

ACE Europe Life Limited
Solvency and Financial Condition Report
31 December 2016

CHUBB®

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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 Limited (“AELL” or “the Company”) as at 31 December 2016.

The Board of AELL has prepared this report in accordance with Article 51 of Directive 2009/138/EC (“The Solvency II Directive”), implemented in Chapter 3 of the Prudential Regulation Authority (“PRA”) Rulebook applying to Solvency II Firms, 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 AELL, 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

AELL is a UK regulated life insurance entity authorised to carry out long term insurance business. AELL is a wholly owned subsidiary of Chubb Tempest Life Reinsurance Limited (“CTLR”), based in Bermuda.

AELL has a shared services agreement with a regional affiliated companies Chubb Services U.K. Limited (“CSUKL”) which caps the annual expenses of the business arising from shared service provision. AELL 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, Norway and the Netherlands.

The key drivers of AELL’s future underwriting performance are mortality and persistency experience. At the end of 2016 AELL increased the ceding ratio of its internal reinsurance treaty with CTLR to mitigate the risk of adverse underwriting performance as well as providing significant release of capital.

In the year to 31 December 2016 the company produced an underwriting profit of £4,429k.

The aim of AELL’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 £9,595k.

In the year ended 31 December 2016, the company produced a profit after tax of £16,393k on a UK GAAP basis. Own funds for Solvency II purposes were £47,410k.

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.

System of Governance Summary

AELL 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 section B1.1, which provide oversight over the company’s business units and functions, including where carried out via CSUKL. The heads of the regional functions employed report either to the regional President or the Chief Business Operations Officer except the Actuarial function which reports to the CFO and have responsibilities defined in accordance with the provisions of the Senior Insurance Managers Regime (SIMR). 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, 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 testing and reports outside the First Line structures.

The Board includes as members several independent non-executive directors to help provide alternative experience and viewpoints and, on occasion, 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 the company carries out.

Risk Profile Summary

AELL 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 AELL’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 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.

Valuation for Solvency Purposes Summary

Major differences between the bases, methods and main assumptions used in valuing assets and liabilities for Solvency II purposes compared to the UK GAAP valuation bases are in relation to reclassification and valuation adjustments required to determine technical provisions and insurance related assets such as reinsurance recoverables.

Solvency II best estimate uses the best estimate assumptions for all line of business while the UK GAAP TPs uses a prudent set of assumptions. In addition Solvency II technical provisions include the risk margin.

There have been no changes in the bases, methods and main assumptions for the valuation for Solvency II purposes of assets and liabilities in the period.

Capital Management Summary

The primary objectives of AELL 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 £47,410k as at 31 December 2016. 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.

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, AELL 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 AELL has continued so to comply subsequently and will continue so to comply in future.

On Behalf of the Board



Mark Hammond

Chief Financial Officer

19 May 2017

Report of the External Independent Auditor

Report of the external independent auditors to the Directors of ACE Europe Life Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

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

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2016:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2016, ('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 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02, 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 2016 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 and Ireland) (ISAs (UK & I)), International Standard on Auditing (UK) 800 and International Standard on Auditing (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.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management 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.

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.

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, in accordance with applicable law, ISAs (UK & I) and ISAs (UK) 800 and 805 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 the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based. ISAs (UK & I) require us to comply with the Auditing Practices Board's Ethical Standard for Auditors.

An audit involves obtaining evidence about the amounts and disclosures in the relevant elements of the Solvency and Financial Condition Report sufficient to give reasonable assurance that the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the relevant elements of the Solvency and Financial Condition Report. In addition, we read all the financial and non-financial information in the Solvency and Financial Condition Report to identify material inconsistencies with the audited relevant elements of the Solvency and Financial Condition Report. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

This report, including the opinion, has been prepared for the Directors of the Company to comply with their obligations under External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements

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



PricewaterhouseCoopers LLP

Chartered Accountants

7 More London Riverside

London, SE1 2RT

United Kingdom

19 May 2017

- The maintenance and integrity of the Chubb website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

A. Business and Performance

A.1 Business

Name and Legal Form

AELL forms part of the Chubb Group of insurance and reinsurance companies. On 1 July 2015, ACE Limited (now Chubb Limited), the ultimate parent of AELL, announced that the Board of Directors of ACE Limited and The Chubb Corporation had unanimously approved an agreement under which ACE would acquire Chubb. Following approval from the shareholders of both companies and receipt of regulatory approvals, ACE Limited completed the acquisition of The Chubb Corporation on 14 January 2016, and subsequently changed its name to Chubb Limited.

AELL is a UK regulated life insurance entity authorised to carry out long term insurance business. AELL is a wholly owned subsidiary of CTLR, based in Bermuda.

Headquartered in the UK with branch offices across Europe, AELL and its European Economic Area (“EEA”) branches hold cross-border permissions throughout the EEA. The head office is based in London and through the use of shared serviced provision 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. AELL has engaged the services of CSUKL and Chubb European Group Limited (“CEGL”) for various operational functions. This has enabled AELL to benefit from CEGL’s direct marketing and broker distribution experience.

AELL’s registered office address is Chubb Building, 100 Leadenhall St, London, EC3A 3BP, United Kingdom.

Supervisory Authority

AELL is 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, United Kingdom.

Group Supervisory Authority

The Chubb Group of Companies, of which CTLR (AELL’s parent company) 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 LLP, Chartered Accountants and Statutory Auditors which maintain offices at 7 More London Riverside, London, SE1 2RT, United Kingdom.

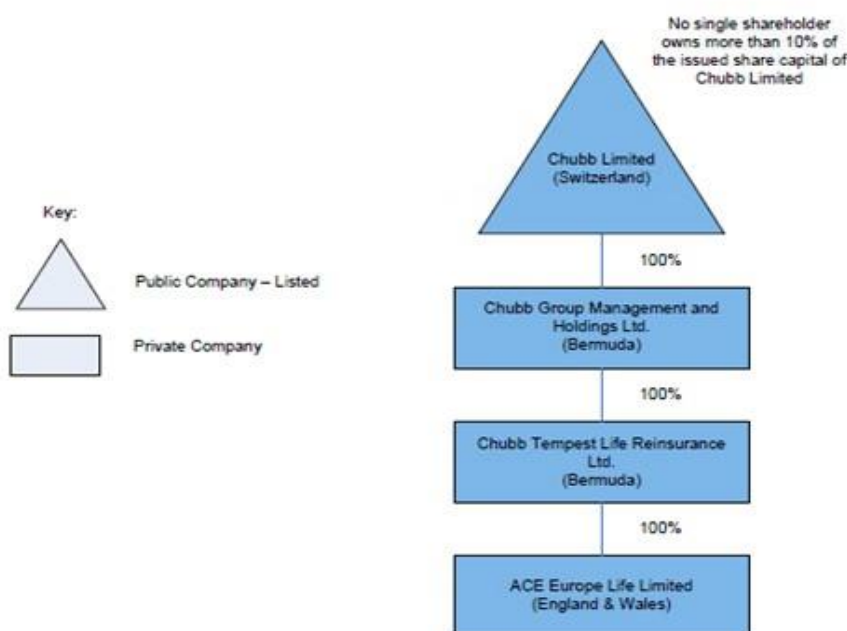
Holders of Qualifying Holdings

AELL is a wholly owned subsidiary of CTLR, a company registered in Bermuda, which is wholly owned by Chubb Group Management and Holdings Limited registered in Bermuda. The Ultimate parent Company is Chubb Limited.

Chubb Limited, headquartered at Bäregasse 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

The Group structure is summarised in the simplified chart below, including country of incorporation:



A.1.2 Material Related Undertakings

As at 31 December 2016, the Company had no material related undertakings.

A.1.3 Material Lines of Business and Geographical Areas

AELL 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, Norway and the Netherlands.

A.1.4 Significant Business Events

On 23 June 2016, the United Kingdom voted in a national referendum to withdraw from the European Union. This process is unprecedented in European Union history, and could involve months or years of negotiation to draft and approve a withdrawal agreement in accordance with Article 50 of the Treaty on European Union.

In the event that, following the UK's withdrawal from the EU, UK insurers were unable to access European risks through the EU Single Market or by an equivalent means, Chubb may reorganise its operations and legal entity structure in the UK and the EU. Contingency plans are in place should the UK's exit from the European Union impede on AELL's current operational model and business practices.

As outlined below, AELL has purchased more reinsurance in the period which has lowered risk and improved capital coverage.

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 AELL Board.

KPIs	2016
Gross written premiums (£’000)	38,574
Profit/(loss) after taxation (£’000)	16,393
Number of policies in force (000)	207,386

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 2016 is summarised in the table below:

SII Line of Business:	Gross written premiums £’000	Net earned premium* £’000	Underwriting profit £’000
Health insurance	1,667	995	(35)
Other life insurance	36,585	(18,857)	4,408
Life reinsurance	322	322	56
Total	38,574	(17,540)	4,429

The Company’s KPI summary by top countries, for the year ended 31 December 2016 is summarised in the table below:

Regions:	Gross written premiums £’000	Net earned premium* £’000	Underwriting profit £’000
United Kingdom	6,370	(7,048)	(2,114)
Netherlands	19,135	(14,959)	5,612
Norway	7,096	2,713	542
Sweden	2,712	383	44
Spain	1,786	1,123	331
France	542	81	(48)
Total	37,641	(17,707)	4,367

Gross premiums written increased from £37,861k in 2015 to £38,574k in 2016. A large part of the Company’s income is derived from Continental Europe and the increase was driven by a weakening sterling through the second half of 2016.

During the period AELL increased the amount of reinsurance protection from CTRL providing more risk protection and improved regulatory capital coverage. The majority of profits are driven by the impact the additional reinsurance has on reducing net long term reserves relative to the additional cost.

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

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

Overall Performance

In the year to 31 December 2016 the company produced an underwriting surplus of £4,429k.

In the year ended 31 December 2016, the company produced a surplus of £16,393k on a UK GAAP basis. Own funds for Solvency II purposes were £47,410k.

A.3 Investment Performance

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

The company's investment income by Solvency II assets class and expenses for the year ended 31 December 2016 is summarised in the table below:

SII asset class:		Income £'000	Realised Gain/(Loss) £'000	Unrealised Gain/(Loss) £'000	Other £'000	Total Return £'000
Investment income by asset class:						
1	Government bonds	1,277	989	4613	-	6,879
2	Corporate bonds	750	18	1228	-	1,996
4	Collective investment undertakings	-	103	659	-	762
6	Collateralised securities	17	1	24	-	42
7	Cash and deposits	2	-	-	-	2
Investment expenses		-	-	-	(86)	(86)
Total investment return		2,046	1,111	6,524	(86)	9,595

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.

AELL does not hold investments in securitisations.

Investment returns strengthened in 2016 from the impact of falling yields on the fixed income portfolio. Total investment return for the year ended 31 December was £9,595k.

A.4 Performance of Other Activities

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

A.5 Other Information

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

B. System of Governance

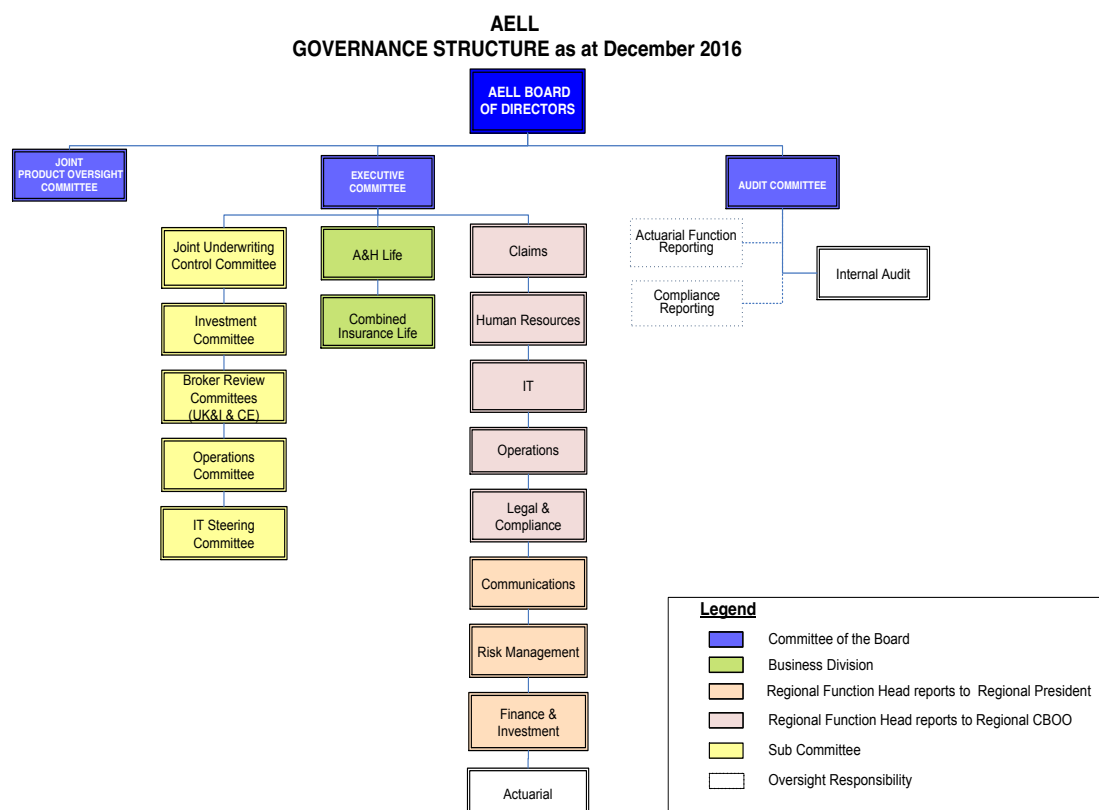
B.1 General Information on the System of Governance

B.1.1 Board and Committees

The Board of Directors (“the Board”) has reserved the responsibility for decisions 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. The Board membership comprises four independent Non-Executive Directors (“NEDs”) and four 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.

The Board and committee structure is as follows:



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Executive Committee

The Executive Committee comprises the Chief Executive Officer (“CEO”) of AELL 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 including investment and broker review committees.

Audit Committee

The Audit Committee, which is composed exclusively of NEDs, was established at the end of 2016. 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 receives 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 is expected to challenge any aspect of these processes which it considers weak or poor practice.

Product Oversight Committee

The Product Oversight Committee is a joint committee for the Chubb companies in the region, which conducts consistent, organisation-wide oversight in respect of conduct towards customers, considering both metrics provided in response to measurements set via a conduct risk framework and narrative input from business units' product councils. It is attended by senior business leaders and its membership comprises the regional President, Chief Risk Officer, Head of Compliance and General Counsel.

AELL's operational activities are largely carried out via service functions shared with affiliate companies, controlled via a service agreement. It therefore makes use of shared key functions and their management structures (and their shared executive subcommittees where such exist).

AELL has identified the following functions as Key Functions in accordance with the provisions of the Senior Insurance Managers Regime; Internal Audit, Compliance, Risk Management and Actuarial. With the exception of the Actuarial function, each is supported by the structures put in place for the benefit also of affiliate companies.

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 AELL'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 AELL'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.

Compliance Function

Compliance is a 'second line of defence' function, which via the provision of advice, training and first line activity monitoring, seeks to ensure that AELL's commercial 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 Board and Audit Committee, 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 assesses emerging and existing risks to the business, 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 undertakes reviews at the direction of the Board. Capital measurement is also a function of the Risk Management team.

Actuarial Function

The Actuarial function is headed by an independent external Actuary, who provides recommendations on valuation of technical provisions and other key actuarial elements to the Board. The company has its own Actuarial team members for day to day operations and also the support of the regional Actuarial team serving affiliated companies. 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.1.3 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 with 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. AELL has an Investment subcommittee of the Executive committee, which enables consideration to be given to the asset investment appropriate on an entity basis. Use is made of Group asset management services based in the US.

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 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 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.

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 AELL'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 AELL'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. Branches in Europe conduct regular operational meetings and feed significant information to the Executive committee via the President of Continental Europe, who is an Executive Committee member, or via his reporting line to the President.

B.1.4 Any Material Changes in the System of Governance during the Reporting Period

With effect from January 2016 a Product Oversight Committee, a shared Board committee, has replaced the former Product Governance and Conduct Committee (an Executive sub-committee) in having oversight of conduct risk in the region. The remit of the committee extends over all lines of business; it carries out reviews of conduct on the basis of assessed risk to consumers. The membership of the committee includes senior management members.

The Audit Committee was put in place in November 2016. Prior to that date Internal Audit and Compliance functions provided their regular reports direct to the Board. Actuarial function reports will be made both to the Audit Committee, in respect of general regional actuarial matters, the Board in respect of significant capital related matters.

In order to harmonise oversight over underwriting procedures and controls across all lines of business and align with fellow regulated companies, a regional Joint Underwriting Controls Committee was established in November 2016. This Executive sub-committee will monitor compliance with the underwriting framework and provide a joint forum for the setting of reinsurance strategy.

At the end of 2016 the Board entered into discussions on the merits of making use of the regional Joint Risk Committee. If a decision is taken for the Company to be served by the JRC, alignment with the regional reporting methodology will be enhanced.

B.1.5 Remuneration Policies and Practices

B.1.5.1 Principles of the Remuneration Policy

For the purpose of the following analysis "employees" includes both staff directly employed by AELL and staff employed by CSUKL or CEGE, which carry out administrative services on behalf of the Company. All Companies are subject to the same remuneration policy.

AELL has a remuneration policy which is applicable to all employees. It does not apply to NEDs. 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 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;
- 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;
- Remuneration must be appropriate and proportional to the internal organisation, nature, scale and complexity of the role, function or service being performed; and
- 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.

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 ; and
- Local market value of the role.

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 sufficiently 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;
- Performance-related variable remuneration should be based upon a combination of performance measures including, but not limited to, the following:
 - Quality of employee performance, including adherence to Chubb's risk management arrangements and Board adopted policies and procedures and protocols.
 - Financial benefit to Chubb.

Termination Payments

Ex-gratia termination payments (un-related to redundancy situations) shall be quantified subject to performance related considerations 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.1.5.2 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 (SIMFs and SIFs) in executive roles and Key Function Holders 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.1.5.3 Pension or Early Retirement Schemes

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

B.1.6 Material Transactions with Shareholders, Persons who Exercise a Significant Influence, and With Members of the AMSB

Shareholders

The only transactions with shareholders who were not members of key management were in relation to reinsurance agreements.

In respect of the year ended 31 December 2016, the following transactions in relation to reinsurance agreements were carried out with shareholders:

A quota share contract with AELL parent, CTLR, on the TAF mortgage business and UIB term life insurances increased from 45% to 100%.

Key Management

Key management personnel include members of the Board of Directors. Directors received emoluments from CSUKL and CEGF in respect of their services to Chubb Group companies. The cost of these emoluments is incorporated within the management recharges from CSUKL. 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	2016
	£'000
Aggregate emoluments and benefits	2,363
Company pension contributions to money purchase pension schemes	19
Total	2,382

Included in the above amounts paid by CSUKL and CEGF in respect of the directors of this Company, the highest paid director was paid a total of £829k 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 and £nil respectively.

The aggregate emoluments above do not include share based remuneration. All executive directors are entitled to and received shares in Chubb Limited under long-term incentive plans. During the period, one director exercised options over the shares of Chubb Limited. The highest paid director exercised share options during the year.

Until 31 March 2002, retirement benefits accrued under the ACE London Pension Scheme to one current director under the final salary section. Disclosures relating to this scheme are contained within the financial statements for CSUKL. From 1 April 2002, pension benefits are accruing to one current directors under the ACE European Group UK Pension Plan (Stakeholder scheme).

B.2 Fit and Proper Requirements

B.2.1 Specific Fit and Proper Requirements

The Chubb Group Code of Conduct sets out our five core values, which underpins the foundation upon which AELL's business is built.

- **Integrity:** We comply with all applicable laws, regulations and Company policies—in our words and in our deeds. Honesty, character and ethical behaviour guide us to do the right thing.
- **Customer Focus:** We are committed to our customers. We strive to understand their risks, we make promises, and we keep them.
- **Respect:** We value our employees, partners and communities. We are dedicated to fair treatment, diversity, trust and mutual respect.
- **Excellence:** We recognise and reward excellence in the workplace. Performing at the highest level requires us to think and act like owners.
- **Teamwork:** We believe an environment of open communication and collaboration produces the best results. We encourage full participation, different perspectives, constructive criticism and a sense of pride in who we are and what we do.

In line with the implementation of the Solvency II Directive the FCA and the PRA have implemented the Senior Insurance Managers' Regime (SIMR) which includes the rules and requirements for assessing fitness and propriety of the relevant individuals who are running the business. AELL has adopted a policy (the "Fit and Proper Policy") that sets out how AELL intends to meet the regulators' expectations for assessing fitness and propriety of relevant individuals.

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.

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

- 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;
- Whether the person has demonstrated the appropriate competence and integrity in fulfilling occupational, managerial or professional responsibilities previously or in their current role;
- Whether a person has been convicted of, or dismissed or suspended from employment for, drug or alcohol abuses or other abusive acts 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 is responsible for conducting Fit and Proper assessments in accordance with this Policy and give assurance to management that the persons in scope for this policy are Fit and Proper to carry out their roles. Human Resources should also ensure that there is a documented and up to date Fit and Proper Procedure in place.

Each role should have a Role profile. Role Profiles capture the specific requirements of a role, including the skills, knowledge and expertise appropriate for approved persons and key function holders. Profiles are 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 a log of all Approved Persons. Compliance is also responsible for notifying relevant regulator with regards to changes to the identity of SIMR Approved Persons, Notified NEDs and Key Function Holders including providing information whether the replacement is based on that person no longer fulfilling Fit and Proper requirements, whether the person has breached Conduct Standards applicable to that person, and disciplinary action taken when a breach of Conduct Standards has occurred.

In addition to the above, Compliance is responsible for monitoring compliance with, and the effectiveness of, AELL'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 Key Function, regulated activity or be an Approved Person. Different roles and levels of responsibility require a different set of qualities, for example qualifications and experience. In addition to this, due to the level of trust required to perform certain activities and the obligations imposed by regulators upon financial services firms, Employees must also demonstrate a number of personal qualities such as honesty and integrity.

The Chubb Fit and Proper process covers the Fit and Proper Assessment of all Approved Persons, Notified NEDs and Key Function Holders:

1. **Role Profiles** - the Line Manager, when recruiting, must work with the respective HR Director to ensure the role is fit for purpose and contains the appropriate Fit and Proper Behaviours – which are documented in the role profile.
2. **Interviews** – all interviewers are requested to complete a Competency Based Interview feedback form, which contains specific requirements for assessing Fitness & Propriety, they include:
 - Skills Gap Analysis
 - How this hire complements the Chubb business strategy, activity & market in which Chubb operates
 - How the appointment was agreed
3. **Pre-employment Screening** – the following checks are conducted for all Key Function Holders, Notified NED's and Approved Persons:
 - Sanction check – going back 6 years
 - Credit check –going back 6 years
 - Regulatory references
 - Employment references – 5 years
 - Directorships check
4. **Performance Management** – all Approved Persons, Notified NEDs and Key Function Holders will be set a 'Fit & Proper' objective over and above their other business goals. This is assessed at the mid-year and end of year review

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, Chubb 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 Chubb’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 Chubb’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 Chubb 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 Chubb 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 follows within Chubb:

- **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 produces quarterly reports to the Risk Committee, including not limited to the quarterly risk report. The quarterly risk report is designed to provide the Executive Committee, 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, Risk Committee and Board throughout the year.

The outcomes of the ORSA process are documented within the ORSA report. An ORSA Report will be 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

AELL'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.

AELL 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 AELL'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

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

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. A Head of Compliance, with defined SIMR responsibilities, reports (via the General Counsel, who heads both Legal & Compliance functions) to the regional Chief Business Operations Officer, who has charge of administrative rather than commercial matters.

The function also now has a reporting line to the AELL Audit Committee, and will be providing that committee with regular reports of activity, outcomes and progress against plan, having formerly provided them to the Board. The Board has had oversight of the resourcing of the Compliance plan.

The Compliance function comprises 31 members, who operate via a "hub and spoke" model, with specialists in the London head office who have UK and region-wide responsibilities, and dedicated local Compliance Officers 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 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.
- Compliance Assurance Team, which is responsible for monitoring and assessing the adequacy and effectiveness of the measures and procedures in place to comply with regulatory obligations. The 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 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 & Operations Team, which manages compliance related work programmes such as implementing company-wide frameworks and helps maintain the regulatory governance regime.
- Compliance Training 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.

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 Board) which aligns Compliance function activities with the identified aims of the Regulators of the insurance business in the areas in which AELL 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 Groupwide 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

AELL 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 AELL 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 now has a further reporting line to the AELL Audit Committee, having formerly reported direct to the AELL Board.

The team is based principally in London, but carries out audits throughout the geographical areas in which AELL operates. Operational, Information Technology and Financial Audit teams perform audits and control walkthroughs of AELL’s operations, identifying key risk exposures and assessing the design and effectiveness of risk management, controls, and governance processes for these risk 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 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.
- Global Financial Compliance Team, which coordinates global reporting of the status of internal controls over financial reporting including Sarbanes Oxley compliance.

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

AELL’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.

AELL’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 Financial 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) described below. 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

AELL 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 Senior Insurance Managers Regime 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 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 Agreements

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)	Milliman LLP	Actuarial oversight services	UK
Information Technology (“IT”)	CSUKL (intra-group)	Provision of IT support & development services	UK
Actuarial	CSUKL (intra-group)	Provision of actuarial services	UK
Treasury	CSUKL (intra-group)	Provision of treasury services	UK
Compliance	CSUKL (intra-group)	Provision of compliance services	UK
Internal Audit	CSUKL (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	Norsk Forsikring	Policy Provider	Norway
Policy Administration	Virke	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

B.8 Adequacy of System of Governance

AELL 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 either to the regional President or the Chief Business Operations Officer and have responsibilities defined in accordance with the provisions of SIMR. 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, 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 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.

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

B.9 Any Other Information

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

C. Risk Profile

The ERM 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.

The table below shows the breakdown of the SCR as calculated by the Standard Formula. From a capital perspective, market risk is the single largest risk source facing AELL 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 AELL's reinsurers.

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

Risk	Capital Requirement
	£'000
Underwriting	6,528
<i>Life</i>	<i>3,442</i>
<i>Health</i>	<i>3,086</i>
Counterparty Default	3,175
Market	12,650
Undiversified Basic SCR	22,353
Operational Risk	1,543
Undiversified SCR	23,896
Diversification Credit	(5,967)
Total SCR	17,929

C.1 Life & Health 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.
- 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 Risk Management, with the scope of the assessments focused on particular areas as initiated by the Chief Risk Officer ("CRO"), the Board or the business.

Underwriting risk comprises of 27% of the undiversified SCR as at 31 December 2016 where this is driven by mortality, lapse, expense, disability and longevity risk.

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 catastrophies 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 AELL pay in premiums for the covered risks.

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

C.1.3 Risk Concentration

The tables below outline the gross written premium by class of business and region as at 31 December 2016:

Gross Written Premium based on SII Line of Business

SII Line of Business:	Gross premiums written	Percentage of total gross written premium
Health insurance	1,667	4%
Other life insurance	36,585	95%
Life reinsurance	322	1%
Total	38,574	100%

Gross Written Premium based on Region

Region:	Gross written premium £'000	Percentage of total gross written premium
United Kingdom	6,370	17%
Netherlands	19,135	50%
Norway	7,096	18%
Sweden	2,712	7%
Spain	1,786	5%
France	542	1%
Other	933	2%
Total	38,574	100%

C.1.4 Risk Sensitivity

The Company carries out stress tests as part of the ORSA process to test the resilience of AELL's solvency to the material underwriting risks. For the year-end 2016 ORSA AELL carried out stresses on mortality, morbidity and persistency rates. The analysis showed that AELL's solvency position is resilient to underwriting risk – particularly as a result of the increased ceding percentage to CTLR put in place at the end of 2016. 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 4% reduction in Own Funds. In contrast a reduction in lapse rates of 50% results in approximately 0.5% reduction in Own Funds.

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 Executive 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, 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 SCR 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 Risk Management, with the scope of the assessments focused on particular areas as initiated by the CRO, the Risk Committee, the Board or the business.
- The company has received a guarantee from Wells Fargo for €5,000,000 (£4,197,328) as collateral for reinsurance recoveries from CTLR as at 31 December 2016 which takes the form of a letter of credit. 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 53% of the undiversified SCR as at 31 December 2016.

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.

C.2.5 Risk Sensitivity

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 fixed interest portfolio of £77,100k at external managers as at 31 December 2016, 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 £11,500k and accordingly decrease total shareholders' funds by £9,200k.

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 2016 average euro/sterling rate of €1.238/£1 is down on the prior period (2015: €1.375/£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 £200k 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 13% to €1.191/£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 not impact the shareholders' funds.

The impact of a change in credit spread on profit for the financial year and shareholders' funds has been assessed. A 1% increase in the credit spread will result in a decrease in profit of £1,675k and accordingly decrease total shareholders' funds by £1,675k.

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 SCR 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 Risk Management, with the scope of the assessments focused on particular areas as initiated by the CRO, the Risk Committee, the Board or the business.

Credit risk represents 13% of the undiversified SCR as at 31 December 2016, where this 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.3.3 Risk Concentration

The assets bearing credit risk are:

Asset Category:	Solvency II value £'000	Percentage of total Solvency II value
Investments	88,550	50%
Reinsurance recoverables	73,361	41%
Reinsurance receivables	7,007	4%
Insurance and intermediaries receivables	4,464	2%
Receivables (trade, not insurance)	5,263	3%
Total assets bearing credit risk	178,645	100%

The Standard and Poor's credit ratings for investments net of accrued interest of £923k are as follows:

Investments	
Asset Category:	£'000
AAA	13,812
AA	45,134
A	9,487
BBB	8,468
Below BBB or unrated	10,726
Total	87,627

The Standard and Poor's credit rating for reinsurance recoverables and reinsurance receivables is AA.

Where appropriate the Company seeks to obtain collateral from counterparties to mitigate the credit risk exposure from insurance activities. At 31 December 2016 the collateral to the Company totalled £4,200k all of which is represented by Letters of Credit.

C.3.4 Risk Sensitivity

There are no sensitivity tests in respect to credit risk and this risk is predominantly impacted by concentrations of 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 Risk Management, with the scope of the assessments focused on particular areas as initiated by the CRO or the business.

Liquidity risk is not explicitly measured as part of the Standard Formula SCR. As at 31 December 2016, 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 cashflows.

C.4.3 Risk Concentration

The bulk of AELL's investment portfolio is held in highly liquid instruments. As at 31 December 2016 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.

C.4.4 Risk Sensitivity

The impact on liquidity is assessed through the stress and scenario testing framework. The liquidity test measures if there is any money left after a particular event occurs or if the money deteriorates completely after being used to pay for the event. The stress testing carried out throughout 2016 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 2016 is £2,951k.

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 SCR 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 Risk Management, with the scope of the assessments focused on particular areas as initiated by the CRO, the Risk Committee, the Board or the business.

Operational risk represents 7% of the undiversified SCR as at 31 December 2016.

C.5.3 Risk Concentration

There are no risk concentrations in respect of operational risk.

C.5.4 Risk Sensitivity

The operational risks arising from the acquisition and subsequent integration have been considered by the business. The stress testing carried out throughout 2016, which includes a number of operational risk events, supports the adequacy of the current capital and liquidity positions adopted by the company.

C.6 Other 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.

C.7 Any Other Information on Risk Profile

The acquisition of the former Chubb Group of companies occurred in January 2016, the risks arising from the acquisition and subsequent integration of functions are considered within the company's risk management framework. The acquisition does not materially impact AELL.

D. Valuation for Solvency Purposes

D.1 Assets

The valuation of the assets on the Solvency II balance sheet is as follows:

As at 31 December	Solvency II 2016 £'000	UK GAAP 2016 £'000	Variance 2016 £'000
Deferred acquisition costs	-	109	(109)
Deferred tax assets	99	-	99
Investments (and assets held for index-linked and unit-linked contracts)	88,550	87,627	923
Reinsurance recoverables	76,964	110,388	(33,424)
Insurance and intermediaries receivables	3,144	3,144	-
Reinsurance receivables	5,025	5,025	-
Receivables (trade, not insurance)	5,263	4,756	507
Cash and cash equivalents	6,108	6,108	-
Total assets	185,153	217,157	(32,004)

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

D.1.1 Deferred Acquisition Costs (“DAC”)

Acquisition costs are deferred under UK GAAP and expensed in line with the earning of the corresponding premiums. However under SII, intangible insurance assets such as DAC are ascribed a value only when they can be sold separately and when there are quoted prices in an active market for the same or similar assets. The Company has no intangible assets which meet these criteria and so all potential intangible assets (including DAC) are valued at nil.

D.1.2 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.

The principal temporary differences arise from valuation differences arising under the Solvency II regime for the technical provisions. As the company continues to be taxed based on UK GAAP accounting principles, differences between Solvency II and UK GAAP valuation bases are subject to deferred tax.

A material DTA arises on the conversion from UK GAAP to Solvency II. This DTA naturally unwinds as it relates to timing differences in the recognition of profit between the two bases. Given the biggest valuation difference is the creation of risk margin under Solvency II, this DTA will reverse proportionally over the settlement period of the outstanding losses.

D.1.3 Investments

Investments comprise the following:

As at 31 December	Solvency II 2016 £'000	UK GAAP 2016 £'000	Variance 2016 £'000
Government bonds	56,515	55,945	570
Corporate bonds	20,929	20,579	350
Collateralised securities	446	443	3
Collective investment undertakings	10,660	10,660	0
Total investments	88,550	87,627	923

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 interests on fixed income securities that are classified as receivables under UK GAAP.

D.1.4 Reinsurance Recoverables

For Solvency II, this balance includes the reinsurers' share of the claims provisions and the reinsurers' share of the premium provision.

The Solvency II basis for the valuation of technical provisions is fundamentally different to that for UK GAAP purposes. Refer to section D.2 for further details on Technical Provisions.

D.1.5 Insurance, Reinsurance & Intermediaries Receivables

The UK GAAP valuation basis recognises all receivables due under insurance contracts. However, for Solvency II, where receivables are considered to be not yet due they are included within the technical provisions for Solvency II purposes. Refer to section D.2 for further details on Technical Provisions.

D.1.6 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.

However the difference of £507k relates to both accrued interests and current income tax classifications.

Description of difference	Difference £'000
Accrued interest	(923)
Current income tax	1,430
Total	507

- Accrued interest – £923k is included in receivables under UK GAAP, however this is reclassified to investments under Solvency II basis.
- Current income tax - £1,430k relates to the split out of the current income tax into debtors and creditors on the balance sheet. Therefore the same adjustment is made to payables (trade, not insurance) in section D.3.4.

D.1.7 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.1.8 Changes to Valuation of Assets in the Period

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

D.1.9 Major Sources of Estimation Uncertainty

Major sources of estimation uncertainty are related to the recognition of deferred tax assets (refer to section D.1.2 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 2016, 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	(1,017)	643	(1,660)	3,137	2,120	1,477
Other life insurance	85,827	76,321	9,506	3,021	88,848	12,527
Life reinsurance	20	-	20	-	20	20
Total	84,830	76,964	7,866	6,158	90,988	14,024

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 AELL’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 AELL’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 summaries 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 policies 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 AELL
- 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. The experience investigations are a core part of ACE’s reserving process. The intended purpose of the investigations is to provide management with an actuarial assessment of liabilities.

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.

Discounting of cashflows is performed at a currency level using yield curves provided by an appropriate regulatory body.

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 EIPOA. 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.

AELL has adopted a simplified approach to the projection of its SCR through a series of risk drivers to project the run-off of the initial 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	<p>The valuation date catastrophe risk capital can be closely approximated as</p> <p><i>Net Sum At Risk * stress to mortality rates.</i></p> <p>Net Sum At Risk is equal to Net Sum Assured less Net BEL.</p> <p>Given that for AELL'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.</p>
Life mortality risk	TAF	N/A	100% of mortality risk on TAF is reinsured
	UIB	N/A	100% of mortality risk on UIB is reinsured
	Other long-term life	Present value of retained death benefits for other long-term life business	<p>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.</p> <p>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.</p>

SCR Component	Varies by	Risk Driver	Justification
Life lapse risk	TAF	Premiums in-force on TAF business	<p>The lapse risk capital is expected to be positively related to:</p> <ol style="list-style-type: none"> 1. Volume of business in-force; and 2. Duration of in-force cashflows. <p>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.</p> <p>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.</p> <p>It is assumed that the same lapse stress direction will be the most onerous throughout the lifetime of the contracts.</p> <p>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).</p>
	UIB	Premiums in-force on UIB business	Justification as per above.
	Other long-term life	Premiums in-force on other long-term life business	Justification as per above.
Life morbidity risk	N/A	Run-off linearly over 10 years	The life morbidity risk capital arises only from the Sweden Modular business and is not material.
Life expense risk	N/A	N/A	<p>The expense agreement in place between Chubb Group and AELL sets out the per policy and percentage of premium expenses payable by AELL. These are fixed in the contracts and do not increase with inflation.</p> <p>Therefore, there is no expense risk capital requirement for AELL. It is assumed that this agreement will be in place indefinitely and so there is no risk driver required for expense risk.</p>

SCR Component	Varies by	Risk Driver	Justification
Health longevity risk	N/A	Premiums in-force on long-term health business	<p>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.</p> <p>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.</p> <p>Given health longevity risk is not particularly material for AELL, this simplified risk driver is proportionate to the risk.</p>
Health catastrophe	N/A	Net (of reinsurance) total benefits for the long-term health business	<p>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.</p> <p>Given the low materiality of health catastrophe risk for AELL, this simplified approach of aggregating the run-off, as opposed to splitting out different components, is proportionate to the risk.</p>
Health lapse risk	N/A	Premiums in-force on long-term health business	<p>Justification as per above.</p> <p>It is assumed that the same lapse stress direction will be the most onerous throughout the lifetime of the contacts.</p>
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 inceptioned in 2011 or 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 inceptioned 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.

Manual Reserves

The products valued using a manual reserve have very low policy counts (<10) 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

AELL 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.

AELL 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 AELL 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 AELL 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 reinsurance arrangements. For all of AELL’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, AELL 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. 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.
- The level of administration commission agreed for the future for TAF business. As this is yet to be resolved the ‘worst case’ scenario has been taken to calculate the technical provisions.

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

The table below shows a reconciliation of the UK GAAP valuation of insurance contract liabilities to the Solvency II technical provisions, split by line of business, as at 31 December 2016.

SII Line of Business:	Gross UK GAAP TPs £'000	Solvency II adjustments £'000	Gross BEL £'000	Add risk margin £'000	Gross TPs £'000	Reinsurance recoverables £'000	Net TPs £'000
Health insurance	3,240	4,257	(1,017)	3,137	2,120	643	1,477
Other life insurance	120,558	34,731	85,827	3,021	88,848	76,321	12,527
Life reinsurance	22	2	20	-	20	-	20
Total	123,820	38,990	84,830	6,158	90,988	76,964	14,024

The main differences between the Solvency II and UK GAAP liabilities arise from:

- Solvency II best estimate uses the best estimate assumptions for all line of business while the UK GAAP TPs uses a prudent set of assumptions.
- Solvency II technical provisions include the risk margin.

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 2016 £'000	UK GAAP 2016 £'000	Variance 2016 £'000
Deposits from reinsurers	151	151	-
Deferred tax liabilities	452	211	241
Reinsurance payables	42,386	42,386	-
Payables (trade, not insurance)	3,688	2,258	1,430
Any other liabilities, not elsewhere shown	78	78	-
Total other liabilities	46,755	45,084	1,671

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 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.

However the difference of £1,430k relates to the split out of the current income tax into debtors and creditors on the balance sheet. Therefore the same adjustment is made to receivables (trade, not insurance) in section D.1.6.

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 AELL'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 AELL.

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)

AELL 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, AELL is regulated by the PRA and is subjected to insurance solvency regulations that specify the minimum amount and type of capital that must be held. Accordingly AELL'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.

E.1.3 Summary of Own Funds

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

Own Funds	Tier 1 unrestricted
As at 31 December	2016 £'000
Represented by:	
Ordinary share capital	5,375
Reconciliation reserve	42,035
Total basic own funds	47,410

Ordinary share capital comprises allocated, called up and fully paid ordinary shares of as at 31 December 2016. 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	Tier 1
As at 31 December	2016
	£'000
Total assets (section D.1)	185,153
Less total liabilities (sections D2 and D3)	137,743
Excess of assets over liabilities	47,410
Share capital	-5,375
Total reconciliation reserve	42,035

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.1.4 Eligible Own Funds to cover SCR by Tier

The total Tier 1 own funds of £47,410k are eligible to cover SCR. AELL has sufficient eligible own funds to cover SCR. The coverage rate for SCR is 263%.

E.1.5 Eligible Own Funds to cover MCR by Tier

The total Tier 1 own funds of £47,410k are eligible to cover MCR. AELL has sufficient eligible own funds to cover MCR. The coverage rate for MCR is 1058%.

E.1.6 Reconciliation of the UK GAAP Equity to Solvency II eligible Own Funds

Solvency II own funds represents the excess of Solvency II assets over liabilities, adjusted for 'non-available' own funds (where applicable). The reconciliation of the UK GAAP valuation of shareholders' equity to the Solvency II valuation of own funds is shown here:

As at 31 December	2016
	£'000
UK GAAP shareholders' fund	48,253
Revaluation of insurance contracts	(593)
DAC Adjustments	(109)
Deferred tax adjustments	(141)
SII Excess of assets over liabilities & eligible own funds	47,410

Material differences between UK GAAP shareholders' funds and Solvency II are explained below:

Revaluation of Insurance Contracts

The valuation basis for insurance contract assets and liabilities differs between UK GAAP and Solvency II. The main individual drivers of the difference of the movement are the change from a management best estimate to an actuarial central estimate, the impact of discounting, the inclusion of a risk margin and the lack of zeroisation of negative policy reserves under Solvency II.

As at 31 December	2016 £'000
Update to best estimate assumptions	(1,095)
Allow negative policy reserves	(4,529)
Methodology Change - UPR to discounted cashflow for YRT business	(143)
Add Investment Reserve and Default Reserve	202
Add in risk margin	6,158
Total	593

For further details on the treatment of insurance contracts under Solvency II, refer to section D.2.

Deferred Tax Adjustment

Refer to details in sections D.1.2 and D.3.2.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Solvency Capital Requirement

AELL applies the standard formula approach for the Solvency Capital Requirement (SCR) calculation. The SCR as at 31st December 2016 and its split by risk modules are summarised as follows:

As at 31 December 2016	Risk Category	£'000
	Lines 1 - 8 net of loss absorbing capacity of technical provisions	
(1a)	Interest Rate Risk	10,443
(1b)	Equity Risk	-
(1c)	Property Risk	-
(1d)	Spread Risk	5,258
(1e)	Concentration Risk	-
(1f)	Currency Risk	2,298
(1g)	Diversification within market risk	(5,349)
(1)	Total Market Risk [sum (1a) - (1g)]	12,650
(2a)	Type 1 (Reinsurer Default, etc)	2,810
(2b)	Type 2 (Intermediary / Policyholder Default, etc)	466
(2c)	Diversification within Counterparty Default Risk	(101)
(2)	Total Counterparty Default Risk [sum (2a) - (2c)]	3,175
(3)	Total Life Underwriting Risk	3,442

(4a)	Health SLT Risk	3,082
(4b)	Health Non SLT Risk	-
(4c)	Health Catastrophe Risk	13
(4d)	Diversification within Health Underwriting Risk	(9)
(4)	Total Health Underwriting Risk [sum (4a) - (4d)]	3,086
(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)]	22,353
(7)	Diversification Between Risk Categories	(5,966)
(8)	Intangible asset risk	-
(9)	BSCR net of loss absorbing capacity of technical provisions [(6) + (7) + (8)]	16,386
(10)	BSCR gross of loss absorbing capacity of technical provisions	16,386
(11)	Total Operational Risk	1,543
(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)]	17,929
(15)	Capital add-on	-
(16)	Solvency Capital Requirement including capital add-on [(14) + (15)]	17,929

The AELL 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, AELL 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, AEGL 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.

	Net (of reinsurance/ SPV) best estimate and TP calculated the last 12 as a whole (£'000)	Net (of reinsurance) written premiums in the last 12 months (£'000)
As at 31 December		
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	6,221	-
Total capital at risk for all life (re)insurance obligations	-	5,146

The MCR calculation takes into account the capital at risk, and the life technical provisions. AELL 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.

AELL uses the Standard Formula to calculate its MCR. The resulting MCR based on the above inputs is £4,482k. The following table shows the MCR calculation:

Overall MCR Calculation	2016 £'000
Linear MCR	3,733
SCR	17,929
MCR cap	8,068
MCR floor	4,482
Combined MCR	4,482
Absolute floor of the MCR	3,332
Minimum Capital Requirement	4,482

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 2016 (£'000) (unaudited)	As at 31 December 2016 (£'000)	Movement (£'000)
	Lines 1 - 8 net of loss absorbing capacity of technical provisions			
(1a)	Interest Rate Risk	3,913	10,443	6,530
(1b)	Equity Risk	-	-	-
(1c)	Property Risk	-	-	-
(1d)	Spread Risk	2,818	5,258	2,440
(1e)	Concentration Risk	-	-	-
(1f)	Currency Risk	9,566	2,298	(7,268)
(1g)	Diversification within market risk	(4,175)	(5,349)	(1,174)
(1)	Total Market Risk [sum (1a) - (1g)]	12,123	12,650	527
(2a)	Type 1 (Reinsurer Default, etc)	928	2,810	1,882
(2b)	Type 2 (Intermediary / Policyholder Default, etc)	535	466	(69)
(2c)	Diversification within Counterparty Default Risk	(87)	(101)	(14)
(2)	Total Counterparty Default Risk [sum (2a) - (2c)]	1,376	3,175	1,799
(3)	Total Life Underwriting Risk	25,524	3,442	(22,082)
(4a)	Health SLT Risk	2,803	3,082	279
(4b)	Health Non SLT Risk	-	-	-
(4c)	Health Catastrophe Risk	11	13	2
(4d)	Diversification within Health Underwriting Risk	(8)	(9)	(1)
(4)	Total Health Underwriting Risk [sum (4a) - (4d)]	2,806	3,086	280
(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)]	41,828	22,353	(19,475)
(7)	Diversification Between Risk Categories	(9,524)	(5,966)	3,558
(8)	Intangible asset risk	-	-	-
(9)	BSCR net of loss absorbing capacity of technical provisions [(6) + (7) + (8)]	32,304	16,386	(15,918)
(10)	BSCR gross of loss absorbing capacity of technical provisions	32,304	16,386	(15,918)
(11)	Total Operational Risk	1,516	1,543	27
(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)]	33,820	17,929	(15,891)
(15)	Capital add-on	-	-	-
(16)	Solvency Capital Requirement including capital add-on [(14) + (15)]	33,820	17,929	(15,891)

The main reasons for the changes are as follows:

- Reduction in life underwriting risk SCR module due to the increased ceding ratio to CTLR since the previous year.
- Reduction in currency risk SCR module due to better currency matching since the previous year.
- Increase in interest risk SCR module due to change in duration matching since the previous year.

The MCR has changed from £8,455 k as at 1 January 2016 to £4,482k as at 31 December 2016. The main reason for the changes is the increased premium and TP exposures caused by exchange rate movements over the year.

E.3 Use of Duration-Based Equity Risk Sub-Module in the Calculation of the SCR

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

E.4 Differences between the Standard Formula and the Internal Model

There is no approved internal model for AELL 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.5 Non-Compliance with the SCR and MCR

AELL has sufficient eligible own funds to cover both the SCR and MCR. The coverage ratios for the SCR and MCR are 264% and 1058% respectively.

As at 31 December 2016	SCR	MCR
Eligible Own Funds (£'000)	47,410	47,410
Capital Requirements (£'000)	17,929	4,482
Coverage ratio	264%	1058%

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.6 Any Other Information

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

General information

Undertaking name	ACE Europe Life Limited
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 2016
Currency used for reporting	GBP
Accounting standards	The undertaking is using local GAAP (other than IFRS)
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	
C0010	
	99
	0
	88,550
	0
	0
	0
	0
	0
	77,890
	56,515
	20,929
	0
	446
	10,660
	0
	0
	76,964
	0
	76,964
	643
	76,321
	0
	0
	3,144
	5,025
	5,263
	0
	0
	6,108
	185,153

Assets

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

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Liabilities		
R0510	Technical provisions - non-life	0
R0520	<i>Technical provisions - non-life (excluding health)</i>	0
R0530	<i>TP calculated as a whole</i>	
R0540	<i>Best Estimate</i>	
R0550	<i>Risk margin</i>	
R0560	<i>Technical provisions - health (similar to non-life)</i>	0
R0570	<i>TP calculated as a whole</i>	
R0580	<i>Best Estimate</i>	
R0590	<i>Risk margin</i>	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	90,988
R0610	<i>Technical provisions - health (similar to life)</i>	2,119
R0620	<i>TP calculated as a whole</i>	0
R0630	<i>Best Estimate</i>	-1,017
R0640	<i>Risk margin</i>	3,137
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	88,869
R0660	<i>TP calculated as a whole</i>	0
R0670	<i>Best Estimate</i>	85,848
R0680	<i>Risk margin</i>	3,021
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	0
R0710	<i>Best Estimate</i>	0
R0720	<i>Risk margin</i>	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	151
R0780	Deferred tax liabilities	452
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	42,386
R0840	Payables (trade, not insurance)	3,688
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	78
R0900	Total liabilities	137,743
R1000	Excess of assets over liabilities	47,410

Premiums, claims and expenses by line of business

[illegible]

S.05.02.01
Premiums, claims and expenses by country

Life

R1400

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
	NL	NO	SE	ES	FR	
C0220	C0230	C0240	C0250	C0260	C0270	C0280
6,370	19,134	7,096	2,712	1,786	542	37,641
13,418	34,093	4,384	2,330	663	461	55,348
-7,048	-14,958	2,713	383	1,123	81	-17,707
6,370	19,134	7,096	2,712	1,786	542	37,641
13,418	34,093	4,384	2,330	663	461	55,348
-7,048	-14,958	2,713	383	1,123	81	-17,707
10,029	18,701	3,262	1,367	18	74	33,451
14,656	45,276	2,321	1,246	-50	68	63,517
-4,627	-26,574	940	121	68	6	-30,066
						0
						0
0	0	0	0	0	0	0
-307	6,004	1,230	218	725	122	7,992
						-5,527
						2,466

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
	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																
R0020										0	0						0
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	Gross Best Estimate						77,079	8,748		21	85,848		-1,017				-1,017
	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						72,941	3,380		0	76,321		643				643
R0080																	
	Best estimate minus recoverables from reinsurance/SPV and Finite Re						4,137	5,368		21	9,527		-1,660	0			-1,660
R0090																	
R0100	Risk margin					3,021				0	3,021	3,137					3,137
	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					88,848				21	88,869	2,119					2,119

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

R0010	Ordinary share capital (gross of own shares)
R0030	Share premium account related to ordinary share capital
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
R0050	Subordinated mutual member accounts
R0070	Surplus funds
R0090	Preference shares
R0110	Share premium account related to preference shares
R0130	Reconciliation reserve
R0140	Subordinated liabilities
R0160	An amount equal to the value of net deferred tax assets
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above
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
R0230	Deductions for participations in financial and credit institutions
R0290	Total basic own funds after deductions

Ancillary own funds

R0300	Unpaid and uncalled ordinary share capital callable on demand
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
R0320	Unpaid and uncalled preference shares callable on demand
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0390	Other ancillary own funds
R0400	Total ancillary own funds

Available and eligible own funds

R0500	Total available own funds to meet the SCR
R0510	Total available own funds to meet the MCR
R0540	Total eligible own funds to meet the SCR
R0550	Total eligible own funds to meet the MCR

R0580	SCR
R0600	MCR
R0620	Ratio of Eligible own funds to SCR
R0640	Ratio of Eligible own funds to MCR

Reconciliation reserve

R0700	Excess of assets over liabilities
R0710	Own shares (held directly and indirectly)
R0720	Foreseeable dividends, distributions and charges
R0730	Other basic own fund items
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
R0760	Reconciliation reserve

Expected profits

R0770	Expected profits included in future premiums (EIPFP) - Life business
R0780	Expected profits included in future premiums (EIPFP) - Non- life business
R0790	Total Expected profits included in future premiums (EIPFP)

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
5,375	5,375		0	
0	0		0	
0	0		0	
0		0	0	0
0	0			
0		0	0	0
0		0	0	0
42,035	42,035			
0		0	0	0
0				0
0	0	0	0	0
0				

0			
0			
0			
0			
0			
0			
0			
0			
0			
0			
0		0	0

47,410	47,410	0	0	0
47,410	47,410	0	0	
47,410	47,410	0	0	0
47,410	47,410	0	0	

17,929
4,482
264.42%
1057.69%

C0060
47,410
0
5,375
0
42,035

2,951
2,951

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

- R0010 Market risk
- R0020 Counterparty default risk
- R0030 Life underwriting risk
- R0040 Health underwriting risk
- R0050 Non-life underwriting risk
- R0060 Diversification

- R0070 Intangible asset risk

R0100 Basic Solvency Capital Requirement

Calculation of Solvency Capital Requirement

- R0130 Operational risk
- R0140 Loss-absorbing capacity of technical provisions
- R0150 Loss-absorbing capacity of deferred taxes
- R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC
- R0200 Solvency Capital Requirement excluding capital add-on
- R0210 Capital add-ons already set
- R0220 Solvency capital requirement

Other information on SCR

- R0400 Capital requirement for duration-based equity risk sub-module
- R0410 Total amount of Notional Solvency Capital Requirements for remaining part
- R0420 Total amount of Notional Solvency Capital Requirements for ring fenced funds
- R0430 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios
- R0440 Diversification effects due to RFF nSCR aggregation for article 304

Gross solvency capital requirement	USP	Simplifications
C0110	C0080	C0090
12,650		
3,175		
3,442		
3,086		
0		
-5,966		
0		
16,386		
C0100		
1,543		
0		
0		
0		
17,929		
0		
17,929		
0		
0		
0		
0		

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**R0010 MCR_{NL} Result

C0010

0

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
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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 obligationsR0200 MCR_L Result

C0040

3,733

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
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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
 R0250 Total capital at risk for all life (re)insurance obligations

6,221	
	5,145,744

Overall MCR calculation

C0070

R0300 Linear MCR
 R0310 SCR
 R0320 MCR cap
 R0330 MCR floor
 R0340 Combined MCR
 R0350 Absolute floor of the MCR
 R0400 Minimum Capital Requirement

3,733
17,929
8,068
4,482
4,482
3,332
4,482