The capital gains were mainly driven by the disposal of own-use real estate.

Investment expenses
Investment expenses are reported at an aggregate level and not allocated by asset class.

Note on securitised investments
Asset backed securities of EUR 911m were held at December 31, 2016. The valuation reflects the fair value of those securities, based on quoted prices where available or alternatively based on recognised valuation approaches. The average credit rating of this portfolio was AA-. The majority of holdings are the highest AAA grade and only 2% is rated less than BBB or unrated. Investment guidelines are in place for the external managers who manage these portfolios.

A. Business and Performance *continued*

A.4 Performance of other activities

Other income included risk engineering fees.

Other charges included business reorganisation costs.

Tax charges were incurred in each location where business is written and taxable profits occurred in 2016, charged at the applicable tax rate in each location.

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

Leasing arrangements

There were no financial lease arrangements at December 31, 2016.

A number of branches have entered into various operating leases as lessee for office space or certain computer and other equipment. Charges under operating leases are recorded as incurred over the life of the lease terms.

A.5 Any other information

Other than as noted above, no other events occurred in 2016 which had a material impact on the business or performance of ZIP.

B. System of Governance

B.1 General information on the system of governance

The Board

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

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

- Approve the corporate objectives and set the strategy to achieve them
- Ensure that the organisation conducts its affairs in an ethical, legal and responsible manner
- Set and oversee a robust and transparent organisational structure with effective communication and reporting channels
- Set and oversee an 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 limits
- Monitor and assess compliance with ZIP's policies and principles
- Approve material changes to the Internal Model

Committees of the Board

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

- The **Audit Committee** assists the Board in controlling, overseeing and coordinating internal and external audit activities and processes. It also monitors the financial reporting process and reviews the annual financial statements and regulatory filings, as well 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 risk appetite and future risk strategy as well as overseeing the Risk Management function.
- The **Human Resources (HR) Committee** assists and supports the Board in considering personnel matters. It oversees the HR process for members of senior management and, where appropriate, makes recommendations to the Board on HR strategy and succession planning.

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

Executive Management and Management Committees

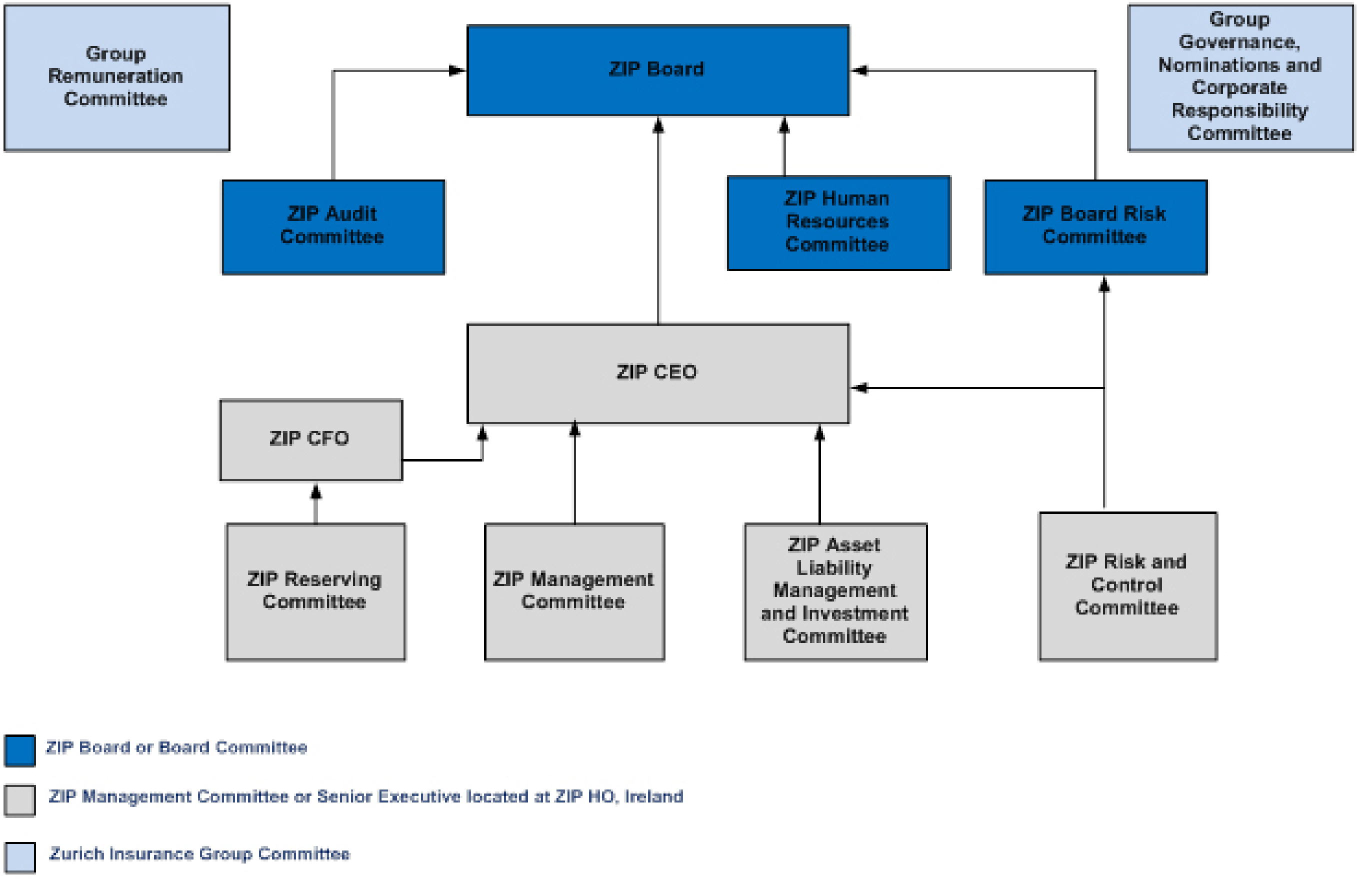
The Board has delegated broad executive powers to the Chief Executive Officer ("CEO") to manage and operate ZIP's business. The following key management committees have been established to assist and support the CEO and other senior management in fulfilling their responsibilities:

- The **Management Committee** assists and supports the CEO in managing and overseeing all the business and operations of ZIP including its branches.
- The **Risk and Control Committee** ("RCC") assists the CEO and members of the Management Committee by providing an integrated assurance forum to manage, control, oversee and co-ordinate risk management, compliance and internal control activities.
- The **Asset Liability Management and Investment Committee** ("ALMIC") assists the CEO and the Chief Financial Officer ("CFO") in managing and overseeing the investment of ZIP's portfolio of investment assets in accordance with the investment strategy.
- The **Reserving Committee** assists the CEO, CFO and the Head of Actuarial Function in managing and overseeing ZIP's actuarial activities.

B. System of Governance *continued*

The governance reporting structure is summarised in the chart below.

Chart 3: Summary corporate governance reporting structures



Branch governance

- A branch manager is appointed who is responsible for the business and operations in each branch.
- Branch management committees are in place to assist and support the branch manager to develop, manage and oversee the business of the branch and to implement ZIP's strategy, policies and business plans in the branch.
- Branch risk and control committees assist and support the branch manager to manage and oversee the internal audit, risk management, compliance and internal control activities in the branch.

Key functions

- The **Risk Management** function, led by the Chief Risk Officer, is responsible for facilitating the implementation and effective operation of the Enterprise Risk Management ("ERM") framework, reporting on risk exposures and making recommendations to the Board on risk appetite and other risk management matters. The Risk Management function is also responsible for the appropriateness of the methodology (and related aspects) of the Internal Model. Further information on the risk management system is contained in section B.3 of this report.
- The **Compliance** function, led by the Chief Compliance Officer, is responsible for promoting an ethics-based culture, delivering compliance solutions and providing assurance. Among other things, the Compliance function advises the Board on compliance with laws and regulations, assesses the impact of changes in the external legal environment, and assesses the adequacy of measures taken to prevent non-compliance. Further information on the Compliance function is contained in section B.4 of this report.
- The **Internal Audit** function, led by the Head of Internal Audit, is responsible for providing independent and objective assurance to the Board, the Audit Committee and the RCC on the adequacy and effectiveness of ZIP's risk management, internal control and governance processes. Further information on the Internal Audit function is contained in section B.5 of this report.

- The **Actuarial** function, led by the Head of Actuarial Function, is responsible for carrying out the actuarial activities of ZIP, including the provision of regular reports to the Board on the valuation of technical provisions. The Actuarial function co-operates closely with the Risk Management function on matters relating to the Internal Model. Further information on the Actuarial function is contained in section B.6 of this report.

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

The Internal Audit function is outsourced to the Group Internal Audit function. An appropriate service level agreement is in place to ensure that sufficient resources with appropriate capability and competence are provided to deliver the audits contained in ZIP’s approved internal audit plan. If the independence or objectivity of the Internal Audit function is impaired, details of the impairment must be disclosed to the Chairperson of the Audit Committee so that appropriate action can be taken.

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

Table 6: ZIP key functions

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

Material changes in the system of governance

There were no material changes to the system of governance during 2016.

Remuneration

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

The ZRR establish a balanced and effectively managed remuneration system for employees, which ensures competitive total remuneration opportunities for which the resulting awards are adjusted depending on the results achieved. The short- and long-term incentive plans (STIP and LTIP) aim to align the remuneration architecture with the achievement of key financial objectives, the execution of the business strategy, the risk management framework and the operational plans.

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

For senior employees, including those individuals who hold positions considered as key risk taker roles, a large proportion of their remuneration is deferred over the long term and is dependent on long-term company performance. The performance based target shares guaranteed under the LTIP only vest if certain performance criteria are met 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.

B. System of Governance *continued*

Material transactions with Zurich Group companies during 2016

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

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

All of these arrangements were also in place during 2015 with broadly similar terms and conditions.

Term loans of EUR 602m with a duration of one year were advanced to ZIC during the year. A term loan of EUR 135m with ZIC matured during the year.

B.2 Fit and proper requirements

Irish insurance companies must be satisfied that people who perform certain roles comply with 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 ZIP or who ensure its compliance with relevant obligations. They also apply to people who deal directly with customers, for example in an advisory capacity or with respect to claims and complaints.

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

The Board has approved a policy and implemented controls to ensure that it meets these requirements. Checks are carried out in advance of any person being appointed to such a role to obtain:

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

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

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 ZIP of any material changes to the information previously provided. In the event changes have occurred, the relevant checks will be re-performed to ensure the individual continues to comply with the relevant standards.

B.3 Risk management system including the Own Risk and Solvency Assessment

Overview of the risk management system

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

A "three lines of defence" approach is applied across the company, so that risks are clearly identified, owned and managed:

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

Implementation of the risk management system

The Board is responsible for ensuring that the rules and procedures for decision-making are well defined, transparent and supported through appropriate risk management and culture. The Board approves at least annually a risk appetite statement which details ZIP's willingness and capacity to take risk, based on:

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

Risk tolerances are approved by the Board at least annually as part of the setting of risk appetite. The risk tolerances define the maximum willingness to take risk, both on an overall basis and also with respect to individual types of risks. The risk tolerances are set with due regard for circumstances that may give rise to increased risk. The ERM framework is designed to support decision-making by providing consistent, reliable and timely risk information, thereby protecting capital from risks that exceed these approved risk tolerances.

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

The risk management function

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

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

Risk policy

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

The Own Risk and Solvency Assessment

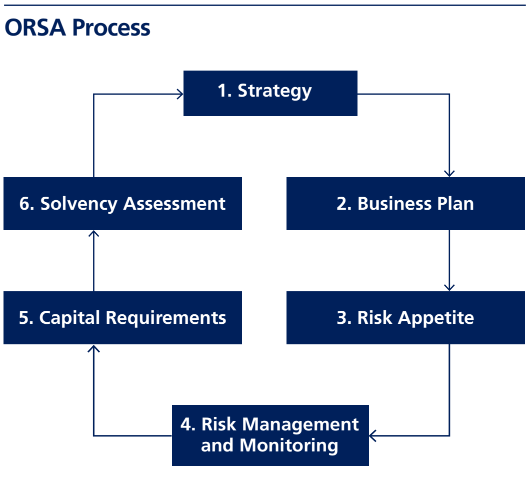
The Own Risk and Solvency Assessment ("ORSA") is the entirety of the processes employed to identify, assess, manage, monitor and report the short and long term risks to which ZIP is exposed. These processes include the analysis of the risk capital required to be held in respect of these risks, currently and over the business planning horizon. The ORSA process is embedded within the ERM framework, and is aligned with capital management activities. The risk and capital assessments, and conclusions arising, are used within business decision-making processes, including the assessment that the business plan is aligned with risk appetite.

B. System of Governance *continued*

The ORSA process is summarised at least annually in the ORSA report, which includes contributions from a number of functional areas, including Risk Management, Capital Management, Treasury, Finance, Legal, Compliance, Actuarial and Internal Audit. In addition, first line functions such as Underwriting, Operations and Claims assist in defining appropriate scenarios and stress tests for inclusion in the ORSA. Scenarios and stress tests are defined to address both individual risks and risk aggregations.

The Board is responsible for directing and overseeing the ORSA process, challenging its outcome and reviewing and approving the ORSA policy and ORSA report.

Chart 4: ZIP ORSA process



Governance of the ORSA process is mandated by the ORSA policy, which includes the following:

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

The cornerstone of the ORSA is an assessment of the current and planned risk profiles, stress tests of these profiles and the resulting capital requirements, including:

- An analysis of the current capital position under stressed conditions
- Consideration of the current and likely future risks inherent to the business as identified by the ERM framework
- A forward-looking assessment of the capital position over the planning horizon
- Determination of the target capital ratio (i.e. the company's overall solvency needs) based on the above analyses

The ORSA process takes place annually, with the final stage being the production of the ORSA report, which is reviewed and approved by the Board and submitted to the CBI. The ORSA process and report is updated more frequently, if required, to reflect material changes in the risk profile including major acquisitions or divestments, major shifts in product mix, or major changes in the business, operating or external environment.

Internal Model governance

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

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

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

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

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

The CRO is supported across all areas of model governance, by the Capital Model Forum, which meets quarterly and includes representatives from relevant management functions.

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

There have been no material changes to the Internal Model governance during the reporting period.

B.4 Internal control system

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

Accountability for the design and operational effectiveness of each control resides with relevant management in ZIP in each location where there are business operations. The responsibility for performing the relevant controls may be delegated by management, subject to certain conditions (e.g. the control delegate must have sufficient knowledge to perform the control). Each branch manager signs a statement on a quarterly basis to certify the status of the internal control system for their branch. The certification process is managed using the Risk and Control Engine ("RACE") tool.

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

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

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

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

Compliance function

The Compliance function is underpinned by a compliance policy and a compliance plan. The compliance policy defines the responsibilities, competencies and reporting duties of the Compliance function. The compliance plan sets out the planned activities of the Compliance function taking into account all relevant activities undertaken within ZIP and their respective exposures to compliance risk.

As part of a comprehensive program, the Compliance function implements and monitors compliance policies and guidance and ensures that all employees receive regular compliance training, including annual training on Zurich Basics (the Group's code of conduct).

B. System of Governance *continued*

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

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

B.5 Internal audit function

As indicated in Section B.1 of this report, the Internal Audit function for ZIP is outsourced to the Group Audit team. A representative of the Group is appointed as the Head of Internal Audit for ZIP and is responsible for providing assurance to the Board and the Audit Committee on the adequacy and effectiveness of the risk management framework, internal control system and other elements of the system of governance.

The Board has approved an internal audit policy which provides for the development of a risk-based audit plan, based on the full spectrum of business risks and any specific concerns raised by the Audit Committee or other stakeholders. The Audit Committee is responsible for approving the annual audit plan. The audit plan is executed in accordance with defined operating standards, which incorporate and comply with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. Key issues observed by the Internal Audit function as part of 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 (through the Audit Committee). The internal audit policy provides that if the independence or objectivity of the Internal Audit function is impaired, then details of the impairment must be disclosed to the Chairperson of the Audit Committee so that appropriate action can be taken.

B.6 Actuarial function

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

The primary responsibilities of the Actuarial function are:

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

The Actuarial function provides independent and objective assurance to the Board and its committees. In particular, the Actuarial function reports to the Board on its activities at least annually, documenting the tasks performed, identifying any deficiencies where relevant and giving recommendations as to how they should be remedied. The Actuarial function also provides independent and objective assurance to the Audit Committee in respect of the valuation of technical provisions.

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

B.7 Outsourcing

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

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

- Risk and control assessments should be conducted prior to any decision to outsource and then periodically during the life of the outsourcing arrangement.
- Service providers should be 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 ("CIFA") are met.

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

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

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

Table 7: Outsourcing to Zurich Group

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

The CIFA activities which ZIP outsources to external third parties are:

Table 8: Outsourcing to external suppliers

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

B. System of Governance *continued*

B.8 Any other information

Assessment of system of governance

During each calendar year, the Board oversees internal reviews that consider the adequacy of individual components of the system of governance. 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 ZIP system of governance is considered to be adequate in relation to the nature, scale and complexity of the risks inherent in ZIP's business. This view was recently affirmed by an assessment that took place following certain organisational changes across the Group.

Other material information

The introduction of Solvency II resulted in the development of a number of new policies in recent years.

C. Risk Profile

Introduction

This section analyses the main risks for ZIP at December 31, 2016. These include all the risks measured in the Internal Model, which has been approved for use by CBI under Solvency II, and other risks not included in the Internal Model.

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

The build-up of the SCR result of EUR 2,046m at December 31, 2016 is shown in the Appendix: QRT S25.03.21

The available financial resources ("Own Funds") to meet the SCR at December 31, 2016 were EUR 2,694m. Therefore at December 31, 2016 the company had excess Own Funds of EUR 648m, after providing for the SCR.

ZIP manages a range of risks typical of a non-life insurance company. These risks include: Underwriting risk, Market risk, Credit risk, Liquidity risk, Operational risk, Pension risk, Expense risk, Reputational risk and Strategic risk. A framework is in place to monitor and mitigate all material risks, as described in this section.

C.1 Underwriting risk

This risk is the potential loss of economic capital arising from unexpectedly high frequency of insurance claims and/or unexpectedly high severity of insurance claims.

In the Internal Model the underwriting risk is measured for a one year forward time horizon under the following categories:

- Premium & unearned premium reserve ("UPR") risk: the risk measured is that insurance claims from the planned insurance business (unexpired and future risks) will deviate adversely from the expected insurance claims (excluding the risks for future insurance claims relating to natural catastrophe events - see below). The exposures used for premium risk at December 31, 2016 were the plan premiums for 2017 and the exposures used for UPR risk at December 31, 2016, were the planned unearned premiums (Solvency II valuation basis) at December 31, 2017. There was no material change in the value of the exposures to these risks in 2016
- Reserve risk: the risk measured is that the insurance claims reserves booked at December 31, 2016 prove to be insufficient to cover the ultimate value of the claims for these expired risks. The exposures used for reserve risk at December 31, 2016 were the insurance claims reserves booked at that date. There was no material change in the value of the exposure to this risk in 2016
- Nat Cat risk: the risk measured is that future insurance claims due to natural catastrophe events (affecting multiple insurance policies) will deviate adversely from the expected claims for such events. The exposures for Nat Cat risk used at December 31, 2016 were the sums insured which were exposed to natural catastrophe risks in the next year. There was no material change in the value of the exposure to this risk in 2016

At December 31, 2016 there was significant reinsurance protection in place to protect against the gross underwriting exposures noted above, including extensive protection against the impact of natural catastrophe events.

Risk measures

The underwriting risks were measured by the Internal Model, in 2016 and in the prior year. For Nat Cat the measurement of risk is supported by the use of an external (industry recognised) model.

At December 31, 2016, the stand-alone capital required for each of these risks (which were part of the diversified SCR of EUR 2,046m) was as follows:

- Premium, Reserve & UPR risks (the three risks combined): EUR 923 m

C. Risk Profile *continued*

This value represented the losses that could occur in the extremely unlikely occurrence of a 1 in 200 year event and can be compared to the available Own Funds of EUR 2,694m at December 31, 2016.

- Nat Cat risk: EUR 275 m

This value represented the losses that could occur in the extremely unlikely occurrence of a 1 in 200 year event and can be compared to the available Own Funds of EUR 2,694m at December 31, 2016.

Risk concentrations

Premium, UPR and Nat Cat Risks

The main area of concentration risk in the future insurance business arises from potential natural catastrophe and man-made catastrophe events. These potential concentrations of natural catastrophe risk are identified by mapping exposures of the company to the peril regions, and modelling the potential losses, with reinsurance purchased as deemed necessary. The level of this reinsurance cover is reviewed and approved annually. The experience in monitoring potential exposures from natural catastrophes is also applicable to the concentrated risks posed by man-made catastrophes, particularly terrorism. Exposures to losses in the workers injury and property lines of business are reviewed, to identify areas where there are significant concentrations. Other lines of business are also assessed, such as liability and motor, although the concentration risk is not as significant.

Reserve risk

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

Risk mitigation

Overall

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

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

Premium, UPR & Nat Cat risks

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

Key aspects of the framework are:

- Limits are in place for underwriting authority, with specific approvals required for transactions involving new products or where established capacity limits may be exceeded.
- Pricing guidelines are issued to ensure accurate and consistent setting of premiums across the company. The implementation of these guidelines is subject to regular review.
- A variety of reserving and modelling methods are used to aid understanding of the risks inherent in the insurance business being written.
- A "Virtuous Circle" process is in place to ensure a culture of continuous collaboration between underwriting, actuarial, claims, sales and distribution, finance, risk management and risk engineering teams. The objective is to communicate, inform and ensure a common understanding, interpretation and approach to managing the risks being written.
- Potential new emerging risk exposures are monitored through an emerging risk group, which has cross-functional expertise to identify, assess and recommend actions for such risks.
- Regular reviews by management of the underwriting results by line of business, with actions taken on growing or reducing the businesses based on the performance.

- For Natural Catastrophe risk an external (industry recognised) model is used to identify accumulations and perils (principally windstorm, earthquake & flood). The output from this model, adapted for the company where necessary, is used to inform future underwriting and pricing decisions and guide the levels of reinsurance purchased against potential losses from natural catastrophe events.

Reserve risks
The implementation of the ZIP reserving policy mitigates the risk that the insurance claims reserves are misstated, and thereby could be subject to future unexpected losses.

The reserves booked are valued based on the work performed by qualified and experienced actuaries, taking into consideration the latest available facts, historical trends and past payment patterns. In reaching the final booked amounts, actuarial analyses are performed by product line, type and extent of coverage, and year of accident occurrence. The insurance claims reserves are regularly reviewed by the Head of Actuarial Function and reported to ZIP's Reserving Committee. The Reserving Committee considers the sensitivities included in the valuation of the insurance claims reserves.

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

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

Sensitivities
The main sensitivities for underwriting risks as at December 31, 2016 were:

- Legal judgments and political decisions
- Movements in inflation and interest rates
- Environmental factors impacting the level of natural catastrophe events
- Market competition/capacity
- Emerging trends in terrorism activity
- Technology trends impacting the business mix

C.2 Market risk (including investment credit risk)

Market risk
This risk refers to the potential loss of economic capital arising from adverse financial market movements. This risk arises from the assets and financial liabilities whose values are subject to such movements.

The main risk factors are:

- Equities and real estate market prices
- Interest rates
- Credit spreads and sovereign spreads
- Currency exchange rates

Equities and real estate market prices
Exposure to these risks arises from holdings of common stocks and equity unit trusts and from direct holdings in property, as well as investments in listed property companies and property funds, and holdings of property debt securities such as commercial and residential mortgages and commercial and residential mortgage-backed securities.

The risk measured is that market prices for equities and real estate will move adversely resulting in unexpected losses. There was no material change in the value of the exposure to these risks in 2016.

C. Risk Profile *continued*

Interest rates
The main exposure to this risk arises from holdings of debt securities, loans and receivables, and from the financial liabilities held for insurance claims and other liabilities.

Movement in interest rates is largely driven by central bank monetary policies and expected changes in the economic and inflation outlook. The risk is measured by considering the impact of changes in interest rates and/or changes in the shape of yield curves, impacting the values of assets and financial liabilities and resulting in unexpected losses. A cornerstone of mitigating the interest rate risk is to match the maturity profile of the insurance claims reserves with a similar maturity profile for the related assets. There was no material change in the value of the exposure to this risk in 2016.

Credit spreads and sovereign spreads
The main exposure to credit spread risks arises from holdings of debt securities, other than government issued securities. The risk measured is that there will be movement in credit spreads, for example driven by an increase in the expected probability of default, thereby impacting the value of the assets and resulting in unexpected losses. There was no material change in the value of the exposure to this risk in 2016.

The exposure to sovereign spread risks, as measured in the Internal Model, arises from holdings of Eurozone government issued bonds. The risk measured is that there will be movement in sovereign spreads, thereby impacting the value of the bonds and resulting in unexpected losses. There was no material change in the value of the exposure to this risk in 2016.

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

The exposure to this risk arises from holdings of non-Euro currencies, offset by the value of any currency hedges in place. There was an increase in the value of the exposure to this risk in 2016.

Investment credit risk
This risk refers to the potential loss of economic capital arising from counterparties failing to fulfill their financial obligations on investment related balances. The credit risk relating to such obligations from Group counterparties is covered in section C.3.

The exposure to this risk arises from holding the following categories of assets:

- Cash and cash equivalents
- Debt securities & related Repo transactions
- Derivatives

Cash and cash equivalents
The exposures to this risk are the holdings of cash and cash equivalents in financial institutions and in money market funds. The risk measured is that the institutions would default on their obligations. There was no material change in the value of the exposure to this risk in 2016.

Debt securities
The exposures to this risk are the debt securities held. The risk arising is that the counterparties would default on their obligations. The counterparties include governments and corporates. There was no material change in the value of the exposure to this risk in 2016.

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

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

Derivatives
The exposure to this risk arises from derivative instruments entered into, and the risk measured is that there would be a default by the counterparty. The value of exposures reduced in 2016.

Risk measures
The market and investment credit risks were measured by the Internal Model, in 2016 and in the prior year. The measurement of market risks is supported by the use of an external (industry recognised) model.

At December 31, 2016, the stand-alone capital required for these risks (which was part of the diversified SCR of EUR 2,046m) was EUR 707m.

This value represented the losses that could occur in the extremely unlikely occurrence of a 1 in 200 year event and can be compared to the Own Funds of EUR 2,694m at December 31, 2016.

Risk concentrations
There were no material risk concentrations at December 31, 2016. The largest value individual holdings are in government issued securities, which are held at that level in order to match the profile of the financial liabilities.

Issuer limits are in place for non-government exposures, to ensure no material concentrations arise.

Risk mitigation

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

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

- Holding well diversified equity and real estate portfolios
- Having a liquidity policy that specifies limits on holdings of less liquid assets
- Conducting thorough due diligence on asset managers prior to appointing them to manage mandates
- Using established custodian banks to safeguard the company's invested securities

The company uses derivatives solely for hedging currency and equity exposures. Investments which are not admitted to trading on a regulated financial market are subject to restriction through the company's limits on both asset classes and less liquid assets.

C. Risk Profile *continued*

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

Sensitivities
There is a wide range of sensitivities for market and investment credit risk.

These include:

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

Sensitivities to potential market shocks are calculated by an external (industry recognised) model and reported quarterly to the ALMIC.

C.3 Credit risk

This risk refers to the potential loss of economic capital arising from counterparties failing to fulfill their financial obligations (other than those credit risks noted in section C.2 for non Group investments).

This credit risk is measured separately for:

- Reinsurance assets (non Group)
- Other receivables (policyholders, agents and intermediaries and other insurance companies)
- Intra-Group assets (assets with counterparties within the Group)

Reinsurance assets (non Group)
The exposures to this risk are balances due under existing reinsurance contracts. Such contracts have been entered in accordance with the reinsurance strategy.

The counterparties are reinsurance companies and the risk measured is that these counterparties would default on their obligations. The potential loss of value due to rating migration risk is also measured; this is the potential reduction in the value of reinsurance assets if counterparties were downgraded. There was no material change in the value of the exposures to this risk in 2016.

Other receivables due from policyholders, agents and intermediaries, and other insurance companies
The exposures are premiums due from counterparties and amounts due on co-insurance arrangements and other contractual obligations. The counterparties are policyholders, brokers, intermediaries and other insurance companies and the risk measured is that the counterparties would default on their obligations. There was no material change in the value of the exposure to this risk in 2016.

Intra-Group assets
The exposures are amounts due from Group counterparties in respect of reinsurance contracts, loans, investments and other amounts due under contractual obligations. The risk measured is that the counterparties would default on their obligations. Also measured is the rating migration risk, the potential reduction in the value of the assets if the counterparty was downgraded. There was no material change in the value of the exposure to this risk in 2016.

Risk measures

The credit risks for non Group assets were measured by the Internal Model, in 2016 and in the prior year. At December 31, 2016, the stand-alone capital required for the risks (which were part of the diversified SCR of EUR 2,046m) was as follows:

- Reinsurance assets credit risk: EUR 40m

- Other receivables credit risk: EUR 26m

These values represented the losses that could occur in the extremely unlikely occurrence of a 1 in 200 year event for each risk type, and can be compared to the available Own Funds at December 31, 2016 of EUR 2,694m.

The Dynamic Model (DM) is that part of the Internal Model which is used to measure credit risk on intra-Group assets. The DM result is added as a final step in the SCR result production. The risk measured in the DM for intra-Group assets credit risk at December 31, 2016, was EUR 75m.

Risk concentration

The level of balances is monitored on an ongoing basis, with guidelines in place for the size of the balances allowed with any one counterparty dependent on their credit rating. This minimises the risk concentrations with third parties.

There were material concentrations of intra-Group assets at December 31, 2016, largely due to the reinsurance contracts in place. These risks are mitigated as outlined below.

Risk mitigation

Reinsurance assets (non Group)

A minimum credit rating of "A-" is standard for all new reinsurance arrangements, with exceptions requiring approval. The balances due from reinsurers are reviewed on a periodic basis against limits, which are set according to credit ratings. Collateral is requested to mitigate credit risks where deemed necessary. There are limits and quality criteria for acceptable collateral.

Other receivables

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

Intra-group assets

Exposures are monitored and reported on a regular basis, also with the corresponding financial strength for the relevant counterparties. This allows the assessment of whether the exposures result in an acceptable level of risk.

Monitoring of risk mitigation

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

As noted, the financial strength of relevant Group counterparties is monitored quarterly, including their latest capital position.

Sensitivities

The main items of sensitivity for credit risk are included below.

Reinsurance assets

- Occurrence of large losses impacting financial resources of reinsurers e.g. natural catastrophe events.

Other receivables

- Economic indicators which could impact collections (e.g. unemployment rates).

Intra-group receivables

- Capital ratios of counterparties
- Corporate activity
- Business performance

C. Risk Profile *continued*

C.4 Liquidity risk

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

Risk measure/concentration

Liquidity risk is not measured in the Internal Model. The risk is managed through the implementation of a liquidity policy, rather than holding risk capital.

There are a number of sources of liquidity including:

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

The liquidity position is reported to the ALMIC on a quarterly basis, with the investment portfolio analysed by liquidity quality on a rating of 1 to 5 from strongest to weakest e.g. AAA rated corporate bonds are classified as level 1

Expected profit included in future premiums

The total amount of expected net profit in future premiums at December 31, 2016 was EUR 513m. At December 31, 2016, this amount was booked in the Solvency II technical provisions in accordance with Solvency II accounting rules.

These expected future profits are not relied on in projecting available liquidity.

Risk mitigation

The liquidity policy outlines the steps to ensure liquidity needs are met, including:

- A cash allocation is mandatory as part of the strategic asset allocation.
- Limits are in place on mismatches between assets and liabilities of different currencies.
- Limits are in place on concentration for debt security holdings, tapering with credit quality to minimise counterparty default risk.
- Limits are in place for holdings of assets deemed less liquid such as real estate.

The resilience to modelled catastrophic claim events, bank failures and other negative cash flow scenarios is regularly tested and reported to the ALMIC, by testing that projected two year insurance claims plus the addition of the worst stress test can be covered by level 1 and 2 assets (i.e. assets that could be comfortably sold within one year).

Sensitivities for liquidity risk

There is no vulnerability to mass surrenders or other such liquidity stresses. The resilience to exceptional liquidity demands is tested as outlined above.

C.5 Operational risk

The risk measured relates to the potential loss of economic capital resulting from inadequate or failed internal processes or systems, failure of personnel, or impact from external events such as failures in outsourcing arrangements, changes in legislation or tax laws, or external fraud including cyber attacks.

This includes the risk from outsourcing to Group counterparties; ZIP receives certain key services from Group counterparties.

A Top Down Scenario ("TDS") framework is used to identify and measure operational risks. Under the TDS, a scenario-based approach is applied to assess, model and quantify the operational risks under extreme circumstances. The assessment is made in each location where the company operates.

For each scenario, the management in each branch are required to estimate the frequency and the severity of possible losses, both from a most likely and a worst case perspective. Results are then aggregated at ZIP level. There was no material change to the value of the exposures to this risk in 2016.

Risk measures

The risks (sourced from the TDS process) were measured by the Internal Model, in 2016 and in the prior year.

At December 31, 2016, the stand-alone capital required for operational risk (which was part of the diversified SCR of EUR 2,046m), was EUR 525m.

This value represented the loss that could occur in the extremely unlikely occurrence of a 1 in 200 year event and can be compared to the own funds of EUR 2,694m at December 31, 2016.

Risk concentrations

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

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

Risk mitigation

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

Actual operational loss events exceeding a threshold are documented and evaluated. Events are recorded on a dedicated database. Remedial action is taken to help avoid a re-occurrence of such operational loss events.

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

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

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

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

Monitoring of risk mitigation

The status of operational risks is reviewed at the quarterly RCC. This Committee receives inputs from the equivalent forums in each of the locations where the business operates. Issues are escalated to the Board Risk Committee as appropriate.

C. Risk Profile *continued*

Sensitivities
The key sensitivities considered in the TDS process are:

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

C.6 Other material risks

C.6.1 Pension risk
This risk relates to the potential loss of economic capital due to the assets in defined benefit pension funds being insufficient to meet the obligations to the members of the pension funds when they become due, resulting in the company being required to make up the shortfall.

Components of this risk measured in the Internal Model are:

- Longevity risk: The risk that mortality of scheme members is different from that which is expected (i.e. improvement in life expectancy).
- Market risk: The risk associated with the value of assets and liabilities in the pension fund schemes, where the values can be impacted by movements in financial markets.

There was no material change in the value of the exposure to this risk in 2016.

Risk measure
The risks were measured by the Internal Model, in 2016 and in the prior year. At December 31, 2016, the stand-alone capital required (which was part of the diversified SCR of EUR 2,046m), was EUR 235m.

This value represented the losses that could occur in the extremely unlikely occurrence of a 1 in 200 year event and can be compared to the available own funds of EUR 2,694m at December 31, 2016.

Risk concentration
Concentration risk can arise if assets in the pension schemes are concentrated.

Risk mitigation
Each pension scheme is managed by pension trustees, in accordance with the pension deed. The pension deed sets out the terms and conditions of the pension scheme. The pension trustees monitor the pension schemes and meet regularly to report on the status of the pension schemes and to decide whether any actions need to be taken to ensure the liabilities will be met. External pension consultants are engaged to produce a full actuarial valuation report on the pension schemes every three years, with estimates provided for the other years. If necessary the pension trustees will submit proposals to senior management (e.g. revised funding plan) for their decision.

Monitoring of risk mitigation
The position of the pension schemes is reviewed by the pension trustees on a regular basis and an annual report is prepared for each scheme which is provided to the company management.

Risk sensitivities
The key sensitivities are movements in interest rates and mortality rates.

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

C.6.2 Expense Risk
This risk is the potential loss of economic capital due to adverse development in the value of expenses, relative to the value of the business volumes.

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

There was no material change in the value of the exposure to this risk at December 31, 2016.

Risk measure
The risks were measured by the Internal Model, in 2016 and in the prior year. At December 31, 2016, the capital required for this risk (which was part of the diversified SCR of EUR 2,046m) was EUR 275m.

This value represented the losses that could occur in the extremely unlikely occurrence of a 1 in 200 year event and can be compared to the available Own Funds of EUR 2,694m at December 31, 2016.

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

Risk mitigation
Expenses are monitored by the management in each location on an ongoing basis and corrective actions are taken where necessary to address adverse trends. In particular management identifies potential shortfall in the business volume and identifies the need to take actions, such as reorganisation to address the expense loading.

Monitoring of risk mitigation
The expense performance for each business is reviewed by management on a regular basis as part of the overall financial performance reviews. As noted, appropriate actions are taken to address issues identified.

Sensitivities
The key sensitivities are adverse movements in the volume of business, adverse movements in commission rates or wage inflation, and technology developments.

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

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

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

Risk concentration
This risk exists throughout the company.

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

C.6.4 Reputation risk
This is the risk of loss of trust amongst stakeholders due to, for example, an act or omission by any employee.

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

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

C. Risk Profile *continued*

Risk mitigation and monitoring

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

C.6.5 Scenarios (included in the SCR)

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

Scenarios can be added to augment the SCR. At December 31, 2016, the impact of adding scenarios was to increase the SCR by EUR 199m.

C.7 Any other information

Stress tests in 2016

Background

A number of capital stresses were calculated in 2016 based on reasonably foreseeable events, albeit with a low probability of occurring. The calculation of these stresses allowed the Board to compare the impact of these events relative to the level of economic capital held, and thereby consider the resilience of the company to such events. The calculation of the stresses also allowed the Board to validate the SCR as measured in the Internal Model.

Processes and reporting

The stresses were defined with the involvement of the Board. The impact of the stresses was measured using historic data, supplemented by models and expert judgments and the results were reported in the 2016 Own Risk and Solvency Assessment ("ORSA") report, which was approved by the Board and submitted to the CBI. The assumptions made for each of the stresses was detailed in the ORSA report.

Results

The 21 events selected for the 2016 ORSA report were classified according to the main driver of the stresses. For all of the selected events the company's assets exceeded its liabilities, following the impact of the stress.

A selection of the stresses and the potential impacts, as reported in the 2016 ORSA report were:

1. Natural catastrophe event: EUR 447m

   Based on a 1 in 500 year (extremely unlikely) natural catastrophe event, taking account of the existing reinsurance programme.

2 General real estate crash: EUR 388m

   Based on a 50% fall in prices across residential real estate, commercial real estate and real estate funds.

3. Cyber event: EUR 123m

   Based on a potential surge in insurance claims arising from a widespread cyber attack.

The calculation of the stresses also provides assurance that the Internal Model does not understate the SCR at December 31, 2016 (EUR 2,046m), as the SCR value significantly exceeded the value of each and every stress.

D. Valuation for Solvency Purposes

Solvency II and Irish GAAP valuations

The methods and assumptions used for the valuation of assets, technical provisions and other liabilities follow the approaches prescribed under Solvency II valuation rules and Irish GAAP, as appropriate.

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

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

The different accounting rules result in significant differences in the value of both assets and liabilities, with a resulting net difference of EUR 246m.

The variances in the valuations of assets and liabilities between the MCBS and Irish GAAP are shown in the table below.

Table 9: Balance sheets

in EUR thousands, as at December 31, 2016	MCBS	Irish GAAP	Variance
Assets			
Intangible assets	-	174,788	(174,788)
Deferred acquisition costs	-	128,762	(128,762)
Deferred tax assets	23,015	14,398	8,617
Pension scheme surpluses	-	-	-
Property, plant & equipment held for own use	115,777	115,777	-
Investments (other than assets held for index-linked and unit-linked contracts)	10,247,735	9,954,776	292,959
Loans and mortgages	732,361	770,915	(38,554)
Reinsurance recoverables	9,526,446	11,157,689	(1,631,243)
Deposits to cedants	12,672	12,672	-
Insurance & intermediaries receivables	533,423	1,630,781	(1,097,358)
Reinsurance receivables	476,808	316,723	160,085
Receivables (trade, not insurance)	356,404	455,723	(99,319)
Cash and cash equivalents	239,412	239,273	139
Any other assets, not elsewhere shown	188,213	298,174	(109,961)
Total assets	**22,452,266**	**25,270,451**	**(2,818,185)**
Liabilities			
Technical provisions – non-life	16,476,499	19,381,078	(2,904,579)
Technical provisions – life (excluding index-linked and unit-linked)	729,018	538,511	190,507
Provisions other than technical provisions	138,593	155,473	(16,880)
Pension scheme deficits	66,177	66,177	-
Deposits from reinsurers	20,315	20,315	-
Deferred tax liabilities	102,348	50,939	51,409
Derivative liabilities	25,106	25,106	-
Debts owed to credit institutions (incl. Bank Overdraft)	19,447	19,447	-
Insurance and intermediaries payables	163,260	203,900	(40,640)
Reinsurance payables	80,448	379,507	(299,059)
Payables (trade, not insurance)	670,220	671,117	(897)
Subordinated liabilities	103,573	103,602	(29)
Any other liabilities, not elsewhere shown	1,266,793	1,310,645	(43,852)
Total liabilities	**19,861,797**	**22,925,817**	**(3,064,020)**
Excess of assets over liabilities	**2,590,469**	**2,344,634**	**245,835**

D. Valuation for Solvency Purposes *continued*

D.1 Assets

Table 10 provides quantitative information on the variance between the valuation of assets in the MCBS compared to the values reported under Irish GAAP.

Table 10: Assets

in EUR thousands, as at December 31, 2016	MCBS	Irish GAAP(*)	Variance
Intangible assets	-	174,788	(174,788)
Deferred acquisition costs	-	128,762	(128,762)
Deferred tax assets	23,015	14,398	8,617
Pension scheme surpluses	-	-	-
Property, plant & equipment held for own use	115,777	115,777	-
Investments (other than assets held for index-linked and unit-linked contracts)	10,247,735	9,954,776	292,959
Loans and mortgages	732,361	770,915	(38,554)
Reinsurance recoverables	9,526,446	11,157,689	(1,631,243)
Deposits to cedants	12,672	12,672	-
Insurance & intermediaries receivables	533,423	1,630,781	(1,097,358)
Reinsurance receivables	476,808	316,723	160,085
Receivables (trade, not insurance)	356,404	455,723	(99,319)
Cash and cash equivalents	239,412	239,273	139
Any other assets, not elsewhere shown	188,213	298,174	(109,621)
Total assets	**22,452,266**	**25,270,451**	**(2,818,185)**

*The assets reported in the table above under Irish GAAP of EUR 25,270m differ to those reported in the statutory financial statements of EUR 25,248m. This is due to the different presentation between the statutory financial statements and the Solvency II reporting, in particular the derivative assets and derivative liabilities are netted in the statutory financial statements. In addition there are certain reclassifications between the Irish GAAP values above and those reported in the statutory financial statements.

As shown above the assets in the MCBS are EUR 2,818m lower than reported under Irish GAAP. The table below explains the reasons for the variances in the valuation of the assets between the MCBS and Irish GAAP at December 31, 2016. The largest variances relate to the different approaches to measuring and classifying the insurance (technical) provisions in the MCBS compared to Irish GAAP, and the consequent impact on certain asset values.

Table 11: Comparison of valuation bases - Assets

Asset class	Variances in valuation between MCBS & Irish GAAP
Intangible Assets	Intangible Assets are valued at net book value in Irish GAAP. In the MCBS intangible assets are recognised only when they can be sold separately and a valuation can be derived from a quoted market price, in an active market, for the same or a similar intangible asset.
Deferred acquisition costs ("DAC")	DAC is recognised at cost in Irish GAAP and amortised on a periodic basis that reflects the earning pattern of the associated unearned premiums. DAC is not recognised in the MCBS as it does not have a future cash flow.
Deferred tax assets	Deferred tax assets are recognised in Irish GAAP for expected future tax credits. In the MCBS, deferred tax is further applied to the valuation differences that arise between the MCBS and Irish GAAP values.
Investments (other than assets held for index-linked and unit-linked contracts)	In general financial assets are measured at fair value in both Irish GAAP and the MCBS. The fair values of financial assets traded in active markets are based on quoted bid prices on the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. Assets that are not traded in an active market are valued using an internal valuation with inputs based on the best information available about the assumptions that market participants would use when pricing the asset. Further information can be found in section D.4. However, the following assets were not valued at fair value in Irish GAAP and are subsequently revalued to fair value in the MCBS: - Debt securities held to maturity (valued at amortised cost in Irish GAAP), - Preference shares (valued at cost in Irish GAAP). There are also presentation differences in the MCBS compared to Irish GAAP, in particular, accrued interest is reported as receivables under Irish GAAP whereas reported as investments in the MCBS.
Reinsurance recoverables	Under Irish GAAP this balance includes the share of the Unearned Premium Reserve ("UPR") liability which is expected to be ceded to reinsurers. In the MCBS the UPR liability is effectively replaced with the Premium Provision, whereby expected future claims and expenses are netted against the future premiums. As a consequence of these conceptual differences between UPR under Irish GAAP and the Premium Provision in the MCBS, the related reinsurance recoverable asset has a significantly lower value in the MCBS.
Insurance and intermediaries receivables	Under Irish GAAP this balance represents all the premiums due from policyholders and intermediaries, on expired and unexpired risks. In the MCBS the value of the premiums due on unexpired risks is netted in the Premium Provision liability, hence the lower value of these assets in the MCBS.
Reinsurance receivables	Under Irish GAAP this balance represents all the reinsurance balances contractually due to be collected. In the MCBS the value of the future reinsurance receivables on unexpired risks is netted in the Premium Provision liability, hence the lower value of these assets in the MCBS.
Receivables (trade, not insurance)	Trade receivables include accrued interest, dividends, tax and other income, and are recognised at fair value in both the MCBS and Irish GAAP. The variance relates to the classification of accrued interest.
Any other assets, not elsewhere shown	Under Irish GAAP this balance includes accrued premiums. In the MCBS the value of accrued premiums is netted in the Premium Provision liability, hence the lower value of these assets in the MCBS.

D. Valuation for Solvency Purposes *continued*

D.2 Technical provisions

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

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

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

In summary, the gross technical provisions in the MCBS are EUR 2,714m lower than under Irish GAAP, as shown below.

Table 12: Comparison of valuations - Technical Provisions

in EUR thousands as of December 31, 2016	Solvency II MCBS	Irish GAAP	Difference
Liabilities			
General Liability	9,093,396	9,981,590	(888,194)
General Liability- Risk margin	158,104		158,104
Motor Vehicle Liability	2,980,629	3,359,400	(378,771)
Motor Vehicle Liability - Risk margin	65,791		65,791
Fire and Other Damage to Property	2,504,281	3,670,435	(1,166,154)
Fire and Other Damage to Property - Risk margin	31,096		31,096
Motor non liability	291,464	477,447	(185,983)
Motor non liability - Risk margin	5,295		5,295
Other*	1,326,421	1,892,206	(565,785)
Other - Risk margin*	20,022		20,022
Life**	705,040	538,511	166,529
Life- Risk margin**	23,978		23,978
Total	**17,205,517**	**19,919,589**	**(2,714,072)**

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

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

The table below explains the variances in the value of the technical provisions between the MCBS and Irish GAAP at December 31, 2016.

Table 13: Comparison of valuation bases - Technical Provisions

Item	Variance between MCBS and Irish GAAP
Unexpired risks i.e. insurance policies which are accounted, however the risk coverage period has not commenced	Under Irish GAAP the unearned premium reserve ("UPR") effectively represents the liability for expected future claims and related expenses on unexpired risks. The corresponding assets in Irish GAAP are booked as premiums received or receivable. In the MCBS (and in accordance with Solvency II accounting rules) the UPR liability is effectively replaced with the Premium Provision, whereby expected future claims and expenses are netted against the expected future premiums (see comments in D.1 on lower asset values in the MCBS compared to Irish GAAP).
Discounting (time value of money)	Under Irish GAAP discounting is only applied to annuity reserves. In the MCBS discounting is applied to all the reserves in the Technical Provisions, reducing the value of these liabilities.
Profit recognition	Under Irish GAAP profits and losses arising from insurance policies are booked as they occur over the duration of the insurance policies. In the MCBS profits and losses arising are booked at the inception of the insurance policies.
Policy boundaries & inception dates	The definition of insurance policy boundaries and inception dates is wider in the MCBS than under Irish GAAP, for example including a category of bound but not incepted policies.
Margin for uncertainty/ ENID	In line with the ZIP Reserving Policy there is the option under Irish GAAP to book margin in addition to the best estimate of Technical Provisions, based on the expert judgement of the management. This is not allowed for in the MCBS where the Technical Provisions are booked at best estimate. However there is an explicit requirement to consider booking additional reserves in the MCBS for Events not in Data (ENID), these are potential future claims which are not reflected in the history of past claims development.
Risk margin	In the MCBS a reserve is required for the value that another (re)insurer, taking on the liability at the valuation date, would require over and above best estimate. There is no requirement for an equivalent reserve under Irish GAAP.

Indication of the level of uncertainty

There is inherent uncertainty in any estimate of technical provisions, as the ultimate cost of claims is subject to the outcome of events which are yet to occur.

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

- The final settlement cost of open claims cannot be known precisely, as it depends on factors such as court decisions on liability or the prognosis for recovery from injuries.
- Material adverse or favourable developments in large claims may occur.
- Actual future claims inflation may differ from that assumed.
- The social, legal, technological or economic environment may differ from that assumed, e.g. there may be a retrospective change in legislation which increases the claim cost beyond that which has been allowed for.
- Change in the underlying mix of business or types of coverage over time or the emergence of new claim types or other events not included in the historical data may result in a different claims development pattern from that extrapolated from the historical data.
- Additional uncertainty stems from future expenses and premiums.

An active approach is taken by management to identify sources of uncertainty, quantify them and take actions to mitigate their potential impact. As noted above, an ENID reserve is booked in the MCBS, which is intended to reflect the level of uncertainty.

Matching adjustment

A matching adjustment was not applied to the valuation of the technical provisions in the MCBS at December 31, 2016.

Volatility adjustment

A volatility adjustment was not applied to the valuation of the technical provisions in the MCBS at December 31, 2016.

Transitional risk free interest rate-term structure

The transitional risk free interest rate-term structure was not used in the valuation of technical provisions in the MCBS at December 31, 2016.

D. Valuation for Solvency Purposes *continued*

Transitional deduction
The transitional deduction was not used in the MCBS at December 31, 2016.

Recoverables from reinsurance contracts
There were reinsurance recoverables of EUR 10.0bn, at December 31, 2016.

Change in assumptions
There was no material change during 2016 in the relevant assumptions made in the calculation of the technical provisions in the MCBS.

Special Purpose Vehicles
There were no special purpose vehicles at December 31, 2016.

D.3 Other liabilities

Table 14 provides quantitative information on the variance between the valuation of other liabilities in the MCBS compared to the values under Irish GAAP.

Table 14: Other liabilities

in EUR thousands, as at December 31, 2016	MCBS	Irish GAAP (*)	Variance
Provisions other than technical provisions	138,593	155,473	(16,880)
Pension scheme deficits	66,177	66,177	-
Deposits from reinsurers	20,315	20,315	-
Deferred tax liabilities	102,348	50,939	51,409
Derivative liabilities	25,106	25,106	-
Debts owed to credit institutions (incl. Bank Overdraft)	19,447	19,447	-
Insurance and intermediaries payables	163,260	203,900	(40,640)
Reinsurance payables	80,448	379,507	(299,059)
Payables (trade, not insurance)	670,220	671,117	(897)
Subordinated liabilities	103,573	103,602	(29)
Any other liabilities, not elsewhere shown	1,266,793	1,310,645	(43,852)
Total other liabilities	**2,656,280**	**3,006,228**	**(349, 948)**

*The other liabilities reported in the table above under Irish GAAP of EUR 3,006m differ to those shown in the statutory financial statements of EUR 2,983m. This is due to the different presentation between the statutory financial statements and the Solvency II reporting, in particular the derivative assets and derivative liabilities are netted in the statutory financial statements. In addition there are certain reclassifications between the Irish GAAP values above and those reported in the statutory financial statements.

The table below explains the reasons for the significant variances in the valuations for other liabilities between Irish GAAP and in the MCBS at December 31, 2016.

Table 15: Comparison of valuation bases - Other liabilities

Class of other liabilities	Valuation for MCBS & Irish GAAP
Provisions other than technical provisions	In both the MCBS and Irish GAAP these provisions are valued at the best estimate of the cost required to settle the present obligation at the balance sheet date. The variance is due to an amount of deferred income recorded in Irish GAAP; this income has been already recognised in the MCBS.
Deferred tax liabilities	Deferred tax liabilities are recognised in Irish GAAP for expected future tax charges. In the MCBS, deferred tax is further applied to the valuation differences that arise between the MCBS and Irish GAAP.
Insurance & intermediaries payables	All insurance and intermediaries' payable are measured at fair value and reported in other liabilities under Irish GAAP. In the MCBS any such liabilities which relate to unexpired risks are reported in the technical provisions, as they relate to future cashflows.
Reinsurance payables	All reinsurance payables are measured at fair value. In the MCBS any such liabilities which relate to unexpired risks are reported in the technical provisions, as they relate to future cashflows.
Other liabilities	All other liabilities are measured at fair value and reported in other liabilities under Irish GAAP. In the MCBS any such liabilities which relate to unexpired risks are reported in the technical provisions, as they relate to future cashflows.

Duration of liabilities (other than technical provisions)

The liabilities (other than technical provisions) are short term in nature, that is they will be discharged in less than one year, except for a subordinated loan of EUR 103m which has no maturity date (see section E.1), amounts due on operating leases with a term in excess of one year of EUR 23m and pension scheme liabilities of EUR 66m, which are discharged as employees who are members of the pension schemes retire.

D.4 Alternative methods for valuation

In the MCBS EUR 504m of investments were considered to be valued using an alternative valuation. The significant items were as follows:

- Preference shares, for which there is no active market are valued by calculating the present value of interest receipts to perpetuity and discounted using the yield available on a comparable bond. The value of these assets in the MCBS at December 31, 2016 was EUR 274m.
- Private debt securities are valued using comparable publically quoted debt securities. Adjustments are made to the valuation for the credit profile and liquidity of the private debt securities. The value of these assets in the MCBS at December 31, 2016 was EUR 53m.
- Syndicated loan securities are valued using comparable securities. Adjustments are made to the valuation for the credit profile, liquidity and trading of the syndicated loan securities. The value of these assets in the MCBS at December 31, 2016 was EUR 177m.

D.5 Any other information

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

E. Capital Management

Overview of capital management

Background

The available financial resources under Solvency II rules are known as the Own Funds.

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

The SCR for ZIP is measured using an Internal Model, which has been approved for use by the CBI.

The ratio of Own Funds to the SCR is known as the SCR ratio. The regulatory requirement is for the SCR ratio to be at least 100%. If the SCR ratio is less than 100% (or trending towards that level in the next 3 months) then the CBI must be notified and in the event that the reported SCR ratio is below 100% then a Board approved recovery plan must be provided to the CBI within 2 months of the date of the breach. This plan should include the actions to restore the ratio above 100% within 6 months, from the date of the breach. The SCR ratio for ZIP at December 31, 2016 was 132%, representing an excess of EUR 648m of Own Funds held over the SCR.

The MCR is calculated independently of the SCR and its calculation is based on the business volume and mix; the ratio of Own Funds to the MCR is known as the MCR ratio. If the MCR ratio is below 100%, or trending below 100%, then this is an event which could result in regulatory intervention in the running of the company. The MCR ratio for ZIP at December 31, 2016, was 279%, representing an excess of EUR 1,773m of Own Funds held over the MCR.

Capital management policy

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

Processes

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

Changes in 2016

During 2016 there was no material change in the capital management objectives, policies or processes.

E.1 Own Funds

Own Funds

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

The Basic Own Funds for ZIP are calculated quarterly through the production of the Market Consistent Balance Sheet ("MCBS"). The MCBS is prepared using inputs from the finance reporting teams across ZIP locations, using common accounting ledgers and aggregated by the ZIP HO finance team in Dublin. There are extensive controls in place throughout the process to provide assurance on the results. The timelines for the quarterly production of the Own Funds value are set to meet quarterly reporting requirements. The value of the Own Funds is approved by the CFO on a quarterly basis, whilst annually the Own Funds value is approved by the Board in the annual filings to the CBI.

The excess of assets over liabilities in the MCBS, with certain adjustments applied in accordance with Solvency II rules, gives the value of the Basic Own Funds.

Ancillary Own Funds are the items of capital allowed under Solvency II rules, however not recorded on the MCBS. ZIP had no Ancillary Funds at December 31, 2016.

Adding Ancillary Own Funds to the Basic Own Funds results in the total Own Funds value.

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

Planning of Own Funds

Annually the Own Funds are planned forward for a three year period. The planning is aligned with the production of the three year business plan, based on the approved business strategy. The variance of the actual Own Funds against the plan Own Funds is reported to the Board on a quarterly basis.

Structure and tiering of Own Funds

The total Own Funds of ZIP at December 31, 2016 was EUR 2,694m.

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

The Tier 1 Own Funds of ZIP at December 31, 2016 were EUR 2,568m comprising:

- Ordinary share capital (fully paid) EUR 8m
- Share premium (fully paid) EUR 2,871m
- Capital contribution (fully paid) EUR 390m
- Reconciliation Reserve EUR (702m)

The calculation of the reserve reconciliation is shown in the table below.

Table 16: Reconciliation Reserve

in EUR thousands as at December 31, 2016	**Total**
MCBS excess of Assets over Liabilities	2,590,469
Issued share capital	(8,158)
Share premium	(2,871,273)
Capital contribution	(390,000)
Deferred Tax	(23,015)
Reconciliation Reserve	**(701,977)**

There were no Tier 2 Own Funds at December 31, 2016.

Tier 3 Own Funds at December 31, 2016 were EUR 126m, comprised of a subordinated loan of EUR 103m and deferred tax assets of EUR 23m. There was no significant change in the value of the subordinated loan during 2016.

Eligibility and availability of Own Funds

At December 31, 2016 the Tier 1 Own Funds were eligible and available for meeting the SCR and MCR.

At December 31, 2016 the Tier 3 Own Funds were eligible and available for meeting the SCR. The Tier 3 Own Funds were not eligible or available for meeting the MCR. In any event the Tier 1 Own Funds comfortably exceeded the MCR.

Duration and loss absorbency of Own Funds

There was no time limitation to the Tier 1 Own Funds of EUR 2,568m, at December 31, 2016.

Of the Tier 3 Own Funds of EUR 126m, the EUR 103m subordinated loan was perpetual in nature, however can be requested to be repaid by the lender or the borrower with a minimum notice of 5 years.

The total Own Funds of EUR 2,694m were available to absorb losses (therefore, no triggers were relevant for creating loss absorbency).

Own Funds requiring supervisory approval or subject to transitional arrangements

Capital contributions of EUR 390m were approved by the CBI as Tier 1 capital. No other amounts included in the Own Funds at December 31, 2016 required supervisory approval.

No amounts included in Own Funds at December 31, 2016 were subject to transitional arrangements.

E. Capital Management *continued*

Deductions from Own Funds and transferability of Own Funds

No deductions from Own Funds were relevant at December 31, 2016 and no restrictions existed at December 31, 2016 which affected the transferability of Own Funds within the company.

Changes in Own Funds

The Own Funds at December 31, 2016 and December 31, 2015, were as follows:

Table 17: Changes in Own Funds

in EUR thousands	December 31, 2016	December 31, 2015
Tier 1	2,567,454	2,586,916
Tier 2	-	-
Tier 3	126,589	106,450
Total	**2,694,043**	**2,693,366**

There was a decrease of EUR 20m in Tier 1 Own Funds during 2016 due to the operating performance. Underwriting losses were incurred, including the impact of the UK Lord Chancellor ruling (referred earlier), however these were offset by the excess investment return.

There was an increase of EUR 20m in Tier 3 Own Funds during 2016, due to an increase in the value of deferred tax assets during the year.

There were no other movements in capital during 2016 and no capital instruments were issued or redeemed.

Reconciliation to Irish GAAP

Table 18: Reconciliation of Irish GAAP shareholders equity to MCBS excess assets over liabilities

in EUR thousands as at December 31, 2016	Total
Net Irish GAAP Shareholders Equity	2,344,634
Profit recognition	600,775
Value of claims provision	(60,388)
Risk Margin reserve	(304,286)
Intangible assets	(154,587)
Fair value investments	161,572
Other	45,541
Deferred Tax	(42,792)
MCBS excess of Assets over Liabilities	2,590,469

The material reconciling items are as follows:

Profit recognition

- Profit is recognised in the MCBS at the valuation date of the insurance contracts, whereas under Irish GAAP the profits and losses are recognised over the duration of the insurance contracts.
- Discounting adjustments are applied in the MCBS (for the time value of money), when valuing all future insurance claims; under Irish GAAP these discounting adjustments are only applied for future claims which will be paid by annuities.
- A wider scope of insurance contracts is considered in the MCBS compared to Irish GAAP (in accordance with Solvency II contract boundary and contract recognition rules).

Value of claims provision

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

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

Intangible assets and deferred acquisition costs
- The assets recorded in Irish GAAP are considered to have nil value in the MCBS.

Fair value investments
- Investments which are not reported at market value under Irish GAAP are adjusted to market value in the MCBS.

Other
- Under Irish GAAP, an amount of EUR 34m (relating to a reinsurance transaction in 2016) was reported as deferred income at December 31, 2016. This income was already recognised in the MCBS at December 31, 2016 in accordance with Solvency II profit recognition rules. There were a number of other smaller reconciling items at December 31, 2016.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

Solvency Capital Requirement ("SCR")
The SCR is the modelled value of a 1 in 200 year loss of Own Funds occurring in the next year. The SCR for ZIP is calculated according to an Internal Model, which has been approved for use by the CBI.

The SCR at December 31, 2016 was EUR 2,046m. The breakdown of this result is shown in the Appendix: QRT 25.03.21.

Minimum Capital Requirement ("MCR")
The MCR is based on the business volume and mix. The MCR value is subject to a minimum value of 25% of the SCR or a maximum value of 45% of the SCR.

The MCR at December 31, 2016 was EUR 921m, capped at 45% of the SCR.

The inputs used to calculate the MCR are shown in the Appendix: QRT S 28.01.01_01. These inputs are the technical provisions at December 31, 2016 and the written premium in 2016, both net of reinsurance.

Movements in SCR and MCR
The SCR decreased by 7% in 2016, from EUR 2,200m to EUR 2,046m. The main drivers of the decreases were:

- Underwriting risks: reduced exposures and reduced risk profile
- Dynamic model: improvements in the capital ratio of counterparties
- Scenarios: reduced severities

Offset by

- Increase in Market risk: increased risk profile based on portfolio composition

The MCR reduced by 7% in 2016 with the same drivers.

Purposes for which ZIP is using the Internal Model
In addition to using an Internal Model for the calculation of the SCR, the Internal Model is used across the company, in particular for:

- Pricing - the setting of premium levels to include the cost of economic capital; this economic capital is derived from the Internal Model.
- Business planning and performance management reviews - using economic return metrics, based on the economic capital, from the Internal Model.
- Risk management - the measurement of risks within the business is often based on the results of the Internal Model.

E. Capital Management *continued*

- Purchase of reinsurance - the Internal Model measures underwriting risks and these results are a key input to deciding on the level of reinsurance coverage purchased.
- Investment portfolio mix - the market risk results from the Internal Model are used in setting the strategic asset allocation. In addition the economic return on investments is monitored relative to the level of economic capital deployed, derived from the Internal Model.

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

Internal Model results are produced for each of the Branch locations (and relevant subsidiaries) and then aggregated to produce the overall results.

The risk types measured are described in section C.

Methods used in the Internal Model for the probability distribution forecast

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

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

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

The Internal Model is hosted on the in-house Risk Model Platform.

Data used in Internal Model

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

A key tool for ensuring data quality is the ongoing adherence to the risk based control framework, which is implemented for all elements of the SCR result production process.

An annual review of the data used in the Internal Model is coordinated by the ZIP HO Risk team, as part of the Internal Model validation.

SCR disclosures

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

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

The duration-based equity risk sub-module was not used at December 31, 2016.

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

In comparison to the Standard Formula, the Internal Model reflects the actual risk profile of the company, as shown in the table below.

Table 19: Differences between the Standard Formula and the Internal Model used

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

Structure and other detail on the Internal Model

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

E. Capital Management *continued*

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

There were no incidences of non-compliance with the MCR or SCR in 2016.

E.6 Any other information

Capital transactions in 2016

No dividend was paid or proposed by ZIP in 2016.

No external capital was raised by ZIP in 2016.

Zurich Group capital position

ZIP is part of the Zurich Insurance Group (the “Group”). In addition to the capital and liquidity held by ZIP, the Group holds substantial capital and liquidity centrally. This centrally held capital and liquidity can be deployed into subsidiaries if needed, and thus provides further support for ZIP to absorb potential losses which could arise from the occurrence of extreme adverse events.

The Group itself is regulated by the Swiss Financial Market Supervisory Authority (“FINMA”). As of January 1, 2017, the Group had a solvency ratio of 227% as measured by the Swiss Solvency Test, which has equivalence with the Solvency II regulatory regime applicable to ZIP. The Group manages its capital to an AA level according to its internal economic model. The financial strength of Zurich Insurance Company Ltd, which is the main insurance carrier of the Group, is rated AA- by Standard and Poor’s.

More information on the Group risk and capital management is provided in its annual report, which is available at 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	23,015
Pension benefit surplus	R0050	–
Property, plant & equipment held for own use	R0060	115,777
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	10,247,735
Property (other than for own use)	R0080	761,873
Holdings in related undertakings, including participations	R0090	83,916
Equities	R0100	354,053
Equities – listed	R0110	350,480
Equities – unlisted	R0120	3,573
Bonds	R0130	8,833,741
Government Bonds	R0140	4,141,144
Corporate Bonds	R0150	3,854,072
Structured notes	R0160	39,394
Collateralised securities	R0170	799,130
Collective Investments Undertakings	R0180	187,684
Derivatives	R0190	25,812
Deposits other than cash equivalents	R0200	656
Other investments	R0210	–
Assets held for index-linked and unit-linked contracts	R0220	–
Loans and mortgages	R0230	732,361
Loans on policies	R0240	118
Loans and mortgages to individuals	R0250	126,948
Other loans and mortgages	R0260	605,295
Reinsurance recoverables from:	R0270	9,526,446
Non-life and health similar to non-life	R0280	9,351,604
Non-life excluding health	R0290	9,200,280
Health similar to non-life	R0300	151,324
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	174,842
Health similar to life	R0320	46,789
Life excluding health and index-linked and unit-linked	R0330	128,054
Life index-linked and unit-linked	R0340	–
Deposits to cedants	R0350	12,672
Insurance and intermediaries receivables	R0360	533,423
Reinsurance receivables	R0370	476,808
Receivables (trade, not insurance)	R0380	356,404
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	239,412
Any other assets, not elsewhere shown	R0420	188,212
Total assets	**R0500**	**22,452,266**

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	16,476,499
Technical provisions – non-life (excluding health)	R0520	16,220,281
TP calculated as a whole	R0530	–
Best Estimate	R0540	15,943,933
Risk margin	R0550	276,347
Technical provisions – health (similar to non-life)	R0560	256,218
TP calculated as a whole	R0570	–
Best Estimate	R0580	252,257
Risk margin	R0590	3,961
Technical provisions – life (excluding index-linked and unit-linked)	R0600	729,018
Technical provisions – health (similar to life)	R0610	276,014
TP calculated as a whole	R0620	–
Best Estimate	R0630	265,111
Risk margin	R0640	10,903
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	453,004
TP calculated as a whole	R0660	–
Best Estimate	R0670	439,929
Risk margin	R0680	13,075
Technical provisions – index-linked and unit-linked	R0690	–
TP calculated as a whole	R0700	–
Best Estimate	R0710	–
Risk margin	R0720	–
Contingent liabilities	R0740	–
Provisions other than technical provisions	R0750	138,593
Pension benefit obligations	R0760	66,177
Deposits from reinsurers	R0770	20,315
Deferred tax liabilities	R0780	102,348
Derivatives	R0790	25,106
Debts owed to credit institutions	R0800	19,447
Financial liabilities other than debts owed to credit institutions	R0810	–
Insurance & intermediaries payables	R0820	163,260
Reinsurance payables	R0830	80,448
Payables (trade, not insurance)	R0840	670,220
Subordinated liabilities	R0850	103,573
Subordinated liabilities not in BOF	R0860	–
Subordinated liabilities in BOF	R0870	103,573
Any other liabilities, not elsewhere shown	R0880	1,266,793
Total liabilities	**R0900**	**19,861,797**
Excess of assets over liabilities	**R1000**	**2,590,469**

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Appendix *continued*

S.05.01.02

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

in EUR thousands, as of December 31

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

Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)								
Medical expense insurance	**Income protection insurance**	**Workers' compensation insurance**	**Motor vehicle liability insurance**	**Other motor insurance**	**Marine, aviation and transport insurance**	**Fire and other damage to property insurance**	**General liability insurance**	**Credit and suretyship insurance**
C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**
71,974	258,636	41,103	1,443,869	771,549	181,663	2,649,020	1,749,570	146,461
–	25,921	–	97,595	51,619	38,852	167,937	54,993	6,066
43,412	141,954	21,040	839,205	459,554	139,710	1,856,297	1,231,808	63,950
28,563	142,603	20,064	702,259	363,614	80,804	960,659	572,755	88,577
73,739	260,676	41,310	1,477,031	781,615	194,511	2,714,627	1,818,227	145,538
–	25,461	–	96,811	50,899	39,492	199,804	61,212	6,871
42,963	144,219	21,143	855,176	462,895	151,206	1,909,034	1,283,083	64,053
30,776	141,918	20,167	718,666	369,619	82,798	1,005,397	596,356	88,356
40,381	110,233	23,740	1,097,873	492,752	119,787	1,461,306	1,730,278	37,937
–	6,728	–	66,043	32,092	16,461	130,018	55,796	(3,089)
23,852	55,743	13,543	648,326	280,064	98,101	1,122,499	1,255,281	26,625
16,529	61,218	10,197	515,590	244,780	38,146	468,825	530,793	8,223
–	–	–	(186)	(62)	(1)	(137)	(601)	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	(186)	(62)	(1)	(137)	(601)	–
19,926	**65,390**	**9,137**	**320,497**	**130,769**	**45,869**	**570,848**	**296,423**	**30,838**
–	–	–	–	–	–	–	–	–

Appendix *continued*

S.05.01.02

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

in EUR thousands, as of December 31

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

Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)			Line of business for: accepted non-proportional reinsurance				
Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	Total
C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
91,275	48,777	147,929					7,601,826
3,525	4,805	9,564					460,878
			–	2,918	115	26,410	29,443
54,955	33,296	111,237	–	1,624	96	22,433	5,020,571
39,846	20,286	46,257	–	1,294	19	3,977	3,071,577
91,902	44,567	143,712					7,787,455
3,520	4,085	7,069					495,225
			–	2,896	142	24,324	27,362
54,889	30,487	114,791	–	1,468	109	18,787	5,154,302
40,534	18,165	35,991	–	1,429	32	5,537	3,155,740
54,020	17,535	49,909					5,235,748
3,260	1,528	2,482					311,320
			2	119	(51)	10,629	10,698
32,721	14,291	46,608	–	(530)	(3)	8,658	3,625,778
24,559	4,772	5,783	2	649	(48)	1,970	1,931,988
–	–	–					(987)
–	–	–					–
			–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	(987)
21,885	**14,765**	**24,633**	**–**	**(195)**	**(11)**	**287**	**1,551,061**
							–
–	**–**	**–**	**–**	**–**	**–**	**–**	**1,551,061**

Appendix *continued*

S.05.01.02

Premiums, claims and expenses by line of business, Life

in EUR thousands, as of December 31

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

Line of Business for: life insurance obligations						Life reinsurance obligations		Total
Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
(1,586)	(12)	–	–	14,782	47,639	–	–	60,824
0	0	–	–	7,963	11,871	–	–	19,833
(1,586)	(12)	–	–	6,819	35,769	–	–	40,990
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
								–
–	–	–	–	–	–	–	–	–

Appendix *continued*

S.05.02.01

Premiums, claims and expenses by country, non-life

in EUR thousands, as of December 31

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

Home Country	Top 5 countries (by amount of gross premiums written) – non-life obligations					Total Top 5 and home country
C0010	C0020	C0030	C0040	C0050	C0060	C0070
	GB	DE	IT	ES	FR	
C0080	C0090	C0100	C0110	C0120	C0130	C0140
320,381	2,414,700	1,711,120	1,149,499	892,114	289,633	6,777,447
13,836	45,729	211,442	5,084	16,533	13,295	305,919
594	9,683	0	5	0	0	10,282
181,520	1,582,227	1,117,435	637,067	543,952	239,619	4,301,821
153,290	887,885	805,128	517,520	364,694	63,309	2,791,827
295,967	2,503,540	1,731,417	1,189,777	931,174	289,819	6,941,694
13,506	49,298	210,414	5,039	17,509	13,523	309,289
559	8,559	0	4	0	0	9,122
166,839	1,632,753	1,135,601	659,832	576,700	242,023	4,413,748
143,193	928,644	806,230	534,988	371,982	61,319	2,846,356
157,278	1,933,363	1,092,534	627,974	670,644	212,962	4,694,755
9,203	(27,400)	129,929	855	11,957	852	125,394
232	4,991	1	(716)	1	0	4,508
94,708	1,236,125	817,409	325,410	407,452	170,868	3,051,973
72,004	674,829	405,054	302,703	275,150	42,946	1,772,685
0	(854)	(133)	0	0	0	(987)
0	0	0	0	0	0	–
0	0	0	0	0	0	–
0	0	0	0	0	0	–
0	(854)	(133)	0	0	0	(987)
68,220	**527,496**	**390,538**	**231,186**	**212,643**	**21,982**	**1,452,066**
						–
68,220	**527,496**	**390,538**	**231,186**	**212,643**	**21,982**	**1,452,066**

Appendix *continued*

Technical Provisions – Reconciliation to financial statements

S.12.01.02

Life and Health SLT Technical Provisions

in EUR thousands, as of December 31

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

S.12.01.02

Life and Health SLT Technical Provisions

in EUR thousands, as of December 31

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

	Index-linked and unit-linked insurance			Other life insurance					
Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)
C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150
–	–			–			–	–	–
–	–			–			–	–	–
650		–	–		–	–	439,279	–	439,929
–		–	–		–	–	128,054	–	128,054
650		–	–		–	–	311,225	–	311,875
31	–			–			13,044	–	13,075
–	–			–			–	–	–
–		–	–		–	–	–	–	–
–	–			–			–	–	–
681	–	–	–	–	–	–	452,323	–	453,004

	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		–	37,987	227,125	–	265,111
R0080		–	–	46,789	–	46,789
R0090		–	37,987	180,336	–	218,323
R0100	1,799			9,104	–	10,903
R0110	–			–	–	–
R0120		–	–	–	–	–
R0130	–			–	–	–
R0200	39,785	–	–	236,229	–	276,014

Appendix *continued*

S.17.01.02

Non-life Technical Provisions

in EUR thousands, as of December 31

Technical provisions calculated as a whole	**R0010**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050
Technical provisions calculated as a sum of BE and RM	
Best estimate	
Premium provisions	
Gross	R0060
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140
Net Best Estimate of Premium Provisions	R0150
Claims provisions	
Gross	R0160
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240
Net Best Estimate of Claims Provisions	R0250
Total Best estimate – gross	**R0260**
Total Best estimate – net	**R0270**
Risk margin	**R0280**
Amount of the transitional on Technical Provisions	
Technical Provisions calculated as a whole	R0290
Best estimate	R0300
Risk margin	R0310

S.17.01.02

Non-life Technical Provisions

in EUR thousands, as of December 31

Technical provisions – total	
Technical provisions – total	R0320
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total	R0330
Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total	R0340

	Direct business and accepted proportional reinsurance								
	Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100
	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–
	22,334	(43,271)	2,895	271,541	116,268	17,378	262,957	202,697	(22,532)
	8,776	(18,800)	2,466	152,545	69,481	13,287	191,364	148,551	(5,473)
	13,558	(24,471)	429	118,996	46,787	4,091	71,593	54,146	(17,060)
	33,490	204,986	31,729	2,709,088	175,196	260,081	2,219,040	8,856,075	385,190
	18,728	99,190	40,964	1,277,924	98,106	146,293	1,537,680	4,956,422	272,645
	14,762	105,797	(9,235)	1,431,164	77,090	113,788	681,360	3,899,653	112,545
	55,824	**161,716**	**34,624**	**2,980,629**	**291,464**	**277,459**	**2,481,997**	**9,058,773**	**362,658**
	28,320	**81,326**	**(8,806)**	**1,550,160**	**123,877**	**117,879**	**752,954**	**3,953,799**	**95,485**
	1,098	**3,308**	**(448)**	**65,791**	**5,295**	**4,945**	**30,934**	**158,552**	**4,285**
	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–

	Direct business and accepted proportional reinsurance								
	Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100
	56,922	165,023	34,176	3,046,420	296,759	282,403	2,512,931	9,217,324	366,942
	27,505	80,390	43,430	1,430,469	167,587	159,580	1,729,044	5,104,974	267,172
	29,417	84,634	(9,253)	1,615,951	129,172	122,824	783,888	4,112,351	99,770

Appendix *continued*

S.17.01.02

Non-life Technical Provisions

in EUR thousands, as of December 31

Technical provisions calculated as a whole	**R0010**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050
Technical provisions calculated as a sum of BE and RM	
Best estimate	
Premium provisions	
Gross	R0060
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140
Net Best Estimate of Premium Provisions	R0150
Claims provisions	
Gross	R0160
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240
Net Best Estimate of Claims Provisions	R0250
Total Best estimate – gross	**R0260**
Total Best estimate – net	**R0270**
Risk margin	**R0280**
Amount of the transitional on Technical Provisions	
Technical Provisions calculated as a whole	R0290
Best estimate	R0300
Risk margin	R0310

S.17.01.02

Non-life Technical Provisions

in EUR thousands, as of December 31

Technical provisions – total	
Technical provisions – total	R0320
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default – total	R0330
Technical provisions minus recoverables from reinsurance/SPV and Finite Re – total	R0340

Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance				
Legal expenses insurance	**Assistance**	**Miscellaneous financial loss**	**Non-proportional health reinsurance**	**Non-proportional casualty reinsurance**	**Non-proportional marine, aviation and transport reinsurance**	**Non-proportional property reinsurance**	**Total Non-Life obligation**
C0110	**C0120**	**C0130**	**C0140**	**C0150**	**C0160**	**C0170**	**C0180**
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	0	0	0	0	0	0	0
(3,933)	1,958	42,717	0	342	58	7,634	879,044
4,579	1,628	29,845	0	148	29	6,759	605,186
(8,512)	330	12,872	0	195	29	874	273,858
163,652	18,836	223,052	94	21,228	761	14,650	15,317,147
76,975	13,568	180,597	0	15,196	711	11,419	8,746,418
86,677	5,269	42,455	94	6,031	49	3,231	6,570,729
159,720	**20,794**	**265,768**	**94**	**21,570**	**818**	**22,284**	**16,196,191**
78,166	**5,599**	**55,326**	**94**	**6,226**	**78**	**4,105**	**6,844,587**
3,675	**218**	**2,273**	**3**	**215**	**4**	**162**	**280,308**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–

Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance				
Legal expenses insurance	**Assistance**	**Miscellaneous financial loss**	**Non-proportional health reinsurance**	**Non-proportional casualty reinsurance**	**Non-proportional marine, aviation and transport reinsurance**	**Non-proportional property reinsurance**	**Total Non-Life obligation**
C0110	**C0120**	**C0130**	**C0140**	**C0150**	**C0160**	**C0170**	**C0180**
163,395	21,012	268,041	97	21,785	822	22,446	16,476,499
81,554	15,195	210,442	–	15,344	740	18,178	9,351,604
81,841	5,816	57,599	97	6,441	82	4,267	7,124,895

Appendix *continued*

S.19.01.21

Non-life Insurance Claims Information : Gross Claims Paid (non-cumulative)

in EUR thousands, as of December 31

	Year	–	1	2	3	4
		C0010	C0020	C0030	C0040	C0050
Prior	R0100					
N-9	R0160	–	–	–	–	–
N-8	R0170	–	–	–	–	–
N-7	R0180	–	–	–	–	–
N-6	R0190	2,252,107	1,910,725	725,469	490,029	290,675
N-5	R0200	2,064,747	1,523,571	699,720	330,521	275,246
N-4	R0210	1,864,611	1,587,602	517,520	327,824	273,396
N-3	R0220	2,037,670	1,471,618	579,719	410,266	
N-2	R0230	1,617,437	1,276,574	645,239		
N-1	R0240	1,690,974	1,598,729			
N	R0250	1,608,303				

S.19.01.21

Non-life Insurance Claims Information : Gross undiscounted Best Estimate Claims Provisions

in EUR thousands, as of December 31

	Year	–	1	2	3	4
		C0200	C0210	C0220	C0230	C0240
Prior	R0100					
N-9	R0160	–	–	–	–	–
N-8	R0170	–	–	–	–	–
N-7	R0180	–	–	–	–	–
N-6	R0190	–	–	–	–	–
N-5	R0200	–	–	–	–	–
N-4	R0210	–	–	–	–	964,420
N-3	R0220	–	–	–	1,206,970	
N-2	R0230	–	–	1,728,321		
N-1	R0240	–	2,698,060			
N	R0250	3,652,653				

S.22.01.21

Impact of long term guarantees and transitional measures

in EUR thousands, as of December 31

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

				Development year					Sum of years
5	6	7	8	9	10 & +			In Current year	(cumulative)
C0060	C0070	C0080	C0090	C0100	C0110			C0170	C0180
					–		R0100	–	–
–	–	–	–				R0160	–	–
–	–	–					R0170	–	–
–	–						R0180	–	–
183,236	122,624						R0190	122,624	5,974,865
223,212							R0200	223,212	5,117,017
		–					R0210	273,396	4,570,953
							R0220	410,266	4,499,274
							R0230	645,239	3,539,251
							R0240	1,598,729	3,289,703
							R0250	1,608,303	1,608,303
						Total	**R0260**	**4,881,769**	**28,599,365**

				Development year				Year end (discounted data)
5	6	7	8	9	10 & +			
C0250	C0260	C0270	C0280	C0290	C0300			C0360
					–		R0100	–
–	–	–	–	–	–		R0160	–
–	–	–	–	–	–		R0170	–
–	–	–	–	–	–		R0180	–
–	492,658		–	–	–		R0190	475,881
624,728		–					R0200	606,119
		–					R0210	929,573
		–					R0220	1,165,614
		–					R0230	1,657,300
							R0240	2,605,931
		–					R0250	3,515,801
						Total	**R0260**	**10,956,220**

Appendix *continued*

S.23.01.01

Own funds

in EUR thousands, as of December 31		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	8,158	8,158		–	
Share premium account related to ordinary share capital	R0030	2,871,273	2,871,273		–	
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	(701,977)	(701,977)			
Subordinated liabilities	R0140	103,573		–	–	103,573
An amount equal to the value of net deferred tax assets	R0160	23,015				23,015
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	390,000	390,000	–	–	–
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	–	–	–	–	–
Deductions						
Deductions for participations in financial and credit institutions	R0230	–	–	–	–	–
Total basic own funds after deductions	**R0290**	**2,694,043**	**2,567,454**	**–**	**–**	**126,589**
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	–			–	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	R0310	–			–	
Unpaid and uncalled preference shares callable on demand	R0320	–			–	–
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	–			–	–
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	–			–	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	–			–	–
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	–			–	
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	–			–	–
Other ancillary own funds	R0390	–			–	–
Total ancillary own funds	**R0400**	**–**	**–**	**–**	**–**	**–**

S.23.01.01

Own funds

in EUR thousands, as of December 31

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	2,694,043	2,567,454	–	–	126,589
Total available own funds to meet the MCR	R0510	2,567,454	2,567,454	–	–	
Total eligible own funds to meet the SCR	R0540	2,694,043	2,567,454	–	–	126,589
Total eligible own funds to meet the MCR	R0550	2,567,454	2,567,454	–	–	
SCR	R0580	2,045,949				
MCR	R0600	920,677				
Ratio of Eligible own funds to SCR	R0620	132%				
Ratio of Eligible own funds to MCR	R0640	279%				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	2,590,469
Own shares (held directly and indirectly)	R0710	–
Foreseeable dividends, distributions and charges	R0720	–
Other basic own fund items	R0730	3,292,446
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	–
Reconciliation reserve	R0760	(701,977)
Expected profits		
Expected profits included in future premiums (EPIFP) – Life business	R0770	–
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	512,536
Total Expected profits included in future premiums (EPIFP)	**R0790**	**512,536**

Appendix *continued*

S.25.03.21

Solvency Capital Requirement – for undertakings on Full Internal Models

in EUR thousands, as of December 31 Unique number of component	Components description	Calculation of the Solvency Capital Requirement
101	Market/ALM Risk	706,782
102	Premium, Reserve & UPR Risk	923,655
103	Nat Cat Risk	275,425
104	Expense Risk	275,029
105	Operational Risk	524,710
106	Credit risk	66,466
107	Pension Risk	234,986
108	Scenarios	199,281
109	Dynamic Model	75,433
110	Other	–
111		

		C0100
Calculation of Solvency Capital Requirement		
Total undiversified components	R0110	3,281,766
Diversification	R0060	(1,124,347)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional)	R0160	
Solvency capital requirement excluding capital add-on	**R0200**	**2,045,959**
Capital add-ons already set	R0210	–
Solvency capital requirement	**R0220**	**2,045,949**
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	
Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	R0310	(111,460)
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional))	R0420	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

S.28.01.01

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

in EUR thousands, as of December 31		C0010	
MCR(NL) Result	R0010	969,711	
		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020	28,320	28,563
Income protection insurance and proportional reinsurance	R0030	81,326	142,603
Workers' compensation insurance and proportional reinsurance	R0040	–	20,064
Motor vehicle liability insurance and proportional reinsurance	R0050	1,550,160	702,259
Other motor insurance and proportional reinsurance	R0060	123,877	363,614
Marine, aviation and transport insurance and proportional reinsurance	R0070	117,879	80,804
Fire and other damage to property insurance and proportional reinsurance	R0080	752,954	960,659
General liability insurance and proportional reinsurance	R0090	3,953,799	572,755
Credit and suretyship insurance and proportional reinsurance	R0100	95,485	88,577
Legal expenses insurance and proportional reinsurance	R0110	78,166	39,846
Assistance and proportional reinsurance	R0120	5,599	20,286
Miscellaneous financial loss insurance and proportional reinsurance	R0130	55,326	46,257
Non-proportional health reinsurance	R0140	94	–
Non-proportional casualty reinsurance	R0150	6,226	1,294
Non-proportional marine, aviation and transport reinsurance	R0160	78	19
Non-proportional property reinsurance	R0170	4,105	3,977

S.28.01.01

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

in EUR thousands, as of December 31		C0040	
MCR(L) Result	R0200	11,087	
		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance/ SPV) total capital at risk
		C0050	C0060
Obligations with profit participation – guaranteed benefits	R0210	–	
Obligations with profit participation – future discretionary benefits	R0220	650	
Index-linked and unit-linked insurance obligations	R0230	–	
Other life (re)insurance and health (re)insurance obligations	R0240	529,548	
Total capital at risk for all life (re)insurance obligations	R0250		–

		C0070
Linear MCR	R0300	980,798
SCR	R0310	2,045,949
MCR cap	R0320	920,677
MCR floor	R0330	511,487
Combined MCR	R0340	920,677
Absolute floor of the MCR	R0350	3,700

		C0070
Minimum Capital Requirement	**R0400**	**920,677**

Zurich Insurance plc ("ZIP")
Zurich House
Ballsbridge Park
Dublin 4
Ireland

www.zurich.com/zip