Chubb Insurance (Switzerland) Limited

2017 Financial Condition Report (Public Disclosure)

Contents

A. Executive Summary

Chubb Insurance Switzerland Limited ('CISL') provides a range of property and casualty, accident and health, personal lines insurance products for a diverse range of clients. In addition through its business unit Chubb Tempest Re International ('CTRe') CISL also provides traditional and non-traditional casualty, marine and property treaty reinsurance in selected markets. With shareholder's equity of CHF 176.7m, a S&P AA rating (stable outlook), CISL is a well-capitalized company.

2017 was a remarkable year in many aspects. We have successfully completed the integration of the insurance and reinsurance contracts of Chubb Insurance Company of Europe SE, London, Zurich branch (Chubb Swiss Branch) from a business and operational perspective with only minimal disruptions for our clients and brokers, while maintaining a very successful, well recognised and respected claims organisation.

In terms of our financial performance, we have produced very strong underwriting results given the current market conditions and the additional workload that integration has brought this year. CISL's gross written premium were at CHF 113.9m up 26% and a pre-tax profit at CHF 17.3 up 68% compared to prior year.

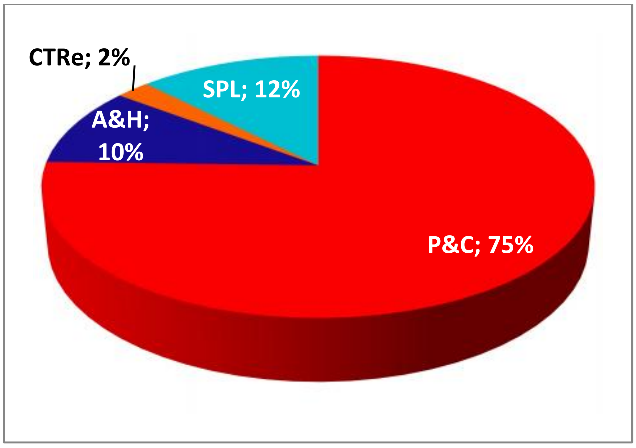
B. Business Activities

1. Company's strategy, objectives and key business segments

Chubb Insurance Switzerland Limited ("Chubb Switzerland" or "CISL") offers its clients a broad range of insurance and risk solutions encompassing property & casualty, accident & health and personal lines classes, with policies written under the brand names "Chubb Europe" and "Chubb Tempest Re (CTRe)". These brands capitalise on the distinctiveness and strength of the Chubb name and acknowledge the company's strong insurance platforms, reputation, skill sets, financial strength ratings and consistent management philosophy.

The principal business segments of Chubb are managed as Property and Casualty ("P&C"), Accident and Health ("A&H") and Specialty Personal Lines ("SPL"). The P&C operations provide client-focused insurance solutions and risk management and engineering services for a range of multinational, large and mid-sized commercial clients, with products encompassing property, primary and excess casualty, financial lines and marine cargo related risks. The A&H division underwrites a range of A&H and leisure travel related products, providing benefits and services to individuals, employee groups and affinity groups throughout Europe. In some cases these products are packaged under other brands or form part of another service provider's products. A range of personal accident and sickness insurance products including short-term disability, critical condition and hospitalisation/recovery are also offered across a number of European countries. The SPL team has developed innovative insurance solutions and industry-leading claims capabilities for Mobile Network Operators and Electrical Retailers, in order to provide their customers with protection for their mobile devices. CTRe provides traditional and non-traditional casualty, marine and property treaty reinsurance in selected markets.

The split of 2017 gross written premium by business segments is shown below:



2. Group Relations, Activities and Relations

CISL is a direct subsidiary of Chubb Limited, Zurich, Switzerland ("Chubb"). Chubb is the world's largest publicly traded property and casualty insurer. With operations in 54 countries, Chubb provides commercial and personal property and casualty insurance, personal accident and supplemental health insurance, reinsurance and life insurance to a diverse group of clients.

The company is distinguished by its extensive product and service offerings, broad distribution capabilities, exceptional financial strength, superior claims handling expertise and local operations globally.

The company serves multinational corporations, mid-size and small businesses with property and casualty insurance and risk engineering services; affluent and high net worth individuals with substantial assets to protect; individuals purchasing life, personal accident, supplemental health, homeowners, automobile and specialty personal insurance coverage; companies and affinity groups providing or offering accident and health insurance programs and life insurance to their employees or members; and insurers managing exposures with reinsurance coverage. Chubb's core operating insurance companies maintain financial strength ratings of "AA" from Standard & Poor's and "A++" from A.M. Best.

As a consequence of its international and multinational program offerings CISL assumes and cedes risks from and to Chubb's international network. In addition CISL has entered in to reinsurance treaties with both, third party and affiliated reinsurers.

3. Major Shareholder

The Company was incorporated under the laws of Switzerland on 19 September 2008 and has obtained its licence effective 1 November 2008. The Company is directly and wholly-owned by its ultimate parent company Chubb Limited, Switzerland ("Chubb").

4. External Auditors

The Company's external auditors are PricerwaterhouseCoopers AG, Birchstrasse 160, Postfach, CH-8050 Zurich, Switzerland ('PWC'). PWC confirms that it meets the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with its independence.

5. Significant Unusual Events

In 2017 there were no extraordinary events.

In 2016 the completion of the acquisition of the Chubb Corporation by ACE Limited was reported.

As a result of the acquisition, the insurance contracts of Chubb Insurance Company of Europe SE, London, Zurich branch (Chubb Swiss Branch) were transferred to ACE Insurance (Switzerland) Limited (AISL), effective 1st October 2016, which was renamed into Chubb Insurance (Switzerland) Limited (CISL), effective 3rd October 2016.

C. Performance

1. Results and Performance

The summary of the financial results are shown in the table below.

CHFm	2017	2016
Gross written premiums	113.9	90.5
Net written premiums	62.5	46.1
Net earned premiums	64.9	50.4
Net claims and claim expenses incurred	20.8	17.0
Operating Expense, net	28.0	23.1
Underwriting result	**16.3**	**10.3**
Net investment income	0.1	0.9
Operating result	**16.3**	**11.2**
Net other income/expense	1.1	-0.9
Income before tax	**17.3**	**10.3**
Loss ratio	32.0%	33.7%
Operating expense ratio	43.0%	45.9%
Combined ratio	75.0%	79.6%

The driver of the increase in income before tax was strong UW performance, reflected by strong 2017 underwriting income at CHF 16.3m compared to CHF 10.3m in 2016. Main drivers were increased business volumes, new business as well as favourable prior year developments.

1.1 Underwriting Result

Gross Written Premium increased by 26% compared to 2016. Around 70% were due to Chubb Integration (12 months vs 3 months in 2016), the remainders was due to new business wins partially offset by business losses.

CISL purchases reinsurance to mitigate the impact of major events and an undue frequency of smaller losses. The majority of the reinsurance programmes are with Chubb Group companies. There were no significant changes to the company's reinsurance purchasing strategy in 2017.

The overall gross and net loss ratios were relatively stable between 2017 and 2016, the same is true for the operating expense ratio. On a net basis, the underwriting result increased in function of the increased volume as the combined ratio was very similar in both periods. For the insurance segment (P&C, A&H, SPL) favourable prior year developments on a net basis is better in 2017 than in 2016. Current accident year loss ratio is very similar from year to year.

Operating expenses constitute commissions and general administrative expenses. CISL continues to focus on the strict management of each of these components in line with the growth of the business.

1.2 Underwriting Result per Line of Business

The discussion below is a reflection of how Chubb manages its business. The main difference to the reported numbers in FINMA's quantitative template (attachment) relates to multinational and international programs, which are managed as direct business. From a management perspective the indirect business includes the business written by the business unit Chubb Tempest Re.

The table below illustrates the above:

	P&C		A&H		SPL		CTRE		CISL	
CHFm	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
GWP	85.8	59.9	11.2	10.1	14.2	13.8	2.7	6.7	113.9	90.5
RI	-44.9	-35.4	-6.3	-5.6	-0.0	-0.4	-0.2	-3.2	-51.4	-44.5
NWP	**40.9**	**24.5**	**4.9**	**4.5**	**14.2**	**13.4**	**2.5**	**3.5**	**62.5**	**46.0**
Change in UPR	1.6	2.6	0.0	-0.0	-0.1	-0.6	0.9	2.4	2.3	4.4
NEP	**42.4**	**27.1**	**5.0**	**4.5**	**14.1**	**12.8**	**3.4**	**5.9**	**64.8**	**50.4**
Loss and loss expense	-11.8	-6.6	-1.4	-1.6	-6.7	-5.2	-0.8	-3.7	-20.7	-17.1
Policy acquisition costs	-7.9	-4.5	-1.4	-0.5	-5.1	-4.9	-0.7	-1.1	-15.1	-11.0
Administrative expense	-9.6	-7.6	-1.3	-1.5	-0.2	-0.1	-1.3	-2.5	-12.8	-12.1
UW result	**13.1**	**8.5**	**0.9**	**0.9**	**2.0**	**2.6**	**0.5**	**-1.4**	**16.2**	**10.2**

The below analysis uses the following coulour codes:

Colour	**Key**
	Favourable impact compared to prior year
	Neutral impact compared to prior year
	Unfavourable impact compared to prior year

1.2.1 P&C

P&C (Property and Casualty) includes mainly fire, casualty, marine and financial lines of businesses. The main factors driving the underwriting results are shown in the following table.

LoB	Integration	New business	Retention	Loss development
Financial Lines				
Casualty				
Fire				
Marine				

1.2.2 A&H

LoB	Integration	New business	Retention	Loss development
A&H				

1.2.3 SPL

Special personal lines include insurance provided to the mobile and electronic industries.

LoB	Integration	New business	Retention	Loss development
SPL				

1.2.4 CTRe

Chubb Tempest Re International ('CTRe') provides traditional and non-traditional casualty, marine and property treaty reinsurance in selected markets.

LoB	Integration	New business	Retention	Loss development
CTRe				

1.3 Net Investment Result

The end of the ECB's bond purchases has reduced pressure in the medium term on the Swiss National Bank to maintain a sharply expansive monetary policy. Therefore, a slight increase in "long" Swiss rates in the second half of 2018 is expected. However, there will likely be little movement in Switzerland at the short end of the yield curve in the coming months. We do not see the SNB raising rates for at least a year. As a result, it will likely have no impact on interest rates, i.e. 10 year Swiss government and corporate government bond yield have remained at or below zero percent.

Interest income was stable compared to last year; however net investment income decreased from CHF 0.9m in 2016 to CHF 0.1m in 2017 mainly due to higher realized losses only partially compensated by lower amortization expense.

1.4 Other material income and expense

Other income and expense include realized foreign exchange gains, capital tax and increase or decrease in bad debt provisions.

D. Corporate Governance, Risk Management & Internal Control

1. Composition of the Board of Directors and Executive Board

The Board of Directors' composition at the end of 2017 was as follows:

Name	Function	Executive	Non-executive
Jeff Moghrabi	Chairman of the Board of Directors	X	
Ken Koreyva	Member of the Board of Directors	X	
Mark Hammond	Member of the Board of Directors	X	
Gérard Naisse	Member of the Board of Directors		X
Ernst Koller	Member of the Board of Directors		X

Members of the Management Committee (management) composition at the end of 2017 are:

Name	Function
Florian Eisele	CEO / Country President
Harald Jacobsen	Manager Chubb Tempest Re
Mark Budil	CFO
Benedikt Gschwend	Legal & Compliance Manager

2. Risk Management

CISL has a documented risk management framework and governance framework, the purpose of which is to exercise oversight and control over the management of the business in all its geographical locations and to disseminate key information effectively to the necessary recipients.

Underwriting - CISL's underwriting strategy is to manage risk by employing consistent, disciplined pricing and risk selection. Our underwriting is therefore working with global and regional product boards, which ensure consistency of approach and the establishment of best practices. Our priority is to help ensure adherence to criteria for risk selection by maintaining high levels of experience and expertise in our underwriting staff. In addition, we employ a business review structure that helps ensure control of risk quality and conservative use of policy limits and terms and conditions.

Qualified actuaries work closely with the underwriting teams to provide additional expertise in the underwriting process. We use sophisticated catastrophe loss and risk modelling techniques designed to ensure appropriate spread of risk and to analyse correlation of risk across different product lines and territories.

Reinsurance - As part of our risk management strategy, we purchase reinsurance protection to mitigate our exposure to losses, including catastrophes, to an acceptable level. Although reinsurance agreements contractually obligate our reinsurers to reimburse us for an agreed-upon portion of our gross paid losses, this reinsurance does not discharge our primary liability to our insureds and, thus, we ultimately remain liable for the gross direct losses. The counterparty is selected based upon its financial strength, claims settlement record, management, line of business expertise, and its price for assuming the risk transferred.

Investment - With regards to investment our objective is to maximize investment income and total return while ensuring an appropriate level of liquidity, investment quality and diversification. As such, the company's investment portfolio is invested primarily in investment-grade fixed-income securities as measured by the major rating agencies. We do not allow leverage or complex credit structures in our investment portfolio.

Three line of defence model - CISL's "Three Lines of Defence" model - understood to be the most widely accepted risk governance structure which comprises day-to-day risk management and controls, risk management oversight, and independent assurance. The Three Lines of Defence portray the interaction (horizontal) of risk management roles and responsibilities across the organization:

1 The first line, the business units and supporting functions, is responsible for identifying and managing risks directly, including the design and operation of controls.
2 The second line consists of groups responsible for ongoing monitoring and challenging of the design and operation of the controls in the first line of defence, as well as for providing advice/expertise and facilitating risk management activities.
3 Finally, the third line represents the groups responsible for independent assurance over the management of risks, including challenge of the first and second lines.

An overview is shown below:

1st Line of Defense	***2nd Line of Defense***	***3rd Line of Defense* (Independent assurance)**
(day-to-day risk management & control)	**(risk oversight, policy & approaches)**	
Directly responsible for management and control of risk.	Co-ordinate, facilitate & oversee effective Risk Management framework.	Independent assurance & challenge of integrity & effectiveness
- Senior Management - Business/Functional Management - Risk Management, L&C and Actuarial function support Risk Owners with special expertise.	- CISL Management Committee - Risk Management function - Legal & Compliance function - Actuarial function	- Internal Audit - Audit & Risk Committee - Other 3rd parties

3. Internal Control Framework (ICF)

An adequately designed and effective control environment is key to actively manage CISL's risk exposure. Different levels of controls (entity level controls and process controls) stemming from various organisational levels are taken into account when assessing the Swiss internal control setup. CISL's Internal Control Framework ("ICF") is part of the Risk Management Framework ("RMF") focusing specifically on the control aspect of the RMF and corresponds to the COSO Enterprise Risk Management ("ERM") framework.

The responsibilities of the Board of Directors (the "Board") and its members, and of the Management Committee ("MC") and its members, are well defined in the relevant internal and external rules and guidelines (Corporate Governance Manual, RMF, FINMA Circular on Governance, Risk & Controls ("GRC") and other). Reviewing the effectiveness of the system of internal controls is an essential part of the Board's responsibilities while MC is accountable to the Board for developing, operating and monitoring the system of internal controls and for providing assurance to the Board that it has done so.

The ICF is made up of 5 components according to the COSO ERM Framework and is in line with the Swiss RMF, i.e.

a) The control environment consist of the Chubb Group control setup on which all Group entities and branches are based (e.g. Group RMF, Chubb Code of Conduct, Chubb Group and Chubb guidelines and controls);
b) Risks are identified and assessed according to the principles outlined in the RMF. Based on the risk assessment findings adequate controls are evaluated and implemented into the business process
c) The ICF consists of automated and manual preventative/detective controls that are embedded into the process landscape (management, core and support/enabling processes). For control efficiency reasons automated preventative controls are primarily put in place in the first line of defence to support the Risk Owners in executing their control activities. The second line of defence comprises detective controls to assesses and validate the control activities done in the first line and their effectiveness
d) At least annually the state of the ICF is reported to the Board
e) At least annually the ICF and its 5 components are reviewed by MC and Board. In addition Internal Audit conducts assessment of the effectiveness of the RMF and ICF according to the audit plan.

4. Material Changes in Risk Management in 2017

There were no material changes.

E. Risk Profile

1. Qualitative and Quantitative Aspects

1.1. Qualitative Aspects

The Enterprise Risk Management ("ERM") process has identified certain material risks and exposures which could impact achievement of strategic business objectives. In addition to qualitative factors, CISL considers any risk or event that could impact capital held by 10% or more to be material.

Each risk deemed reasonably foreseeable and material is analysed individually; for each a risk policy, risk appetite statement, risk tolerances, potential causes of the risk, and mitigating strategies including controls have been implemented and documented. These material risks (including emerging trends and risks) having the greatest potential exposure to CISL and their impact during 2016 - 2018 are listed as follows:

- Underwriting Risk (insurance risk) - includes Pricing, Catastrophe, Risk Selection and Product Risk. CISL has a range of controls in place to ensure that combined ratio is below 100% (no losses from underwriting operations), including appropriate pricing tools, referrals to Chubb Group to ensure pricing is in line with guidelines, underwriting audits which are conducted on regular basis to ensure compliance with underwriting guidelines and internal standards. Also, a dedicated Chubb Group catastrophe management team supports and oversees catastrophe exposures such as hurricane, earthquake, terrorism, windstorm and other perils.
- Reserving Risk (insurance risk) - Processes and controls have been put in place to ensure there are no material adverse developments. These include regular review of reserve developments and large losses reviews of external independent actuaries to ensure reserve adequacy. In particular, Willis Tower Watson conducts assessments of reserve levels on annual basis.
- Capital Adequacy (other risk) - Economic Capital ratio, SST ratio and legal entity capital coverage above 100%. CISL Management in collaboration with Chubb Group functions assess capital annually as part of the ORSA and SST run. At least on a yearly basis these levels of capital are reviewed and assessed considering actual developments and potential emerging risks. Reports on capital are provided to the BoD regularly.
- Asset Liability Matching (market risk) - CISL has defined Key Risk Indicator for Asset-Liability Management, such as duration thresholds and FX-limits. CISL Asset Manager operates under strict Investment guidelines whose compliance is ensured by CISL CFO in collaboration with Chubb Group Treasury.
- Investments & Credit Risk (market & credit risk) - CISL has investment strategy and investment guidelines in place which are being monitored by Treasury. Investment Performance and Key Risk Indicators such as the change in market value of bonds due to a change in the interest rate (Delta Value of a Basis Point Approach) and rating thresholds are monitored by CISL CFO on quarterly basis. More detailed indicators (on single holding level) including buy & sell decisions are monitored by Chubb Group Treasury.

- Liquidity Risk (other risk) - CISL has put in place Liquidity Indicators and thresholds. Weekly Liquidity reports are produced by Chubb Treasury to the attention of the CISL CFO for monitoring purposes. CISL takes part in the Chubb Group Liquidity Pooling facility and has access to intra-group liquidity sources, which reduce the Liquidity Risk to an acceptable level.
- Operational Risk (other risk) - Processes and controls have been put in place to ensure there are no operational outages or downtimes of significance. These include Business Continuity Plans and IT specific disaster recovery plans, which are tested regularly as well as premium processing and outsourcing processes and controls. Design and effectiveness of relevant controls are reviewed and tested by internal audit.
- Legal and Compliance Risk (other risk) - Processes and controls are in place to ensure CISL business is conducted within applicable group and Swiss legal and compliance frameworks. Compliance is ensured by mandatory training to all staff and an annual affirmation processes. CISL Legal and Compliance function closely collaborates with the risk function to identify and assess legal and regulatory changes potentially impacting CISL. Additionally, CISL has internal and external legal counsel at its disposal.
- People/Staff Risk (other risk) – Processes and controls are in place to ensure CISL retains and attract key staff as well as ensuring health and safety of all staff. HR function is monitoring staffing available, turn-over rate and general trends and developments on ongoing basis. Mitigation measure comprise structured hiring and leaving processes, Personal Development Plans, succession planning and learning & development initiatives.
- Strategic Risk (other risk) – Processes and control are in place to reduce the risk of strategic failure both at legal entity level and on business segment level. Changes and development in the market, legal, regulatory and economic environment are monitored by Management at all levels and in collaboration with Chubb Europe and Chubb Group. Emerging risks and opportunities are assessed and discussed. Business plans and forecasts are established and assessed against risks. Financial performance and position is reviewed quarterly and business (Combined Ratios, capital position). Strong corporate governance framework including ORSA and SST processes further reduces the risk of strategy failure.
- Reputational Risk (other risk) - Reputational Risk is assessed as part of regular discussions with Chubb Group Management. Chubb Group itself has mitigation measures in place to both monitor and mitigate this risk.

In addition, CISL performs a risk assessment of its strategic business plan each year and identifies key risks that may impair achievement of that plan. Furthermore, CISL also recognizes that emerging risks are present at all times. CISL defines emerging risks as any event, situation or trend that may arise internally or externally that could significantly impact its corporate objectives. They can vary widely, be newly developing, quantifiable or non-quantifiable, known or unknown. Those risks are included in above outlined key risks.

The Risk Management Framework articulates CISL's process for managing emerging risks that incorporates timely identification, early strategies to address concerns, assessing the likely emergence and impact over time. CISL leverages off the Group and Regional office in receiving daily alerts as well as ad hoc advice on events or trends. The ERM Function will also seek out articles, surveys, and other material and communicate to management. CISL can register emerging risk through its risk registers, at its management committee meetings and at Board level where discussions take place. A “Watch List” process is also in place for risks that are known, significant to the business and developing over time, and are tracked with relevant updates and status reports. In preparing the ORSA Report emerging risks are taken into consideration.

1.2. Quantitative Aspects

For a discussion of the quantitative aspects refer to section ”H 2. Target Capital” of this report.

2. Risk Exposure

2.1. Material Risks

There are no other risks than the ones included in this report.

2.2. Risk Assessments

There are no other risk assessment measures than the ones included in this report.

2.3. Off-Balance-Sheet Positions

There are no material off-balance-sheet positions.

2.4. Special Purpose Vehicles (SPV’s)

There are no material risks transferred to SPV’s.

3. Other Risk Profile Considerations

3.1. Concentration Risks

We evaluate the financial condition of our reinsurers and potential reinsurers on a regular basis and also monitor concentrations of credit risk with reinsurers. Provisions for uncollectible reinsurance are set up to account for the potential failure of reinsurers to indemnify Chubb, primarily because of disputes under reinsurance contracts and insolvencies.

Our investment portfolio is managed following prudent standards of diversification. Specific provisions limit the allowable holdings of a single issue and issuer. We believe that there are no significant concentrations of credit risk associated with our investments.

3.2. Risk Mitigation Tools

We seek to manage our loss exposure by maintaining a disciplined underwriting process throughout our insurance operations. We limit program size for each client and purchase third party reinsurance for our own account. In the case of our assumed proportional reinsurance treaties, we seek per occurrence limitations or loss and loss expense ratio caps to limit the impact of losses ceded by the client. However, there are inherent limitations in all of these tactics and no assurance can be given against the possibility of an event or series of events that could result in loss levels that could have an adverse effect on our financial condition or results of operations. It is also possible that losses could manifest themselves in ways that we do not anticipate and that our risk mitigation strategies are not designed to address. Additionally, various provisions of our policies, such as limitations or exclusions from coverage or choice of forum negotiated to limit our risks, may not be enforceable in the manner we intend. As a result, one or more natural catastrophes and/or terrorism or other events could result in claims that substantially exceed our expectations, which could have an adverse effect on our results of operations and financial condition.

F. Valuation

1. Qualitative and Quantitative Aspects

1.1. Market Consistent Value of Assets

CHFm	Market consistent value of assets 31.12.2017	Statutory Value 31.12.2017
Cash & equivalents	1.9	8.1
Invested assets	285.3	285.3
Accrued investment income	2.1	2.1
Insurance balances receivable	19.9	20.5
Reinsurers' share of technical provisions	161.2	167.3
Intercompany balances	12.9	12.9
Other assets	1.0	1.0
Total Assets	**484.3**	**497.1**

As at 31 December 2017, the difference between the market consistent value of the assets and the statutory value is due to the discounting of the reinsurers' share of technical provisions.

1.1.1. Cash & equivalents

Cash is at fair market value (nominal value).

1.1.2. Invested Assets

As at 31 December 2017, this position is composed of bonds with a market value of CHF 256.3m, pledged assets (claim trust funds in the form of money market funds, defined below) with a market value of CHF 29.1m.

1.1.3. Accrued Investment Income

This position relates to the bonds described in the previous section and reflects the interest that has accumulated since the principal investment or since the previous interest payment, if one has already been made. To determine the accrued investment income, a standard income accrual calculation is used: (Units*Coupon/Days in Year)*Days in

Payment Period where the Days in Year and Days in Payment Period are based on the day count method chosen.

Due to its very short duration, the market value of accrued interest is not discounted.

1.1.4. Insurance balance receivable

The insurance balance receivable mainly reflects the nominal value of premiums which are due by third party entities to CISL (CHF 19.7m) and funds withheld of CHF 1m representing collateral of a ceding company within the Chubb Tempest Re segment. This position also captures a negative asset which corresponds to a bad debt reserve (CHF -0.8m CHF).

Insurance balance receivables are valued at nominal value.

1.1.5. Discounted reinsurers' share of technical provisions

The discounted ceded best estimate of insurance liabilities includes mainly two components, i.e. discounted ceded unpaid loss reserves (CHF 151m) and discounted expected losses associated with the ceded UPR (CHF 10.2m). The rest of this position reflects paid losses which are outstanding and to be recovered from a reinsurer.

“Discounted ceded unpaid loss reserves” corresponds to the discounted value on the statutory (best estimate) ceded unpaid loss reserves. It is calculated projecting the future cash flows (paid losses) obtained by considering the reserve payment patterns and discounting those cash flows with FINMA-provided zero-coupon bond yield curves. This position also includes paid losses to be recovered from a reinsurer.

“Discounted expected losses associated with the ceded UPR” corresponds to the present value of the expected losses associated with the statutory ceded UPR at the beginning of the year. It is obtained by multiplying the statutory ceded UPR value by the current year plan corresponding loss ratio by line of business. The loss ratio is discounted using the current year payment patterns, currency mix and the FINMA-provided zero-coupon bond yield curves.

1.1.6. Intercompany balances

This balance reflects receivables which are non-insurance technical receivables. It is mainly composed of operational costs (nominal value) prefunded by CISL and recharged to Group companies. The nominal value of these assets is considered to be equal to their market value.

1.1.7. Other assets

This category captures assets that are not classifiable within the other categories at nominal value.

1.2. Market Consistent Value of Liabilities

CHFm	Market consistent value of liabilities 31.12.2017	Statutory Value 31.12.2017
Gross best estimate of insurance liabilities	263.3	292.7
Risk margin (market value margin)	8.4	0
Insurance balances payable	8.6	9.3
Other payables	9.9	18.4
Total	**290.3**	**320.4**

As at 31 December 2017, the difference between the market consistent value of liabilities and the statutory value is due to the discounting of the technical provisions and the exclusion of the equalization reserves.

1.2.1 Discounted gross best estimate of insurance liabilities

Discounted gross best estimate of insurance liabilities include

- Discounted gross best estimate of unpaid loss reserves
- Discounted gross best estimate of losses associated with the UPR

1.2.1.1 Discounted gross best estimate unpaid loss reserves

The item "discounted unpaid loss reserves" (CHF 244.9m) corresponds to the discounted value on the statutory (best estimate) unpaid loss reserves plus the related administration expenses. It is calculated projecting the future cash flows (paid losses and administration expenses) obtained by considering the reserve payment patterns and discounting those cash flows with FINMA-provided zero-coupon bond yield curves.

1.2.1.2 Discounted best estimate of losses associated with the gross UPR

The item "discounted best estimate of losses associated with the gross UPR" (CHF 18.5m) corresponds to the present value of the expected losses associated with the statutory gross UPR at the beginning of the year. It is obtained by multiplying the statutory UPR value by the current year plan corresponding loss ratio by line of business. The loss ratio is discounted using the current year payment patterns and the FINMA-provided zero-coupon bond yield curves.

1.2.2 Risk Margin (Market Value Margin)

The position "risk margin" (CHF 8.4m) corresponds to the cost of capital to cover the risk-bearing capital over the lifetime of insurance liabilities.

The risk margin is based on the SST standard model approach.

1.2.3 Insurance Balance Payable

The insurance balances payable reflects the nominal value of premiums which are owed by CISL to third party entities and Group companies.

Given their short-term nature, the nominal value of these payables is considered to be equal to their market value.

1.2.4 Other Payables

The balance reflects payables which are non-insurance technical payables owed to Group and third party companies. This year includes a payable to CICE (Chubb Swiss Branch's parent company) equal to the sale of the Chubb Swiss Branch to CISL

Given their short-term nature, the nominal value of these payables is considered to be equal to their market value.

1.2.5 Risk bearing capital

In accordance with the revised SST Circular (article 55) and articles 47-48 of the Insurance Supervision Ordinance: risk-bearing capital is the sum of the core capital and the supplementary capital, to the extent that the supplementary capital is eligible for inclusion. Since CISL does not hold eligible supplementary capital, risk-bearing capital for CISL equals core capital. Core capital is defined as the sum of the difference between the market consistent value of assets and the market consistent value of debt (liabilities) plus the risk margin.

The following exhibit shows the composition of the risk-bearing capital as at 31 December 2017:

Risk-bearing capital (m CHF)	2018 SST 31.12.2017
(1) Market consistent value of assets	484.3
(2) Market consistent value of liabilities	290.3
(3) Risk margin	8.4
(4) Capital reduction or anticipated dividend	-
(5) Risk-bearing capital = (1)-(2)+(3)-(4)	**202.4**

G. Capital Management

1. Goals, Strategy and Time Horizon for Capital Planning

CISL defines as part of the annual ORSA (Own Risk and Solvency Assessment) the appropriate level of capital to allow CISL to conduct its business over the strategic period of 3 years (e.g. 2018 - 2020) by the Economic Capital.

CISL's Minimum Capital Required ("MCR") is defined as the greater of the Economic capital, the SST and the statutory one. In the specific case of CISL, the statutory minimum capital is the one driving the MCR.

2. Structure, Level and Quality of the Equity Capital

Shareholders' equity	31.12.2017 CHF m
Share capital	**100.0**
Legal Reserves	**51.6**
- Capital contribution reserves	50.0
- General legal reserves	1.6
Free Reserves	**25.1**
- Retained earnings / (accumulated losses)	11.4
- Net income (loss) for the period	13.7
Total shareholders' equity	**176.7**

3. Description of any Material Changes during the Reporting Period

There were no material changes during the reporting period.

4. Differences between Statutory & market-consistent valuation Equity

The differences between the statutory and market consistent valuation of the equity have been explained in section F above.

H. Solvency

1. Solvency Model

In previous years, a partial internal model was used, based on GCM (internal Chubb Global Capital Model) for insurance risk and the standard model for other risks. For the SST 2018, only nat cat was based on the GCM the rest of the risk component was calculated using the respective standard model (some with company specific adjustments):

	2018	**2017**
Insurance risk	GCM/Standard with adj.	GCM
Cat	GCM	GCM
Non-cat	Standard with adj.	GCM
Prior years (reserve)	Standard with adj.	GCM
Market risk	Standard	Standard
Aggregation	Independent	Independent
Credit risk	Standard	Standard
Scenarios	Standard	Standard

The key assumptions are outlined below:

a) *RBC and target capital:* Any planned capital transactions and dividends are implemented as changes in risk-bearing capital - no effect on target capital. None currently anticipated
b) *Insurance risk*: Follows the standard model for non-cat current year and prior years risks (with company specific adjustments not yet formally approved by FINMA) and nat cat follows the GCM (still to be approved by FINMA).
c) *Market risk:* Uses interest rate volatility provided by FINMA. The model continues to use the 2015 change allowing choosing the version of the standard model that gives best fit to the risk profile & CISL's own valuation of the portfolio.
d) *Credit risk:* SST standard model is used.

1.1 Approval Status

FINMA agreed that CISL nat cat should be modelled with an internal model, formal approval of the model is in progress. FINMA agreed that the rest of the components should be covered by the respective standard models; in the case of non-cat current year and prior years risk FINMA has agreed that company specific adjustments are needed, their approval are also in progress.

1.2 RBC and Target Capital

Any planned capital transactions and dividends are implemented as changes in risk-bearing capital - no effect on target capital. None currently anticipated.

2. Target Capital

2.1 Key Components of Target Capital (incl. market risk) as at 1 January 2018

Risk Type	SST 2018 Capital CHF m
Insurance Risk	47.5
Market Risk	35.0
Diversification	(24.6)
Credit Risk	7.6
Risk Margin & other impacts	9.4
Target Capital	**74.9**

As at 1 January 2018, based on the model described in the section H.1, the target capital for CISL is CHF 74.9m. As shown in the table above the target capital is mainly driven by insurance risk, credit risk and risk margin.

3. Risk Bearing Capital

The key components of the risk bearing capital have been disclosed in section "F - Valuation" of this report.

4. Comments on Reported Solvency

The SST ratio, as defined in the revised SST Circular 2017/3, as at 1 January 2018 is at 292% mainly due to very strong risk-bearing capital.

5. Reconciliation to FINMA Submissions

The current information about solvency (risk-bearing capital, target capital) is identical to the 2018 SST information which has been submitted to FINMA.

Appendices

1	External auditor's summary report to the Board of Directors (Art 728b SCO)
2	2017 Financial Statements
3	Quantitative template "Performance Non-Life Solo"

MB/04 July 2018