Zurich Assurance Ltd

Solvency and Financial Condition Report 2021

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Overview

Business profile

Zurich Assurance Ltd is a provider of long-term insurance in the UK and is part of the Zurich Insurance Group Ltd

Zurich Assurance Ltd (ZAL) is a limited company domiciled and incorporated in the United Kingdom. ZAL also has overseas branches in Hong Kong and the Isle of Man and a run-off portfolio in Malta, which are all no longer open to new business.

GBP 3,367m

Gross Customer Claims (2021)

OVER 99%

Death Claims paid out (in 2021)

System of governance

Zurich Assurance Ltd operates a mature and well-established system of governance

Ultimate accountability is shared by the Board and its shareholder, which are supported by the Risk, Audit, and Nomination & Remuneration Committees.

ZAL documents its system of governance within its governance map, which sets out the key functions in the firm and the relevant individuals in control of these functions, along with their lines of accountability and responsibility.

Risk profile

Zurich Assurance Ltd holds appropriate capital for the risks its business faces and has robust controls and mitigants in place

ZAL's business model results in it being subject to a range of risks associated with the activity of issuing insurance and investment contracts and the use of financial instruments. These include risks for which ZAL holds capital, including underwriting, market, credit and operational risks as well as risks for which other mitigation is applied.

Regulatory capital, assessed on the Solvency II standard formula basis, is held to cover the risks associated with ZAL's balance sheet position, specifically for underwriting, market, credit and operational risks. Capital is also held for staff pension scheme risk not covered by the standard formula.

Financial condition

Zurich Assurance Ltd is well capitalised

As of 31 December 2021, ZAL's SCR ratio was above the requirement of 100%.

127%

Solvency II SCR ratio (as of 31 December 2021)

GBP 1,396 m

Own funds under Solvency II (as of 31 December 2021)

1 Summary

Zurich Assurance Ltd (ZAL or 'the Company') presents its results as a standalone entity and this Solvency and Financial Condition Report (SFCR) should be read in that context. ZAL is part of the Zurich Insurance Group Ltd (ZIG or 'the Group'). In addition to the capital and liquidity held by ZAL, 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 ZAL to absorb potential losses which could arise from the occurrence of extreme adverse events.

The Group itself is regulated by the Swiss Financial Markets Supervisory Authority. As of 1 January 2022, the Group had an estimated and unaudited solvency ratio of 212% as measured by the Swiss Solvency Test, which has equivalence with the Solvency II regulatory regime applicable to ZAL. The Group manages its capital at an AA level according to its internal economic capital model. The financial strength of Zurich Insurance Company Ltd, which is the main insurance carrier of the Group, is rated AA stable by Standard and Poor's. More information on the Group's risk and capital management is provided in its annual report, which is available at www.zurich.com.

A. Business and performance

ZAL is a limited company domiciled and incorporated in the United Kingdom. The principal activity of ZAL is the provision of long-term insurance business carried out in the United Kingdom. ZAL has overseas branches in Hong Kong and the Isle of Man and a run-off portfolio in Malta. The branches and run-off portfolio are no longer open to new business.

At 31 December 2021 ZAL had total assets under management (AuM) of £28.7bn (2020: £28.6bn) and 3.3m (2020: 3.2m) policyholders and scheme members. ZAL's UK GAAP loss for the year before taxation was £8m (2020: £6m loss). The loss after taxation for 2021 includes a £117m loss from an increase in Technical Provisions resulting from demographic and expense basis updates, with some of this offset from gains from the increase in yields over 2021. Death claims on protection business increased in 2021 due to COVID-19 claims, though the net impact of these on the loss was reduced as a substantial proportion were covered by reinsurance arrangements, and growth in the overall insurance book. In 2021 gross claims were £3.4bn (2020: 3.3bn).

Net operating expenses have reduced substantially in 2021, reflecting the favourable impact on deferred acquisition costs compared to 2020, itself driven by the underlying financial markets.

ZAL is committed to paying valid claims as they make a real difference to the lives of its customers at a time when they are most vulnerable. During 2021 ZAL paid over 87% (2020: over 87%) of critical illness claims, and over 99% (2020: over 98%) of death claims. Of the claims declined the majority relate to non-disclosure/misrepresentation of medical information on applications.

ZAL's total annual premium equivalent ("APE") was £133m (2020: £128m), a 4% year on year increase despite being adversely impacted by the subdued Retail Protection market in the UK due to the impact of COVID-19. APE, comprises of new regular premiums plus 10% of new single premiums. This performance was driven by increased sales of Retail protection products, especially Term Life, and the completion of two longevity contracts during the year. Corporate protection business APE was 17% lower year on year due to outperformance in 2020 not repeated in 2021.

On 14 December 2021 the Company announced the partial termination of the Capita contract, relating to our Retail Protection new business, in support of our core strategic focus.

From 16 December 2021 the Company is directly responsible for the promotion of its Retail Protection products, previously managed by Zurich Intermediary Group Limited.

The aggression of the Russian government on Ukraine and the resulting war has the potential to impact the valuation of assets and liabilities presented in this report. ZAL's exposure to Russia and Ukraine through its investment portfolio is immaterial, however, these are being closely monitoring, along with the increased volatility in the financial markets and the impact it may have on the financial results.

The UK economy is expected to grow by 3.5% in 2022 following a 7.5% expansion last year. From 2023 onwards annual growth rates are set to moderate to around 2%, closer to pre-pandemic trends. The UK is not as exposed to the economic consequences of the conflict in Ukraine as the rest of Europe however the surge in global commodity prices caused by the conflict have led to a modest downward revision in GDP forecasts. Inflation is also likely to be significantly impacted.

The rate of consumer price inflation on the CPI measure rose further to 5.5% in January, up from 5.4% in December 2021, and remains at its highest level since 1992. Transport costs rose by 11.3% in the year to January, notably driven by a 23.6% annual increase in the price of motor fuels and a 28.7% increase in second-hand car prices. Meanwhile, households' energy costs rose by 22.9% on a year-on-year basis in January, up slightly from the 22.7% growth seen in December.

In its February meeting the Monetary Policy Committee (MPC) voted to raise interest rates for the second time in three months, with the base rate now standing at 0.5%. The MPC also voted unanimously to begin reducing the stock of UK government bond purchases, which had previously stood at £875 billion, by ceasing to reinvest maturing assets. Concerns around inflation have led to further interest rate rises, with The Bank of England raising rates from 0.50% to 0.75% on 17th March. Interest rates are forecast to rise further to 2.0% in 2023 however the uncertain economic outlook may lead to a slower set of rises than previously forecast.

The unemployment rate stood at 4.1% in the final quarter of 2021, down from 4.3% in Q3. While the headline figures show a continued, albeit slowed, recovery in the UK labour market there are also signs of a persistent inactivity gap spurred by the pandemic. The inactivity rate rose by 0.1 percentage points in Q4 to reach 21.2%, a full percentage point above the last pre-pandemic reading. The tight labour market is contributing to robust rates of earnings growth, although many workers are starting to see falling real earnings as inflation continues to accelerate. The unemployment rate is expected to drop further and reach 3.9% by Q2 2022.

Business investment is set to increase by just 3.0% in 2022, following contractions in both 2020 and 2021. A tighter fiscal and monetary outlook for the year will weigh on firms' spending intentions, as will higher operating costs.

Whilst there is uncertainty in the economic and business environment, ZAL has a strong risk management and governance framework in place and benefits from the financial security provided from being a member of the Zurich Group. The risks arising from the expected increases in inflation and interest rates continue to be closely monitored and ZAL is well positioned to identify and implement a range of mitigants in response to any potential future developments.

ZAL, as part of the Group, considers climate change and other environmental issues as being at the foundation of the business. The Group aims to be a responsible and sustainable business helping customers and communities with the effects of climate change. Details on the Group position are reported on the global website (www.zurich.com), while the UK business publishes its Sustainability report annually on the UK website (www.zurich.co.uk).

Climate-related Financial Disclosures are included within the Strategic Report of the ZAL Annual Report and Financial Statements. These disclosures provide further information in response to the Taskforce for Climate-related Financial Disclosures (TCFD) proposals, as well as specific actions relating to carbon and energy emissions for our UK business, including actions taken.

The above information is accurate at the time of writing but as a result of ongoing developments, may not reflect the situation at the time of reading.

No other material changes than the ones mentioned above have occurred during the reporting period.

B. System of governance

ZAL's system of governance is well established and aligned to the wider governance principles of the Group, as well as the Solvency II requirements. The system of governance ensures that there are clear roles and responsibilities throughout the governance structure including the role of the Board, its Risk, Audit and Nomination & Remuneration Committees and the use of non-executive directors, with the effectiveness of the Board and its Committees being reviewed on an annual basis. The Board maintains oversight of the operation of these committees and sets a Terms of Reference for each which is reviewed and updated annually. The system of governance is considered appropriate for the nature and scale of ZAL's business.

ZAL is part of the UK country segment of the Zurich Group, led by the UK Executive team. On a day to day basis ZAL is run by the individuals approved under the Senior Manager and Certification Regime (SMCR). ZAL is managed as part of the wider Zurich UK business with a specific Life function supported by pan-UK functions.

ZAL's system of governance is well established and aligned to the wider governance principles of ZIG, as well as the requirements of Solvency II and the SMCR, which came into effect on 9 December 2018. The system of governance ensures that there are clear roles and responsibilities throughout the governance structure including the role of the Board, its Committees and the use of non-executive directors, with the effectiveness of the Board and its Committees being reviewed on an annual basis.

The Independent Governance Committee was disbanded in 2021, as following the sale of Sterling ISA Managers Limited (SIML) to the Embark Group the number of policies fell below the threshold required for a committee to be in place. A Governance Advisory Arrangement has been set up in its place.

ZAL's system of governance and oversight has not changed from the end of 2021.

The system of governance is considered appropriate for the nature and scale of ZAL's business.

For the financial year beginning on 1 January 2021 Ernst & Young LLP (EY) were appointed as the Company's auditors, following all appropriate processes and approvals.

C. Risk profile

ZAL's business model results in it being subject to a range of risks associated with the activity of issuing insurance and investment contracts and the use of financial instruments.

These include risks for which ZAL holds capital - underwriting risk, market risk, credit risk, operational risk and pension scheme risk - and also risks, such as liquidity risk, for which other mitigation techniques are applied.

Regulatory capital, assessed on the Solvency II standard formula basis, is held to cover the risks associated with ZAL's balance sheet position where the value depends on financial markets, best estimate assumptions being different to expected, operational risks and failures of counterparties. Capital is held for staff pension scheme risk, which is not covered by the standard formula where the scheme is not directly held on the balance sheet, as is the case for ZAL.

Throughout the reporting period there were material changes to the sources and nature of risks in the external environment in which ZAL operates, for example due to the ongoing uncertainty caused by the emergence of further COVID-19 variants and by Brexit. ZAL deployed a wide range of mitigants to reduce the impact of these external risks on its business and its risk profile.

D. Valuation for solvency purposes

Total Assets have been valued at £30.1bn (UK GAAP: £31.6bn), with valuation differences in Deferred Acquisition Costs and Reinsurance Recoverables making up the majority of this difference.

Technical Provision liabilities have been valued at £27.8bn (UK GAAP: £30.5bn), with valuation differences in the calculation of technical provisions, including the difference in the underlying valuation of assets making up the majority of this difference.

Other Liabilities have been valued at £919m (UK GAAP: £620m), with valuation differences in Deferred Tax, Deferred Origination Fees and Fund for Future Appropriations making up the majority of this difference.

The numbers above have led to an 'Excess assets over liabilities' value of £1.5bn (UK GAAP: £535m).

Use of risk free rate with Volatility Adjustment (VA) in the valuation of non-linked and non-profit liabilities and SCR was approved by the PRA. The change was implemented beginning in Q321.

No material changes to the valuation methods of the assets have occurred during the reporting period.

E. Capital Management

ZAL ensures it has excess capital so that it can withstand any uncertainties in future experience. Under Solvency II the Solvency Capital Requirement (SCR) is the capital required to ensure that ZAL will be able to meet its obligations over the next 12 months with a probability of at least 99.5%.

ZAL manages its capital to ensure that regulatory requirements are met at all times. There were no material changes to ZAL's capital management processes during 2021.

As at 31 December 2021, the total eligible Own Funds to meet the SCR was £1,396m, of which all was classified as tier one. The Company's SCR, calculated using a Standard Formula approach, at 31 December

2021 was £1,096m. The surplus of eligible Own Funds above the SCR gives a cover ratio of 127%. This is a decrease from the 2020 cover ratio of 154%, which is explained below.

The key changes over the period causing the increase in the coverage ratio are:

- Increase in Capital Add on: Following confirmation from the PRA this has increased by £108m in the period.
- Dividend: A dividend of £100m paid in March 2021.
- Tax Rates: An increase in the deferred tax liability following the increase in the corporation tax rate from 19% to 25% from April 2023.
- Contract Boundary: A revision to the contract boundary assumed on unit linked protection contracts leading to an increase in both technical provisions and SCR.
- Risk Free Rates: At end July the risk free rate published by the PRA was changed to be based on SONIA rather than LIBOR leading to a reduction in risk free rates. The adverse impact of this was largely offset by the introduction of a volatility adjustment on non-linked non-profit business at end September 2021.
- Yield movements: The rise in risk free rates over 2021 increased the solvency ratio.
- Basis: The annual assumption updates led to an overall reduction in the solvency ratio with the key impact being a strengthening of the persistency basis on whole of life products.

ZAL has approval from the PRA to use the Volatility Adjustment (VA). The solvency ratio at 31 December 2021 without the VA is 123%.

2 Statement of directors responsibility

The ZAL Board of Directors acknowledges its responsibility for preparing the Solvency and Financial Condition Report (SFCR) in all material respects in accordance with the rules issued by the Prudential Regulation Authority (PRA) and the Solvency II regulations.

The ZAL Board is satisfied:

a) Throughout the 2021 financial year, ZAL complied in all material respects with the applicable requirements of the PRA Rules and the Solvency II regulations; and

b) It is reasonable to believe ZAL has continued to comply subsequently and that it will continue to comply in future.

On behalf of the ZAL Board

Alex Koslowski

Chief Executive Officer

6 April 2022

3 Independent auditors report

Report of the independent external auditor to the Directors of [Company Name] ('the Company') pursuant to Rule 4.1(2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2021**:**

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at **31 December 2021, ('the Narrative Disclosures subject to audit**'); and
- Company templates S.02.01.02, S.12.01.02, S.22.01.21, S.23.01.01, S.25.01.21, S.28.01.01, ('**the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the **'relevant elements of the Solvency and Financial Condition Report'**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02; and
- the written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement'**).

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of Zurich Assurance Limited as at 31 December 2021 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including 'ISA (UK) 800 *(Revised) Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks'* and 'ISA (UK) 805 *(Revised) Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement'*. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the relevant elements of the Solvency and Financial Condition Report, we have concluded that the Director's use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included

- Obtained a copy of the financial position report prepared by management which assesses the liquidity, future cashflows and solvency position over a period of at least 12 months from the date of signing;
- Corroborating the information in the assessment to supporting documentation where relevant and practical for support of our conclusion;
- Critically reviewing the assumptions used in the assessment and challenging whether the downside scenarios used by management were appropriate;
- Performed our own sensitivity analysis over management's forecasts;
- Assessed the agreement with Zurich Insurance Group for the provision of additional funding were the solvency level to fall below a set threshold;
- Performed enquiries of management and those charged with governance to identify risks or events that may impact the Company's ability to continue as a going concern. We also reviewed management's assessment approved by the Board, minutes of meetings of the Board and its committees, review of correspondence with regulators and made enquiries as to the impact of COVID-19 on the business; and
- Assessed the appropriateness of the going concern disclosures by comparing the disclosures with management's assessment and for compliance with the relevant reporting requirements.

Based on management's assessment, we have observed that the Company is able to continue to have surplus cash, is liquid and has a Solvency coverage ratio of 127% as at 31 December 2021. The Company has continued to service customers and meet its commitments in the current environment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period to 6 April 2023.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Emphasis of matter – basis of accounting and restriction on use

We draw attention to the 'Valuation for solvency purposes', 'Capital Management' sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose.

This report is made solely to the Directors of the Company in accordance with Rule 2.1 of the External Audit Part of the PRA Rulebook for Solvency II firms. Our work has been undertaken so that we might report to the Directors those matters that we have agreed to state to them in this report and for no other purpose.

Our opinion is not modified in respect of these matters.

Other information

The Directors are responsible for the Other Information contained within the Solvency and Financial Condition Report.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the relevant elements of the Solvency and Financial Condition Report themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications and supplemented by the approvals and determinations made by the PRA under section 138A of the Financial Services and Markets Act 2000, the PRA Rules and Solvency II Regulations 2015.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

In preparing the Solvency and Financial Condition Report, the Directors are responsible for assessing the Company's ability to continue in operation, disclosing as applicable, matters related to its ability to continue in operation and using the going concern basis of accounting unless the Directors either intend to cease to operate the Company, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the Solvency and Financial Condition Report are prepared, in all material respects, with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.
However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the direct laws and regulations related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

- We understood how the Company is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and UK regulatory bodies; reviewed minutes of the Board and its Committees; and gained an understanding of the Company's approach to governance, demonstrated by the Board's approval of the Company's governance framework and the Board's review of the Company's risk management framework and internal control processes.

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered the impact of COVID-19 on the Company's control environment.

- The fraud risk, including management override, was considered to be higher within the valuation of long-term business provisions, specifically on actuarial assumptions as these involve significant judgments.

Our procedures included:

- o Reviewing accounting estimates for evidence of management bias. Supported by our actuarial team, we assessed if there were any indicators of management bias in the valuation of long-term business provisions.

- o Testing the appropriateness of manual posting between UK GAAP and Solvency II Balance sheet.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved: making enquiries of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, enquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, enquiring about the Company's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and PRA.

- The Company operates in the insurance industry which is a highly regulated environment. As such the Audit Engagement Partner considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities.This description forms part of our auditor's Report on the Solvency and Financial Condition Report.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1(3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Ernst & Young LLP
London
6 April 2022

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

The relevant elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

A. Business and performance

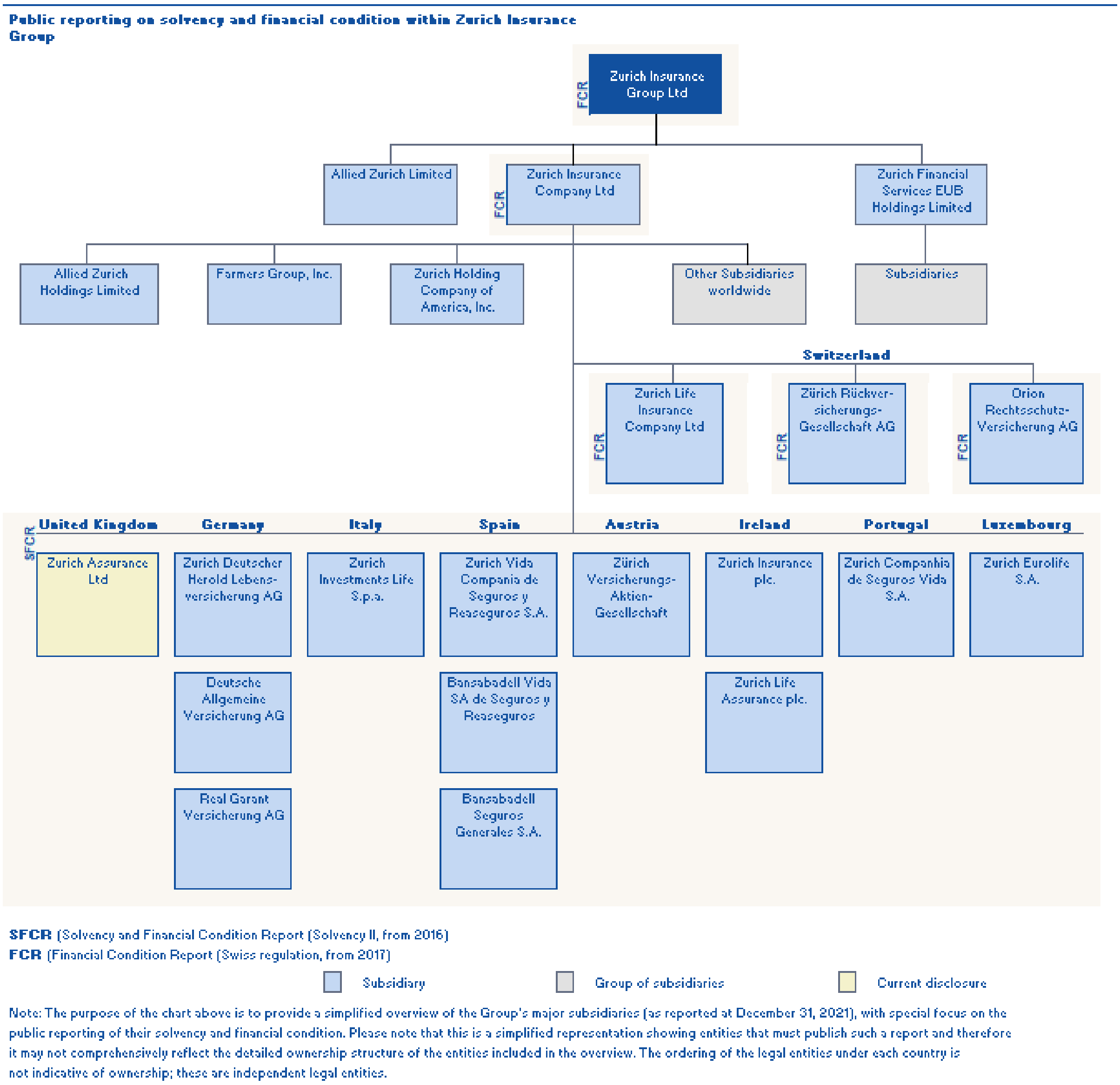
This section provides information on ZAL's business structure and operations, as well as its financial performance over the reporting period.

A.1 Business

Business profile

Name, Location and legal form of the undertaking	ZAL is a limited company domiciled and incorporated in the UK. The registered office is Unity Place, 1 Carfax Close, Swindon, Wiltshire, SN1 1AP. The principal activity of the Company is the provision of long-term insurance business carried out in the United Kingdom and overseas. This includes its primary branch situated in Hong Kong, one small branch in the Isle of Man and a run-off portfolio in Malta. These overseas branches and run-off portfolio are no longer open to new business. ZAL is registered in England and Wales under company number 02456671 as a private company limited by shares.
Name and contact details of the supervisory authority responsible for financial supervision and, where applicable, name and contact details of the group supervisor	ZAL is authorised by the Prudential Regulation Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). The PRA can be contacted at 20 Moorgate, London EC2R 6DA. The FCA can be contacted at 12 Endeavour Square, London E20 1JN. The Zurich Insurance Group is subject to insurance group supervision by the Swiss Financial Market Supervisory Authority (FINMA). FINMA can be contacted at Laupenstrasse 27, CH-3003 Bern, Switzerland.
Name and contact details of the external auditor of the undertaking	Ernst & Young LLP 25 Churchill Place, Canary Wharf, London, E14 5EY
List of material related undertakings including the name, legal form, country, proportion of ownership interest held and, if different, proportion of voting rights held	A list of material related undertakings can be found in Appendix 1.
Description of the holders of qualifying holding in the undertaking	ZAL is a member of the Group. The Group is a leading multi-line insurer that serves its customers in global and local markets. The Group is headquartered in Zurich, Switzerland. The Group consists of the ZIG holding entity and its subsidiaries. Zurich Insurance Company Ltd (ZIC) is the principal operating insurance company of ZIG. ZIC and its subsidiaries are collectively referred to as 'Zurich Insurance Company Group' or 'ZIC Group'. The main subsidiaries of ZIC include Allied Zurich Holdings Limited (AZH), Farmers Group, Inc, Zurich Life Insurance Company Ltd and Zurich Holding Company of America, Inc.

	The Company's immediate parent company is Eagle Star Holdings Limited (ESH) owned by Zurich Financial Services (UKISA) Limited (UKISA), itself a subsidiary of AZH.
Proportion of ownership interest held and, if different, the proportion of voting rights held	ZIG has a 100% shareholding and voting power in ZIC. ZIC has a 100% shareholding and voting power in AZH. AZH has a 100% shareholding and voting power in UKISA. UKISA has a 100% shareholding and voting power in ESH. ESH has a 100% shareholding and voting power in ZAL.
Where the undertaking belongs to a group, details of the undertaking's position within the legal structure of the group	ZAL is a fully-owned subsidiary of ZIC, which is part of the Group. See description of ownership above and simplified structure chart in Appendix 1. The Company operates in the UK business unit as part of the Group, and was part of the UK business unit during 2021. ZIG and ZIC are both incorporated in Switzerland. AZH is incorporated in Jersey. UKISA and ESH are both incorporated in England.
Undertaking's material lines of business – Health insurance	Insurance contracts providing benefits in the event of illness, accident or disability.
Undertaking's material lines of business – Insurance with-profits participation	Contracts which are eligible to participate in discretionary distributions based on profits arising in part of the business. ZAL has two ring-fenced with-profits funds, the 90:10 With-Profits Fund and the 100:0 With-Profits Fund, where policyholders participate in the profits.
Undertaking's material lines of business – Index-linked and unit-linked insurance	Contracts where the benefits are wholly or partly determined by reference to a unit or index value. This excludes any linked contracts already classified under health.
Undertaking's material lines of business – Other life insurance	Any other directly written insurance contract not classified as health, with-profits or linked insurance.
Undertaking's material lines of business – Life reinsurance	This represents the accepted life reinsurance treaties.
Undertaking's material lines of business – Non material Lines of Business (LoB)	These represent the accepted health reinsurance treaties. This line of business is immaterial.
Undertaking's material geographical areas where it carries out business – United Kingdom	This is the primary geographical area. For presentation purposes this also includes the non-branch business sold in the rest of Europe, which is not material.
Undertaking's material geographical areas where it carries out business – Rest of Europe	The business sold in Europe includes Jersey, Guernsey, Isle of Man and Malta. Some of the Isle of Man business has been written through a branch which is closed to new business. The Malta business is a run-off portfolio rather than a branch and is also closed to new business.
Undertaking's material geographical areas where it carries out business – Asia	The business carried out in Asia is through the Hong Kong branch which is closed to new business.
Business planning period	For business planning purposes ZAL operates a three year planning period.



Significant business or other events that have occurred over the reporting period

Whilst there is still some uncertainty in the business environment, the Company has a strong risk management and governance framework in place and benefits from the financial security provided from being a member of the Zurich Group. The continuing risks arising from Brexit and the COVID-19 pandemic are closely monitored and the Company is well positioned to identify and implement a range of mitigants in response to any potential future developments.

During 2021 Equity markets have seen a strong recovery with the FTSE 100 rising 14.3% over the year. Although we continue to live in a COVID-19 pandemic, the successful vaccine rollout throughout the year has alleviated part of the risks associated with this and the lifting of measures in the early part of 2022 only helps to support this.

ZAL has continued to operate above its solvency risk appetite throughout the year and in accordance with the Groups capital management policy and with due consideration to ZAL's solvency risk appetite, ZAL paid out a dividend of £100m in the period.

A.2 Underwriting performance

ZAL prepares its statutory financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP) in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101), which results in recognition and measurement in accordance with EU adopted International Financial Reporting Standards (IFRS). Consequently, the information included in this section is presented on a UK GAAP basis plus deposit accounted investment contracts as required under Solvency II.

The UK GAAP loss for the year before taxation was £8m (2020: Loss £6m). The loss for 2021 includes a £117m loss from an increase in Technical Provisions resulting from demographic and expense basis updates, with some of this offset from gains from the increase in yields over 2021. Death claims on protection business increased in 2021 due to COVID-19 though the net impact of these on the loss was reduced as a substantial proportion were covered by reinsurance arrangements, and growth in the overall insurance book.

As shown below, the significant lines of business contributing to the loss for the year were unit-linked insurance, health insurance, other life insurance and life reinsurance. There was some with-profits business where the contribution to the result was the shareholder's share of any bonuses paid.

The table below shows ZAL's premiums, claims and expenses split by Solvency II lines of business for the period ended 31 December 2021 (the numbers in this table correspond to the numbers presented in the QRT S.05.01.02 under Appendix 2):

Premiums, Claims and Expenses by Line of Business

In £'000		Health insurance	Insurance with-profit participation	Index-linked and unit-linked insurance	Other life insurance	Life reinsurance	Non material LoBs	TOTAL
Gross Premiums	2021	303,004	5,235	193,375	601,067	1,463	2,099	1,106,243
	2020	271,455	6,226	201,550	712,378	47,453	2,132	1,241,194
Reinsurers' share of premiums	2021	(146,428)	(230)	(7,091)	(432,936)	-	-	(586,685)
	2020	(128,414)	(271)	(2,434)	(534,456)	-	-	(665,575)
Gross Claims	2021	(149,906)	(114,136)	(2,600,333)	(436,753)	(62,516)	(3,230)	(3,366,874)
	2020	(130,897)	(130,065)	(2,235,657)	(560,862)	(236,683)	(1,796)	(3,295,960)
Reinsurers' share of claims	2021	85,748	7	5,004	396,471	-	-	487,230
	2020	75,762	42	7,376	518,083	-	-	601,263
Gross changes in technical	2021	(58,184)	139,169	(301,706)	(81,980)	60,646	129	(241,926)
	2020	(50,486)	53,770	1,184,520	(612,224)	186,458	(45)	761,993

provisions (TP)								
Reinsurers' share of changes in TP	2021	42,771	-	823	77,398	-	-	120,992
	2020	45,607	-	(3,210)	332,251	-	-	374,648
Expenses	2021	(35,153)	(7,938)	(117,825)	(163,928)	-	(1)	(324,845)
	2020	(65,011)	(8,722)	(130,184)	(178,339)	-	(1,180)	(383,436)

The continuing strength of the Retail Protection, ZCR and Longevity businesses drive the increase in premiums and claims across the Health and Other Life lines of business. This increase is partially offset within the Other Life line of business by a change in presentation of longevity premiums and claims.

A large proportion of the gross claims paid were due to surrenders on products which are closed to new business. There is a corresponding offset to this through the movements in technical provisions.

ZAL had 3.3 million (2020: 3.2 million) policyholders or scheme members at 31 December 2021.

ZAL is committed to paying valid claims as they make a real difference to the lives of ZAL's customers at a time when they are most vulnerable. During 2021 ZAL's retail protection business paid out over 87% (2020: over 87%) of critical illness claims and over 99% (2020: over 98%) of death claims. Of the claims not paid, reasons include non-disclosure of medical information on applications and where an income protection customer may have returned to work before the policy's payment period started.

Gross premiums written during 2021 comprised total regular premiums of £1.03bn (2020: £1.12bn) and total single premiums of £75m (2020: £117m).

Technical provisions increased in the year by £242m. The material changes are:

- Index-linked and unit linked increased by £302m with investment returns, including FTSE 100 14.3% up on prior year, more than offsetting the net cash outflow from premiums less claims.
- Insurance with profit participation decreased by £139m due to the run-off of the ZAL with profit business and falls in market values due to a rise in fixed interest yields over the year.
- Health and Other life insurance increased by £140m, with increases seen from new business volumes and demographic basis updates, with partially offsetting reductions from increases to valuation interest rates.
- Life reinsurance decreased by £61m, following a cedant's decision to recapture the remaining element of the reinsurance treaty agreement.

Reinsurance recoverables increased in the year by £121m, with Health and Other life insurance driving this movement due to new business volumes and demographic basis updates, with partially offsetting reductions from increases to valuation interest rates.

Expenses in the year included acquisition costs, servicing costs, investment expenses, overhead expenses and movements in deferred costs. The reduction in the year is principally due to the adverse impact in 2020 from falling equity markets on the carrying value of deferred costs not repeating in 2021.

Total APE for the year was **£133m** (2020: £128m). Overall total APE, an alternative performance measure, has grown by 4% year on year despite being adversely impacted by the subdued Retail Protection market. APE comprises of new regular premiums plus 10% of new single premiums. This performance was driven by increased sales of Retail protection products, especially Term Life, and the completion of two longevity contracts during the year. Corporate protection business APE was 17% lower year on year due to outperformance in Corporate protection in 2020 not repeated in 2021.

ZAL's primary market is the United Kingdom, with significantly over 90% of its business conducted in this market.

The reconciliation from the Solvency II information reported in QRT S.05.01.02 in Appendix 2 to UK GAAP loss before taxation is as follows:

SII to UK GAAP reconciliation

In £'000	2021	2020
Gross Premiums (as per S.05, table above) *	1,106,243	1,241,194
Reinsurers' share of premiums (as per S.05, table above)	(586,685)	(665,575)
Gross Claims (as per S.05, table above) *	(3,366,874)	(3,295,960)
Reinsurers' share of claims (as per S.05, table above)	487,230	601,263
Gross Changes in Technical Provisions (as per S.05, table above) *	(241,926)	761,993
Reinsurers' share of Changes in TP (as per S.05, table above)	120,992	374,648
Expenses (as per S.05, table above)	(324,845)	(383,437)
Investment Performance (see Section A.3 below)	2,878,173	1,357,798
Other Technical Income, net of reinsurance *	13,790	16,263
Tax charge attributable to Long-Term Business	(98,441)	(10,224)
Transfers from / (to) Fund for Future Appropriations (FFA)	4,571	3,230
Non-Technical Income / Expenses (see Section A.4 below)	(925)	(6,800)
Other Activities	(64)	(12)
Total UK GAAP (Loss) / Profit before Taxation	**(8,761)**	**(5,619)**
Tax on (Loss) / Profit (see Section A.4 below)	2,241	1,911
Total UK GAAP (Loss) / Profit after Taxation	**(6,520)**	**(3,708)**

* The rows above shown with an asterisk are adjusted in the financial statements (UK GAAP) for deposit accounting (DA) by the amounts shown below (total impact on the result is nil):

	2021	2020
DA adjustment for Gross Premiums	(81,802)	(134,231)
DA adjustment for Gross Claims	1,500,031	1,424,108
DA adjustment for Gross Changes in Technical Provisions	(1,467,745)	(1,355,192)
DA adjustment for Other Technical Income, net of reinsurance	49,516	65,315
Total deposit accounting adjustments (UK GAAP)	**-**	**-**

The UK GAAP figures above use the Solvency II presentation. For certain headings the reported figures above may differ from the presentation in the financial statements due to the deposit accounting requirements under UK GAAP. The deposit accounting adjustments are only presentational and have no impact on the results. These differences are shown in the bottom part of the table above.

Other Technical Income is the movement in Deferred Origination Fees (DOF) in the year. DOF relates to unit-linked investment contract holders. These fees are recognised in the period in which they are charged unless they relate to services to be provided in future periods, in which case they are deferred and recognised as income over the expected term of the contract as the services are provided.

The FFA represents the amounts in the participating ring-fenced funds for which the allocation to participating policyholders and shareholders has not been determined at the balance sheet date.

A.3 Investment performance

Net investment income represents income earned in the year, which is reported on an accruals basis and includes amortisation of premium (discount) on fixed interest securities. The investment result for the year was:

Investment Performance						
In £'000	**Net Investment Income (expense)**		**Net capital gains (losses)**		**Investment result**	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Cash and cash equivalents	7	474	(2,578)	(271)	(2,571)	203
Equity securities	5,411	3,873	6,733	(10,796)	12,144	(6,923)
Debt securities	69,293	67,069	(230,613)	226,511	(161,320)	293,580
Real estate held for investment	(16)	13	2,153	(432)	2,137	(419)
Mortgage loans	55	125	-	-	55	125
Other loans	802	1,084	-	-	802	1,084
Collective Investments Undertakings	1,264	1,200	5,524	309	6,788	1,509
Derivatives	-	-	(8,570)	64,181	(8,570)	64,181
Assets held for index-linked and unit-linked contracts	512,709	527,084	2,510,307	489,132	3,023,016	1,016,216
Other investments	4,329	3,359	1,363	(15,117)	5,692	(11,758)
Investment performance, gross	**593,854**	**604,281**	**2,284,319**	**753,517**	**2,878,173**	**1,357,798**
Investment expenses					(40,519)	(50,450)
Investment performance, net					**2,837,654**	**1,307,348**

The reduction in investment income is being driven by a reduction in rental income following property sales within Assets held for index-linked and unit-linked contracts. Gains and losses from Equity and Debt securities have been driven by market and yield changes, which have also driven the significant increase in gains from Assets held for index-linked and unit-linked contracts.

Gains on equity securities during 2021 reflect an overall increase in equity markets with the FTSE 100 regaining the majority of its 2020 losses in 2021, despite the continuing impact of COVID-19, rising 14.3% to 7,385 (14.3% decrease in 2020) at year-end as vaccine rollouts allowed economies to reopen and stimulus packages boosted growth.

Losses on debt securities in 2021 reflect decreases in both government and corporate bond indices over the year, with yields rising for both short dated and long dated gilts and bonds.

Gains on Real estate in 2021 includes amounts realised on disposal of assets and revaluation of assets.

The Investment Result for Assets held in index-linked and unit-linked contracts reflects movements in global equity and bond markets.

The increase in net capital gains on collective investment undertakings compared to prior year reflects the relative return on the underlying debt and equity assets held within the collectives.

Losses on derivatives of £9m (2020: gains of £64m) included a loss of £8m (2020: gain of £51m) on derivative contracts held to mitigate equity risk on unit-linked business, as part of ZAL's capital management objectives, see section A.2 'Underwriting performance' and C.2 'Market risk'.

There were no gains or losses recognised directly in Equity in ZAL's financial statements.

All of the net gains and losses arising on investments during the year are in respect of financial investments classified at fair value through profit or loss.

Securitisation or repackaged loans

ZAL had exposure to securitisations and repackaged loan holdings of £21m at 31 December 2021 (2020: £21m). The net investment income is included in the 'debt securities' figures above.

A.4 Performance of other activities

ZAL reported net expenses from 'Other income and expenses' for the year 2021 of £1.3m (income of £6.2m minus expenses of £4.9m), which consisted of the following:

Other income and expenses				
In £'000		**Income**		**Expenses**
	2021	**2020**	**2021**	**2020**
Investment result in non-technical account *	-	-	(3,446)	(5,602)
Other income and expenses in non-technical account *	3,481	37	(1,405)	(1,549)
Other activities *	445	314	-	-
Tax on (Loss) / Profit	2,241	1,911	-	-
Total of other income/ expenses	**6,167**	**2,262**	**(4,851)**	**(7,151)**

* The sum of the non-technical income and expenses in the first three rows of the table above correspond to the amount of the row 'Non-Technical Income Net' in the table presenting the SII to UK GAAP reconciliation in section A.2 'Underwriting performance'.

'Other income and expenses in non-technical account' captures income streams earned by the shareholder fund and other shareholder expenses, including depreciation.

'Tax on (Loss) / Profit' represents the impact of both current and deferred tax on the 'Underwriting performance' and the 'Other incomes and expenses'. UK corporation tax has been calculated at a rate of 19% in accordance with the rates applicable to the long-term business of a life insurance company.

Leasing arrangements

ZAL has entered into certain operating and finance lease contracts in relation to land and buildings where ZAL is lessor and has also entered into operating and finance lease contracts with tenants where ZAL is the lessee. These consist of four head lease, one sublease and twenty-seven ground rent lease agreements where ZAL is lessor and three separate agreements where ZAL is lessee. No one lease is material in nature or in size.

No lease concessions have been granted during the year following the IFRS 16 in relation to COVID-19 Related Rent Concession Amendment.

A.5 Any other information

There is no other information to report.

B. System of governance

This section provides information on ZAL's system of governance. This includes roles and responsibilities of the ZAL Board and Executive Committees, and remuneration policies and transactions with members of the Board, as well as explaining the risk management system and the internal control system implemented by the company.

B.1 General information on the system of governance

Under Solvency II ZAL is required to maintain a comprehensive and up-to-date governance map and fulfils this requirement by producing and maintaining a Management Responsibilities Map (MRM) in accordance with the requirements of the SMCR. ZAL uses the MRM to set out key functions in the firm and the relevant individuals responsible for these functions, along with their lines of accountability and responsibility both within the firm and the wider group.

ZAL's system of governance is well established and aligned to the wider governance principles of the Group, as well as the Solvency II requirements. The system of governance ensures that there are clear roles and responsibilities throughout the governance structure including the role of the Board, its Committees and the use of non-executive directors, with the effectiveness of the Board and its Committees being reviewed on an annual basis. The system of governance is considered appropriate for the nature and scale of ZAL's business.

The Independent Governance Committee was disbanded in 2021, as following the sale of SIML to the Embark Group the number of policies fell below the threshold required for a committee to be in place. A Governance Advisory Arrangement has been set up in its place.

ZAL's system of governance and oversight has not changed from the end of 2021.

The system of governance is considered appropriate for the nature and scale of ZAL's business.

For the financial year beginning on 1 January 2021 EY were appointed as the Company's auditors, following all appropriate processes and approvals.

ZAL is a wholly-owned subsidiary of a global insurance group and is aligned to the Group's internal organisational structure. The ZAL Board derives its collective authority by direct delegation from its shareholder. Its key purpose is to direct company affairs whilst meeting the appropriate interests of its key stakeholders, including its customers, employees and the shareholder.

The ZAL Board has two overarching responsibilities:

- To ensure the Company remains compliant with local law and meets the expectations of its regulators, paying due regard to jurisdictional best practice; and
- To maintain ZAL's business as a going concern in line with its strategic aims and targets or, if required, manage its orderly closure. In either respect, the directors should ensure full regard is paid to the interests and expectations of all of the Company's customers and other stakeholders.

Insofar as it is required to discharge these responsibilities, the remit of the ZAL Board comprises:

- Values and standards – The Board sets the values and standards for ZAL. This is achieved by adopting and adapting the Group code of conduct and other applicable group policies;
- Strategy – Executive management proposes its strategy for ZAL to the ZAL Board, to consider and adopt it as appropriate. As a part of its considerations, the Board takes into account the appropriateness of this strategy, ensuring it can be executed in a compliant manner. The Board ensures the strategy is within its stated risk appetite, and considers the extent to which it will enable ZAL to meet the interests and expectations of its stakeholders;
- Risk management – The Board has responsibility for setting ZAL's risk appetite and must ensure risks are appropriately identified and managed. Capital policy and plans (over the short, medium and long-term) including capital buffers are reviewed by management and approvals are sought from the Board as and when appropriate;
- Systems and controls – The Board has responsibility for the effectiveness of an appropriate system of internal controls to ensure the ongoing compliance of the Company with all applicable regulation and legislation, to protect the interests of customers and to ensure that risks are mitigated to within the stated risk appetite. The control framework ensures that, where regulation or legislation requires Board notification or decision, matters are brought to the attention of the Board in a timely manner and the Board has accountability for ensuring the completion of remedial actions.
- Resources – The Board retains responsibility for ensuring the ongoing adequacy and efficient usage of the resource available to the Company to deliver its strategy and operational plan. Examples of resource-types include human, financial, physical or technological; and
- Audit, Risk, and Nomination & Remuneration Committees – The Board is responsible for the operation of the Committees to assist the Board in meeting its obligations and the expectations of the regulators or other sources of jurisdictional best practice that may be applicable. The Board is responsible for approving the terms of reference for each of the Committees.

ZAL's Board is composed of executive directors and independent non-executive directors. There is no formal limit to the number of directors that can sit on the Board, however, appointment follows group governance principles for subsidiaries, although local statutory and regulatory requirements take precedence. The table below shows the composition of the ZAL Board:

Zurich Assurance Ltd Board of Directors

Individual	Role	Comments
J. Platt	Independent Non-executive Director	Chair of Board and Nomination & Remuneration Committee
P. Bishop	Independent Non-executive Director	Chair of Audit Committee
C.S. Fairclough	Independent Non-executive Director	Chair of Risk Committee
H. Lauder	Independent Non-executive director	Appointed 15 September 2021
A. Koslowski	Executive Director	CEO
H.A. Pickford	Executive Director	
J. Temes	Shareholder Representative Director	Appointed 1 January 2021
T. Bailey	Executive Director	Appointed 15 January 2021
M. Koller	Independent Non-executive director	Resigned 10 September 2021

Committees of the Board of Directors

The ZAL Board had three standing committees during 2021, which regularly reported to the Board and submitted proposals for resolution by the Board:

Risk Committee

The Risk Committee is authorised to assist the Board in carrying out its responsibilities in relation to the oversight of risk management in accordance with law and regulations by:

- Providing oversight and guidance to the Company and its management in relation to risk management and assisting in identifying issues requiring management's attention;
- Acting as a focal point for discussion and communication on matters regarding the oversight of risk management including monitoring adherence to the Board's defined risk appetite; and
- Determining which areas might require further review, additional attention and escalation.

Audit Committee

The Audit Committee is authorised to assist the Board in carrying out its responsibilities relating to financial reporting, internal control and governance, in accordance with regulation, legislation and acceptable ethical standards by:

- Providing oversight and guidance to the Company and its management with regard to the above matters and to assist in identifying issues requiring management's attention;
- Acting as a focal point for discussion and communication of matters regarding the oversight of financial reporting, internal control, compliance (including financial crime) and governance; and
- Giving sufficient attention to presented issues and information to determine areas for further review, additional attention and escalation.

The Audit Committee is also responsible for the oversight of the Company's external auditor, EY.

Nomination & Remuneration Committee

The Nomination and Remuneration Committee is authorised by the ZAL Board. Its purpose is to assist the ZAL Board in fulfilling its responsibilities in respect of nomination and remuneration matters by leading the process for board appointments and to provide oversight in relation to the remuneration of senior managers with responsibilities to the Company. The Committee shall:

- Provide oversight and guidance in relation to the structure and composition of the Company's Board and assisting in identifying issues requiring Management's attention in relation to these matters;
- Monitor the balance of skills, independence, knowledge, experience and diversity on the Board;
- Act as a focal point for discussion and communication of matters regarding succession planning for the Board and senior management;
- Consider, unless the matter has been raised separately at Board, any proposals for key function holder appointments with material responsibilities to the Company;
- Consider proposed remuneration packages for new senior manager appointments with responsibility for the Company;

- Monitor on at least an annual basis the remuneration of senior managers with responsibility for the Company;
- Escalating matters that require the further attention of the Board.

Independent Governance Committee

The Independent Governance Committee (IGC) was disbanded in 2021 after the sale of SIML to Embark, with the number of policies remaining dropping below the threshold required for an IGC.

Governance Advisory Arrangement

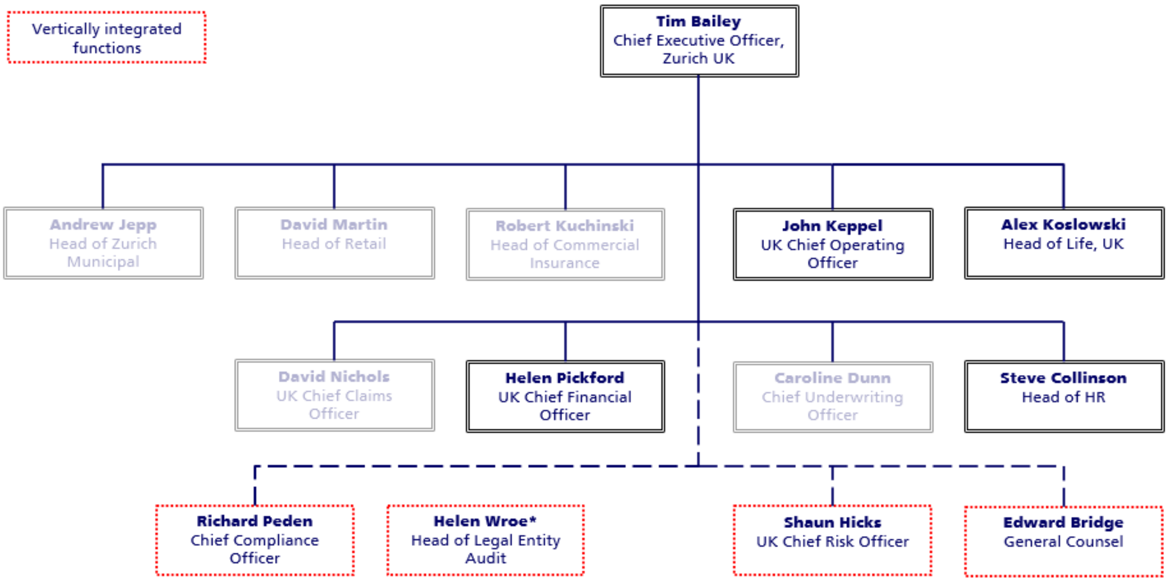
The Governance Advisory Arrangement (GAA) replaced the IGC after its disbandment in 2021. The purpose of the GAA is to assess the ongoing value for money for relevant policyholders delivered by relevant schemes, provide independent consideration on Environmental, Social and Corporate Governance financial considerations, non-financial matters, stewardship and, where applicable, other financial considerations to the extent that they pose a particular and significant risk of financial harm to relevant policyholders. The GAA is an advisory committee to the Board and its members sit in an independent capacity and are required to act solely in the interests of relevant policyholders. The GAA is independent of the Board and escalates concerns as appropriate. ZAL has appointed PTL Governance Limited to operate its GAA and is responsible for ensuring that the GAA acts in accordance with its terms of reference.

Executive Committee

The Executive Management structure reflects the organisation of Zurich's UK business of which ZAL is a part. The Executive Committee is made up of members of Executive Management from each area of the UK business and the supporting functions. ZAL is represented by the Head of Life, UK (also the CEO of ZAL). In addition the Executive Committee includes the CEO of Zurich UK and the heads of Operations & IT, Finance, HR, Legal, Risk and Compliance.

The role of the Executive Committee is to support management and advise the UK CEO on the day to day management of the business, ensuring executive alignment on courses of action for the business through robust challenge and decision-making and identifying any decisions that may need to be taken to the ZAL Board.

The following diagram sets out the composition of the Executive Committee as at 31 December 2021, the roles that are relevant to the Life business and ZAL are highlighted, including vertically integrated functions that have reporting lines into a Group function:



*Due to a leave of absence, the role is currently being covered by Veronica Centelles (Audit Director EMEA)

Key functions within ZAL

The key functions relating to corporate governance and risk management identified by ZAL are shown in the table below. Each key function holder is either a standing ex officio attendee of, or has a right of access to, the ZAL Board outside of their own management reporting line. This gives the individual the operational independence to carry out their tasks and advise and inform the Board of any issues or concerns.

Key function holders

PRA Definition	ZAL Role Title	Individual in Role
The Risk Management Function	Chief Risk Officer	David Wainwright
The Compliance Function	Chief Compliance Officer	Richard Peden
The Internal Audit Function	Head of Legal Entity Audit	Helen Wroe*
The Actuarial Function	Chief Life Actuary (CLA)	Keith Jennings

*Due to a leave of absence the role is currently being covered by Veronica Centelles (Audit Director EMEA)

Remuneration policy and guiding principles

ZAL is a subsidiary of ZIG and applies the Group's remuneration philosophy and agreed remuneration rules. The remuneration rules serve as a framework for the governance, design, implementation and monitoring of the Group's remuneration architecture globally. They are designed to support the business strategy, risk management framework and operational and financial plans, and consider legal and regulatory requirements for ZIG and its subsidiaries. Employees working on behalf of ZAL are predominantly employed by Zurich Employment Services Limited (ZES) with the costs subsequently being recharged to ZAL. ZAL applies a remuneration policy in respect of these employees.

The ZIG Board of Directors is responsible for the design, implementation and monitoring of the Group's remuneration architecture. The ZIG Board of Directors has established a Remuneration Committee which assumes the duties according to Zurich's Articles of Incorporation, the Organizational Rules and the Remuneration section of the Charter for the Committees of the Board of Directors of the Zurich Insurance Group Ltd (Committees Charter). In particular, the Remuneration Committee prepares proposals to the ZIG Board of Directors regarding the design of the Group's remuneration architecture, the implementation of the Remuneration Rules and the respective monitoring process. The ZIG Board reviews the remuneration rules regularly, at least once a year. The rules are amended by the ZIG Board as necessary.

The ZAL Board is responsible for its remuneration arrangements and has developed a remuneration policy statement in the context of the Group remuneration rules. The ZAL Board has delegated responsibility for reviewing and monitoring implementation of this policy to its Nomination & Remuneration Committee. The Nomination & Remuneration Committee meets on at least an annual basis to review the remuneration policy statement and its implementation.

ZAL operates a balanced and effectively managed remuneration system that provides competitive total remuneration opportunities which attract, retain, motivate and reward employees. For many employees including those in senior roles it includes a variable component which enables them to participate in the success of the company. The remuneration system is an important element of the Zurich Group and ZAL's EnterpriseRisk Management Framework and is designed to not encourage inappropriate risk taking through effective governance and a clearly defined performance management process which supports the Group's overall risk appetite, business strategy and plans. Performance-related pay is designed to promote sound risk management and does so by ensuring an appropriate balance between fixed and performance based elements.

Total remuneration and its composition for individuals may be influenced by factors such as scope and complexity of the role, level of responsibility, risk exposure, business performance (including an improvement in customer Net Promoter Scores (NPS)) and affordability, individual performance, professional experience, internal relatives, external competitiveness, geographical location and legal requirements.

As a business, Zurich are committed to creating an inclusive workplace where every individual feels valued and able to realise their full potential. This ensures that we can reflect our customers' needs and drive better results. Zurich UK has a clearly defined Diversity & Inclusion policy and has strengthened its flexible working during the pandemic. Zurich also continues to offer part time and job share opportunities and an equalised Parental leave policy. The ZAL Nomination & Remuneration Committee is updated on the UK business' diversity approach and related statistics including the gender pay gap.

The key design principles of ZAL's remuneration arrangements include:

- The remuneration architecture is simple, transparent and can be put into practice and considers the interests of key stakeholders such as customers, shareholders and employees.
- Remuneration is tied to long-term results for individuals who have a material impact on the Group's risk profile.
- The structure and level of total remuneration are aligned with the Group's risk policies and risk-taking capacity.
- Expected performance is clearly defined through a structured system of performance management and this is used to support remuneration decisions.
- Variable remuneration awards are linked to key performance factors which can include the performance of the Group, countries, business units, functions, as well as individual achievements.

- The Group's Short-Term Incentive Plan (STIP) and Long-Term Incentive Plan (LTIP), used for variable remuneration, are linked to appropriate performance criteria and the overall expenditure on variable pay is considered in connection with the Group's long-term economic performance.
- The structure of the LTIP links remuneration with the future development of performance and risk by including features for deferred remuneration.
- Employees are provided with a range of benefits based on local market practices,
- Reward decisions are made on the basis of merits – performance, skills, experience, qualifications and potential – and are free from discrimination towards or against particular diverse backgrounds. The remuneration system and practices ensure all employees have equal opportunities.

Total remuneration for employees of ZAL can include the following elements:

Base salary

Base salary is the fixed pay for the role performed, determined by the scope and complexity of the role and is reviewed regularly. Overall base salary structures are positioned to manage salaries around the relevant market rates and take into account the individual's overall experience and performance. Employees may also participate in a defined contribution pension scheme.

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.

Variable remuneration

ZAL operates variable short term and long-term incentive plans aligned to the achievement of key financial objectives and the execution of the business strategy, risk management framework and operational plans.

Variable remuneration is structured such that typically there is a higher weighting towards the longer term sustainable performance for the most senior employees of the Group and those with the most impact on the Group's risk profile. This ensures that a significant portion of the variable pay for those employees is deferred. Variable remuneration includes both short term incentive plans for which all employees are eligible to join and long-term incentives for selected employees.

Independent non-executive directors do not participate in the variable remuneration element or pension scheme arrangements described above and are entitled to base salary remuneration only.

In alignment with the Group's risk profile and business strategy and taking into account best practice principles among insurance companies and views from proxy advisors and shareholders, long-term incentives are provided with a deferral element taking into account material risks and the time horizon thereof. Such deferred remuneration is structured in a way as to promote the risk awareness of the participants and to encourage the participants to operate the business in a sustainable manner. Deferred bonuses vest after three years. The Vesting Level is proposed by the Group CEO to the Group Remuneration Committee and the Group Remuneration Committee makes a recommendation to the Board of Directors for final approval. In addition there are restrictions in place preventing the sales of half of the vested shares for a further three years for shares due to vest in 2022. Those shares scheduled to vest from 2023 onwards are free of restriction in line with market practice.

Material transactions during the reporting period

There were no material transactions between ZAL and the members of its Board during the reporting period.

B.2 Fit and proper requirements

ZAL applies fit and proper requirements to its, Senior Management Functions, Certified Functions and key function holders. Fitness means knowledge, professional qualifications and relevant experience are adequate to enable sound and prudent management, control and oversight of ZAL. The concept of fitness also extends to the assessment of collective fitness – the collective diversity of qualifications of the senior managers of ZAL. Propriety is defined as the evidence of good reputation and integrity (honesty and individual soundness).

ZAL operates a process for assessing the fitness and propriety of its Senior Management Functions, Certified Functions and key function holders via background screening and pre-employment or pre-appointment checking, carried out internally and through an external screening partner. To ensure that these individuals remain fit and proper an annual self-certification and competency assessment exercise takes place, and furthermore each year the fitness and propriety of a third of all such employees is checked by a third party. This means that all in-scope employees are independently verified every three years.

The collective fitness of the senior managers of ZAL refers to the qualifications and experience with respect to:

- Insurance and financial markets – awareness and understanding of the wider business, economic and market environment in which ZAL operates;
- Business strategy and business model – appropriate detailed understanding of these aspects with regard to ZAL;
- System of governance – risk management and control, awareness of the risks ZAL is facing and capability to manage them and to assess the effectiveness of the measures to deliver effective governance, oversight and controls and changes;
- Financial and actuarial analysis – ability to interpret ZAL's financial and actuarial information, identify key issues and put in place appropriate controls and take necessary measures; and
- Regulatory framework and requirements – awareness and understanding of the regulatory framework in which ZAL operates, awareness and understanding of requirements and expectations and adaptation of changes without delay.

B.3 Risk management system

Risk management framework

Risk management is integral to ZAL's strategy and operations. ZAL operates a rigorous risk management framework designed to promptly identify, measure, manage, report and monitor all risk types and associated risks that affect the achievement of strategic, operational and financial objectives. This includes reviewing the Company's risk profile and monitoring risk exposures against ZAL's risk appetite as defined by the Board, so that ZAL is able to respond to new risks and opportunities and to support risk-based decision making.

The Board defines ZAL's risk strategy and appetite and oversight of the risk management framework is provided by the Risk Committee which is authorised by the Board and its purpose is to assist the Board by:

- Providing oversight and guidance to the Company and its management in relation to risk management and assisting in identifying matters requiring management's attention;

- Acting as a focal point for discussion and communication of matters regarding risk management; and
- Giving sufficient attention to presented issues and information to determine which areas might require further review, additional attention and escalation.

ZAL manages and mitigates the risks identified within the risk assessment process through specifically identified executive management actions which are tracked and reported.

Three lines of defence model

A 'three lines of defence' model is adopted and applied through the Group's risk governance structure to deliver integrated assurance and ensure risks are clearly identified, owned and managed so that:

- Business management takes risks and is responsible for day-to-day risk management;
- The risk management function oversees the overall risk management framework, and helps the business manage its risks. Other governance and key functions, such as Compliance (Second Line) and Legal, Actuarial and Finance (First Line) help the business manage and control specific types of risks; and
- The audit function provides independent assurance regarding the effectiveness of the risk management framework and risk controls.

Risk management organisation

The Group Chief Risk Officer (CRO) leads the Group risk management function, which develops methods and processes for identifying, measuring, managing, monitoring and reporting risks throughout the Group. The Group sets out its risk management requirements through the 'Zurich Risk Policy' which specifies the Group's risk tolerance, risk limits and authorities, reporting requirements, procedures to approve any exceptions and procedures for referring risk issues to senior management and the Board of Directors.

ZAL's Chief Risk Officer reports to both the ZAL Chief Executive and the UK CRO. He also has confidential access to the Chairperson of the Board Risk Committee to maintain organisational independence. The UK CRO is responsible for managing the relationship with the PRA.

Climate Risk Responsibility

The Prudential Regulation Authority's (PRA) April 2019 supervisory statement 3/19 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change' formalised the regulator's expectations on firms' management of climate risks. The paper prescribed requirements for firms to implement by the end of 2021, spanning governance, risk management, scenario analysis and disclosure.

In September 2020, the ZAL Board Risk Committee approved outcomes for delivery in 2021, aligned with the PRA's expectations detailed in their supervision statement. These outcomes were successfully delivered during 2021:

- A senior management function is responsible for the identification and management of the financial risks from climate change under the Senior Managers and Certification Regime; Zurich's UK CRO was approved for this role in November 2019, supported by the UK Chief Financial Officer (CFO).
- A UK sustainability strategy was developed in line with the Zurich Group sustainability strategy' and Zurich's new brand framework. Various initiatives were delivered against this strategy across the business during 2021 and activity will continue in future years to further develop Zurich's sustainability.

- A Sustainability Risk Committee was created with responsibility to a) identify and manage the sustainability risks that Zurich is exposed to (including the financial risks of climate change), ensuring regulatory expectations are met; and b) monitor progression against Zurich's UK sustainability strategy, delivering for key stakeholders. This committee met quarterly through 2021 to monitor progress. Regular reporting from this committee was submitted to the ZAL Board Risk Committee
- A climate change risk assessment methodology was developed to identify the longer-term impacts of climate change risk on the business. This led to output of a view of the climate risks for ZAL's business.
- Climate change risk appetite was discussed with the ZAL Board and a framework agreed for evolving climate change risk appetite as data and public commitments develop in future years. An initial climate change risk appetite was approved focusing on the risks arising from failing to deliver on public commitments made on climate change.
- ZAL's Risk Management Framework documentation was updated to ensure climate change risk is appropriately reflected.
- ZAL carried out climate change scenario analysis which was included in the 2021 ORSA. The scenario focused on the risks to ZAL of a disorderly transition to a low-carbon economy. This showed that while ZAL's direct exposure to carbon intensive assets is relatively low, this scenario would still have a significant impact via macroeconomic effects.

Activity on Zurich's sustainability goals, including climate change will continue in 2022 and beyond. ZAL's climate change risk management will continue to evolve through updates to ZAL's climate change risk assessment; monitoring and developments to ZAL's climate change risk appetite; further development of climate risk scenarios; and through work on ZAL and Zurich UK public disclosures on climate change risk in response to regulatory developments.

The Own Risk and Solvency Assessment (ORSA)

The ORSA is the assessment of the current and future risk profile of ZAL and resultant capital requirements, including:

- The nature, scale and complexity of the current and likely future risks inherent to the business
- ZAL's solvency position under current and stressed conditions
- A forward-looking assessment of the solvency position over the planning horizon

The ORSA process addresses all material risk types that ZAL's business is exposed to and considers these over the short, medium and long-term. The ORSA process is a continuous process made up of a combination of periodic and ongoing activities. It culminates in a formal ORSA report which is compiled on an annual basis as a minimum.

The ORSA is a key component of ZAL's risk framework with supporting processes integrated into the risk management system. The ORSA supports business planning and strategic decision making. It is the fundamental aim of the ORSA process to demonstrate ZAL's understanding of the relationship between risk taking, its solvency position and its capital base.

Risk reporting

The risk function and first line both report on key risk matters to the Risk Committee, the Chair of the Risk Committee then provides a written or verbal update to the Board highlighting any matters for noting, escalation or approval. In addition, he or she will inform on a timely basis the Audit Committee of any risk-related matters considered relevant. The Chair of the Risk Committee can also, if necessary, escalate matters to the UK CEO with support from Group Risk. The Board retains responsibility for approving certain items, as specified in the Risk Committee Terms of Reference, and the ultimate responsibility for risk management rests with the Board.

B.4 Internal control system

Internal control framework

The ZAL Board has overall responsibility for risk management and internal controls. Primary risk management and internal control systems are established at a group level and applied, where appropriate, by ZAL, with additional controls applied to meet ZAL's specific control requirements.

ZAL's management is responsible for identifying, evaluating and addressing significant risks, and designing and maintaining internal controls. The internal control framework is reviewed and updated on a regular basis in response to business change to ensure controls are appropriate and proportionate to the risk exposure.

The internal control framework increases the reliability of ZAL's financial reporting and its operational effectiveness, and ensures legal and regulatory compliance is maintained.

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

Model Governance Committee

A Model Governance Committee (MGC) is operated to support the CRO in performing effective model governance, by overseeing the design and development of ZAL capital models and ensuring they continue to be fit for purpose and operating as intended. The key components and responsibilities of model governance which are overseen by the committee are:

- Steer and approve the Model Risk Management Framework and its associated policies, in order that it complies with the requirements of the regulatory environment and meets the needs of the UK Life business.
- Review model development and approve models in scope of the MGC, endorsing these to the board as appropriate.
- Recommend major model changes, as appropriate, to the board in accordance with the materiality metrics in the Model Risk Management Framework.
- Review ongoing appropriateness of models in scope.
- Challenge/approval of matters escalated from first line committees as described in the Model Risk Management Framework.

Compliance Function

The primary purpose of the Compliance function is to protect the business against regulatory risks by assessing and mitigating these risks. ZAL's Compliance function also provides policies and guidance, business advice, training and assurance over compliance controls. Additionally the Compliance function supports ZAL's management in maintaining and promoting a culture of compliance and ethics consistent with the Group's code of conduct.

The Compliance framework relies on an ongoing compliance risk assessment to support a risk-based monitoring regime. The results of this assessment underpin the Compliance function's strategic planning which is conducted in consultation with management. The Compliance Monitoring Plan is presented annually to the Audit Committee and approved on behalf of the Board. Through this comprehensive monitoring program, the Compliance function implements, embeds and monitors compliance with external regulation and internal policies and guidance. In carrying out its activities the Compliance function has unrestricted access to all business areas and records necessary to complete its work.

The Compliance function also manages the relationship with the Financial Conduct Authority (FCA).

B.5 Internal Audit function

The Internal Audit function of the Group (Group Audit) reports to the Chair of the ZAL Audit Committee and is tasked with providing independent and objective assurance to the ZAL Board, Audit Committee, CEO and management. This is accomplished by developing a risk-based audit plan which is updated in response to changes in ZAL's risk profile. The plan is based on the full spectrum of business risks as well as concerns and issues raised by the Audit Committee, management and other stakeholders. Group Audit executes the plan in accordance with defined operating standards, which incorporate and comply with the International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors (IIA). Key issues raised by Group Audit are communicated to the responsible management function, the CEO and the Audit Committee using a suite of reporting tools.

The ZAL Audit Committee recommends to the ZAL Board the approval of the internal audit plan annually, and reviews reports from the Legal Entity Head of Audit on significant risk, control and governance issues every quarter as a minimum. The Legal Entity Head of Audit meets regularly with the Chairperson of the Audit Committee and Group Audit has no operational responsibilities over the areas it reviews. To ensure independence, all Group Audit employees globally report through to the Head of Group Audit.

Important audit findings, including ineffective opinions, mitigation actions and management responses, are reported to the ZAL Audit Committee, Board and CEO. The ZAL Legal Entity Head of Audit is responsible for ensuring issues identified as a result of audit activities which could have an impact on ZAL's operations are brought to the attention of the Audit Committee and management and monitors and reports the status of agreed actions arising from such issues until provided with evidence from management supporting the completion of the actions.

The Legal Entity Head of Audit is authorised to review all areas of ZAL and has unrestricted access to all of its activities, accounts, records, property and personnel necessary to fulfil its duties. In the course of its work, Group Audit takes into consideration, where it considers it appropriate, the work of other assurance functions and the external auditors.

The ZAL Audit Committee assesses the independence of Group Audit and reviews its activities, plans and organisation, the quality of its work and its co-operation with the external auditors. As required the Internal Audit function is quality-reviewed periodically, at least every five years, by an independent qualified body. This review was conducted most recently in 2021 and the results confirmed that Group Audit's practices conform to IIA standards.

B.6 Actuarial function

The UK Chief Life Actuary (CLA) heads ZAL's Actuarial function which is responsible for:

- Coordinating the calculation of the technical provisions;
- Ensuring appropriateness of methodologies, models and assumptions used in the calculation of the technical provisions;
- Assessing sufficiency and quality of data used in the calculation of technical provisions;
- Comparing best estimate against experience;
- Reporting to the ZAL Board on the adequacy of technical provisions;
- Expressing an opinion on the underwriting policy and adequacy of reinsurance arrangements;
- Contributing to the effective implementation of ZAL's risk management system; and
- Ensuring the Group's reporting and governance standards are adhered to.

ZAL's actuarial function is made up of people within the Finance and Risk functions with sufficient knowledge of actuarial and financial mathematics. The Risk team is fully independent from the team calculating the technical provisions and from the underwriting and reinsurance areas. As a result the actuarial function is able to provide an independent viewpoint to the ZAL Board.

ZAL's CLA reports into the ZAL CFO, with direct access to the ZAL Board. The ZAL CLA is an approved person under SMCR.

B.7 Outsourcing and third party arrangements

Outsourcing is an arrangement by which a business capability that would otherwise be performed by ZAL is performed by a service provider instead. Where a service provider is performing a function outside of this definition, this is classified as a non-outsourcing third party arrangement. Use of service providers enables ZAL to focus on its core business capabilities. Outsourcing or procurement of other services poses risks, particularly operational, reputation and credit risks, which must be managed.

A service provider may be either a third party external to ZAL, or another Zurich unit or function other than ZAL (also called intra-group outsourcing). ZAL makes use of service providers covering a range of services and has a comprehensive policy to manage the associated risks.

ZAL enters into material arrangements with service providers only where it has identified benefits in doing so and provided that the arrangement is not likely to undermine continuous and satisfactory service to policyholders, impair the quality of the ZAL's system of governance or unduly increase operational risk. ZAL retains services that are considered core to managing customer experience and obligations effectively.

It is a requirement of the UK Outsourcing and Third Party Policy that a risk assessment of the decision to enter into a new material arrangement is undertaken which will ensure that the rationale for the decision is clearly articulated and considered. In a large majority of cases, the main rationale behind outsourcing or procuring a service is the ability to access specific capabilities or expertise in a more effective and economically efficient manner than if ZAL were to establish and maintain those capabilities in-house. In relation to outsourcings with counterparties in the Zurich Group, the main rationale behind the outsourcing is that the Zurich Group is able to carry out certain processes centrally on a more efficient basis on behalf of multiple subsidiaries such as maintaining 'centres of excellence' from which numerous Group legal entities can benefit from specialist expertise. The risks associated with entering into a new material arrangement are recognised and appropriately managed by:

- Only outsourcing or procuring third party services such that ZAL retains effective control over its business;
- Meeting all regulatory requirements, including those relating to "material" service providers, as defined by the PRA;
- Assessing and mitigating potential risks before making the decision to enter into a new arrangement and during the life of the arrangement;
- Standardising the selection and management of arrangements in order to manage exposure to third parties;
- Making use of globally selected suppliers to more effectively oversee and manage risk, taking into account potential effects of concentration risk;
- Maintaining an inventory of service providers to detect potential areas of concentration;
- Establishing internal controls and monitoring them through the life of the arrangement; and
- Developing and maintaining strategies to exit from material arrangements.

Applicable standards for managing third parties are set out in Zurich's risk policy supplemented by the Zurich Group's sourcing policy. These documents address key processes including: criticality assessment and strategic alignment, due diligence requirements, contracting, managing service delivery, risk and issues management, business resilience and exit requirements.

These standards and processes are applicable to both external suppliers and intra-group arrangements and are applied on a risk-based and proportionate basis depending upon the materiality of the relationship. This is assessed using factors including the financial value and financial liability associated with the arrangement, the extent to which customer data is shared, the potential for customer detriment and the degree to which Zurich's business and reputation may be affected by a failure of the relationship.

Oversight of material arrangements on an ongoing basis, covering service delivery (against agreed Service Levels), financial management (against agreed forecasts), assurance, compliance, change and transformation, is achieved through a network of supplier managers. Adherence to policy is monitored through the Zurich Risk Policy attestation process.

Business areas intending to enter into arrangements deemed material are required to follow the materiality assessment and regulatory notification process facilitated by the UK Operations Supplier Assurance Team. Any proposal to enter into a new material arrangement is thoroughly examined by those with approval authority before a decision is taken to proceed.

In relation to material arrangements, ZAL undertakes ongoing due diligence after the service has commenced to ensure that there has been no material change to the original status. It is a contractual requirement for all material arrangements that, should there be any changes to the regulatory or legal status of the service provider, then ZAL will be informed. ZAL maintains a database of its material arrangements and requires that Supplier Managers confirm on a regular (minimum quarterly) basis that oversight and controls are in place and effective.

Some activities have a higher level of oversight and specific requirements for how they are managed in an outsourcing arrangement. These critical activities are:

- Compliance with Zurich's policies and legal and regulatory requirements;

- Ongoing risk management;
- Internal audit, accounting and finance operations;
- Actuarial activities;
- Storing, retaining and transferring confidential and highly confidential data; and
- Maintaining and supporting IT systems.

ZAL does not outsource any key functions. All outsourcing and third party activity within ZAL is overseen by the Chief Operating Officer (COO) who has management responsibility for outsourcing. Senior management oversight for key strategic arrangements is exercised through the Supplier Management Group, which comprises the Chief Operating Officer and representatives from Risk, Compliance, Business Continuity and Supplier Management.

A list of ZAL's material arrangements is provided in the table below. In addition to these external parties ZAL makes use of intra-group outsourcing to provide services including IT and financial services.

Material arrangements		
Operational function	**Service Provider**	**Location**
Operational Administration	Capita Life & Pensions	UK
Investment Administration	State Street Corporation	UK
Investment Administration	Northern Trust Corporation	UK
IT Support & Delivery	DXC Technology	UK
IT Support & Delivery	The Computer Partnership (TCP)	UK
IT Support & Delivery	BT	UK
Document Logistics	Communisis	UK
Document Logistics	Swiss Post	UK
Workplace Recovery	Sungard	UK

B.8 Any other information

With-profits business

ZAL operates two ring-fenced with-profits funds and has appointed a With-Profits Actuary. The role of the With-Profits Actuary is to provide ZAL management and the ZAL Board with actuarial advice for the with-profits funds. The With-Profits Actuary supports ZAL in maintaining compliance with regulatory requirements and ensuring an appropriate balance between fairness to policyholders and the mitigation of risks to the shareholder including the risk that with-profits funds may not be able to meet liabilities to policyholders as they fall due. The With-Profits Actuary is a member of ZAL's risk management function.

C. Risk profile

This section sets out and describes;

- The material risks in ZAL's risk profile;
- The processes used to identify and monitor these risks; and
- The mitigation techniques used to reduce risk exposures to within ZAL's risk tolerance and appetite.

Any changes in ZAL's risk profile over the reporting period are also considered.

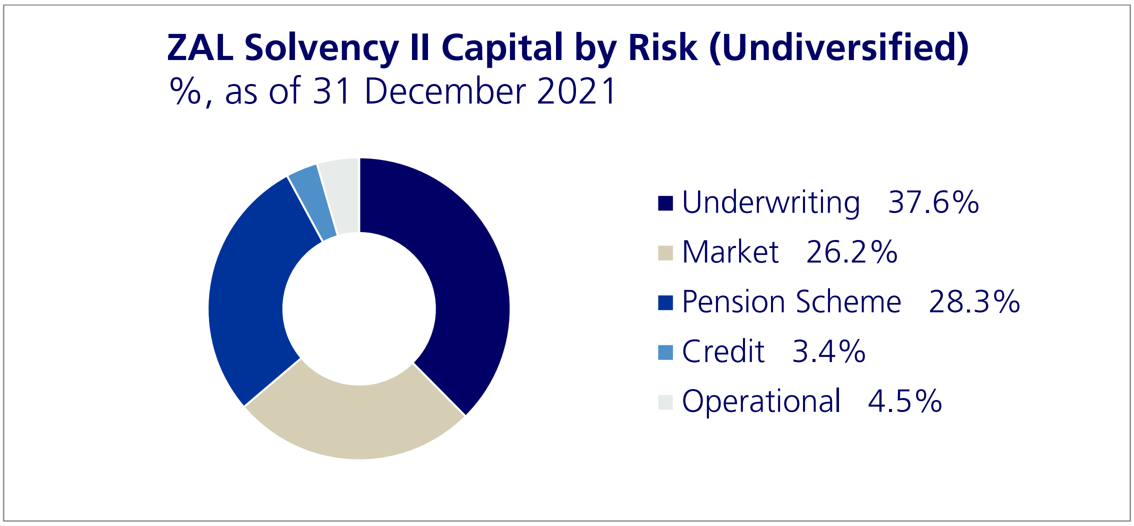
ZAL's business model results in it being subject to a range of risks associated with the activity of issuing insurance and investment contracts and the use of financial instruments.

These include risks for which ZAL holds capital - underwriting risk, market risk, credit risk, operational risk and pension scheme risk - and also risks, such as liquidity risk, for which other mitigation techniques are applied.

ZAL assesses the relative costs and concentrations of each type of risk through the use of the Solvency II standard formula. This analysis enables ZAL to assess whether accumulations of risk exceed risk appetite, risk tolerances and capital limits. The main concentrations of risk for ZAL are considered by risk type in sections C.1 to C.5.

Regulatory capital, assessed on the Solvency II standard formula basis, is held to cover the risks associated with ZAL's balance sheet position where the value depends on financial markets, best estimate assumptions being different to expected, operational risks and failures of counterparties. Capital is held for staff pension scheme risk, as the Solvency II standard formula does not cover risks from a pension scheme that is not directly held on the balance sheet, as is the case for ZAL. More detail of the pension scheme risk is provided in section C.6 'Other material risks'.

The capital held by ZAL is broken down in the figure below further detail is provided in section E2, which includes the amount of capital held for each risk:



Further information on each risk is provided in the sections below including sensitivity analysis where appropriate. To measure ZAL's sensitivity to its material risks, stresses are performed on each of the risk types and the impact on own funds calculated. Material risks are identified by analysing ZAL's Solvency II standard formula SCR as at 31 December 2021. The stresses performed are the Solvency II standard formula stresses recalibrated to the equivalent of a 1 in 10 year event. Where applicable the stress used is the most onerous one, as included in the SCR as per the standard formula methodology. The impact of own funds presented allows for movements in asset values, including reinsurance assets, as well as best estimate liabilities and risk margin.

ZAL mitigates its risks so that they are kept within its Board's stated risk appetite. ZAL uses its risk appetite framework to define the boundaries for all material risk types within which businesses pursue profits. ZAL's risk appetite framework reflects ZAL's willingness and capacity to take risks, considering all material aspects of the company strategy in terms of:

- Capital and liquidity
- Earnings; and
- Non-financial risks

A wide range of mitigation techniques are available to ZAL, and these are discussed below. At a high level the key mitigation techniques are:

- Reinsurance;
- Outsourcing;
- Robust system of governance and oversight arrangements; and
- Derivatives used for hedging purposes.

ZAL offers a wide range of products catering to differing policyholder needs and a widely diversified customer base in terms of age, gender and geographical location. As such, ZAL has a diverse and balanced mix of business and risk exposures

In addition, ZAL uses a variety of measures to limit any excess concentrations:
- investing in a range of assets governed by investment mandates and asset counterparty limits;
- using hedging to reduce market risk;
- managing counterparty risk through risk limits on exposure and concentration; and
- limiting excess concentrations of underwriting risk through a range of reinsurance strategies.

As ZAL has written the majority of its business in the UK, results are sensitive to demographic and economic changes arising in the UK.

C.1 Underwriting risk

Underwriting risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities. Capital is held in respect of the following risks:

- Mortality – actual policyholder death experience is higher than expected.
- Longevity – annuitants live longer than expected.
- Morbidity / disability – policyholder health-related claims are higher than expected.

- Lapse – policyholder behavior in discontinuing or reducing contributions or withdrawing benefits prior to the maturity of contracts is different to that expected.
- Expense – expenses incurred in acquiring and administering policies are higher than expected.
- Catastrophe – policyholder health and death related claims from a large scale event, for example a pandemic.

ZAL quantifies underwriting risk as part of its SCR. As well as holding capital, ZAL uses a variety of risk mitigation techniques which help it manage and reduce its exposure to underwriting risks.

ZAL has a system of regular monitoring which reports on the mortality, longevity, morbidity, lapse and expense experience of the business. This is used to help determine the rates at which new business is accepted and the value of ZAL's technical provisions. In addition to monitoring business experience ZAL regularly assesses whether its underwriting risk exposures are in line with its expectations and its risk appetite.

ZAL has transacted longevity insurance with a number of pension schemes since 2015. On these trades, ZAL has used reinsurance to manage an appropriate amount of longevity risk taken on, with a minority retained if appropriate; ZAL has strong internal expertise, systems, processes and controls to price, execute and operate these contracts efficiently.

Risk mitigation techniques and their effectiveness

ZAL uses a number of techniques to mitigate underwriting risk as set out below:

Reinsurance

ZAL's principal mitigation technique for underwriting risk is reinsurance. ZAL effectively mitigates its morbidity, mortality, longevity and catastrophe risks by reinsuring a significant proportion of its underwriting risk both with other entities within the Zurich Group and with external reinsurers. The morbidity and mortality reinsurance also reduce the lapse risk on retail protection business. The use of reinsurance reduces financial volatility in ZAL and the capital requirement for underwriting risk. ZAL retains risks in line with its risk appetite. ZAL's actuarial function and Risk function provide oversight on the use and effectiveness of its reinsurance arrangements and review arrangements on a regular basis.

Underwriting discipline, product design and expense management

Alongside reinsurance, a number of other techniques are used to mitigate underwriting risk. Underwriting discipline is a fundamental part of managing underwriting risk and applies to product design and approval and the underwriting process. Product features such as reviewable charges are used on certain products which enables ZAL to charge an appropriate rate for the risks associated with these policies.

ZAL further mitigates underwriting risk by underwriting individual protection business at the point of application. The process involves reviewing appropriate policyholder medical information and if required seeking additional information to support the underwriting decision.

ZAL mitigates underwriting risk for group protection policies by both underwriting the scheme risk for cover below the automatic acceptance limit and underwriting individual benefit exposures that exceed this.

The continued suitability, and the potential risks, of existing life products are regularly reviewed.

The risk that administration expenses increase is mitigated through robust budgeting and expense management processes, by use of outsourcing where appropriate – including for policy administration on a fixed per policy basis– and the application of efficiency methodologies within ZAL's business.

Risk Concentration

ZAL's policy on underwriting risks is to avoid concentrations of risk exposure. Underwriting concentration risk is a reflection of too little diversification within or across underwriting risk types. ZAL avoids significant concentrations of underwriting risk through its scale, diversity of product lines and concentration risk limits. Risk transfer solutions, primarily reinsurance, are employed to transfer risks that ZAL does not wish to retain due to the presence of single large exposures or accumulations.

Analysis of sensitivities for underwriting risk

The impact of ZAL's sensitivities to underwriting risks on the Basic Own Funds (BOF) after any Ring Fenced Fund (RFF) restrictions and on the ratio of eligible own funds to SCR are shown in the table below.

Impact of life insurance risk scenarios on basic own funds

Life insurance risk scenario results	**Impact on BOF** (in £'000)	**Impact on SCR coverage** (in %)
Lapse	(154,934)	-11.1%
Expenses	(77,537)	-8.1%
Longevity	(27,398)	-3.0%
Morbidity	(28,952)	-2.9%
Mortality	6,080	0.5%
Life Catastrophe	(14,115)	-1.3%

The Impact on SCR coverage shows how the ratio of Eligible Own Fund to SCR, as quoted in section E.1, would change under each sensitivity.

The impacts have been calculated using the following approximate 1 in 10 year stresses:

- Lapse: a reduction in lapses of 25% on all policies where this gives an increase in the BEL
- Expenses: a 5% increase in renewal expenses and a 0.5% increase in expense inflation
- Longevity: a 10% reduction in the number of deaths experienced at each age
- Morbidity: claim incidences increase by 17.5% in year 1 and 12.5% thereafter, with a 10% reduction in recovery rates
- Mortality: a 7.5% increase in the mortality rates
- Life Catastrophe: a 0.075% addition to the mortality rates over the next 12 months

The impacts of these sensitivities reflect ZAL's business model. ZAL chooses to mitigate a large proportion of its mortality, morbidity and longevity risks through the use of reinsurance. As a result, the impact on SCR coverage is relatively small. Expenses and lapse risk are mitigated through the careful management of the risks and as a result the impact on the SCR coverage is higher.

C.2 Market risk

Market risk is the risk associated with ZAL's assets and liabilities where their value or cash flow depends on financial markets; this includes the market value of ZAL's balance sheet positions and future earnings on contracts linked to the value of unit-linked assets.

The risks associated with market risk include:

- Interest rate risk – risk of loss resulting from changes in interest rates, including changes in the shape of yield curves;
- Credit spread risk – risk of loss resulting from widening of credit spreads; and
- Equity price risk – risk of loss resulting from changes in equity prices;
- Currency exchange rate risk – risk of loss resulting from currency exchange rate movements.
- Property price risk – risk of loss resulting from changes in property prices;

ZAL quantifies market risk as part of its Solvency Capital Requirements. ZAL uses a variety of risk mitigation techniques helping it to manage and reduce its exposure to market risks including the implementation of a unit matching strategy, liquidating units invested in the unit-linked funds so that expected future unit-related profits are not exposed to market risk. ZAL monitors and controls exposures to market risk by aligning its strategic asset allocation to its risk appetite. Consideration is given to regulatory requirements, liability profiles and capital impacts.

Monitoring includes regular review of actual exposures relative to targets set as well as risk assessments which include quantification of the contributions to financial market risk from major risk drivers. The economic effect of potential extreme market moves, is regularly examined and considered when setting the asset allocation.

Through the implementation of the risk management techniques and processes detailed in this section, ZAL also ensures that the management of assets is in line with that which would be expected of a prudent person managing such assets.

Risk mitigation techniques and their effectiveness

ZAL uses a variety of risk mitigation techniques to effectively manage market risks. The specific risk mitigation technique depends on the risk. For ZAL's material market risks the mitigation techniques used are outlined below.

Interest rate risk

ZAL mitigates its interest rate risk by specifying fixed interest portfolio mandates which include target asset durations and range limits. The target asset durations are set to match with the liability durations so as to maintain net interest rate risk within approved limits.

On a stand-alone basis, ZAL is currently less sensitive to interest rates than the pension scheme, having implemented an investment strategy to reduce its sensitivity during 2020. The pension scheme remains sensitive to interest rate movements as the average duration of its liabilities is greater than the average duration of its assets.

Credit spread risk

Spread risk is mitigated by limiting ZAL's investment exposure to lower credit quality assets. ZAL has implemented the use of the Volatility Adjustment this year which has the effect of reducing spread risk on the balance sheet. Therefore, in the event of credit spreads widening, ZAL's solvency does not deteriorate to the same extent as would have been the case. It should be noted that the Volatility Adjustment largely mitigates the effects of short-term movements in credit spreads and is not designed to mitigate the risk from long-term movements in credit spreads due to, for example, downgrades and defaults within the investment portfolios.

Equity risk

ZAL is exposed to equity risk from its unit-linked business, with this risk largely mitigated through the use of unit matching and derivatives. ZAL is exposed to a low level of equity risk from the equity holdings within ZAL's Hong Kong branch and ZAL's with-profits funds, though it should be noted that the shareholder is only exposed to ten percent of the equity risk within the 90:10 With-Profit fund representing the shareholder share of this fund.

Currency risk

ZAL's exposure to currency risk mainly comes from fee income on unit linked assets invested overseas and shareholders assets held in the Hong Kong branch. The exposure in unit linked asset is reduced by the use of unit matching programme provides and ZAL hedges the Hong Kong currency exposure using derivatives.

Risk Concentration

ZAL's monitors its investment exposures, in aggregate across all classes of financial instruments, to individual issuers and geographies to ensure ZAL is not exposure to significant risk concentrations. The monitoring and risk mitigation that ZAL uses is described above.

Analysis of market risk sensitivities

The impact of ZAL's sensitivities to market risk on the BOF after RFF restriction and on the ratio of eligible own funds to SCR are shown in the table below.

Consistent with ZAL's Solvency II standard formula SCR, ZAL is sensitive to credit spread risk and interest rate risk. Credit spread risk is driven by ZAL's holdings of corporate bonds which are used to back policyholder liabilities, with some offset in the BEL and SCR from the use of a volatility adjustment.

For the interest rate risk the key driver of the impact on BOF is the asset movement with offsets from the change in BEL and Risk Margin. The SCR is also sensitive to the interest rate but this sensitivity varies depending on the most onerous lapse stress. In the interest rate up scenario this changes from lapse down to mass lapse which reduces the SCR movement compared to the interest rate down scenario.

Property risk is not a material risk to ZAL and has not been shown.

Impact of market risk scenarios on basic own funds		
Sensitivity Scenarios	**Impact on BOF** (in £'000)	**Impact on SCR coverage** (in %)
Interest rate up	(74,914)	-4.1%
Interest rate down	54,866	-3.3%
Credit spreads widen	(36,482)	-1.9%
Credit spreads narrow	44,836	2.3%
Equity up	15,636	0.7%
Equity down	(17,022)	-1.3%
Currency	(3,260)	-0.3%

The impact on SCR coverage shows how the ratio of Eligible Own Fund to SCR, as quoted in section E.1, would change under each sensitivity.

The impacts have been calculated using the following approximate 1 in 10 year stresses:

- Interest rate up: a 0.5% increase in the risk free interest rate
- Interest rate down: a 0.5% reduction in the risk free interest rate
- Credit spreads widen: a 0.5% increase in the yield on corporate bonds relative to government bonds
- Credit spreads narrow: a 0.5% reduction in the yield on corporate bonds relative to government bonds
- Equity up: a 25% increase in the market value of equities
- Equity down: a 25% reduction in the market value of equities
- Currency: a 12.5% strengthening of sterling relative to other currencies

The impact on the BOF is allowed for in the impact on the SCR coverage along with any changes to the SCR. For the equity sensitivities the impact of the derivative strategy used to mitigate equity risk is allowed for in the impact on BOF.

The impacts of these sensitivities reflect ZAL's business model. ZAL chooses to mitigate a large proportion of its equity and currency risks through the use of unit matching and hedging programs. This results in the relatively small change in SCR coverage seen. The sensitivities show ZAL is still exposed to credit spreads and interest rate risk. Whilst the sensitivity to credit spreads is a result of ZAL's decision to invest in a wide range of assets which includes corporate bonds the interest rate risk sensitivity reflects ZAL's decision to protect against interest rate exposures from both the Risk Margin and the SCR.

C.3 Credit risk

Counterparty default risk is the risk associated with a loss or potential loss from counterparties failing to fulfil their financial obligations. ZAL's exposure to counterparty default risk (as opposed to credit spread risk) is derived from the following main asset categories:

- Cash and cash equivalents;
- Reinsurance assets;
- Receivables; and

- Derivatives

ZAL is also exposed to counterparty default risk by the use of fund reinsurance to access external funds provided by other life insurers. Here the legal form is a reinsurance arrangement but in practice the fund operates in the same way as a collective investment arrangement. ZAL considers its exposure to the risks associated with these funds assessed under the best estimate of default to be very low however it does hold capital for these arrangements under its Solvency II standard formula SCR, which requires the same treatment as for other reinsurances.

ZAL quantifies counterparty default risk as part of its SCR. ZAL implements credit exposure limits and regularly monitors credit exposures to counterparties by aggregating exposures across various types of credit risk. The limits vary based on the underlying counterparty rating and appropriate benchmarks.

Risk mitigation techniques and their effectiveness

Note that changes in value of investment assets such as corporate bonds are covered by the market risk module, and this includes the risk of loss of value on default.

ZAL controls credit risk primarily through implementation and adherence to policies for credit risk exposure and concentration limits, as well as through regular routine monitoring through its Reinsurance Committee.

Cash and cash equivalents

In order to mitigate concentration, settlement and operational risks related to cash and cash equivalents, ZAL limits the maximum cash amount that can be deposited with a single counterparty and maintains an authorised list of acceptable cash counterparties based on current ratings and outlook.

Reinsurance Assets

ZAL typically cedes new business, both internally and externally, to authorised reinsurers with a minimum credit rating of ‘A-’. ZAL maintains a list of authorised acceptable reinsurance counterparties based on current ratings and outlook, taking the analysis of fundamentals and market indicators into account. Another technique used in some instances to mitigate credit risk is requiring the reinsurers to place collateral of acceptable quality. ZAL’s exposure to reinsurers is monitored via the Reinsurance Committee chaired by the CLA. It is also important to note that majority of ZAL’s reinsurance business is internally with ZIC.

In addition to monitoring the credit rating of a reinsurance counterparty ZAL’s Board Risk Appetite includes limits on the amount of default risk ZAL is willing to accept from a single reinsurance counterparty.

Receivables

ZAL monitors past due receivable balances and aims to keep the balance of past due positions as low as possible. ZAL has a small amount of exposure to intermediaries where commission is paid on policies which are later cancelled; this is managed via the commission claw-back process to further limit the size and duration of the exposure.

ZAL manages its exposure to the longevity swap pension scheme counterparties in a similar manner to its other receivable’s exposures. In addition, further protection is provided through the contract clauses. Certain longevity swaps have collateral arrangements with the trustees and others have contract clauses that mean that if ZAL does not receive payments from the pension scheme it does not have to make payments to the reinsurers.

Derivatives

To limit credit risk, derivative financial instruments are typically executed with counterparties rated "A-" or better by an external rating agency. ZAL only transacts derivatives with counterparties where a credit support agreement is in place – this mitigates credit exposures from over-the-counter transactions due to close-out netting and requires the counterparty to post collateral when the derivative position is beyond an agreed threshold. Derivative valuation reconciliation and collateral assessments take place daily to ensure credit risk is appropriately mitigated.

Risk Concentration

ZAL operates credit limit risk appetite and risk tolerances which limit investments in individual issuers and asset classes to ensure it is not exposed to significant concentrations of credit risk. Credit concentrations are monitored as part of the regular credit monitoring process.

ZAL is exposed to concentrations of risk with individual reinsurers. ZAL places reinsurance with those reinsurers that have acceptable credit ratings. ZAL has a significant reinsurance asset as a result of the reinsurance ceded which is considered to be an acceptable exposure. ZAL manages its reinsurance counterparty exposures and the impact from reinsurer default is measured regularly, in particular through stress and scenario testing

Analysis of credit risk sensitivities

ZAL's sensitivity to counterparty credit risk is primarily driven by its exposure to risk reinsurers. This exposure reflects ZAL's business strategy and is mitigated using collateral arrangements where appropriate. ZAL is sensitive to both increases in the probability of default and the loss given default and increases in these will reduce own funds. In a 1 in 10 year stress calculation the probability of default is expected to be very small and as a result any impact on own funds would be immaterial.

C.4 Liquidity risk

Liquidity risk is the risk that ZAL may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so.

ZAL monitors operational liquidity risk by projecting expected future payments and holding cash and cash equivalents sufficient to cover these payments as they fall due. ZAL monitors the impact of financial market volatility on the level of policy surrenders, funds withdrawals and fund switches. In response ZAL holds appropriate levels of unencumbered liquidity to meet any potential increases in withdrawals, including those from unit-linked funds.

A liquidity governance framework is in place to monitor liquidity in the short, medium and long-term. This ensures there are appropriate liquidity levels at all times, including under stress scenarios. This framework monitors liquidity risk by taking into account the amount, availability and speed at which assets can be accessed and includes daily liquidity monitoring.

ZAL monitors unit-linked funds cash balances. The balances are managed separately for each unit-linked fund and are set at a level which aims to reflect the liquidity of the other investments in the fund.

Disclosure of expected profit included in future premiums

As at 31 December 2021 ZAL's expected profit included in future premiums (EPIFP) was £1,061m. Note, this number is presented gross of any reinsurance arrangements currently in place and does not allow for any recovery of termination fees, in line with the EIOPA rules to calculate the EPIFP. Whilst this contributed to ZAL's own funds, it is not liquid and not taken into account when assessing ZAL's liquidity position.

Risk mitigation techniques and their effectiveness

Whilst operational liquidity risk is inherent to the nature of the business that ZAL operates, it is also in the nature of long-term insurance that ZAL has large volumes of assets which are either liquid or generate steady liquidity. While small amounts of liquidity risk are unavoidable, the Board's requirement is for ZAL to ensure sufficient liquidity to meet all forecast cash outflows in the short and medium term, as well as under a range of stressed scenarios.

Risk Concentration

A concentration of liquidity risk can occur if ZAL's assets are invested in a limited number of issuers and asset classes. In the event of a shock the liquidity of these markets could be impacted. ZAL's liquidity risk mitigation ensure ZAL is not exposed to a material risk concentration.

Analysis of liquidity sensitivities

ZAL mitigates liquidity risk by ensuring it holds enough liquid assets under a range of scenarios. Given this approach the impact on ZAL's own funds from a liquidity sensitivity would be zero and a sensitivity analysis is not applicable.

C.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal, compliance and customer conduct risks. ZAL quantifies its exposure to operational risk as part of its SCR.

Risk mitigation techniques and their effectiveness

Operational risk mitigation enables ZAL to manage the likelihood of operational risks occurring and to reduce the impact should they occur. To achieve this ZAL implements an Operational Risk Management Framework (ORMF) to facilitate the consistent identification, assessment, and management of operational risks.

This framework ensures that material operational risks are understood and managed within ZAL's risk appetite. ZAL uses processes and tools documented within the ORMF to gather and order the data needed to map its operational risk profile and to manage its operational risk exposure. Tools include: risk and control assessments, operational event management, scenario analysis and reverse stress testing.

Alongside the operational risk framework, ZAL operates a conduct risk framework to manage the risks to the delivery of customer outcomes in all its businesses. This approach allows ZAL to appropriately identify, analyse and prioritise conduct risk exposures from within its business models and strategies and equally evaluate the resultant impact on its operational risk and conduct risk appetite.

ZAL's exposure to operational risk is mitigated by a system of internal control activities, capital, corporate internal insurance programmes and its business continuity planning process. ZAL has put in place additional mitigants and contingency planning to alleviate any potential increase in operational risk that could arise from Brexit in the long term.

In March 2021, the PRA, FCA and Bank of England issued their latest publications (PS6/21 | CP29/19 | DP1/18 Operational Resilience: Impact tolerances for important business services | Bank of England) to clarify the expectations of firms' progress on operational resilience.

ZAL has implemented an Operational Resilience programme - the programme is designed to ensure ZAL meets regulatory requirements, with a focus on driving the right outcome for the business and customers.

ZAL continues to respond to the Bank of England Policy (PS6/21) on Operational Resilience, and the PRA Supervisory Statement (SS2/21) on Outsourcing, good progress has been made with the business.

Progress against Operational Resilience Milestone are monitored every six weeks, through business management of a programme risk profile. Across the areas for which ZAL has control, important business services resilience has been assessed, gaps identified, and existing funded plans linked to each gap.

To increase second line coverage of operational resilience and outsourcing a new post has been created, the Senior Business Partner for Operational Resilience and Digital, with the new incumbent taking post on 10 January 2022. The appointee will continue not only with the oversight of operational resilience but also on supporting and challenging the business on meeting Supervisory Statement 2/21.

Moving beyond Outsourcing the business has begun an in-depth analysis of its intra-group sourcing dependency and is working towards bringing parity to its oversight with that of external outsourcers, applying a common policy to both.

The rollout of the Zurich Internal Controls Integrated Framework (ICIF) is seen as a key enabler to assuring the design and effectiveness of the ZAL control environment for operational resilience and outsourcing. UK Risk will continue to provide second line oversight of this programme and findings will continue to be presented to the Operational Resilience Steering Board as part of the quarterly reporting.

Risk Concentration

Operational risk concentrations arise when there is dependency on a single supplier to provide a product or service supporting a business-critical function. ZAL have exit and termination plans and business continuity and disaster recovery plans in the event of supplier failure for business-critical outsourced functions.

Analysis of operational risk sensitivities

ZAL uses the Solvency II standard formula to calculate its capital requirement for operational risk. As a result, its sensitivity to operational risk is primarily driven by the level of expenses on unit-linked business. Due to the formulaic nature of the calculation no quantitative analysis is provided. As per the standard formula, operational risk has no dependencies on any of ZAL's other risks. However, ZAL further seeks to understand operational risk sensitivities through the use of operational risk scenarios and reverse stress tests. The methodology ZAL uses for this also allows for the consideration of the interaction between operational risk and other risk types. The results of this scenario and reverse stress test analysis are incorporated into ZAL's ORSA.

C.6 Other material risks

Off balance sheet risks

As ZAL does not transfer any risk to special purpose vehicles, it is not exposed to any risks arising from their use.

ZAL is exposed to pension scheme risk. This is the risk that ZAL may need to support another group company, UKISA, in securing funding for the defined benefit staff pension scheme, following changes in the assets or liabilities of the scheme. UKISA is the parent of ESH, which in turn is the parent of ZAL.

Employees in the UK working on behalf of ZAL are predominantly employed by ZES, a wholly owned subsidiary of UKISA. The employees of ZES mainly participate in a pension scheme which contains both defined benefit and defined contribution sections. The defined benefit sections of the scheme were closed to new entrants in March 2007 and to further accruals from 1 January 2016. The financial position of the pension scheme is recognised in the ZES balance sheet. UKISA, as the pension scheme sponsoring company, is obliged under the scheme rules to procure payment of contributions that the participating employers, including ZES, are required to make into the scheme.

Although ZAL is not bound by any legal obligation to support the pension scheme, under extreme circumstances there remains a risk that ZAL may be required to assist UKISA in securing the funding ZES may be required to make to the pension scheme. The Solvency II standard formula does not cover this off balance sheet pension scheme risk. To reflect this specific limitation of the standard formula when applied to ZAL's business, ZAL has agreed a capital add-on with the PRA. ZAL is in the process of developing a partial internal model to capture the pension scheme risk and replace the capital add-on in due course.

Other risks for which ZAL does not hold capital

In addition to the risks identified above ZAL is also exposed to a number of other risks for which ZAL does not hold capital as it is not the most appropriate mitigant. The most material of these risks are strategic risk, reputational risk and group risk. These risks are detailed below.

Strategic risk

Strategic risk is the unintended risk that can result as a by-product of planning or executing the strategy. Strategic risks can arise from:

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

ZAL works to reduce unintended risks of strategic business decisions through its risk assessment processes and tools, including its strategic level risk assessment process. As part of this regular process, ZAL's Executive Management identifies both current and future key strategic risks. The material strategic risks are mitigated through robust and diligent Board and Executive Management governance processes. These provide the means through which strategic plans are reviewed, challenged and refined. Through this comprehensive and iterative process strategic risk is mitigated.

Reputational risk

Reputational risk is the risk that an act or omission by ZAL, or the Group to which ZAL belongs, or any of its employees results in a loss of reputation or trust in ZAL among any of its stakeholders. ZAL accepts that exposure to these risks cannot be completely avoided and continues to take risk on a well informed and conscious basis.

Reputational risk is primarily a consequence of the crystallisation of other risks, most notably operational risk. Reputational risk is effectively managed through business controls, including but not restricted to appropriate recruitment and vetting procedures and a suitable business culture and ethos, supplemented by effective media relations and communications activity.

Group risk

Group risk is the risk of loss resulting from the failure of a group company as a going concern, or from the failure of a group company to provide key outsourced services as required by ZAL.

These can be broadly categorised as:

- Operational outsourcing risk – these are the risks associated with the failure of shared services or functions outsourced to other parts of the Group;
- Brand and reputational risk – this is the risk that an event occurs elsewhere in the group which generates negative publicity which adversely impacts ZAL's business; and
- Risks relating to intra-group reinsurance.

ZAL has intra-group agreements in place for all outsourcing placed with group companies that is categorised as critical or important. Monitoring of all outsourcing arrangements is undertaken by the designated outsourcing contract owners. The Board receive an annual update on the current list of critical and important outsourcing arrangements.

The Board recognises that there are significant advantages to being part of a well-capitalised international group and that these outweigh potential group risks and monitors its exposure to group risk through its risk appetite.

Given ZAL's business model, potential group risk exposures are largely unavoidable and the purchase of financial mitigation for this risk is not commercially realistic. In accordance with the Board's risk strategy, group risk will continue to be taken on a well informed and conscious basis. The Board recognises that the consequential risks arising from the failure of a Zurich Group entity to provide services are identified and considered both within Executive Management's functional oversight processes and within ZAL's approaches for operational risk, credit risk and stress testing.

C.7 Any other information

There is no other material information to report.

D. Valuation for solvency purposes

This chapter provides the value separately for each material class of assets, technical provisions and other liabilities and a description of the bases, methods and main assumptions used for their valuation for solvency purposes under the sections D.1, D.2 and D.3. It also provides a quantitative and qualitative explanation of any material differences between those bases, methods and main assumptions and those used for their valuation in the financial statements.

The table below presents a summarised balance sheet as at 31 December 2021 comparing the assets and liabilities as reported in the UK GAAP financial statements to the values reported under Solvency II and setting out the differences between the two. These differences are explained in sections D.1 to D.3.

Valuation of assets and liabilities for financial reporting and solvency purposes

As at 31 December 2021 in £'000	Financial Statements (UK GAAP)	Reclassification within Assets / Liabilities	Reclassification between Assets and Liabilities	Restated UK GAAP	Valuation differences	Solvency II
D.1 Valuation of asset types for financial reporting and solvency purposes						
Total Assets split by material classes of assets						
Deferred acquisition costs	223,664	-	-	223,664	(223,664)	-
Property, plant & equipment held for own use	34,679	-	-	34,679	-	34,679
Investments (other than assets held for index-linked and unit-linked contracts)	4,165,808	29,367	71	4,195,246	-	4,195,246
Assets held for index-linked and unit-linked contracts	24,253,890	(72,338)	-	24,181,552	-	24,181,552
Loans and mortgages	49,525	416	-	49,941	-	49,941
Reinsurance recoverables	2,462,003	55,818	-	2,517,821	(1,229,915)	1,287,906
Insurance and intermediaries receivables	134,601	28	30	134,659	-	134,659
Reinsurance receivables	19,395	-	-	19,395	-	19,395
Receivables (trade, not insurance)	93,745	(13,413)	7,040	87,372	(3,934)	83,438
Cash and cash equivalents	151,299	-	-	151,299	-	151,299
Any other assets, not elsewhere shown	35,984	122	(28,207)	7,899	-	7,899
Total assets	**31,624,593**	**0**	**(21,066)**	**31,603,527**	**(1,457,513)**	**30,146,014**

As at 31 December 2021 in £'000	Financial Statements (UK GAAP)	Reclassification within Assets / Liabilities	Reclassification between Assets and Liabilities	Restated UK GAAP	Valuation differences	Solvency II
D.2 Valuation of technical provisions for financial reporting and solvency purposes						
Material lines of business of technical provisions						
Insurance with-profits participation	1,244,396	301	-	1,244,697	(181,711)	1,062,986
Other life (excluding health and index-linked and unit-linked)	3,592,268	970	-	3,593,238	(1,407,383)	2,185,855
Index-linked and unit-linked	24,604,950	-	-	24,604,950	(475,165)	24,129,785
Health insurance (direct business)	716,899	-	-	716,899	(338,714)	378,185
Health reinsurance (reinsurance accepted)	1,778	-	-	1,778	(574)	1,204
Life reinsurance (reinsurance accepted)	-	-	-	-	-	-
Claims outstanding	309,350	(309,350)	-	-	-	-
Total technical provisions	**30,469,641**	**(308,079)**	**-**	**30,161,562**	**(2,403,547)**	**27,758,015**
D.3 Valuation of other liabilities for financial reporting and solvency purposes						
Material classes of other liabilities						
Provisions other than technical provisions	10,849	-	253	11,102	-	11,102
Deferred tax liabilities	192,535	-	-	192,535	77,971	270,506
Derivatives	3,979	-	71	4,050	-	4,050
Financial liabilities other than debts owed to credit institutions	28,977	-	1,488	30,465	-	30,465
Insurance & intermediaries payables	(8,613)	308,079	30	299,496	-	299,496
Reinsurance payables	28,859	-	-	28,859	-	28,859
Payables (trade, not insurance)	220,410	-	5,552	225,962	-	225,962
Any other liabilities, not elsewhere shown	143,390	-	(28,460)	114,930	(66,349)	48,581
Total other liabilities	**620,386**	**308,079**	**(21,066)**	**907,399**	**11,622**	**919,021**
Total liabilities	**31,090,027**	**0**	**(21,066)**	**31,068,961**	**(2,391,925)**	**28,677,036**
Excess of assets over liabilities	**534,566**	**(0)**	**-**	**534,566**	**934,412**	**1,468,978**

The UK GAAP figures above use the Solvency II balance sheet presentation. For certain balance sheet headings the reported figures above may differ from the presentation in the financial statements.

The Reclassification within Assets / Liabilities are due to the following reasons:

Solvency II requires the accrued interest on the Bonds to be included in the underlying asset type, whereas for UK GAAP reporting this is required to be included in the "Receivables (trade, not insurance)" line.

Solvency II requires the legal form to be followed and unit-linked funds reinsurance contracts are presented as reinsurance recoverables. Under UK GAAP unit-linked funds reinsurance contracts are treated as investment contracts as required by IFRS 4 and are therefore disclosed in 'Assets held for index-linked and unit-linked contracts'.

For Solvency II reporting some of the unit-linked related assets are disclosed in 'Receivables (trade, not insurance)' – including foreign withholding tax, and certain index-linked assets are disclosed in 'Government and Corporate Bonds'. Under UK GAAP all current assets and current liabilities for index-linked and unit-linked business are recorded under 'Assets held for index-linked and unit-linked contracts'.

Other reclassification differences exist due to there being a different presentation of asset categories for Solvency II and UK GAAP reporting.

The Reclassification between Assets and Liabilities are due to the following reasons:

Under UK GAAP participations are valued at their fair value, after adjusting for balances due to or due from ZAL. Under Solvency II participations are valued in line with Solvency II valuation rules using the adjusted equity method. Therefore a subsidiary's own funds value is market consistent. Although there is no significant difference in the valuations, the debtors and creditors between the participations and ZAL are presented differently.

In the Solvency II balance sheet certain balances between the ring-fenced funds and the remaining funds are presented gross. However for the UK GAAP presentation, there is no requirement to show ring-fenced funds separately, therefore where there is a right of set off, these balances are shown net. Therefore there are offsetting differences, as shown in the section 'Other Liabilities'.

Valuation differences are explained in sections D.1 'Assets', D.2 'Technical provisions' and D.3 'Other liabilities' below.

D.1 Assets

This section sets out the principles of valuation that ZAL uses to calculate its assets for solvency reporting and explains the differences compared to the valuation used in ZAL's financial statements which are prepared using UK GAAP. No change has been made to the recognition and valuation bases used or to estimations during the reporting period for assets.

Recognition of Assets

All regular purchases and sales of financial investments are recognised on the trade date i.e. the date the Company commits to purchase or sell the investments. Such purchases or sales of financial investments are those under a contract whose terms require the delivery of assets within the time frame established by regulation or market convention.

Asset valuation methodologies for Solvency II

The asset valuation methodologies used to calculate this balance sheet are set out below.

Deferred acquisition costs ("DAC")

Under Solvency II the economic value of the DAC asset is nil.

Under UK GAAP the costs of acquiring new business, other than for with-profits business, where the benefit of such costs will be obtained in subsequent accounting periods, are deferred to the extent that they are recoverable out of margins in future matching revenues. Deferred acquisition costs are included in the balance sheet as an asset and amortised over a period, which is consistent with the assessment of the expected pattern of receipt of future revenue margins for each product type. Impairment reviews are carried out annually or more frequently if circumstances exist that indicate the likelihood of impairment.

The carrying values are adjusted to recoverable amounts and any resulting impairment losses recognised.

Property, plant and equipment held for own use

Under UK GAAP and SII, Property, plant and equipment are included at fair value. Fair value includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

IFRS 16 Leases

Under IFRS 16, lessees are required to recognise lease assets and liabilities on the balance sheet, with the exception of short-term and low-value leases. Where the Company is the lessee, a Lease Liability equal to the present value of outstanding lease payments and a corresponding Right of Use asset equal to the costs are initially recognised. The Right of Use Assets are depreciated on a straight line basis over the remaining life of the lease agreement and the Lease Liability is amortised using an effective interest rate method.

Investments (other than assets held for index-linked and unit-linked contracts)

Assets valued using mark to market methods

Under UK GAAP and SII, the fair value of instruments traded in active markets is based on quoted bid prices provided by third party data providers as at the valuation date. In certain cases prices are provided using other valuation techniques, but where all significant valuation inputs are based on observable market data (e.g. broker quotes) these assets are considered as mark to market. Liquidity and market activity levels are used to determine fair value where the pricing of these assets are not based on fully observable inputs.

Assets valued using mark to model methods

Under UK GAAP and SII, for assets that do not meet the mark to market criteria, in accordance with International Financial Reporting Standard (IFRS) 13, a mark to model valuation approach is used to determine fair value. The allocation criteria of all assets is reviewed at least once a year. The valuation approaches described are deemed to be the most appropriate for each type of asset.

The mark to model valuation approach relates to pricing techniques where at least one of the significant inputs is not based on observable market data and applies to the valuation of the assets of ZAL below.

Derivatives

ZAL has holdings of over-the-counter (OTC) options. Under UK GAAP and SII, OTC options use a valuation model based on a number of parameters, including market value of the underlying interest rate curve, volatility surfaces and dividend yields.

Holdings in related undertakings, including participations

All assets and liabilities of subsidiaries are valued in line with Solvency II valuation rules using the adjusted equity method. Therefore a subsidiary's own funds value is market consistent. Participations represent the value of ZAL's subsidiary companies. This differs from UK GAAP where participations are valued at their fair value, after adjusting for balances due to or due from ZAL.

Property (other than for own use)

Under UK GAAP and SII, the Fair value model is used for the valuation of investment property. The investment method of valuation determines the fair and best value of a freehold or leasehold interest in commercial property reflecting the risk, return and expectation of growth through the application of yields and assessment of current rental value, assessed by the analysis of comparable investment or rental transactions.

Properties are valued on a twice monthly basis by Jones Lang LaSalle Limited and CBRE Limited, with the exception of the agricultural portfolio that is valued on an annual basis by Bidwells LLP and Savills (UK) Limited. The valuations are undertaken in accordance with the RICS Valuation – Global Standards 2017 (incorporating the International Valuation Standards) and the UK National Supplement 2018 (the "Red Book"), by external valuers who have the relevant qualifications and experience.

The date of the last valuation for all land and buildings was 31 December 2021.

Infrastructure loans

Under UK GAAP and SII, Infrastructure loans are included at fair value. Fair value is arrived at by discounting the known cash flows by an appropriate discount rate, which gives consideration to prevailing market rate plus an idiosyncratic spread relating to the risk of the investment.

Assets held for index-linked and unit-linked contracts

All valuations as described in this section are valued the same under both UK GAAP and SII.

Assets valued using mark to market methods

The significant majority of ZAL's assets are unit-linked assets, which are valued using mark to market methods as described under the Investments (other than assets held for index-linked and unit-linked contracts) section above.

Derivatives

ZAL permits holdings of derivatives including OTC foreign exchange (FX) forwards within unit-linked funds, where appropriate and relevant to the investment objective, for the purposes of efficient portfolio management. In these cases, the value of the FX forward is an exposure within the specific unit-linked fund and is valued using discounted interest rate curves and FX spot rates.

Loans and Mortgages

Under both UK GAAP and SII, Loans and Mortgages includes assets valued in accordance with International Accounting Standard (IAS) 39. They are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investments, and are subsequently valued at fair value. All transaction costs directly attributable to the acquisition are also included in the cost of the investments. Lease receivables valued under IFRS 16 for both UK GAAP and SII are also included here.

Reinsurance recoverables

With the exception of the Fund Reinsurance arrangements in place within ZAL (which are determined on the basis of the market price of the underlying funds), the future cash flows associated with ZAL's other reinsurance obligations cannot be replicated reliably using financial instruments for which a reliable market value is observable.

The value of the Reinsurance recoverable associated with these future cash flows is therefore calculated using the same 'Mark to Model' techniques used to calculate the Best Estimate Liabilities (BEL), see section D.2 'Calculation of the Best Estimate Liabilities' for further details.

The valuation of the reinsurance recoverable asset differs between Solvency II and UK GAAP due to the difference in valuation of the underlying liabilities, see section D.2 'Technical provisions - reconciliation to financial statements' for more information on this.

Other valuation methods

Insurance and intermediaries receivables

Under both UK GAAP and SII, assets are recorded at fair value, which is their nominal amount adjusted for the probability of default of the counterparty.

Reinsurance receivables

Under both UK GAAP and SII, assets are recorded at fair value, which is their nominal amount adjusted for the probability of default of the counterparty.

Receivables (trade, not insurance)

Under both UK GAAP and SII, assets are recorded at fair value, which is their nominal amount adjusted for the probability of default of the counterparty.

Under UK GAAP participations are valued at their fair value, after adjusting for balances due to or due from ZAL. Under Solvency II participations are valued in line with Solvency II valuation rules using the adjusted equity method.

Cash and cash equivalents

Assets are recorded at fair value, which is their nominal amount adjusted for the probability of default of the counterparty.

There are no valuation or presentational differences between Solvency II and UK GAAP.

Any other assets, not elsewhere shown

Under UK GAAP and SII, assets are recorded at fair value, which is their nominal amount adjusted for the probability of default of the counterparty.

ZAL has no material operating or finance lease arrangements other than as described in section A.4.

There have been no material changes made to the recognition and valuation basis during the period.

There are no future management actions that would impact on the above.

No assets are deemed to be long-term in nature, therefore no adjustments have been made in respect of uncertain future events.

Sensitivities

Fair values for assets valued using mark to model methods are sensitive to changes in key assumptions, within the following categories:

Holdings in related undertakings including participations

There is no material sensitivity around the fair value of each of ZAL's interests in subsidiary undertakings.

Shares and other variable yield securities and units in unit trusts

There is no material sensitivity around the fair value of Shares and other yield securities and units in unit trusts.

Debt securities and other fixed income securities

This asset category includes asset-backed securities and infrastructure loan.

The key assumptions driving the valuation of these investments include discount rates and credit spreads. The effect on reported fair values of using alternative values for each of these assumptions, while the other key assumptions remain unchanged, is disclosed in the table below.

Sensitivity analysis

In £'000	Less favourable values (absolute change)	Decrease in reported fair value	More favourable values (absolute change)	Increase in reported fair value
Key Assumptions				
Discount rates	+100bps	(10,141)	-100bps	12,494
Credit spread	+100bps	(12,862)	-100bps	15,235

The sensitivity analysis is intended to reflect the uncertainty inherent in the valuation of these investments under current market conditions. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent ZAL's view of expected future changes in the fair value of these investments. Any management actions that may be taken to mitigate the inherent risks are not reflected in this analysis.

The table above gives the impact on fair value of the assets excluding the Assets held for index-linked and unit-linked contracts. Any change in the fair value of the Assets held for index-linked and unit-linked contracts will be offset by the movement within the technical provisions, so no material direct impact on the basic own funds.

D.2 Technical provisions

Technical provisions overview

The technical provisions are prepared in accordance with the Solvency II requirements. The value of the technical provisions is the sum of the Best Estimate Liabilities (BEL), the risk margin and the technical provisions as a whole.

ZAL's approach to the valuation of BEL, risk margin and technical provisions as a whole is described in more detail below.

Technical provisions by line of business

As at 31 December 2021 In £'000	Best Estimate	Risk Margin	Technical provisions as a whole	Technical provisions (total)
Insurance with-profits participation	1,013,286	49,700	-	1,062,986
Other life (excluding health and index-linked and unit-linked)	1,926,229	259,626	-	2,185,855
Index-linked and unit-linked	(346,195)	78,467	24,397,513	24,129,785
Health insurance (direct business)	80,704	77,554	219,927	378,185
Health reinsurance (reinsurance accepted)	1,204	-	-	1,204
Life reinsurance (reinsurance accepted)	-	-	-	-
Total	**2,675,228**	**465,347**	**24,617,440**	**27,758,015**

Material changes in technical provisions over the year

In 2021, ZAL's technical provisions increased by £3m. The material changes are:

- Technical provisions as a whole: these increased by £0.25bn (primarily in Index-linked and unit-linked line) with the main movements being premiums of £0.2bn, claims of £2.7bn and investment income and gains/(losses) of £3bn.

- BEL: these decreased by £179m over the year. The main movements were a reduction in the other life BEL and with-profits BEL. For other life the rise in yields over 2021 along with new business written led to a reduction in BEL with a partial offset from assumptions updates. For with profits the decrease is due to the run-off of with-profits business as well as the rise in yields.

- Risk margin: this decreased by £71m largely due to the rise in yields and assumptions updates.

Calculation of the Best Estimate Liabilities

Insurance with-profits participation (with-profits business)

The BEL is calculated as the present value of the expected future cash flows in respect of the policies (for example premiums, investment returns, claims and cost of administrations) projected using a stochastic valuation. A wide range of economic outcomes are considered in the valuation of any options and guarantees. The BEL also includes provision for vested and future bonuses at rates consistent with ZAL's Principles and Practices of Financial Management.

Index-linked and unit-linked insurance, other life insurance, and health (direct and reinsurance accepted) insurance

The BEL is calculated as the present value of the expected future cash flows on the policies, projected using a single set of best estimate assumptions, less any unit liabilities which are reported under technical provisions as a whole.

Where products have material options and guarantees, the BEL includes an extra allowance for the potential changes in the financial market to increase or decrease the value of the options and guarantees before their expiry.

Main assumptions

Discount rate

The risk-free interest rate used for discounting and projecting cash flows in the technical provision calculations is the 'GBP risk-free term structure' with Volatility Adjustment (VA) as published by the PRA.

Mortality and morbidity

To set the best estimate mortality and morbidity assumptions, ZAL management annually investigates its mortality and critical illness experience over the previous four calendar years. Allowance is made for expected future mortality improvements on annuity business and conventional protection business, and for any other factors ZAL considers relevant to future experience. Under normal circumstances, the assumptions are changed to reflect the more recent investigation unless the difference in experience is deemed to be statistically insignificant, in which case the assumptions are left unchanged.

The assumptions are set with reference to relevant industry and reinsurance information - in particular mortality assumptions are set with reference to the standard tables provided by the Continuous Mortality Investigation (CMI) and a CMI projections model. These tables are based on industry-wide experience and wider population experience. ZAL management sets the percentage assumption based on its own studies.

If lower mortality rates were assumed to apply, the technical provisions would increase in respect of annuity products and decrease in respect of protection products. If lower morbidity rates were assumed to apply, the technical provisions would decrease. The effects on the value of the technical provisions from changes in the assumptions are shown in the 'Indication of the level of uncertainty in the technical provisions' section. Since the end of 2019, the COVID-19 pandemic has developed rapidly with far-reaching impacts across the insurance industry and the global economy overall. ZAL has a significant reinsurance programme. ZAL has experienced increases in death claims due to COVID-19, though these impacts were largely borne by the reinsurer. ZAL has reviewed its long term assumptions in line with normal practice and taken due consideration of COVID-19 in setting assumptions.

During 2021 the only material change was to the annuity mortality assumption which led to an increase in BEL.

Expenses

ZAL's best estimate expense assumption includes allowance for all expenses associated with servicing its ongoing insurance obligations. This includes:

- Internal servicing and claims costs - both those directly attributable to the policies plus an allocation of overhead costs
- Outsourced administration costs
- Investment management expenses

Per policy expense assumptions are set based on an annual expense analysis.

If lower expenses were assumed to apply, the technical provisions would decrease. The effects on the value of the technical provisions from changes in the assumptions are shown in the 'Indication of the level of uncertainty in the technical provisions' section.

During 2021 the expense assumptions were updated which led to a reduction in BEL.

Withdrawal rate and lapse rate

ZAL's best estimate withdrawal or lapse rate assumptions are reviewed annually. They are based on the average rates experienced over the previous four calendar years. In setting the rates the experience data is grouped by similar product types to ensure it is sufficiently credible. The assumptions are changed to reflect the more recent investigation unless the difference in experience is deemed to be statistically insignificant, in which case the assumptions are left unchanged.

If lower withdrawal or lapse rates were assumed to apply, the technical provisions would increase for some policies and decrease for others. Overall, higher withdrawal/lapse rates would reduce technical provisions as shown in the 'Indication of the level of uncertainty in the technical provisions' section.

During 2021 the only material change was to the whole of life lapse assumption which led to an increase in BEL.

Risk margin

The risk margin is an addition to the BEL to ensure that the value of the technical provisions is equivalent to the amount that companies would be expected to require in order to take over and meet the insurance obligations. It represents the theoretical compensation for the risk of future experience being worse than that assumed in the BEL and for the cost of holding regulatory capital against this. See section E.2 'Solvency Capital Requirement and Minimum Capital Requirement' for more details on the capital requirements. The risk margin is calculated using the cost of capital approach.

The cost of capital rate is specified by the regulation, and is currently 6%. The risk margin is calculated as the present value of the cost of holding the SCR.

Separate calculations are carried out for each of the two ring-fenced with-profits funds and the remaining fund. The relevant risk types for risk margin are:

- Underwriting risk;
- Counterparty default risk; and
- Operational risk.

Simplifications used in the calculation of the risk margin

ZAL makes use of a simplified method when calculating the SCR for each of the future years that is used to determine the risk margin.

ZAL employs the proxy approach, where each of the relevant risk types within the SCR are projected using their expected run-off pattern. These risks are then aggregated to determine the overall projected SCR for each of the future years.

Technical provisions as a whole

In general, insurers are required to value the best estimate and the risk margin separately when calculating technical provisions. However, where future cashflows associated with insurance obligations can be replicated reliably using financial instruments with observable market values, the value of technical provisions associated with those future cashflows can be determined using the market value of those financial instruments without the need of calculating BEL and risk margin separately.

For ZAL, this represents the unit liabilities of its unit-linked business.

Indication of the level of uncertainty in the technical provisions

The uncertainty in the technical provisions primarily relates to how actual experience will differ from the best estimate. However, the assumption setting process is robust and well controlled to ensure any limitations are understood and documented.

Sensitivity impact on own funds were given in sections C.1 and C.2. The following table shows the percentage change in just the technical provisions for these sensitivities to highlight the impact of changes in the key assumptions.

Sensitivity analysis of the technical provisions for life business

As at 31 December 2021	Interest Rates		Expenses	Mortality Rates		Lapse Rates
Key assumptions	0.5%	-0.5%	5%	+7.5% on assurance only	-10% on annuity only	-25%
Technical provisions	-1.78%	2.10%	0.36%	0.58%	3.23%	1.13%

Whilst the interest rate curve used in the calculation of technical provisions is not an assumption, ZAL is exposed to the mismatch risks between assets and liabilities. The movement in technical provisions is partly offset by the movement in assets, including reinsurance recoverables.

Reinsurance is used to mitigate some of the mortality risk and after allowing for reinsurance recoverable the mortality sensitivity changes to -0.04% for +7.5% on assurances and 0.20% for -10% on annuities, where the change is the percentage change in technical provisions less reinsurance recoverables.

Technical provisions – reconciliation to financial statements

The table at the start of chapter D sets out the differences between the valuation of technical provisions under Solvency II and UK GAAP.

The UK GAAP reserves are shown in the financial statements as technical provisions for long-term business provision and technical provisions for linked liabilities. The first and third tables in this chapter show these reserves presented differently by the Solvency II lines of business.

Insurance with-profits participation

The UK GAAP reserves for with-profits business are calculated as the Solvency II BEL plus an adjustment for the policyholders' share of any excess assets over BEL. The risk margin is not explicitly included, but forms part of the excess assets over BEL, most of which is included in UK GAAP reserves through the policyholders' share of this.

Index-linked and unit-linked Insurance, other life Insurance, and health (direct and reinsurance accepted) insurance

The main differences between the UK GAAP reserves and the Solvency II technical provisions for the index-linked and unit-linked insurance, other life insurance and health insurance lines of business are set out below:

- Under UK GAAP the contracts are classified as either insurance or investment contracts. All investment contracts are unit-linked and the reserve held is the unit reserve. Under Solvency II the corresponding technical provisions allows for expected future cash flows in addition to the unit reserve;
- For insurance contracts the UK GAAP assumptions include a margin for prudence while Solvency II assumptions use best estimate in the BEL with a separate risk margin;
- The UK GAAP reserve calculation uses a flat discount rate, derived from the assets ZAL holds or gilt rates where reinvestment applies, whilst the Solvency II BEL uses a yield curve specified by the PRA; and
- Under UK GAAP a minimum reserve of zero is held for each contract. However, for Solvency II technical provisions can be negative for each contract.

Overall the reserves held for UK GAAP are higher than the Solvency II technical provisions reflecting the additional prudence in the UK GAAP reserve calculation. This difference is slightly reduced when considering the deferred acquisition cost asset and deferred fees liability held on the UK GAAP balance sheet, which is an overall net asset of £195m. No corresponding asset is held under Solvency II.

Matching adjustment

ZAL does not apply a matching adjustment to the technical provisions.

Volatility adjustment

During 2021 ZAL applied for Volatility Adjustment on UK non-linked, non-profit business. This has been in place since the end of September 2021.

The Volatility Adjustment allows an adjustment to the risk free rates to mitigate the effect of short term volatility of bond spreads). The impact of the Volatility Adjustment on Technical Provisions, Basic Own Funds, Eligible Own Funds to meet the SCR, the SCR, Eligible Own Funds to meet the MCR and the MCR is detailed in the Long Term Guarantees and Transitional measures QRT S.22.01 (see Appendix 2). The impact of removing the Volatility Adjustment from gross SII Technical Provisions would be to increase their value by £82m (2020 n/a).

Transitional risk-free interest rate term structure

ZAL does not apply a transitional risk-free interest rate.

Transitional deduction

ZAL does not apply a transitional deduction to the technical provisions.

Recoverables from reinsurance contracts and special purpose vehicles

The reinsurance recoverables in respect of the majority of the reinsurance arrangements in place within ZAL are calculated on an individual policy basis using the same valuation approach and best estimate assumptions that are used to calculate the gross BEL.

ZAL does not make use of special purpose vehicles (SPVs). Consequently, there will be no recoverables from SPVs.

Other material information

Assumptions about future management actions

The cash flow projections used in the calculation of the BEL reflect the actions that management would reasonably expect to carry out over the duration of the projections, and the time taken to implement those future management actions.

The following assumptions about future management actions have been made within the calculation of the BEL:

Asset mix

For with-profits business, the cash flow projection starts with the actual mix of assets and, at the end of each year, adjusts the holdings in accordance with the current long-term investment strategy for the relevant part of the fund.

Bonus rates, future enhancements and market value reductions

Annual and regular bonus rates are assumed to remain unchanged from the valuation date, with final bonus rates adjusted to target a payout of 100% of asset share for each policy grouping, subject to:

- a minimum bonus rate of zero;
- smoothing of maturity payouts in certain market conditions, as set out in ZAL's published Principles and Practices of Financial Management (PPFM) for the with-profits funds; and
- a market value reduction cannot be applied on certain dates chosen in advance by policyholders, for example the maturity date for endowments, or on death.

D.3 Other liabilities

This section sets out the principles of valuation that ZAL has used to calculate other liabilities for Solvency II reporting. There have been no changes to the recognition and valuation bases used or to estimations during the reporting period for other liabilities.

The table at the top of chapter D shows a summary of the Other liabilities using the Solvency II balance sheet presentation. It also sets out the differences between the valuation of Other liabilities under Solvency II and UK GAAP.

Other liability valuation methodologies for Solvency II

Provisions other than technical provisions

Under UK GAAP and SII valuation of provisions is in accordance with IAS 37. IAS 37 is used as a reasonable approximation for fair value as these provisions are materially short term in nature. Key assumptions are noted below.

Remediation and complaints

Estimated redress costs are included in technical provisions. The key assumption is the expected volume of future complaints. Whilst this provision has been based on recent actual experience, uncertainty regarding the ultimate cost remains. This provision relates to the cost of investigating and resolving currently identified operational issues which have resulted in customer detriment. The provision covers the costs of correcting the issue, identifying the customers impacted and the administration of the customer redress. It is expected that the provision will be fully utilised within the next year.

Onerous property obligations

The provision takes into account assumptions as to the period the property will remain vacant or, where applicable, the period for which the property expense exceeds rent receivable. The position is regularly reviewed and any changes in circumstances are reflected in the calculation of the provision. It is expected that the provision will be utilised over the period of the leases of one to six years.

Deferred tax liabilities

Provision is made for deferred tax liabilities, using the liability method, on all material timing differences including revaluation gains and losses on investments recognised in the profit and loss account. Deferred tax is calculated at the rates at which it is expected that the tax will arise.

The deferred tax liability is primarily in respect of the long-term business of the Company, and mainly relates to unrealised gains on investments, deferred expenses and deferred origination fees. Tax losses carried forward are expected to be recovered out of future profits arising in respect of policies inforce, future investment income and gains.

The differences in the underlying valuation of the assets and liabilities under UK GAAP compared to Solvency II result in deferred tax differences between the two reporting measures.

Derivatives

Under UK GAAP and SII, measured at fair value.

Financial liabilities other than debts owed to credit institutions

All assets and liabilities of subsidiaries are valued in line with Solvency II valuation rules using the adjusted equity method. Therefore a subsidiary's own funds value is market consistent. Participations represent the value of ZAL's subsidiary companies. Under UK GAAP participations are valued at their fair value, after adjusting for balances due to or due from ZAL.

Insurance & intermediaries payables

Under UK GAAP and SII, measured at fair value.

Reinsurance payables

Under UK GAAP and SII, measured at fair value.

Payables

Under UK GAAP and SII, measured at fair value.

Any other liabilities, not elsewhere shown

Under UK GAAP and SII, measured at fair value.

Under UK GAAP Deferred Origination Fees (DOF) are included in the balance sheet as a liability. Under Solvency II the economic value of the DOF liability is nil. Under the same basis the Fund for Future Appropriations (FFA) is also valued at nil under Solvency II.

There are no material liabilities arising as a result of any single lease arrangements.

There are no future management actions that would impact on the above.

No liabilities are deemed to be significantly long-term in nature or have significant assumptions or judgments where uncertain future events would need to be reflected in the valuation.

There have been no material changes made to the recognition and valuation basis during the period.

Guarantees and contingent liabilities

ZAL has indemnified Zurich Advice Network Limited (ZAN) from any liability, arising from any claim or complaint relating to any products previously marketed, advised upon or sold (whether directly or indirectly) by ZAN or its predecessor or any of their advisers at any time from 5 June 1997. The fair value is considered negligible as ZAL assumes any liability in respect of its own products and therefore the probability of economic transfer being required as a result of this indemnity is considered to be remote.

ZAL has indemnified Zurich Independent Wealth Management Limited (ZIWM) against any liability arising from any claim or complaint relating to any products previously marketed, advised upon or sold by ZIWM or any adviser connected to ZIWM.

ZAL has provided a deed of indemnity to a group company, Zurich Legacy Solutions Services (UK) Limited (formerly Eagle Star Insurance Company Limited), in relation to the assignment to ZAL of the lease for premises at The Grange, Bishops Cleeve, Cheltenham. This deed of indemnity ceased on 5 March 2021, following the termination agreement for the lease.

For the above indemnities, the directors do not consider it necessary to provide for any amounts in respect of these indemnities on the Solvency II recognition and valuation criteria.

D.4 Alternative methods for valuation

Alternative methods of valuation have been reported in sections D.1 ‘Assets’ under the mark to model and other valuation methods sections, D.2 ‘Technical provisions’ and D.3 ‘Other liabilities’ under the other liability valuation methodologies for Solvency II section. All values reported in these sections are valued under alternate methods of valuation. There are no other alternative methods to report other than those already reported in these sections.

D.5 Any other information

There is no other material information to report.

E. Capital management

Objectives of capital management in the context of the Zurich Group

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

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

The Group continues to apply the Zurich Economic Capital Model (Z-ECM) as an internal metric. Z-ECM provides a key input into the Group's planning process as an assessment of the Group's economic risk profile.

The Group itself is regulated by the Swiss Financial Markets Supervisory Authority. As of 1 January 2022, the Group had an estimated and unaudited solvency ratio of 212% as measured by the Swiss Solvency Test, which has equivalence with the Solvency II regulatory regime applicable to ZAL.

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

ZAL's capital management framework

ZAL endeavours to manage its capital so that it meets regulatory Solvency Capital Requirements at all times. In addition, ZAL's capital management policy is consistent with the Zurich Group's capital management policy as set out above. The key elements of ZAL's capital management framework are set out below.

- The ZAL Board is responsible for ensuring that regulatory solvency is managed in line with regulatory and business requirements. The CFO is responsible for managing regulatory solvency within a range in order to avoid unnecessarily frequent capital movements to and from its shareholder. This range reflects legal, regulatory and business considerations;
- The lower solvency boundary of this range reflects a safety buffer above the SCR. In the case of a deficiency against the lower solvency boundary, the CFO proposes corrective actions to the ZAL Board and Group Treasury and Capital Management. Corrective actions include requesting capital support from the shareholder if deemed appropriate;
- The upper boundary includes an adequate buffer in order to absorb solvency volatility under normal economic conditions. In case of excess capital above the upper solvency boundary, the CFO proposes to the ZAL Board and Group Treasury and Capital Management to remit the excess to the shareholder as soon as permissible from a legal, regulatory and business perspective;
- Regulatory solvency is monitored on a regular basis and reported to the regulator as requested.

E.1 Own funds

Structure of the own funds

The own funds are derived from the excess of assets over liabilities shown on the balance sheet at the top of chapter D (see sections D.1 'Assets', D.2 'Technical provisions' and D.3 'Other liabilities' for valuations of those items). There is a deduction for restricted own funds items in respect of ring-fenced funds as required by Article 70 1 (e) (i) of The Delegated Level 2 Regulations.

All own funds items are in tier one and are available:

i) to meet the Solvency Capital Requirement (SCR).
ii) to meet the Minimum Capital Requirement (MCR) with the exception of the tier three own funds.

The composition of own funds is set out in the table below:

Composition of own funds

In £'000	31 December 2021	31 December 2020	Change
Assets	30,146,014	30,191,685	(45,671)
Technical provisions	(27,758,015)	(27,755,255)	(2,760)
Other liabilities	(919,021)	(744,290)	(174,731)
Excess of assets over liabilities	**1,468,978**	**1,692,140**	**(223,162)**
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	(73,256)	(122,387)	49,131
Total Basic Own Funds after deductions	**1,395,722**	**1,569,753**	**(174,031)**
Total available and eligible Own Funds to meet the SCR	**1,395,722**	**1,569,753**	**(174,031)**
SCR	(1,096,496)	(1,020,445)	(76,051)
Excess available funds for SCR over SCR	**299,226**	**549,308**	**(250,082)**
Ratio of Eligible Own Funds to SCR	**127%**	**154%**	**-27%**
Total available and eligible Own Funds to meet the MCR	**1,395,722**	**1,569,753**	**(174,031)**
MCR	(274,124)	(255,111)	(19,013)
Excess available funds for MCR over MCR	**1,121,598**	**1,314,642**	**(193,044)**
Ratio of Eligible Own Funds to MCR	**509%**	**615%**	**-106%**

The key changes over the period causing the increase in the coverage ratio are:

- Increase in Capital Add on: Following confirmation from the PRA this has increased by £108m in the period.
- Dividend: A dividend of £100m paid in March 2021.

- Tax Rates: An increase in the deferred tax liability following the increase in the corporation tax rate from 19% to 25% from April 2023.
- Contract Boundary: A revision to the contract boundary assumed on unit linked protection contracts leading to an increase in both technical provisions and SCR.
- Risk Free Rates: At end July the risk free rate published by the PRA was changed to be based on SONIA rather than LIBOR leading to a reduction in risk free rates. The adverse impact of this was largely offset by the introduction of a volatility adjustment on UK non-linked non-profit business at end September 2021.
- Yield movements: The overall impact of the rise in fixed interest yields and risk free rates over 2021 was an increase in the solvency ratio.
- Basis: The annual assumption updates led to an overall reduction in the solvency ratio with the key impact being a strengthening of the persistency basis on whole of life products.

The ‘adjustment for restricted own funds items in respect of ring-fenced funds’ above removes from own funds the contribution from each with-profits fund that is due to policyholders after allowing for the notional SCR of the fund. The adjustment has decreased over 2021 primarily due to the reduction in excess of assets over liabilities due to the rise in yields over the year, and from an increase in the SCR. With the funds in run-off there will be a natural reduction in assets and technical provisions over time. Assets will generally reduce by more than the technical provisions as technical provisions do not include the estate, as the estate is paid out in bonuses.

The own funds split by tier are set out in the table below:

Segmentation of own funds by tier of capital

In £'000	31 December 2021				31 December 2020			
Own Funds	**Tier 1**	**Tier 2**	**Tier 3**	**Total**	**Tier 1**	**Tier 2**	**Tier 3**	**Total**
Covering the SCR	1,395,722	-	-	1,395,722	1,569,753	-	-	1,569,753
Covering the MCR	1,395,722	-	-	1,395,722	1,569,753	-	-	1,569,753
Ratio of Eligible Own Funds to SCR				**127%**				**154%**
SCR Surplus				**299,226**				**549,308**

Reconciliation to financial statements

The difference between the 'Solvency II Excess of Assets over Liabilities' and the 'Financial Statements Equity including Fund for Future Appropriations' is explained in the table below.

Valuation of equity for Solvency II and financial reporting purposes		
In £'000	**31 December 2021**	**31 December 2020**
Solvency II Assets	30,146,014	30,191,685
Solvency II Liabilities	28,677,036	28,499,545
Solvency II Excess of Assets over Liabilities	**1,468,978**	**1,692,140**
Financial Statements Equity	**534,566**	**640,638**
Difference	**934,412**	**1,051,502**

The fund for future appropriations represents the amounts in the participating ring-fenced funds for which the allocation to participating policyholders and the shareholder has not been determined at the balance sheet date.

The difference above is explained by:

Explanation of differences in Excess of Assets over Liabilities and Financial Statements Equity		
In £'000	**31 December 2021**	**31 December 2020**
Difference in gross technical provisions	2,403,547	2,164,404
Difference in reinsurers' share of technical provisions	(1,174,097)	(914,021)
Assets held for index-linked and unit-linked contracts	(72,338)	(80,323)
Deferred acquisition costs	(223,664)	(205,067)
Deferred origination fees	28,656	42,655
Fund for future appropriations	37,697	42,268
Difference in deferred tax asset and liability	(77,971)	(6,128)
Contingent liabilities	-	-
Other	12,582	7,714
Difference explained	**934,412**	**1,051,502**

Own funds consists of the following items:

Composition and description of own funds		
As at 31 December 2021	**In £'000**	
Basic Own Fund Items	**Amount**	**Description**
Ordinary share capital (net of own shares)	306,132	Relates to allotted, issued and fully paid ordinary share capital and capital contributions. The share capital and the capital contributions are not subordinated and have no restricted duration.
Surplus funds	231,751	Surplus funds that are not considered as insurance and reinsurance liabilities in accordance with Article 91(2) of Directive 2009/138/EC as noted in Article 69 a (iv) of the Commission Delegated Regulation (EU) 2015/35. The surplus funds are available to fully support the With-Profits funds SCR, thereby meeting the criteria for classification as Tier 1 own funds.
Reconciliation reserve	857,839	Reconciliation reserve as noted in Article 70 of the Commission Delegated Regulation (EU) 2015/35. The Reconciliation reserve consists of the excess of assets over liabilities as reported in the Balance Sheet less the Ring-fenced Fund Restriction less Basic Own Funds items. The restriction is that which is applied to the with-profits funds, removing all excess applicable to policyholders. Sensitivities of own funds to insurance and market risks is shown in sections C.1 and C.2. The movement in the combined surplus funds and reconciliation reserve will be the same as the own funds movement. The Basic Own Funds is made up of Surplus, Deferred Tax assets (as reported in the Balance Sheet) and the Ordinary Share Capital held by ZAL.
Total Tier 1 Capital	**1,395,722**	
An amount equal to the value of net deferred tax assets	0	An amount equal to the value of net deferred tax assets as noted in Article 76 of the Commission Delegated Regulation (EU) 2015/35.
Total Basic Own Funds	**1,395,722**	

There were no significant changes to the material classes in own funds during the year.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

SCR and MCR

The SCR and MCR both represent capital requirements that must be held in addition to the technical provisions. ZAL's SCR is calculated using the standard formula approach. Both these values are subject to final supervisory assessment.

The SCR is the capital required to ensure that ZAL will be able to meet its obligations over the next 12 months with a probability of at least 99.5%. In addition to the SCR capital an MCR is calculated which represents the threshold below which the regulator would intervene. The MCR is intended to correspond to an 85% probability of adequacy over a one year period and is bounded between 25% and 45% of the SCR.

The following table shows the total SCR and MCR at 31 December 2021.

SCR and MCR calculated using the Standard Formula			
In £'000	**31 December 2021**	**31 December 2020**	**Change**
SCR	1,096,496	1,020,445	76,051
MCR	274,124	255,111	19,013

SCR split by risk module or category

The SCR is held to cover the relevant risks described in section C and can be broken down by the different types of risk as shown in the following table. The capital requirement is initially calculated for each risk in isolation with an allowance then made for any diversification benefits between the different risks. This subtotal of diversified Market, Counterparty Default, Life and Health risks is known as the Basic SCR (BSCR). Operational risk is not assumed to diversify with other risk types. Further adjustments are made for the loss absorbing capacity of deferred tax and technical provisions, and for any capital add-on to determine the SCR.

SCR charges by risk module or risk category			
In £'000	**31 December 2021**	**31 December 2020**	**Change**
Market Risk	382,064	315,308	66,756
Counterparty Default Risk	50,175	47,343	2,832
Life Risk	440,356	492,822	(52,466)
Health Risk	107,388	93,650	13,738
Total Undiversified Risk	**979,983**	**949,123**	**30,860**
Diversification Effect	(268,967)	(248,989)	(19,978)
BSCR	**711,016**	**700,134**	**10,882**
Adjustments for Loss Absorbing Capacity of Deferred Taxes	(37,166)	(21,047)	(16,119)
Adjustments for Loss Absorbing Capacity of Technical Provisions	(74,795)	(46,768)	(28,027)
Operational Risk	65,639	72,175	(6,536)
Adjustment due to ring fenced funds	18,802	10,951	7,851
Capital Add-on (Pension Scheme Risk)	413,000	305,000	108,000
SCR	**1,096,496**	**1,020,445**	**76,051**

Market risk covers interest rate, equity, property, spread, concentration and currency risks which are described further in section C.2 'Market risk'. Market risk has increased over the year primarily due to increase in interest rate risk due to increase in investment in long dated gilts.

Counterparty default risk covers the risk associated with a loss or potential loss from counterparties failing to fulfil their financial obligations. This is described further in Section C.3 'Credit risk'. There was a small increase in counterparty default risk over the year mainly due to lower yields.

Life underwriting risk covers mortality, longevity, disability/morbidity, expense, lapse and life catastrophe risks. Health underwriting risk covers mortality, longevity, disability/morbidity, expense and lapse risks for health business and health catastrophe risks. These are described further in section C.1 'Underwriting risk'. Life underwriting risk decreased over the year, primarily due to higher yields over the year. Lapse down was the biting stress at the start and end of 2021 but the gap between lapse down and mass lapse stress reduced significantly mainly due to the rise in yields over the year. Management actions applying in a mass lapse stress have been reviewed resulting in a reduction in the mass lapse risk. Health underwriting risk increased slightly over the year, primarily due to new business written over the year.

In recognition of the pension risk that ZAL is exposed to (see section C.6 'Other material risks'), ZAL entered into a partial internal model approval process. As part of this process, ZAL currently holds a capital add-on. The size of the capital add-on at 31 December 2021 was £413m, which has increased by £108m from 31 December 2020.

The SCR is calculated separately for each of the ring-fenced funds (RFFs) and the remaining fund. The presentation of the SCR split by risk module in the table above is shown at a total ZAL level with the difference between the fund level and company level calculation shown on the line "adjustment due to Ring Fenced Funds".

After diversification there are adjustments for the loss-absorbing capacity of Technical Provisions and deferred taxes.

The loss-absorbing capacity of Technical Provisions is due to the ability of ZAL to reduce benefit pay-outs on with-profits policies in line with falling asset shares in market stresses.

The loss-absorbing capacity of deferred taxes is due to ZAL's ability to re-evaluate its deferred taxes and thereby potentially absorbing a portion of any pre-tax losses. No allowance is made for future taxable profits in this assessment.

Inputs used to calculate the MCR

The following table shows the inputs used to calculate the MCR.

Inputs used to calculate the MCR

In £'000	31 December 2021	31 December 2020	Change
Linear MCR	228,311	227,746	565
SCR	1,096,496	1,020,445	76,051
MCR Cap (45% of SCR)	493,423	459,200	34,223
MCR Floor (25% of SCR)	274,124	255,111	19,013
MCR	274,124	255,111	19,013

The MCR is calculated as the linear MCR subject to a floor of 25% of the SCR and a cap of 45% of the SCR. The linear MCR is a linear function of a set of the following variables: ZAL's technical provisions (net of reinsurance), written premiums, capital-at-risk and administrative expenses. Values for which can be found on QRT S.28 in the appendix.

The MCR is based on the MCR floor at end 2021 which was the case at end 2020. This has decreased over the year, primarily due to the reduction in the SCR from the reduction in the capital add-on value.

Any other information

Use of simplified calculations in the SCR

The following simplifications have been used in the SCR calculation in the counterparty default risk module:

- The risk-mitigating impact of reinsurance has been calculated for each reinsurance arrangement using the simplification as set out in Article 107 of the Delegated Regulation. This means the total risk mitigating impact from all reinsurance is allocated to individual reinsurers in proportion to the reinsurance recoverable for that reinsurer.
- Where collateral is provided under a reinsurance treaty, the risk adjusted value of this has been taken as 85% of the asset value held at end 2019, in accordance with Article 112 of the Delegated Regulation.

Use of undertaking specific parameters

No undertaking specific parameters have been used.

Throughout 2021, ZAL has complied with the applicable Solvency Capital Requirements.

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

ZAL are not permitted to use the duration-based equity risk sub-module of the Solvency II regulations.

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

ZAL applies the Standard formula model and does not use an internal model to calculate the SCR.

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

ZAL has complied with both the Minimum Capital Requirement and Solvency Capital Requirement during 2021.

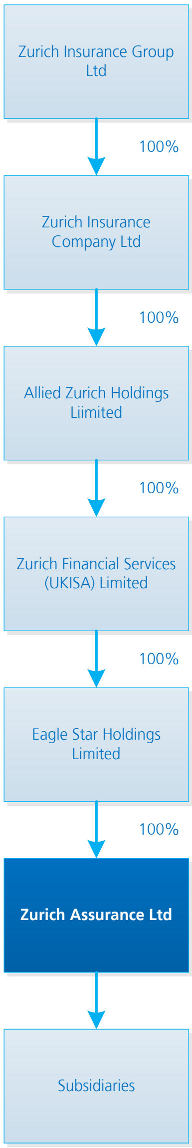
E.6 Any other information

There is no other information to report here.

Appendices

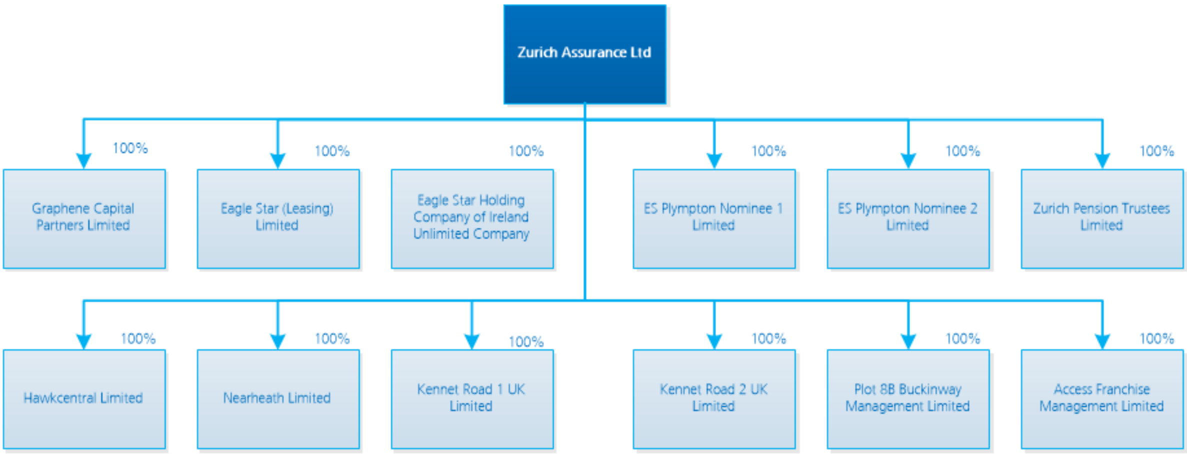
Appendix 1 Company Structure Charts

Simplified structure of the Zurich Insurance Group Ltd showing ZAL's position in the Group



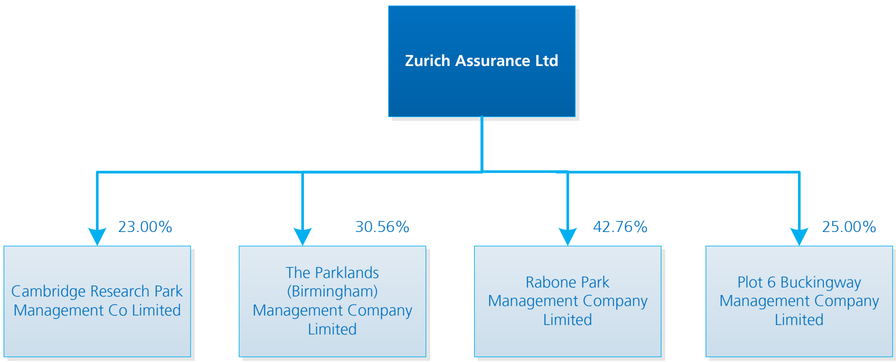
ZIG and ZIC are both incorporated in Switzerland. AZH is incorporated in Jersey. UKISA and ESH are both incorporated in England. The shareholding indicated above is identical to the voting power.

Subsidiary undertakings



The Companies listed above are incorporated in England and Wales with the exception of Eagle Star Holding Company of Ireland Unlimited Company which is incorporated in the Republic of Ireland.
The voting power ZAL has in its subsidiary companies is equal to the percentage of the nominal value held by ZAL as indicated in the chart above.

Significant holdings in undertakings other than subsidiary undertakings



The companies listed above are incorporated in England and Wales. The voting power is equal to the percentage of the nominal value held by ZAL.

Appendix 2 Quantitative Reporting Templates

S.02.01.02 - Balance Sheet, Assets		
		Solvency II value
in GBP thousands, as of December 31		C0010
Assets		
Intangible assets	R0030	-
Deferred tax assets	R0040	-
Pension benefit surplus	R0050	-
Property, plant & equipment held for own use	R0060	34,679
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	4,195,247
Property (other than for own use)	R0080	4,097
Holdings in related undertakings, including participations	R0090	32,104
Equities	R0100	150,217
Equities – listed	R0110	150,217
Equities – unlisted	R0120	-
Bonds	R0130	3,910,971
Government Bonds	R0140	1,929,855
Corporate Bonds	R0150	1,944,289
Structured notes	R0160	7,707
Collateralised securities	R0170	29,120
Collective Investments Undertakings	R0180	51,403
Derivatives	R0190	760
Deposits other than cash equivalents	R0200	45,695
Other investments	R0210	-
Assets held for index-linked and unit-linked contracts	R0220	24,181,552
Loans and mortgages	R0230	49,941
Loans on policies	R0240	48,705
Loans and mortgages to individuals	R0250	1,236
Other loans and mortgages	R0260	-
Reinsurance recoverables from:	R0270	1,287,905
Non-life and health similar to non-life	R0280	-
Non-life excluding health	R0290	-
Health similar to non-life	R0300	-
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	1,216,158
Health similar to life	R0320	217,477
Life excluding health and index-linked and unit-linked	R0330	998,681
Life index-linked and unit-linked	R0340	71,747
Deposits to cedants	R0350	-
Insurance and intermediaries receivables	R0360	134,659
Reinsurance receivables	R0370	19,395
Receivables (trade, not insurance)	R0380	83,438
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	151,299
Any other assets, not elsewhere shown	R0420	7,899
Total assets	**R0500**	**30,146,014**

S.02.01.02 - Balance Sheet, Liabilities		
		Solvency II value
in GBP thousands, as of December 31		**C0010**
Liabilities		
Technical provisions – non-life	R0510	-
Technical provisions – non-life (excluding health)	R0520	-
TP calculated as a whole	R0530	-
Best Estimate	R0540	-
Risk margin	R0550	-
Technical provisions – health (similar to non-life)	R0560	-
TP calculated as a whole	R0570	-
Best Estimate	R0580	-
Risk margin	R0590	-
Technical provisions – life (excluding index-linked and unit-linked)	R0600	3,628,229
Technical provisions – health (similar to life)	R0610	379,389
TP calculated as a whole	R0620	219,927
Best Estimate	R0630	81,908
Risk margin	R0640	77,554
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	3,248,840
TP calculated as a whole	R0660	-
Best Estimate	R0670	2,939,515
Risk margin	R0680	309,325
Technical provisions – index-linked and unit-linked	R0690	24,129,786
TP calculated as a whole	R0700	24,397,514
Best Estimate	R0710	- 346,195
Risk margin	R0720	78,467
Contingent liabilities	R0740	-
Provisions other than technical provisions	R0750	11,102
Pension benefit obligations	R0760	-
Deposits from reinsurers	R0770	-
Deferred tax liabilities	R0780	270,506
Derivatives	R0790	4,050
Debts owed to credit institutions	R0800	-
Financial liabilities other than debts owed to credit institutions	R0810	30,465
Insurance & intermediaries payables	R0820	299,496
Reinsurance payables	R0830	28,859
Payables (trade, not insurance)	R0840	225,962
Subordinated liabilities	R0850	-
Subordinated liabilities not in BOF	R0860	-
Subordinated liabilities in BOF	R0870	-
Any other liabilities, not elsewhere shown	R0880	48,581
Total liabilities	**R0900**	**28,677,036**
Excess of assets over liabilities	**R1000**	**1,468,978**

S.05.01.02 - Premiums, claims and expenses by line of business, Life

in GBP thousands, as of December 31 2021			Line of Business for: life insurance obligations: Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance
			C0210	C0220	C0230	C0240
Premiums written						
Gross	**R1410**		303,004	5,235	193,375	601,067
Reinsurers' share	**R1420**		146,428	230	7,091	432,936
Net	**R1500**		156,576	5,005	186,284	168,131
Premiums earned						
Gross	**R1510**		303,004	5,235	193,375	601,067
Reinsurers' share	**R1520**		146,428	230	7,091	432,936
Net	**R1600**		156,576	5,005	186,284	168,131
Claims incurred						
Gross	**R1610**		149,906	114,136	2,600,333	436,753
Reinsurers' share	**R1620**		85,748	7	5,004	396,471
Net	**R1700**		64,158	114,129	2,595,329	40,282
Changes in other technical provisions						
Gross	**R1710**		- 58,184	139,169	- 301,706	- 81,980
Reinsurers' share	**R1720**		- 42,771	-	- 823	- 77,398
Net	**R1800**		- 15,413	139,169	- 300,883	- 4,582
Expenses incurred	**R1900**		35,153	7,938	117,825	163,927
Other expenses	**R2500**					
Total expenses	**R2600**		-	-	-	-

S.05.01.02 - Premiums, claims and expenses by line of business, Life

in GBP thousands, as of December 31 2021			Line of Business for: life insurance obligations		Life reinsurance obligations		Total
			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	
			C0250	C0260	C0270	C0280	C0300
Premiums written							
Gross	**R1410**		-	-	2,099	1,463	1,106,243
Reinsurers' share	**R1420**		-	-	-	-	586,685
Net	**R1500**		-	-	2,099	1,463	519,558
Premiums earned							
Gross	**R1510**		-	-	2,099	1,463	1,106,243
Reinsurers' share	**R1520**		-	-	-	-	586,685
Net	**R1600**		-	-	2,099	1,463	519,558
Claims incurred							
Gross	**R1610**		-	-	3,230	62,516	3,366,874
Reinsurers' share	**R1620**		-	-	-	-	487,230
Net	**R1700**		-	-	3,230	62,516	2,879,644
Changes in other technical provisions							
Gross	**R1710**		-	-	129	60,646	- 241,927
Reinsurers' share	**R1720**		-	-	-	-	- 120,992
Net	**R1800**		-	-	129	60,646	- 120,935
Expenses incurred	**R1900**		-	-	-	-	324,843
Other expenses	**R2500**						1
Total expenses	**R2600**		**-**	**-**	**-**	**-**	**324,844**

S.12.01.02 - Life and Health SLT Technical Provisions

in GBP thousands, as of December 31 2021		Insurance with profit participation	Index-linked and unit-linked insurance		
			Contracts without options and guarantees	Contracts with options or guarantees	
		C0020	C0030	C0040	C0050
Technical provisions calculated as a whole	R0010	-	24,397,515	-	-
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	-	72,998	-	-
Technical provisions calculated as a sum of BE and RM					
Best Estimate					
Gross Best Estimate	R0030	1,013,286	-	-	- 346,195
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080	- 647	-	-	- 1,251
Best estimate minus recoverables from reinsurance/SPV and Finite Re – total	R0090	1,013,935	-	-	- 344,944
Risk Margin	R0100	49,700	78,467	-	-
Amount of the transitional on Technical Provisions					
Technical Provisions calculated as a whole	R0110	-	-	-	-
Best estimate	R0120	-	-	-	-
Risk margin	R0130	-	-	-	-
Technical provisions – total	**R0200**	**1,062,986**	**24,129,787**	**-**	**-**

S.12.01.02 - Life and Health SLT Technical Provisions

in GBP thousands, as of December 31 2021			Other life insurance		
				Contracts without options and guarantees	Contracts with options or guarantees
			C0060	C0070	C0080
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		-	-	1,926,229
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080		-	-	999,328
Best estimate minus recoverables from reinsurance/SPV and Finite Re – total	R0090		-	-	926,901
Risk Margin	R0100		259,626	-	-
Amount of the transitional on Technical Provisions					-
Technical Provisions calculated as a whole	R0110		-	-	-
Best estimate	R0120		-	-	-
Risk margin	R0130		-	-	-
Technical provisions – total	**R0200**		**2,185,855**	**-**	**-**

S.12.01.02 - Life and Health SLT Technical Provisions

in GBP thousands, as of December 31 2021			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)
			C0090	C0100	C0150
Technical provisions calculated as a whole	R0010		-	-	24,397,515
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		-	-	72,998
Technical provisions calculated as a sum of BE and RM					
Best Estimate					
Gross Best Estimate	R0030		-	-	2,593,320
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080		-	-	997,430
Best estimate minus recoverables from reinsurance/SPV and Finite Re – total	R0090		-	-	1,595,892
Risk Margin	R0100		-	-	387,793
Amount of the transitional on Technical Provisions					
Technical Provisions calculated as a whole	R0110		-	-	-
Best estimate	R0120		-	-	-
Risk margin	R0130		-	-	-
Technical provisions – total	**R0200**		**-**	**-**	**27,378,628**

S.12.01.02 - Life and Health SLT Technical Provisions

in GBP thousands, as of December 31 2021		Health insurance (direct business)		
			Contracts without options and guarantees	Contracts with options or guarantees
		C0160	C0170	C0180
Technical provisions calculated as a whole	R0010	219,927		-
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		-	80,704
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080		-	217,477
Best estimate minus recoverables from reinsurance/SPV and Finite Re – total	R0090		-	- 136,773
Risk Margin	R0100	77,554		-
Amount of the transitional on Technical Provisions				-
Technical Provisions calculated as a whole	R0110	-		-
Best estimate	R0120		-	-
Risk margin	R0130	-		-
Technical provisions – total	**R0200**	**378,185**	**-**	**-**

S.12.01.02 - Life and Health SLT Technical Provisions

in GBP thousands, as of December 31 2021		Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
		C0190	C0200	C0210
Technical provisions calculated as a whole	R0010	-	-	219,927
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	-	1,204	81,908
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080	-	-	217,477
Best estimate minus recoverables from reinsurance/SPV and Finite Re – total	R0090	-	1,204	- 135,569
Risk Margin	R0100	-	-	77,554
Amount of the transitional on Technical Provisions				
Technical Provisions calculated as a whole	R0110	-	-	-
Best estimate	R0120	-	-	-
Risk margin	R0130	-	-	-
Technical provisions – total	**R0200**	**-**	**1,204**	**379,389**

S.22.01.21 - Impact of long term guarantees and transitional measures				
in GBP thousands, as of December 31		Amount with LTG measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate
		C0010	C0030	C0050
Technical provisions	R0010	27,758,015	-	-
Basic own funds	R0020	1,395,722	-	-
Eligible own funds to meet SCR	R0050	1,395,722	-	-
SCR	R0090	1,096,497	-	-
Eligible own funds to meet MCR	R0100	1,395,722	-	-
Minimum Capital Requirement	R0110	274,124	-	-

S.22.01.21 - Impact of long term guarantees and transitional measures			
in GBP thousands, as of December 31		Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0070	C0090
Technical provisions	R0010	82,379	-
Basic own funds	R0020	- 25,673	-
Eligible own funds to meet SCR	R0050	- 25,673	-
SCR	R0090	13,547	-
Eligible own funds to meet MCR	R0100	- 25,673	-
Minimum Capital Requirement	R0110	3,387	-

S.23.01.01 - Own Funds

in GBP 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**	306,132	306,132		-	
Share premium account related to ordinary share capital	**R0030**	-	-		-	
Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	**R0040**	-	-		-	
Subordinated mutual member accounts	**R0050**	-		-	-	-
Surplus funds	**R0070**	231,752	231,752			
Preference shares	**R0090**	-		-	-	-
Share premium account related to preference shares	**R0110**	-		-	-	-
Reconciliation reserve	**R0130**	857,838	857,838			
Subordinated liabilities	**R0140**	-		-	-	-
An amount equal to the value of net deferred tax assets	**R0160**	-				-
Other own fund items approved by the supervisory authority as basic own funds not specified above	**R0180**	-	-	-	-	-
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	**R0220**	-				
Deductions						
Deductions for participations in financial and credit institutions	**R0230**	-	-	-	-	-
Total basic own funds after deductions	**R0290**	**1,395,722**	**1,395,722**	**-**	**-**	**-**
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**	**-**	**-**	**-**	**-**	**-**
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	1,395,722	1,395,722	-	-	-
Total available own funds to meet the MCR	R0510	1,395,722	1,395,722	-	-	
Total eligible own funds to meet the SCR	R0540	1,395,722	1,395,722	-	-	-
Total eligible own funds to meet the MCR	R0550	1,395,722	1,395,722	-	-	
SCR	R0580	1,096,497				
MCR	R0600	274,124				
Ratio of Eligible own funds to SCR	R0620	127%				
Ratio of Eligible own funds to MCR	R0640	509%				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	R0700	1,468,978	
Own shares (held directly and indirectly)	R0710	-	
Foreseeable dividends, distributions and charges	R0720	-	
Other basic own fund items	R0730	537,884	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	73,256	
Reconciliation reserve	R0760	857,838	
Expected profits			
Expected profits included in future premiums (EPIFP) – Life business	R0770	1,060,774	
Expected profits included in future premiums (EPIFP) – Non- life business	R0780	-	
Total Expected profits included in future premiums (EPIFP)	**R0790**	**1,060,774**	

S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula

in GBP thousands, as of December 31 2021		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	390,752		No
Counterparty default risk	R0020	51,625		
Life underwriting risk	R0030	453,022	No	No
Health underwriting risk	R0040	110,491	No	No
Non-life underwriting risk	R0050	-	No	No
Diversification	R0060	- 276,072		
Intangible asset risk	R0070	-		
Basic Solvency Capital Requirement	R0100	729,818		

		C0100
Calculation of Solvency Capital Requirement		
Operational risk	R0130	65,639
Loss-absorbing capacity of technical provisions	R0140	- 74,795
Loss-absorbing capacity of deferred taxes	R0150	- 37,166
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	683,496
Capital add-on already set	R0210	413,000
Solvency capital requirement	R0220	1,096,496
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirement for remaining part	R0410	574,701
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	108,795
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	-
Diversification effects due to RFF nSCR aggregation for article 304	R0440	-

Approach to tax rate		Yes/No
		C0109
Approach based on average tax rate	R0590	No

Calculation of loss absorbing capacity of deferred taxes		LAC DT
		C0130
LAC DT	R0640	- 37,166
LAC DT justified by reversion of deferred tax liabilities	R0650	- 37,166
LAC DT justified by reference to probable future taxable economic profit	R0660	-
LAC DT justified by carry back, current year	R0670	-
LAC DT justified by carry back, future years	R0680	-
Maximum LAC DT	R0690	- 37,166

S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

in GBP thousands, as of December 31 2021		C0040
	R0200	228,311

		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	877,097	
Obligations with profit participation – future discretionary benefits	R0220	136,838	
Index-linked and unit-linked insurance obligations	R0230	23,979,573	
Other life (re)insurance and health (re)insurance obligations	R0240	1,011,259	
Total capital at risk for all life (re)insurance obligations	R0250		19,829,140

		C0070
Linear MCR	R0300	228,311
SCR	R0310	1,096,496
MCR cap	R0320	493,423
MCR floor	R0330	274,124
Combined MCR	R0340	274,124
Absolute floor of the MCR	R0350	3,126

-	-	C0070
Minimum Capital Requirement	R0400	274,124