Zurich Assurance Ltd

Solvency and Financial Condition Report 2024

All amounts are shown in Pound Sterling: GBP (£) rounded to the nearest thousand million or billion as noted. As a consequence, the rounded amounts may not appear to add to the rounded total in all cases. All ratios and variances are calculated using the underlying unrounded amounts, rather than the rounded amounts.

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 (ZIG) group.

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.

3.52m

Policyholders or Scheme Members (2024)

£23,530m

Total Assets (in 2024)

System of governance

Zurich Assurance Ltd operates a mature and well-established system of governance in accordance with UK statute, UK Corporate Governance principles and Zurich Group policies and frameworks.

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 as adopted in the UK 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 2024, ZAL's SCR ratio was above the requirement of 100%.

147%

SCR ratio (as of 31 December 2024)

£1,040m

Own funds under Solvency II (as of 31 December 2024)

Introduction

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) group. In addition to the capital and liquidity held by ZAL, the ZIG 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 ZIG group itself is regulated by the Swiss Financial Markets Supervisory Authority. As of 1 January 2025, the ZIG group had an estimated and unaudited solvency ratio of 252% as measured by the Swiss Solvency Test, which has equivalence with the Solvency II regulatory regime. The ZIG group manages its capital at an AA level according to its internal economic capital model. The financial strength of Zurich Insurance Company Ltd (ZIC), which is the main insurance carrier of the ZIG group, is rated AA stable by Standard and Poor's. More information on the ZIG group's risk and capital management is provided in its annual report, which is available at www.zurich.com.

Following Brexit, the UK had the opportunity to move away from the European Solvency II requirements and in June 2020, the government announced a review of the Solvency II framework in the UK. The review was underpinned by three objectives:

- to spur a vibrant, innovative, and internationally competitive insurance sector,
- to protect policyholders and ensure the safety and soundness of firms, and
- to support insurance firms to provide long-term capital to support growth, including investment in infrastructure, venture capital and growth equity, and other long-term productive assets, as well as investment consistent with the government's climate change objectives.

Over the past few years Solvency II reporting requirements for the UK diverged slightly from the European Solvency II requirements. On 31st December 2024 this diverged further and the new UK prudential regime for insurers was born. The PRA have acknowledged that "the new UK prudential regime for insurers" will eventually be known as 'Solvency UK'. However, for clarity and internal consistency of the PRA's policy materials, the PRA will continue to refer to the regime as Solvency II until such time as all references to Solvency II can be changed across all relevant materials. The new regime was in force for 2024 year end; however, this title has not yet been updated from Solvency II. For the remainder of this report "Solvency II" will be used as an abbreviation for "Solvency II as applicable in the UK on 31 December 2024". Under the new Solvency II regime there were minor changes to Quantitative Reporting Templates shown in appendix 2.

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 2024 ZAL's Local Statutory total assets was £23.5bn (2023: £24.7bn), ZAL had 3.52m (2023: 3.45m) policyholders and scheme members. ZAL's Local Statutory profit for the year before taxation was £144m (2023: £67m loss).

The profit is primarily driven by the year-on-year growth of the Retail Protection and ZCR businesses, along with investment market movements.

The Company continued to make significant progress in the execution of priorities and strategic plans across all business areas in 2024. There has been strong focus and delivery on the FCA Consumer Duty across the open books of business as well as the back book (following the implementation deadline for the back book in July 2024). The implementation of the Duty is a natural extension of the customer focus already in place as we continuously improve customer outcomes.

Business resilience was a key area of focus across the wider Zurich business, with the Company establishing a dedicated programme to enhance and further build our capability. As the UK legal and regulatory environment continues to evolve, governance has been strengthened across the Company to ensure ongoing compliance.

The year saw us bring new propositions to market, in order to unlock new distribution and to deepen existing relationships. Zurich Accelerate (a distinctive value-added service offering) was launched in the Retail Protection market. Our new Group Critical Illness product completes our Group Risk product portfolio and provides us with headroom for further new business growth. The Zurich Access Portal continued to perform well, allowing the business to expand significantly in the Small and Medium Enterprise (scheme size between 3 and 250 lives) segment across all broker tiers. Customer satisfaction levels in all our business areas have improved in the current year compared to the previous year, reflecting strong approval from both clients and partners.

The leadership of the business continued to support employee wellbeing which has resulted in high-employee engagement scores. Compared to external benchmarks, the Company scored higher than 'Other Finance and Insurance' companies, particularly in the Leadership dimension where it scored significantly higher than most benchmarks.

The Company's performance also continued to be recognised by the industry in the form of multiple industry award wins highlighting the outstanding quality of our products, service delivery, underwriting, claims handing, customer support, partner support, business leaders, and DEIB (Diversity, Equity, Inclusion and Belonging) and community undertakings.

The economic and business environment improved in 2024 as the effects of high interest rates and inflation began to lessen, following a year of uncertainty and slow growth in 2023.

Recent data shows that the UK economy grew by 0.9% in 2024 based on Real Gross Domestic Product (GDP) with the vast majority of growth occurring in the first half of the year. The outlook for 2025 is mixed with Interest rates expected to go down, which could help the economy. However, inflation is likely to increase, and global trade tensions may rise.

Inflation, measured by the Consumer Price Index (CPI), was 4.0% in January 2024. By May 2024, it decreased to the target of 2.0%. However, in December, inflation rose to 2.5% which is above the target.

The Bank of England (BoE) lowered the Bank of England base rate in August from 5.25% to 5.0%. This was the first reduction after a series of increases that began in December 2021. Base rates were subsequently cut again in November to 4.75%, and in February 2025 to 4.50%, with financial markets expecting further cuts in 2025.

The labour market loosened in 2024, with unemployment rising to 4.4% in December and a decrease in PAYE measures of employment and job vacancies across the year. Pay growth declined in 2024 as inflation decreased, but it picked up again towards the end of the year due to public sector pay deals coming into effect.

Internationally, slowing growth, falling inflation, trade tensions and geopolitical conflicts are the key economic themes that are likely to shape the global economy in 2025. In the UK, the economy is likely to gain momentum in 2025 from lower interest rates, however, weak global growth and trade tensions may dampen the UK outlook. The Company has proven resilient to previous years' external volatility and economic headwinds but these will continue to be external risks that will need to be navigated in 2025. ZAL also continues to closely monitor political and regulatory developments, with a focus on ensuring customers are appropriately protected.

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

Longer term impacts of climate change include potential effects on mortality and morbidity, changes to economic growth and consequent impacts on demand for insurance products. Changes to asset values and performance of investments, because of the introduction of new regulation or restrictions leading to potential stranded assets, as well as longer term investment opportunities in capital intensive climate change transition. All climate risks are reported on a quarterly basis through the Corporate Responsibility and Sustainability Committee (CR&SC) with discussion on management of these risks

Relevant climate-related disclosures are included within the SFCR, with full Climate-Related Financial Disclosures within the Strategic Report of the ZAL Annual Reports and Financial Statements.

No material changes other 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 ZIG group, as well as the PRA's Solvency II requirements. The system of governance ensures that there are clear roles and responsibilities, aligned to the Senior Managers and Certification Regime (SMCR), throughout the governance structure including the role of the Board, its Risk, Audit and Nomination & Remuneration Committees and the use of non-executive directors. 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.

ZAL is part of the UK country segment of the ZIG group, led by the UK Executive team. On a day-to-day basis ZAL is run by the individuals approved under the SMCR. ZAL is managed as part of the wider Zurich UK business with a specific Life function supported by pan-UK functions.

In line with FCA rules the value for money of workplace pension plans is assessed by an independent committee – the Governance Advisory Arrangement (GAA). ZEDRA Governance Ltd (formerly known as PTL) currently performs this role for the ZAL workplace pensions portfolio.

ZAL's system of governance and oversight has not changed from the end of 2023 and is considered appropriate for the nature and scale of ZAL's business.

For the financial year beginning on 1 January 2024 Ernst & Young LLP (EY) were re-appointed as the Company's independent 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. ZAL actively monitors and manages its risks, using mitigation techniques such as holding capital, where necessary.

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 on the pension scheme risk and risks for which ZAL does not hold capital is provided in C.6 'Other material risks'.

D. Valuation for solvency purposes

Total assets have been valued at £22.5bn (Local Statutory: £23.5bn), with valuation differences in reinsurance recoverables making up the majority of this difference.

Technical provision liabilities have been valued at £20.5bn (Local Statutory: £22.2bn), with valuation differences in the calculation of technical provisions making up the majority of this difference.

Other Liabilities have been valued at £841m (Local Statutory: £481m), with valuation differences in Insurance and Intermediaries Payable making up the majority of this difference.

The numbers above have led to an 'Excess assets over liabilities' value of £1.2bn (Local Statutory: £848m).

A risk-free rate with Volatility Adjustment (VA) is used in the valuation of non-linked UK non-profit liabilities and SCR.

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 2024.

As at 31 December 2024, the total eligible Own Funds to meet the SCR was £1,040m, all of which were classified as tier one. The Company's SCR calculated using a Standard Formula approach, at 31 December 2024, was £706m. The surplus of eligible Own Funds above the SCR gives a cover ratio of 147%. This is a reduction from the 2023 cover ratio of 182%, which is explained below.

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

- During the period interim dividends totalling £266m were paid by the Company.
- Expected return on own funds increasing solvency
- Yield movements over the period had an adverse impact on the solvency ratio.
- The annual basis assumption updates led to an overall reduction in the solvency ratio.
- Asset returns: The return on the excess of asset over liabilities and the return on assets backing liabilities in excess of the risk free rate, led to an increase in solvency ratio.

ZAL has approval from the Prudential Regulation Authority (PRA) to use the VA. The solvency ratio at 31 December 2024 without the VA is 146%.

2 Statement of directors' responsibility

The Board of Directors acknowledges its responsibility for complying in all material respects in accordance with the Solvency II rules. 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 supplemented by the permission made by the Prudential Regulation Authority under section 138BA of the Financial Services and Markets Act 2000.

The Board is satisfied:

a. Throughout the 2024 financial year, the Company complied in all material respects with the applicable requirements of the PRA's Rules and the Solvency II regulations; and

b. It is reasonable to believe that the Company has continued to comply with the PRA rules subsequently and that it will continue to comply in future.

On behalf of the ZAL Board

Alex Koslowski

Chief Executive Officer

31 March 2025

3 Independent auditors' report

Report of the independent external auditor to the Directors of Zurich Assurance Ltd ('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 2024:

- The 'Valuation for Solvency Purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2024 (**'the Narrative Disclosures subject to audit'**); and
- Company templates IR.02.01.02, IR.12.01.02, IR.22.01.21, IR.23.01.01, IR.25.04.21 and IR.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 'Summary', 'Business and Performance', 'System of Governance' and 'Risk Profile' sections of the Solvency and Financial Condition Report;
- Company templates IR.05.02.01 and IR.05.03.02;
- 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 Ltd as at 31 December 2024 is prepared, in all material respects, in accordance with the financial reporting provisions of the Prudential Regulation Authority ('PRA') Rules as supplemented by the permission made by the Prudential Regulation Authority under section 138BA of the Financial Services and Markets Act 2000.

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 relevant elements 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 Directors' 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:

- Obtaining a copy of the financial position report prepared by management which assesses the liquidity, future cashflows and solvency position for a period of 12 months to 31 March 2026;
- Corroborating the information in the assessment where relevant to support our conclusion;
- Critically reviewing the assumptions used in the assessment and challenging the stress scenarios used by management for appropriateness on its capital position and risk appetite, including reverse stresses considered on its capital position;
- Reviewing the sensitivity analysis performed by management on its solvency and cashflow forecasts;
- Assessing the agreement with Zurich Insurance Group for the provision of additional funding were the solvency level to fall below a set threshold;
- Performing 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
- Assessing 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 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 of 12 months to 31 March 2026, being at least 12 months from when the relevant elements of the Group Solvency and Financial Condition Report are authorised for issue.

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' and '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 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 supplemented by the permission made by the Prudential Regulation Authority under section 138BA of the Financial Services and Markets Act 2000.

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.

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 relevant elements 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 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. Where fraud risk, including the risk of management override, was considered to be higher, we performed audit procedures to address each identified risk. These procedures included:

- Reviewing estimates for evidence of management bias. The fraud risk, including management override, was considered to be higher within the valuation of Insurance Contract Liabilities, specifically on actuarial assumptions as these involve significant judgments. Supported by our actuarial team, we assessed if there were any indicators of management bias in the valuation of these liabilities.
- Testing the appropriateness of journal entries recorded in the general ledger, with a focus on manual journals and evaluating the business rationale for those journals posted outside the normal course of business.

- 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 Senior Statutory Auditor 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
1 April 2025

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

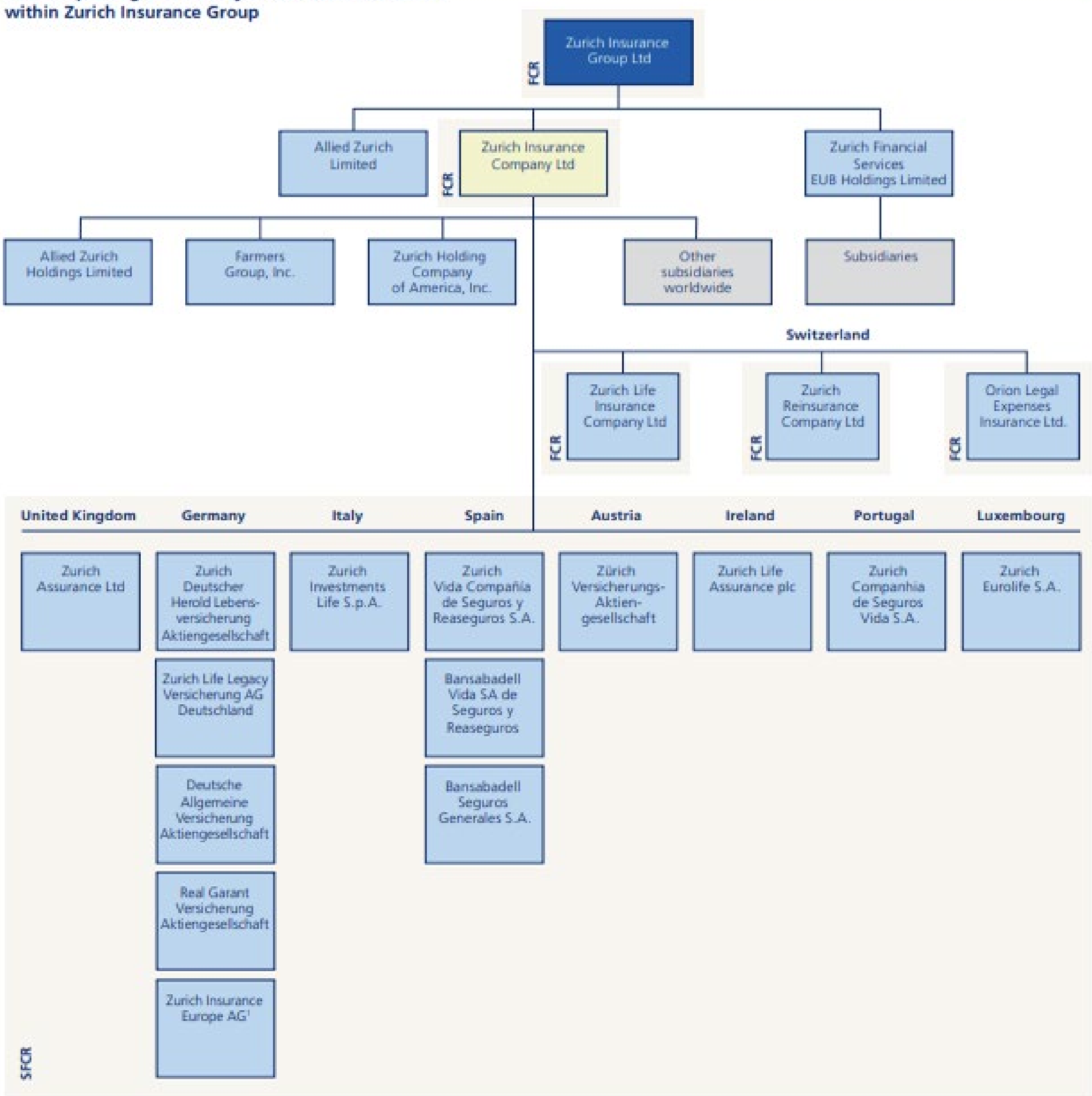
Business profile

Name, Location and legal form of the firm	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 and are not material. 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 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 ZIG 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 firm	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 controllers of the firm	ZAL is a member of the ZIG group. The ZIG group is a leading multi-line insurer that serves its customers in global and local markets. The ZIG group is headquartered in Zurich, Switzerland. The ZIG 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.
Details of the firm's position within the legal structure of the group	ZAL is a fully-owned subsidiary of ZIC, which is part of the ZIG 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 ZIG group and was part of the UK business unit during 2024. ZIG and ZIC are both incorporated in Switzerland. AZH is incorporated in Jersey. UKISA and ESH are both incorporated in England.
Firm's material lines of business – Health insurance	Insurance contracts providing benefits in the event of illness, accident or disability.
Firm's material lines of business – Insurance with profit 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.
Firm'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.
Firm's material lines of business – Other life insurance/Other long-term insurance business	Any other directly written insurance contract not classified as health, with-profits or linked insurance. Annex 1 of the "Technical Provisions – Further Requirements" Part of the PRA Rulebook refers to Other long-term insurance business, however other parts to the PRA rulebook, for example, the "Reporting" part refers to this as "Other life insurance", hence this is the column used in in IR.05.03.02 and in IR.12.01.02 in the appendices. Furthermore there is a requirement to disclose the life annuities that are included within this line of business separately in these QRTs.

Firm's material lines of business – Long-term reinsurance	This represents the accepted life reinsurance treaties.
Firm's material lines of business – Non-material Lines of Business (LoB)	These represent the accepted health reinsurance treaties. This line of business is immaterial.
Firm'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. The business sold in the rest of Europe includes Jersey, Guernsey, Isle of Man and Malta.
Business planning period	For business planning purposes, ZAL operates a three-year planning period.

Public reporting on solvency and financial condition within Zurich Insurance Group



SFCR: Solvency and Financial Condition Report (local regulation based on Solvency II; from 2016 except Zurich Assurance Ltd)
FCR: Financial Condition Report (Swiss regulation; from 2017)

☐ Subsidiary ☐ Group of subsidiaries ☐ Current disclosure

Note: The purpose of the chart above is to provide a simplified overview of the Group's major subsidiaries (as of December 31, 2024), with special focus on the public reporting of their solvency and financial condition. Please note that this is a simplified representation showing entities that must publish such a report and therefore it may not comprehensively reflect the detailed legal ownership structure of the entities included in the overview. The ordering of the legal entities under each country is not indicative of ownership; these are independent legal entities.

1 Effective January 2, 2024, the registered head office of Zurich Insurance plc (ZIP) was moved from Dublin, Ireland to Frankfurt, Germany by means of a cross-border conversion under the European Directive on cross-border conversions, mergers and divisions. While ZIP has converted to a German AG known as Zurich Insurance Europe AG (ZIE), it has preserved its legal personality in the conversion (i.e., no transfer of assets, dissolution or winding up were involved in this move).

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

The Company continued to make significant progress in the execution of priorities and strategic plans across all business areas in 2024. There has been strong focus and delivery on the FCA Consumer Duty across the open books of business as well as the back book (following the implementation deadline for the back book in July 2024). While customer focus has long been central to the Company's strategy and values, achieving good customer outcomes has been elevated significantly through the increased use of data and analysis.

Business resilience was a key area of focus across the wider Zurich business, with the Company establishing a dedicated programme to enhance and further build our capability, aligned with PRA expectations. As the UK legal and regulatory environment continues to evolve, governance has been strengthened across the Company to ensure ongoing compliance.

The year saw us bring new propositions to market, in order to unlock new distribution and to deepen existing relationships. Zurich Accelerate (a distinctive value-added service offering) was launched in the Retail Protection market. Our new Group Critical Illness product completes our Group Risk product portfolio and provides us with headroom for further new business growth. The Zurich Access Portal continued to perform well, allowing the business to expand significantly in the Small and Medium Enterprise (scheme size between 3 and 250 lives) segment across all broker tiers. Customer satisfaction levels in all our business areas have materially exceeded our targets and reached new record levels.

The Longevity business continued to optimise opportunities to support the Company strategy and deliver on its business plan while operating existing contracts seamlessly and further developing its pipeline.

The leadership of the business continued to support employee wellbeing which has resulted in high-employee engagement scores. Compared to external benchmarks, the Company scored higher than 'Other Finance and Insurance' companies, particularly in the Leadership dimension where it scored significantly higher than most benchmarks.

The Company's performance also continued to be recognised by the industry in the form of multiple industry award wins highlighting the outstanding quality of our products, service delivery, underwriting, claims handing, customer support, partner support, business leaders, and DEIB and community undertakings.

A.2 Underwriting performance

The Financial Statements for the year ended 31 December 2024 of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed in the UK. We refer to the Financial Statement reporting prepared in accordance with these standards as Local Statutory.

Since the adoption of IFRS 17 'Insurance Contracts' for 2023 year end, Local Statutory Income Statement and the presentation in some QRTs i.e. IR.05.03 for 2024 year end are no longer comparable.

ZAL's UK Local Statutory profit for the year before taxation was £144m (2023: £67m loss). The increase in profit largely relates to the net investment result which has benefitted from lower realised losses on non-linked asset sales compared to the previous year, as the 2023 result included a large loss from a one-off intra-group transfer of long dated gilts. The realised loss in 2024 is due to the increase in yields since the bonds were acquired. ZAL's definition of Underwriting performance comprises of all the items on the IR.05.03.02 "Life income and expenditure" QRT, with the exception of "Other expenses" and "Dividends paid"

The table below shows ZAL's premiums, claims and expenses split by the PRA's Solvency II lines of business (LoB) with the additional split of Life annuities which fall under the "Other Life insurance" LoB and show reinsurance accepted under the relevant LoB to which it relates for the period ended 31 December 2024 (so that the numbers in this table correspond to the numbers presented in the QRT IR.05.03.02 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 annuities	TOTAL
Gross Premiums (inc reinsurance accepted)	2024	386,379	3,819	153,102	640,647	85,597	1,269,544
	2023	374,471	4,412	167,482	594,275	89,612	1,230,252
Reinsurers' share of premiums	2024	(211,846)	(195)	(6,867)	(486,539)	(43,845)	(749,292)
	2023	(199,378)	(220)	(7,141)	(465,762)	(43,334)	(715,835)
Gross Claims (inc reinsurance accepted)	2024	(216,085)	(100,438)	(2,734,197)	(428,158)	(37,425)	(3,516,303)
	2023	(184,700)	(109,126)	(2,460,587)	(422,911)	(35,986)	(3,213,310)
Reinsurers' share of claims	2024	141,403	27	4,977	417,509	18,690	582,606
	2023	113,965	34	4,897	403,418	21,003	543,318
Net Expenses Incurred	2024	(64,530)	(6,214)	(83,318)	(216,099)	(8,757)	(378,918)
	2023	(62,400)	(7,430)	(100,765)	(192,878)	(13,589)	(377,062)

2023 figures in the above table have been restated mainly for consistency with the change in requirements of IR.05.03.02 as a result of the implementation of the PRAs Solvency II regulations.

A large proportion of the gross claims paid were due to surrenders on products which are closed to new business. There is a similar offsetting movement to this from a release of technical provisions.

The Reinsurance claims on Life annuities is significantly more than the reinsurance premiums due to ZAL's insurance strategy where some of the life annuity business has been reinsured historically.

Expenses in the year included acquisition costs, servicing costs, investment expenses, overhead expenses and movements in deferred costs.

ZAL's primary market is the United Kingdom, but it also has overseas branches in Hong Kong and the Isle of Man as well as a run-off portfolio business in Malta, all of which are no longer open to new business.

The Solvency II regulations state "Countries other than the home country do not need to be reported if gross written premiums for that country are less than £100m and less than 5% of total gross written premiums." therefore since all of ZAL's overseas operations total only £18m and 1% of ZAL's total gross written premiums, it is not disclosed as in this context is it deemed not material.

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	
	2024	2023	2024	2023	2024	2023
Cash and cash equivalents	8,909	7,887	(1,693)	(1,073)	7,216	6,814
Equity securities	3,584	4,023	6,783	6,518	10,367	10,541
Debt securities	107,431	97,989	(130,070)	81,451	(22,639)	179,440
Real estate held for investment	(70)	(58)	(45)	255	(116)	197
Mortgage loans	87	47	-	-	87	47
Other loans	-	-	-	-	-	-
Collective Investments Undertakings	4,071	4,740	(1,880)	1,520	2,191	6,260
Derivatives	-	-	(5,443)	7,218	(5,443)	7,218
Assets held for index-linked and unit-linked contracts	433,072	452,441	1,440,109	1,499,062	1,873,181	1,951,503
Other investments	3,300	3,400	2,484	(8,087)	5,784	(4,687)
Investment performance, gross	**560,384**	**570,469**	**1,310,245**	**1,586,864**	**1,870,629**	**2,157,333**
Investment expenses					(28,648)	(38,415)
Investment performance, net					**1,841,981**	**2,118,918**

Investment performance in 2024 was driven by further strong growth in equity markets, partially offset by negative returns on fixed income.

Losses on debt securities of £(130m) (2023: gains of £81m) were largely driven by an increase in gilt yields relative to prior year end amid concerns about the impact of persistent inflation on potential rate cuts and increased levels of government spending announced in the Autumn Budget.

Gains on equity securities of £7m (2023: £7m) reflect the continued rise in the UK stock market in 2024 with the FTSE 100 increasing 5.7% (2023: 3.8%).

The Investment Result for Assets held in index-linked and unit-linked contracts reflects movements in equity and bond markets mentioned above in addition to strong gains in US equity markets with the S&P 500 increasing 23.3% (2023: 24.2%).

Losses on derivatives of £(5m) (2023: gains of £7m) includes losses on currency forward contracts of £(3m) and the shareholder impact of losses of £(2m) 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'.

Net capital losses arising during the year of £(82m) (2023: gains of £306m) were recognised in other comprehensive income (OCI) within Equity in ZAL's financial statements. These amounts are included in Debt securities in the Table above.

Securitisation or repackaged loans

ZAL had exposure to securitisations and repackaged loan holdings of £4m at 31 December 2024 (2023: £5m). The net investment income is included in the 'debt securities' figures above.

A.4 Performance of other activities

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 where ZAL is the lessee. These consist of two head lease and fourteen ground rent lease agreements where ZAL is lessor and two separate agreements where ZAL is lessee. No one lease is material in nature or in size.

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.

Zurich Assurance Ltd operates a mature and well-established system of governance in accordance with UK statute, UK Corporate Governance principles and ZIG group policies and frameworks. 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.

ZAL's system of governance and oversight has not changed from the end of 2023 and is considered appropriate for the nature and scale of ZAL's business.

ZAL is aligned to the ZIG 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 Board's principal aim is to ensure the fair treatment of the Company's customers whilst enhancing the Company's long-term value to its shareholder through the sustainable and compliant delivery of financial performance targets and the fair treatment of its customers within a framework of prudent and effective controls.

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 ZIG group code of conduct and other applicable group policies
- Culture – The Board assesses the culture for ZAL through an annual assessment of the Culture Statement, and various sessions to review and discuss the target culture and reporting metrics. The

Board ensures ZAL's culture is aligned with ZAL's purposes, value, strategy including in relation to risk and control;

- 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 resources available to the Company to deliver its strategy and operational plan;
- 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; and
- Under the FCA's new Consumer Duty, implemented in July 2023 for open products and July 2024 for closed books, the Board have adopted an enhanced role in monitoring the delivery of customer outcomes to ensure the firm's products and services remain compliant with the Consumer Duty standards. The Board-level Consumer Duty Champion (Heather Lauder – Independent Non-Executive Director) continues to liaise with Board members and the business to ensure that Consumer Duty is discussed regularly and raised in all relevant Board and Committee discussions.

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 ZIG group governance principles for subsidiaries, although local statutory and regulatory requirements take precedence. The table below shows the composition of the ZAL Board:

ZAL Board of Directors		
Individual	**Role**	**Comments**
J.C. Platt	Independent Non-executive Director	Chair of Board and Nomination & Remuneration Committee
P. Bishop	Independent Non-executive Director	Chair of Audit Committee
H. Lauder	Independent Non-executive Director	Consumer Duty Champion
P.M. Shaw	Independent Non-executive Director	Chair of Risk Committee
A.R.D. Koslowski	Executive Director	CEO
H.A. Pickford	Executive Director	
T.J. Bailey	Executive Director	
E. Arnold	Shareholder Representative Director	Appointed 22 January 2025, replacing J. Temes

Committees of the Board of Directors

The ZAL Board had three standing committees during 2024, 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;
- Monitoring the independence and performance of the Internal Audit function;
- 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; and
- Escalating matters that require the further attention of the Board.

Governance Advisory Arrangement

The purpose of the Governance Advisory Arrangement (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. The Board is provided with updates on the workplace governance activities on an annual basis. ZAL has appointed ZEDRA Governance Limited (Formally PTL Governance Limited) to operate its GAA and is responsible for ensuring that the GAA acts in accordance with its terms of reference.

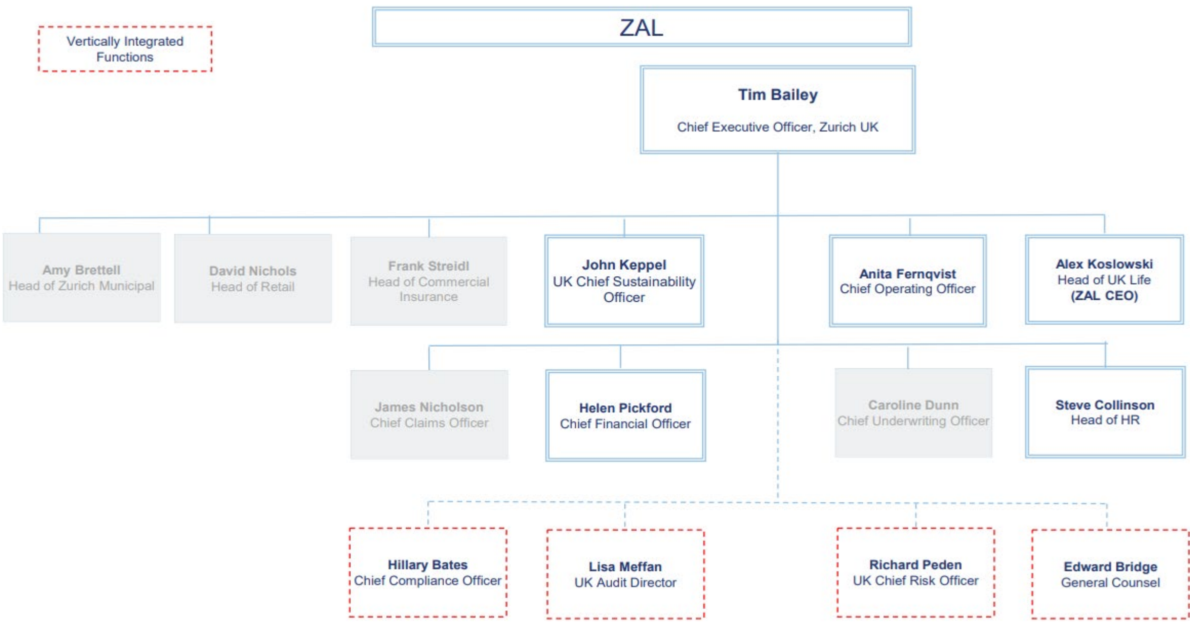
Executive Committee

The executive management structure reflects the organisation of Zurich's UK business, which includes ZAL. 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, Internal Audit, Legal, Risk, Sustainability 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 2024, the roles that are relevant to the Life business and ZAL are highlighted, including vertically integrated functions that have reporting lines into a ZIG group function.

Drazen Jaksic was appointed the UK CEO subject to regulatory approval effective 1 January 2025. The below diagram does not reflect changes to the Executive Committee after 31 December 2024.



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	Richard Peden *
The Compliance Function	Chief Compliance Officer	Hilary Bates
The Internal Audit Function	UK Audit Director	Lisa Meffan
The Finance Function	Chief Finance Officer	Jeremy Deeks
The Actuarial Function	Chief Life Actuary	Keith Jennings

*The business is currently recruiting a ZAL CRO and the UK CRO is covering the role on an interim basis.

Remuneration policy and guiding principles

ZAL applies the ZIG group's remuneration philosophy and agreed remuneration rules. The remuneration rules serve as a framework for the governance, design, implementation and monitoring of the ZIG group's remuneration architecture globally. They are designed to support the business strategy, risk management framework, 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 ZIG 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 ZIG 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 ZIG 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 Enterprise Risk Management Framework and is designed to not encourage inappropriate risk taking through effective governance and a clearly defined performance management process which supports the ZIG 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) and affordability, individual performance, professional experience, internal relatives, external competitiveness, geographical location and legal requirements.

As a business, Zurich UK 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 supports flexible working. Zurich UK 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 ZIG group's risk profile.
- The structure and level of total remuneration are aligned with the ZIG 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 ZIG group, countries, business units, functions, as well as individual achievements.
- The ZIG 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 ZIG 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 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 ZIG group and those with the most impact on the ZIG group's risk profile. This ensures that a significant portion of the variable pay for those employees is deferred. Variable remuneration includes both STIP for which all employees are eligible to join and LTIP 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 ZIG 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. Vesting level is driven by ZIG group Business performance over a three-year period and is not influenced by personal performance, outside of any material failings and malus or clawback clauses are in operation for UK employees. Historically, vested shares were under a sales restricted period, however shares scheduled to vest from 2024 onwards are free of restriction in line with market practice.

Material transactions during the reporting period

During the year interim dividends totalling £266m were paid to the Parent Company. 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 including the own risk and solvency assessment

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, oversight of the risk management framework is provided by the ZAL Risk Committee which is authorised by the Board and its purpose is to assist the Board in its oversight of the firm's risk profile and its risk management system, as outlined in section B.1 'General information on the system of governance'.

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 ZIG 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 (First Line);
- 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 (both risk and compliance being Second Line) and Legal, Actuarial and Finance (First Line) help the business manage and control specific types of risks; and
- The internal audit function (Third Line) provides independent assurance regarding the effectiveness of the risk management framework and risk controls.

Risk management organisation

The UK risk function (UK Risk) is a composite function supporting all Zurich insurance entities within the UK and covers the Life and Property and Casualty (P&C) businesses. In respect of ZAL, the role of UK Risk is to utilise Zurich Group's risk framework to meet the specific risk management needs of ZAL and the requirements of its risk profile. This includes facilitating the identification, management, mitigation and monitoring of the risks ZAL faces and adhering to the requirements of Solvency II. UK Risk also oversees ZAL's adherence to the risk management requirements set out in the Zurich Risk Policy (ZRP) and ensures these principles are reflected in ZAL's risk appetite.

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 ZIG group. The Group sets out its risk management requirements through the ZRP, 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.

Where exceptions to ZRP are granted by Group, these are formalised in UK-specific or ZAL-specific policies as appropriate.

The business is currently recruiting a ZAL CRO, the UK CRO is covering the role on an interim basis. ZAL's Chief Risk Officer reports to the UK CRO. The ZAL CRO has confidential access to the Chair of the ZAL Risk Committee to maintain organisational independence. The UK CRO has overall responsibility for managing the PRA regulatory relationship. The ZAL CRO has responsibility for Life-specific PRA matters.

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 in ZAL's risk profile;
- ZAL's solvency position under current and stressed conditions; and
- 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.

Total Risk Profile (TRP)

The TRP methodology is a risk assessment methodology developed by Zurich (detailed in the Zurich Policy), the main objective is the identification, assessment, response, monitoring and reporting of risks for ZAL, which might impact the achievement of its strategic objectives over the strategic cycle (typically 3 years) and respective financial plans.

Risk reporting

The UK Life Risk and Controls Committee (RCC), which meets quarterly in advance of the ZAL Risk Committee, Audit Committee and Board, acts as an assurance forum to advise the Head of UK Life, ZAL Chief Risk Officer, ZAL Chief Financial Officer and other committee members on risk and control matters for noting or escalation (the RCC has no authority delegated to it for decision making). The RCC receives risk reporting and escalations from other risk governance committees, including the Operational Risk Committee, the Reinsurance Committee and key function governance committees. Requirements for RCCs are documented in the Zurich Risk Policy and the UK Life RCC has a Terms of Reference to support its operation as an Executive non-Statutory Risk Committee.

B.4 Internal control system

Internal Control Integrated Framework (ICIF)

The ZAL Board has overall responsibility for risk management and internal controls. Primary risk management and internal control systems are established at a ZIG 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. ZAL's ICIF 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 ICIF increases the reliability of ZAL's financial reporting and its operational effectiveness, and ensures legal and regulatory compliance is maintained. ZAL is nearing the end of a programme of work to more closely align and integrate the financial reporting, capital and operational elements of its internal control integrated framework - further information is included in section C.5 'Operational risk'.

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 ZAL 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; and
- Challenge/approval of matters escalated from first line committees as described in the Model Risk Management Framework.

Compliance Function

The UK Compliance function, that is responsible for ZAL, is a vertically integrated, second line of defence, pan UK function with reporting lines into the Group Compliance function of ZIG (Group Compliance). The Zurich Compliance Program defines the Group Compliance organization, activities, and deliverables that fulfil the Compliance mandate defined by the Zurich Compliance Charter.

The primary purpose of the UK Compliance function is to protect ZAL against the risk of regulatory non-compliance through the function performing its annual Compliance Activity plan which assesses and mitigates regulatory risks.

The UK Compliance function also provides local guidance, compliance advice to ZAL, training and assurance over compliance controls in accordance with Group Compliance policies and methodologies. Additionally, the UK Compliance function supports ZAL's management in maintaining and promoting a culture of compliance and ethics consistent with ZIG's code of conduct, supported by Compliance reporting to the relevant governance committees.

The Group Compliance framework relies on a twice-yearly Compliance risk assessment, which UK Compliance carry out to assess ZAL's Compliance Risk Universe. The results of this Compliance risk assessment inform the annual ZAL Compliance Activity plan which includes the relevant Compliance Assurance activity, as well as Compliance Advisory, Compliance Policies implementation and Compliance Training activity. The Compliance Activity Plan is presented annually to the ZAL Audit Committee and approved on behalf of the ZAL Board. Through this comprehensive plan, the Compliance function implements, embeds and monitors compliance with external regulation and internal policies and guidance, the outputs of which are then carried through into the following period's Compliance Risk Assessment, informing the risk assessment and mitigation activity in a cyclical manner. 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 regulatory relationship with the FCA, in line with the delegations under the Group Risk Policy Manual.

B.5 Internal Audit function

The Internal Audit function of the ZIG group (Group Audit), that is responsible for ZAL, is the UK Group Audit function, who 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) and the Chartered Institute of Internal Auditors (CIIA) code for Effective Audit in Financial Services. Group Audit expects to comply with the IIA Global Internal Audit Standards and the CIIA Internal Audit Code of Practice when they become effective in January 2025.

Key issues raised by Group Audit are communicated to the responsible management function, the ZAL 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 ZAL's Head of Audit on significant risk, control and governance issues every quarter as a minimum. ZAL's Head of Audit meets regularly with the Chair 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 ZAL's CEO. The ZAL Head of Audit is responsible for ensuring issues identified from audit activities which could have an impact on ZAL's operations are brought to the attention of the Audit Committee and management. The ZAL Head of Audit monitors and reports the status of agreed actions arising from such issues until provided with evidence from management supporting the completion of the actions.

ZAL's Head of Audit is authorised to review all areas of ZAL and has unrestricted access to all 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 UK Group Audit function 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. A Group Audit Quality Assurance programme monitors and evaluates the function's adherence to all relevant IIA standards of practice and Internal Audit methodology.

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 ZIG 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

Outsourcing is an arrangement by which a business capability that would otherwise be performed by ZAL is, instead, performed by a service provider. 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 can either be a third-party external to ZAL, or another Zurich unit or function other than ZAL (also called intra-group outsourcing). ZAL makes use of both kinds of service providers, covering a range of services, and has comprehensive policies in place 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.

ZAL ensures compliance with the applicable standards for managing third parties as set out in Zurich's Risk Policy supplemented by the UK Outsourcing and Third-Party 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 ensure compliance with relevant regulations, including Solvency II.
It is a requirement of the ZRP 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 ZIG group, the main rationale behind the outsourcing is that the ZIG 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 ZIG 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;
- Assessing and mitigating potential risks before making the decision to enter into a new arrangement and during the life of the arrangement, including in relation to disruption to services provided;
- 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 in both planned and unplanned circumstances.

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 ICIF and the ZRP 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 Third Party Risk Management 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.

There is a regulatory expectation that arrangements will be classified as material if the service being outsourced involves a key function. Key functions are defined as:

- The Risk Management function
- The Compliance function
- The Internal Audit function
- The Actuarial function
- The function of effectively running the firm
- Any other function which is of specific importance to the sound and prudent management of the firm

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 material arrangements is exercised through the Outsourcing and Third-Party Governance Group, which comprises the UK Operations Director or their delegate and representatives from Risk, Compliance, Operational Resilience and Continuity, Third-Party Risk Management, Procurement and Vendor Management and business representatives.

Service Providers for material arrangements

ZAL's material arrangements as at 31 December 2024 include:

Material Arrangements			
Arrangement Name	**Operational function**	**Location**	**Outsourcing/Non-outsourcing**
Amazon Web Services	IT Support & Delivery	USA	Outsourcing
Blue Prism	IT Support & Delivery	UK	Non-outsourcing
Bottom Line	IT Services	UK	Non-outsourcing
BT	IT Support & Delivery	UK	Outsourcing
Capita Life & Pensions	Operational Administration	UK	Outsourcing
Columbia Threadneedle	Investment Administration	UK	Non-outsourcing
DXC Technology	IT Support & Delivery	UK	Outsourcing
Further Underwriting	Operational Administration	Spain	Outsourcing
JP Morgan	Investment Administration	UK	Non-outsourcing
Levi, Ray & Shoup	Document Logistics	UK	Non-outsourcing
Nikko	Investment Administration	UK	Non-outsourcing
Northern Trust Corporation	Investment Administration	UK	Non-outsourcing
Ricoh UK Limited	Facilities	UK	Non-outsourcing
Salesforce	Operational Administration	USA	Non-outsourcing
Smart Search	Operational Administration	UK	Non-outsourcing
SSG/ Pipeline	IT Support & Delivery	UK	Outsourcing
SPS	Document Logistics	UK	Non-outsourcing
State Street	Investment Management	UK	Outsourcing
Verint	Operational Administration	UK	Non-outsourcing
Zurich IT Services	IT Support & Delivery	Switzerland	Outsourcing

[1] AWS delivery plan is phased over 3 years starting with an initial set of pilot applications, which are non-business critical and non-external internet facing, selected for the lowest impact to the business during the early phases. The pilot applications have been selected to test the core foundations of the model with intention to progressively migrate more complex business critical, internet facing applications once all aspects of the Target Operating Model have been suitably tested in the early phases. AWS has been classified as material it will become so in the future, and it will be a critical dependency to ZAL's Important Business Services (IBS) however this is not the case as at 31/12/2024

B.8 Any other information

UK Operations

The UK Chief Operating Officer (COO) heads the UK Operations Function. This function delivers services to ZAL which include:

- **Financial Crime**: Operating the firm's policies and procedures for countering the risk that the firm might be used to further financial crime.
- **Technology Services & Project Delivery**: Responsible for the of end-to-end application and technology strategy in line with UK, EMEA and Zurich group strategies. Developing and implementing business solutions and project concepts.
- **Operational Resilience and Continuity**: Oversight of operational resilience, business continuity arrangements, resilience, incident response, crisis management and disaster recovery capabilities.
- **Information Security**: Ensuring the Business is in control of its data, knows how to adhere to data regulation and protects our IT systems from external intrusion.
- **Corporate Real Estate and related Workplace Services**: Setting and managing our strategy e.g. buildings, leases, security, catering, cleaning and waste management.
- **Health & Safety**: Ensuring that Zurich UK provides a safe and secure working environment with standards which are at or above that of the regulatory expectations for all our employees, customers and visitors.
- **Outsourcing and Third-Party Governance**: Responsible for setting the UK Outsourcing and Third-Party Policy. Ensuring that internal (intra-group) and external (third-party) services to ZAL are managed and overseen by ZAL in accordance with ZIG group Governance standards and frameworks.
- **Procurement**: Safe and compliant operational delivery of UK Procurement activity in accordance with ZAL’s strategy and demands.

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.

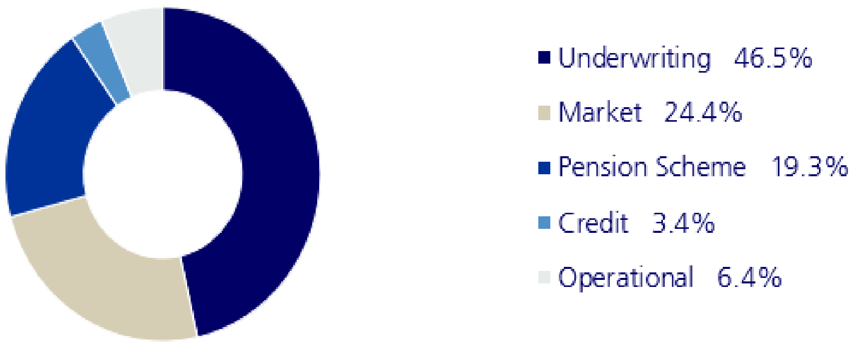
ZAL actively monitors and manages its risks, using mitigation techniques such as holding capital, where necessary.

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 E.2 'Solvency capital requirement and Minimum capital requirement', which includes the amount of capital held for each risk:

ZAL Solvency II Capital by Risk (Undiversified)
%, as of 31 December 2024



Further information on each risk is provided in the sections below, including sensitivity analyses 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 2024. 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 (BEL) 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, key controls and oversight arrangements;
- Derivatives used for hedging purposes; and
- Unit matching.

ZAL offers a wide range of products, catering to differing policyholder needs and a widely diversified customer base in terms of age, gender and who are primarily within the UK. 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, including 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 than 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.

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 ZIG group and with external reinsurers. The morbidity and mortality reinsurance also reduces the lapse risk on retail protection business. The use of reinsurance reduces financial volatility in ZAL and the capital requirement for underwriting risk and supports ZAL's risk retention to remain within 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.

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

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 as well as 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 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	(132,219)	-11.1%
Expenses	(52,222)	-8.5%
Longevity	(15,455)	-2.5%
Morbidity	(27,545)	-4.4%
Mortality	(8,507)	-1.3%
Life Catastrophe	(15,495)	-2.3%

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

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

- Lapse: a mass lapse event of 20% on all policies where this leads to an increase in 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; and
- 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 and risk strategy. ZAL has put in place measures to mitigate its exposures to underwriting risk in accordance with its risk appetite. 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, and changes to the gilt-SONIA spread;
- Credit spread risk – risk of loss resulting from widening of credit spreads;
- 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; and
- Property price risk – risk of loss resulting from changes in property prices.

ZAL quantifies market risk as part of its SCR. ZAL uses a variety of risk mitigation techniques, helping it to manage and reduce its exposure to market risks. This includes 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.

Credit spread risk

Credit spread risk is mitigated by limiting ZAL's investment exposure to lower credit quality assets.
ZAL also applies a VA which is an adjustment to the discount rate used to calculate the BEL, as permitted by the PRA. The adjustment in discount rate reflects an allowance for credit spreads and is designed to reduce the sensitivity of the balance sheet to exaggerated movements in credit spreads that would otherwise not be reflected in liability valuations.

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 10% 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 assets is reduced by the use of unit matching and ZAL hedges the Hong Kong currency exposure using derivatives.

Risk concentration

ZAL monitors its investment exposures, in aggregate across all classes of financial instruments, to individual issuers and geographies to ensure ZAL is not exposed to significant risk concentrations. The monitoring and risk mitigation that ZAL uses are 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. At end 2024 mass lapse was the biting stress and that was also the case in both the interest up and down scenarios.

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

Impact of market risk scenarios on basic own funds at 31 December 2024		
Sensitivity Scenarios	**Impact on BOF (in £'000)**	**Impact on SCR coverage (in %)**
Interest rate up	(24,368)	-2.9%
Interest rate down	23,314	2.4%
Credit spreads widen	(23,472)	-2.6%
Credit spreads narrow	27,818	2.3%
Equity up	3,796	-5.4%
Equity down	(3,856)	5.3%
Currency	(317)	1.4%

The impact on SCR coverage shows how the ratio of eligible own funds to SCR, as quoted in section E.1 'Own funds', 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 rates;
- Interest rate down: a 0.5% reduction in the risk-free interest rates;
- 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 market risk (including equity risk) from unit-linked business through unit matching and mitigates currency risk through 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, a proportion of the interest rate risk sensitivity reflects ZAL's decision to invest in assets to provide some protection 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 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

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 credit ratings and outlook.

Reinsurance assets

ZAL typically cedes new business, both internally to the ZIG group and externally, to authorised reinsurers with a minimum credit rating of ‘A-’. ZAL maintains a list of authorised acceptable reinsurance counterparties, based on current credit ratings and outlook, taking the analysis of fundamentals and market indicators into account. Another technique used in some instances to mitigate credit risk is to require the reinsurers to place collateral of acceptable quality. ZAL’s exposure to reinsurers is monitored via the Reinsurance Committee, chaired by the Chief Life Actuary. It is also important to note that the 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 receivables 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. ZAL manages its exposures to reinsurance counterparties through its risk appetite 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 small and, as a result, any impact on own funds would not be expected to be material.

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, fund 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.

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.

Mitigation involves holding Gilts and liquidating Gilts as needed, as well as maintaining bank overdraft facilities.

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 ensures 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 immaterial so a sensitivity analysis is not shown.

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 Enterprise Risk Management Framework (ERMF) to facilitate the consistent identification, assessment, and management of all risks, including operational risks.

Within the ERMF, the UK Operational Risk Management Approach (ORMA) ensures that material operational risks are understood and managed within ZAL's risk appetite. ZAL uses processes and tools documented within the ORMA 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 ERMF, ZAL operates a conduct risk framework and, where applicable a Consumer Duty framework to manage the risks to the delivery of customer outcomes in 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 implemented an Operational Resilience programme to ensure ZAL meets the PRA, FCA and Bank of England requirements associated with improving the resilience of firms and the financial sector to operational disruptions. This programme has a focus on driving the right outcome for the business and customers. The firm continues to develop and embed its operational resilience framework and approach ahead of the implementation date of 31 March 2025.

From a second line perspective, there is comprehensive oversight of the work completed by the business, to ensure it satisfies the requirements outlined by the regulator and delivers the desired customer outcomes.

2024 was the final year of a three-year programme to implement the ICIF across the Group and UK business, more closely aligning key operational controls with financial reporting and capital controls to form an integrated approach. ICIF control objectives are defined by the ZIG group to set a consistent control standard, and these are supplemented by local controls specific to ZAL, in order to meet its own risk appetite and any relevant local regulatory requirements. UK Risk provide second line oversight of this programme through its assurance activity, with additional oversight of the key control framework provided by the UK Operational Risk Committee and the ZAL Audit Committee.

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 has 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 seeks to further 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.

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 company within the Group - Zurich Financial Services (UKISA) Limited (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 company of Eagle Star Holdings Limited (ESH), which in turn is the parent company of ZAL.

Employees in the UK working on behalf of ZAL are predominantly employed by Zurich Employment Services (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 on the balance sheet of ZES. 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 that 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.

Other risks for which ZAL does not hold capital

In addition to the risks identified above, ZAL is exposed to a number of other risks for which ZAL does not hold capital as it would not be the most appropriate mitigant. The most material of these risks are strategic risk, brand risk, sustainability 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, Life Executive Management identifies both current and future key strategic risks, with review and challenge from the ZAL Board Risk Committee (BRC). 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.

Brand risk

Brand 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.

Brand risk is primarily a consequence of the crystallisation of other risks, most notably operational risk. Brand 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.

Sustainability risk

ZAL continues to develop its ability to assess the climate-related impacts to its operating model. The Sustainability Risk Management Framework describes the risk identification process, through adherence with the ZRP, the Total Risk Profile process and the external regulatory change process. ZAL also monitors the external environment through its emerging risk process, and explores how climate-related risks, both physical and transitional, may develop over the long-term through scenario analysis.

Climate financial risks are managed through the Corporate Responsibility and Sustainability Committee (CR&SC) and ALMIC, with escalation to the Life RCC and onwards to the ZAL Risk Committee. ZAL continues to develop both its risk appetite and solutions to align with the net zero ambitions of its investment counterparties, through the reduction of carbon intensity of selected investments and to identify opportunities for future propositions as it identifies future risks that may impact its business over the long term. ZAL manages its exposure to transitional and physical climate risks through its own investments, through supporting Group Investment Management, Local Business Units and the Trustee of the pension scheme in measuring changes to carbon intensity and attributing these to changes in different drivers, including the risk of asset stranding.

ZAL completes a climate-based scenario modelling exercise on an annual basis. The scenario and outcomes are discussed by the CR&SC and submitted to the ZAL Risk Committee. This approach to scenario analysis, designed to address a range of climate outcomes, is expected to evolve and mature over time.

Activity on ZAL's sustainability goals, including climate change continue in 2024 and beyond. ZAL's climate change risk management will continue to evolve through updates to the climate change risk assessment; monitoring and developments to climate change risk appetite; further development of climate risk scenarios; and through work on its public disclosures on climate change risk in response to regulatory developments.

Group risk

Group risk is the risk of loss resulting from the failure of a company in the ZIG group as a going concern, or from the failure of a ZIG 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 ZIG group;
- Brand and reputational risk – this is the risk that an event occurs elsewhere in the ZIG 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 companies in the ZIG group 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. The Board 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 an entity within the Group 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 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 2024 comparing the assets and liabilities as reported in the Local Statutory 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 2024 in £'000	Financial Statements (Local Statutory)	Reclass within Assets / Liabilities	Reclass between Assets & Liabilities	Restated Local Statutory	Valuation Difference - CSM/Risk Adj/Risk Margin	Valuation Difference Other	Solvency II
D.1 Valuation of asset types for financial reporting and solvency purposes							
Total Assets split by material classes of assets							
Property, plant & equipment held for own use	35,443	-	-	35,443	-	-	35,443
Investments (other than assets held for index-linked and unit-linked contracts)	2,692,942	-	-	2,692,942	-	21,582	2,714,524
Assets held for index-linked and unit-linked contracts	18,725,652	(33,524)	-	18,692,128	-	(2)	18,692,126
Loans and mortgages	-	-	47,759	47,759	-	-	47,759
Reinsurance recoverables	1,832,317	11,666	(37,405)	1,806,577	(1,261,131)	48,596	594,042
Insurance contract assets	77,788	-	(77,788)	-	-	-	-
Insurance and intermediaries receivables	-	-	220,235	220,235	-	(18)	220,217
Reinsurance receivables	-	21,858	-	21,858	-	-	21,858
Receivables (trade, not insurance)	76,063	(1,172)	29,619	104,510	-	(39,644)	64,866
Cash and cash equivalents	82,026	-	-	82,026	-	-	82,026
Any other assets, not elsewhere shown	8,235	1,172	1,852	11,259	-	(8,233)	3,027
Total assets	**23,530,465**	**-**	**184,272**	**23,714,737**	**(1,261,131)**	**22,481**	**22,475,887**

As at 31 December 2024 in £'000	Financial Statements (Local Statutory)	Reclass within Assets / Liabilities	Reclass between Assets & Liabilities	Restated Local Statutory	Valuation Difference - CSM/Risk Adj/Risk Margin	Valuation Difference Other	Solvency II
D.2 Valuation of technical provisions for financial reporting and solvency purposes							
Material lines of business of technical provisions							
Health insurance (direct business)	528,472	-	-	528,472	(118,758)	25,270	434,984
Insurance with-profits participation	788,830	-	21,709	810,538	(8,095)	(194,510)	607,934
Index-linked and unit-linked insurance	18,711,219	-	-	18,711,219	(156,627)	14,828	18,569,420
Life annuities insurance	1,210,172	-	-	1,210,172	(1,161,861)	8,629	56,940
Other life insurance (direct business)	1,050,687	-	(204,335)	846,352	(65,249)	99,664	880,767
Health reinsurance (reinsurance accepted)	5,204	-	-	5,204	-	(3,766)	1,438
Life reinsurance (reinsurance accepted)	(93,195)	-	-	(93,195)	-	-	(93,195)
Total technical provisions	**22,201,387**	**-**	**(182,626)**	**22,018,761**	**(1,510,589)**	**(49,885)**	**20,458,287**

As at 31 December 2024 in £'000	Financial Statements (Local Statutory)	Reclass within Assets / Liabilities	Reclass between Assets & Liabilities	Restated Local Statutory	Valuation Difference - CSM/Risk Adj/Risk Margin	Valuation Difference Other	Solvency II
D.3 Valuation of other liabilities for financial reporting and solvency purposes							
Material classes of other liabilities							
Provisions other than technical provisions	5,765	-	250	6,015	-	516	6,532
Deferred tax liabilities	216,793	-	-	216,793	-	3,873	220,666
Derivatives	8,076	-	-	8,076	-	-	8,076
Financial liabilities other than debts owed to credit institutions	22,001	20,752	-	42,753	-	-	42,753
Insurance & intermediaries payables	-	-	299,794	299,794	-	2,058	301,852
Reinsurance payables	-	-	35,382	35,382	-	-	35,382
Payables (trade, not insurance)	221,851	(31,900)	29,619	219,569	-	(6,638)	212,931
Any other liabilities, not elsewhere shown	6,212	11,148	1,852	19,212	-	(6,212)	13,000
Total other liabilities	**480,698**	**-**	**366,898**	**847,596**	**-**	**(6,403)**	**841,193**
Total liabilities	**22,682,085**	**-**	**184,272**	**22,866,357**	**(1,510,589)**	**(56,288)**	**21,299,480**
Excess of assets over liabilities	**848,380**	**-**	**-**	**848,380**	**249,458**	**78,569**	**1,176,407**

Note that ZAL did not apply any Transitional Measures on its technical provisions.

The Local Statutory figures above (which have been prepared using UK-adopted International Financial Reporting Standards) 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 default recognition rule for assets and liabilities under Solvency II (rule 5.3 in the "5 Valuation Methodology – General principles" chapter of the Valuation part of the PRA Rulebook) is in accordance with UK-adopted IFRS, with differences arising in specific cases, notably technical provisions and contingent liabilities. The reclassifications 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 Local Statutory 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 Local Statutory unit-linked funds reinsurance contracts are treated as investment contracts as required by IFRS 17 and are therefore disclosed in 'Assets held for index-linked and unit-linked contracts'.

Under IFRS 17, there are separate assets and liabilities arising under contracts of reinsurance, these have been reclassified into the Solvency II category 'reinsurance recoverables'.

For Solvency II reporting some of the unit-linked related assets are disclosed in 'reinsurance recoverables'.

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

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

Under Local Statutory reporting, subsidiaries are valued at their fair value, after adjusting for balances due to or due from ZAL. Under Solvency II subsidiaries (or participations) are valued in line with PRA 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 Local Statutory 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. This means 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-adopted International Financial Reporting Standards. No change has been made to the recognition and valuation bases used or to estimations during the reporting period for assets.

Recognition of Assets

Under Local Statutory and Solvency II, 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.

Property, plant and equipment held for own use

Under Local Statutory, Property, plant and equipment are included at cost. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. They are depreciated on a straight-line basis over their estimated useful lives. ZAL considers this approach provides a value materially equivalent to the fair value required under Solvency II.

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. ZAL considers this approach provides a value materially equivalent to the exchange value required under Solvency II.

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

Assets valued using mark to market methods

Under Local Statutory and Solvency II, 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. This is the case for the majority of assets included as Investments (other than assets held for index-linked and unit-linked contracts). 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. An active market is defined as a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The fair value of Investments (other than assets held for index-linked and unit-linked contracts) valued using mark to market methods is £2,605m.

Assets valued using mark to model methods

Under Local Statutory and Solvency II, for assets that do not meet the mark to market criteria, in accordance with 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.

The fair value of Investments valued using mark to model methods is £110m, the split of which is shown below.

Derivatives

ZAL has holdings of over-the-counter (OTC) options and foreign exchange forward contracts. Under Local Statutory and Solvency II, OTC options are held at fair value determined using an options pricing model based on inputs including market and contractual prices for underlying instruments, time to expiry, yield curves and volatility of underlying instruments. The fair value of OTC options at 31 December 2024 was £0.4m. Foreign exchange forward contracts are held at fair value determined using internal pricing models based on observable inputs including foreign exchange and forward rates. The fair value of foreign exchange forward contracts at 31 December 2024 was £0.4m.

Holdings in related undertakings, including participations

All assets and liabilities of subsidiaries and other participations are valued in line with PRA valuation rules using the adjusted equity method. If a subsidiary is valued at a net liability position it will be included in D.3 financial liabilities other than debts owed to credit institutions. This differs from Local Statutory where participations are valued at their fair value, after adjusting for balances due to or due from ZAL. The reported value of Holdings in related undertakings including participations at 31 December 2024 was £23m.

Property (other than for own use)

Under Local Statutory and Solvency II, the fair value model is used for the valuation of investment property. The fair value model 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 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 2024. The fair value of property (other than for own use) at 31 December 2024 was £3m.

Infrastructure loans

Under Local Statutory, infrastructure loans are carried at amortised cost in accordance with IFRS 9 as they are held in a portfolio that is managed with the aim of holding assets only to collect contractual cash flows. Under Solvency II, these assets are included at their fair value. The fair value is arrived at by discounting known cash flows by an appropriate discount rate, with consideration given to prevailing market rate plus an idiosyncratic spread relating to the risk of the investment.

The fair value of infrastructure loans at 31 December 2024 was £83m.

Assets held for index-linked and unit-linked contracts

All valuations as described in this section are valued the same under both Local Statutory and Solvency II.

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 Local Statutory, Lease receivables are carried at amortised cost in accordance with IFRS 16. Under Solvency II, these assets are included at their fair value. Policy loans are accounted for at fair value for both Local Statutory and Solvency II.

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 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 Local Statutory 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.

Insurance and intermediaries receivables

Under Solvency II, insurance and intermediaries receivables that are past due are recorded at fair value, which is their nominal amount adjusted for the probability of default of the counterparty. The Directors consider this amount to approximate materially to the exchange value required by Solvency II. Under Local Statutory, these are included as fulfilment cashflows under 'Insurance contract liabilities', in accordance with IFRS 17.

Reinsurance receivables

Under Solvency II, past due reinsurance receivables are recorded at fair value, which is their nominal amount adjusted for the probability of default of the counterparty. The Directors consider this amount to approximate materially to the exchange value required by Solvency II. Under Local Statutory, these are included as fulfilment cashflows under 'Reinsurance contract assets'.

Receivables (trade, not insurance)

Under Solvency II, assets are recorded at fair value, which is their nominal amount adjusted for the probability of default of the counterparty. The Directors consider this amount to approximate materially to the exchange value required by Solvency II.

Under Local Statutory, assets are recorded at amortised cost and 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 PRA 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. The Directors consider this amount to approximate materially to the exchange value required by Solvency II.

There are no valuation or presentational differences between Solvency II and Local Statutory.

Any other assets, not elsewhere shown

Under Solvency II, any other assets, not shown elsewhere are recorded at fair value, which is their nominal amount adjusted for the probability of default of the counterparty. The Directors consider this amount to approximate materially to the exchange value required by Solvency II. These are reclassified into Receivables (trade, not insurance) in D.1 and Other liabilities in D.3.

Under Local Statutory, assets are recorded at amortised cost. Deferred Origination Costs (DOC) are included in the balance sheet under any other assets. Under Solvency II no DOC asset is recognised.

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.

Deferred tax assets

Provision is made for deferred tax assets, using the balance sheet liability method per IAS 12 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. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

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

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	(5,048)	-100bps	5,660
Credit spread	+100bps	(5,171)	-100bps	5,786

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 there is 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 BEL and the risk margin.

ZAL's approach to the valuation of BEL and risk margin is described in more detail below.

Technical provisions by line of business

As at 31 December 2024 In £'000	Best Estimate Liabilities	Risk Margin	Technical Provisions (Total)
Health insurance (direct business)	413,179	21,805	434,984
Insurance with profit participation	603,980	3,954	607,934
Index-linked and unit-linked insurance	18,546,177	23,243	18,569,420
Life annuities insurance	47,427	9,513	56,940
Other life insurance (direct business)	845,588	35,179	880,767
Health reinsurance (reinsurance accepted)	1,438	-	1,438
Life annuities insurance (reinsurance accepted)	(93,195)	-	(93,195)
Total	**20,364,594**	**93,694**	**20,458,288**

Material changes in technical provisions over the year

In 2024, ZAL's technical provisions reduced by £992m. The key changes are:

- Unit-linked BEL: these reduced by £856m over the year with the reduction in unit reserves explaining most of the movement. The net outflow was partially offset by positive investment returns.
- With profits BEL decreased by £69m mainly due to the run-off of the business.
- Health and other life BEL, including life annuities, reduced by £60m with the key movements being reductions from the increase in yields over 2024 and from new business, with partially offsetting increases coming from the development of the in-force business and non-economic assumption updates.
- A £7m reduction in the risk margin, mainly from the increase in yields over 2024.

Calculation of the Best Estimate Liabilities

Insurance with profit 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.

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. Allowance is also made for interest on a death claim that the Company is obliged to pay until the death claim is settled.

Main assumptions

Discount rate

The risk free rate curve with VA is used for non-linked UK non-profit business and the risk free rate curve without VA is used for other business.

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. ZAL has a significant reinsurance programme. ZAL has reviewed its long-term assumptions in line with normal practice and taken due consideration of COVID-19 in setting assumptions.

Expenses

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

- Internal servicing and claims costs - both those directly attributable to the policies plus an allocation of overhead costs;
- Outsourced administration costs – these are on guaranteed terms until early 2026 and a view has been taken on the costs beyond the guaranteed date, recognising there is still some uncertainty around these; and
- 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.

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 2024 the update to the mortality, expense and lapse assumptions 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 as the present value of the cost of holding the non-hedgeable risks in the SCR.

The cost of capital rate is specified by the PRA regulations and is currently 4%. 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.

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 2024	Interest Rates		Expenses	Mortality Rates		Lapse Rates
Key assumptions	0.5%	-0.5%	5.0%	+7.5% on assurance only	-10% on annuity only	-20%
Technical provisions	-1.35%	1.55%	0.34%	0.78%	3.48%	1.41%

Whilst the interest rate curve used in the calculation of technical provisions is not a ZAL determined assumption and instead provided by the PRA, 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 0.12% 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 the local statutory reporting accounts. For this purpose the local statutory reporting reserves have been presented by the Solvency II lines of business.

The main valuation differences relate to the contractual service margin (CSM) and risk adjustment held for both gross and reinsurance under local statutory reporting. The CSM represents the unearned profit at the valuation date and there is not an equivalent liability under Solvency II. The gross CSM is £1,317m and reinsurance CSM is £1,020m. The risk adjustment has similarities to the risk margin held under Solvency II, although the calculations and presentation are different. Under Solvency II reporting a risk margin of £94m is held, calculated net of reinsurance, whereas under local statutory reporting a net risk adjustment of £40m is held, presented as £281m gross and £241m reinsurance. Other differences for the different lines of business are given below.

Insurance with profit participation

The local statutory reporting 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, after allowance for the risk adjustment.

For Solvency II, the excess of the assets over BEL and risk margin is used to cover the SCR with any remaining excess assets value removed from own funds via the Ring-Fenced Fund restriction.

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

The main differences between the local statutory reporting 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:

- Local statutory reporting reserves use a lower expense assumption than in the Solvency II technical provisions, recognising only some of the servicing overhead expenses. These are categorized as 'qualifying expenses' and are only those expenses that are deemed directly attributed to the insurance policies.
- Under local statutory reporting, 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 allow for expected future cash flows in addition to the unit reserve.

Matching adjustment

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

Volatility adjustment

ZAL applies a Volatility Adjustment on UK non-linked, non-profit business.

The VA allows an adjustment to the risk-free rates to mitigate the effect of short-term volatility of bond spreads. The impact of the VA on the Solvency II balance sheet is:

Impact of Volatility Adjustment set to zero (£000's):	31 December 2024	31 December 2023
Technical provisions	56,094	81,570
Solvency Capital Requirement	(576)	631
Minimum Capital Requirement	(144)	741
Basic own funds	(17,581)	(27,675)
Amounts of own funds eligible to cover the MCR and SCR	(17,581)	(27,675)

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 selected retirement date on pensions business, 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 Local Statutory. Explanation of valuation differences is as follows.

Other liability valuation methodologies for Solvency II

Provisions other than technical provisions

Under Local Statutory and Solvency II 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.

Onerous property obligations – Service costs

The majority of this provision represents the discounted cost of future service costs on properties where no subletting is expected, these leases are due to expire by 2028.

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, differences in actuarial liabilities and transitional adjustments arising on adoption of IFRS 9 'Financial Instruments' and IFRS 17 'Insurance Contracts'.

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

Derivatives

Under Local Statutory and Solvency II, these are measured at fair value.

Financial liabilities other than debts owed to credit institutions

The main item included here is lease liabilities. These are valued under the IFRS 16 principles in line with what has been described in the Property, Plant and Equipment held for own use section included in D.1 Assets.

Subsidiaries are valued in line with PRA valuation rules using the adjusted equity method. Therefore, a subsidiary's own funds value is market consistent. If a subsidiary is valued at a net asset position it will be included in D.1 Investments (other than assets held for index-linked and unit-linked contracts). Under Local Statutory participations (the valuation of ZAL's subsidiaries), are valued at their fair value after adjusting for balances due to ZAL. The reported value of the subsidiary in a net liability position at 31 December 2024 was £20m.

Insurance & intermediaries payables

Under Solvency II, these are measured at fair value. Under Local statutory, these are measured at amortised cost and included within Insurance contract liabilities in accordance with IFRS 17.

Reinsurance payables

Under Solvency II, these are measured at fair value. Under Local statutory, Reinsurance payables are measured at amortised cost and included within Reinsurance contract assets in accordance with IFRS 17.

Under IFRS 17, there are separate assets and liabilities arising under contracts of insurance and reinsurance, these have been reclassified into Solvency II category Technical Provisions.

Payables

Under Local Statutory and Solvency II, these are measured at fair value. Solvency II includes the current tax creditor. Under Local Statutory, the balances are after adjusting for balances due to or due from ZAL.

Any other liabilities, not elsewhere shown

Under Solvency II, these are measured at fair value, except where noted below. These are reclassified into Payables (trade, not insurance) in D.3 and any other assets in D.1.

Under Local Statutory, these are measured at amortised cost. Deferred Origination Cost (DOC) are included in the balance sheet under any other liabilities. Under Solvency II no DOC liability is recognised.

Under Solvency II liabilities are measured at fair value but with no adjustment for change in own credit risk, which is different from IFRS

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.

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.

For the above indemnity, the directors do not consider it necessary to provide for any amounts.

On 18 August 2017, the Company entered into an investment management agreement with Macquarie Financial Products Management Limited, with a further agreement signed on 18 December 2020. Under the terms of the agreement, the Company committed to invest £200m (2023: £200m) in a diversified portfolio of infrastructure debt. At 31 December 2024, the amount still available to be drawn down under the agreement was £61m (2023: £61m). The £139m (2023: £139m) which has been drawn down against this commitment is disclosed in the Solvency II Balance Sheet and included in the D.1 'Investments (other assets then held for index-linked and unit-linked contracts)' table above.

On 12 November 2020, the Hong Kong Branch entered into an agreement with Blackrock Direct Lending Feeder IX-U LP, with a subscription agreement signed on 22 December 2020. Under the terms of the agreement, the Branch committed to fund Capital Contributions of USD 50m (2023: USD 50m). At 31 December 2024, the unfunded commitment under the agreement was USD 2m (2023: USD 4m).

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 amounts valued under alternate methods of valuation have been described under sections D.1, D.2 and D.3. 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

ZAL's capital management framework

ZAL endeavours to manage its capital so that it meets regulatory solvency capital requirements at all times. 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 ZAL 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 intervention trigger of this range reflects a safety buffer above the SCR. In the case of a deficiency against the intervention trigger, the ZAL CFO proposes corrective actions to the ZAL Board and ZIG Group Treasury and Capital Management (GTCM). 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 ZAL CFO proposes to the ZAL Board and ZIG GTCM to remit the excess to the shareholder as soon as permissible from a legal, regulatory and business perspective; and
- Regulatory solvency is monitored on a regular basis and reported to the regulator as requested.

In addition, ZAL's capital management policy is consistent with the ZIG group capital management policy as set out below.

Objectives of capital management in the context of the ZIG group

In addition to the capital and liquidity held within ZAL, ZIG holds a substantial amount of capital and liquidity centrally at ZIG 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 must, therefore, be understood in the context of the resilience and stability of the ZIG group. The ZIG group pools risk, capital and liquidity centrally as much as possible, considering local legal requirements. The ZIG group endeavours to maintain a sufficient capital buffer above the SCR at a local level.

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

The ZIG group itself is regulated by the Swiss Financial Markets Supervisory Authority. As of 31 December 2024, the ZIG group had an estimated and unaudited solvency ratio of 252% as measured by the Swiss Solvency Test, which has equivalence with the EIOPA Solvency II regulatory regime. The EIOPA Solvency II regulatory regime does not differ significantly to Solvency II as applicable in the UK which is applicable to ZAL.

The ZIG 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.

E.1 Own funds

Structure of own funds

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 rule 3C.1 (5) (a) of the "3 Classification of Own Funds into Tiers" chapter of the own funds part of the PRA Rulebook.

£1,040m of own funds are within tier one and are available:

i) to meet the Solvency Capital Requirement (SCR).
ii) to meet the Minimum Capital Requirement (MCR).

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

Composition of own funds

In £'000	31 December 2024	31 December 2023	Change
Assets	22,475,887	23,725,076	(1,249,190)
Technical provisions	(20,458,287)	(21,449,815)	991,528
Other liabilities	(841,193)	(815,554)	(25,638)
Excess of assets over liabilities	**1,176,407**	**1,459,707**	**(283,300)**
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	(136,845)	(138,015)	1,170
Total Basic Own Funds after deductions	**1,039,562**	**1,321,692**	**(282,130)**
Total available and eligible Own Funds to meet the SCR	**1,039,562**	**1,321,692**	**(282,130)**
SCR	(706,327)	(724,318)	17,991
Excess available funds for SCR over SCR	**333,235**	**597,374**	**(264,139)**
Ratio of Eligible Own Funds to SCR	**147%**	**182%**	**-35%**
Total available and eligible Own Funds to meet the MCR	**1,039,562**	**1,321,692**	**(282,130)**
MCR	(176,582)	(181,118)	4,536
Excess available funds for MCR over MCR	**862,980**	**1,140,574**	**(277,594)**
Ratio of Eligible Own Funds to MCR	**589%**	**730%**	**-141%**

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

- Dividends paid: Interim dividends of £266m paid during the year caused a reduction in the solvency ratio.
- Yield movements: The overall impact of the increase in fixed interest yields and risk-free rates over 2024 was a reduction in the solvency ratio.
- Basis: The annual assumption updates led to an overall reduction in the solvency ratio.
- Asset returns: The return on the excess of asset over liabilities and the return on assets backing liabilities in excess of the risk free rate, led to an increase in solvency ratio.

The 'adjustment for restricted own funds items in respect of matching adjustment portfolios and ring-fenced funds' above only includes an adjustment in respect of ring-fenced funds as ZAL does not apply a matching adjustment to technical provisions. The adjustment in respect of ring-fenced funds removes from own funds the contribution from each with-profits fund that is due to policyholders after allowing for the notional SCR of that fund. 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 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 2024				31 December 2023			
Own Funds	**Tier 1**	**Tier 2**	**Tier 3**	**Total**	**Tier 1**	**Tier 2**	**Tier 3**	**Total**
Covering the SCR	1,039,562	-	-	1,039,562	1,321,692	-	-	1,321,692
Covering the MCR	1,039,562	-	-	1,039,562	1,321,692	-	-	1,321,692
Ratio of Eligible Own Funds to SCR				**147%**				**182%**
SCR Surplus				**333,235**				**597,374**

Reconciliation to financial statements

The difference between the 'Financial Statements Equity' on a Local Statutory basis and 'Solvency II excess of assets over liabilities 'is explained in the table below.

Valuation of equity for Solvency II and financial reporting purposes

In £'000	31 December 2024	31 December 2023
Solvency II assets	22,475,887	23,725,076
Solvency II liabilities	21,299,656	22,265,369
Solvency II excess of assets over liabilities	**1,176,407**	**1,459,707**
Financial Statements Equity	**848,380**	**1,063,283**
Difference	**328,027**	**396,424**

The difference above is explained by:

Explanation of differences in Excess of Assets over Liabilities and Financial Statements Equity	
In £'000	**31 December 2024**
IFRS SH equity	**848,380**
Remove CSM/Risk Adjustment	343,142
Deferred origination costs/fees	(2,020)
Include Risk Margin	(93,694)
With-profit valuation differences	194,510
Non-profit valuation differences	(110,048)
Deferred tax differences	(3,873)
Solvency II Own Funds	**1,176,407**

Own funds, which are the Solvency II excess of assets after the deduction for restricted own funds (ie Solvency II excess of assets after the deduction for restricted own funds items in respect of ring-fenced funds) consist of the following items:

Composition and description of own funds		
As at 31 December 2024	**In £'000**	
Basic Own Fund Items	**Amount**	**Description**
Ordinary share capital (net of own shares)	356,237	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	188,974	Surplus funds that are not considered as insurance and reinsurance obligations in accordance with PRA Rulebook Own Funds Chapter 3A.1 (1) (d). 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	494,351	Reconciliation reserve as noted in PRA Rulebook Own Funds Chapter 3A 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.
Total Tier 1 Capital	**1,039,562**	
Total Basic Own Funds	**1,039,562**	

The ordinary share capital is unchanged over 2024.

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.

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, a MCR is calculated which represents the minimum level below which the available own funds should not fall. 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 2024.

SCR and MCR calculated using the Standard Formula

In £'000	31 December 2024	31 December 2023	Change
SCR	706,327	724,318	(17,991)
MCR	176,582	181,118	(4,536)

SCR split by risk module or category:

SCR charges by risk module or risk category

In £'000	31 December 2024	31 December 2023	Change
Market Risk	252,823	265,573	(12,750)
Counterparty Default Risk	34,896	53,228	(18,332)
Life Risk	370,051	370,540	(489)
Health Risk	116,676	103,268	13,408
Total Undiversified Risk	**774,445**	**792,609**	**(18,164)**
Diversification Effect	(216,138)	(224,232)	8,094
BSCR	**558,308**	**568,377**	**(10,069)**
Adjustments for Loss Absorbing Capacity of Deferred Taxes	(92,867)	(87,398)	(5,469)
Adjustments for Loss Absorbing Capacity of Technical Provisions	(45,657)	(49,235)	3,578
Operational Risk	65,883	67,724	(1,841)
Adjustment due to ring-fenced funds	20,661	24,851	(4,190)
Capital Add-on (Pension Scheme Risk)	200,000	200,000	-
SCR	**706,327**	**724,318**	**(17,991)**

The presentation of the SCR in the table above shows the individual risk modules before any adjustment for the loss absorbing capacity of technical provisions. The impact of the loss absorbing capacity of technical provisions is shown in Appendix 2 QRT IR.25.04.21. The QRT adopts a different presentation with risks shown net of loss absorbing capacity of technical provisions.

The SCR is held to cover the relevant risks described in section C. 'Risk Profile' and can be broken down by the different types of risk as shown in the table above. 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.

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 reduced over the year due to a lower spread risk following the rise in yields and a lower equity risk due to the run-off of the with profit business.

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 reduction in the counterparty default risk over the year mainly due to lower policyholder receivables due.

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'. Mass Lapse was the biting lapse stress at the start of 2023 and remains the biting Lapse stress at end of 2024. There was no material change in the underwriting risks over 2024.

In recognition of the pension scheme risk that ZAL is exposed to (see section C.6 'Other material risks'), ZAL has agreed a capital add-on with the PRA. The size of the capital add-on at 31 December 2024 was £200m, which has remained unchanged from 31 December 2023.

The SCR is calculated separately for each of the ring-fenced funds 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.

Credit in the SCR for the loss-absorbing capacity of deferred taxes of £92,867k is due to ZAL's ability to partially offset deferred tax liabilities on the SII balance sheet in the stress scenario. The deferred tax liabilities mostly relate to the difference between tax and Solvency II bases for investments, technical provisions and reinsurance recoverables, as well as tax transitional adjustments on an IFRS basis. Unrecognised deferred tax assets are not material (<£1m). There is no carry back of losses and no allowance is made for future taxable profits in this assessment as loss-absorbing capacity of deferred tax is limited to the tax impact of the SCR offset against SII deferred tax liabilities

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 2024	31 December 2023	Change
Linear MCR	173,595	181,118	(7,523)
SCR	706,327	724,318	(17,991)
MCR Cap (45% of SCR)	317,847	325,943	(8,096)
MCR Floor (25% of SCR)	176,582	181,080	(4,498)
MCR	176,582	181,118	(4,536)

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 IR.28.01 in appendix 2.

The MCR is based on the MCR floor at end 2024 which is a change from the position at end 2023 which was based on the linear MCR.

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 rule 7.28 of chapter 7: Simplification in the Standard Formula in the "Solvency Capital Requirement – Standard Formula" part of the PRA Rulebook. 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 2024, in accordance with rule 7.28 of chapter 7: Simplification in the Standard Formula in the "Solvency Capital Requirement – Standard Formula" part of the PRA Rulebook.

Use of undertaking specific parameters

No undertaking specific parameters have been used.

Throughout 2024, ZAL has complied with the applicable Solvency Capital Requirements.

E.3 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.4 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 2024.

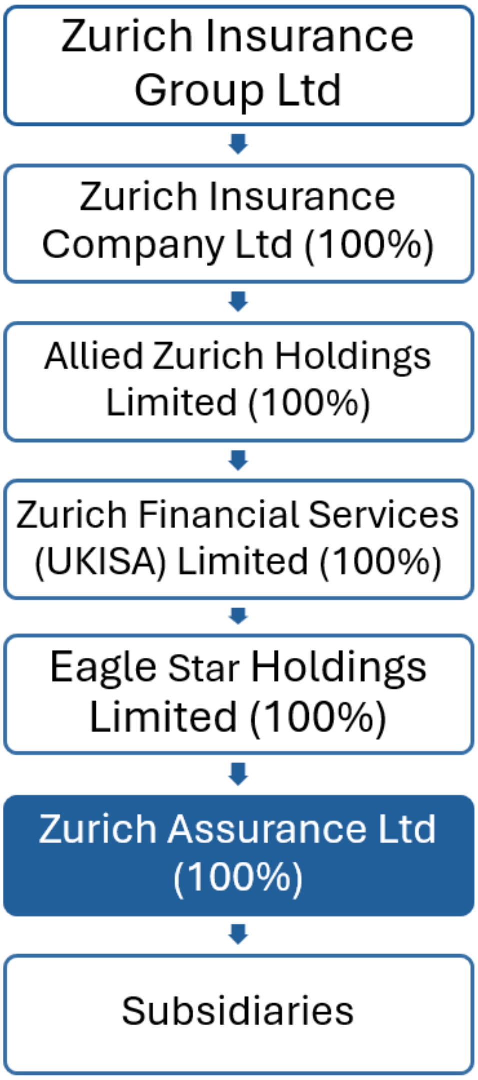
E.5 Any other information

There is no other information to report here.

Appendices

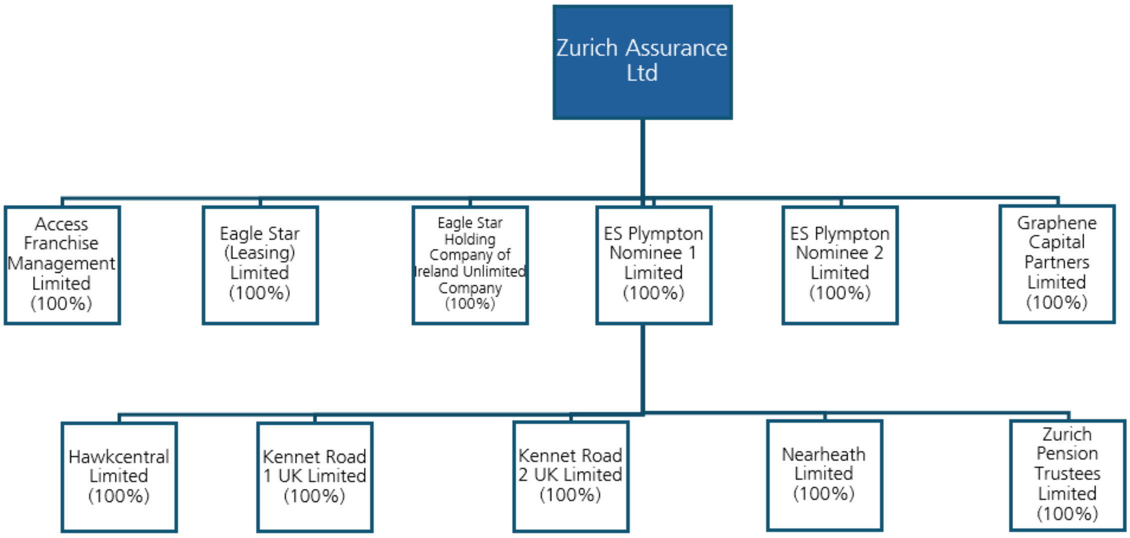
Appendix 1 Company Structure Charts

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 company has a significant holding of 42.76% (2023: 42.76%) in Rabone Park Management Company Limited. This company is incorporated in England and Wales. The voting power is equal to the percentage of the nominal value held by ZAL.

Zurich Assurance Ltd

Solvency and Financial Condition Report

Disclosures

31 December

2024

(Monetary amounts in GBP thousands)

General information

Entity name	Zurich Assurance Ltd
Entity identification code and type of code	LEI/5493004EXLFUOEMG6Z36
Type of undertaking	Life undertakings
Country of incorporation	GB
Language of reporting	en
Reporting reference date	31 December 2024
Currency used for reporting	GBP
Accounting standards	IFRS
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	Use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

-

IR.02.01.02 - Balance sheet

IR.05.02.01 - Premiums, claims and expenses by country: Life insurance and reinsurance obligations

IR.05.03.02 - Life income and expenditure

IR.12.01.02 - Life technical provisions

IR.22.01.21 - Impact of long term guarantees measures and transitionals

IR.23.01.01 - Own Funds

IR.25.04.21 - Solvency Capital Requirement

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

IR.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	35,443
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	2,714,524
R0080	*Property (other than for own use)*	3,484
R0090	*Holdings in related undertakings, including participations*	23,426
R0100	*Equities*	98,854
R0110	*Equities - listed*	98,854
R0120	*Equities - unlisted*	0
R0130	*Bonds*	2,491,967
R0140	*Government Bonds*	770,131
R0150	*Corporate Bonds*	1,717,501
R0160	*Structured notes*	0
R0170	*Collateralised securities*	4,335
R0180	*Collective Investments Undertakings*	59,177
R0190	*Derivatives*	870
R0200	*Deposits other than cash equivalents*	36,198
R0210	*Other investments*	548
R0220	Assets held for index-linked and unit-linked contracts	18,692,126
R0230	Loans and mortgages	47,759
R0240	*Loans on policies*	47,759
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	594,042
R0280	*Non-life and health similar to non-life*	0
R0315	*Life and health similar to life, excluding index-linked and unit-linked*	539,666
R0340	*Life index-linked and unit-linked*	54,376
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	220,217
R0370	Reinsurance receivables	21,858
R0380	Receivables (trade, not insurance)	64,866
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	82,026
R0420	Any other assets, not elsewhere shown	3,027
R0500	**Total assets**	22,475,887

		Solvency II value
	Liabilities	C0010
R0505	Technical provisions - total	20,458,287
R0510	*Technical provisions - non-life*	0
R0515	*Technical provisions - life*	20,458,287
R0542	Best estimate - total	20,364,593
R0544	*Best estimate - non-life*	0
R0546	*Best estimate - life*	20,364,593
R0552	Risk margin - total	93,694
R0554	*Risk margin - non-life*	0
R0556	*Risk margin - life*	93,694
R0565	Transitional (TMTP) - life	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	6,532
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	220,666
R0790	Derivatives	8,076
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	42,753
R0820	Insurance & intermediaries payables	301,852
R0830	Reinsurance payables	35,382
R0840	Payables (trade, not insurance)	212,931
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in Basic Own Funds*	0
R0870	*Subordinated liabilities in Basic Own Funds*	0
R0880	Any other liabilities, not elsewhere shown	13,000
R0900	**Total liabilities**	21,299,480
R1000	**Excess of assets over liabilities**	1,176,407

IR.05.02.01

Premiums, claims and expenses by country: Life insurance and reinsurance obligations

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations					Total Top 5 and home country
R1400								
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross	1,253,798						1,253,798
R1420	Reinsurers' share	747,808						747,808
R1500	Net	505,990						505,990
	Premiums earned							
R1510	Gross	1,253,798						1,253,798
R1520	Reinsurers' share	747,808						747,808
R1600	Net	505,990						505,990
	Claims incurred							
R1610	Gross	3,475,932						3,475,932
R1620	Reinsurers' share	580,426						580,426
R1700	Net	2,895,506						2,895,506
R1900	**Net expenses incurred**	373,348						373,348

IR.05.03.02

Life income and expenditure

		Insurance with profit participation	Index-linked and unit-linked insurance	Life annuities	Non-life annuities	Other life insurance	Health insurance	Total life and health
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	Premiums written							
R0010	*Gross direct business*	3,819	153,102	85,597		640,647	384,212	1,267,377
R0020	*Gross reinsurance accepted*						2,167	2,167
R0030	Gross	3,819	153,102	85,597		640,647	386,379	1,269,544
R0040	*Reinsurers' share*	195	6,867	43,845		486,539	211,846	749,292
R0050	Net	3,624	146,234	41,753		154,108	174,533	520,252
	Claims incurred							
R0110	*Gross direct business*	100,438	2,734,197	37,425		428,158	214,084	3,514,301
R0120	*Gross reinsurance accepted*						2,001	2,001
R0130	Gross	100,438	2,734,197	37,425		428,158	216,085	3,516,303
R0140	Reinsurers' share	27	4,977	18,690		417,509	141,403	582,606
R0150	Net	100,411	2,729,220	18,735		10,648	74,682	2,933,696
	Expenses incurred							
R0160	*Gross direct business*	6,262	83,318	10,721		216,320	64,530	381,152
R0170	*Gross reinsurance accepted*							
R0180	Gross	6,262	83,318	10,721		216,320	64,530	381,152
R0190	Reinsurers' share	48		1,965		221	0	2,234
R0200	Net	6,214	83,318	8,757		216,099	64,530	378,918
R0300	Other expenses							38
	Transfers and dividends							
R0440	Dividends paid							266,000

IR.12.01.02
Life technical provisions

		Insurance with profit participation	Index-linked and unit-linked insurance	Life annuities	Non-life annuities	Other life insurance	Health insurance	Total life and health
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	Best estimate							
R0025	Gross Best Estimate (direct business)	603,980	18,546,177	47,427	0	845,588	413,179	20,456,351
R0026	Gross Best Estimate (reinsurance accepted)	0	0	-93,195	0	0	1,438	-91,757
R0030	**Gross Best Estimate**	603,980	18,546,177	-45,769	0	845,588	414,617	20,364,593
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-537	54,376	-247,818	0	428,482	359,539	594,042
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	604,518	18,491,800	202,050	0	417,106	55,078	19,770,551
R0100	**Risk margin**	3,954	23,243	9,513	0	35,179	21,805	93,694
	Amount of the transitional on Technical Provisions							
R0140	TMTP - risk margin	0	0	0	0	0	0	0
R0150	TMTP - best estimate dynamic component	0	0	0	0	0	0	0
R0160	TMTP - best estimate static component	0	0	0	0	0	0	0
R0170	TMTP - amortisation adjustment	0	0	0	0	0	0	0
R0180	**Transitional Measure on Technical Provisions**	0	0	0	0	0	0	0
R0200	**Technical provisions - total**	607,934	18,569,420	-36,256	0	880,767	436,422	20,458,287

IR.22.01.21

Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	Technical provisions	20,458,287	0	0	56,094	0
R0020	Basic own funds	1,039,562	0	0	-17,581	0
R0050	Eligible own funds to meet Solvency Capital Requirement	1,039,562	0	0	-17,581	0
R0090	Solvency Capital Requirement	706,327	0	0	-576	0
R0100	Eligible own funds to meet Minimum Capital Requirement	1,039,562	0	0	-17,581	0
R0110	Minimum Capital Requirement	176,582	0	0	-144	0

IR.23.01.01

Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	356,237	356,237		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	188,974	188,974			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	494,351	494,351			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**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**	0				
R0290	**Total basic own funds after deductions**	1,039,562	1,039,562	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	1,039,562	1,039,562	0	0	0
R0510	Total available own funds to meet the MCR	1,039,562	1,039,562	0	0	
R0540	Total eligible own funds to meet the SCR	1,039,562	1,039,562	0	0	0
R0550	Total eligible own funds to meet the MCR	1,039,562	1,039,562	0	0	
R0580	**SCR**	706,327				
R0600	**MCR**	176,582				
R0620	**Ratio of Eligible own funds to SCR**	147.18%				
R0640	**Ratio of Eligible own funds to MCR**	588.71%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	1,176,407
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0725	Deductions for participations in financial and credit institutions	
R0730	Other basic own fund items	545,211
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	136,845
R0760	**Reconciliation reserve**	494,351

IR.25.04.21

Solvency Capital Requirement

Net of loss absorbing capacity of technical provisions

		C0010
	Market risk	
R0070	Interest rate risk	120,242
R0080	Equity risk	24,071
R0090	Property risk	110
R0100	Spread risk	144,300
R0110	Concentration risk	4,767
R0120	Currency risk	8,172
R0125	Other market risk	
R0130	Diversification within market risk	-95,218
R0140	**Total Market risk**	206,444
	Counterparty default risk	
R0150	Type 1 exposures	22,279
R0160	Type 2 exposures	14,920
R0165	Other counterparty risk	0
R0170	Diversification within counterparty default risk	-2,303
R0180	**Total Counterparty default risk**	34,896
	Life underwriting risk	
R0190	Mortality risk	8,483
R0200	Longevity risk	47,723
R0210	Disability-Morbidity risk	6,551
R0220	Life-expense risk	109,384
R0230	Revision risk	0
R0240	Lapse risk	268,790
R0250	Life catastrophe risk	37,986
R0255	Other life underwriting risk	
R0260	Diversification within life underwriting risk	-110,448
R0270	**Total Life underwriting risk**	368,468
	Health underwriting risk	
R0280	Health SLT risk	116,329
R0290	Health non SLT risk	0
R0300	Health catastrophe risk	1,357
R0305	Other health underwriting risk	
R0310	Diversification within health underwriting risk	-1,011
R0320	**Total Health underwriting risk**	116,676
	Non-life underwriting risk	
R0330	Non-life premium and reserve risk (ex catastrophe risk)	0
R0340	Non-life catastrophe risk	0
R0350	Lapse risk	0
R0355	Other non-life underwriting risk	0
R0360	Diversification within non-life underwriting risk	0
R0370	**Non-life underwriting risk**	0
R0400	**Intangible asset risk**	0
	Operational and other risks	
R0422	Operational risk	65,883
R0424	Other risks	
R0430	**Total Operational and other risks**	65,883
R0432	**Total before all diversification**	1,001,346
R0434	Total before diversification between risk modules	792,367
R0436	Diversification between risk modules	-200,310
R0438	**Total after diversification**	592,057
R0440	Loss absorbing capacity of technical provisions	0
R0450	Loss absorbing capacity of deferred tax	-92,867
R0455	Other adjustments	7,138
R0460	**Solvency capital requirement including undisclosed capital add-on**	506,327
R0472	Disclosed capital add-on - excluding residual model limitation	200,000
R0474	Disclosed capital add-on - residual model limitation	
R0480	**Solvency capital requirement including capital add-on**	706,327
R0490	Biting interest rate scenario	increase
R0495	Biting life lapse scenario	mass

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

Linear formula component for non-life insurance and reinsurance obligations

		C0010
R0010	MCR_{NL} Result	0

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

Linear formula component for life insurance and reinsurance obligations

		C0040
R0200	MCR_{L} Result	173,595

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits	514,448	
R0220	Obligations with profit participation - future discretionary benefits	90,070	
R0230	Index-linked and unit-linked insurance obligations	18,491,800	
R0240	Other life (re)insurance and health (re)insurance obligations	674,233	
R0250	Total capital at risk for all life (re)insurance obligations		22,346,246

Overall MCR calculation

		C0070
R0300	Linear MCR	173,595
R0310	SCR	706,327
R0320	MCR cap	317,847
R0330	MCR floor	176,582
R0340	Combined MCR	176,582
R0350	Absolute floor of the MCR	3,500
R0400	**Minimum Capital Requirement**	176,582