Actuarial Report

on the Proposed Transfer
of Life Insurance Business from

OnePath Life Limited (OPL)

to

Zurich Australia Limited (ZAL)

23 March 2022

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1. EXECUTIVE SUMMARY

1.1 Background to the Proposed Transfer

OnePath Life Limited (**OPL**) and Zurich Australia Limited (**ZAL**) are registered life insurance companies under the Life Insurance Act 1995 (Cth) (**Life Act**). Both OPL and ZAL issue a range of life insurance policies in Australia, including participating life business.

Zurich Financial Services Australia Limited (**ZFSA**) is the ultimate Australian parent company of both OPL and ZAL. ZFSA's immediate parent company is Zurich Insurance Company Ltd (**ZIC**), and ZFSA, OPL and ZAL are part of the Zurich Insurance Group (**Zurich Group**). The Zurich Group has its headquarters in Zurich Switzerland and the ultimate parent company of the Zurich Group is Zurich Insurance Group Ltd (**ZIG**), a company incorporated in Switzerland and listed on the Swiss SIX Exchange.

ZAL and ZFSA have been part of the Zurich Group since it commenced operations in Australia in 1961.

OPL became part of the Zurich Group on 31 May 2019, when ZFSA acquired all shares on issue in OPL's sole shareholder, OnePath Life Australia Holdings Pty Limited (**OPLAH**).

It is proposed that the life insurance business of OPL be transferred to ZAL pursuant to a scheme under Part 9 of the Life Act (**Scheme**). The Scheme will not take effect until it is approved by the Federal Court of Australia (**Federal Court**).

The Scheme has been formulated by management common to ZAL and OPL and has been approved by their respective Board Sub-Committees. If the Scheme is confirmed by the Federal Court, it is proposed that the Scheme will take effect at 12.01am on 1st August 2022 (**Effective Date**). The analysis and conclusions set out in this report have been developed as if the Scheme had taken effect on 31 December 2021.

The ZAL Board approved a transfer of $25m of surplus from ZAL Statutory Fund No. 2 to the ZAL Shareholder Fund on 23 March 2022. The capital figures for ZAL at 31 December 2021, and the capital position for ZAL after the implementation of the Scheme, have been shown as if this transfer took effect at that date.

There are no other facts, matters or circumstances that have come to our attention during the period from 1 January 2022 to the date of this report which have not been disclosed in this report and would alter the opinions presented in this report.

1.2 Purpose of the Scheme

The Scheme will result in the rationalisation of ZFSA's life insurance businesses into a single life insurance legal entity, with a simplified Statutory Fund structure. This rationalisation is expected to provide a range of benefits, including:

- simplified corporate structure and administrative processes, reducing risk and facilitating future operational efficiency improvements;
- increased efficiency of capital use through improved risk diversification within the Statutory Funds; and
- greater scale in the combined Statutory Funds resulting in increased stability of the capital position.

The simplification, efficiency and risk benefits resulting from the Scheme will benefit both ZAL Policy Owners and OPL Policy Owners.

1.3 Purpose and Scope of the Report

This report has been prepared jointly by the Appointed Actuary of ZAL, Mr Stuart Turner, and the Appointed Actuary of OPL, Mr Ian Wong. We have read, understood and complied with the Federal Court's Practice Note GPN-EXPT 'Expert Evidence Practice Note' in developing this report.

The scope of this report is to describe the basis and terms of the Scheme and to comment on the effect of the Scheme on the contractual benefits and other rights, reasonable benefit expectations, and benefit security for policy owners of both ZAL and OPL.

In addressing this scope, we have focussed on the changes that arise as a result of the Scheme, rather than changes that might arise in the ordinary course of business irrespective of the occurrence of the Scheme.

All currency amounts in this report are shown in Australian dollars.

1.4 Summary of the Scheme

Under the Scheme, all assets and liabilities of OPL will transfer to ZAL, other than the assets that are excluded from the transfer as described in the Scheme document, being an amount of $12m to allow OPL to satisfy its prudential capital requirements.

OPL's life insurance business is managed in 5 Statutory Funds and 1 Shareholder Fund. The Scheme will effect the following transfers:

- All assets and liabilities of OPL Statutory Fund No. 1 will be transferred to ZAL Statutory Fund No. 2, except for:
    - Contingent liabilities relating to the CCI Class Action which will transfer to the ZAL Shareholder Fund.
    - Shareholder assets of $12m which will remain in OPL Statutory Fund No. 1 to satisfy prudential capital requirements.
- All assets and liabilities of OPL Statutory Fund No. 3 and OPL Statutory Fund No. 5 will be transferred to ZAL Statutory Fund No. 2.
- All assets and liabilities of OPL Statutory Fund No. 2 and OPL Statutory Fund No. 4 will be transferred to ZAL Statutory Fund No. 3, except for:
    - Contingent liabilities relating to the Superannuation Class Action, which will transfer to the ZAL Shareholder Fund.
- All assets and liabilities of the OPL Shareholder Fund will transfer to the ZAL Shareholder Fund.

All OPL Policies will be transferred to ZAL as a result of the Scheme. The terms and conditions of all OPL Policies will remain unchanged as a result of the Scheme.

The Scheme is more fully described in Section 5.

1.5 Effect of the Scheme on Existing ZAL Policy Owners

In respect of the effect of the Scheme on ZAL Policy Owners, it is our opinion that:

- there will be no effect on their contractual benefits or other rights;
- there will be no adverse effect on their reasonable benefit expectations;
- each of the Statutory Funds of ZAL, and ZAL as a whole, will be in a sound financial position immediately following the Scheme taking effect; and
- the security of their benefits will continue to be appropriate.

1.6 Effect of the Scheme on Transferring OPL Policy Owners

In respect of the effect of the Scheme on OPL Policy Owners, it is our opinion that:

- there will be no effect on their contractual benefits or other rights;
- there will be no adverse effect on their reasonable benefit expectations;
- each of the Statutory Funds of ZAL to which transferring OPL Policy Owners will be transferred, and ZAL as a whole, will be in a sound financial position immediately following the Scheme taking effect; and
- the security of their benefits will continue to be appropriate.

2. INTRODUCTION

2.1 Purpose of Report

This report addresses various actuarial aspects of the Scheme. It considers the nature of the Scheme and the impact of the Scheme on OPL Policy Owners and ZAL Policy Owners.

For the purpose of section 191(2)(a) of the Life Act, this report is an actuarial report on which the Scheme is based.

We are conscious of the duty of the Directors to give priority to the interests of all policy owners in accordance with section 48 of the Life Act. In preparing this report, we had regard to:

- the contractual benefits and other rights of ZAL Policy Owners and OPL Policy Owners;
- the reasonable benefit expectations of ZAL Policy Owners and OPL Policy Owners;
- the present level of security of the benefits provided under the ZAL Policies and the OPL Policies; and
- the effect of the Scheme on ZAL Policy Owners' and OPL Policy Owners' contractual benefits and other rights, their reasonable benefit expectations, and the security of their benefits.

We have prepared this report on the basis that it will be made available to policy owners, the Australian Prudential Regulation Authority (**APRA**) and the Federal Court to enable each of them to consider the Scheme.

2.2 Scope of Report

The scope of this report is to describe the basis and terms of the Scheme, and to comment on the effect of the Scheme on:

- the contractual benefits and other rights, reasonable benefit expectations, and benefit security of ZAL Policy Owners; and
- the contractual benefits and other rights, reasonable benefit expectations, and benefit security of OPL Policy Owners.

In addressing the above scope, we have focussed on the changes that arise as a consequence of the Scheme, rather than changes that might arise in the ordinary course of business irrespective of the occurrence of the Scheme.

This report has been prepared in accordance with the professional requirements of the Actuaries Institute (**AI**), specifically:

- the Code of Conduct; and
- Professional Standard 201: Actuarial Advice to a Life Insurance Company or Friendly Society.

2.3 Interpretation

In considering the effect of the Scheme on ZAL Policy Owners and OPL Policy Owners, we have recognised that, in the case of 'group' policies (e.g. a policy owned by a trustee of a superannuation fund for the benefit of its members), the ultimate beneficiaries are persons other than the policy owner.

For the purpose of this report, we regard a matter as not being material if, in our view, that matter has such a small effect (or potential effect) that it is inconsequential or not relevant for OPL Policy Owners or ZAL Policy Owners.

Amounts in the tables may not appear to add to the totals shown due to rounding conventions. All currency amounts are shown in Australian dollars. Amounts shown in tables are as at 31 December 2021.

APRA specifies capital standards that apply to life insurance companies in Australia. These standards set out the level of capital that each individual company's Statutory Funds must hold to reflect the risk profile of that Statutory Fund. Under the Scheme, assets and liabilities of OPL Statutory Funds will transfer to ZAL Statutory Funds. While no two Statutory Funds will have identical risk profiles, the regulatory capital required reflects the risk profile within each Statutory Fund hence it is relevant to focus on the capital position of a Statutory Fund to which a policy is referrable, before and after the Scheme.

In considering the capital position of a life insurance company's Statutory Funds, if a Statutory Fund satisfies the capital adequacy requirements under APRA Prudential Standard LPS 110: Capital Adequacy (**LPS 110**), then it will also satisfy the Solvency Requirement under APRA Prudential Standard LPS 100: Solvency Standard (**LPS 100**) as the Solvency Requirement under LPS 100 is less onerous. This report therefore focusses on the former requirement.

LPS 110 requires that a life insurance company and each of its Statutory Funds have a Capital Base in excess of the sum of its Prescribed Capital Amount (**PCA**) and any Supervisory Adjustment determined by APRA. LPS 110 also does not allow a life insurance company to disclose any Supervisory Adjustment that APRA has determined.

It is common practice in Australia for life insurance companies to hold Target Surplus, an additional capital buffer above the PCA and any Supervisory Adjustment. Both ZAL and OPL adopt a common approach to determining Target Surplus, which forms part of their Internal Capital Adequacy Assessment Process (**ICAAP**). For ZAL and OPL, although Target Surplus is derived at a company level (as opposed to a Statutory Fund level), the surplus assets above PCA are held both in the Statutory Funds and in the Shareholder Fund. For the purposes of this report, any Supervisory Adjustment (if applicable) is considered an addition to Target Surplus.

The "PCA Coverage Ratio" is used in this report to analyse the capital position of OPL and ZAL and each of their Statutory Funds. It measures the extent to which the Capital Base meets the PCA and is calculated as the Capital Base divided by the PCA. A ratio above 100% means that the Capital Base exceeds the PCA.

2.4 Background

OPL became part of the Zurich Group in 2019 following the acquisition by ZFSA of all the shares in OPLAH (which is the holding company for OPL). ZAL has been part of the Zurich Group since the Zurich Group commenced operations in Australia in 1961. ZAL and OPL both issue a range of life insurance policies, including participating business. Both entities operate only in Australia.

The Scheme proposes to transfer all assets and liabilities of OPL to ZAL other than the assets and liabilities that are excluded from the transfer as set out in the Scheme document.

The Scheme has been formulated by management common to ZAL and OPL and has been approved by their respective Board Sub-Committees.

2.5 Authors

This report has been prepared on a joint basis by the Appointed Actuaries of ZAL and OPL, namely:

- Mr Stuart Turner, FIAA, the Appointed Actuary of ZAL; and
- Mr Ian Wong, FIAA, the Appointed Actuary of OPL.

Mr Turner is a Fellow of the AI. He is engaged and remunerated by ZFSA to act as Appointed Actuary for ZAL.

Mr Wong is a Fellow of the AI. He is employed by ZFSA to act as Chief Life Actuary for ZAL/OPL and Appointed Actuary for OPL. He has the following interests in OPL and the Zurich Group:

- remuneration received as an employee; and
- potential to receive a bonus, the value of which may depend on the performance of ZAL and OPL.

2.6 Structure of the Report

The remainder of this report is structured as follows:

- Section 3 - Overview of ZAL;
- Section 4 - Overview of OPL;
- Section 5 - Overview of the Scheme;
- Section 6 - Effect of the Scheme on ZAL Policy Owners;
- Section 7 - Effect of the Scheme on OPL Policy Owners;
- Section 8 - Summary of Conclusions; and
- Section 9 - Appendices.

2.7 Ownership of Opinions in Joint Report

The opinions and views expressed in the report represent the opinions and views of both authors, excepting that:

- Mr Turner (as Appointed Actuary of ZAL) takes responsibility for the commentary on ZAL's history, practice and future intentions; and
- Mr Wong (as Appointed Actuary of OPL) takes responsibility for the commentary on OPL's history, practice and future intentions.

Specifically it is noted that:

- Mr Turner is the author of Section 3;
- Mr Wong is the author of Section 4; and
- Mr Turner and Mr Wong are the joint authors of Sections 1, 2, 5, 6 and 7.

2.8 Glossary and Reliances

A glossary of terms used in this report is included in Appendix A.

In preparing this report, we have relied on certain data and information provided by or on behalf of ZAL and OPL. Appendix B summarises the key data and information relied upon.

3. OVERVIEW OF ZAL

3.1 Background

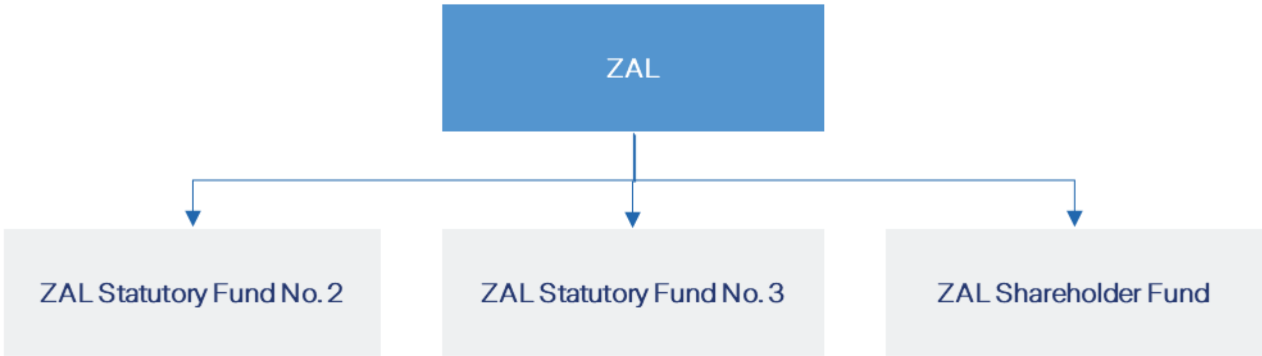
ZAL is a wholly-owned subsidiary of ZFSA.

ZAL is registered under the Life Act to carry on life insurance business in Australia. It operates wholly within Australia, with policies denominated in Australian currency.

ZAL writes a range of life insurance products, including risk insurance and life investment products, as well as participating business.

3.2 Statutory Funds and Shareholder Fund

ZAL has two Statutory Funds and a Shareholder Fund. The two Statutory Funds maintain all the life insurance business of ZAL.



3.2.1 ZAL Statutory Fund No. 2

ZAL Statutory Fund No. 2 contains both Ordinary business and Superannuation business (as classified under the Life Act), including the following product types:

- a book of Participating and Non-Participating legacy business, including traditional whole of life, traditional endowment and investment account policies, which is largely closed to new business;
- a book of risk insurance business, including death, total and permanent disability, trauma and disability income policies, which consist of both individual risk and group risk Non-Participating policies; and
- annuities business, which is closed to new business.

The ZAL Participating Business in Statutory Fund No. 2 is maintained separately from the rest of the business in Statutory Fund No. 2 in Participating Sub-Funds. Specified asset allocations are applied to the assets supporting participating liabilities to meet the benefit expectations of the owners of ZAL Participating Policies.

3.2.2 ZAL Statutory Fund No. 3

ZAL's Statutory Fund No. 3 contains Non-Participating investment-linked business, both Ordinary business and Superannuation business (as classified under the Life Act).

3.2.3 ZAL Shareholder Fund

The Shareholder Fund of ZAL is maintained separately from the ZAL Statutory Funds. The ZAL Shareholder Fund holds investments which serve as additional capital to support the overall interests of ZAL's shareholder and ZAL Policy Owners, as required. No life insurance business is issued from the Shareholder Fund.

The ZAL Shareholder Fund also holds all the shares in Zurich Investment Management Limited (**ZIM**), a subsidiary of ZAL and a company that carries on an investment management business in Australia.

3.2.4 Summary of the Life Insurance Business in the ZAL Statutory Funds

The following table shows a summary of the in-force life insurance business in the ZAL Statutory Funds as at 31 December 2021.

Table 1: ZAL Life Insurance Business as at 31 December 2021

Product Line	Statutory Fund No.	Annual Premium In-Force $m	Sum Insured $m	Number of Policies	Net policy liability $m[1]
- L1. Conventional Participating[2]	2	1	52	7,525	184
- L2. Participating Investment Account	2	0	18	1,940	19
- L3. Annuity with Longevity Risk	2	-	-	-	-
- L4. Individual Lump Sum Risk	2	626	253,032	339,810	-488
- L5. Individual Disability Income Insurance	2	257	6,642	87,326	232
- L6. Group Lump Sum Risk	2	0	8	2	2
- L7. Group Disability Income Insurance	2	0	13	8	13
- L8. Investment Linked	2	-	-	-	
- L9. Non-par Investment Policy with Discretionary Additions	2	0.4	57	5,088	58
- L10. Other Non-par Investment Policy	2	-	-	-	-
- L11. Annuity without Longevity Risk	2	-	-	50	-
- L12. Other	2				-
Total Statutory Fund No. 2		885	259,822	441,749	20
- L8. Investment Linked	3	7	1,047	35,815	1,049
Total Statutory Fund No. 3		7	1,047	35,815	1,049
Overall Total		892	260,869	477,564	1,069

Notes.

1. Funds under administration is represented by the policy liability (net of reinsurance) for the relevant product lines. This is sourced from the APRA return LRF400 where net policy liability does not include the cost of declared bonus.
2. The sum insured for Traditional- Par includes any bonuses declared on the policies prior to 31 December 2021.

The ZAL Participating Business is "participating" as defined by section 15 of the Life Act. Owners of ZAL Participating Policies are entitled to share in the profits arising from these policies. As a result, issues concerning participating policy owner benefit rights and reasonable benefit expectations are an important consideration under the Scheme. These issues are discussed in more detail in Section 6 of this report.

The product lines currently open for new business are Individual Lump Sum Risk, Individual Disability Income Insurance, and a small amount of Investment Linked business. All of these product lines will remain open following the implementation of the Scheme.

3.3 Policy Guarantees

Under the terms and conditions of its policies, ZAL provides its policy owners with a variety of guarantees and options. These guarantees are managed such that they pose a manageable level of residual risk to ZAL, for example by allowing the re-rating of premiums in line with experience, matching assets to liability guarantees, or explicit reserving.

The key guarantees provided by ZAL are set out below.

- Sums insured for all traditional business, and declared reversionary bonuses for Participating traditional business, are guaranteed payable on the event specified in the policy. While surrender values are not guaranteed, they are subject to minimums specified under APRA Prudential Standards.
- Annuity payments are guaranteed payable in line with the terms and conditions of the policy, either for a term certain or for the life of the annuitant.
- For risk insurance products, the sum insured is guaranteed payable on death, total and permanent disablement, temporary disablement, or trauma subject to policy terms and

conditions including definitions of disablement or trauma. Some benefits also provide guarantees to limit total premiums, guarantees not to increase premiums for certain periods, and guarantees of future insurability.

- For investment account business, there is a guarantee that the account balance is payable on exit for any cause, while some policies have a guarantee on the minimum amount paid including at certain ages or on death. Most policies also have some form of maximum limits applying to the asset charges and policy fees.
- For investment-linked business, some investment options provide a guarantee that the surrender value will not fall below the minimum contribution (i.e. a minimum investment performance of zero) applying at certain times after investment. All investment options have a maximum limit on asset charges.

3.4 Financial Performance

The following table provides a recent history of shareholder profits of ZAL.

Table 2: ZAL Shareholder Profit (net of tax) [1]

$m	12 months to 31 Dec 2018	12 months to 31 Dec 2019	12 months to 31 Dec 2020	12 months to 31 Dec 2021
Statutory Fund No.2	96	68	114	79
Statutory Fund No.3	3	6	2	1
Shareholder Fund	(4)	(3)	(4)	(4)
TOTAL	**95**	**71**	**111**	**76**

Notes:
1. Profit shown is for the entity on a non-consolidated AIFRS basis.

ZAL in aggregate has reported an operating profit over each of the recent periods shown. The profits in ZAL Statutory Fund No. 2 are primarily driven by the risk insurance business, and the profits in ZAL Statutory Fund No. 3 are primarily driven by fees derived from investment linked business. The losses in the Shareholder Fund are relatively small and arise from the amortisation of the value of business which was acquired by ZAL from Macquarie Life Limited in 2016. The capital held within the ZAL Shareholder Fund takes this situation into account.

The future financial performance of ZAL is expected to continue to be positive. Following the Scheme taking effect, ZAL is also forecast to be profitable.

3.5 Capital Position

The capital position of ZAL as at 31 December 2021 and calculated in accordance with Australian regulatory requirements is shown in the table below. The surplus above PCA and PCA Coverage Ratio is also shown following the post-31 December 2021 transfer of $25m from ZAL Statutory Fund No. 2 to the ZAL Shareholder Fund approved by the ZAL Board on 23 March 2022.

Table 3: ZAL Capital Position as at 31 December 2021					
$m	SF2[1]		SF3[1]	Shareholder Fund	Total ZAL
	Par	Non-Par	Non-Par		
Net Assets	6	1,321	19	273	1,619
Intangibles	0	0	0	-246	-246
Regulatory adjustments[2]	6	-1,021	-1	-1	-1,018
Capital Base	11	300	19	25	355
	311		19	25	
PCA[3]	135		3	2	141
Surplus above PCA	176		15	23	214
PCA Coverage Ratio %	*230%*		*539%*	*1164%*	*252%*
Surplus after March transfer	151		15	48	214
PCA Coverage Ratio % after transfer	*211%*		*539%*	*2318%*	*252%*

Notes:
1. These headings represent Statutory Funds No.2 and No.3 and the Shareholder Fund respectively.
2. Regulatory adjustments are the adjustments to net assets defined in LPS 112 to determine the Capital Base. These include adjusting policy liabilities for minimum surrender values, adjusting for regulatory capital held in subsidiaries, and adjusting for excess deferred tax assets in the balance sheet.
3. The PCA is a risk based capital amount defined in the prudential capital standards. The transfer of $25m in March 2022 from Statutory Fund No. 2 to the ZAL Shareholder Fund may have a small impact on the PCA reflecting the investments purchased in the ZAL Shareholder Fund, but this will not be material to the conclusions of this report.

3.5.1 Capital Adequacy

The total PCA as at 31 December 2021 was $141m. Comments on each ZAL Statutory Fund and the ZAL Shareholder Fund are provided below:

- For ZAL Statutory Fund No. 2, the Capital Base is required to cover operational risk, insurance risk and the risk of changes to asset values relative to the liabilities. There are two sections to this Statutory Fund:
  - ZAL Participating Business, where the Capital Base is principally required to cover the risk of changes to asset values relative to the liabilities; and
  - ZAL Non-Participating Business, where the Capital Base is principally required to meet operational risk, the risk of higher than expected insurance claims and the risk of changes to asset values relative to the liabilities.
- For ZAL Statutory Fund No. 3 which consists of investment-linked liabilities, the PCA is a relatively smaller proportion of the Statutory Fund liabilities since the nature of the investment-linked liabilities is that they vary with asset values. The PCA mainly reflects operational expense and economic risks.
- For the ZAL Shareholder Fund, the PCA is small reflecting residual asset risk.

As at 31 December 2021, each of the ZAL Statutory Funds and the ZAL Shareholder Fund had a PCA Coverage Ratio exceeding 100% and sufficient surplus to be in the normal operating range centred on Target Surplus. This means that each of the ZAL Statutory Funds and the ZAL Shareholder Fund met APRA's prudential capital requirements.

3.5.2 Target Surplus

Target Surplus provides added benefit security to policy owners by providing additional capital above the PCA. It provides a buffer to allow the life company reasonable time to implement remedial action in the event of significant adverse experience emerging, without breaching its PCA. The risks considered in calibrating Target Surplus include asset-liability mismatch risk, insurance risk, and operational risk.

Target Surplus is derived at a company level, as opposed to a Statutory Fund level, taking into account that assets in excess of the PCA for each Statutory Fund and the Shareholder Fund are available to be transferred to another Statutory Fund (with Board approval) if required.

The level of surplus may vary above and below Target Surplus over time, depending on the experience of the business. The ICAAP contains trigger points for management actions, including points at which various actions are considered in order to bring the level of surplus back to a normal operating range centred on Target Surplus.

The amounts shown in Table 3 include the effect of any profit transfers made between the various ZAL Statutory Funds and the ZAL Shareholder Fund effective 31 December 2021. As at 31 December 2021, each of the ZAL Statutory Funds and the ZAL Shareholder Fund met regulatory capital requirements, and had surplus within the normal operating range centred on Target Surplus.

3.5.3 Overall Capital Position

Overall, I regard the capital position of ZAL and the benefit security that this provides to its policy owners as sound. In particular, I note the following points:

- the amount of capital at 31 December 2021 is at or above that required in the context of the current regulatory environment and within the normal operating range for Target Surplus. The existing capital protects the financial position of the business against a wide range of foreseeable adverse circumstances over an extended timeframe. Further, the capital management framework which forms part of the ICAAP contains trigger points for management actions, including points at which various remedial actions are considered to increase the level of surplus.
- I do not believe there are any issues, including the effects of investment market volatility, which under reasonable circumstances would be expected to materially affect the viability of ZAL in the short term.
- Although sustained adverse scenarios are always possible, based on ZAL's current management practices and business plans, I have no concern about the long-term financial condition of ZAL. Both ZAL Statutory Funds and the ZAL Shareholder Fund meet the regulatory minimum capital requirements and are expected to do so in the foreseeable future.
- ZIG, a large international company headquartered in Switzerland and the ultimate shareholder of ZAL, has financial resources to provide additional capital to ZAL in the event of unexpected stress. Although there is no legal obligation for it to do so, ZIG has historically provided ZAL with additional capital as required.

3.6 Company Management Practices

The following points summarise the key arrangements and practices.

3.6.1 Risk and Capital Management

The risk management framework for ZAL is outlined in a Board-approved risk management strategy document. This document is common to ZAL and OPL, and describes the policies, procedures and controls that ZAL and OPL have in place to manage risk. The document also satisfies the requirements under APRA Prudential Standards to maintain a risk framework that includes a documented risk management strategy, sound risk management policies and procedures, clearly defined managerial responsibilities and controls, and a documented business plan.

ZAL and OPL adopt a common Board-approved ICAAP in respect of how they manage their capital.

ZAL reinsures a portion of its mortality and morbidity risk for risk management and capital efficiency purposes.

ZAL and OPL adopt a common governance framework. Some governance activities are overseen for both ZAL and OPL by a single management committee while other activities are overseen for each of ZAL and OPL by separate management committees that operate under a common framework.

3.6.2 Operational Management

Policy administration, sales and marketing, business management, finance, investment management and reporting functions are substantially conducted in-house by employees of ZFSA and Zurich Services (Australia) Pty Limited (**ZSA**), a services company owned by ZFSA, under a Resources Deed with ZAL.

Product management and pricing functions have been combined under a common management structure across ZAL and OPL, and operate under a common governance framework, with pricing actions considered separately for the OPL and ZAL portfolios of products. Pricing profitability targets are defined by the global Zurich Risk Policy and apply to both OPL and ZAL, and hence the Scheme will not impact product management and pricing activities for these portfolios.

The approach to upgrading benefit definitions has been similar for both OPL and ZAL, and both entities have historically reviewed benefit definitions on a regular basis. Both entities are signatories to the Life Insurance Code of Practice and its principles around currency of definitions. For trauma cover both entities have a policy of reviewing definitions at least every three years for medical currency. The product and pricing teams for OPL and ZAL have been combined and a similar approach has been adopted to definitions review and upgrade for both entities. Definitions are expected to continue to be aligned over time.

Policy records are mostly maintained on one administration platform (Life3), with a small portfolio of wholesale Superannuation business outsourced to Link Market Services.

Claims Management and Underwriting

Claims management and underwriting services are also conducted in-house by employees of ZFSA and ZSA under a Resources Deed with ZAL.

The ZAL and OPL claims management and underwriting functions were combined under a single management structure in late 2020. Most OPL and ZAL underwriting and claims management policies, processes and procedures have also been aligned. The process of completing the alignment of ZAL and OPL policies, processes and procedures is expected to be finalised prior to the Effective Date and this alignment will occur irrespective of whether the Scheme is implemented.

Some processes and procedures that apply only to transferring OPL Policy Owners or only to Existing ZAL Policy Owners will be maintained where required to manage differences in terms and conditions of policies issued by OPL and ZAL, differences in underlying systems and tools, or differences in underlying reinsurance arrangements. The maintenance of certain separate processes and procedures for transferring OPL Policy Owners and Existing ZAL Policy owners is intended to ensure that where policy terms and conditions or underlying reinsurance arrangements require particular treatment, the Scheme will not impact the manner in which policy terms and conditions or benefit increases are applied.

As noted earlier in this report, both ZAL and OPL have adopted the Life Insurance Code of Practice, which documents the key commitments and obligations of life insurers to customers on standards of practice, disclosure and principles of conduct for their life insurance services. In addition, the ZAL and OPL claims teams share the following objectives:

(a) pay valid and legitimate claims when they are rightfully due (we honour the intent of the insurance policy);

(b) ensure that the process for making a claim is not encumbered and tedious;

(c) ensure claims are assessed fairly by technically competent claims assessors;

(d) treat all policy owners and claimants with respect and empathy during the claims process;

(e) provide honest and transparent communications when advice is sought; and

(f) act ethically and maintain our record as a socially responsible corporate citizen.

Claims on OPL and ZAL policies are managed in accordance with the philosophy described above.

ZAL Participating Business

The Board of ZAL receives at least annual advice from the ZAL Appointed Actuary regarding the management of the ZAL Participating Business, including advice on the regular declarations of crediting rates to participating investment account policies and declarations of bonus rates to participating whole of life and endowment policies. Some discretion also exists in relation to the values payable on surrender of a policy.

Unit Pricing

Unit pricing is the mechanism used to calculate the value of an individual unit within a fund, for the purpose of attributing investment performance to the unit holders, which are ultimately the policy owners. ZAL maintains a unit pricing policy to apply to all unit linked investment options.

Unit pricing is conducted in-house using the pControl system, a specialist application used by several companies in Australia. ZAL regularly reviews its unit pricing policy and processes and this activity will not be affected by the Scheme.

3.6.3 Investment Management

A number of investment guidelines are maintained based on the nature of the various liabilities of each ZAL Statutory Fund, shareholder risk appetite and the variety of investment expectations of policy owners. Each investment mandate has its own investment rules relating to permitted investments, ranges for the mix of assets and rules related to the quality of those assets.

In Statutory Fund No. 2, assets supporting investment account or Participating products are invested according to the underlying commitment to, or reasonable expectations of, policy owners. Assets which are held at the risk of the shareholder are invested in accordance with shareholder risk appetite, and can include holdings in pooled investment trusts operated by third parties, direct holdings managed through investment mandates, or assets managed in house. Investments within each tax class are pooled, with a notional sub-funding process allocating investment returns to different product groups in accordance with the relevant asset allocation for that product group.

In Statutory Fund No. 3, assets backing unit linked business are invested in unit trusts managed by ZAL's subsidiary ZIM or external investment managers.

3.6.4 ZAL Company Policies

ZAL maintains a number of company policies, systems and practices. These will continue to apply as at and from the Effective Date of the Scheme. ZAL periodically reviews its policies, systems and practices and may amend them in the future consistent with its contractual and other legal obligations.

3.7 Events Subsequent to 31 December 2021

The ZAL Board approved a transfer of $25m of surplus from ZAL Statutory Fund No. 2 to the ZAL Shareholder Fund on 23 March 2022. The capital figures for ZAL at 31 December 2021, and the capital position for the ZAL after the implementation of the Scheme, have been shown as if this transfer took effect at that date.

There have been no other events or circumstances during the period from 31 December 2021 up to the date of this report that would alter the opinions presented in this section of the report.

4. OVERVIEW OF OPL

4.1 Background

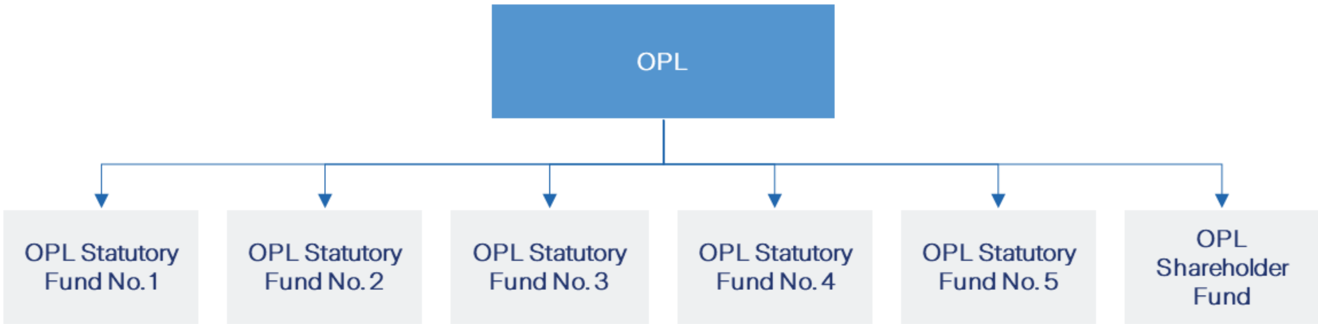
OPL is a wholly-owned subsidiary of OPLAH, which is a wholly owned subsidiary of ZFSA. ZFSA is the ultimate Australian parent company of both OPL and ZAL.

OPL is registered under the Life Act to carry on life insurance business in Australia. It operates wholly within Australia, with policies denominated in Australian currency.

OPL writes a range of life insurance products, including risk insurance and life investment products, as well as Participating business.

4.2 Statutory Funds and Shareholder Fund

OPL comprises five Statutory Funds and a Shareholder Fund. The five Statutory Funds maintain all the life insurance business of OPL.



4.2.1 OPL Statutory Fund No. 1

OPL's Statutory Fund No. 1 predominantly contains Ordinary business (as classified under the Life Act), including the following product types:

- a book of Participating and Non-Participating legacy business, including traditional whole of life, traditional endowment and investment account policies, which is closed to new business; and
- a book of risk insurance business, including death, total and permanent disability, trauma and disability income policies, which consist of both individual risk and group risk Non-Participating policies. A small portfolio of consumer credit and involuntary unemployment cover has been declared by APRA to be life insurance business under section 12A of the Life Act.

The OPL Participating Business in Statutory Fund No. 1 is maintained separately from the rest of the business in Statutory Fund No. 1 in Participating Sub-Funds. The sub-fund structure allows separate investment strategies as appropriate, to meet the benefit expectations of the owners of the OPL Participating Policies.

4.2.2 OPL Statutory Fund No. 2

OPL Statutory Fund No. 2 contains Non-Participating investment-linked business classified as Ordinary business under the Life Act. This includes capital stable investment options.

4.2.3 OPL Statutory Fund No. 3

OPL Statutory Fund No. 3 predominantly contains Superannuation business (as classified in the Life Act), including the following product types:

- a book of Participating and Non-Participating business, including traditional whole of life, traditional endowment and investment account policies, which is closed to new business;

- a book of risk insurance business, including death, total and permanent disability, trauma and disability income policies, which consist of both individual risk and group risk Non-Participating policies; and
- annuities (both Superannuation and Ordinary), which are closed to new business.

The OPL Participating Business in Statutory Fund No. 3 is maintained separately from the rest of the business in Statutory Fund No. 3 in Participating Sub-Funds. The sub-fund structure allows separate investment strategies as appropriate, to meet the benefit expectations of the owners of the OPL Participating Policies.

4.2.4 OPL Statutory Fund No. 4

OPL Statutory Fund No. 4 contains Non-Participating investment-linked business classified as Superannuation business in the Life Act. This includes capital stable investment options.

4.2.5 OPL Statutory Fund No. 5

OPL Statutory Fund No. 5 contains a guarantee issued on a Non-Participating variable annuity product (MoneyForLife) that was issued between 2009 and 2012 by a third party. This product is closed to new funds, and the actual funds under management for the product are not part of OPL's life insurance business and are not affected by the Scheme.

4.2.6 OPL Shareholder Fund

The Shareholder Fund of OPL is maintained separately from the OPL Statutory Funds. It holds investments which serve as additional capital to support the overall interests of OPL's shareholder and policy owners as required. No insurance business is issued from the OPL Shareholder Fund.

4.2.7 Summary of the Life Insurance Business in the OPL Statutory Funds

The following table shows a summary of the in-force life insurance business in the OPL Statutory Funds as at 31 December 2021.

Table 4: OPL Life Insurance Business as at 31 December 2021					
Product Line	**Statutory Fund No.**	**Annual Premium In-Force $m**	**Sum Insured $m**	**Number of Policies**	**Net policy liability $m[1]**
L1. Conventional Participating[2]	1	0	52	2,258	51
L2. Participating Investment Account	1	0	15	577	14
L4. Individual Lump Sum Risk	1	618	129,087	310,466	(342)
L5. Individual Disability Income Insurance	1	322	624	65,229	989
L6. Group Lump Sum Risk	1	9	6,739	92	2
L7. Group Disability Income Insurance	1	63	640	340	191
L8. Non-par Investment Policy	1	0	65,290	2,859	65
Total Statutory Fund No. 1		1,012	202,448	381,821	971
L8. Non-par Investment Policy	2	0	479	7,869	479
Total Statutory Fund No. 2		0	479	7,869	479
L1. Conventional Participating[2]	3	0	8	128	8
L2. Participating Investment Account	3	0	76	2,043	73
L3. Annuity with Longevity Risk	3	0	0	2,751	237
L4. Individual Lump Sum Risk	3	211	76,332	68,329	30
L5. Individual Disability Income Insurance	3	74	133	3,956	182
L6. Group Lump Sum Risk	3	176	66,536	33	278
L7. Group Disability Income Insurance	3	46	379	20	183
L8. Non-par Investment Policy	3	0	449	16,326	436
L9. Annuity without Longevity Risk	3	0	0	194	5
Total Statutory Fund No. 3		506	143,913	93,779	1,432
L8. Non-par Investment Policy	4	0	418	9,790	437
Total Statutory Fund No. 4		0	418	9,790	437
L8. Non-par Investment Policy	5	0	35	215	(1)
Total Statutory Fund No. 5		0	35	215	(1)
Overall Total		1,518	347,292	493,474	3,318

Notes:

1. Funds under administration is represented by the policy liability (net of reinsurance) for the relevant product lines. This is sourced from the APRA return LRF400 where net policy liability does not include the cost of declared bonus.
2. The sum insured for Traditional- Par includes any bonuses declared on the policies prior to 31 December 2021.

The OPL Participating Business is "participating", as defined by section 15 of the Life Act. Participating policy owners are entitled to share in the profits arising from these policies. As a result, issues concerning OPL Participating Policy owner benefit rights and reasonable benefit expectations are an important consideration under the Scheme. These issues are discussed in more detail in Section 7 of this report.

The product lines currently open for new business are Individual Lump Sum Risk, Individual Disability Income Insurance, Group Lump Sum Risk, and Group Disability Income Insurance. All of these product lines will remain open following the execution of the Scheme, including the OnePath branded retail insurance product (OneCare) which will continue to be offered alongside the Zurich Wealth Protection retail insurance product.

4.3 Policy Guarantees

Under the terms and conditions of its policies, OPL provides its policy owners with a variety of guarantees and options. These guarantees are managed such that they pose a manageable level of residual risk to OPL, for example by allowing the re-rating of premiums in line with experience, matching assets to liability guarantees, or explicit reserving.

The key guarantees provided by OPL are set out below:

- Sums insured for all traditional business, and declared reversionary bonuses for Participating traditional business, are guaranteed payable on death or maturity. While surrender values are not guaranteed, they are subject to minimum values specified under APRA Prudential Standards.
- Annuity payments are guaranteed payable in line with the terms and conditions of the policy, either for a fixed term or for the life of the annuitant.
- For risk insurance products, the sum insured is guaranteed payable on death, total and permanent disablement, temporary disablement, or trauma subject to policy terms and conditions including definitions of disablement or trauma. Some benefits also provide guarantees to limit total premiums, guarantees not to increase premiums for certain periods, and guarantees of future insurability.
- For the investment account business, there are various guarantees applying to the investment return for certain investment options, including typically a guaranteed minimum return of nil. Most policies also have some form of maximum limits applying to the asset charges and policy fees. For the capital guaranteed option, the policy allows OPL to pay out larger withdrawal benefit requests over time, but only up to a maximum time limit (up to five years in some cases).
- For the investment-linked business, most options have a maximum limit on asset charges, and there are some guarantees provided on certain investment options.
- Statutory Fund No. 5 issues the variable annuity guarantee component of the MoneyForLife product that is managed and invested externally by a third party. The guarantee is a payment for life, should the related allocated pension balance be exhausted. The guaranteed payment increases annually during the accumulation phase as the account balance increases with investment returns. A minimum annual withdrawal benefit is also guaranteed post retirement.
- For MoneyForLife and certain investment account business issued to a third party trustee, OPL receives a fee from the third party for providing the guarantee, which can only be renegotiated at 5-yearly intervals following the acquisition of OPL by the Zurich Group.

4.4 Financial Performance

The following table provides a recent history of shareholder profits of OPL.

Table 5: OPL Shareholder Profit (net of tax)[1]

$m	**12 months to 30 Sep 2018**	**15 months to 31 Dec 2019[2]**	**12 months to 31 Dec 2020**	**12 months to 31 Dec 2021**
Statutory Fund No.1	(141)	(343)	33	46
Statutory Fund No.2	6	5	6	4
Statutory Fund No.3	14	(72)	(49)	(9)
Statutory Fund No.4	61	(4)	2	2
Statutory Fund No.5	0	0	0	1
Shareholder Fund	0	(6)	0	0
TOTAL	**(60)**	**(420)**	**(8)**	45

Notes:
1. Profit shown is for the entity on a non-consolidated basis.
2. 15 months of profit is shown for 2019 due to the change from September to December for the OPL financial year end.

OPL in aggregate has reported an operating loss over 2018-2020, with a return to profitability in 2021.

Statutory Funds No. 1 and No. 3 contain risk business, where profits have been impacted by future assumption changes resulting in significant loss recognition (-$211m in 2018, -$297m in 2019), provisions established for expected remediation programs (-$114m in 2019), and adverse claims experience.

The majority of the business in Statutory Fund No. 4, being Superannuation investment-linked business invested into OPL by the OnePath MasterFund (**OPMF**), was redeemed by OnePath Custodians Pty Ltd (**OPC**) in April 2019 as part of the successor fund transfer from the OPMF to Retirement Portfolio Service (**RPS**), prior to the sale of OPL to the Zurich Group. OPC , the OPMF, and the RPS were not part of that sale and are not part of the Zurich Group. A portion of the business within OPL continues to be owned by OPC as the trustee for RPS. A portfolio of investment account business in Statutory Fund No. 3, and investment-linked business in Statutory Fund No. 4, remained with OPL following the successor fund transfer.

The 2019 loss in the OPL Shareholder Fund relates to remediation provisions established during 2019.

Future financial performance of OPL is forecast to remain profitable in the future. The Zurich Group also benefits from profits arising from OPL's reinsurance of the lump sum risk insurance business with ZIC. Following the Scheme taking effect, ZAL in aggregate is forecast to be profitable.

4.5 Capital Position

The capital position of OPL as at 31 December 2021, and calculated in accordance with Australian regulatory requirements, is shown in the table below.

Table 6: OPL Capital Position as at 31 December 2021

$m	These funds are proposed to transfer to ZAL SF2					These funds are proposed to transfer to ZAL SF3		Share-holder Fund	Total OPL
	SF1[1]		SF3[1]		SF5[1]	SF2[1]	SF4[1]		
	Par	Non-Par	Par	Non-Par	Non-Par	Non-Par	Non-Par		
Net assets	14	870	1	315	19	13	20	2	1253
Intangibles	0	0	0	0	0	0	0	0	0
Regulatory adjustments[2]	-1	-425	-1	-13	-1	0	-1	0	-441
Capital Base	14	445	0	302	18	13	19	2	812
	459		302		18	13	19	2	
PCA[3]	272		213		9	3	2	0	499
Surplus above PCA	187		88		8	10	17	2	313
PCA Coverage Ratio %	*169%*		*142%*		*189%*	*408%*	*1089%*	*5391%*	*163%*

Notes:
1. These headings represent Statutory Funds No. 1, No. 3, No. 5, No. 2, and No. 4 respectively.
2. Regulatory adjustments are the adjustments to net assets defined in LPS 112 to determine the Capital Base. These include adjusting policy liabilities for minimum surrender values, adjusting for regulatory capital held in subsidiaries, and adjusting for excess deferred tax assets in the balance sheet.
3. The PCA is a risk-based capital amount defined in the prudential capital standards.

4.5.1 Capital Adequacy

The total PCA as at 31 December 2021 was $499m. Comments on each OPL Statutory Fund and the OPL Shareholder Fund are provided below:

- For OPL Statutory Funds No. 1 and No. 3, the Capital Base is required to cover operational risk, insurance risk, credit risk and the risk of changes to asset values relative to the liabilities. There are two sections to these Statutory Funds:
  - OPL Participating Business, where the Capital Base is principally required to cover the risk of changes to asset values relative to the liabilities; and
  - OPL Non-Participating Business, where the Capital Base is principally required to meet operational risk, the risk of higher than expected insurance claims and the risk of changes to asset values relative to the liabilities. For OPL Statutory Fund No. 1

there is also a significant credit risk to a single reinsurer counterparty due to the future claim recoveries expected to occur, which has been offset by a bank guarantee agreement approved by APRA (which is expected to be terminated upon implementation of the Scheme).

- For OPL Statutory Fund No. 2 and OPL Statutory Fund No. 4, the PCA is a relatively small proportion of the Statutory Fund liabilities and mainly reflects operational risk, since the nature of the investment-linked liabilities is that they vary with asset values.
- For OPL Statutory Fund No. 5, the PCA reflects the specific risk charge for the guarantees underwritten in this fund.
- For the OPL Shareholder Fund, the PCA is immaterial.

As at 31 December 2021, all of the OPL Statutory Funds and the OPL Shareholder Fund had a PCA Coverage Ratio exceeding 100% and within the normal operating range centred on Target Surplus. This means that each of the OPL Statutory Funds and the OPL Shareholder Fund met APRA's prudential capital requirements.

4.5.2 Target Surplus

Target Surplus provides added benefit security to policy owners by providing additional capital above the PCA. It provides a buffer to allow the company reasonable time to implement remedial action in the event of significant adverse experience emerging, without breaching its PCA. The risks considered in calibrating Target Surplus include asset-liability mismatch risk, insurance risk, and operational risk.

Target Surplus is derived at a company level, as opposed to a Statutory Fund level, taking into account that assets in excess of the PCA for each Statutory Fund and the Shareholder Fund are available to be transferred to another Statutory Fund (with Board approval) if required.

The level of surplus may vary above or below Target Surplus over time, depending on the experience of the business. The ICAAP contains trigger points for management actions, including points at which various actions are considered in order to bring the level of surplus back to a normal operating range for Target Surplus.

As at 31 December 2021, all of the OPL Statutory Funds and the OPL Shareholder Fund met regulatory capital requirements and had surplus within the normal operating range for Target Surplus.

4.5.3 Overall Capital Position

Overall, I regard the capital position of OPL and the benefit security that this provides to OPL Policy Owners as sound. In particular, I note the following points:

- The amount of capital at 31 December 2021 is at or above that required in the context of the current regulatory environment and within the normal operating range of Target Surplus. The existing capital protects the financial position of the business against a wide range of foreseeable adverse circumstances over an extended timeframe. Further, the capital management framework which forms part of the ICAAP contains trigger points for management actions, including points at which various remedial actions are considered to increase the level of surplus.
- I do not believe there are any issues, including the effects of investment market volatility, which under reasonable circumstances would be expected to materially affect the viability of OPL in the short term.
- Although sustained adverse scenarios are always possible, based on OPL's current management practices and business plans, I have no concern about the long-term financial condition of OPL. All OPL Statutory Funds and the OPL Shareholder Fund meet the regulatory minimum capital requirements and are expected to do so in the foreseeable future.
- The ultimate shareholder of OPL, ZIG, is a large international company with financial resources to provide additional capital in the event of unexpected stress. Although there is

no legal obligation on it to do so, it has provided OPL with additional capital as required on several occasions following the acquisition of OPL by the Zurich Group.

4.6 Company Management Practices

The following points summarise the key arrangements and practices.

4.6.1 Risk and Capital Management

The risk management framework for OPL is outlined in a Board-approved risk management strategy document. This document is common to OPL and ZAL, and describes the policies, procedures and controls that OPL and ZAL have in place to manage risk. The document also satisfies the requirements of APRA Prudential Standards to maintain a risk framework that includes a documented risk management strategy, sound risk management policies and procedures, clearly defined managerial responsibilities and controls, and a documented business plan.

Each of ZAL and OPL adopt a common Board approved ICAAP in respect of how it manages its capital.

Like ZAL, OPL reinsures a portion of its mortality and morbidity risk for risk management and capital efficiency purposes.

ZAL and OPL adopt a common governance framework. Some governance activities are overseen for both OPL and ZAL by a single management committee while other activities are overseen for each of OPL and ZAL by separate management committees that operate under a common framework.

4.6.2 Operational Management

The basic policy administration, sales and marketing, business management, finance, investment management and reporting functions are substantially conducted in-house by employees of ZFSA and ZSA (a services company owned by ZFSA) through a Resources Deed with OPL.

Product management and pricing functions have been combined under a common management structure across ZAL and OPL, and operate under a common governance framework, with pricing actions considered separately for the OPL and ZAL portfolios of products. Pricing profitability targets are defined by the global Zurich Risk Policy and apply to both OPL and ZAL, and hence the Scheme will not impact product management and pricing activities for these portfolios.

The approach to upgrading benefit definitions has been similar for both OPL and ZAL, and both entities have historically reviewed benefit definitions on a regular basis. Both entities are signatories to the Life Insurance Code of Practice and its principles around currency of definitions. For trauma cover both entities have a policy of reviewing definitions at least every three years for medical currency. The product and pricing teams have been now combined and a similar approach has been adopted to definitions review and upgrade for both entities. Definitions are expected to continue to be aligned over time.

Policy records are currently maintained on numerous administration platforms. There is a project underway to migrate OPL Policy administration data onto ZAL systems, principally Life3, which is scheduled to be completed prior to the Scheme Effective Date. This will occur regardless of the Scheme and is unaffected by the Scheme.

ZFSA currently has a Transitional Services Agreement in place with Australia and New Zealand Banking Group Limited (**ANZ**), the prior owner of OPL, to provide a suite of administration and other services whilst various OPL operational functions, data and systems are being migrated to ZFSA. It is expected that this Transitional Services Agreement will terminate and all functions will commence being conducted on ZAL systems (either on current ZAL systems or systems transferred from ANZ to ZAL), prior to the Scheme Effective Date.

Claims Management and Underwriting

Claims management and underwriting services are also conducted in-house by employees of ZFSA and ZSA under a Resources Deed with ZAL.

The ZAL and OPL claims management and underwriting functions were combined under a single management structure in late 2020. Most OPL and ZAL underwriting and claims management policies, processes and procedures have also been aligned. The process of completing the alignment of ZAL and OPL policies, processes and procedures is expected to be finalised prior to the Effective Date and this alignment will occur irrespective of whether the Scheme is implemented.

Some processes and procedures that apply only to transferring OPL Policy Owners or only to Existing ZAL Policy Owners will, however, be maintained where required to manage differences in terms and conditions of policies issued by OPL and ZAL, differences in underlying systems and tools, or differences in underlying reinsurance arrangements. The maintenance of certain separate processes and procedures for transferring OPL Policy Owners and Existing ZAL Policy owners is intended to ensure that where policy terms and conditions or underlying reinsurance arrangements require particular treatment, the Scheme will not impact the manner in which policy and benefit increases are applied.

As noted earlier in this report, both ZAL and OPL have adopted the Life Insurance Code of Practice, which documents the key commitments and obligations of life insurers to customers on standards of practice, disclosure and principles of conduct for their life insurance services. In addition, the ZAL and OPL claims teams share the following objectives:

(a) pay valid and legitimate claims when they are rightfully due (we honour the intent of the insurance policy);

(b) ensure that the process for making a claim is not encumbered and tedious;

(c) ensure claims are assessed fairly by technically competent claims assessors;

(d) treat all policy owners and claimants with respect and empathy during the claims process;

(e) provide honest and transparent communications when advice is sought; and

(f) act ethically and maintain our record as a socially responsible corporate citizen.

Claims on OPL and ZAL policies are managed in accordance with the philosophy described above.

OPL Participating Business

The Board of OPL receives at least annual advice from the OPL Appointed Actuary regarding the management of the OPL Participating Business, including advice on the regular declarations of crediting rates to participating investment account policies and declarations of bonus rates to participating whole of life and endowment policies. Some discretion also exists in relation to the values payable on surrender of a policy.

Unit Pricing

Unit pricing is the mechanism used to calculate the value of an individual unit within a fund, for the purpose of attributing investment performance to the unit holders, which are ultimately the policy owners. OPL maintains a unit pricing governance structure that is common to ZAL, and operates a pricing framework specific to its investment options under the same framework as ZAL.

For some of the OPL investment options, unit pricing is conducted in-house using the pControl system, a specialist application used by several companies in Australia, including ZAL. For the other OPL investment options, pricing is outsourced to Oasis Asset Management Limited and OPL conducts due diligence on those unit prices prior to their release.

There will be no change in unit pricing practices as a result of the Scheme. The unit pricing policy and processes are regularly reviewed and this activity will not be affected by the Scheme.

4.6.3 Investment Management

A number of investment guidelines are maintained based on the nature of the various liabilities of each Statutory Fund, shareholder risk appetite and the variety of investment expectations of policy owners. Each investment mandate has its own investment rules relating to permitted investments, ranges for the mix of assets and rules related to the quality of those assets.

In Statutory Fund No. 1 and Statutory Fund No. 3, assets supporting investment account or Participating products are invested according to the underlying commitment to, or reasonable expectations of, policy owners. Assets which are held at the risk of the shareholder are invested in accordance with shareholder risk appetite, and can include holdings in pooled investment trusts operated by third parties, direct holdings managed through investment mandates, or assets managed in house. Investments for different product groups are held in discrete sub-funds, each reflecting the relevant asset allocation for that product group.

In Statutory Fund No. 2 and Statutory Fund No. 4, assets backing unit linked business are invested in unit trusts managed by external investment managers.

4.6.4 OPL Company Policies

OPL maintains a number of company policies, systems and practices. These will continue to apply as at and from the Effective Date. OPL reviews its policies, systems and practices periodically and may amend them in the future consistent with its contractual and other legal obligations.

4.7 Consumer Credit Insurance Class Action

On 28 February 2020, a class action relating to consumer credit insurance (**CCI Class Action**) was filed in the Federal Court against ANZ, OPL, OnePath General Insurance Pty Limited (**OPGI**) and QBE Insurance (Australia) Limited (**QBE**). The class action primarily concerns allegations that ANZ, OPL, OPGI and QBE engaged in misleading or deceptive conduct and unconscionable conduct by selling certain consumer credit insurance policies to customers which had very little value to them.

As this matter is currently at an early stage, the ultimate outcome is unknown. The outcome is subject to uncertain events that are not wholly within the control of OPL. As such, any possible obligation cannot be reliably estimated. OPL is vigorously defending the class action.

The treatment of the CCI Class Action in the Scheme is set out in section 5.13.

4.8 Superannuation Class Action

On 23 December 2020, a class action was filed in the Federal Court against OPC, ANZ and OPL (**Superannuation Class Action**), which was registered and served in January 2021. The Superannuation Class Action was brought on behalf of certain members of the OPMF and the RPS fund in relation to alleged contraventions by OPC of statutory and general law duties, and allegations that ANZ and OPL (as the administrator of the OPMF and issuer of investment life policies to OPC) were involved in the alleged contraventions by OPC.

As this matter is currently at an early stage, the ultimate outcome is unknown. The outcome is subject to uncertain events that are not wholly within the control of OPL. As such, any possible obligation cannot be reliably estimated. OPL is vigorously defending the class action.

The treatment of the Superannuation Class Action in the Scheme is set out in section 5.13.

4.9 Events Subsequent to 31 December 2021

There have been no events or circumstances during the period from 31 December 2021 up to the date of this report that would alter the opinions presented in this section of the report.

5. OVERVIEW OF THE SCHEME

5.1 Background to the Scheme

During 2019, ZFSA acquired all shares in OPLAH, the sole shareholder of OPL. ZFSA is the ultimate Australian parent company of both ZAL and OPL. Since 2019, there has been on-going integration and harmonisation of business practices between ZAL and OPL.

The Scheme will result in the rationalisation of ZFSA's Australian life insurance businesses into a single legal entity, with a simplified Statutory Fund structure. This rationalisation will improve the efficiency of policy owner and shareholder capital use through improved risk diversification within the Statutory Funds, simplified administrative processes (such as the production of statutory financial reports), and future operational efficiency improvements.

5.2 Description of the Scheme

It is proposed that all OPL Policies will be transferred to ZAL on the Effective Date. The Scheme will comprise the following movements:

- All assets and liabilities of OPL Statutory Fund No. 1 will be transferred to ZAL Statutory Fund No. 2, except for:
    - Contingent liabilities relating to the CCI Class Action which will transfer to the ZAL Shareholder Fund.
    - Shareholder assets of $12m which will remain in OPL Statutory Fund No. 1 to satisfy prudential capital requirements.
- All assets and liabilities of OPL Statutory Fund No. 3 and OPL Statutory Fund No. 5 will be transferred to ZAL Statutory Fund No. 2.
- All assets and liabilities of OPL Statutory Fund No. 2 and OPL Statutory Fund No. 4 will be transferred to ZAL Statutory Fund No. 3, except for:
    - Contingent liabilities relating to the Superannuation Class Action, which will transfer to the ZAL Shareholder Fund.
- All assets and liabilities of the OPL Shareholder Fund will transfer to the ZAL Shareholder Fund.

These movements include the OPL Participating Business, which is currently managed in sub-funds representing major product groupings. No changes to these sub-funds will occur upon the Scheme taking effect, with equivalent sub-funds being replicated within ZAL Statutory Fund No. 2.

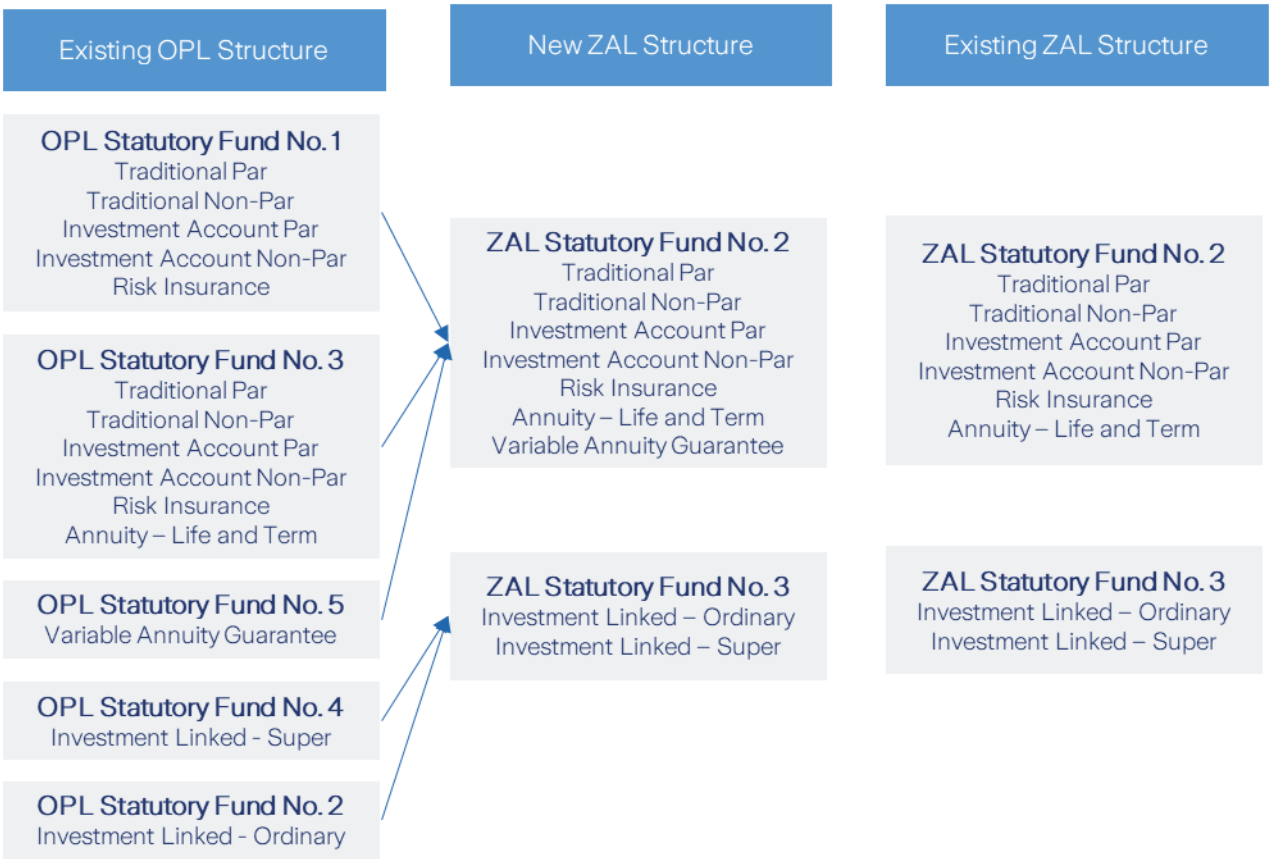
By virtue of these transfers of assets and liabilities, the existing related capital and retained profits in each OPL Statutory Fund and the OPL Shareholder Fund will also be transferred in the same form and become part of the capital and retained profits in the relevant ZAL Statutory Fund or ZAL Shareholder Fund to which the assets and liabilities are transferred.

To avoid any misunderstanding, the transfer of all liabilities in respect of a Statutory Fund includes any liability as at the Effective Date to make future payments for existing claims (whether reported or not) incurred prior to the Effective Date.

The following table summarises the existing Statutory Fund structure of OPL and identifies the ZAL Statutory Fund to which the assets and liabilities of the products in each OPL Statutory Fund will be transferred under the Scheme.

Table 7: OPL – Statutory Funds				
OPL Fund No.	**Class of Business for Life Act**	**Benefit Type**	**Key Product Groups**	**Transfer to ZAL Fund No.**
1	Predominantly Ordinary	Participating and Non-Participating	Traditional, Investment Account, Risk Insurance	2
2	Ordinary	Non-Participating	Investment Linked	3
3	Predominantly Superannuation	Participating and Non-Participating	Traditional, Investment Account, Risk Insurance, Annuity	2
4	Superannuation	Non-Participating	Investment Linked	3
5	Ordinary	Non-Participating	Variable Annuity Guarantee	2

The final Statutory Fund structure of ZAL following the Effective Date is shown below as "New ZAL Structure". The proposed transfer of the assets and liabilities of each OPL Statutory Fund under the Scheme is illustrated by the movement of life insurance business from the Existing OPL Structure (on the left) to the New ZAL Structure (in the middle). The existing structure of ZAL is shown (on the right) for completeness.



The following sections provide more detail on the Scheme for each of the OPL Statutory Funds.

5.3 Transfer of Policies from OPL Statutory Fund No. 1

This Statutory Fund contains both OPL Participating Business and OPL Non-Participating Business related to the Ordinary class of business under the Life Act. The transfer of each of these is described separately below.

5.3.1 OPL Participating Business

The OPL Participating Policies will be transferred to ZAL Statutory Fund No. 2.

The OPL Participating Business is currently managed in a number of sub-funds representing key product groupings.

All the assets and liabilities of the Participating Sub-Funds of OPL Statutory Fund No. 1 will be transferred to ZAL Statutory Fund No. 2. The assets being transferred will remain invested in accordance with the existing OPL investment strategies for this business. The Participating Sub-Funds used to manage the OPL Participating Business will be replicated in ZAL Statutory Fund No. 2. The existing practices for the declaration of bonuses and crediting rates to OPL Participating Policies will be unaffected by the Scheme.

5.3.2 OPL Non-Participating Business

The OPL Non-Participating Business consists of:

- traditional whole of life and endowment business;
- investment account business; and
- risk insurance business – death, total and permanent disability, trauma and disability income insurances, for both individuals and groups.

This business will be transferred to ZAL Statutory Fund No. 2 which contains a similar set of Non-Participating policies. The existing charging structures, terms and conditions of the OPL Policies as contained in their respective policy documents will be unaffected by the Scheme. The business which has been declared by APRA to be life insurance business under section 12A of the Life Act will continue to be considered life insurance after the transfer.

All the assets and liabilities in respect of the OPL Non-Participating Business will be transferred to ZAL Statutory Fund No. 2, except for:

- contingent liabilities relating to the CCI Class Action which will transfer to the ZAL Shareholder Fund; and
- $12m which will remain in OPL to satisfy prudential capital requirements.

Where OPL Policy Owner benefits are impacted by the investment returns of assets backing those policies, the assets being transferred will remain invested in accordance with the existing OPL investment strategies for this business, and the existing sub-funds used to manage this OPL Non-Participating Business will be replicated in ZAL Statutory Fund No. 2.

5.4 Transfer of Policies from OPL Statutory Fund No. 2

This Statutory Fund contains Non-Participating Ordinary investment-linked policies (including capital stable investment options) which will be transferred to ZAL Statutory Fund No. 3.

All the assets and liabilities of OPL Statutory Fund No. 2 will be transferred to ZAL Statutory Fund No. 3. The existing OPL and ZAL investment units will be maintained separately in ZAL Statutory Fund No. 3.

5.5 Transfer of Policies from OPL Statutory Fund No. 3

This Statutory Fund contains both OPL Participating Business and OPL Non-Participating Business related to the Superannuation class of business under the Life Act. The transfer of each of these is described separately below.

5.5.1 OPL Participating Business

The OPL Participating Policies will be transferred to ZAL Statutory Fund No. 2.

The OPL Participating Business is currently managed in a number of sub-funds representing key product groupings.

All the assets and liabilities of the Participating Sub-Funds of OPL Statutory Fund No. 3 will be transferred to ZAL Statutory Fund No. 2. The assets being transferred will remain invested in accordance with the existing OPL investment strategies for this business. The Participating Sub-Funds used to manage the OPL Participating Business will be replicated in ZAL Statutory Fund No. 2. The existing practices for the declaration of bonuses and crediting rates to OPL Participating Policies will be unaffected by the Scheme.

5.5.2 OPL Non-Participating Business

The OPL Non-Participating Business consists of:

- traditional whole of life and endowment business;
- investment account business;
- risk insurance policies – death, total and permanent disability, trauma and disability income insurances, for both individuals and groups; and
- annuity business for either fixed terms or for the lifetime of the annuitant.

This business will be transferred to ZAL Statutory Fund No. 2 which contains a similar set of Non-Participating policies. The existing charging structures, terms and conditions of the OPL Policies as contained in their respective policy documents will be unaffected by the Scheme.

All the assets and liabilities in respect of the OPL Non-Participating Business will be transferred to ZAL Statutory Fund No. 2.

Where OPL Policy Owner benefits are impacted by the investment returns of assets backing those policies, the assets being transferred will remain invested in accordance with the existing OPL investment strategies for this business, and the existing sub-funds used to manage this OPL business will be replicated in ZAL Statutory Fund No. 2.

5.6 Transfer of Policies from OPL Statutory Fund No. 4

This Statutory Fund contains Non-Participating Superannuation investment-linked business, which will be transferred to ZAL Statutory Fund No. 3.

All the assets and liabilities of OPL Statutory Fund No. 4 (other than contingent liabilities relating to the Superannuation Class Action) will be transferred to ZAL Statutory Fund No. 3. The existing OPL and ZAL investment units will be maintained separately in ZAL Statutory Fund 3.

5.7 Transfer of Policies from OPL Statutory Fund No. 5

This Statutory Fund contains Non-Participating business related to the Ordinary class of business under the Life Act. The policies referrable to this Statutory Fund relate to variable annuity business with a longevity guarantee, which will be transferred to ZAL Statutory Fund No. 2. Note that OPL Statutory Fund No. 5 only provides the guarantee in respect of this business and that guarantee will be transferred to ZAL Statutory Fund 2.

All the assets and liabilities of OPL Statutory Fund No. 5 will be transferred to ZAL Statutory Fund No. 2.

5.8 Costs and Expenses

All costs and expenses (including any stamp duty and additional taxes) incurred by ZAL and OPL in connection with the Scheme will be borne by ZFSA. No costs will be borne by either ZAL Policy Owners or OPL Policy Owners or be directly or indirectly allocated to the participating policy owners of ZAL or OPL.

5.9 Policy Amendments

There will be no amendments to any of the terms and conditions of the ZAL Policies as a result of the Scheme.

The only change that will be made to OPL Policies as a result of the Scheme will be that all references in the policy to “OPL” will be deemed to be a reference to “ZAL”, and references to an OPL statutory fund will be deemed to be a reference to the corresponding destination statutory fund in ZAL.

5.10 Mechanics of the Scheme

Subject to the Federal Court’s confirmation of the Scheme, the transfer of assets and liabilities described above will be effective on and from the Effective Date. The procedure for the transfer will include the following elements:

- the assets, liabilities and associated retained profits (other than the contingent liabilities arising from the CCI Class Action and Superannuation Class Action, and $12m of assets in OPL Statutory Fund No. 1) of the various OPL Statutory Funds as at the Effective Date for the business being transferred will transfer to the relevant ZAL Statutory Funds;
- the contingent liabilities of OPL Statutory Funds No. 1 and No. 4 arising from the CCI Class Action and Superannuation Class Action respectively will transfer to the ZAL Shareholder Fund;
- the capital that exists in the Statutory Funds of OPL will be transferred to the Statutory Funds of ZAL to which the OPL business is being transferred;
- the PCA will be determined for ZAL in accordance with APRA Prudential Standards, with allowance for the business being transferred; and
- all balances (both assets and liabilities) in the OPL Shareholder Fund as at the Effective Date will be transferred to the ZAL Shareholder Fund.

Any amounts payable by OPL as at the Effective Date, including both policy and other liabilities, will be settled by ZAL on and from the Effective Date from the assets of the relevant ZAL Statutory Fund or the ZAL Shareholder Fund. This includes any claims on OPL Policies related to events occurring prior to the Effective Date that had not been reported to OPL by the Effective Date.

Any tax liabilities or assets, including income tax, GST or stamp duty incurred or payable by OPL, will be settled by ZAL on and from the Effective Date from the assets of the relevant ZAL Statutory Fund or the ZAL Shareholder Fund. There are no capital gains tax consequences of the transfer as the transfer is within the same consolidated tax group.

Any pending applications for an OPL product made prior to the Effective Date will be treated as if they are an application to be issued from ZAL. Any pending alteration requests for OPL Policies at the Effective Date will be executed by ZAL.

Any liability relating to OPL Policies that becomes payable after the Effective Date as a result of any action, error or omission of OPL, for example an administration error, will become a liability of ZAL.

On and from the Effective Date, each ZAL Statutory Fund and the ZAL Shareholder Fund will continue to be subject to the APRA Prudential Standards. To the extent that ZAL has assets either in excess of, or lower than, Target Surplus as at the Effective Date, the surplus position will be managed in the normal course of business in accordance with the ICAAP.

No changes will be made to ZAL Policies, systems and practices as at the Effective Date. For example, the determination of Target Surplus under the ICAAP for ZAL on and from the Effective Date will effectively reflect the requirement as it currently applies to existing ZAL business and the relevant business transferred from OPL. In accordance with ZAL’s normal business practice, the ICAAP will be subject to at least one update during 2022. The ICAAP will incorporate any diversification benefits available from the larger insurance pools from the Scheme Effective Date.

ZAL will adopt the OPL policies, systems and practices as at the Effective Date for administering and managing the OPL Policies. ZAL will maintain the OPL administration platforms and operational management practices (including pricing, underwriting, claims management, asset valuation bases, taxation and accounting approaches, Participating business management, unit pricing and investment management). Transactions related to the transferring OPL Policies will continue to be processed by ZAL in the same way as they were processed by OPL prior to the transfer.

Given that there will be no change in the administration of either the ZAL or OPL Policies, the expense base of the combined operation is not expected to alter materially following the implementation of the Scheme. Expenses are currently allocated by each of OPL and ZAL to relevant segments of the business and ultimately to the Statutory Fund to which those segments of the business relate. No change will be made to the principles for allocating expenses to the relevant segments of the business as a result of the Scheme. Where a segment of the business will be transferred under the Scheme, the expenses for that segment of the business will in future be met from the ZAL Statutory Fund for that transferred business. An example is the Participating business currently in OPL Statutory Funds No. 1 and No. 3, where the expenses allocated to those policies will in future relate to ZAL Statutory Fund No. 2. However, there is no expectation that the expenses allocated to either the Participating or Non-Participating segments of the business will change materially as a result of the Scheme. A small reduction in expenses is anticipated, but the effect is immaterial from a policy owner perspective.

From the Effective Date, it is expected that all rights and obligations of OPL under reinsurance treaties to which OPL is a party will become rights and obligations of ZAL on their current terms and accordingly will continue after the Effective Date unaffected by the Scheme. Formal confirmation has been sought and obtained from the reinsurers that treaties will be unaffected by the Scheme, including from ZIC.

From the Effective Date, OPL will cease to carry on business as a life insurer.

5.11 Effect of the Scheme on the Capital Position

Table 8 below provides an indication of the effect of the Scheme on the capital position of the Statutory Funds and Shareholder Fund of ZAL if the Scheme had taken effect as at 31 December 2021. For comparison purposes, Table 8 also shows the equivalent PCA Coverage Ratio before the proposed transfers under the Scheme (including the transfer to the ZAL Shareholder Fund in March 2022). The capital position shown is the regulatory capital required to be held in accordance with LPS 110. The post transfer capital position is based on the capital position of ZAL as at 31 December 2021 (including the transfer to the ZAL Shareholder Fund in March 2022), allowing for the assets and liabilities as at 31 December 2021 to be transferred under the Scheme, and an estimate of the impact of the application of LPS 110 to the combined business. The Capital Base and PCA have been calculated using methods and assumptions that satisfy the regulatory requirements. The surplus above PCA of the Statutory Funds immediately after the transfers under the Scheme may be greater than the aggregate surplus above PCA of the corresponding Statutory Funds prior to the Scheme, due to diversification of risks from the combination with the existing business.

Table 8: ZAL Capital Position as at 31 December 2021[1]					
After the Scheme					
$m	SF2[1]		SF3[1]	Shareholder Fund	Total ZAL
	Par	Non-Par	Non-Par	Non-Par	
Net Assets	21	2,488	52	299	2,860
Intangibles	0	0	0	-246	-246
Regulatory adjustments[2]	4	-1,460	-2	-1	-1,459
Capital Base	**25**	**1,028**	**50**	**52**	**1,155**
	1,052				
PCA[3]	600		8	2	611
Surplus above PCA	**452**		**42**	**50**	**544**
PCA Coverage Ratio %	**175%**		**605%**	**2367%**	**189%**
Before the Scheme					
PCA Coverage Ratio %	**211%**		**539%**	**2318%**	**252%**

Notes:
1. These headings represent Statutory Funds No. 2 and No. 3 respectively.
2. Regulatory adjustments are the adjustments to net assets defined in LPS 112 to determine the Capital Base. These include adjusting policy liabilities for minimum surrender values, adjusting for regulatory capital held in subsidiaries, and adjusting for excess deferred tax assets in the Balance Sheet.
3. The PCA is a risk based capital amount defined in the prudential capital standards. The PCA includes an estimate of the diversification benefit (PCA reduction of $29m) expected to be achieved following the transfer of assets and liabilities under the Scheme and the application of LPS 110 to the combined business.

If the Scheme had taken effect as at 31 December 2021, each of the ZAL Statutory Funds and the ZAL Shareholder Fund would have had a PCA Coverage Ratio greater than 100%. This means that each of these funds would have met APRA's prudential capital requirements. While the capital standards operate at total Statutory Fund level, if the Participating and Non-Participating business within ZAL Statutory Fund No. 2 were considered separately on a stand-alone basis, each would have had a PCA Coverage Ratio greater than 100% if the Scheme had taken effect as at 31 December 2021.

We are not aware of any differences in the assumptions adopted by ZAL and OPL that would need to be amended after the Effective Date and that if amended, would threaten the ability of ZAL to meet its regulatory capital adequacy requirements.

The capital management practices of ZAL aim to ensure that sufficient capital is retained in the regulated entity to protect policy owners against a wide range of foreseeable adverse circumstances over an extended timeframe. Projections of the capital position of ZAL have been carried out that demonstrate the capacity of ZAL to absorb the impact of a range of material adverse events. After the Scheme takes effect, ZAL will be expected to continue to be able to maintain a PCA Coverage Ratio above 100% for the foreseeable future.

5.12 Impact of the Scheme on the Administration of the Business

During the period after OPL became part of the Zurich Group in 2019, there has been significant alignment of administration practices across the two life companies, and the combined business is managed by business units that span the two companies. There is a project underway to migrate most of the OPL data from legacy OPL systems onto ZAL systems, which is scheduled to be completed prior to the Scheme Effective Date. Key operational management practices together with frameworks for risk and capital management have already been significantly aligned, to the extent practicable given underlying product and system considerations.

Since ZAL will adopt the OPL policies, systems and practices as at the Effective Date related to the administration and management of the OPL Policies, the administration of the OPL

Policies will not be impacted by the Scheme. While the OPL Policies will have been transferred to ZAL systems, they will continue to be identifiable as ex-OPL business, in order to facilitate the application of any specific procedures, terms or conditions that may apply to the OPL Policies.

5.13 Treatment of Class Action Proceedings in the Scheme

At the date of this report, OPL is defending two class actions.

Superannuation Class Action

As noted in section 4.8, a class action on behalf of certain members of the OPMF and the RPS fund was commenced in the Federal Court on 23 December 2020 against OPC, ANZ and OPL. The class action concerns allegations of contraventions by OPC of statutory and general law duties, and allegations that ANZ and OPL were involved in the alleged contraventions by OPC. It is alleged that those contraventions resulted in reductions to member account balances.

CCI Class Action

As noted in section 4.7, on 28 February 2020 a class action relating to consumer credit insurance was filed in the Federal Court against ANZ, OPL, OPGI and QBE. The class action primarily concerns allegations that ANZ, OPL, OPGI and QBE engaged in misleading or deceptive conduct and unconscionable conduct by selling certain consumer credit insurance policies to customers which had very little value to them.

The Court proceedings in the Superannuation Class Action and the CCI Class Action remain in progress as at the date of this report. It is anticipated that the outcome of both the Superannuation Class Action and the CCI Class Action will not be determined until after the Scheme becomes effective.

If the Scheme becomes effective, on and from the Effective Date any legal proceedings commenced against OPL in connection with an OPL Policy (including the Superannuation Class Action and the CCI Class Action) will be continued against ZAL instead of OPL and the proceedings will be amended to that effect. The Scheme will also result in OPL's contingent liabilities under the CCI Class Action and Superannuation Class Action being transferred to the ZAL Shareholder Fund.

6. EFFECT OF THE SCHEME ON EXISTING ZAL POLICY OWNERS

6.1 Overview

This section reviews the effect of the Scheme on the Existing ZAL Policy Owners. In assessing the significant issues relevant to the Existing ZAL Policy Owners, the following points have been considered:

- ZAL Policy Owners' contractual benefits and other rights;
- ZAL Policy Owners' reasonable benefit expectations; and
- ZAL Policy Owners' benefit security.

These points are discussed in more detail below.

6.2 Contractual Benefits and Other Rights

This section of the report considers the effect of the Scheme on the contractual benefits and other rights of Existing ZAL Policy Owners.

Under the Scheme, there are no changes to the contractual policy terms or conditions for any Existing ZAL Policy Owners, and no changes to administration practices. All existing guarantees in respect of Existing ZAL Policy Owners are managed by ZAL and will continue to be managed and met by ZAL and are unaffected by the Scheme.

On this basis, we conclude that there will be no effect on the contractual benefits or other rights of Existing ZAL Policy Owners arising from the Scheme.

6.3 Reasonable Benefit Expectations

The fundamental expectation of policy owners is that they will receive their contractual benefit entitlements as they fall due. Consistent with this, they will expect the life company to manage their business in a sound and prudent manner. We have considered the following aspects related to policy owner expectations:

- for Participating policies – bonus/crediting rates, investment strategy, expenses, and profit allocations;
- for Non-Participating policies – premium rates and charges, and investment strategy; and
- for all policies – the administration of the business.

6.3.1 ZAL Participating Policies

The ZAL Participating Policies are entitled to share in the profits arising from the operation of the relevant ZAL Policies. Profits are distributed to the ZAL Participating Policies principally by means of reversionary bonuses (for traditional policies) or credited interest (for investment account policies). Future bonus additions and interest credits will depend primarily on investment performance, surrender and insurance experience, the method of profit allocation, the retained profits yet to be distributed, and the expenses allocated to the relevant part of ZAL Statutory Fund No. 2.

ZAL Participating Policies are currently maintained in a series of separate sub-funds, which will not change as a result of the Scheme. Separate sub-funds will be established in ZAL for the OPL Participating Business transferred from OPL Statutory Funds No. 1 and No. 3. The OPL Participating Business will remain distinct from the existing Participating business in ZAL Statutory Fund No. 2. Policy owners from a ZAL participating sub-fund cannot benefit from retained profit of an OPL participating sub-fund and similarly policy owners from an OPL participating sub-fund cannot benefit from retained profit of a ZAL participating sub-fund.

No changes are proposed to the investment strategies, the profit allocation approach, the bonus policy, or the bases used to determine any discretionary benefit entitlements (such as surrender values, bonus rates or interest crediting rates) in respect of the existing owners of

ZAL Participating Policies, noting that ZAL can review the appropriateness of these items from time to time and this is unaffected by the Scheme.

Expenses for ZAL are allocated to relevant segments of the business and ultimately to the Statutory Fund to which those segments of the business relate. No change will be made to the principles for allocating expenses to the relevant segments of the business as a result of the Scheme. Where a segment of the business will relate to a different Statutory Fund if the Scheme proceeds, such as the Participating business currently in OPL Statutory Funds No. 1 and No. 3, the expenses allocated to those policies will in future relate to ZAL Statutory Fund No. 2. Assuming the Scheme proceeds, no material change in the expenses allocated to these ZAL Participating Policies is expected.

Overall, the reasonable benefit expectations of owners of ZAL Participating Policies will not be adversely affected by the proposed addition to the Participating Sub-Fund of ZAL Statutory Fund No. 2 of those Participating policies previously referrable to OPL Statutory Funds No. 1 and No. 3.

6.3.2 ZAL Non-Participating Policies

For the ZAL Non-Participating Business, premium rates and charges are important components of policy owner expectations. Where premium rates and charges are not guaranteed and can be changed by ZAL, the review of premium rates and charges is a regular company activity, and this is unaffected by the Scheme. In carrying out these reviews, consideration is given both to individual product experience and the experience of the portfolio of similar products (where each portfolio comprises products of both ZAL and OPL). As the Scheme will not lead to changes to any individual products or product portfolios, it will have no impact on pricing for Existing ZAL Policy Owners. Where premium rates and charges are guaranteed, these guarantees will continue to apply. Consequently, we do not consider that the reasonable benefit expectations of policy owners are affected by the Scheme.

The investment guidelines for the ZAL Non-Participating Business will be unaffected by the Scheme. Additional investment guidelines will be required for the business relating to the transferring OPL Policy Owners, however these will be established such that they are the same as those currently applying in OPL and will not affect Existing ZAL Policy Owners.

The ZAL non-participating investment account business receives discretionary declared crediting rates determined by management, based on the investment return on assets backing this business, and available reserves. The policies and processes relating to the declaration of crediting rates for this business will not be impacted by the Scheme.

6.3.3 Administration of the Business

No changes are proposed to administration systems or management policies or practices in respect of Existing ZAL Policy Owners as a result of the Scheme.

Policy administration will be unaffected by the Scheme and will continue to be performed using the existing administration systems and processes. Management may review administrative structures in the normal course of business, and this is unaffected by the Scheme.

As noted elsewhere in this report, ZAL will continue to review the appropriateness of its policies from time to time and any changes that are made in the future will be consistent with the contractual and legal obligations of ZAL.

6.3.4 Conclusion

We conclude that there will be no adverse effect on the reasonable benefit expectations of Existing ZAL Policy Owners arising from the Scheme.

6.4 Benefit Security

To assess the benefit security of ZAL Policy Owners after the Scheme takes effect, it is important to consider the financial effect of the Scheme on the ZAL Statutory Funds and the ongoing risk management framework. In this regard, we have considered the investment strategy, the capital position including the ZAL Shareholder Fund, the change in the business in each ZAL Statutory Fund and, for risk insurance business, the reinsurance arrangements and any bespoke risks.

6.4.1 Investment Strategy

The investment strategy relating to the assets in a Statutory Fund can affect the risks to which the Statutory Fund is exposed, and therefore the amount of capital required in that Statutory Fund to meet these risks and provide a particular level of benefit security. Where OPL Policy Owner benefits are impacted by the investment returns of assets backing those policies, the business proposed to be transferred from OPL will be invested in accordance with the existing OPL investment strategy, which will be replicated in ZAL and will be unaffected by the Scheme. In all cases, the investment strategy is consistent with the benefit structure of the policies. The investment strategy that applies to the Existing ZAL Policy Owners will be unaffected by the Scheme.

The ZAL and OPL investment governance frameworks were aligned in late 2021. Hence, ZAL Policy Owners will not be adversely impacted by the nature of the OPL investments transferred to ZAL under the Scheme.

At all times, ZAL will be required under the Life Act to maintain sufficient reserves to meet the PCA, and ZAL holds Target Surplus above regulatory capital appropriate to the overall asset and liability profile of each Statutory Fund and the company as a whole.

6.4.2 Capital Position

To protect the security of policy owner benefits, regulatory capital standards require life companies to ensure that each Statutory Fund maintains a PCA Coverage Ratio at or above 100%. It is common practice for life companies to maintain a buffer above the minimum capital requirement to provide further security for policy owner benefits, and for each of ZAL and OPL this buffer is managed in accordance with its ICAAP.

The following table shows the PCA, surplus assets above PCA and PCA Coverage Ratio for each of the ZAL Statutory Funds, both prior to the Scheme and after the Scheme on the basis that the transfer had occurred on 31 December 2021.

Table 9: Impact of the Scheme on ZAL Capital

$m		ZAL SF2	ZAL SF3	Shareholder Fund	Total
Before Proposed Transfer*	PCA	135	3	2	141
	Surplus above PCA	176	15	23	214
	PCA Coverage Ratio %	*211%*	*539%*	*2318%*	*252%*
		ZAL SF2	**ZAL SF3**	**Shareholder Fund**	**Total**
After Proposed Transfer	PCA	600	8	2	611
	Surplus above PCA	452	42	50	544
	PCA Coverage Ratio %	*175%*	*605%*	*2367%*	*189%*

* ZAL capital position "Before Proposed Transfer" includes the impact of the March 2022 transfer of $25m from ZAL Statutory Fund No. 2 to the ZAL Shareholder Fund.

In the case of each ZAL Statutory Fund, following the implementation of the Scheme:

- the minimum capital required by regulatory capital standards (PCA) would continue to be met;
- the amount of surplus above the PCA, in dollar terms, would be greater than before the Scheme; and
- the PCA Coverage Ratio would be within the normal operating range as set out in the ZAL ICAAP.

Assuming the proposed transfer had occurred at 31 December 2021, the assets of the Shareholder Fund of ZAL would continue to have had more than sufficient assets to meet regulatory capital requirements.

As at 31 December 2021 the PCA Coverage Ratio for ZAL across all of its Statutory Funds and the Shareholder Fund was 252% before the Scheme. Following the transfer of OPL assets and liabilities to ZAL under the Scheme, ZAL's PCA Coverage Ratio would have been 189%. The PCA Coverage Ratio for ZAL across all of its Statutory Funds and the Shareholder Fund both before the Scheme and after the Scheme (had the Scheme been implemented on 31 December 2021) is more than sufficient to meet regulatory capital requirements, and is in the normal operating range for Target Surplus under the ZAL ICAAP.

The normal operating range for Target Surplus referred to above has been determined by applying the ZAL ICAAP to the aggregated business in ZAL, following the implementation of the Scheme.

Any surplus above the bottom end of the normal operating range for Target Surplus is available to be paid as a dividend to shareholders. Therefore, the security of ZAL Policy Owner benefits in the Statutory Funds will remain appropriate so long as the surplus remains within that normal operating range. In all cases, both for the ZAL Statutory Funds and for ZAL as a whole, surplus continues to be in the normal operating range after the implementation of the Scheme.

In our opinion, the benefit security of ZAL Policy Owners following execution of the Scheme will continue to be appropriate.

6.4.3 Change in the Life Insurance Business of the ZAL Statutory Funds as a result of the Scheme

ZAL Statutory Fund No. 2 will, if the Scheme proceeds, contain the following components:

- Participating life insurance business, including the existing ZAL Participating Business in that Statutory Fund, and the OPL Participating Business transferred from OPL Statutory Funds No. 1 and No. 3; and
- Non-Participating life insurance business, including the existing ZAL Non-Participating Business in that Statutory Fund, and the OPL Non-Participating Business transferred from OPL Statutory Funds No. 1, No. 3 and No. 5.

There will be a larger pool of business in ZAL Statutory Fund No. 2 following the transfer of the OPL Policies into that Statutory Fund. ZAL Statutory Fund No. 2 will continue to contain a mix of both Participating and Non-Participating business. Of the business to be transferred there are three elements worthy of noting:

- ZAL Statutory Fund No. 2 will have investment account business transferred to it from OPL Statutory Funds No. 1 & No. 3 if the Scheme is implemented. This business includes stronger guarantees, and is larger in scale, than the similar investment account business already in the fund. The business transfers with commensurate capital to support these risks, is expected to diversify the risks in ZAL Statutory Fund No. 2, and the risks added to ZAL Statutory Fund No. 2 by this business are well understood and managed.
- ZAL Statutory Fund No. 2 will have variable annuity guarantee business transferred to it from OPL Statutory Fund No. 5. While the nature of this risk is different to other risks within ZAL Statutory Fund 2, the quantum of this business is immaterial in relation to the size of ZAL Statutory Fund No. 2 following implementation of the Scheme.
- ZAL Statutory Fund No. 3 will have a larger book of investment-linked business following the transfer of the OPL Policies into this Statutory Fund. One point of difference will be the capital stable investment business to be transferred from OPL Statutory Funds No 2. & No. 4 where ZAL will provide a guarantee on the investment return, notwithstanding that it does not administer the policies. The existing business of ZAL Statutory Fund No. 3 does contain some guarantees on the investment return that are similar to those on the business being

transferred from OPL, although the volumes are larger in OPL. The risks added to ZAL Statutory Fund No.3 by this business are well understood and are similar to risks already present in the fund.

Overall, the above changes to the life insurance business in each of the ZAL Statutory Funds will not result in any adverse effects on the benefit security of policy owners in any material respect.

6.4.4 Reinsurance Arrangements

ZAL and OPL currently adopt a common risk management strategy which extends to the approach used to manage reinsurance exposures and arrangements. The reinsurance covers associated with the transferring OPL Policies will transfer to ZAL as part of the Scheme. Therefore, there are no changes to reinsurance coverage that will result in any adverse effects to the benefit security of policy owners.

6.4.5 Bespoke Risks

There are two bespoke risks in OPL which transfer to ZAL as part of the scheme, being remediation programs currently being undertaken by OPL, and OPL being named in two class actions.

Remediation programs

The remediation programs currently underway are supported by existing provisions held in the OPL Statutory Funds which will transfer to ZAL. Any residual risks transferred to ZAL are not expected to be material.

Class actions

The CCI Class Action and the Superannuation Class Action are described in paragraphs 4.7 and 4.8 respectively. It is anticipated that both class actions will remain in progress as at the date the Scheme becomes effective.

As noted in section 5.13, if the Scheme becomes effective and the class actions remain in progress at that time:

- the class actions will continue against ZAL instead of OPL; and
- on and from the Effective Date, any liabilities arising from the class actions will be transferred under the Scheme to the ZAL Shareholder Fund.

Accordingly, any liabilities of ZAL arising from the class actions on and from the Effective Date would be funded from the ZAL Shareholder Fund.

These arrangements provide additional protection for Existing ZAL Policy Owners as:

- the only liabilities that can be paid from ZAL Statutory Fund assets are liabilities to ZAL Policy Owners; and
- ZAL Statutory Fund assets could only be transferred to the ZAL Shareholder Fund and then used to pay class action liabilities or other liabilities of ZAL if the ZAL Board is satisfied (after receiving actuarial advice) that following the transfer, the relevant Statutory Fund would continue to be sufficiently capitalised to protect ZAL Policy Owners.

We consider the transfer of contingent risks associated with the two class actions to the ZAL Shareholder Fund to be appropriate having regard to the following:

- the ongoing operation of ZAL's ICAAP and risk management framework which is already aligned between the two entities and under the Zurich Group framework;
- the allowance for operational risk in this framework and the amount of capital held for conduct risk, which will be held in the ZAL Shareholder Fund;

- the expected level of target surplus and assets in excess of the PCA in ZAL after the execution of the Scheme, both in aggregate and in each of the ZAL Statutory Funds and the ZAL Shareholder Fund;
- the nature of the claims made against OPL as part of the proceedings;
- the potential for recoveries from third parties under contractual or insurance arrangements;
- the arrangements established with ZIC, the Swiss based holding company of ZAL, for ZIC to provide financial support that may be required by ZAL to meet liabilities arising from the class actions; and
- ZIC's strong (AA/stable) S&P rating.

6.4.6 Conclusion

Based on the analysis above, we conclude that:

- each of the Statutory Funds of ZAL, and ZAL as a whole, will be in a sound financial position immediately following the Scheme taking effect; and
- the benefit security of Existing ZAL Policy Owners after the Scheme takes effect will continue to be appropriate.

6.5 Overall Conclusion

Overall we conclude that, as a result of the Scheme:

- there will be no effect on the contractual benefits or other rights of Existing ZAL Policy Owners;
- there will be no adverse effect on the reasonable benefit expectations of Existing ZAL Policy Owners;
- each of the Statutory Funds of ZAL, and ZAL as a whole, will be in a sound financial position immediately following the Scheme taking effect; and
- the security of the benefits of Existing ZAL Policy Owners will continue to be appropriate.

7. EFFECT OF THE SCHEME ON TRANSFERRING OPL POLICY OWNERS

7.1 Overview

This section reviews the effect of the Scheme on the transferring OPL Policy Owners. In assessing the significant issues relevant to these OPL Policy Owners, the following points have been considered:

- OPL Policy Owners' contractual benefits and other rights;
- OPL Policy Owners' reasonable benefit expectations; and
- OPL Policy Owners' benefit security.

These points are discussed in more detail below.

7.2 Contractual Benefits and Other Rights

This section of the report considers the effect of the Scheme on the contractual benefits and other rights of the owners of transferring OPL Policies.

The only amendments proposed to the owners of transferring OPL Policies are a procedural change to reflect the issuer of the policies (ZAL), and a change to the respective Statutory Fund to which those policies will be referable (as set out in Section 5 of this report). Existing guarantees under these policies are currently managed by OPL and will in future be managed and provided by ZAL, and otherwise will be unaffected by the Scheme. Policy guarantees are taken into account in determining the regulatory capital requirements and Target Surplus, and this will continue with ZAL after the Effective Date. There will be no changes to administration practices.

On this basis, we conclude that there will be no effect on the contractual benefits or other rights of the owners of transferring OPL Policies arising from the Scheme.

7.3 Reasonable Benefit Expectations

The fundamental expectation of policy owners is that they will receive their contractual benefit entitlements as they fall due. Consistent with this, they will expect the life company to manage their business in a sound and prudent manner. We have considered the following aspects related to policy owner expectations:

- for Participating policies – bonus/crediting rates, investment strategy, expenses, and profit allocations;
- for Non-Participating policies – premium rates and charges and investment strategy; and
- for all policies – the administration of the business.

7.3.1 OPL Participating Policies

The OPL Participating Policies are entitled to share in the profits arising from the operation of the relevant OPL Policies. Profits are distributed to the OPL Participating Policies principally by means of reversionary and terminal bonuses (for conventional policies) or credited interest (for investment account policies). Future bonus additions and interest credits will depend primarily on investment performance, surrender and insurance experience, the method of profit allocation, the retained profits yet to be distributed, and the expenses allocated to the OPL Participating Policies.

OPL Participating Policies are currently maintained in a series of separate sub-funds, which will not change as a result of the Scheme. Separate sub-funds will be established in ZAL for the Participating business transferred from OPL. The Participating business will remain distinct from the existing Participating business in ZAL Statutory Fund No. 2. Policy owners from a ZAL participating sub-fund cannot benefit from retained profit of an OPL participating sub-fund and similarly policy owners from an OPL participating sub-fund cannot benefit from retained profit of a ZAL participating sub-fund.

No changes are proposed to the investment strategies, the profit allocation approach, the bonus policy, or the bases used to determine any discretionary benefit entitlements (such as surrender values, bonus rates or interest crediting rates) in respect of the OPL Participating Policies, noting that ZAL can review the appropriateness of these items from time to time and this is unaffected by the Scheme.

Expenses for OPL are allocated to relevant segments of the business and ultimately to the Statutory Fund to which those segments of the business relate. No change will be made to the principles of allocating expenses to the relevant segments of the business as a result of the Scheme. Where a segment of the business will relate to a different Statutory Fund if the Scheme proceeds, such as the Participating business currently in OPL Statutory Funds No. 1 and No. 3, the expenses allocated to those policies will in future relate to ZAL Statutory Fund No. 2. Assuming the Scheme proceeds, no material change in the expenses allocated to these OPL Participating Policies is expected.

Overall, the reasonable benefit expectations of owners of OPL Participating Policies will not be adversely affected by the proposed transfer of the OPL Participating Policies to ZAL Statutory Fund No. 2 under the Scheme.

7.3.2 OPL Non-Participating Policies

For the OPL Non-Participating Business, premium rates and charges are important components of policy owner expectations. Where premium rates and charges are not guaranteed and can be changed by OPL, the review of premium rates and charges is a regular company activity, and this is unaffected by the Scheme. In carrying out these reviews, consideration is given both to individual product experience and the experience of the portfolio of similar products (where each portfolio comprises products of both OPL and ZAL). As the Scheme will not lead to changes to any individual products or product portfolios, it will have no impact on pricing for transferring OPL Policy Owners. Where premium rates and charges are guaranteed, these guarantees will continue to apply. The determination of crediting rates for non-participating investment account policies is based on defined methodologies which do not allow for discretion, and these will not change as a result of the scheme. Consequently, we do not consider that the reasonable benefit expectations of policy owners are altered by the Scheme.

The investment strategy for the OPL Non-Participating Business will be unaffected by the Scheme. The existing investment strategy applying to transferring OPL Policy Owners as at the Effective Date will be replicated in ZAL.

7.3.3 Administration of the Business

No changes are proposed to administration systems or management policies or practices in respect of transferring OPL Policy Owners as a result of the Scheme.

Policy administration will be unaffected by the Scheme and will continue to be performed using the existing OPL administration systems and processes. There is a project underway to migrate most of the OPL data from legacy OPL systems onto ZAL systems, principally Life3, which is scheduled to complete prior to the Scheme. This will occur regardless of the Scheme and is unaffected by the Scheme. Management may review administrative structures in the normal course of business and this is unaffected by the Scheme.

As noted elsewhere in this report, ZAL will continue to review the appropriateness of its policies from time to time and any changes that are made in the future will be consistent with the contractual and legal obligations of ZAL.

7.3.4 Conclusion

We conclude that there will be no adverse effect on the reasonable benefit expectations of transferring OPL Policy Owners arising from the Scheme.

7.4 Benefit Security

To assess the benefit security of OPL Policy Owners after the Scheme takes effect, it is important to consider the financial effect of the Scheme on the ZAL Statutory Funds and the ongoing risk management framework. In this regard, we have considered the investment strategy, the capital position including the ZAL Shareholder Fund, the change in the business in each Statutory Fund, and for risk insurance business, reinsurance arrangements and any bespoke risks.

7.4.1 Investment Strategy

The investment strategy relating to the assets in a Statutory Fund can affect the risks to which the Statutory Fund is exposed, and therefore the amount of capital required in that Statutory Fund to meet these risks and provide a particular level of benefit security. Where OPL Policy Owner benefits are impacted by the investment returns of assets backing those policies, the business proposed to be transferred from OPL will be invested in accordance with the existing OPL investment strategy, which will be replicated in ZAL and will be unaffected by the Scheme. In all cases, the investment strategy is consistent with the benefit structure of the policies. The investment strategy that applies to the Existing ZAL Policy Owners will be unaffected by the Scheme.

The investment governance frameworks for ZAL and OPL were aligned late in 2021. Hence, OPL Policy Owners will not be adversely impacted by the application of ZAL's investment governance framework following the implementation of the Scheme.

At all times, ZAL will be required under the Life Act to maintain sufficient reserves to meet the PCA, and ZAL holds Target Surplus above regulatory capital appropriate to the overall asset and liability profile of each Statutory Fund and the company as a whole.

7.4.2 Capital Position

To protect the security of policy owner benefits, regulatory capital standards require life companies to ensure that each Statutory Fund maintains a PCA Coverage Ratio at or above 100%. It is common practice for life companies to maintain a buffer above the minimum capital requirement to provide further security for policy owner benefits, and for each of ZAL and OPL this buffer is managed in accordance with its ICAAP.

The following table shows the PCA, surplus assets above PCA and PCA Coverage Ratio for each of the OPL Statutory Funds prior to the Scheme and after the Scheme on the basis that the transfer had occurred on 31 December 2021.

<table>
<tr><th colspan="9">Table 10: Impact of the Scheme on OPL Capital ($m)</th></tr>
<tr><th colspan="2"></th><th>OPL SF1</th><th>OPL SF3</th><th>OPL SF5</th><th>OPL SF2</th><th>OPL SF4</th><th>Shareholder Fund</th><th>Total</th></tr>
<tr><td rowspan="3">Before Proposed Transfer</td><td>PCA</td><td>272</td><td>213</td><td>9</td><td>3</td><td>2</td><td>0</td><td>499</td></tr>
<tr><td>Surplus above PCA</td><td>187</td><td>88</td><td>8</td><td>10</td><td>17</td><td>2</td><td>312.8</td></tr>
<tr><td>PCA Coverage Ratio %</td><td>169%</td><td>142%</td><td>189%</td><td>408%</td><td>1089%</td><td>5391%</td><td>163%</td></tr>
<tr><th colspan="2"></th><th colspan="3">ZAL SF2</th><th colspan="2">ZAL SF3</th><th>Shareholder Fund</th><th>Total</th></tr>
<tr><td rowspan="3">After Proposed Transfer</td><td>PCA</td><td colspan="3">600</td><td colspan="2">8</td><td>2</td><td>611</td></tr>
<tr><td>Surplus above PCA</td><td colspan="3">452</td><td colspan="2">42</td><td>50</td><td>544</td></tr>
<tr><td>PCA Coverage Ratio %</td><td colspan="3">175%</td><td colspan="2">605%</td><td>2367%</td><td>189%</td></tr>
</table>

In the case of each OPL Statutory Fund, following the implementation of the Scheme:

- the minimum capital required by regulatory capital standards (PCA) would continue to be met;
- the amount of surplus above the PCA, in dollar terms, would be greater than that amount prior to implementation of the Scheme; and
- the PCA Coverage Ratio would be within the normal operating range as set out in the ZAL ICAAP.

Assuming the proposed transfer had occurred at 31 December 2021, the Shareholder Fund of ZAL would have had more than sufficient assets to meet regulatory capital requirements, as would the OPL Shareholder Fund prior to the transfer.

As at 31 December 2021 the PCA Coverage Ratio for OPL across all of its Statutory Funds and the Shareholder Fund was 163% before the Scheme. Following the transfer of the assets and liabilities to ZAL under the Scheme, ZAL's PCA Coverage Ratio would have been 189%. OPL's PCA coverage as at 31 December 2021 (163%), and ZAL's PCA Coverage Ratio as at 31 December 2021 if the Scheme had been implemented on that date (189%), would both have been more than sufficient to meet regulatory capital requirements, and would be in the normal operating range for Target Surplus under the OPL ICAAP and the ZAL ICAAP.

The normal operating range for Target Surplus referred to above has been determined by applying the ZAL ICAAP to the aggregated business in ZAL, following the implementation of the Scheme.

Any surplus above the bottom end of the normal operating range for Target Surplus is available to be paid as a dividend to shareholders. Therefore, the security of OPL Policy Owner benefits in the Statutory Funds will remain appropriate so long as surplus remains within that normal operating range. In all cases, both for the ZAL Statutory Funds and for ZAL as a whole, surplus continues to be in the normal operating range after the implementation of the Scheme.

In our opinion, the benefit security of OPL Policy Owners following execution of the Scheme will continue to be appropriate.

7.4.3 Change in the Life Insurance Business of the OPL Statutory Funds as a result of the Scheme

ZAL Statutory Fund No. 2 will, if the Scheme proceeds, contain the following components:

- Participating life insurance business, including the existing ZAL Participating Business in that Statutory Fund, and the OPL Participating Business transferred from OPL Statutory Funds No. 1 and No. 3; and
- Non-Participating life insurance business, including the existing ZAL Non-Participating Business in that Statutory Fund, and the OPL Non-Participating Business transferred from OPL Statutory Funds No. 1, No. 3 and No. 5.

In each of these, there will be a larger pool of business in ZAL Statutory Fund No. 2 following the transfer, than in the relevant OPL Statutory Funds prior to the transfer. The Statutory Fund will continue to contain a mix of both Participating and Non-Participating business.

The business to be transferred from OPL Statutory Fund No. 5 will form part of a larger Statutory Fund with considerably greater financial resources, rather than remaining in a small stand-alone Statutory Fund.

The investment-linked business in OPL Statutory Fund No. 2 and OPL Statutory Fund No. 4 will in future exist in ZAL Statutory Fund No. 3, which will contain a larger book of investment-linked business than the relevant OPL Statutory Fund prior to the Scheme.

Overall, the above changes to the life insurance business in respect of each OPL Statutory Fund will not result in any adverse effects on the benefit security of OPL Policy Owners in any material respect.

7.4.4 Reinsurance Arrangements

The reinsurance arrangements applying to the existing OPL insurance business have been reviewed and, other than being transferred from OPL to ZAL (and all references to OPL in the reinsurance treaties being replaced with a reference to ZAL), those reinsurance arrangements will be unaffected by the Scheme.

ZAL and OPL currently adopt a common risk management strategy which extends to the approach used to manage reinsurance exposures and arrangements. The reinsurance covers associated with the OPL Policies will transfer to ZAL as part of the Scheme. Therefore, there are no changes to reinsurance coverage that will result in any adverse effects on the benefit security of policy owners.

7.4.5 Bespoke Risks

There are two bespoke risks in OPL which transfer to ZAL as part of the scheme, being remediation programs currently being undertaken by OPL, and OPL being named in two class actions.

Remediation programs

The remediation programs currently underway are supported by existing provisions held in the OPL Statutory Funds which will transfer to ZAL. Any residual risks transferred to ZAL are not expected to be material.

As OPL Policy Owners are already exposed to risks associated with current remediation programs in OPL, the Scheme will not adversely impact the benefit security of OPL Policy Owners.

There are no material remediation projects currently underway in ZAL that would present a risk to the benefit security of OPL Policy Owners.

Class actions

The CCI Class Action and the Superannuation Class Action are described in paragraphs 4.7 and 4.8 respectively. It is anticipated that both class actions will remain in progress as at the date the Scheme becomes effective.

As noted in section 5.13, if the Scheme becomes effective and the class actions remain in progress at that time:

- the class actions will continue against ZAL instead of OPL; and
- on and from the Effective Date, any liabilities arising from the class actions will be transferred under the Scheme to the ZAL Shareholder Fund.

Accordingly, any liabilities of ZAL arising from the class actions on and from the Effective Date would be funded from the ZAL Shareholder Fund.

These arrangements provide additional protection for ZAL Policy Owners (which on and from the Effective Date, will include the transferring OPL Policy Owners) as:

- the only liabilities that can be paid from ZAL Statutory Fund assets are liabilities to ZAL Policy Owners; and
- ZAL Statutory Fund assets could only be transferred to the ZAL Shareholder Fund and then used to pay class action liabilities or other liabilities of ZAL if the ZAL Board is satisfied (after receiving actuarial advice) that following the transfer, the relevant Statutory Fund would continue to be sufficiently capitalised to protect ZAL Policy Owners.

Hence, the transfer of the contingent risks associated with the class actions to the ZAL Shareholder Fund improves the benefit security of OPL Policy Owners as a whole, as they will no longer be exposed to the contingent risk from the class actions in the OPL Statutory Funds.

We have also specifically considered the impact of transferring contingent liabilities relating to the class actions to the ZAL Shareholder Fund on those OPL Policy Owners who may be entitled to compensation if the applicants in the CCI Class Action or Superannuation Class Action are successful. We have considered a range of factors relating to the security of the contingent benefits relating to the class actions, including:

- the reduced level of surplus capital above PCA available in the ZAL Shareholder Fund to meet contingent liabilities relating to the CCI Class Action, compared to OPL Statutory Fund No. 1 (where the contingent liability currently sits);
- the increased level of surplus capital above PCA available in the ZAL Shareholder Fund to meet contingent liabilities relating to the Superannuation Class Action, compared to OPL Statutory Fund No. 4 (where the contingent liability currently sits);
- the increased level of surplus capital above PCA available in ZAL overall following the implementation of the Scheme.
- the expected level of target surplus and assets in excess of the PCA (being an amount commensurate to the conduct risk component of Target Surplus) in the ZAL Shareholder Fund;
- the ongoing operation of ZAL's ICAAP and risk management framework which is already aligned between the two entities and under the Zurich Group framework;
- the nature of the claims made against OPL as part of the proceedings;
- the potential for recoveries from third parties under contractual or insurance arrangements;
- the arrangements established with ZIC (the Swiss based holding company of OPL and ZAL) for ZIC to provide financial support that may be required by ZAL to fund any liabilities arising from the CCI Class Action; and
- ZIC's strong (AA/stable) S&P credit rating.

Based on these considerations, we believe the benefit security of OPL Policy Owners with an interest in the CCI Class Action or Superannuation Class Action will continue to be appropriate.

7.4.6 Conclusion

Based on the discussion above, we conclude that:

- each of the Statutory Funds of ZAL to which OPL Policy Owners will be transferred, and ZAL as a whole, will be in a sound financial position immediately following the Scheme taking effect; and
- the benefit security of OPL Policy Owners after the Scheme takes effect will continue to be appropriate.

7.5 Overall Conclusion

Overall we conclude that, as a result of the Scheme:

- there will be no effect on the contractual benefits or other rights of OPL Policy Owners;
- there will be no adverse effect on the reasonable benefit expectations of OPL Policy Owners;
- each of the Statutory Funds of ZAL to which OPL Policies will be transferred, and ZAL as a whole, will be in a sound financial position immediately following the Scheme taking effect; and
- the security of the benefits of OPL Policy Owners will continue to be appropriate.

8. SUMMARY OF CONCLUSIONS

This section summarises the opinions we have made in this report.

We have considered all matters that are relevant in forming these opinions. Our opinions are based wholly or substantially on the specialised knowledge acquired through our actuarial training and experience as a practitioner.

We have made all the enquiries that we believe are desirable and appropriate and no matters of significance that we regard as relevant have, to our knowledge, been withheld.

8.1 Existing ZAL Policy Owners

Our opinions, based on the comments and analysis in this report, in respect of the effect of the Scheme on Existing ZAL Policy Owners, are set out below.

8.1.1 Contractual Benefits and Other Rights

There will be no effect on the contractual benefits or other rights of Existing ZAL Policy Owners.

8.1.2 Benefit Expectations

There will be no adverse effect on the reasonable benefit expectations of Existing ZAL Policy Owners.

8.1.3 Benefit Security

Each of the Statutory Funds of ZAL, and ZAL as a whole, will be in a sound financial position immediately following the Scheme taking effect.

The benefit security of Existing ZAL Policy Owners after the Scheme takes effect will continue to be appropriate.

8.2 Transferring OPL Policy Owners

Our opinions, based on the comments and analysis in this report, in respect of the effect of the Scheme on OPL Policy Owners, are set out below.

8.2.1 Contractual Benefits and Other Rights

There will be no effect on the contractual benefits or other rights of OPL Policy Owners.

8.2.2 Benefit Expectations

There will be no adverse effect on the reasonable benefit expectations of OPL Policy Owners.

8.2.3 Benefit Security

Each of the Statutory Funds of ZAL to which OPL Policy Owners will be transferred, and ZAL as a whole, will be in a sound financial position immediately following the Scheme taking effect.

The benefit security of OPL Policy Owners after the Scheme takes effect will continue to be appropriate.

8.3 Events Subsequent to 31 December 2021

There have been no events subsequent to 31 December 2021 up to the date of this report that would alter the opinions presented in this report.

Mr Stuart Turner

Appointed Actuary, Zurich Australia Limited

Fellow of the Institute of Actuaries of Australia

23 March 2022

Mr Ian Wong

Appointed Actuary, OnePath Life Limited

Fellow of the Institute of Actuaries of Australia

23 March 2022

9. APPENDICES

9.1 Appendix A – Glossary

Term	Definition
AI	Actuaries Institute.
Appointed Actuary	The actuary appointed under section 93 of the Life Act.
ANZ	Australia and New Zealand Banking Group.
APRA	Australian Prudential Regulation Authority.
APRA Prudential Standards	Prudential standards made by APRA under section 230A of the Life Act, including LPS 100, LPS 110 and associated capital adequacy standards.
Board/Directors	The Board of Directors of ZAL and/or the Board of Directors of OPL as the context requires.
Board Sub-Committee	The sub-committee constituted by each of the ZAL Board and OPL Board in accordance with the constitution of ZAL and OPL respectively to manage actual or possible conflicts in relation to the Scheme.
Capital Base	The amount of the capital base as calculated in accordance with LPS 110, LPS 112 and associated capital adequacy standards.
CCI Class Action	The class action commenced in the Federal Court on 28 February 2020 against ANZ, OPL, OPGI and QBE.
Effective Date	The effective date of the Scheme which, for the purpose of this report, is proposed to be 12.01am 1st August 2022.
Existing ZAL Policy Owners	The owners of ZAL policies immediately prior to the Effective Date.
Federal Court	The Federal Court of Australia.
ICAAP	An "Internal Capital Adequacy Assessment Process" which includes, inter alia, the Target Surplus framework.
Life Act	Life Insurance Act 1995 (Cth) and associated regulations.
LPS 100	Prudential Standard LPS 100 Solvency Standard, as determined by APRA.
LPS 110	Prudential Standard LPS 110 Capital Adequacy, as determined by APRA.
LPS 112	Prudential Standard LPS 112 Capital Adequacy: Measurement of Capital as determined by APRA.
Non-Participating (Non-Par)	One of the two benefit types as defined by section 15 of the Life Act, distinct from Participating.
Non-Participating Sub-Fund	The portion of a Statutory Fund in which the Non-Participating business is managed.
OPC	OnePath Custodians Pty Limited ABN 12 008 508 496.
OPGI	OnePath General Insurance Pty Limited ABN 56 072 892 365.
OPL	OnePath Life Limited ABN 33 009 657 176.
OPLAH	OnePath Life Australia Holdings Pty Limited ABN 31 099 145 552.
OPL Non-Participating Business	All the OPL Policies other than the OPL Participating Policies, and all the assets in an OPL Statutory Fund that support those policies and the liabilities in an OPL Statutory Fund that are referable to them, immediately prior to the Effective Date.

Term	Definition
OPL Participating Business	The OPL Participating Policies, all the assets in OPL Statutory Funds No. 1 and No. 3 that support those policies and the liabilities in OPL Statutory Funds No. 1 and No. 3 that are referable to them, immediately prior to the Effective Date.
OPL Participating Policies	All of the OPL Policies that are referable to OPL Statutory Funds No. 1 and No. 3 immediately prior to the Effective Date that are classified in accordance with the Life Act as Participating.
OPL Policies	Life policies (as defined in the Life Act) issued by OPL that are referable to the Statutory Funds of OPL immediately prior to the Effective Date.
OPL Policy Owners	Collectively, the owners of OPL Policies.
OPMF	OnePath MasterFund.
Ordinary	One of the two classes of business as specified by section 12 of the Life Act.
Participating (Par)	One of the two benefit types as defined by section 15 of the Life Act, distinct from Non-Participating.
Participating Sub-Fund	The portion of a Statutory Fund in which the Participating business is managed.
Prescribed Capital Amount (PCA)	The amount of the "prescribed capital amount" as calculated in accordance with LPS 110 and associated capital adequacy standards.
PCA Coverage Ratio	Has the meaning given in section 2.1 of this report.
QBE	QBE Insurance (Australia) Limited ABN 78 003 191 035.
RPS	Retirement Portfolio Service.
Scheme	The scheme of transfer under Part 9 of the Life Act.
Shareholder Fund	The fund of a life insurance company through which the business of the company is conducted, other than the business related to life policies (as defined in the Life Act).
Solvency Requirement	In the case of a Statutory Fund, the "Solvency requirement" as calculated in accordance with LPS 100.
Statutory Fund	A fund through which a life policy (as defined in the Life Act) is written, in accordance with the Life Act.
Superannuation	One of the two classes of business as specified by section 12 of the Life Act.
Superannuation Class Action	The class action commenced in the Federal Court on 23 December 2020 against OPC, ANZ and OPL.
Supervisory Adjustment	Any supervisory adjustment determined by APRA under paragraph 44 of LPS 110.
Target Surplus	These reserves represent the amount of capital that a life insurance company targets to maintain above the PCA, plus, for the purposes of this report, any Supervisory Adjustment determined by APRA (if applicable), with the basis of the reserves summarised in the Board-approved ICAAP Summary Statement.
ZAL	Zurich Australia Limited ABN 92 000 010 195.

Term	Definition
ZAL Non-Participating Business	All the ZAL Policies other than the ZAL Participating Policies, and all the assets in a ZAL Statutory Fund that support those policies and the liabilities in a ZAL Statutory Fund that are referable to them, immediately prior to the Effective Date.
ZAL Participating Business	The ZAL Participating Policies, all the assets in ZAL Statutory Fund No. 2 that support those policies and the liabilities in ZAL Statutory Fund No. 2 that are referable to them, immediately prior to the Effective Date.
ZAL Participating Policies	All of the ZAL Policies that are referable to ZAL Statutory Fund No. 2 immediately prior to the Effective Date that are classified in accordance with the Life Act as Participating.
ZAL Policies	Life policies (as defined in the Life Act) issued by ZAL that are referable to the Statutory Funds of ZAL immediately prior to the Effective Date.
ZAL Policy Owners	Collectively, the owners of ZAL Policies.
ZFSA	Zurich Financial Services Australia Limited ABN 11 008 423 372.
ZIC	Zurich Insurance Company Ltd, a company incorporated in Switzerland.
ZIG	Zurich Insurance Group Ltd, a company incorporated in Switzerland.
ZIM	Zurich Investment Management Limited ABN 56 063 278 400, a specialist investment manager.
ZSA	Zurich Services (Australia) Pty Limited ABN 17 627 298 337.
Zurich Group	The global Zurich Insurance Group, the parent company of which is ZIG.

9.2 Appendix B - Data

This appendix summarises the key data and information relied on in forming the conclusions and opinions set out in this report.

Table 11: Key Information Relied Upon

Ref	**Item**	**Data**
3.1	Background	ZAL Financial Condition Report 31 December 2021
3.2	Statutory Funds and Shareholder Fund	ZAL Financial Condition Report 31 December 2021
3.3	Policy Guarantees	ZAL Financial Condition Report 31 December 2021
3.4	Financial Performance	ZAL Financial Statements ZAL and OPL Business Plan
3.5	Capital Position	ZAL Financial Statements 31 December 2021 ZAL Financial Condition Report 31 December 2021 2021 ICAAP Report ZAL 31 March 2021 ICAAP Summary Statement – ZAL and OPL
3.6.1	Risk and Capital Management	ICAAP Summary Statement – ZAL and OPL ZFSA Risk Management Strategy ZAL and OPL Risk Appetite Statement
3.6.2	Operational Management	Zurich and OnePath Claims Philosophy ZAL 2021 Distribution of Participating Retained Profits and Non-Participating Investment Account Crediting Rates - Actuarial Advice Zurich Unit Pricing Policy
3.6.3	Investment Management	ZAL Financial Condition Report 31 December 2021
3.7	Events Subsequent to 31 December 2021	ZAL Transfer of Retained Profits March 2022 – Actuarial Advice
4.1	Background	OPL Financial Condition Report 31 December 2021
4.2	Statutory Funds and Shareholder Fund	OPL Financial Condition Report 31 December 2021
4.3	Policy Guarantees	OPL Financial Condition Report 31 December 2021 Master Investment Terms – OPL and OPC OPL OPC and OPFM Fee Agreement Amending Deed August 2020
4.4	Financial Performance	OPL Financial Statements ZAL and OPL Business Plan
4.5	Capital Position	OPL Financial Statements 31 December 2021 OPL Financial Condition Report 31 December 2021 2021 ICAAP Report ZAL 31 March 2021 ICAAP Summary Statement – ZAL and OPL
4.6.1	Risk and Capital Management	ICAAP Summary Statement – ZAL and OPL ZFSA Risk Management Strategy ZAL and OPL Risk Appetite Statement
4.6.2	Operational Management	Zurich and OnePath Claims Philosophy Past Bonus and Crediting Rate Board Papers Zurich Unit Pricing Policy
4.6.3	Investment Management	OPL Financial Condition Report 31 December 2021
4.7	Consumer Credit Insurance Class Action	Statement of Claim for the Consumer Credit Insurance Class Action
4.8	Superannuation Class Action	Statement of Claim for the Superannuation Class Action
5.2	Description of the Scheme	Scheme Document

Table 11: Key Information Relied Upon		
Ref	**Item**	**Data**
5.3	Transfer of Policies from OPL Statutory Fund No. 1	Scheme Document
5.4	Transfer of Policies from OPL Statutory Fund No. 2	Scheme Document
5.5	Transfer of Policies from OPL Statutory Fund No. 3	Scheme Document
5.6	Transfer of Policies from OPL Statutory Fund No. 4	Scheme Document
5.7	Transfer of Policies from OPL Statutory Fund No. 5	Scheme Document
5.8	Costs and Expenses	Scheme Document
5.9	Policy Amendments	Scheme Document
5.10	Mechanics of the Scheme	Scheme Document Confirmations from Reinsurers
5.11	Effect of the Scheme on the Capital Position	ZAL and OPL Business Plan
5.13	Treatment of Class Action Proceedings in the Scheme	Scheme Document
6.4.1	Investment Strategy	ZFSA Investment Governance Framework for Balance Sheet Assets
6.4.5	Bespoke Risks	ZIC Funding Deed ZAL and OPL Business Plan ICAAP Summary Statement – ZAL and OPL
7.4.1	Investment Strategy	ZFSA Investment Governance Framework for Balance Sheet Assets
7.4.5	Bespoke Risks	ZIC Funding Deed ZAL and OPL Business Plan ICAAP Summary Statement – ZAL and OPL