ACE Europe Life SE (Formerly ACE Europe Life Plc)

Solvency and Financial Condition Report

31 December 2018

Table of Contents

Summary and Introduction

Introduction

This document ("the Solvency and Financial Condition Report", or "SFCR") sets out the solvency and financial condition of ACE Europe Life SE ("AEL" or "the company") as at 31 December 2018.

The Board of AEL has prepared this report in accordance with Article 51 of Directive 2009/138/EC ("The Solvency II Directive), Commission Delegated Regulation (EU) 2015/35 and the European Insurance and Occupational Pensions Authority ("EIOPA") guidelines on Reporting and Disclosure.

The regulations prescribe the structure of this document and indicate the nature of the information that must be reported under a series of sections and sub-sections. Where information is not applicable to AEL, the report still includes the section, but with an appropriate note.

In addition to the statutory requirements, this report also addresses other aspects of the company's business which the Board believes will be of benefit to interested parties.

Business and Performance Summary

In 2018, AEL was a UK regulated life insurance entity authorised to carry out long term insurance business. AEL is a wholly owned subsidiary of Chubb Tempest Reinsurance Ltd ("CTR"), based in Bermuda.

As part of the company's Brexit planning, AEL (formerly ACE Europe Life Limited) was converted to Ace Europe Life Plc on 9 April 2018 and further converted to Ace Europe Life SE on 19 July 2018. AEL received a new company registration number SE000117 (formerly 05936400) on 19 July 2018 as a result of its conversion from a public limited company ("plc") to a European company or Societas Europaea ("SE").

On 1 January 2019, AEL redomiciled from the UK to France and the company number changed to 497 825 539 Nanterre. The company now operates under the supervision of the French Prudential Supervision and Resolution Authority, (the "ACPR"), with its UK operations run through a UK branch which remains subject to limited regulation by the Financial Conduct Authority. With effect from 1 January 2019, the new registered address for AEL is La Tour Carpe Diem, 31 Place des Corolles, Esplanade Nord, 92400, Courbevoie, France with the UK branch based at 100 Leadenhall Street, London EC3A 3BP.

AEL has a shared services agreement with a regional affiliated company Chubb Services UK Limited ("CSUK") which caps the annual expenses of the business arising from shared service provision. AEL writes a combination of long and short term protection business across European countries, mainly health insurance, other life insurance and life reinsurance, with the largest blocks of business written in the United Kingdom, Sweden and the Netherlands.

The key drivers of AEL's future underwriting performance are mortality and persistency experience. In the year to 31 December 2018 the company produced an underwriting profit of £306k. The aim of AEL's investment strategy is to match technical provisions by currency and duration with government bonds and low risk corporate bonds. Total investment return for the year ended 31 December was a loss of £590k.

In the year ended 31 December 2018, the company produced a profit after tax of £171k on a UK GAAP basis. Own funds for Solvency II purposes were £52,919k.

In the near term the company is not expected to expand gross written premium and so the focus will largely be on management of the in-force book and on opportunities with existing Chubb relationships.

Figures are stated to the nearest £000 in SFCR Quantitative Reporting Templates ("QRTs").

System of Governance Summary

AEL has a documented corporate 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.

The company has a number of formal committees and sub-committees, described in section B1 of this document, which provide oversight over the company's business units and functions, including where carried out via CSUK. The heads of the regional functions report to the Regional President (except the Actuarial function which reports to the Regional Chief Actuary) and have responsibilities defined in accordance with the provisions of the Senior Insurance Managers Regime ("SIMR") and subsequently the Senior Managers and Certification Regime ("SMCR") which came into force 10 December 2018, further information of which can be found in section B.1.3. The AEL CEO reports to the European President and also via a matrix structure to the Life segment of the Chubb group of companies.

The Board has approved a number of policies, under which responsibilities are also aligned with SIMR or SMCR as applicable, that govern how certain key areas of the business, and the risks inherent to them, are controlled and reported.

Additional oversight and control is obtained via a "three lines of defence" model whereby the Compliance and Risk Management (Second Line) functions monitor key activities independently of the controls and indicators employed by the (First Line) business and functions. Internal Audit (Third Line) carries out further independent testing and reports outside the First and Second Line structures.

The Board includes several independent non-executive directors to help provide alternative experience and viewpoints to challenge executive management decisions and the basis on which those decisions are made.

The Board believes these governance arrangements to be appropriate to and effective for the operations that AEL carries out.

While the principles remain the same, parts of the company's governance have been restructured following the redomicile to Paris to reflect Chubb's European operating structure and different local requirements.

Risk Profile Summary

AEL is exposed to risks from several sources and classifies individual risk sources across its landscape into four major categories: insurance, financial, operational and strategic. Insurance is AEL's primary risk category; the three other risk categories present an exposure primarily from that assumption of insurance risk. Other risks, including group risk and emerging risk are also considered.

There were no material changes to the company's risk sources and areas during the year. Each of these risk categories is described in more detail in section C below.

The redomicle to France has not materially changed the company's risk profile.

Valuation for Solvency Purposes Summary

AEL performs annual experience investigations to validate the assumptions used for the valuation for Solvency II. Following the experience investigations performed in the period, AEL has made the following changes to assumptions to be more aligned to experience, the most significant ones being:

- A reduction in mortality assumption for TAF business
- An increase in the mortality assumption for policies with sum assured above £15,000 for UIB ROP business

There have also been changes to the persistency assumptions as well as mortality and morbidity assumptions of smaller products to be in line with experience.

Capital Management Summary

The company's regulatory and solvency position is as follows:

As at 31 December 2018	2018	2017
Own Funds (£'000)	52,919	53,175
Standard Formula SCR(£'000)	20,410	10,793
Solvency ratio %	259%	493%
Standard Formula MCR(£'000)	5,102	10,793
Solvency ratio %	1037%	1,636%

As well as benefitting from the support of Chubb Limited, the company has substantial financial resources in its own right. Even after allowing for the prudent standard formula capital requirement, the company has a further surplus of some £32m.

The SCR of the company shown above has increased. This occurred primarily due to anticipation of the redomicile of the company to France on 1 January 2019. As a result of this AEL switched its functional currency from GBP to EUR, which has led to a substantial increase in currency risk as most of the company's net assets are in GBP. The quantitative reporting templates have been prepared using a GBP currency base for the SCR given the company did not redomicle until 1 January 2019. Those show a lower SCR of £10.5million and higher solvency ratio of 506%.

Own Funds of the company have not moved significantly. The solvency ratio moved from 493% to 259% during the period primarily due to the change in SCR referenced above.

The primary objectives of AEL in managing capital can be summarised as follows:

- to satisfy the requirements of its policyholders and regulators;
- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to manage exposures to key risks;
- to maintain financial strength to support the business;
- to generate a return to shareholders; and
- to retain financial flexibility by maintaining strong liquidity.

The company's own funds are comprised of Tier 1 capital and totalled £52,919k as at 31 December 2018. There have been no changes to the nature of the items of the company's own funds during the year. The company's own funds are eligible to meet the Solvency Capital Requirements ("SCR") and Minimum Capital Requirement ("MCR"). Furthermore, all other Tier 1 capital is permanently available to cover losses.

Directors' Report

Directors

The following have been Directors from 1 January 2018 to the date of this report unless otherwise indicated:

Executive Directors:

A J Kendrick (resigned 31 December 2018)

I Moffatt

V M J M Brionne (appointed 1 January 2019)

Non-Executive Directors:

A M Donselaar

D M A Furby (appointed 29 November 2018)

J A Turner (appointed Chairman 2 February 2018)

M C Bailey (resigned 31 December 2018)

M K Hammond

A P Clifford (appointed 1 January 2019)

M A Connole (appointed 1 January 2019)

T C Wade

Statement of Directors' Responsibilities

The Directors are responsible for preparing the SFCR, including the attached public quantitative reporting templates, in all material respects in accordance with PRA rules and regulations.

The Solvency II Directive, the Delegated Acts, related Implementation Rules, Technical Standards and Guidelines, as well as PRA rules provide the Regulatory Framework in which the company operates. The rules and regulations include, but are not limited to, the recognition and measurement of its assets and liabilities including Technical Provisions and Risk Margin, the calculation of its capital requirement and the reporting and disclosures of the Solvency II results.

Approval by the Administrative, Management or Supervisory Body ("AMSB") of the SFCR|

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

a) throughout the financial year in question, AEL has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations applicable to the insurer; and
b) it is reasonable to believe that AEL has continued so to comply subsequently and will continue so to comply in future.

Statement of Disclosure of Information to Auditors

Each of the persons who is a director at the date of this report confirms that they have taken all steps that he or she ought to have taken in his or her duty as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On Behalf of the Board

Mark Hammond

Chief Financial Officer

16 April 2019

Report of the External Independent Auditor

Report of the external independent auditors to the Directors of Ace Europe Life SE ('the company').

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

Opinion

We have audited the following documents prepared by the Company as at 31 December 2018:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2018, ('**the Narrative Disclosures subject to audit**'); and

- Company templates S.02.01.02, S.12.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 ('**the Templates subject to audit'**).

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

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

- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;

- Company templates S.05.01.02 and S.05.02.01;

- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2018 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is not appropriate; or
- the directors have not disclosed in the Solvency and Financial Condition Report any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Solvency and Financial Condition Report is authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

Emphasis of Matter - Basis of Accounting

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

Other Information

The Directors are responsible for the Other Information.

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

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

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

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

The Directors have elected to comply with the External Audit Part of the PRA Rulebook for Solvency II firms as if it applied to the Company, notwithstanding that the Company is a small firm for external audit purposes (as defined in the PRA Rulebook).

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

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

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

This report, including the opinion, has been prepared for the Board of Directors of the Company in accordance with our letter of engagement dated 9 April 2019 and External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook as if it applied to the Company, and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

Report on Other Matters

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

PricewaterhouseCoopers LLP

Chartered Accountants

7 More London Riverside

London

SE1 2RT

16 April 2019

A. Business and Performance

A.1 Business

Name and Legal Form

AEL forms part of the Chubb Group of insurance and reinsurance companies. Chubb Limited is the ultimate parent of AEL.

AEL is a regulated life insurance entity authorised to carry out long term insurance business and is a wholly owned subsidiary of CTR, based in Bermuda.

Up until 31 December 2018, AEL was headquartered in the UK with its head office based in London which handles core functions including overall management of the life operations, product design and pricing and monitoring of underwriting and claims rules and the financial management of the company through the use of shared services provision. The company has branch offices across Europe and AEL and its European Economic Area ("EEA") branches hold cross-border permissions throughout the EEA. AEL engaged the services of CSUK and Chubb European Group SE ("CEG") for various operational functions. This has enabled AEL to benefit from CEG's direct marketing and broker distribution experience.

On 1 January 2019, AEL redomiciled from the UK to France. AEL's current registered office address is La Tour Carpe Diem, 31 Place des Corolles, Esplanade Nord, 92400 Courbevoie, France, with its UK branch based at 100 Leadenhall St, London, EC3A 3BP, UK.

Supervisory Authority

During 2018, AEL was authorised by the UK's Prudential Regulation Authority ("PRA") and regulated by both the Financial Conduct Authority ("FCA") and PRA. The PRA address is The London Markets Insurance Division, 20 Moorgate, London EC2R 6DA, UK.

From 1 January 2019, AEL is supervised by ACPR with its UK operations run through a UK branch which remains subject to limited regulation by the FCA.

Group Supervisory Authority

The Chubb Group of Companies, of which CTR is a member, is supervised at the group level by the Chubb Group Supervisory College, comprised of regulators from a number of jurisdictions around the world. The Chubb Group Supervisory College is led by Chubb's group-wide supervisor, the Pennsylvania Department of Insurance. The PRA is a member of the Chubb Group Supervisory College.

The address of the Group Supervisor is The Deputy Insurance Commissioner, Pennsylvania Department of Insurance, 1326 Strawberry Square, Harrisburg, PA 17120, USA.

External Auditor

The Company's Auditor is PricewaterhouseCoopers Audit, Chartered Accountants and Statutory Auditors with registered office at 63 rue de Villiers, 92208 Neuilly-sur-Seine Cedex. The 2018 Financial Statements and SFCR have however been audited by PricewaterhouseCoopers LLP, 7 More London Riverside, London. As at 31 December 2018, AEL was 99.99% owned by Chubb Tempest Reinsurance Ltd. with one share held by Chubb group Management and Holdings Ltd. The ultimate parent of AEL is Chubb Limited. Changes to this structure were made in 2018 as described in section A.1.1.

Chubb Limited, headquartered at Bärengasse 32, CH-8001 Zurich, is the Swiss-incorporated holding company of the Chubb Group of Companies. Chubb Limited and its direct and indirect subsidiaries (collectively the Chubb Group of Companies ("The Chubb Group")) are together a global insurance and reinsurance organisation.

Holders of Qualifying Holdings

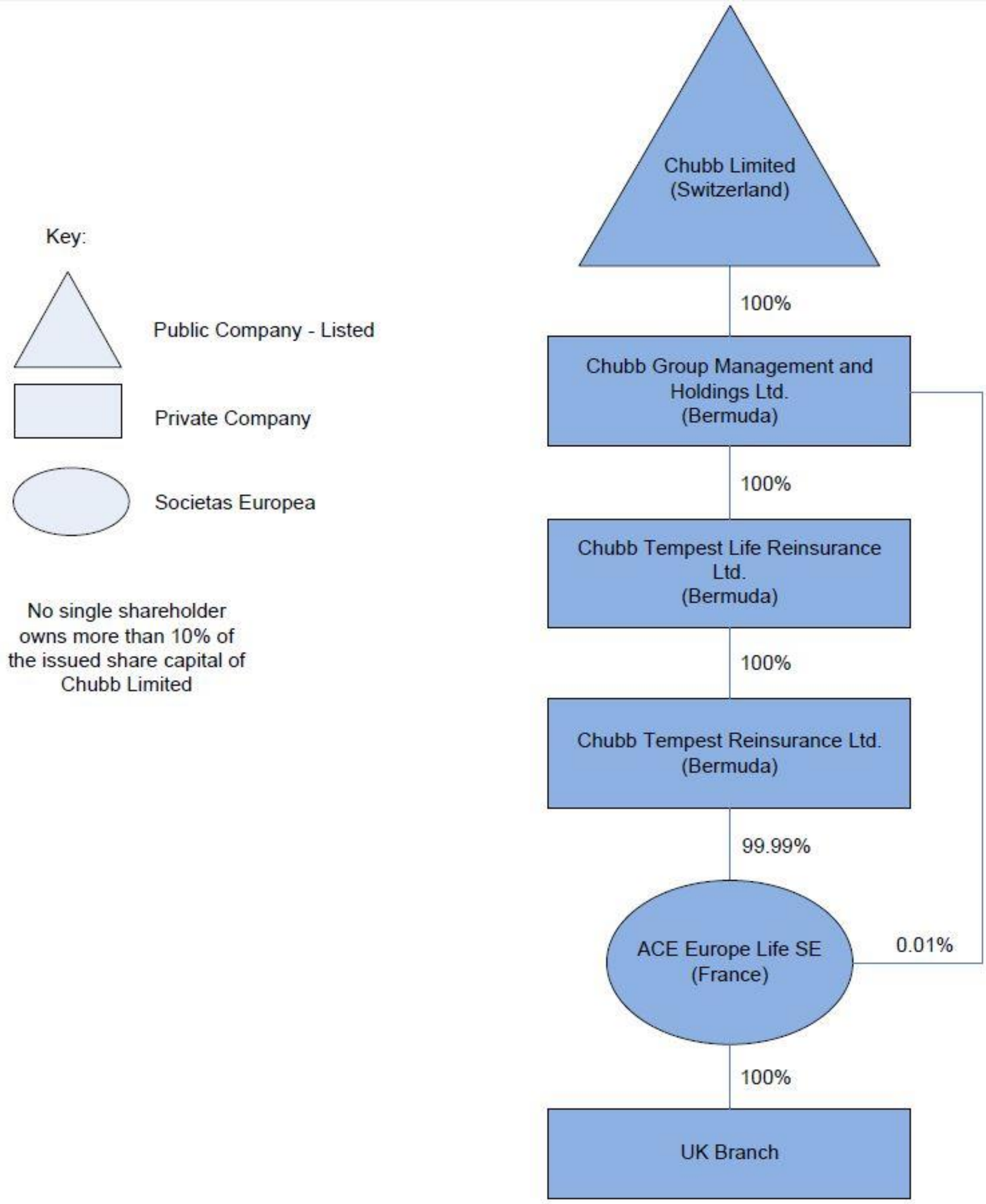
AEL is a wholly owned subsidiary of CTR. The ultimate parent company is Chubb Limited. A simplified chart is included under A1.1.

Chubb Limited, headquartered at Bärengasse 32, CH-8001 Zurich, is the Swiss-incorporated holding company of the Chubb Group of Companies. Chubb Limited and its direct and indirect subsidiaries (collectively the Chubb Group of Companies ("The Chubb Group")) are together a global insurance and reinsurance organisation.

A.1.1 Position within the Legal Structure of the European Group

As part of the company's Brexit planning, ACE Europe Life Limited was converted to ACE Europe Life Plc on 9 April 2018, and further converted to ACE Europe Life SE on 19 July 2018. On 1 January 2019, AEL redomiciled from the UK to France.

The current revised Group structure is summarised in the simplified chart below:



A.1.2 Material Related Undertakings

As at 31 December 2018, the company had no material related undertakings.

A.1.3 Material Lines of Business and Geographical Areas

AEL writes a combination of long and short term protection business across European countries, mainly health insurance, other life insurance and life reinsurance, with the largest blocks of business written in the United Kingdom, Sweden and the Netherlands.

A.1.4 Significant Business Events

AEL will operate in the UK under passporting rules until Brexit or the expiry of any transition period. After that time and if required, Chubb intends to seek authorisation of the branches of its French companies, including AEL, in the UK. In the event of a so-called 'Hard Brexit' where no transition period is agreed between the UK and EU, Chubb's UK branches will benefit from the UK government's temporary permissions regime. This regime will enable firms like Chubb to undertake new business within the scope of their permission, enable them to continue performing their contractual rights and obligations, manage existing business and mitigate risks associated with a sudden loss of permission.

Additional information can be found on the Chubb UK website.

A.2 Underwriting Performance

A.2.1 Key Performance Indicators and Summary by Solvency II Line of Business and Countries

The following financial key performance indicators ("KPIs") have been deemed relevant to the company's business. These KPIs are reviewed regularly by the AEL Board.

KPIs	2018	2017
Gross written premiums (£'000)	30,184	31,428
Profit after taxation (£'000)	171	7,104
Number of policies in force	183,743	194,388

Management also use a variety of other performance indicators, including production volumes, lapse ratios, price monitoring, loss and expense analyses, and operating metrics in assessing the performance of each block of business. All financial results are monitored against plan, forecast and prior year on a regular basis.

The company's underwriting performance by Solvency II line of business, for the year ended 31 December 2018 is summarised in the table below:

SII Line of Business:	Gross written premiums £'000 2018	Net earned premium £'000 2018	Underwriting profit £'000 2018	Gross written premiums £'000 2017	Net earned premium* £'000 2017	Underwriting profit £'000 2017
Other life insurance	28,774	1,616	-207	29,861	3,350	7,271
Health insurance	1,163	968	792	1,310	732	181
Life reinsurance	247	247	-279	257	257	(288)
Total	**30,184**	**2,831**	**306**	**31,428**	**4,339**	**7,164**

The company's KPI summary by top countries six of the nine countries AEL operates in, for the year ended 31 December 2018 is summarized in the table below:

Regions:	Gross written premiums £'000 2018	Net earned premium £'000 2018	Underwriting profit £'000 2018
Netherlands	19,439	1	-1,225
United Kingdom	4,822	1,213	1,801
Sweden	2,629	341	270
Spain	1,761	981	313
France	537	98	146
Finland	520	128	143
Total	**29,708**	**2,762**	**1,448**

The top countries, for the year ended 31 December 2018 were; UK, Netherlands, Sweden, Spain, Finland, France.

Gross premiums written decreased from £31,428k in 2017 to £30,184k in 2018 as the existing blocks of business slowly lapse. A large part of the company's income is derived from Continental Europe. During 2018 AEL did not enter into any new business, and therefore the overall written premium has decreased as existing business expires or lapses.

The other key drivers of AEL's future underwriting performance are mortality and persistency experience.

AEL's strategy going forward is to minimise capital strain whilst delivering stable annual profits.

Overall Performance

In the year to 31 December 2018 the company produced an underwriting surplus of £306k compared to £7,164k in 2017.

Own funds for Solvency II purposes were £52,919k.

A.3 Investment Performance

The aim of AEL's investment strategy is to match technical provisions by currency and duration with government bonds and low risk corporate bonds.

In 2018, AEL maintained an investment grade Sterling bond portfolio. AEL maintained a consistent strategy throughout the year to target a balance between achieving adequate investment returns and a reasonable match to the company's technical liabilities and reserves.

The Sterling portfolio generated total negative returns of (2.0)% for the year reflecting rising yields for intermediate and longer dated Sterling fixed income during the year.

The company's investment income by Solvency II assets class and expenses for the year ended 31 December 2018 is summarised in the table below:

	SII asset class:	Income £'000 2018	Realised Gain/(Loss) £'000 2018	Unrealised Gain/(Loss) £'000 2018	Other £'000 2018	Total Return £'000 2018	Income £'000 2017	Realised Gain/(Loss) £'000 2017	Unrealised Gain/(Loss) £'000 2017	Other £'000 2017	Total Return £'000 2017
	Investment income by asset class:										
1	**Government bonds**	836	(27)	(801)	-	8	947	(905)	218	-	260
2	**Corporate bonds**	802	(155)	(1,180)	-	(533)	739	(3)	87	-	823
4	**Collective investment undertakings**	1	-	-	-	1	-	387		-	387
6	**Collateralised securities**	1	-	(1)		-	6	-	41		47
7	**Cash and deposits**	-	-	-	(2)	(2)	-	-	-	-	-
	Investment expenses	-	-	-	(64)	(64)	-	-	-	(84)	(84)
	Total investment return	1,640	(182)	(1,982)	(66)	(590)	1,692	(521)	346	(84)	1,433

Total investment return for the year ended 31 December 2018 was (£590)k compared to £1,433k in 2017, driven by unrealised losses.

Investment income was £1,640k, comparable to £1,692k in 2017. Realised losses of (£182)k in 2018 compared to realised losses of (£521)k in 2017.
However 2018 saw unrealised losses of £(1,982)k compared to unrealised gains of £346k in 2017, this was driven by rising yields in 2018.
The investment expenses are shown in total as they all relate to investment management fees.
There were no gains or losses recognised directly in equity. All changes to financial instruments are reflected directly in the income statement.

AEL does not hold investments in securitisations.

A.4 Performance of Other Activities

All of AEL's activities are connected with the provision of contracts of insurance or reinsurance.

A.5 Other Information

All material information regarding AEL's Solvency II business and performance by Solvency II lines of business is disclosed in sections A2 – A4 above.

B. System of Governance

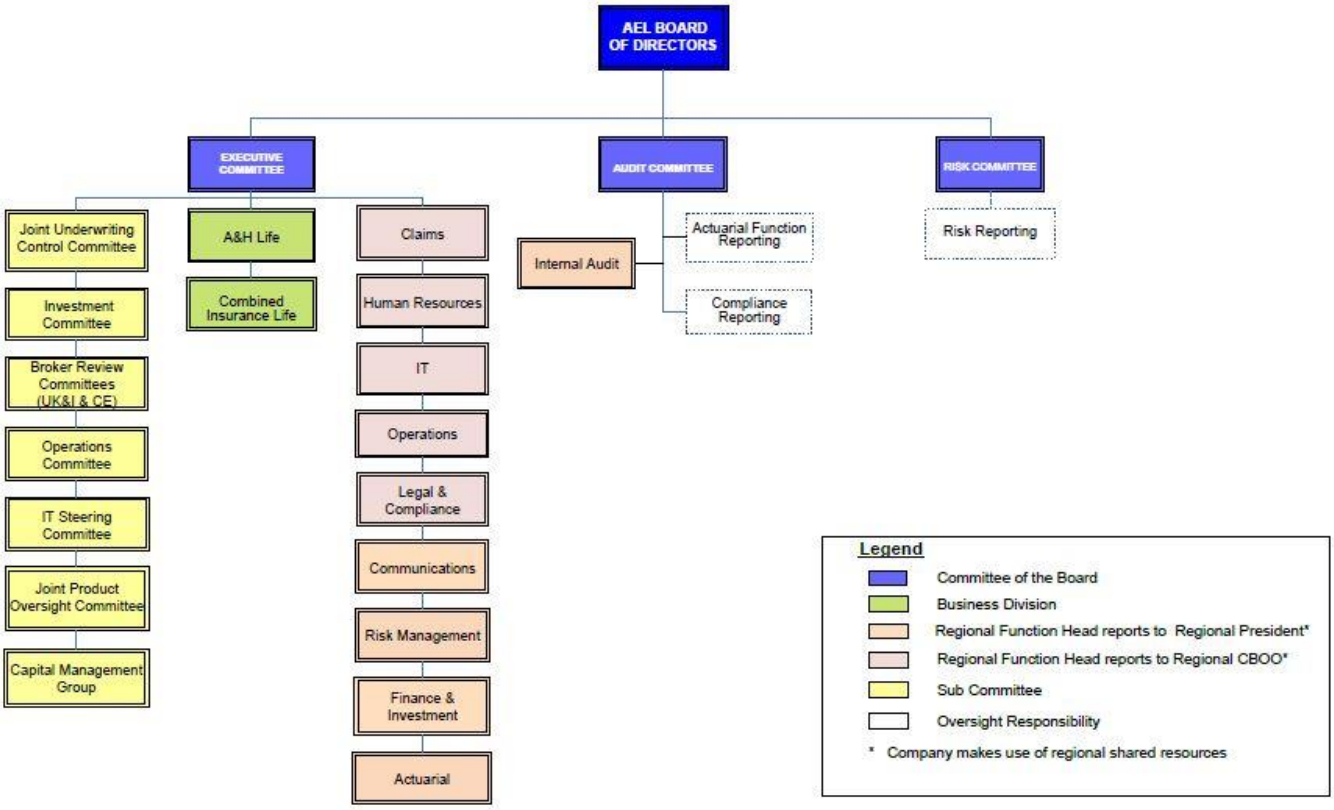
B.1 General Information on the System of Governance

B.1.1 Board and Committees

The Board of Directors ("the Board") has reserved responsibility for decision making in connection with a number of matters. These include those of a significant strategic, structural, capital, financial reporting, internal control, risk, policy or compliance nature. As at 31 December 2018, the Board membership comprised six Non-Executive Directors ("NEDs") and two Executive Directors.

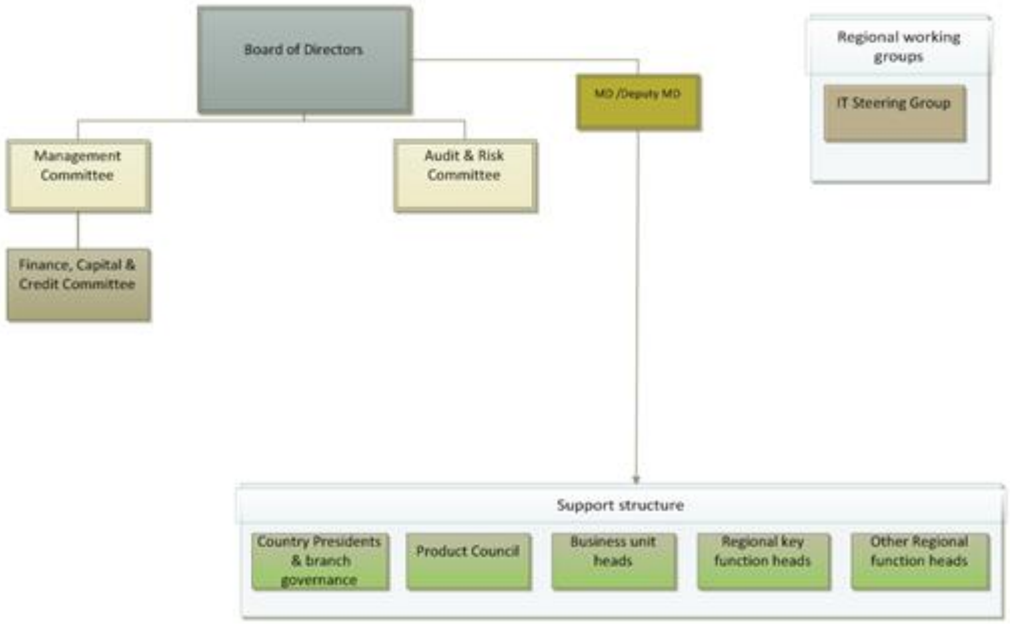
The Board has delegated a number of matters to committees. Each of the committees has formal terms of reference and matters reserved to it. Each reports to the Board regularly in respect of its remit.

As at 31 December 2018, AEL's governance structure was as follows:



On 1 January 2019, AEL redomiciled from the UK to France. The company now operates under the supervision of the French regulator, ACPR, with its UK operations run through a UK branch which remains subject to limited regulation by the Financial Conduct Authority ("FCA"). There were a number of changes to the AEL governance structure in line with the change of regulatory regime applicable to the company. The Board is currently comprised of seven non-executive directors (including A. Donselaar, D. Furby and M. Hammond) and two executive directors.

As at 1 January 2019, AEL's governance structure is as follows:



Membership of the Board is kept under review to ensure that the composition and available expertise remains relevant to the current needs of the company. As at 31 December 2018 the Board comprised of six non-executive directors and two executive directors. In 2018 one executive director and one non-executive director left the Board. During the year Lord Turner, was appointed as a new Chairman and David Furby was appointed as Regional President for Chubb Europe and also joined the Board. When the Company redomiciled to France on 1 January 2019, one executive director Veronique Brionne, based in France was appointed. Ian Moffatt was appointed as Managing Director and Veronique Brionne as Deputy Managing Director. The board is currently comprised of seven non-executive directors, including Lord Turner as the independent Chairman, and two executive directors. The day to day operations of the Company are under the management of the Managing Director and any Deputy Managing Director as authorised by the Board, in accordance with the French Commercial Code to represent the Company in all its dealings with third parties.

AEL greatly values the contribution of its non-executive directors in providing contrasting insights, experience and challenge in the Board's discussions and insights into the wider Chubb Group. Details of director appointments and resignations can be found in the Directors' Report on page 6.

Executive Committee

During 2018 the Executive Committee comprises of the Chief Executive Officer ("CEO") of AEL and other members of the company's senior management team. The primary role of the Committee is to oversee the day-to-day management of business operations and their performance, and to assist the CEO in implementing and overseeing operational strategies and decisions determined by the Board. The Executive Committee is responsible for the oversight of support function activities, project reporting and oversight of sub-committees. This committee was renamed as the Management Committee on redomicile.

Audit Committee[1]

Until 31 Decemer 2018 the Audit Committee was composed exclusively of NEDs and its remit is to consider and make recommendations to the Board on areas including internal controls, financial reporting, whistleblowing, validation of solvency calculations, actuarial matters and the external audit. It received reports from the Compliance, Actuarial and Finance functions and Internal Audit on a quarterly basis.

In relation to the external audit process, the Committee monitors the nature and scope of work in the audit of the statutory financial statements and other external reporting requirements.

In the case of the Internal Audit function, the Committee's role involves agreeing and monitoring, in conjunction with the Group Audit function, the nature and scope of work to be carried out by the internal audit team and the availability of sufficient resources.

The Committee's role is aimed at providing assurance to the Board and Group management that the internal control systems, agreed by executive management as being appropriate for the prudent management of the business, are operating as designed. At all times the Audit Committee members were expected to challenge any aspect of these processes which it considers weak or poor practice.

Risk Committee[2]

Until 31 December 2018 the Risk Committee was composed of two NEDs and four Executive Directors. The Board has delegated responsibility for the oversight and implementation of its Risk Management Framework to the Risk Committee. The Committee oversaw and advised the Board on risk exposures, future risk strategy, the design and implementation of the framework into the business and on solvency and capital matters. It receives regular reports on the company's "Own Risk and Solvency Assessment", which provides an independent overview of management's assessment of risk including a measurement against agreed risk appetites. It has oversight of the operation and resourcing of the Risk Management function.

Brexit Committee

The Brexit Committee was formed in August 2017. The current members are Adair Turner, Mark Hammond, Ashley Mullins, David Furby, Mark McCausland, Ian Moffatt, Miriam Connole and Adam Clifford. The committee meets on an ad hoc basis between formal Board meetings to consider authorisation of matters relating to the Company's Brexit planning and other impacts of Brexit on the company.

B.1.2 Roles and Responsibilities of Key Functions

Internal Audit Function

Internal Audit is a 'third line of defence' function which operates independently of regional management, reporting to AEL's ultimate shareholding company via the Group Audit function. Its role is to carry out testing of financial and non-financial controls so as to identify control weaknesses and to recommend improvements, for i) the better protection of AEL's assets and ii) conformity to agreed policies, procedures and guidelines. It provides reports to the Board and Audit Committee, which reviews and has oversight of its annual plan and has oversight of the resources available to the function.

---

[1] With effect from 1 January 2019, the Audit and Risk Committees were merged to become one Committee known as the Audit and Risk Committee comprised of Non-Executive Directors. The level of oversight of the company will remain unchanged.

[2] With effect from 1 January 2019, the Audit and Risk Committees were merged to become one Committee known as the Audit and Risk Committee comprised of Non-Executive Directors. The level of oversight of the company will remain unchanged.

Compliance Function

Compliance is a 'second line of defence' function, which via the provision of advice, training and business activity monitoring, seeks to ensure that AEL's business, wherever operated, is carried out in accordance with agreed policies, procedures and frameworks. It liaises with regulators, keeping them advised of key developments and informed of the company's compliance with regulatory standards. The function provides reports to the Executive and Audit Committees, which review and have oversight of its annual activity plan and resourcing.

Risk Management Function

Risk Management is a 'second line of defence' function. Independent of business line management, the function is responsible for assisting the Board, Boards committees, general management and employees in developing, implementing and maintaining the Risk Management Framework (RMF). The RMF comprises the strategies used to identify, assess, manage, monitor and report on its significant risk exposures and the policies, processes and procedures in place that are design to underpin continuous risk management and support the risk-based decision-making processes of the business.

Risk Management continuously measures business and functional activity against KPIs derived from agreed statements of risk appetite, conducts one-off reviews of specific issues and provides advice to the business on mitigation of risk.

The function provides reporting to the Audit & Risk Committee and undertakes reviews at the direction of the Audit & Risk Committee or Board.

Actuarial Function

During 2018 the Actuarial function was headed by an independent external Actuary who provided recommendations on valuation of technical provisions and other key actuarial elements to the Board. From 1 Jan 2019, in line with the ACPR requirements, the Head of the Actuarial function was brought in-house and resides within the Company's own Actuarial team. The function seeks accurately to assess the reserves required to satisfy known and estimated claims and claim expenses, providing a view of reserves adequacy independent of business line management. The function contributes to reserving, pricing, planning, ceded reinsurance analysis, business intelligence and regulatory reporting.

B.1.2 Roles and Responsibilities of Other Important Functions

Finance & Investment Functions

The Finance function encompasses financial accounting and reporting, financial planning, analysis and communications, taxation, treasury and credit control. A shared operations centre in Glasgow carries out bulk and routine finance operations.

Investment management is carried out by the Treasury function, a part of the Finance department. The function ensures that assets representing regulatory and internal capital requirements are securely maintained under the management of external fund managers, and that asset currencies and liquidity follow agreed guidelines. AEL has an Investment subcommittee of the Executive committee, which enables consideration to be given to the asset investment appropriate on an entity basis.

A high degree of liaison with the business and with other functions, including the Actuarial function and the capital team within Risk Management, takes place, enabling the Finance function to maintain a current overview of the financial, capital and performance indicators required to manage the business prudently and effectively.

Claims Function

The Claims function is responsible for validating and processing directly-received claims and overseeing the services provided by agents to whom claims processing is outsourced in line with agreed standards. The function is managed separately from the business lines. It contributes to the analysis of adequacy of reserves and advises the business on claims trends and customer treatment with respect to claims payment. The function incorporates a unit for the detection of claims-related fraud.

Information Technology (IT) Function

IT advises on, purchases, maintains and supports operational, functional and administrative technical systems in support of business objectives and ongoing operational and functional needs. It acts in an advisory and support capacity in respect of external systems and has oversight of data security and IT asset management in line with agreed policy and procedures. It operates governance via the IT Steering Committee, which includes senior management amongst its membership.

Operations Function

The Operations function supports business and functional objectives via the design and operation of underwriting, customer service, financial and other operating systems throughout the region in which the company operates. The function incorporates a project management team. An Operations sub-committee reports to the Executive Committee. The sub-committee was decommissioned 31 December 2018.

Human Resources Function

Human Resources advises and supports the business in planning for, staffing, training and remunerating and retaining a high-quality employee base within the region. The function contributes to the assessment of senior staff for Fitness and Propriety and has oversight of the implementation of personnel-related Policies.

Reinsurance

The Ceded Reinsurance team operates under Group management, but is co-located in AEL's head office, and liaises with the business, negotiating shared and one-off treaty arrangements in line with agreed guidelines and business plans. The team provides advice on the cost-effectiveness and operation of reinsurance arrangements, and the suitability of external reinsurance providers.

All function management heads are responsible for AEL's operations wherever geographically located. Risks, performance and controls are assessed centrally and functions' standards and procedures apply to branch operations in all countries of operation. Significant information is provided to the Executive Committee via the Senior Vice President of Chubb Life EMEA, who is an Executive Committee member, or via his reporting line to the Regional President.

B.1.3 Any Material Changes in the System of Governance during the Reporting Period

The Product Oversight Committee which conducts consistent, organisation-wide oversight in respect of customer outcomes and was a sub-committee of the Executive Committe was decommissioned 31 December 2018. From 1 January 2019, any conduct matters are reported directly to the Management Committee (previously Executive Committee) and the Board. Applicable changes arising from one company's redomicile to France are explained above and reflected in the charts in B.1.1.

During the period the UK regulators have implemented the Senior Manager & Certification Regime ("SMCR") which aims to increase individual accountability at all levels. The SMCR brings about changes to Senior Manager requirements such as: Prescribed Responsibilities, Statement of Responsibilities and overarching governance documents such as the Management Responsibilities Map ("MRM"). The SMCR also introduces Certification requirements for individuals who are not Significant Management Function role holders, whose role has the potential to impact Chubb, or their customers or the market. These are in addition to Conduct Rules for UK employees.

AEL became an SE as at 19 July 2018 to facilitate the redomiciliation process and the continuity of services. The governance arrangements have been refreshed to ensure they remain appropriate.

Remuneration Policies and Practices

B.1.3.1 Principles of the Remuneration Policy

For the purpose of the following analysis "employees" includes both staff directly employed by CEG and staff employed by an affiliated service company, Chubb Services UK Limited ("CSUK"), which carries out administrative services on behalf of the company, as AEL does not have any employees. Both companies are subject to the same remuneration policy.

AEL has a remuneration policy which is applicable to all employees including NEDs. However, NEDs have no entitlement to variable or equity-based remuneration, nor to pension contributions.

The policy requires the following principles to be applied to all remuneration decisions:

- Remuneration must be consistent with and promote sound and effective risk management in accordance with Chubb's Risk Management Framework and not encourage risk-taking that exceeds the level of tolerated risk of Chubb;
- Remuneration must be in line with the business strategy, objectives, values, long term interests and competitive strength of Chubb and the Chubb Group of Companies;
- Remuneration awards must not threaten Chubb's ability to maintain an adequate capital base;
- Remuneration must be sustainable according to the financial situation of Chubb as a whole, and justified on the basis of the performance of Chubb, the business unit and the individual concerned
- Remuneration must avoid conflicts of interest in accordance with Chubb's conflict of interest policies;
- Remuneration decisions must not be made and/or approved by a beneficiary of that decision; and
- The remuneration of employees engaged in control functions must be in accordance with the achievement of objectives linked to their function, independent from the performance of the business areas they control.

Fixed Remuneration

The policy requires that fixed remuneration must be appropriate to the role performed, taking into account factors such as:

- Role complexity;
- Level of responsibility and seniority;
- Local market value of the role; and
- Experience and expertise of the individual.

Variable Remuneration

Variable remuneration may comprise cash performance bonus and equity-based awards (options or restricted share awards).

Where an employee may be eligible to receive variable remuneration, the assessment of variable remuneration must take into account the following factors:

- Remuneration schemes which include fixed and variable components shall be appropriately balanced so that the fixed (or guaranteed) component represents a high proportion of the total remuneration;
- The payment of equity-based variable remuneration should vest over a period of time which will help prevent employees taking excessive risks that could have negative effect upon Chubb and/or customers. This period is to be decided during the approval process to take into account all of the relevant factors and risks related to the specific situation; and
- Performance-related variable remuneration should be based upon a combination of performance measures including, but not limited to, the following:

- Financial benefit to Chubb;
- Quality of employee performance (in terms of how things are achieved as well as what is achieved), Board adopted policies and procedures and protocols including adherence to Chubb's risk management arrangements.

Termination Payments

Termination payments shall be related to performance and be designed in a way that does not reward failure.

Pensions

Employees may belong to one of a number of defined-benefit or defined-contribution pension schemes, to which the company contributes according to standardised formula.

B.1.3.2 Performance Criteria

The award of variable remuneration is discretionary and usually occurs as an annual cycle. Cash bonuses and equity-based awards, if any, are allocated to individuals within limits attaching to the individual's employment grade and as recommended by line management based on assessment of individual performance criteria. The pool of awards available for allocation is set by the Group's ultimate holding company, as determined by a Global Compensation Committee which comprises independent Group directors, and takes into account the expected profitability of the Group.

The estimated value of equity awards at grant is generally composed 25% of options, which vest incrementally over a four-year period, and 75% of restricted share awards, which vest incrementally over three years.

Performance criteria are set and measured on an individual basis. The performance measurement plans (PMPs) of all Approved Persons (SMF) in executive roles and Certified Persons measure performance against criteria including 'Fit and Proper' behaviours, risk management and leadership.

The PMPs also include the following features:

- The individual must proactively identify and manage those risks for which they have responsibility within the Risk Register, including ensuring that effective controls are operating;
- Should these risks fall outside of, or be reasonably expected to fall outside of, Chubb's risk appetite in either the short term or over the strategic horizon, they should be escalated; and
- Senior Insurance Management Function holders will also be assessed against their prescribed responsibilities.

B.1.3.3 Pension or Early Retirement Schemes

There are no supplementary pensions or early retirement schemes operated for the benefit of Board members or key function holders.

B.1.4 Material Transactions with Shareholders, Persons who Exercise a Significant Influence, and With Members of the AMSB

Shareholders

There were no transactions with shareholders who were not members of key management (Executive Committee, Executive Directors and NEDs) in 2018.

Key Management

Key management personnel include members of the Board of Directors. Directors received emoluments from CSUK and AEL in respect of their services to Chubb Group companies. The cost of these emoluments is incorporated within the management recharges from CSUK. For disclosure purposes, it is not practical to allocate these amounts to the underlying entities to which the directors provide services. Consequently, the following amounts represent the total emoluments in respect of the directors of this company.

Material transactions	2018 £'000	2017 £'000
Aggregate emoluments and benefits	2,296	2,144
Company pension contributions to money purchase pension schemes	18	-
Total	**2,314**	**2,144**

Included in the above amounts paid by CSUK and AEL in respect of the directors of this company, highest paid director was paid a total of £797,979 (2017:£835,764) in respect of emoluments and benefits The amounts of accrued pension and accrued lump sum in relation to the highest paid director at the end of the year were £nil (2017: £nil) and £nil (2017: £nil) respectively.

The aggregate emoluments above do not include share based remuneration. All executive directors are entitled to shares in Chubb Limited under long-term incentive plans. During the year, 3 directors received shares in Chubb Limited under long-term incentive plans and no director exercised options over the shares of Chubb Limited.

B.2 Fit and Proper Requirements

B.2.1 Specific Fit and Proper Requirements

The Chubb Code of Conduct sets out the core values that underpin the foundation upon which AEL is built:

- **Collaboration and respect:** We value the unique contribution that each person brings to Chubb. Teamwork and respect are central to how we work and we believe the best solutions are those that draw on diverse ideas and perspectives.
- **Trust and reliability:** We deal honestly and fairly with each other and with our customers, business partners and competitors. We are committed to fulfilling all contractual obligations, and we take pride in ensuring that our products and services always meet our high standards for quality. Our business partners must share our commitments to honesty, fairness and delivering on our promises to our customers.
- **Integrity:** We must avoid conflicts of interest in our personal and business activities. We must avoid situations that give rise to actual conflicts, and situations that create the appearance of a conflict.
- **Honesty and transparency:** It is crucial to our reputation that we immediately report any fraudulent activity. Those who do engage in fraudulent activity and those who have knowledge of fraud but fail to report it will be subject to strict disciplinary action.
- **The greater good:** We conduct our business in a manner that respects the human rights and dignity of all, and we support international efforts to promote and protect human rights. Chubb does not tolerate abuse of human rights in a Chubb workplace or in the course of Chubb business.

AEL, in line with Article 42 of Solvency II Directive, ensures that Senior Management and individuals performing key functions are 'fit' by considering their individual qualifications, knowledge and relevant experience, and are aware of their respective allocated duties. Collectively the Senior Management collectively possess appropriate qualification, experience and knowledge of:

a) insurance and financial markets;
b) business strategy and business model;
c) system of governance;

d) financial and actuarial analysis; and
e) regulatory framework and requirements.

When assessing whether a person is 'proper', includes an assessment of that person's honesty and financial soundness based on relevant evidence regarding their character, personal behaviour and business conduct including any criminal, financial, supervisory aspects regardless of jurisdiction. UK authorised and regulated entities and Branches as subject to the Fit and Proper requirements set out by the FCA and PRA under Senior Manager and Certification Regime. Following the re-domiciliation of AEL on 1st January 2019, Senior Management will be subject to local law or practice in respect of Fit and Proper requirements.

The FCA and PRA have broadened the application of the Senior Insurance Manager Regime (SIMR) to a wider audience, through the implementation of the Senior Managers & Certification Regime ("SMCR") which came into effect on 10 December 2018.

The key elements of SMCR are:

- A 'Senior Managers Regime' which focuses on the allocation of Prescribed Responsibilities and how they are carried out by the Board and Significant Manager Functions (SMF);
- A 'Certification Regime' which intends to capture individuals who do not hold a SMF, however are in a role which could impact Chubb or its customers from a managerial, risk taking or decision making perspective;
- Enhanced requirements to assess the fitness and propriety of Senior Managers and Certified Persons; and
- A set of Conduct Rules that apply to all employees in the UK.

In the assessment of whether a person is 'fit', consideration has to be given to the person's competence and capability to undertake the role, including professional and formal qualifications; and knowledge and relevant experience in the context of the respective duties allocated to that person. Individuals performing a SMF or a Certified Function are required to demonstrate that they are fit and proper to undertake their role. The fit and proper requirements equally applies to Notified Non-Executive Directors (NNEDs) who are not SMFs.

In determining a person's fitness, AEL will have regard to all relevant matters, including, but not limited to:

- An individual's competence and capability to undertake the role, including professional and formal qualifications, as well as knowledge and relevant experience in the context of the respective duties allocated to that individual.
- Whether the person has sufficient qualifications and/or industry experience to carry out the intended functions; for example the financial, accounting, actuarial and management qualifications and skills;
- Whether a the person satisfies the relevant regulator's training and competence requirements;
- Whether the person has demonstrated, by experience and training, that they are suitable to perform the role and possess the necessary skills, knowledge, expertise, diligence and soundness of judgment to undertake and fulfil the particular duties and responsibilities of the particular role;
- Regulatory referencing for the preceding 6 years of employment;
- Whether the person has demonstrated the appropriate competence and integrity in fulfilling occupational, managerial or professional responsibilities previously or in their current role;
- Whether an individual acts with honesty, integrity and be of good repute; has been convicted of, dismissed or suspended from employment for drug or alcohol abuses or other acts that would constitute a breach of Conduct Rules, and whether this would impact a person's continuing ability to perform the particular role for which the person is or is to be employed; and
- Whether the person has any potential conflicts of interests.

Human Resources supported by the Compliance function is responsible for the request, collation and provision of both pre-appointment checks and ongoing assessment to ensure that individuals remain Fit and Proper to perform SMFs and Certified Functions.

Each Senior Manager Function is required to have a Role Profile, a Statement of Responsibilities (SoR) and handover materials which capture the specific responsibilities, accountabilities and requirements of the role. These documents must be reviewed when roles are filled and periodically thereafter, including in connection with the assessment of an employee's performance according to his or her Performance Management Plan.

The Compliance function is responsible for keeping maintaining the MRM detailing the SMF and Certified persons. The Compliance Function is also responsible for notifying the relevant regulators of changes to the SMF role holders, notified NEDs and Certified Persons; including occasions where there the individual no longer fulfilling the Fit and Proper requirements, has breached Conduct Rules. In addition to the above, Compliance is responsible for ongoing monitoring of compliance with, and the effectiveness of, AEL's Fit and Proper arrangements.

B.2.2 Assessment Process

An individual's Fitness and Propriety is defined as equating to their suitability to oversee, manage or perform a Certification Function, regulated activity or be an Approved Person. The effective assessment of individuals holding or applying for SMF roles or is a Certified Person may include, but is not limited to, the following:

<u>Pre-appointment:</u>

- Competency-based interviews;
- Qualification checks;
- CV reviews;
- Criminal record checks;
- Previous employment checks;
- Regulatory reference checks for the preceding six (6) years;
- Previous employment / qualification / gap investigations;
- Sanctions checks;
- Directorship disqualification checks such as Disclosure and Barring Service (DBS) check, a the appropriate level, for Senior Management Functions this to the highest available level of checking;
- Conflicts of Interest checks;
- Allegations of fraud or dishonesty in connection with professional activities;
- Subject of any investigation or disciplinary hearing by a regulatory authority; and
- Involvement in insolvency, bankruptcy or winding-up proceedings and credit reference checks.

In addition to the pre-appointment checks, the following should also be considered on an ongoing basis:

- Annual attestation to confirm fitness and propriety;
- Role profile and Statement of Responsibilities review;
- Event or Breach monitoring;
- Learning and development training plan reviews;
- Annual year-end Performance Management Process and Training Plan reviews; and
- Chubb Code of Conduct attestation.

A 'Fit & Proper' attestation is incorporated into the Employee Performance Management Process at the mid-year and end of year during the performance review cycle.

B.3 Risk Management System including the Own Risk and Solvency Assessment

The Chubb Group is a global underwriter whose risk management obligation to stakeholders is simple: ensure sufficient financial strength over the long term in order to pay policyholder claims while simultaneously building and sustaining shareholder value.

The Chubb Enterprise Risk Management ("ERM") strategy helps achieve the goal of building shareholder value by systematically identifying, and then monitoring and managing, the various risks to the achievement of corporate business objectives and thereby minimising potential disruptions that could otherwise diminish shareholder value or balance sheet strength.

B.3.1 Risk Management Framework at Chubb

As an insurer, AEL manages risk for its policyholders and shareholders. Hence, risk management is intrinsic within its product offerings and fundamental to its business. Risk Management is not a separate service function but rather is embedded in critical decision-making to support achievement of AEL's business goals and objectives. Risk Management does not strive to eliminate risk but rather manage and profit from risk where possible and prudent.

To ensure that its risk management efforts are focused in terms of time horizon and business materiality, Chubb adheres to the enterprise-wide ERM mission statement as follows:

"ERM is the process to identify, assess, and mitigate those risks that, if manifested mainly over the next 36 months, might impact Chubb's exposure footprint (investments, operations and short / long-tail liabilities) such that the firm's ability to achieve its strategic business objectives might be impaired."

The achievement of AEL's overall high level business goals requires adherence to a structured ERM programme and strategy based on an understanding and articulation of such key elements as risk profile, risk appetite and risk culture. The above ERM mission statement recognises the importance of the effective management of conduct risk as part of its strategic objectives, in terms of its long term financial stability and its obligations to its customers. It also outlines the goals which AEL seeks to accomplish through ERM; the ERM framework describes the extent to which ERM is embedded in every aspect of the organisation.

Specifically, the Risk Management Framework incorporates the following processes:

- **Internal and external risks**: Risk identification to analyse, quantify, and where possible, mitigate significant internal and external risks that could materially hamper financial conditions and/ or the achievement of corporate business objectives.
- **Exposure accumulations**: Risk assessment to identify and quantify the accumulation of exposure to individual counterparties, products or industry sectors, particularly those that materially extend across or correlate between different areas across the company.
- **Risk modelling**: Risk evaluation through the use of data-sets, analytical tools, metrics and processes that help the company makes informed underwriting, investment and risk management decisions.
- **Risk mitigation**: The internal controls operated at all levels of the company to mitigate risks within accepted levels, expressed through corporate policies, processes and procedures.
- **Governance**: The roles and responsibilities that establish and coordinate risk guidelines that reflect the company's appetite for risk, monitor exposure accumulations, and ensure effective internal risk management communication.
- **Disclosure**: The risk reporting relating to risk governance, processes, and initiatives as well as solvency assessments internally to senior management, executives and Board of Directors.

- **Decision making**: The risk response to information provided to management through the Risk Management Framework processes that support decision-making, such as risk transfer, additional risk controls, and risk acceptance relative to risk appetite or risk termination.

The company classifies individual risk sources across its landscape into four major reporting categories: Insurance, Financial, Operational and Strategic. Insurance is the company's primary risk category; the three other risk categories present the remaining exposures. These risk reporting categories cover all risk types to which the company is exposed.

The Risk Management Framework includes utilisation of a risk register process to identify and assess the inherent risk arising from each risk source, as well as the impact of subsequent risk management actions designed to mitigate risk to an acceptable residual level consistent with risk appetite. The process also includes the identification of emerging risks and clash risks.

B.3.2 Risk Governance

Governance and oversight exercised by AEL covers three distinct forms: day-to-day risk management and controls, risk management oversight, and independent assurance. This approach, also known as the three lines of defence model, operates as follow within all Chubb legal entities:

- **1st Line**: Management and staff in the first line of defence have direct responsibility for the management and control of risk (i.e. staff and management working within or managing operational business units and functions).
- **2nd Line**: The coordination, facilitation and oversight of the effectiveness and integrity of the Risk Management Framework and Compliance Monitoring (see section B.1.2 for risk management and compliance functions).
- **3rd Line**: Independent assurance and challenge is applied across all business functions in respect of the integrity and effectiveness of the Risk Management Framework (i.e. internal and external audit).

The Risk Management Function reports to the Executive Committee, Audit & Risk Committee and Board with sufficient oversight of the ERM framework and risk exposures, focusing on key risks which are evolving and those which are approaching risk appetite.

B.3.3 Own Risk and Solvency Assessment ("ORSA") Process

Solvency II regulation defines the ORSA as 'the entirety of the processes and procedures employed to identify, assess, monitor, manage, and report the short and long term risks a firm faces or may face and to determine the own funds necessary to ensure that overall solvency needs are met'. In order to comply with Solvency II regulation, Chubb has established a formal Own Risk and Solvency Assessment ("ORSA") process – this sets out the list of activities that Chubb undertakes in order to conduct a risk and solvency assessment.

The ORSA is an integral part of the overall Risk Management Framework and is a process which is conducted throughout the year to support the normal running of business within Chubb. An overview of the key elements which make up the ORSA is shown below.

Summary of the ORSA process

One of the key elements of the ORSA is determining an appropriate level of capital to hold – this is referred to as the ORSA capital assessment. This is management's view of the capital that the company needs to hold in consideration of the risk the business faces irrespective of regulatory capital requirements. The ORSA capital is calculated based on capital needed to:

- meet regulatory requirements based on the Standard Formula; and
- mitigate against risks that management want to quantify over and above the Standard Formula capital requirement.

The Risk Management Function co-ordinates each element of the ORSA shown above with subject matter experts across the business. The results of the analysis are reported to the Executive Committee, Audit & Risk Committee and Board throughout the year.

The outcomes of the ORSA process are documented within the ORSA report. An ORSA Report is produced at least annually and is approved by the Board.

In addition to standard annual ORSA reports, additional ad-hoc ORSA related reports may be produced. Examples of ad-hoc ORSA reports that may be produced include, but are not limited to: changes in risk profile; substantial changes in business structure or strategy; requests from the Board; and responses to external events.

B.4 Internal Control System

B.4.1 Internal Control System

AEL's operations are largely conducted via services shared with affiliated companies, controlled by means of a service agreement. These shared services are subject to regional controls implemented through policies and procedures applicable to a number of companies. The company's own controls overlay these intragroup structures with controls aimed at providing the company's management and board with additional entity-focused comfort.

AEL maintains extensive systems of controls over financial and other risks. An Internal Control Policy sets out the responsibilities and standards required to facilitate an effective system of internal control and to monitor its effectiveness.

The financial controls are designed to protect assets and identify liabilities, ensure accurate and timely reporting, planning and analysis and meet the requirements of Group, statutory and regulatory reporting.

Other controls include those contained within the Underwriting Framework, Risk Management Framework, Business Compliance Framework, Conduct Risk Framework and Information Security Framework. Where activities are outsourced to external agents prior due diligence and ongoing audit processes are carried out to ensure that agents are able to meet control standards.

Controls are designed to align with the standards and guidance produced by AEL's ultimate holding company and each key function's head of management is responsible for the satisfactory design and operation of controls over risks applicable to that function.

Internal controls are tested by the Internal Audit function according to a cycle agreed by the Audit Committee, and by the external Auditor in the course of the Auditor's reviews of statutory and other reporting. Weaknesses and misstatements are identified to the Audit Committee, together with a programme for remediation.

B.4.2 Compliance Function

The Compliance function is a second line of defence function (see section B 1.2 for details), operating separately from the commercial units of the business. The Head of Compliance, with defined SMCR responsibilities, reports to the General Counsel, who oversees the Legal and Compliance function.

The function also has a reporting line to the Audit Committee, providing that committee with regular reports of activity, outcomes and progress against plan. The Committee has oversight of the resourcing of the Compliance Plan.

The Compliance function comprises 37 members, who operate via a "hub and spoke" model, with specialists (27) in the London head office who have UK and region-wide responsibilities, and dedicated local Compliance Officers (10) based in offices throughout Continental Europe responsible for compliance activities in a given territory. They support the delivery of the regional Compliance Plan and perform the core compliance activities including compliance monitoring, advising, training and project support for their countries and country clusters.

The London team is organised into the following groups:

- **Compliance Advice and Regulatory Services Team**, which provides advice and guidance to all business units in Europe in relation to their regulatory and compliance obligations, and monitors trends and developments in the regulatory environment. This team also oversees Compliance training and the regulatory governance regime. The Team is responsible for developing compliance training solutions and works closely with the business and other staff to develop e-learning, topical face-to-face learning modules and briefing sessions.
- **Compliance Monitoring Team**, which is responsible for monitoring and assessing the adequacy and effectiveness of the measures and procedures in place to comply with regulatory obligations and internal policies at both local and regional levels. AEL's approach in Europe continues to evolve with the implementation of the Conduct Risk and Global Business Compliance Frameworks.
- **Financial Crime Team**, which is responsible for assessing the financial Crime Risk to Chubb and subsequently building and implementing a robust financial crime framework across Europe, in line with applicable legal and regulatory requirements and Chubb Group standards. Areas covered include sanctions, anti-money laundering & counter terrorist financing, anti-bribery & corruption, non-claims fraud and market abuse.
- **Compliance Programmes Team**, which manages compliance related work programmes such as implementing company-wide frameworks and helps maintain standards and updating of Compliance

policy frameworks and procedural guidelines. It is also responsible for the gathering of Compliance Management Information and formal reporting requirement to key Governance Committees. The Compliance Programmes team is the central co-ordination hub for all material compliance activities and for determining resource allocation in conjunction with the Compliance Management team.

The Head of Compliance develops and maintains an annual Compliance Plan (developed alongside the work of the other assurance functions, where relevant, and agreed with the Executive and Audit Committees) which aligns Compliance function activities with the identified aims of the Regulators of the insurance business in the areas in which AEL operates, and seeks to ensure all significant activities and related risks are identified, managed and controlled in line with Board-approved compliance risk appetite and strategic intention. Resources are deployed according to the needs of the plan.

As a component of the Global Compliance function, the Regional Compliance team operates under the Group Compliance Charter, which sets out the fundamental principles, roles and responsibilities of the Compliance function (and its global, regional and local personnel) within the organisation as well as its relationship with executive management, the Board of Directors and the business and operational functions.

B.5 Internal Audit Function

B.5.1 Internal Audit Function

AEL is supported by the regional Internal Audit function for affiliated companies, as one of the services provided via the Service agreement. The Internal Audit function has provided reports regularly to the AEL Board and will in future provide them to the Audit Committee.

The Internal Audit function is a 'third line of defence' assurance function (see section B.1.2) which is independent of commercial business units and other assurance functions. The Head of Internal Audit reports to the Chubb Group Chief Auditor and has a further reporting line to the AEL Audit Committee.

The team is based principally in London, but carries out audits throughout the geographical areas in which AEL operates. Operational and Information Technology teams perform audits and control walkthroughs of AEL's operations, identifying key risk exposures and assessing the design and effectiveness of risk management, controls, and governance processes for these exposures. Audits encompass the reliability and integrity of management and financial information processes; compliance with significant policies, plans and regulations; governance processes and risk management.

In addition to the head office based team described above, the function has access to the following Group resources:

- Global Financial Compliance Team, which coordinates global reporting of the status of internal controls over financial reporting including Sarbanes Oxley compliance. This team reports into the Chief Auditor of Chubb.
- Global Fraud Unit, which investigates potential frauds involving employees and business partners. The Unit also monitors anti-fraud programmes and increases fraud risk awareness among management and employees and performs proactive fraud audits. This team reports into the General Counsel of Chubb Limited.

Internal Audit is entitled to request and receive any information and/or explanations required to achieve its objectives. The function will have full access to all records, personnel or physical property and, without limitation, information and data held within any systems or databases.

An annual risk assessment is carried out in preparation of an Annual Audit Plan (aligning activity in conjunction with the external auditors and other assurance functions, where relevant) taking account of strategic objectives, risk exposures, and the company's risk appetites. The Plan has been reviewed and approved by the Board. The Board has had oversight of the resources needed to complete the plan and regularly reviewed progress against plan and management's implementation of Internal Audit's recommended remediations. In future the Audit Committee will take this role and make recommendations to the Board.

B.5.2 Independence and Objectivity

AEL's Internal Audit function performs work in accordance with International Standards for the Professional Practice of Internal Auditing, the code of ethics, and the definitions of internal auditing such as those mandated by the Institute of Internal Auditors ("IIA"). It also operates within the scope of a Group Internal Audit charter that mandates independence from management's responsibilities and includes a Group level process for review of standards. Internal Audit staff members are subject to all ethical principles outlined in the Chubb Code of Conduct.

Internal Audit has free and unrestricted access to the Board and its committees and regularly meets with the Audit Committee without management being present.

AEL's executive management is held directly responsible for maintaining an effective system of governance, risk management, and internal controls, including proper accounting records and appropriate management information, for devising and implementing action plans required to improve governance, risk management, and controls. In addition, management is responsible for monitoring and reporting on outstanding management action plans agreed in response to Internal Audit reports.

Internal Audit is not responsible for managing the operations subject to audit and will not assume responsibility for the design, implementation, operation or control over any part of business processes or systems.

The Group Chief Auditor is responsible for periodically providing a self-assessment on internal audit activity, consistent with the Audit Charter (including purpose, authority, responsibility, IIA Standards and performance relative to its plan). In addition, the Chief Auditor will communicate to senior management and the Audit Committee on Internal Audit quality assurance and improvement programme, including results of ongoing internal assessments and external assessments conducted at least every 5 years.

B.6 Actuarial Function

The Actuarial function is a key function. The Chief Actuary, as head of the Actuarial Function, is responsible to the Board, reports functionally and administratively to the Chief Executive Officer, and has an additional reporting line to the Audit Committee. The function does not make underwriting or reinsurance purchase decisions and is operationally independent from the Risk Management, Compliance and Internal Audit functions. It has unfettered access to information from any part of the business that impacts the risk profile of the company.

The function supports the business in achieving its overall strategic and risk objectives, by carrying out a number of inter-related activities (Reserving, Pricing, Planning, Ceded Reinsurance Analysis, Business Intelligence and Regulatory Reporting) where applicable. Involvement in this wide range of activities enables the function to provide its required reports on technical provisions, overall underwriting policy, reinsurance adequacy and its contribution to risk management.

Risk Management: Given the skill set of the Actuarial Function and the knowledge of the business it is well positioned to work with and support the Risk Management function at Chubb. The Actuarial function plays a key role in contributing to the effective implementation of the risk management system, in particular with respect to the risk modelling underlying the calculation of the capital requirements.

Reserving: The reserving process is owned by the Actuarial function and conducted in accordance with agreed terms of reference. The reserves booked for the purposes of financial statements are the responsibility of the Board.

The Actuarial function's role in reserving includes; coordinating the calculation of Technical Provisions as a whole; selecting appropriate methods and assumptions for each element of the reserve calculation; ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions; assessing the sufficiency and quality of the data used in the calculation of technical provisions; assessing experience; reviewing sufficiency of reserves; calculation of a range of reasonable estimates.

B.7 Outsourcing

B.7.1 Outsourcing Policy

AEL outsources certain internal administrative functions in respect of its own internal activities and the administration of a number of customer service operations for many of its books of business in many of the countries in which it operates. A formal policy has been adopted for control of the risks associated with outsourcing.

The Outsourcing policy, which applies to all outsourcing arrangements, mandates that before an outsource arrangement is entered into, a risk assessment, a cost benefit analysis and a due diligence exercise over the proposed agent must be satisfactorily carried out. Contractual arrangements are required to protect the company from financial, regulatory and reputational risk, for example by including minimum performance standards and identifying key indicators. Consistent ongoing monitoring against the terms of the contract is required to take place, proportional to the size of risk of the outsource arrangement. The Executive who is authorised in accordance with the SMCR in respect of the operation in question is responsible for developing and maintaining appropriate and effective internal controls sufficient to meet the standards of the Outsourcing policy.

A reporting process for any identified concerns requires escalation of material matters to the Audit and Risk Committee. Accumulated risk from outsourcing is also monitored and reported to the Risk Committee.

B.7.2 Activities that Represent Critical or Important Outsourcing

The table below shows the various providers for important activities and the jurisdiction in which the service providers of such functions or activities are located:

Outsourced Function	Provider	Nature of Service	Jurisdiction
Actuarial Function Holder (Oliver Gillespie 2018, transferred to Dan Read from 1 January 2019)	Milliman LLP during 2018 CSUK (intra-group) from 1st January 2019	Actuarial oversight services	UK
Information Technology ("IT")	CSUK (intra-group)	Provision of IT support & development services	UK
Actuarial	CSUK (intra-group)	Provision of actuarial services	UK
Treasury	CSUK (intra-group)	Provision of treasury services	UK
Compliance	CSUK (intra-group)	Provision of compliance services	UK
Internal Audit	CSUK (intra-group)	Provision of internal audit services	UK
Underwriting Operations	EXL Service Ltd (Noida, Delhi)	Provision of premium processing services	All Europe
Finance	EXL Service Ltd (Noida, Delhi)	Provision of accounts payable services	All Europe
Finance	EXL Service Ltd (Noida, Delhi)	Financial reconciliation	UK&I
Finance	EXL Service Ltd (Noida, Delhi)	Provision of credit control services	UK&I
Finance	EXL Service Ltd (Noida, Delhi)	Provision of transfers and payments services	All Europe
Claims Management	TAF	Provision of claims management services	Netherlands
Policy Administration	TAF	Policy administration	Netherlands
Claims	Van Ameyde	Provision of claims handling services	Norway
Policy Administration	Insurance Management Administrators & Advisors	Policy Administration of Policies	Norway
Treasury	Pacific Investment Management Company	Provision of investment management services	All Europe
Treasury	State Street Bank and Trust Company	Provision of investment custody services	All Europe

Adequacy of System of Governance

AEL has a documented corporate 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.

The company has a number of formal committees and subcommittees, described in B1.1, which provide oversight over the company's business units and functions, including where carried out via an affiliated group company. The heads of the regional functions employed report to the Regional President and have responsibilities defined in accordance with the provisions of SIMR or the Senior Managers and Certification Regime ("SMCR") which came into force 10 December 2018, further information of which can be found in section B.1.3. The head of the business unit reports functionally via a matrix structure to the Life segment of the Chubb group of companies.

The Board has approved a number of policies, under which responsibilities are also aligned with SIMR or SMCR as applicable, that govern how certain key areas of the business, and the risks inherent to them, are controlled and reported.

Additional oversight and control is obtained via a three lines of defence model whereby the Compliance and Risk Management (Second Line) functions monitor key activities independently of the controls and indicators employed by the (First Line) business and functions. Internal Audit (the Third Line) carries out further independent reviews and reports outside of the First Line and Second Line structures.

The Board includes as members several independent NEDs to help provide alternative experience and viewpoints and, on occasion, to challenge executive management decisions and the basis on which those decisions are made.

B.8 Any Other Information

All material information regarding AEL's system of governance has been described in sections B1 – B8 above.

C. Risk Profile

The Risk Management Framework classifies individual risk sources across its landscape into four major categories: insurance, financial, operational and strategic. Insurance is Chubb's primary risk category; the three other risk categories present an exposure primarily from that assumption of insurance risk. Other risks, including group risk and emerging risk are also considered.

Chubb has implemented contingency plans ahead of the expected UK exit from the EU to mitigate the potential risks to the company arising, where AEL redomiciled from the UK to France on 1 January 2019. The primary aim is to ensure a seamless transition and to offer certainty and continuity of service for all customers and business partners, regardless of location or the final outcome of the Brexit negotiations.

The impact of the re-domicile is reflected in the breakdown of the SCR as calculated by the Standard Formula as at 31 December 2018. There has been a material change in the quantification of Market Risk over the last 12 months. From 1 January 2019, the reporting currency of AEL is EUR following the re-domicile of AEL from France to the UK. This has resulted in an increase in the capital required in respect of currency risk. There have been no other material changes in the quantification of risk.

There has been a material change in the quantification of Market Risk over the last 12 months. From 1 January 2019, the reporting currency of AEL is EUR following the re-domicile of AEL from France to the UK. This has resulted in an increase in the capital required in respect of currency risk.

There have been no other material changes in the quantification of risk.

Risk	Capital Requirement 2018 £'000	Capital Requirement 2017 £'000
Underwriting	**5,966**	**6,644**
Life	*2,717*	*3,807*
Health	*3,249*	*2,837*
Counterparty Default	**825**	**481**
Market	**23,085**	**10,791**
Undiversified Basic SCR	**29,875**	**17,916**
Operational Risk	1,208	1,257
Undiversified SCR	**31,083**	**19,173**
Diversification Credit	10,673	8,377
Total SCR	**20,410**	**10,796**

From a capital perspective, market risk continues to be the single largest risk source facing AEL followed by underwriting risk. Credit risk is a significantly smaller contributor to the total capital requirement. This is predominantly due to the high credit quality of AEL's reinsurers.

The Standard Formula provides a reasonable relative representation of AEL's risk profile.

C.1 Underwriting Risk

C.1.1 Risk Description

The principal risks from the company's life and health insurance and reinsurance businesses arise from its underwriting activities, both prospective and retrospective. Key risks include unexpected losses arising from inaccurate pricing, fluctuations in the timing, frequency and severity of losses compared to expectations, inadequate reinsurance protection and inadequate reserving.

C.1.2 Risk Measures and Mitigation

A number of measures are in place to measure, mitigate and monitor underwriting risk. Examples include, but are not limited to, the following:

- Underwriting risks are continually monitored. Underwriting guidance and restrictions, actuarial price modelling and price monitoring procedures are in place to ensure that the business undertaken is in line with risk appetite. In addition, aggregate exposures are continually monitored and adjustments made to the underwriting profile as appropriate.
- Reinsurance is used to help mitigate some of the above insurance risk. However, the possibility of reinsurance risk itself arises when reinsurance purchasing either proves inadequate in amount, fails to protect the underlying coverage or falls short when the reinsurer fails to pay. Refer to section c.3.2 for internal reinsurance credit risk mitigation technique.
- The SCR as calculated by the Standard Formula includes an assessment and quantification of the underwriting risk exposure.
- Risk and control assessments are carried out throughout the year by management and staff which are subject to review and challenge by Risk Management for the on-going monitoring of the risk profile of the company.
- Specific targeted risk assessments are carried out throughout the year by Risk Management focused on particular areas as initiated by the Risk Management Function, the Audit & Risk Committee, the Board or the business.

Underwriting risk comprises of 19% the undiversified SCR as at 31 December 2018 compared to 35% as at 31 December 2017.

C.1.2.1 Reinsurance

As part of Chubb risk management strategy, the company purchases reinsurance protection to mitigate its exposure to losses, including certain catastrophes to a level consistent with the risk appetite. Chubb maintains a strict authorised reinsurer list that stratifies authorised reinsurers by classes of business and acceptable limits. This list is maintained by our Global Reinsurance Security Committee. In addition, to the authorised list, there is a formal exception process that allows authorised reinsurance buyers to use reinsurers already on the authorised list for higher limits or other non approved reinsurers for specific purposes.

Reinsurance is purchased on an excess of loss or proportional basis. Risk excess of loss reinsurance provides coverage to a reinsured where it experiences a loss in excess of its retention level on a single risk basis, risk being defined as an insurance coverage. Proportional treaty reinsurance provides proportional coverage to the reinsured, meaning that, subject to event limits where applicable and ceding commissions, the same share of the covered original losses are proportionally shared with the reinsurer as AEL pay in premiums for the covered risks.

AEL evaluates the financial condition of our reinsurers and potential reinsurers on a regular basis and also monitors concentrations of credit risk with reinsurers.

Since December 2016 AEL has utilised a 100% quota share arrangement for its two largest products – TAF and UIB – with Chubb Tempest Re. In order to mitigate the increased counterparty risk as a result of this transaction a combination of Trust Assets and a Letter of Credit have been established.

C.1.3 Risk Concentration

The tables below outline the gross written premium by SII line of business and region as at 31 December 2018. There have been no material changes in the risk concentration over the last 12 months.

Gross Written Premium based on SII Line of Business

SII Line of Business:	Gross premiums written £'000	Percentage of total gross written premium
Other life insurance	28,774	95%
Health insurance	1, 163	4%
Life reinsurance	247	1%
Total	**30,184**	**100%**

Gross Written Premium based on Region

Regions:	Gross written premiums £'000 2018	Gross written premium £'000 2018
Netherlands	19,439	64%
United Kingdom	4,822	16%
Sweden	2,629	9%
Spain	1,761	6%
France	537	2%
Finland	520	2%
Others	476	1%
Total	**30,184**	**100%**

C.1.4 Risk Sensitivity

The company carries out stress tests as part of the ORSA process to test the resilience of AEL's solvency to the material underwriting risks. AEL carried out stresses on mortality, morbidity and persistency rates. The analysis showed that AEL's solvency position is resilient to underwriting risk. The results showed that the most material impact was from the joint mortality and morbidity stress.

A 20% increase in the assumed mortality and morbidity rates results in approximately 3.2% reduction in Own Funds and a 0.3% increase in SCR. In contrast a reduction in lapse rate of 50% in approximately 0.8% reduction in Own Funds and a 2.3% increase in SCR.

C.2 Market Risk

C.2.1 Description

Financial risk includes a wide range of risks associated with activities such as investments, credit, liquidity and the impact of foreign exchange fluctuations. Market risk, a type of financial risk is the risk of potential losses from adverse movements in market prices such as interest rates and exchange rates. Other financial risks particularly, credit and liquidity risk are covered below in sections C.3 and C.4 respectively.

C.2.2 Risk Measures and Mitigation

A number of measures are in place to measure, mitigate and monitor market risk. Examples include, but are not limited to, the following:

- The company's Investment Committee functions under terms of reference determined by the Management Committee of the Board and is charged with establishing and effecting an appropriate investment policy. In addition the Committee has the responsibility for recommending the appointment and removal of investment managers, reviewing the managers' performance and reporting on all other material aspects of the investment function.

  The Investment Committee has established a broad asset allocation policy which defines the limits for different asset types. The asset allocation cites two major asset classes: investment grade fixed income securities and alternative assets. Alternative assets can include equities, high-yield and emerging market instruments. Currently, the policy only permits investment grade fixed income securities, although this approach is regularly reviewed by the Investment Committee.
- Investment management agreements have been established. The agreements include specific guidelines for each individual portfolio in order to limit risks arising from duration, currency, liquidity, and credit and counterparty exposures. The managers provide quarterly affirmation of compliance with the guidelines. The investment guidelines include specific limits on exposure to individuals to minimise any concentration risk.
- The investment guidelines include restrictions relating to the maximum weighted average duration of the portfolio. The restriction is stated by reference to the permissible duration variance compared to the customised benchmark index by which the external investment managers' performance is assessed. The benchmarks have been established to provide comparable duration to the insurance liabilities.
- The Solvency Capital Requirement as calculated by the Standard Formula includes an assessment and quantification of the market risk exposure.
- Risk and control assessments are carried out throughout the year by management and staff which are subject to review and challenge by Risk Management for the on-going monitoring of the risk profile of the company.
- Specific targeted risk assessments are carried out throughout the year by Risk Management focussed on particular areas as initiated by the Risk management Function, the Audit & Risk Committee, the Board or the business.
- Where appropriate the company seeks to obtain collateral from counterparties to mitigate the credit risk exposure from insurance activities. At 31 December 2018 the collateral provided to the company totalled £54.0 million (2017: £82.3 million) of which £15.4 million is represented by a Letter of Credit and £38.6 million represented in the form of a Trust from Chubb Tempest Re. There are also two unlimited guarantees from Combined Insurance Company of America in respect of any fines and regulatory penalties that may be imposed.

Market risk represents 74% of the undiversified SCR as at 31 December 2018. This is driven by the currency risk capital requirement .

C.2.3 Prudent Person Principle

The assets held by the company are compliant with the Solvency II Directive, specifically, the prudent person principle as applied to market risks. The assets held are appropriately understood and the associated risks have been identified, measured and taken into account in the company's overall solvency needs assessment. The assets held to meet the MCR and SCR meet the required security, quality, liquidity and availability. The duration of the assets is closely matched to the liabilities. The company does not invest in derivative instruments. All assets are held by counterparties through vehicles that are subject to a regulated financial market.

C.2.4 Risk Concentration

The Investment Committee has established a broad asset allocation policy which defines the limits for different asset types. The asset allocation cites two major asset classes: investment grade fixed income securities and alternative assets. Alternative assets can include equities, high-yield and emerging market instruments. Currently, the policy only permits investment grade fixed income securities, although this approach is regularly reviewed by the Investment Committee.

Additionally, investment guidelines are set allowing managers to invest a portion of the individual portfolios in securities not denominated in the designated core currency of the portfolio. The investment management agreements stipulate that the majority of any exposure to non-core currencies must be hedged to reduce mismatching risk, and these allocations are reviewed by the Investment Committee on a quarterly basis.

There have been no material changes in the risk concentration over the last 12 months.

C.2.5 Risk Sensitivity

The company carries out stress tests as part of the ORSA process to test the resilience of AEL's solvency to the material market risks. AEL carried out stresses on interest rates and currency fluctuations. The analysis showed that AEL's solvency position is resilient to market risk.

Sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. To illustrate the downside risk within the other financial investments portfolio of £53.2 million at external managers as at 31 December 2018 (2017: £51.5 million), an increase of 100 basis points in interest yields across all portfolios consecutively (principally sterling and Euro) has been calculated. Such an increase would decrease the market value of the investment portfolio and lead to a decrease in the total investment return of £8.1 million (2017: £7.5 million) and accordingly decrease total shareholder's funds by £6.6 million (2017: £6.0 million).

Sensitivity analysis for currency risk illustrates how a change in the value of Sterling against other currencies impacts the profit and loss results and balance sheet components. For the profit and loss account, the average euro/sterling rate of €1.134/1£ is down on the prior period (2017:€1.146/1£). Had sterling weakened by 10% against all currencies (primarily the euro) and all other variables remained constant, the profit before tax for the year would have been £0.1m less than the amount reported. For the monetary components of the balance sheet, the year-end rates used to convert euro to sterling have decreased by 3% to €1.103/£1 (2017:€1.134/£1). Assuming sterling had weakened by 10% against all currencies (primarily the euro) and all other variables remained constant, the effect of translating year end foreign branch net assets based on these parameters would decrease the shareholder's funds by £0.3m.

C.3 Credit Risk

C.3.1 Risk Description

The company is exposed to credit risk (counterparty default risk), where material sources of this risk arise from investment in asset portfolio, use of reinsurance and involvement with other counterparties. The company relies on both external reinsurance providers and internal reinsurance providers within the Chubb group. Risks associated with internal reinsurance are discussed further within Group Risk.

C.3.2 Risk Measures and Mitigation

A number of measures are in place to measure, mitigate and monitor credit risk. Examples include, but are not limited to, the following:

- The investment guidelines seek to limit the credit risk of each of the portfolios through specifying eligible/ineligible investments, establishing maximum counterparty exposures and setting minimum weighted credit and individual issuer credit quality.
- Reinsurance guidelines are in place to seek to limit the credit risk associated with reinsurance through specifying approved/unapproved reinsurers, setting minimum individual issuer credit quality and setting maximum counterparty exposures by credit quality.
- The Solvency Capital Requirement as calculated by the Standard Formula includes an assessment and quantification of the credit risk exposure within the market risk and counterparty default risk calculations.
- Risk and control assessments are carried out throughout the year by management and staff which are subject to review and challenge by Risk Management for the on-going monitoring of the risk profile of the company.
- Specific targeted risk assessments are carried out throughout the year by Risk Management focused on particular areas as initiated by the Risk Management Function, the Audit & Risk Committee, the Board or the business.

Counterparty default risk represents 2.7% of the undiversified SCR as at 31 December 2018, where this is considers credit risk exposures associated within cash at bank, investments and reinsurers. Credit risk exposures associated with investments is considered implicitly within the market risk calculations.

C.3.2.1 Intra-Group Reinsurance Credit Risk Mitigation

The use of reinsurance, which is the primary mitigation technique used to mitigate its exposure to losses, is considered under Group risk. Internal reinsurance within Chubb in particular leads to the risk of reinsurance concentration and exhaustion. The main internal reinsurer is CTR. The latest exposure information is monitored quarterly within the intra-group credit risk management information.

The company has received a guarantee as collateral for reinsurance recoveries from CTR as at 31 December 2018 which takes the form of a letter of credit.

C.3.3 Risk Concentration

The assets bearing credit risk are:

Asset Category:	Solvency II value £'000	Percentage of total Solvency II value
Investments	53,930	46%
Reinsurance recoverables	48,172	41%
Reinsurance receivables	5,122	5%
Insurance and intermediaries receivables	3,728	3%
Receivables (trade, not insurance)	5,889	5%
Total assets bearing credit risk	**116,841**	**100%**

The Standard and Poor's credit ratings for investments net of accrued interest of are as follows:

Asset Category:	Investments £'000
AAA	322
AA	34,856
A	9,739
BBB	8,065
Below BBB or unrated	247
Total	**53,229**

The Standard and Poor's credit rating for reinsurance recoverables and reinsurance receivables is AA as at 31 December 2018. This is unchanged from 31 December 2017.

Where appropriate the company seeks to obtain collateral from counterparties to mitigate the credit risk exposure from insurance activities. At 31 December 2018 the collateral provided to the company totalled £54.0 million (2017: £82.3 million) of which £15.4 million is represented by a Letter of Credit and £38.6 million represented in the form of a Trust from CTR.

There have been no material changes in the risk concentration over the last 12 months

C.3.4 Risk Sensitivity

The company carries out stress tests as part of the ORSA process to test the resilience of AEL's solvency to the material credit risks. AEL carried out stresses on credit rating downgrade of key reinsurance counterparties which results in approximately a 8.3% increase in the SCR. The analysis showed that AEL's solvency position is resilient to credit risk. Sensitivity in respect to credit spread risk is covered in section C.2.5 Risk Sensitivity.

C.4 Liquidity Risk

C.4.1 Risk Description

Liquidity risk is the potential that the company is unable to meet its payment obligations as they fall due.

C.4.2 Risk Measures and Mitigation

A number of measures are in place to measure, mitigate and monitor liquidity risk in addition to those described above for market risk. Examples include, but are not limited to, the following:

- The company maintains funds in the form of cash or cash equivalents to meet known cash flow needs.
- The asset allocation policy and the investment guidelines are structured in order to ensure that funds are held in investment grade fixed income securities, the proceeds of which are readily realisable.
- The company also benefits from Chubb Group letter of credit facilities which are available to meet certain funding needs.
- Risk and control assessments are carried out throughout the year by management and staff which are subject to review and challenge by Risk Management for the on-going monitoring of the risk profile of the company.
- Specific targeted risk assessments are carried out throughout the year by Risk Management focused on particular areas as initiated by the Risk Management Function, the Audit & Risk Committee, the Board or the business.

Liquidity risk is not explicitly measured as part of the Standard Formula SCR ; however, it is considered when determining the appropriate level of ORSA capital.

C.4.3 Risk Concentration

The bulk of AEL's investment portfolio is held in highly liquid instruments. As at 31 December 2018 a significant portion of the company's investment portfolio is held in cash, cash equivalent or highly rated sovereign fixed income securities which provides a material margin over and above planned operating cash flows.

There have been no material changes in the risk concentration over the last 12 months

C.4.4 Risk Sensitivity

The company carries out stress tests as part of the ORSA process to test the resilience of AEL's liquidity to the material risks. The liquidity test measures potential impact on liquidity in the aftermath of an event . The stress testing carried out throughout 2018 supports the adequacy of the liquidity positions adopted by the company.

C.4.5 Expected Profit Included in Future Premium ("EPIFP")

The EPIFP as at 31 December 2018 is £1,803k.

C.5 Operational Risk

C.5.1 Risk Description

Operational risk is the possibility of loss resulting from inadequate or failed internal processes, people or systems, or from external events other than those falling within strategic risk as defined below. Significant operational risk sources include claims processing, IT security, outsourcing and vendor management, business continuity, fraud, and regulatory compliance (including conduct risk).

C.5.2 Risk Measures and Mitigation

A number of measures are in place to measure, mitigate and monitor operational risk. Examples include, but are not limited to, the following:

- A number of company-wide frameworks have been established and implemented to identify, measure, mitigate and monitor operational risks across the company. The frameworks range from information security risk and business continuity risk to conduct risk.
- Operating guidelines established for each business function across the company seek to minimise operational risks arising from internal processes or systems.
- Corporate policies established including the Code of Conduct, recruitment, learning and development, disciplinary and grievance, diversity and equal opportunities seek to minimise people-related operational risks. These policies are supported through a company-wide performance management process and on-going company-wide training.
- The Solvency Capital Requirement as calculated by the Standard Formula includes an assessment and quantification of the operational risk exposure.
- Risk and control assessments are carried out throughout the year by management and staff which are subject to review and challenge by Risk Management for the on-going monitoring of the risk profile of the company.
- Specific targeted risk assessments are carried out throughout the year by Risk Management focused on particular areas as initiated by the Risk Management Function, the Audit & Risk Committee, the Board or the business.

Operational risk represents 3.9% the undiversified SCR as at 31 December 2018.

C.5.3 Risk Concentration

There are no risk concentrations in respect of operational risk.

C.5.4 Risk Sensitivity

Operational risk is assessed through the ORSA process. The stress testing carried out throughout 2018, which includes a number of operational risk events, supports the adequacy of the current capital and liquidity positions adopted by the company in the event of adverse operational events.

C.6 Other Material Risks

The company's risk profile also considers strategic and group risks.

Strategic risk refers to the outcome from sub-optimal decisions that may be made or not made in respect of strategic planning, execution of strategy or responsiveness to changes in industry or competitive landscapes.

The Board is responsible for the management of strategic risks by approving the strategic and annual plans. The Board also receives updates on the execution of the plan with reports produced to monitor and track business performance against the approved plan.

Group risk is the potential impact on the company of risks arising in other parts of the Chubb Group. This could include direct or indirect financial loss and operational, reputational or regulatory issues. As a strategically important member of the Chubb Group, the company uses Group resources in a number of areas, including IT and asset management, as well as reinsurance and capital support.

Group risk is assessed, monitored and reported as part of the company's risk management processes. Additionally, contractual intra-group arrangements are governed in an appropriate arms-length manner. They involve formal contracts, equitable and transparent transfer pricing, and full respect for the integrity thereof, as well as all laws and regulations facing the legal entities in question.

The use of reinsurance, which is primary mitigation technique used to meet the business plan, is considered under Group risk. Internal reinsurance within Chubb in particular leads to the risk of reinsurance concentration and exhaustion. The main internal reinsurer is CTR and the exposure to this reinsurer is monitored through the on-going risk process.

The company carries out stress tests as part of the ORSA process to test the resilience of AEL's solvency to the material credit risks. AEL carried out stresses on credit rating downgrade and default of key reinsurance counterparties. The analysis showed that AEL's solvency position is resilient to credit risk.

C.7 Any Other Information

Chubb has implemented contingency plans for AEL ahead of the expected UK exit from the EU to mitigate the potential risks to the company arising. The risks associated with the on-going negotiations between the UK Government and EU continue to be monitored closely, where any underwriting, market, credit, liquidity and/or operational risks arising from the external environment will be measured and mitigated by the tools described above.

D. Valuation for Solvency Purposes

D.1 Assets

The company now uses Solvency II valuation principles for UK GAAP, there are few differences between the UK GAAP and Solvency II position therefore. The valuation of the assets on the Solvency II balance sheet is as follows:

As at 31 December	Solvency II 2018 £'000	UK GAAP 2018 £'000	Variance 2018 £'000
Investments (and assets held for index-linked and unit-linked contracts)	53,930	53,229	701
Reinsurance recoverables	48,172	48,172	-
Insurance and intermediaries receivables	3,728	3,728	-
Reinsurance receivables	5,122	5,122	-
Receivables (trade, not insurance)	5,889	6,590	(701)
Cash and cash equivalents	6,118	6,118	-
Total assets	**122,959**	**122,959**	**-**

The valuation for Solvency II purposes by material class of assets is as follows:

D.1.1 Deferred Tax Assets and Liabilities

Under Solvency II, provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts at the reporting date.

The rates enacted, or substantively enacted, at the reporting date are used to value the deferred tax assets and liabilities.

Deferred tax assets ("DTAs") are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

D.1.2 Investments

Investments comprise the following:

As at 31 December	Solvency II 2018 £'000	UK GAAP 2018 £'000	Variance 2018 £'000
Government bonds	34,658	34,312	346
Corporate bonds	19,132	18,777	355
Collateralised securities	23	23	-
Collective investment undertakings	117	117	-
Total investments	**53,930**	**53,229**	**701**

Investments are recognised at fair value with any transaction costs being expensed as incurred. The fair value is inclusive of any interest accrued thereon.

Within this account line, bonds have an active market and therefore the fair value is the latest quoted market prices as at the reporting date.

Collective investment undertakings and collateralised securities are measured at fair value and for Solvency II is per the latest quoted market values as at the reporting date.

The difference between Solvency II and UK GAAP is the accrued interest on fixed income securities that is recgonised in the investments value under Solvency II but not in UK GAAP.

D.1.3 Reinsurance Recoverables

This balance includes the reinsurers' share of the claims provisions and the reinsurers' share of the premium provision.

D.1.4 Insurance, Reinsurance & Intermediaries Receivables

Insurance, Reinsurance and Intermediaries receivables are recognised at fair value less any provision for impairment. Any impairment of a receivable will be recognised if there is evidence that the company will not be able to collect the amounts receivable according to the original terms of the receivable.

D.1.5 Receivables (Trade, not Insurance)

These balances largely represent amounts receivable from fellow Group Companies. The amounts presented are considered to be representative of fair value as these are the amounts which must be received in order to settle the obligation.

D.1.6 Cash and Cash Equivalents

Cash at bank and in hand are repayable on demand and as such their carrying values are equivalent to fair values.

D.1.7 Changes to Valuation of Assets in the Period

There have been no changes to AEL's methodology for recognition and valuation of assets during the reporting period under Solvency II.

D.1.8 Major Sources of Estimation Uncertainty

Major sources of estimation uncertainty are related to the recognition of deferred tax assets (refer to section D.1.1 for details) and reinsurance recoverables (refer to sections D.1.4 & D.2.4 for details).

D.2 Technical Provisions

The value of technical provisions for solvency purposes, as at 31 December 2018, based on Solvency lines of business was as follows:

SII Line of Business:	Gross best estimate £'000	Ceded best estimate £'000	Net best estimate £'000	Add risk margin £'000	Gross TPs £'000	Net TPs £'000
Health insurance	-256	1,137	-1,393	1,532	1,276	139
Other life insurance	54, 276	47,035	7,241	1,531	55,807	8,772
Life reinsurance	31	-	31	-	31	31
Total	**54,051**	**48,172**	**5,879**	**3,063**	**57,114**	**8,942**

D.2.1 Summary

The technical provisions are calculated as a best estimate and a risk margin. The best estimate is based on probability-weighted cashflows with consideration for the time value of money, and considers all cash inflows and outflows. The risk margin is assumed to be the amount required to take over and meet the (re)insurance obligations, and represents the cost of providing eligible own funds equal to SCR necessary to support these obligations.

The technical provisions are calculated gross of reinsurance with appropriate allowance for reinsurance recoveries.

- Consideration is given to the time delay between recoveries and direct payments.
- An allowance is made for potential default of counterparties.

The Technical Provisions calculations do not apply the matching adjustment, volatility adjustment or transitional measures referred to in Articles 77b, d and 308c, d of Directive 2009/138/EC.

D.2.2 Best Estimate Liabilities ("BEL")

The best estimate liabilities ("BEL") for the majority of AEL's products have been calculated using a gross premium methodology, whereby the BEL is calculated as the present value of the probability-weighted average of future cashflows.

For some of AEL's products, alternative valuation methods are used instead of using a gross premium reserving model. There are some long-term products valued using manual reserves and some short term products valued using an unearned premium reserve ("UPR").

The following summarises the valuation method used for the products where the BEL is not calculated using a gross premium reserve methodology.

The BEL considers all future cashflows relating to all in force polices as well as bound but not yet incepted policies, including:

- Future premiums, allowing for escalation
- Benefit payments, including death, sickness, disability and maturity benefits
- Expenses relating to the in-force business, in accordance with the terms of the expense agreement between Chubb and AEL
- Commission payments in relation to the in-force business

The mortality and lapse estimates, which are used in the benefit and premium provision calculations, are based on the latest Actuarial experience investigations. Regular experience studies are carried out on product lines with sufficient credible data to ensure that actual experience is in line with expectations. No prudent margins are added to the best estimate basis to form the overall assumptions used for valuing the long term business provisions. The basis is continually reviewed and discussed with the Chief Actuary prior to being submitted to the Board for approval.

The reinsurers' share of the Claims and Premium Provisions is based on the current and historic reinsurance programmes in place for each class of business.

The cashflow projections take account of all cash inflows and outflows that comprise the claims and premium provisions. Where deemed appropriate the cashflows take account of delays in reinsurance cashflows relative to the outwards cashflows. Cashflow analyses are performed at a granular product level so that different cashflow timing characteristics for each product are recognised. The analyses are based on statistical methods applied to the past data for each item, or data for closely related items.

In line with the Solvency II directive, all liability cashflows are discounted using term-dependent discount rates as published by EIOPA.

D.2.3 Risk Margin

The risk margin is calculated using the cost-of-capital approach. This means that the risk margin is calculated as the present value, at a risk free rate of interest, of the expected cost incurred by the reference undertaking in raising capital to fund the SCR relating to the transferred liabilities until such time as they are fully run-off.

It is assumed that all market risk is hedgeable, that is, the reference undertaking is assumed to invest in such a way that there is no residual market risk.

The SCR of non-hedgeable risks at each future point in time is multiplied by 6% and the discounted using the GBP discount curve for the valuation date as provided by EIOPA. This represents the additional cost of capital above the risk free rate that the reference undertaking would require to take on the risks associated with the insurance contracts.

AEL has adopted a simplified approach to the projection of its SCR through a series of risk drivers to project the run-off of the intial Solvency Capital over the lifetime of the existing business. Expert judgement has been applied to the choice of risk drivers detailed in the table below:

SCR Component	Varies by	Risk Driver	Justification
Life catastrophe risk	Short-term business	No driver used – assumed to be 0 after current year.	This is catastrophe risk only for short term business so no policies should be in force beyond the first year.
	Long-term life business	Net (of reinsurance) sum assured for the long-term life business	The valuation date catastrophe risk capital can be closely approximated as *Net Sum At Risk * stress to mortality rates.* Net Sum At Risk is equal to Net Sum Assured less Net BEL. Given that for AEL's business, the sum assured is much greater than the Net BEL, Net Sum Assured has been used as the simplified risk driver for catastrophe risk.

SCR Component	Varies by	Risk Driver	Justification
Life mortality risk	TAF	Present value of death benefits for TAF business	The life mortality risk stress is a constant 15% percentage shock to mortality rates, which results in the present value of the stressed death benefits being 15% higher than the base death benefits, subject to the second order impact of a faster policy count run-off in the stress scenario. The mortality risk capital requirement is, subject to this second order impact, therefore constant as a percentage of the present value of death benefit outgo
	Other long-term life	Present value of retained death benefits for other long-term life business	As above.

SCR Component	Varies by	Risk Driver	Justification
Life lapse risk	TAF	Premiums in-force on TAF business	The lapse risk capital is expected to be positively related to: 1. Volume of business in-force; and 2. Duration of in-force cashflows. This is because, all else being equal, a greater volume of business will result in a greater lapse risk capital charge. Also, in a low interest rate environment, the BEL of policies with cashflows that have a longer duration will, all else being equal, be more greatly affected by a shock to lapse rates than policies of shorter durations, as the impact of the lapse shock is compounded such that long-dated cashflows are affected the most. Projecting the lapse risk capital with premiums in force will make allowance for 1 above, but does not make allowance for the reducing duration to which the in-force cashflows will be subject over the course of the projection. Therefore projecting the lapse risk capital requirement with premiums in-force is likely to slightly overstate the "true" projected figure. Given this, and given that there are no obvious simplifications that capture the progression of lapse risk capital more accurately without significantly increased complexity, we are therefore satisfied that this simplification is appropriate. It is assumed that the same lapse stress direction will be the most onerous throughout the lifetime of the contracts. Given the different run-off patterns of TAF and UIB, with UIB policies generally having longer terms than TAF policies, TAF lapse risk capital has been projected separately from UIB (and other).
	Other long-term life	Premiums in-force on other long-term life business	Justification as per above.
Life disability risk	N/A	Run-off linearly until the final termination date for the Sweden Modular book.	The life morbidity risk capital arises only from the Sweden Modular business and is not material.

SCR Component	Varies by	Risk Driver	Justification
Life longevity risk	N/A	Premiums in-force on long-term life business (other than TAF)	The longevity risk on life business relates to the risk of policyholders living longer to claim any disability benefits, or return of premium benefits payable on maturity. The longevity risk will therefore be proportional to the potential benefits payable on claim. Given the mix of lump sum benefits and monthly regular benefits, the relative size of the amount of risk is determined to be proportional to premiums, which should reflect benefit size and likelihood of claim. Given life longevity risk is not particularly material for AEL, this simplified risk driver is proportionate to the risk.
Life expense risk	N/A	N/A	The expense agreement in place between Chubb Group and AEL sets out the per policy and percentage of premium expenses payable by AEL. These are fixed in the contacts and do not increase with inflation. Therefore, there is no expense risk capital requirement for AEL. It is assumed that this agreement will be in place indefinitely and so there is no risk driver required for expense risk.
Health mortality risk	N/A	Present value of retained benefits for health business	Justification as per above.
Health longevity risk	N/A	Premiums in-force on long-term health business	The longevity risk on health business relates to the risk of policyholders living longer to claim critical illness and disability benefits. The longevity risk will therefore be proportional to the potential benefits payable on claim. Given the mix of lump sum benefits and monthly regular benefits, the relative size of the amount of risk is determined to be proportional to premiums, which should reflect benefit size and likelihood of claim. Given health longevity risk is not particularly material for AEL, this simplified risk driver is proportionate to the risk.
Health disability-morbidity	N/A	Present value of retained benefits for health business	The health disability-morbidity risk is directly related to the amount of benefits payable under the health policies. Therefore, it is assumed that the health disability-morbidity risk will run-off in line with the present value of benefits for the health business.

SCR Component	Varies by	Risk Driver	Justification
Health catastrophe	N/A	Net (of reinsurance) total benefits for the long-term health business	The health catastrophe risk is directly related to the amount of benefits payable under the health policies, though with different events applying to different policies. Given the low materiality of health catastrophe risk for AEL, this simplified approach of aggregating the run-off, as opposed to splitting out different components, is proportionate to the risk.
Health lapse risk	N/A	Premiums in-force on long-term health business	Justification as per above. It is assumed that the same lapse stress direction will be the most onerous throughout the lifetime of the contacts.
Health expense risk	N/A	N/A	Justification as per life expense risk above.
Counterparty default risk	N/A	Reinsurance recoverables	The majority of the counterparty default risk is in respect of the risk of reinsurer default, and the counterparty default risk capital requirement is correlated to the loss given default, of which the reinsurance recoverable is a significant component.
Operational risk	N/A	Projected premiums	Operational risk is calculated in future years based on projected future premiums and the formula set out in the Delegated Acts.

D.2.4 Methods and Assumptions

The methods and assumptions described below are consistent across all lines of business unless explicitly stated otherwise.

Premium and Benefit Projections

Unearned Premium Reserves ("UPRs")

A small number of policies (<500) use a UPR approach to determine the BEL. The additional model build and run time required to include these in the Solvency II cash flow models would not be justified by the expected change in the BEL.

Incurred But Not Reported Claims Reserves ("IBNRs")

IBNR reserves are calculated as follows:

- For Norway Group Life business that incepted in 2011 is considered to have fully run off and so no IBNR is held.
- For Norway Group Life business that incepted in 2012, different IBNR factors are applied to the earned premium depending on the nature of the cover and time elapsed after the cover start date.
- For Norway Group Life business that incepted in 2013 or later, IBNR claims are estimated as the difference between the expected claims during the period and any actual claims paid or reported during the period.
- For other Group Life business, IBNR percentages are based on the latest loss ratios.
- For all YRT business, the allowance for IBNR claims is based on the average expected loss ratio.

Manual Reserves

The products valued using a manual reserve have very low policy counts (<100) and the additional model build and run time required to include these in the Solvency II cash flow models would not be justified by the expected change.

Options & Guarantees

AEL consider the financial impact of options and guarantees to be immaterial. The guarantees within the contracts written are mainly in respect of death and maturity the cost of which are included in the BEL.

There is one group of policies that offer surrender values. This is broadly equal in value to the BEL and has not been model explicitly.

Events Not in Data ("ENIDs")

No explicit adjustments have been made to the mortality, morbidity or lapse assumptions to reflect the impact of ENIDs. Over a significant range of outcomes ENIDs cancel each other out or do not have a significant impact on the level of reserves.

Investment Expenses

A best estimate reserve in relation to investment expenses on assets backing the BEL is calculated separately to the policy expenses. This calculated as a fixed proportion of the net BEL in each projection period, where this has been grossed up approximately to allow for the best estimate reserve for investment expenses – these are then discounted using the GBP discount rate.

Discounting

Discounting of cashflows is performed at a currency level using yield curves provided by EIOPA.

Contract Boundaries

Due to the nature of its business, the contract boundary for the vast majority of its insurance contracts is well defined. For life and health contracts that have a fixed termination date, the contract boundary is assumed to be the earlier of the termination date and the date of any claim that results in termination of the policy. For business with no fixed termination date, there is no fixed contract boundary and cashflows are projected until the point at which policyholders have assumed to claim.

AEL has a small volume of term assurance business with a guaranteed insurability option ("GIO"), under which policyholders are entitled, at termination date of their existing policy, to take out further life cover on standard terms without underwriting. As AEL does not have the right to review the benefits payable under this renewal of cover arising from the GIO, a manual reserve is held that represents the portion of claims under renewed cover that AEL would not expect to pay out if it were permitted to underwrite the renewal of life cover and fully reflected the risk in pricing. Therefore the contract boundary for policies with a GIO is assumed to be beyond the termination date of the policyholders existing contract.

Reinsurance

Where applicable, allowance is made for any amounts payable to or from internal or external reinsurers under current reinsuranace arrangements. For all of AEL's products the reinsurance recoverables have been calculated using the same method as the BEL.

All existing external reinsurance treaties are structured as 'risk premium' arrangements.

Reinsurance premiums for internal reinsurance arrangements are calculated on an original terms basis with the reinsurance premiums being a percentage of the policyholder premium.

An allowance is made for a reinsurer default via a deduction to reinsurer recoverables. Given that the reinsurance arrangements in place are relatively standard in nature, with the majority of the reinsurance being on a quota share basis and the high credit rating of the reinsurers, AEL has chosen to undertake a simplified approach. The simplified approach is in accordance with Article 61 of the Delegated Acts.

D.2.5 Level of Uncertainty associated with the Value of the Technical Provisions

The main areas of uncertainty are:

- How future experience will emerge compared to the best estimate assumptions used to calculate the technical provisions. The key assumptions are mortality rates, lapse rates and interest rates. A 20% increase in the assumed mortality and morbidity rates results in approximately 20.6% increase in technical provisions. In contrast a reduction in lapse rate of 50% results in approximately 4.9% increase in technical provisions. Experience is monitored on a regular basis to ensure the uncertainty is well understood.
- For some product lines there is limited or no credible experience data available, so the assumptions have been set using expert judgement and peer group benchmarking.

D.2.6 Solvency II and UK GAAP valuation differences of the technical provisions by material line of business

As outlined in Summary and Introduction section , UK GAAP now uses Solvency II valuation assumptions and methodologies. There is no difference from the valuation basis therefore. s

D.2.7 Recoverables from Reinsurance Contracts and SPVs

Refer to "Reinsurance" in Section D.2.4 Methods and assumptions.

D.3 Other Liabilities

The valuation of liabilities in the Solvency II balance sheet is as follows:

As at 31 December	Solvency II 2018 £'000	UK GAAP 2018 £'000	Variance 2018 £'000
Deposits from reinsurers	127	127	-
Deferred tax liabilities	141	141	-
Reinsurance payables	7,944	7,944	-
Payables (trade, not insurance)	4,639	4,639	-
Any other liabilities, not elsewhere shown	74	74	-
Total other liabilities	**12,925**	**12,925**	-

The valuation for Solvency II purposes by material class of other liabilities is as follows:

D.3.1 Deposits from Reinsurers

The UK GAAP balance sheet value represents the amount that would be due back to the reinsurer 'on demand'. This is considered to be representative of the fair value of the liability and therefore the same value is attributed for Solvency II purposes.

D.3.2 Deferred Tax Liabilities

See 'Deferred taxation' in section D.1.1 above.

D.3.3 Reinsurance Payables

Similar to the above, reinsurance payables which are due / overdue continue to be presented separately on the SII balance sheet as a liability. Amounts not yet due are considered a future cash flow and are included as part of technical provisions.

D.3.4 Payables (Trade, not Insurance)

The balance predominantly relates to general accounts payable and current tax liabilities. As these are the amounts required to be paid to settle the obligations they are considered consistent with a fair value.

D.3.5 Any Other Liabilities, not elsewhere shown

The balance predominantly relates to expense accruals. As this is the amount required to be paid to settle the obligations it is considered consistent with a fair value.

D.3.6 Changes to Valuation of Other Liabilities in the Reporting Period

There have been no changes to AEL's methodology for valuing other liabilities in the period.

D.3.7 Major Sources of Estimation Uncertainty Associated with the Value of Other Liabilities

Major sources of estimation uncertainty are related to the valuation of reinsurance payables (refer to sections D.3.3 & D.2 for details).

D.4 Alternative Methods of Valuation

Alternative methods of valuation are not used by AEL.

D.5 Any Other Information

All material information regarding the valuation of assets and liabilities for solvency purposes has been disclosed in sections D1-D3 above.

E. Capital Management

E.1 Own Funds

E.1.1 Capital Management Objectives (including Own Funds)

AEL assesses its capital needs on a risk management basis and maintains an efficient capital structure consistent with the company's risk profile and business requirements, and to meet regulatory requirements. The company seeks to maintain financial strength and capital adequacy to support business growth and meet the requirements of policyholders, rating agencies and regulators, whilst retaining financial flexibility by ensuring substantial levels of liquidity. Once the capital needs have been met, it is the policy of the company to distribute any surplus capital through dividends to its ultimate parent company.

From a prudential perspective, AEL is regulated by the ACPR and is subjected to insurance solvency regulations that specify the minimum amount and type of capital that must be held. Accordingly AEL's regulatory capital requirements are set according to the Solvency II standard formula.

The primary objectives of the company in managing capital can be summarised as follows:

- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to manage exposures to key risks;
- to maintain financial strength to support new business growth;
- to generate a return to shareholders; and
- to retain financial flexibility by maintaining strong liquidity.

E.1.2 Policies and Processes

The company holds own funds entirely in Tier 1. The calculation process is therefore straightforward as own funds are valued based on the Solvency II valuation principles for assets and liabilities documented above. The company will restrict any small amounts of own funds that are not available to policyholders generally. Larger amounts will be recognised as a ring-fenced fund.

There has been no material change to the policies and processes for managing own funds over the reporting period.

Summary of Own Funds

The company's own funds represents net assets valued on a Solvency II basis and comprised of:

Own Funds **As at 31 December**	**Tier 1 unrestricted** **2018** **£'000**	**Tier 1 unrestricted** **2017** **£'000**
Represented by:		
Ordinary share capital	5,375	5,375
Reconciliation reserve	47,544	47,800
Total basic own funds	**52,919**	**53,175**

Ordinary share capital comprises allocated, called up and fully paid ordinary shares of as at 31 December 2018. Dividends on ordinary shares are cancellable at any time prior to payment and therefore are classified as Tier 1 under Solvency II regime.

The key elements of the reconciliation reserves are as follows:

Reconciliation Reserve As at 31 December 2018	Tier 1 2018 £'000
Total assets (section D.1)	122,959
Less total liabilities (sections D2 and D3)	70,040
Excess of assets over liabilities	**52,919**
Share capital	-5,375
Total reconciliation reserve	**47,544**

The company's own funds are wholly eligible to meet the Solvency Capital Requirements and Minimum Capital Requirement. Furthermore, all Tier 1 capital is permanently available to cover losses.

E.1.3 Eligible Own Funds to cover SCR by Tier

The total Tier 1 own funds of are eligible to cover SCR. AEL has sufficient eligible own funds to cover SCR.

E.1.4 Eligible Own Funds to cover MCR by Tier

The total Tier 1 own funds of are eligible to cover MCR. AEL has sufficient eligible own funds to cover MCR. The on-going coverage rate for MCR is 1037%.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Solvency Capital Requirement

AEL applies the standard formula approach for the Solvency Capital Requirement ("SCR") calculation.

On the 1st January 2019 the company redomiciled to France. This redomicile changes the functional and reporting currency from GBP to EUR. This change increases the company's SCR since the currency risk measured against one base currency and AEL has more surplus sterling than Euros. For transparency therefore the SCR breakdown is shown using both GBP and EUR currency bases. This change increases the SCR by £10.0m and reduces the solvency ratio by 247%.

The SCR as at 31 December 2018 and its split by risk modules are summarised as follows:

As at 31 December 2018	Risk Category	Using EUR as Base Currency £'000	Using GBP as Base Currency £'000
	Lines 1 - 8 net of loss absorbing capacity of technical provisions		
(1a)	Interest Rate Risk	6,513	6,513
(1b)	Equity Risk	-	-
(1c)	Property Risk	-	-
(1d)	Spread Risk	2,472	2,472

(1e)	Concentration Risk	-	-
(1f)	Currency Risk	14,099	922
(1g)	Diversification within market risk	-5,458	-2,591
(1)	**Total Market Risk [sum (1a) - (1g)]**	**17,626**	**7,317**
(2a)	Type 1 (Reinsurer Default, etc)	780	780
(2b)	Type 2 (Intermediary / Policyholder Default, etc)	45	45
(2c)	Diversification within Counterparty Default Risk	-11	-11
(2)	**Total Counterparty Default Risk [sum (2a) - (2c)]**	**814**	**814**
(3)	**Total Life Underwriting Risk**	**1,813**	**1,813**
(4a)	Health SLT Risk	2,409	2,409
(4b)	Health Non SLT Risk	-	-
(4c)	Health Catastrophe Risk	6	6
(4d)	Diversification within Health Underwriting Risk	-5	-5
(4)	**Total Health Underwriting Risk [sum (4a) - (4d)]**	**2,410**	**2,410**
(5a)	Non-life Premium and Reserve Risk (ex Catastrophe Risk)	-	-
(5b)	Non-life catastrophe Risk	-	-
(5c)	Lapse Risk	-	-
(5d)	Diversification within Non-Life Underwriting Risk	-	-
(5)	**Total Non-Life Underwriting Risk [sum (5a) - (5d)]**	**-**	**-**
(6)	**Total Before Diversification Between Risk Categories [(1) + (2) + (3) + (4) + (5)]**	**22,663**	**12,354**
(7)	**Diversification Between Risk Categories**	**-3,461**	**-3,101**
(8)	**Intangible asset risk**		**-**
(9)	**BSCR net of loss absorbing capacity of technical provisions [(6) + (7) + (8)]**	**19,202**	**9,253**
(10)	**BSCR gross of loss absorbing capacity of technical provisions**	**19,202**	**9,253**
(11)	**Total Operational Risk**	**1,207**	**1,207**
(12)	**Loss absorbing capacity of technical provisions**	**-**	**-**
(13)	**Loss absorbing capacity of deferred tax**	**-**	**-**

(14)	**Solvency Capital Requirement excluding capital add-on [(10) + (11) + (12) + (13)]**	**20,410**	**10,460**
(15)	**Capital add-on**	**-**	**-**
(16)	**Solvency Capital Requirement including capital add-on [(14) + (15)]**	**20,410**	**10,460**

The AEL standard formula SCR has used simplified calculations in the following areas:

- Type 1 Counterparty Default Risk calculation: In line with Article 107 of the Delegated Acts, AEL has applied the simplification for the Risk Mitigating Effect of reinsurance to simplify the calculation and inputs required for the calculation. This derives a Gross Underwriting Risk SCR from which the Net Underwriting Risk SCR is deducted in order to estimate the allowance of reinsurance on the SCR. This amount is then apportioned across the current reinsurance exposures in line with the outstanding recoverables.

- Type 1 Counterparty Default Risk calculation: In line with Article 112 of the Delegated Acts, AEL has applied the simplification for the risk adjusted value of collateral to take into account for the economic effect of the collateral.

E.2.2 Minimum Capital Requirement

The table below shows the input information to the Minimum Capital Requirement ("MCR"). The figures are the net best estimate TPs and net written premiums in the last 12 months.

As at 31 December 2018	**Net (of reinsurance/SPV) best estimate and TP calculated as a whole (£'000) (EUR BASE CURRENCY)**	**Net (of reinsurance/SPV) best estimate and TP calculated as a whole (£'000) (GBP BASE CURRENCY)**
Obligations with profit participation - guaranteed benefits	-	
Obligations with profit participation - future discretionary benefits	-	
Index-linked and unit-linked insurance obligations	-	
Other life (re)insurance and health (re)insurance obligations	5,878	5,878
Total capital at risk for all life (re)insurance obligations	763,926	763,926

The MCR calculation takes into account the capital at risk, and the life technical provisions. AEL does not write any with-profits, unit-linked or index-linked business and therefore only the relevant portions of the MCR calculation are carried out.

AEL uses the Standard Formula to calculate its MCR. The resulting MCR based on the above inputs is £5,102k using EUR as the base currency. The following table shows the MCR calculation using both EUR and GBP as the base currency:

Overall MCR Calculation	2018 £'000 EUR BASE CURRENCY	2018 £'000 GBP BASE CURRECNY
Linear MCR	658	658
SCR	20,410	10,460
MCR cap	9,184	4,707
MCR floor	5,102	2,615
Combined MCR	5,102	2,615
Absolute floor of the MCR	3,288	3,288
Minimum Capital Requirement	5,102	3,288

E.2.3 Material changes over the reporting period

The movement of SCR over the reporting period is as follows:

	Risk Category	As at 1 January 2018 (£'000)	As at 1 January 2019 (£'000)	Movement (£'000)
	Lines 1 - 8 net of loss absorbing capacity of technical provisions			
(1a)	Interest Rate Risk	6,196	6,513	318
(1b)	Equity Risk	-	-	-
(1c)	Property Risk	-	-	-
(1d)	Spread Risk	3,276	2,472	(804)
(1e)	Concentration Risk	-	-	-
(1f)	Currency Risk	1,319	14,099	12,780
(1g)	Diversification within market risk	-3,234	-5,459	-2,225
(1)	**Total Market Risk [sum (1a) - (1g)]**	**7,557**	**17,626**	**10,069**
(2a)	Type 1 (Reinsurer Default, etc)	466	780	314
(2b)	Type 2 (Intermediary / Policyholder Default, etc)	15	45	30
(2c)	Diversification within Counterparty Default Risk	(4)	(11)	(7)
(2)	**Total Counterparty Default Risk [sum (2a) - (2c)]**	**477**	**814**	**377**
(3)	**Total Life Underwriting Risk**	**3,442**	**1,813**	**-1,629**
(4a)	Health SLT Risk	2,125	2,409	283
(4b)	Health Non SLT Risk	-	-	
(4c)	Health Catastrophe Risk	12	6	-5

(4d)	Diversification within Health Underwriting Risk	-9	-5	4
(4)	**Total Health Underwriting Risk [sum (4a) - (4d)]**	**2,128**	**2,410**	**282**
(5a)	Non-life Premium and Reserve Risk (ex Catastrophe Risk)	-	-	-
(5b)	Non-life catastrophe Risk	-	-	-
(5c)	Lapse Risk	-	-	-
(5d)	Diversification within Non-Life Underwriting Risk	-	-	-
(5)	**Total Non-Life Underwriting Risk [sum (5a) - (5d)]**	**-**	**-**	**-**
(6)	**Total Before Diversification Between Risk Categories [(1) + (2) + (3) + (4) + (5)]**	**13,604**	**22,663**	**9,059**
(7)	**Diversification Between Risk Categories**	**-3,105**	**-3,460**	**-355**
(8)	**Intangible asset risk**	**-**	**-**	**-**
(9)	**BSCR net of loss absorbing capacity of technical provisions [(6) + (7) + (8)]**	**10,499**	**19,202**	**8,704**
(10)	**BSCR gross of loss absorbing capacity of technical provisions**	**10,499**	**19,202**	**8,704**
(11)	**Total Operational Risk**	**1,257**	**1,208**	**-50**
(12)	**Loss absorbing capacity of technical provisions**	**-**	**-**	**-**
(13)	**Loss absorbing capacity of deferred tax**	**-**	**-**	**-**
(14)	**Solvency Capital Requirement excluding capital add-on [(10) + (11) + (12) + (13)]**	**11,756**	**20,410**	**8,654**
(15)	**Capital add-on**	**-**	**-**	**-**
(16)	**Solvency Capital Requirement including capital add-on [(14) + (15)]**	**11,756**	**20,410**	**8,654**

The main reasons for the changes are as follows:

- Increase in market risk SCR module due to the re-domicile of the company to France leading to a substantial increase in currency risk as most of the assets are in GBP.
- Decrease in life underwriting SCR module primarily due to the reinterpretation of the Swiss Re reinsurance treaty leading to an extension in assumed reinsurance coverage period.
- Increase in health underwriting SCR module due to refinement of the reserve calculations following the migration of the CICA business reporting function to AEL.

The MCR has changed from £3,251k as at 1 January 2018 to £5,102k as at 31 December 2018. The main reason for the changes is the increase in SCR primarily due to currency risk increasing significantly.

Use of Duration-Based Equity Risk Sub-Module in the Calculation of the SCR

AEL currently has no equity holdings and therefore the use of duration based equity risk sub-module is deemed not applicable.

E.3 Differences between the Standard Formula and any Internal Model used

There is no approved internal model for AEL at this time. A comparison between the standard formula and the internal model will be carried out if and when an approved internal model is in place.

E.4 Non-Compliance with the SCR and MCR

AEL has sufficient eligible own funds to cover both the SCR and MCR. The coverage ratios for the SCR and MCR are 259% and 1037% respectively.

As at 31 December 2018	SCR (GBP as base currency)	SCR (EUR as base currency)	MCR
Eligible Own Funds (£'000)	52,919	52,919	52,919
Capital Requirements (£'000)	10,460	20,410	5,102
Coverage ratio	506%	259%	1037%

The coverage ratios for the SCR & MCR are monitored on an ongoing basis with final reporting on solvency positions included in the quarterly ORSAs.

E.5 Any Other Information

All material information regarding capital management has been disclosed in sections E.1 to E.5 above.

ACE Europe Life PLC

Solvency and Financial Condition Report

Disclosures

31 December

2018

(Monetary amounts in GBP thousands)

General information

Undertaking name	ACE Europe Life PLC
Undertaking identification code	2138006U9QUPBNNNLR34
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2018
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses by country
S.12.01.02 - Life and Health SLT Technical Provisions
S.23.01.01 - Own Funds
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	53,931
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	53,813
R0140	*Government Bonds*	34,658
R0150	*Corporate Bonds*	19,132
R0160	*Structured notes*	0
R0170	*Collateralised securities*	23
R0180	*Collective Investments Undertakings*	117
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	48,172
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	48,172
R0320	*Health similar to life*	1,137
R0330	*Life excluding health and index-linked and unit-linked*	47,035
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	3,728
R0370	Reinsurance receivables	5,122
R0380	Receivables (trade, not insurance)	5,889
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	6,118
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	122,960

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	0
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	57,114
R0610	*Technical provisions - health (similar to life)*	1,277
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	-256
R0640	*Risk margin*	1,532
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	55,837
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	54,306
R0680	*Risk margin*	1,531
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	127
R0780	Deferred tax liabilities	141
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	
R0830	Reinsurance payables	7,944
R0840	Payables (trade, not insurance)	4,640
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	74
R0900	**Total liabilities**	70,040
R1000	**Excess of assets over liabilities**	52,920

S.05.01.02

Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross	1,164			28,774				247	30,184
R1420	Reinsurers' share	196			27,157					27,353
R1500	Net	968			1,617				247	2,831
	Premiums earned									
R1510	Gross	1,164			28,774				247	30,184
R1520	Reinsurers' share	196			27,157					27,353
R1600	Net	968			1,617				247	2,831
	Claims incurred									
R1610	Gross	1,030			7,746				-8	8,768
R1620	Reinsurers' share	594			5,658					6,252
R1700	Net	436			2,088				-8	2,516
	Changes in other technical provisions									
R1710	Gross									0
R1720	Reinsurers' share									0
R1800	Net	0			0				0	0
R1900	**Expenses incurred**	-237			-396				539	-94
R2500	**Other expenses**									-242
R2600	**Total expenses**									-336

S.05.02.01

Premiums, claims and expenses by country

Life

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations			Top 5 countries (by amount of gross premiums written) - life obligations		Total Top 5 and home country
R1400			NL	SE	ES	FI	FR	
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross	4,822	19,439	2,629	1,761	520	537	29,708
R1420	Reinsurers' share	3,609	19,438	2,288	780	392	440	26,946
R1500	Net	1,213	1	341	981	128	98	2,762
	Premiums earned							
R1510	Gross	4,822	19,439	2,629	1,761	520	537	29,708
R1520	Reinsurers' share	3,609	19,438	2,288	780	392	440	26,946
R1600	Net	1,213	1	341	981	128	98	2,762
	Claims incurred							
R1610	Gross	3,227	2,090	1,406	376	236	-23	7,311
R1620	Reinsurers' share	2,467	1,150	1,215	258	227	124	5,441
R1700	Net	759	940	191	118	9	-147	1,870
	Changes in other technical provisions							
R1710	Gross							0
R1720	Reinsurers' share							0
R1800	Net	0	0	0	0	0	0	0
R1900	**Expenses incurred**	-1,348	287	-120	550	-24	99	-556
R2500	**Other expenses**							-117
R2600	**Total expenses**							-673

S.12.01.02

Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**									0	0						0
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole									0	0						0
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**						46,834	7,442		31	54,306		-256				-256
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						44,234	2,801		0	47,035		1,137				1,137
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re						2,600	4,640		31	7,271		-1,393	0			-1,393
R0100	**Risk margin**					1,531				0	1,531	1,532					1,532
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole										0						0
R0120	Best estimate										0						0
R0130	Risk margin										0						0
R0200	**Technical provisions - total**					55,807				31	55,837	1,277					1,277

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	5,375	5,375		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	47,545	47,545			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	52,920	52,920	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	52,920	52,920	0	0	0
R0510	Total available own funds to meet the MCR	52,920	52,920	0	0	
R0540	Total eligible own funds to meet the SCR	52,920	52,920	0	0	0
R0550	Total eligible own funds to meet the MCR	52,920	52,920	0	0	
R0580	**SCR**	10,460				
R0600	**MCR**	3,288				
R0620	**Ratio of Eligible own funds to SCR**	505.94%				
R0640	**Ratio of Eligible own funds to MCR**	1609.34%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	52,920
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	5,375
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	47,545
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	1,803
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	1,803

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	7,316		
R0020	Counterparty default risk	814		
R0030	Life underwriting risk	1,813		
R0040	Health underwriting risk	2,409		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-3,100		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	9,252		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	1,207
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	10,460
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	10,460
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

USP Key

For life underwriting risk:
1 - Increase in the amount of annuity benefits
9 - None

For health underwriting risk:
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

S.28.01.01

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	0

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

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_{L} Result	658

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations	5,878	
R0250	Total capital at risk for all life (re)insurance obligations		763,926

	Overall MCR calculation	C0070
R0300	Linear MCR	658
R0310	SCR	10,460
R0320	MCR cap	4,707
R0330	MCR floor	2,615
R0340	Combined MCR	2,615
R0350	Absolute floor of the MCR	3,288
R0400	**Minimum Capital Requirement**	3,288