CHUBB EUROPEAN GROUP PLC

and

COLT MERGER 1 PLC

DRAFT TERMS OF MERGER RELATING TO THE FORMATION OF

CHUBB EUROPEAN GROUP SE

BY WAY OF MERGER BY ACQUISITION

CONTENTS

THESE DRAFT TERMS OF MERGER are made on 17 April 2018

BETWEEN:

(1) Chubb European Group Plc, a public company limited by shares incorporated under and governed by the laws of England and Wales (registered number 01112892), whose registered office is at 100 Leadenhall Street, London, United Kingdom, EC3A 3BP ("**CEG Plc**"); and

(2) Colt Merger 1 Plc, a public company limited by shares incorporated under and governed by the laws of Ireland (registered number 615119), whose registered office is at 1^{st}-2^{nd} Floors, 1-2 Victoria Buildings, Haddington Road, Dublin 4, Ireland ("**Colt Merger 1**").

INTRODUCTION AND PARTIES

(A) The definitions set out in clause 1 below are used in these recitals.

(B) CEG Plc was incorporated in England and Wales as a private company limited by shares on 9 May 1973 and was converted to a public limited company limited by shares on 9 April 2018. Its registered office is as set out above. As at the date of these Draft Terms of Merger, CEG Plc's issued share capital is £786,119,879 divided into 786,119,879 ordinary shares of £1 each. The entire issued share capital of CEG Plc is held by ACE European Holdings Limited. CEG Plc carries out its business in the United Kingdom and through its branches in Austria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Gibraltar, Hungary, Ireland, Italy, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and Turkey and on a services basis throughout the European Union.

(C) Colt Merger 1 was incorporated in Ireland as a public company limited by shares on 13 November 2017. Its registered office is as set out above. As at the date of these Draft Terms of Merger the issued share capital of Colt Merger 1 is €25,000 divided into 25,000 ordinary shares of €1 each. The entire issued share capital of Colt Merger 1 is owned by CEG Plc.

(D) The ultimate parent undertaking of CEG Plc is Chubb Limited (a company incorporated and governed by the laws of Switzerland) and, as such, each of CEG Plc and Colt Merger 1 are part of the Chubb group.

(E) CEG Plc and Colt Merger 1, being public limited companies of the type referred to in Annex 1 of the SE Regulations, intend to merge to form a SE pursuant to Articles 2(1) and 17(2)(a) of the SE Regulations by way of a merger by acquisition, as defined in Article 89 of Directive (EU) 2017/1132 of the European Parliament and of the Council relating to certain aspects of company law (the "**Merger Directive**") (the "**Merger**").

(F) The Merger shall take effect on the Effective Date on the basis set out in these Draft Terms of Merger. Colt Merger 1 shall be wound up without going into liquidation and all of its assets and liabilities shall be transferred to CEG Plc, which shall adopt the form of an SE to be registered with the English Registrar of Companies for England and Wales under the name Chubb European Group SE.

IT IS AGREED as follows:

1. **INTERPRETATION**

1.1 In these Draft Terms of Merger:

"**Assets**" means all and any assets of Colt Merger 1 immediately prior to the Effective Date;

"**Brexit**" has the meaning given to it in clause 2.2;

"**Companies Act**" means the UK Companies Act 2006;

"**Consultation Directive**" means Council Directive 2001/86/EC of 8 October 2001 supplementing the Statute for a European company with regard to the involvement of employees;

"**Court Order**" means the order granted by the English Court pursuant to Article 26 of the SE Regulations following its scrutiny of the legality of the completion of the Merger both in Ireland and in England and Wales;

"**Draft Terms of Merger**" means these draft terms of merger prepared jointly by CEG Plc and Colt Merger 1;

"**Effective Date**" means the date on which CEG Plc is re-registered as an SE by the Registrar of Companies for England and Wales in accordance with Article 27(1) of the SE Regulations;

"**Employees**" means the individuals who have entered into or work under a contract of employment with CEG Plc and includes, where the employment has ceased, any individuals who worked under a contract of employment with CEG Plc;

"**English Court**" means the High Court of England and Wales;

"**English Regulations**" means the European Public Limited-Liability Company Regulations 2004 (SI 2004/2326);

"**Irish Court**" means the Irish High Court;

"**Irish Companies Act**" means the Companies Act 2014;

"**Liabilities**" means all and any liabilities of Colt Merger 1 immediately prior to the Effective Date;

"**Merger**" has the meaning given to it in Recital (E);

"**Merger Directive**" means Directive (EU) 2017/1132 of the European Parliament and of the Council of 14 June 2017 relating to certain aspects of company law;

"**SE**" means a Societas Europaea as defined in Article 1 of the SE Regulations;

"**SE Regulations**" means Council Regulation (EC) No 2157/2001 of 8 October 2001 on the Statute for a European company (SE) as implemented in England and Wales by the English Regulations and the Companies Act and in Ireland by the European Communities (European Public Limited-Liability Company) Regulations 2007, as amended and supplemented;

"**SNB**" has the meaning given to it in 9.6.2; and

"**UK Employee Involvement Regulations**" means the European Public Limited Liability Company (Employee Involvement) (Great Britain) Regulations 2009 (SI 2009/2401.

1.2 In these Draft Terms of Merger, a reference to:

1.2.1 the plural includes the singular and any reference to the singular includes the plural;

1.2.2 a time of day is a reference to the time in London, unless a contrary indication appears; and

1.2.3 a clause, Annex or Schedule, unless the context otherwise requires, is a reference to a clause of or Annex or Schedule to these Draft Terms of Merger.

1.3 The headings in these Draft Terms of Merger do not affect their interpretation.

2. PURPOSE AND EFFECT OF THE MERGER

2.1 Chubb Limited is the ultimate holding company for a number of companies transacting insurance and reinsurance business in the UK and worldwide, including CEG Plc. Chubb Limited is a company incorporated in Switzerland, whose shares are traded on the New York Stock Exchange. CEG Plc is a public company limited by shares with its head office located in the UK.

2.2 The UK delivered its withdrawal notice on 29 March 2017 under Article 50 of the Treaty on European Union ("**Brexit**"), the consequences for the business of CEG Plc remain unclear. In order to ensure that CEG Plc can continue to operate without disruption throughout the European Union in the event of a loss of passporting, and to ensure continuity of its existing contracts, CEG Plc intends to convert to an SE and transfer its head office from the UK to France (the "**Redomicile**"). This will enable CEG Plc to continue to write business throughout the European Union (including, for these purposes, the UK during any transition period) on a freedom of services and freedom of establishment basis.

2.3 The board of directors of CEG Plc approved the Redomicile in principle in a board meeting on 8 August 2017 and the board of directors of Colt Merger 1 will approve the Redomicile in a board meeting later in 2018. The Merger, as contemplated by these Draft Terms of Merger, forms part of the Redomicile.

2.4 Subject to the Court Order having been granted, the Merger shall become effective on the Effective Date.

2.5 In accordance with Article 29(1) of the SE Regulations and subject to the Court Order having been granted, on the Effective Date:

2.5.1 CEG Plc will acquire the Assets and Liabilities;

2.5.2 Colt Merger 1 shall be dissolved; and

2.5.3 CEG Plc shall be re-registered in the UK as an SE.

3. CONDITIONS PRECEDENT

3.1 Completion of the Merger is conditional upon the satisfaction of the following requirements:

3.1.1 the shareholders of CEG Plc approving the Merger and these Draft Terms of Merger;

3.1.2 the shareholders of Colt Merger 1 approving the Merger and these Draft Terms of Merger;

3.1.3 a pre-merger certificate having been issued by the Irish Court pursuant to Article 25(2) of the SE Regulations;

3.1.4 a pre-merger certificate having been issued by the English Court pursuant to Article 25(2) of the SE Regulations; and

3.1.5 the Court Order having been made.

4. MERGING COMPANIES

Regulation 20(1)(a) of the Merger Regulations, section 905(2)(a) of the Companies Act and Sections 1131(2)(a) and 1131(2)(b)of the Irish Companies Act

4.1 The transferee: CEG Plc

Details of CEG Plc, the transferee under the Merger, are as follows:

4.1.1 *Name*: Chubb European Group Plc;

4.1.2 *Registered Office*: 100 Leadenhall Street, London, United Kingdom, EC3A 3BP;

4.1.3 *Legal form and law by which it is governed*: public company limited by shares with its registered office in and governed by the laws of England and Wales;

4.1.4 *Register in which it is entered*: the Companies House register maintained by the Registrar of Companies (England and Wales); and

4.1.5 *Registration number*: 01112892.

4.2 The transferor: Colt Merger 1

Details of Colt Merger 1, the transferor under the merger, are as follows:

4.2.1 *Name*: Colt Merger 1 Public Limited Company;

4.2.2 *Registered Office*: 1^{st}-2^{nd} Floors, 1-2 Victoria Buildings, Haddington Road, Dublin 4, Ireland;

4.2.3 *Legal form and law by which it is governed*: public company limited by shares with its registered office in and governed by the laws of Ireland;

4.2.4 *Register in which it is entered*: Register of Companies at the Companies Registration Office Ireland; and

4.2.5 *Registration number*: 615119.

4.3 The proposed SE: Chubb European Group SE

The proposed details of Chubb European Group SE, the SE resulting from the Merger, are as follows:

4.3.1 *Proposed name*: Chubb European Group SE;

4.3.2 *Proposed Registered Office*: 100 Leadenhall Street, London, United Kingdom, EC3A 3BP;

4.3.3 *Legal form and law by which it will be governed*: European public company (*societas europaea*) with its registered office in and governed by the laws of England and Wales; and

4.3.4 *Register in which it will be entered*: the Companies House register maintained by the Registrar of Companies (England and Wales).

5. SHARE EXCHANGE RATIO, COMPENSATION AND ALLOTMENT OF SHARES

Articles 20(1)(b), 20(1)(c) and 20(1)(d) of the SE Regulations, section 905(2)(b) of the Companies Act and Sections 1131(2)(c), 1131(2)(d)and 1131(2)(e) of the Irish Companies Act

5.1 As the entire issued share capital of Colt Merger 1 is held by CEG Plc, Article 31 of the SE Regulations disapplies the requirement under Article 20(1)(c) of the SE Regulations for CEG Plc to issue additional shares to the holders of shares in Colt Merger 1 upon the Merger becoming effective. Consequently, no allotment of shares under Article 20(1)(c) of the SE Regulations is required nor is the application of a share exchange ratio under Article 20(1)(b) and any related compensation necessary.

5.2 Article 31 of the SE Regulations disapplies the requirement set out in Article 20(1)(d) to include in these Draft Terms of Merger the date from which the holding of shares in the SE will entitle the holders to share in profits and any special conditions affecting that entitlement.

6. DATE FROM WHICH THE TRANSACTIONS OF THE MERGING COMPANIES WILL BE TREATED FOR ACCOUNTING PURPOSES AS THOSE OF THE SE

Article 20(1)(e) of the SE Regulations, section 905(2)(e) of the Companies Act and Section 1131(2)(f) of the Irish Companies Act

From 00:01 on 1 January 2018, all actions and transactions of CEG Plc and Colt Merger 1 are to be treated for accounting purposes as being those of Chubb European Group SE.

7. RIGHTS CONFERRED BY THE SE ON THE HOLDERS OF SHARES TO WHICH SPECIAL RIGHTS ARE ATTACHED AND ON THE HOLDERS OF SECURITIES OTHER THAN SHARES

Article 20(1)(f) of the SE Regulations, section 913 of the Companies Act and Section 1131(2)(g) of the Irish Companies Act

7.1 ACE European Holdings Limited as the holder of the entire issued share capital of CEG Plc shall retain its rights to share in the profits of CEG Plc up to the Effective Date and will become entitled to share in the profits of Chubb European Group SE on and from the Effective Date.

7.2 There are no persons who hold any securities other than shares in either CEG Plc or Colt Merger 1 and neither company has in issue any shares to which special rights (being rights which differ from the rights attaching to any other share in that company) are attached. For this reason, no measures are proposed as envisaged by Article 20(1)(f) of the SE Regulations, section 913 of the Companies Act or Section 1131(2)(g) of the Irish Companies Act in respect of the holders of any such shares or other securities and no rights will be conferred by Chubb European Group SE in respect thereof.

8. STATUTES OF THE SE

Article 20(1)(h) of the SE Regulations

8.1 From the Effective Date CEG Plc will adopt the legal form of an SE pursuant to Articles 17(2)(a) and 29(1)(d) of the SE Regulations. The name of the SE will be Chubb European Group SE and its issued share capital shall be *at least €120,000.*

8.2 The registered office of Chubb European Group SE will be at 100 Leadenhall Street, London, United Kingdom EC3A 3BP.

8.3 Chubb European Group SE will adopt a set of statutes (subject to shareholder approval) in substantially the same form as those which are attached to these Draft Terms of Merger at Schedule 3.

8.4 Following the Merger it is intended that the members of the administrative organ of Chubb European Group SE will be as set out in Schedule 4.

9. INFORMATION ON THE PROCEDURES FOR EMPLOYEE INVOLVEMENT

Article 20(1)(i) of the SE Regulations

9.1 Colt Merger 1 has no employees nor has it any subsidiaries or establishments.

9.2 CEG Plc currently employs Employees and will continue to employ Employees up to and at the Effective Date.

9.3 As at the date of these Draft Terms of Merger, CEG Plc has employee representatives in France, Italy, Germany, Spain and the Netherlands. CEG Plc has completed all required consultations with employee representatives in these jurisdictions with respect to the Merger.

9.4 Immediately following the Merger, the employees of CEG Plc shall continue in their employment on their individual terms and conditions of employment existing at the time of the Merger and their continuity of service will be preserved.

9.5 As of March 2018, there are 50 agency workers in CEG Plc. No changes are currently envisaged to these arrangements as a result of the Merger.

9.6 In accordance with the Consultation Directive and the UK Employee Involvement Regulations, CEG Plc has started to take the necessary steps relating to negotiations with representatives of the Employees on arrangements for the involvement of Employees in Chubb European Group SE. Such steps include, but are not be limited to, the following:

9.6.1 providing information to the Employees in relation to the identity of the participating companies, concerned subsidiaries and establishments and the number of employees and agency workers in each of those entities and each EEA State;

9.6.2 giving Employees the entitlement to appoint or elect member(s) to a special negotiating body ("**SNB**") in accordance with Regulation 8 of the UK Employee Involvement Regulations, by following the method of election or appointment determined by each EEA state under Article 3 of the Consultation Directive;

9.6.3 negotiating with the SNB in a spirit of co-operation, with a view to reaching agreement on the detailed arrangements for the involvement of the Employees in Chubb European Group SE; and

9.6.4 reaching a written agreement (specifying the terms set out in Regulation 15 of the UK Employee Involvement Regulations) on the involvement of Employees in Chubb European Group SE. If agreement cannot be reached with the SNB within the time period specified in Regulation 14 of the UK Employee Involvement Regulations, CEG Plc reserves the right to accept the Standard Rules (Regulation 19 of the UK Employee Involvement Regulations) pursuant to Article 3(6) of the Consultation Directive.

9.7 The formation of Chubb European Group SE is subject to Article 12(2) of the SE Regulations, which requires that an SE may not be registered unless an agreement on arrangement for employee involvement pursuant to Article 4 of the Consultation Directive has been concluded, a decision has been taken pursuant to Article 3(6) of the Consultation Directive or the period for negotiation pursuant to Article 5 has expired without an agreement having been concluded.

10. FINANCIAL INFORMATION

10.1 Attached to these Draft Terms of Merger at Schedule 1 are the audited annual accounts of CEG Plc for the last three financial years. In accordance with the Merger Directive, these accounts will be made available for inspection at the registered offices of CEG Plc and Colt Merger 1.

10.2 Attached to these Draft Terms of Merger at Schedule 2 is a balance sheet as at 10 April 2018 that reflects Colt Merger 1's assets and liabilities. Colt Merger 1 has obtained written approval under section 1134 of the Irish Companies Act from: (i) the shareholders of CEG Plc; and (ii) CEG Plc in its capacity as shareholder of Colt Merger 1, to dispense with the requirement to prepare a merger financial statement if one is required under section 1134 of the Irish Companies Act.

11. DIRECTORS' REPORT

As a result of Section 915(4) of the Companies Act, as Colt Merger 1 is a wholly owned subsidiary of CEG Plc, the parties hereto are not required to prepare a directors' explanatory report on the merger pursuant to section 908 of the Companies Act and Section 1132(1) of the Irish Companies Act.

12. INDEPENDENT EXPERT'S REPORT AND SPECIAL ADVANTAGE GRANTED TO EXPERT OR TO DIRECTORS OF THE MERGING COMPANIES

Article 20(1)(g) of the SE Regulations sections 905(2)(g), 909 and 915(4) of the Companies Act and Section 1131(2)(h) of the Irish Companies Act

12.1 As a result of Section 915(4) of the Companies Act and Section 1133(2) of the Irish Companies Act, as Colt Merger 1 is a wholly owned subsidiary of CEG Plc, the parties hereto are not required to appoint an independent expert to prepare a report on these Draft Terms of Merger under the Companies Act or Irish Companies Act.

12.2 No cash payment shall be made, or other form of consideration given, by CEG Plc in connection with the Merger and no special advantage, payment or benefit in cash or otherwise has been or will be granted to any expert, or to any member of the administrative, management, supervisory or controlling organs of either of CEG Plc or Colt Merger 1.

13. REPORT ON MATERIAL CHANGES OF ASSETS OF THE MERGING COMPANIES

Colt Merger 1 being a wholly owned subsidiary of CEG Plc, CEG Plc has obtained written approval under section 918A of the Companies Act from: (i) the shareholders of CEG Plc; and (ii) CEG Plc in its capacity as shareholder of Colt Merger 1, to dispense with the requirement to a report on material changes of assets pursuant to section 911B of the Companies Act.

14. INSPECTION OF DOCUMENTS

Colt Merger 1 being a wholly owned subsidiary of CEG Plc, the requirements of section 911 of the Companies Act to make: (i) a director's explanatory report; and (ii) an expert's report available for inspection, do not apply.

15. GOVERNING LAW

These Draft Terms of Merger are governed by English law.

16. AMENDMENTS

CEG Plc and Colt Merger 1 may jointly consent to any modification or addition to these Draft Terms of Merger that the English Court may approve or impose.

17. COUNTERPARTS

These Draft Terms of Merger may be executed in any number of counterparts and by the parties to them in separate counterparts, each of which when executed and delivered shall be an original but all the counterparts together constitute one instrument.

EXECUTED by the parties

For and

on behalf of **CHUBB EUROPEAN GROUP PLC**

____
Signature

____
Signature

17/04/2018
____
Date

For and

on behalf of **COLT MERGER 1 PLC**

____
Signature

____
Signature

17/04/2018
____
Date

EXECUTED by the parties

For and

on behalf of **CHUBB EUROPEAN GROUP PLC**

____

Signature

____

Signature

17/04/2018

Date

For and

on behalf of **COLT MERGER 1 PLC**

____

Signature

____

Signature

17/04/2018

Date

SCHEDULE 1
AUDITED ANNUAL ACCOUNTS OF CEG FOR THE LAST THREE YEARS

ACE EUROPEAN GROUP LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2015

COMPANY REGISTRATION NUMBER: 1112892

ACE European Group Limited

Contents

CHAIRMAN'S LETTER
31 December 2015

The President's Report for 2015 contains a review of 2015 performance, an introduction to the Chubb acquisition and confirms the 2016 outlook of a continuing, challenging and competitive marketplace. In short we demonstrated good use of ACE European Group Limited's excellence in underwriting, actuarial, line of business and risk management skills and will continue to develop these capabilities throughout 2016.

In addition the Board and management have sought to deliver the major initiatives formulated by our regulators, the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA"), on prudential and conduct issues. This has been reinforced by a requirement within the 'Senior Insurance Managers Regime' for separate identification regimes delineating key responsibilities and the relevant experience, information and awareness needs of key managers and Board members in order to ensure adequate challenge and validation of decisions. This is a significant policy change and has been introduced with helpful comment and directional guidance helping build constructive relationships.

A significant strengthening of the Board was reported in 2014. One change had to be made to replace Laurel Powers-Freeling when she resigned in July 2015 to take up an important appointment as Chairman of The Sumitomo Mitsui Banking Corporation Europe Limited. The Board thanks her for her strong contribution and wishes her well in her new appointment. A replacement Non-Executive Director, Marshall Bailey, was appointed at the end of 2015. Marshall has a background of experience in prudential matters, banking, capital markets, finance and regulatory oversight. He brings new skills to the Board and has accepted responsibility for the Risk Management function as Committee Chair. We will be maintaining our approach that, as a regulated major subsidiary, Non-Executive Directors should sit on the Risk and Audit Committees to ensure uniformity in the adequacy and depth of information required to be an effective Board member. ACE European Group Limited will also be adopting and rolling out in 2016 improved standards of whistleblowing processes as recommended by the FCA with the relevant supporting actions of required management training and necessary improvements in employee awareness.

In summary, in 2016 there are a number of themes additional to the current market challenges. These include meeting on an ongoing basis the improved standards of prudential and conduct regulation and the optimal integration and ongoing delivery of the business opportunities provided by the completion of the Chubb acquisition. The year of 2016 therefore presents significant opportunities for ACE European Group Limited to demonstrate continued strong progress.

J A Napier
Chairman
31 March 2016

PRESIDENT'S REPORT
31 December 2015

Overview

ACE European Group Limited ("AEGL") is one of Europe's leading commercial insurance and reinsurance companies, providing a range of property and casualty ("P&C"), accident and health ("A&H") and specialty personal lines ("SPL") insurance products for a diverse range of clients. With shareholders' funds approaching £1.1 billion at year end 2015, AEGL is a large, well-capitalised company operating a successful underwriting franchise throughout the UK, Ireland and Continental Europe.

Acquisition of Chubb Corporation

On 14 January 2016, ACE Limited, the ultimate parent of AEGL, completed the acquisition of the Chubb Corporation, creating a global insurance leader operating in 54 countries.

The new Chubb will be an industry leader in commercial and personal insurance, with enhanced growth and earnings power and an exceptional balance of products. The combined company will benefit from greater product diversification and complementary distribution channels, customer segments and a shared commitment to underwriting discipline and outstanding claims service. In addition, the size and strength of the balance sheet will elevate the combined company into the elite group of global P&C insurers.

Legacy Chubb had a significant UK and European presence with business lines, distribution channels, customer segments and underwriting skills that complement AEGL's existing structure and portfolios. Senior task force teams have been compiled from all business and support areas to consider how best to bring the strengths of the two companies together for the benefit of our customers and business partners. Integration plans have been progressing well with executives from both former organisations collaborating to develop a blueprint for the new Chubb.

Following the transaction close and in line with local regulatory requirements, the combined organisation will transition to operate under the Chubb brand on a global basis – an acknowledgment of the distinctiveness and strength of the Chubb name.

2015 performance

AEGL delivered solid financial results for 2015 despite the continuance of challenging market conditions. Adherence to underwriting discipline resulted in some shrinkage in the top line – gross written premiums of £2,200.5 million were down circa 5% in comparison to prior year – and generated underwriting profits of £87.8 million. Investment returns of £6.4 million and other charges, including some adverse foreign exchange movements, brought the company's pre-tax profit for the year to £56.9 million. Further detail relating to our financial performance can be found in the Strategic Review.

PRESIDENT'S REPORT
31 December 2015

Remaining relevant in a challenging marketplace

Conditions in the London, UK and European insurance markets remained difficult throughout 2015. The huge swathe of capital that has entered into the markets during the past few years looks like it is here to stay and the rating environment, particularly in the London market, has showed no signs of improvement as competitors continue to chase the top line with an apparent disregard for bottom line profitability.

Generally speaking, pricing is not keeping pace with loss cost trends, although this varies by line and geography. We continue to execute strategies to ameliorate the impact of pricing on our combined ratio using portfolio management to target classes with better margin and applying tighter individual risk selection and pricing actions in more stressed areas.

One of AEGL's strengths is its broad product and geographical diversity. This allows us to increase focus on lines that in our view offer the greatest potential for profitability and shrink in areas that face more competition or have less attractive returns. In addition, the A&H and SPL business provides stability to the overall portfolio to offset the more volatile P&C lines.

Businesses across the UK and Europe are pursuing new and increasingly global growth opportunities which bring with them a new wave of complex, inter-related and rapidly changing risks. These include technology risk – cyber-attack, data loss and business interruption as a result of systems failure – and supply chain and reputational risk as the complexity of expanding supply networks creates numerous interdependencies and exposures. Regulation and compliance risk also remains high on the agenda, especially as companies move into new and less familiar jurisdictions and regulators drive more intrusive supervision with a trend towards direct action against companies and their executives.

We acknowledge the need to remain relevant in this constantly changing environment. We are a key player in our chosen markets and are actively working to create new products and provide tailored insurance and risk management solutions to address our customers' evolving needs.

We recognise the power of big data and have invested in tools and technologies to better utilise the wealth of information at our disposal and assist underwriters in their risk assessment.

This year we have introduced new niche products relating to environmental impairment liability, life sciences and cyber related risks to our business portfolio along with enhanced package P&C products that span traditionally separate lines of business. We have enhanced our multinational capabilities and increased our middle market penetration in Continental Europe. We also launched a range of customer-focused web-based initiatives this year in line with our commitment to providing enhanced customer service.

Although the structure of the organisation is already designed to provide fast, local access to decision makers, there has been a concerted effort to simplify access to our range of underwriting capabilities by increasing the number of products we offer online in both the UK and on the Continent. We have also improved our 'Appetite App' to ensure brokers are kept informed of the lines of business we are most suited to write at any given time, allowing them to pursue risks with us where we are the best fit for their clients.

PRESIDENT'S REPORT
31 December 2015

Positioning for the future

Our plans for 2016 assume continued insurance market pressures, with rates likely to remain flat at best and in many cases continue to decline. Portfolio review processes are embedded throughout the business which, together with enhanced data analysis and management information tools, enable us to better evaluate profitability margins and identify our preferred, standard or challenged business sectors. We remain steadfast in our refusal to trade underwriting profit for premium volume and as a result, significant top line growth in the P&C sector will be difficult to come by in 2016. However we do anticipate growth in the SPL division as we increase penetration of existing schemes with our mobile network operator partners and launch new programmes in Europe.

A significant portion of AEGL's business is conducted via registered brokers and we recognise the benefit of the good relationships we have built with our broker partners to bring tangible benefits to our underwriting transactions and thank them for their continued support.

We will continue to focus on our clients, pooling our skills and expertise with our partners to provide the strategic counsel and risk management expertise they need. We have leveraged our operations to provide superior customer service and outcomes and adhere to clear and agreed service standards through risk management, compliance and conduct governance practices throughout all areas of the AEGL business.

In conclusion

AEGL has a clear strategic direction and a strong ability to execute. We are a leader in insurance, reinsurance and risk solutions with significant geographic presence, well-established underwriting capabilities and the support of the group's worldwide network.

Finally, I want to acknowledge the dedication and commitment of my colleagues throughout the region. We have a great team and I would like to thank them all for maintaining such focus on our 'business as usual' targets this year amidst the flurry of integration announcements and activities.

2016 will bring ACE and Chubb together to create a global P&C leader with highly complementary business lines, distribution channels, customer segments and underwriting culture and I look forward to leading AEGL through an exciting year ahead.

A J Kendrick

President

31 March 2016

STRATEGIC REPORT
31 December 2015

The Board of AEGL has prepared this report in accordance with Section 414A of the Companies Act 2006. In addition to this statutory requirement, this report also addresses other aspects of the company's business which the Board believes will be of benefit to interested parties.

Organisation of the Business

Ultimate Ownership

AEGL was a major contributor to the ACE Group of Companies in 2015, providing approximately 14% of the group's overall gross written premium. At the end of 2015, the ACE Group recorded $23.8 billion of gross written premiums in the year and held $102.4 billion in assets.

On 1 July 2015, ACE Limited, the ultimate parent of AEGL, announced that the Boards of Directors of ACE Limited and The Chubb Corporation had unanimously approved a definitive agreement under which ACE would acquire Chubb. Following approval from the shareholders of both companies and receipt of all required regulatory approvals, ACE Limited completed the acquisition of The Chubb Corporation on 14 January 2016, and subsequently changed its name to Chubb Limited.

The combined company, operating under the Chubb name, is now one of the world's largest publicly traded property and casualty insurer. With operations in 54 countries, Chubb provides commercial and personal property and casualty insurance, personal accident and supplemental health insurance, reinsurance and life insurance to a diverse group of clients.

The company is distinguished by its extensive product and service offerings, broad distribution capabilities, exceptional financial strength, underwriting excellence, superior claims handling expertise and local operations globally. The insurance companies of Chubb serve multinational corporations, mid-size and small businesses with property and casualty insurance and services; affluent and high net worth individuals with substantial assets to protect; individuals purchasing life, personal accident, supplemental health, homeowners, automobile and other specialty insurance coverage; companies and affinity groups providing or offering accident and health insurance programmes and life insurance to their employees or members; and insurers managing exposures with reinsurance coverage.

Chubb's core operating insurance companies maintain financial strength ratings of "AA" from Standard & Poor's and "A++" from A.M. Best.

Chubb Limited is listed on the New York Stock Exchange (NYSE: CB) and is a component of the S&P 500 index. The company maintains executive offices in Zurich, New York, London and other locations, and employs approximately 30,000 people worldwide.

ACE European Group Limited

Headquartered in the UK with branch offices across Europe and Turkey, AEGL and its European Economic Area ("EEA") branches hold cross-border permissions throughout the EEA. AEGL is also a 'white listed' surplus lines insurance and reinsurance company in the United States, entitling it to write surplus lines in all US states and US territories. Business is accessed by a variety of distribution channels and the company has strong relationships with the broker community, its corporate partners and direct markets.

Following the close of the acquisition and in line with local regulatory requirements, AEGL will transition from operating under the "ACE", "ACE Global Markets" and "ACE Tempest Re" brands to adopt "Chubb", "Chubb Global Markets" and "Chubb Tempest Re" respectively. The organisation will also continue to trade as "Combined Insurance".

The acquisition has no immediate impact on AEGL as a legal entity; however the name of the company is expected to change to reflect the Chubb brand over time.

ACE Europe provides client-focused solutions for a range of UK and European multinational, large and mid-sized commercial clients, with products encompassing property, primary and excess casualty, financial lines, surety, marine cargo and construction related risks. ACE Europe also underwrites an accident and health and travel insurance portfolio, providing benefits and services to individuals, employee groups and affinity groups throughout Europe. In some cases these products are packaged under other brands or form part of another service provider's products. ACE Europe has successfully blended the knowledge of its local markets with the worldwide perspective available through the global organisation, building a significant position in Europe. The principal business segments of ACE Europe are managed as UK & Ireland P&C ("UK&I P&C"), Continental Europe P&C ("CE P&C"), Accident & Health ("A&H") and Specialty Personal Lines ("SPL").

ACE Global Markets ("AGM") is the ACE Group's specialty international underwriting business. Its parallel distribution capabilities mean that underwriting products may be offered through both AEGL and Lloyd's Syndicate 2488, managed by ACE Underwriting Agencies Limited. AGM's product range includes tailored solutions for aviation, energy, financial lines, marine, property, political risks and excess & surplus lines ("E&S") insurance risks.

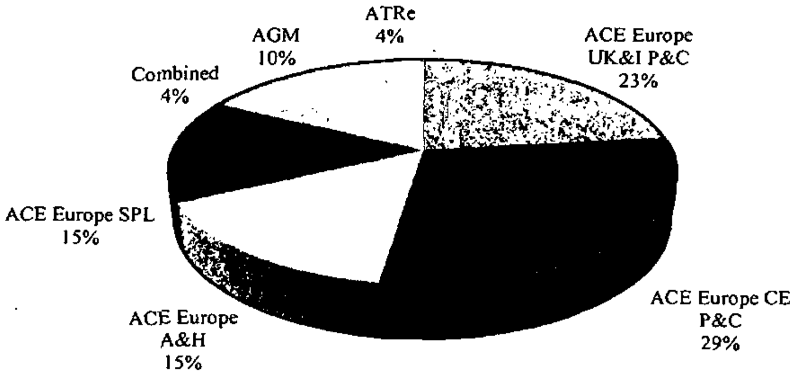
With underwriting operations located in London and Zurich, ***ACE Tempest Re International*** ("ATRe") writes traditional and non-traditional aviation, casualty, marine and property treaty reinsurance worldwide. Products are offered predominantly through AEGL and Lloyd's Syndicate 2488, and also through various overseas ACE Group legal entities.

The ***Combined Insurance*** ("Combined") business provides a wide range of personal accident and sickness insurance products including short-term disability, critical condition and hospitalisation/recovery across a number of European countries.

AEGL has an extensive and varied client list, including multinational corporations and local businesses with P&C exposures, companies and affinity groups who offer A&H programmes to their employees or members, insurers seeking reinsurance coverage and individuals purchasing personal accident, travel or supplemental health insurance.

STRATEGIC REPORT
31 December 2015

A breakdown of 2015 gross written premiums by principal business segments is below:



AEGL benefits from comprehensive and fully integrated support functions encompassing claims, finance and actuarial, risk management, legal and compliance, human resources, operations and IT.

Business Objectives & Strategy

AEGL is distinguished by its market-leading risk expertise, a disciplined approach to underwriting, local presence offering fast access to decision makers and a commitment to its customers founded upon a superior claims service.

AEGL has an established underwriting ethos that permeates the company. Top line growth is not the primary driver for the company and underwriters are fully prepared to shed volume as necessary in order to maintain an underwriting profit. Using AEGL's underwriting skills and targeted marketing strategies, the company aims to generate growth in areas where risk-adjusted underwriting margins are favourable, and achieve better terms or shrink business where they are not.

AEGL is headquartered in London but can issue policies locally throughout its network of UK and European branch offices. This encourages underwriting flexibility and high levels of service for brokers and clients whilst ensuring local regulatory and tax requirements are adhered to. AEGL is an established player in the multinational marketplace and has the capability to provide fully integrated international insurance programmes for clients. AEGL's dedicated and experienced international underwriting and service teams work with the ACE Group's global network of offices to provide seamless, tailored solutions to the often unique and complex needs of multinational companies which includes agreeing coverage, issuing policies, adjusting claims and moving funds, all in accordance with legislative requirements and agreed service standards. The continuing trend of companies expanding beyond their local and national borders makes multinational business a key priority for AEGL.

The company strives to offer superior service levels in all aspects of its operations, from policy processing to engineering risk management and claims handling. AEGL continues to invest in technology to improve its operational efficiency, underwriter support and broker interfaces.

AEGL is committed to protecting and preserving its capital. It operates a conservative investment strategy and has maintained its focus on cash flow management and liquidity to secure its long term position in the insurance market.

STRATEGIC REPORT
31 December 2015

Business Environment

Rating environment

Retail commercial P&C insurance pricing in the UK and Ireland remained competitive during 2015 with most core lines experiencing single-digit rate reductions. Rating pressures were most pronounced for fire and marine renewals, with pricing in the casualty and tech lines sectors demonstrating a little more resilience. Business retention rates were strong but new business remained difficult to convert as a result of aggressive competition on rate and terms and conditions.

Pricing is generally less volatile in the Continental Europe P&C market and although competition was prevalent throughout the region, the overall price change on renewal business for the year was only marginally negative. Business retention was good across all lines although new business remained subject to extreme competition, particularly for larger accounts.

An abundance of capacity in the London wholesale insurance market meant that there was no respite in competition for AGM's business during the year. Overall pricing on renewal business was negative, with the most adverse rate movements affecting the aviation and energy portfolios.

Conditions in the reinsurance market also remained difficult, with reductions more pronounced in shorter tail classes due in part to another year of benign catastrophe activity.

There was also sustained pressure on pricing in the traditional A&H markets, with competitors willing to underwrite insurance business at aggressive combined ratios.

All areas of the business experienced pressure on commission levels and fees. Brokers continue to push for increased remuneration and specific agreements and facilities continue to inundate the market, making some accounts less mobile or more expensive to underwrite. AEGL continues to leverage its position as a lead insurer to ensure that all commissions payable are justified and bring additional value to the company.

Financial markets review

Volatility increased within financial markets in 2015, with events such as plummeting oil and commodity prices, devaluation of the Chinese currency, falls in Chinese equity prices and another Greek debt crisis focussing investors' minds. 2015 was also defined by a divergence in economic policy, as the Federal Reserve ("Fed") began the road toward normalising monetary policy by increasing interest rates, while the European Central Bank ("ECB") continued easing. The Bank of England's Monetary Policy Committee ('MPC') kept the base rate unchanged through the year, despite inflation dropping to record lows, and even into negative territory in April and September.

In the US, amid increased signs of economic strength, the Fed finally increased interest rates by 25 basis points in December. Earlier in the year, the Fed laid the groundwork for this by signalling that it was becoming more data-dependent and this appeared to suggest rates would rise mid-year. However, these expectations were waylaid by significant market volatility, stemming initially from the Eurozone in the form of Greece and then from China as a result of unanticipated currency depreciation. Relatively strong growth in the United States together with signs of inflation in 2016 pushed the Fed to finally begin its hiking cycle in Q4. Markets ended the year expecting further increases in 2016.

Despite a decisive election result in the UK, questions continued concerning the potential timing and outcome of the EU referendum and this uncertainty will likely influence investor sentiment in 2016. Throughout 2015 inflation remained comfortably below the MPC's 2% target and wage data has not shown consistent strengthening to influence this outlook. For the UK, there were moderate yield rises over the year and expectations for interest rate rises are now priced in for 18-24 months' time.

In the Eurozone, the ECB introduced its quantitative easing programme in the first quarter, a move which initially drove sovereign yields in the region into negative territory. As the second quarter came to a close, markets focused on events in Greece, where the debt crisis worsened sharply and its Prime Minister ultimately secured approval for a new bailout. While the Eurozone managed to end the year on a relatively positive note as ECB head Mario Draghi expanded the bank's quantitative easing programme, the relative sense of calm that emerged in August was quickly replaced by renewed volatility coming from China where growth continued to slow.

This economic environment proved challenging for fixed income investors although performance differed by region. In the US and UK sovereign bond yields rose but remained little changed in Germany. Across all markets, exposure to credit proved detrimental and consequently in 2015 investment grade portfolios struggled to generate meaningful total returns.

STRATEGIC REPORT
31 December 2015

Presentation of Financial Statements

The financial statements have been prepared under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance companies' individual financial statements and applicable accounting standards in the UK.

Key Performance Indicators

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

£ million	**2015**	**2014**
Gross written premiums	2,200.5	2,322.7
Net written premiums	1,152.7	1,103.7
Combined ratio*	92.1%	95.1%
Profit before tax	56.9	246.9

* Ratio of net claims incurred, commission and expenses to net premiums earned

The Board also monitors the capital needs of the company. Further details in this regard are set out in the 'Financial position' section of this Strategic Report.

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

Results & Performance

2015 produced a pre-tax operating profit of £56.9 million and a combined ratio of 92.1%. A summary of the reported financial results is shown in the following table.

£ million	**2015**	**2014**
Gross written premiums	2,200.5	2,322.7
Net written premiums	1,152.7	1,103.7
Net earned premiums	1,110.6	1,068.3
Incurred losses	512.5	531.5
Operating expenses	510.3	484.3
Underwriting profit	**87.8**	**52.5**
Equalisation reserve movement	6.3	4.7
Investment return	6.4	142.8
Net other (charges) / income	(31.0)	56.3
Net pre-tax profit	56.9	246.9
Combined ratio	92.1%	95.1%

Drivers of underwriting result

Premium growth in 2015 was difficult to come by. Gross written premiums were down 5% against prior year with all business units, except for SPL, shrinking as a result of adverse market conditions.

Retail P&C premiums in the UK & Ireland and on the Continent reduced, predominantly within fire and casualty, although there was some limited growth in the more niche areas of the portfolio. A&H production also decreased due to market pressures in the traditional, broker-led field and the short-term impact of the revised leisure travel underwriting strategy implemented in 2014. Despite an increase in competition for ACE Europe's SPL business, double-digit premium growth was achieved as a result of increased market penetration through existing schemes and targeted strategies to launch new programmes. Combined premiums were effectively on par with those of the prior year. London market AGM and ATRe premiums shrank significantly due to the adherence to underwriting discipline against a backdrop of consistently challenging market conditions.

AEGL purchases reinsurance to mitigate the impact of major events and an undue frequency of smaller losses. A number of the reinsurance programmes operated by AEGL during 2015 were with an ACE Group company, ACE Tempest Reinsurance Ltd. AEGL also has the benefit, particularly for US and worldwide catastrophe exposures, of reinsurance programmes shared with other ACE entities, including Syndicate 2488 at Lloyd's. These arrangements result in an increase in the reinsurance purchasing power of the ACE Group, which ultimately benefits all ACE subsidiaries, including AEGL. A reduction in ceded reinsurance spend as a percentage of gross written premiums has resulted in net written premium growth of 4% against prior year.

The absence of very severe catastrophes and another quiet hurricane season in the North Atlantic resulted in lower than average natural catastrophe related losses in 2015, with market economic losses amounting to approximately US$90 billion and total insured losses of circa US$27 billion. AEGL's exposure to large losses is managed by adherence to clear risk management and underwriting guidelines and the use of reinsurance protection and sophisticated modelling and analysis. AEGL's catastrophe losses net of reinsurance recoveries and reinstatement premiums during 2015 amounted to £4.4 million (2014: £10.0 million) with the most significant losses emanating from Storm Desmond in the UK, flooding in Continental Europe and the Tianjin explosion in China.

Prior period reserve releases were £90.7 million (2014: £94.1 million) with positive developments within a number of classes, particularly Liability and Property.

Excluding catastrophe losses and prior period development, the current accident year loss ratio for the year was 53.9% (2014: 57.6%), demonstrating the strength of the underlying business and the positive impact of the portfolio review process despite the sustained challenging conditions of the insurance and reinsurance markets.

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

Investment Report

AEGL maintains six active investment grade fixed income portfolios, the core currencies of which are sterling, euro and US dollars.

Further passive portfolios are maintained in Switzerland and Turkey to meet local solvency requirements. AEGL also allocates a limited proportion of funds available for investment to alternative strategies. These alternative strategies include high-yield bonds, syndicated bank loans and global equities. In 2015 a further small alternative asset portfolio was established, to invest in private loans although limited activity had taken place in 2015 and the maximum funding to this strategy has been limited to less than 3% of the total portfolio.

Funds allocated to alternative strategies continued to fall comfortably within the established limits and the majority of AEGL's investments continued to be allocated to high quality, diversified, actively managed portfolios with exposure to a broad range of sectors. Consistent with previous years, ACE's investment guidelines and external manager positioning continued to restrict exposure to peripheral Eurozone countries.

The approximate currency split of AEGL's investment portfolios is sterling 42%, US dollars 32% and euro 25%. Other currency investments comprise approximately 1% of the total.

Overall AEGL generated a positive investment return of 0.2% in 2015.

Financial Position

Capital

AEGL maintains an efficient capital structure consistent with the company's risk profile and regulatory and market requirements.

The company assesses its own capital needs on a detailed risk measurement basis, and then seeks to maintain financial strength and capital adequacy to support business objectives and meet the requirements of policyholders, regulators and rating agencies whilst retaining financial flexibility by ensuring liquidity.

AEGL assesses its risk profile and capital requirements using an internal model which has been developed to meet Solvency II requirements as well as the Individual Capital Assessment ("ICA") principles that continued to remain in force throughout 2015. The internal model is supported by a robust validation and governance framework which ensures its ongoing appropriateness and is refined to reflect AEGL's experience, changes in the risk profile and advances in modelling methodologies.

In line with regulatory requirements that were in force to the end of 2015, AEGL managed its capital levels in 2015 in the context of the minimum requirement, the Capital Resources Requirement, the Enhanced Capital Requirement, which computes a capital level using an allowance for industry risk factors related to premiums, reserves and assets, and its Individual Capital Guidance ("ICG"). The latest ICG was issued by the Prudential Regulation Authority ("PRA") following an ICA submission in 2013. With shareholders' funds of £1,078.8 million at year end 2015, the company continues to be appropriately capitalised against each of these measures.

Solvency II

Solvency II regulation came into force on 1 January 2016.

ACE recognises the impact of Solvency II, not just to its EU-based operations, but also to the wider group. The ACE Solvency II programme was initiated by ACE Limited's Enterprise Risk Management ("ERM") Board and AEGL's Solvency II project has received extensive support from the wider group. At the outset, ACE took the strategic decision to build a Global Capital Model ("GCM") that would provide a consistent and comprehensive tool to measure risk and capital requirements across the ACE Group. This allows ACE to connect the measurement of risk and capital at a legal entity level and across business units that span and interconnect legal entities. The GCM was used in determining AEGL's Solvency Capital Requirement from 2012 onwards.

Throughout 2015 AEGL continued to develop and embed necessary regulatory requirements in anticipation of the implementation of Solvency II. AEGL has transitioned its Solvency II project deliverables into its desired "Target Operating Model" which ensures that the Pillar I and Pillar II components are embedded into the company's "business as usual" operations.

From 1 January 2016 AEGL's regulatory capital requirement will be set according to the Solvency II standard formula. The Solvency II own funds, under both the standard formula and GCM capital measures, are sufficient to meet this requirement.

AEGL operates effective project governance, provided through both the ACE European Group Solvency II Steering Committee and ultimately, the ACE Solvency Programme Global Steering Committee. An Internal Model Steering Committee that reports into the

STRATEGIC REPORT
31 December 2015

AEGL Executive Committee provides ongoing governance to ensure the Solvency II aspects are appropriately and continuously embedded into AEGL business as usual operations.

Ratings

AEGL holds financial strength ratings of "A++" from A.M. Best and "AA" from Standard & Poor's ("S&P").

Following the announcement of the Chubb acquisition on 1 July 2015, S&P affirmed the "AA" financial strength rating and counterparty credit ratings of ACE Limited's core operating insurance companies, including AEGL, and revised the outlook to "Negative" from "Stable" due to S&P's belief that the combined company may face integration challenges and may hold capital below the "AAA" level over the intermediate term. However S&P believe the combined entities will ultimately create a stronger franchise and new found status among the global multiline insurers, and that integration risks are partially mitigated by strong ERM practices, world class leadership, and the adoption of the Chubb brand name.

On 2 July A.M. Best placed the financial strength ratings of ACE Limited's core subsidiaries, including AEGL "Under review with negative implications". This rating action reflects A.M. Best's view of the potential uncertainty regarding ACE's ability to execute on its plan given the complexity, size and scope of this acquisition. A.M. Best have stated that the under review status will be removed shortly after the transaction has closed and they have reviewed the final integration plan and financial position.

Governance

AEGL has a documented corporate governance framework, the purpose of which is to exercise oversight and control over the management of the business.

The AEGL Board of Directors ("the Board") is responsible for decisions in connection with a number of matters, including those of a significant strategic, structural, capital, financial reporting, internal control, risk, policy or compliance nature. The Board meets routinely six times a year and additionally on other occasions to discharge its responsibilities in respect of these and other matters. In 2015 the Board met ten times, a number of which meetings were dedicated solely to Solvency II requirements.

The Board comprises six independent non-executive directors and seven executive directors. One new executive director and one non-executive director joined the Board in 2015. Membership of the Board is kept under review to ensure that the composition and available expertise remains relevant to the current needs of the company. AEGL values the contribution of its non-executive directors in providing contrasting insights, experience and challenge in the Board's discussions. Details of director appointments and resignations can be found in the Directors' Report on page 15.

Key non-routine Board activity during the year included, i) reviews of policies affecting the company's internal model for capital-setting, ii) consideration of the degree to which management's planning processes take account of customer experience, iii) review of the company's whistleblowing processes and policy, iii) consideration of the methods of validation of the company's regulatory capital figure employed by management, and iv) adoption of revised arrangements in compliance with the new regulatory requirements under the Senior Insurance Manager Regime.

The Board received regular reports on the status of business results, business and function plans, resourcing, developments in the risk and regulatory environments, on consumer conduct, regulatory compliance, actuarial and solvency matters. One meeting was set aside to consider high-level business strategy and to review Board and management performance over the previous year.

The Board has delegated a number of matters to committees. Each of the following committees has formal terms of reference and matters reserved to it. Each, with the exception of the Executive Committee and the Product Oversight Committee, includes non-executive directors in its membership, and each reports to the Board regularly in respect of its remit. The terms of reference of each continuing Board committee were unchanged in 2015.

The **Audit Committee**, which comprises exclusively non-executive directors, considers and makes recommendations to the Board on areas including validation of solvency calculations, internal controls, financial reporting, whistleblowing, actuarial matters and the external audit. It receives reports from the Risk Committee, the compliance 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 Audit Committee kept close review Internal Audit resources during 2015, to ensure that they remained adequate to carry out the annual audit plan for the year, particularly in the light of the demands placed on the audit team by Internal Model validation.

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 generally poor practice.

During 2015 the Committee received externally-produced reports on controls over financial crime and customer conduct risk, a presentation on the taxation function and a review of the whistleblowing framework.

The Board has delegated responsibility for the oversight and implementation of its risk management framework to the **Risk Committee**. The Committee oversees and advises the Board on risk exposures, future risk strategy, the design and implementation of the framework into the business and on solvency and capital matters. It also ensures that business risks and controls are recorded and monitored. It receives regular reports on the Company's "Own Risk and Solvency Assessment" metrics, required by Solvency II, which helps to provide an independent overview of management's assessment of risk and a check against agreed risk appetites.

STRATEGIC REPORT
31 December 2015

During the year the Committee continued to consider the policies and methodology used in connection with the company's Internal Capital Model and assessment of risk. It received a number of reports on technology-related risks and on the risks arising from outsourcing processes to external agencies.

Towards the end of 2015 the Board constituted a **Product Oversight Committee** as a Board Committee, to provide organisation-wide consistent oversight in respect of conduct towards customer. Over a transitional period the Committee will assume responsibility for the customer conduct oversight of both consumer and commercial lines of business, whereas previously a Product Governance & Conduct Committee had reported via the Executive Committee in respect of consumer lines business only. The Committees members include senior management representatives, and the committee will be attended by a Non-Executive Director. The Committee met for the first time in January 2016 and is scheduled to meet monthly thereafter.

The remit of the **Nominations Committee** is to advise and recommend in connection with appointments to and the structure of the Board, including diversity and independence of composition, Board evaluation, succession planning for the non-executive directors and leadership needs.

The **Executive Committee** comprises all executive directors of AEGL and other members of the senior management team. The primary role of the Committee is to oversee the day-to-day management of business operations and performance, and to assist the President in implementing and overseeing operational strategies and decisions determined by the Board. The Executive Committee is also responsible for the oversight of support function activities, key steering groups and sub-committees including investment, internal model steering, credit risk, broker review, reserving and project reporting. It meets monthly to oversee and discuss current issues. A number of specialist sub-committees, such as those for broker credit control and reserving, report to the Executive Committee to ensure that various aspects of the business are reviewed by a wide senior management group.

Risk & Control Framework

The ACE Group is a global underwriting franchise 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 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.

AEGL has adopted the ACE Group Enterprise Risk Management Framework ("RMF"), which describes the role of ERM within AEGL and how it helps the company achieve its business objectives, meet its corporate obligations and maintain the reputation of ACE's business. ACE's documented RMF is principles-based and sets out the organisational framework for risk taking, monitoring and governance.

The RMF adopts a "three lines of defence" model, comprising day-to-day risk management and controls, risk management oversight, and independent assurance.

The RMF identifies the key risks to which each business sector, and the company as a whole, is exposed, and their resultant impact on economic and regulatory capital. This framework employs Solvency II and Individual Capital Adequacy Standards ("ICAS") principles to assess risk and manage capital requirements to ensure the capital required to support AEGL's business objectives and to meet the requirements of policyholders, regulators and rating agencies is in place.

The AEGL Board is ultimately responsible for ensuring that the company operates within an established framework of effective systems of internal control, including the approval of the overall risk tolerance for the organisation and compliance with policies, procedures, internal controls and regulatory requirements.

The Board's oversight of the RMF is effected through the various committees and functions with particular purposes and direction around the monitoring of risk tolerances and oversight of internal controls and compliance procedures. AEGL's risk management function has a strong mandate from the Board to promote the RMF and embed it throughout the company.

The company's RMF was re-approved by the Board in 2015 together with a review of individual risk policies and risk appetite statements which set out defined risk-tolerance constraints for the execution of the business strategy. All key risk policies and procedures are subject to Board approval and ongoing review by executive management, the Risk Committee and the internal audit function.

Principal Risks

The RMF classifies individual risk sources into four major categories: insurance, financial, operational and strategic. Insurance is ACE'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.

Insurance Risk

The principal risks from AEGL's insurance and reinsurance business 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 claims compared to expectations, inadequate reinsurance protection and inadequate reserving.

Underwriting risks and line sizes are continually monitored through the established peer review process and automated exception reporting. Each underwriter is given an authority based on technical expertise and experience to bind risks that fall within specified classes of insurance and specified maximum limits. Formal price monitoring procedures have been in place since early 2002 and form part of the standard monthly management statistics. These contribute to the quarterly actuarial review whereby the loss outcome of the underwriting activity is continually re-assessed and considered by the Reserve Sub-Committee.

With such a large and diverse book, it is vital that the company's aggregate exposures are continually monitored and adjustments made to the underwriting profile as appropriate. The company operates a dedicated catastrophe management function independent of underwriting management, whose responsibility is to model aggregate risk and assist with the pricing of this risk, providing a key control to the underwriting process.

Reinsurance is used to help mitigate some of the above insurance risk. However, the possibility of reinsurance risk itself arises when reinsurance purchasing proves inadequate in amount, fails to protect the underlying coverage or falls short when the reinsurer fails to pay.

Financial Risk

Financial risk includes a wide range of risks associated with activities such as investments, credit, liquidity and the impact of foreign exchange fluctuations:

- Investment risk includes the impact of market volatility on asset values attributable to such factors as interest rate movements and / or price changes.
- Credit risk arises from the possibility that the financial position of our counterparties deteriorates, and financial loss in the event of creditor default.
- Liquidity risk refers to the possibility that cash or equivalents, coupled with operating cash flows, will be insufficient to provide for claims payments to policyholders and other needs such as interest payments.
- Foreign exchange risk occurs when assets and liabilities are denominated in different currencies and materialises when asset holdings are decreased or liabilities increased by exchange rate movements.

Other financial risk sources manifest themselves through an impact on asset values. Among these are investment risk due to unanticipated interest rate movements having impacts on asset values, and asset-liability management risk when asset values are insufficient or unavailable to pay liabilities when due.

AEGL has an investment strategy which is aligned with its underwriting liabilities. There are also defined investment guidelines in respect of asset allocation, duration, liquidity and credit risk exposure with quality control around investment portfolio management to ensure compliance with the set guidelines.

These risks are discussed in more detail in Note 2 to the financial statements.

Operational Risk

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).

AEGL seeks to ensure that it is not exposed to operational risk in excess of the risk appetite with mitigating strategies including business continuity plans that have appropriate controls relating to key operational procedures and processes.

Strategic Risk

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 AEGL Board is responsible for the management of strategic risks arising from the execution of both the strategic and annual plans. The Board also receives reports produced to monitor and track business performance against the approved plan.

A key strategic risk will be the integration of AEGL with Chubb legal entities following the acquisition. The risks associated with the integration will be measured and monitored on an on-going basis using the AEG RMF.

Other Risks

Group risks: This is the potential impact on the company of risks arising in other parts of the ACE Group. This could include direct or indirect financial loss and operational, reputational or regulatory issues. As a strategically important member of the ACE 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, intra-group arrangements are governed in an appropriate arms-length manner. The intra-group arrangements 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.

Emerging risks: An integral part of the risk management framework is the identification and assessment of emerging risks. AEGL has defined emerging risks as any events, situations or trends that may arise within its internal and external operating environment that could significantly impact the achievement of its corporate objectives in either the short or long term. There is an internal system for the identification, assessment and monitoring of such risks with reports issued to senior management including analyses which are often iterative in nature and conclude with recommended action plans that can be implemented to minimise or otherwise manage the emerging risk.

STRATEGIC REPORT
31 December 2015

Compliance

Compliance with regulation, legal and ethical standards is a high priority for the ACE Group and AEGL, and the compliance function has an important oversight role in this regard. Annual affirmation of the ACE Group Code of Conduct is required of all employees and directors.

As a material subsidiary of ACE Limited, a US listed company, the financial control environment in which the US GAAP financial statements are derived is subject to the requirements of US Sarbanes-Oxley legislation. AEGL has formalised documentation and tested controls to enable ACE Limited to fulfil the requirements of the legislation.

AEGL is also committed to fulfilling its other compliance-related duties, including its observance of customer-focused policies, in line with regulatory principles, and it uses various metrics to assess its performance.

The company employs a skilled and specialist workforce to manage its regulatory and compliance responsibilities and aims to operate to a high standard. AEGL recognises and values its relationships with regulators in each of its jurisdictions and engages in open dialogue and communication to address and resolve any issues.

Employees

The ACE Group is dedicated to providing a safe and ethical working environment for its employees and is fundamentally committed to the creation of an inclusive, respectful and equitable workplace. Through its policies and practices for recruitment, development, retention and promotion, AEGL seeks a diverse workforce that is effective in its local markets and communities, and takes full advantage of a wide range of experiences and backgrounds.

ACE is an equal opportunities employer and it is company policy to promote equality of opportunity and to avoid unlawful discrimination in employment. The company seeks to create a workplace where all employees, agency staff and contractors are treated appropriately, equitably and with dignity and respect.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate adjustments are made. It is the policy of the ACE Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

ACE is an organisation dedicated to providing superior client, shareholder and employee value, and seeks to foster an environment of professional excellence that enables employees to be creative, agile, innovative and ethical in meeting customers' needs. AEGL actively supports the personal and professional development of all its employees and operates talent and leadership development programmes to help staff realise their full career potential.

Communication with employees is primarily effected through the corporate intranet and regular briefings and presentations by ACE Limited's Chief Executive Officer and local senior management.

AEGL supports a wide range of activities that benefit the community through the ACE International Foundation and the ACE European Charity Committee, predominantly in the areas of education, poverty, health and the environment. Employees also participate in a number of local voluntary community schemes. In October, employees also participated in the ACE Group's "Global Day of Service", a tradition that began in 2005 and reflects ACE's firm belief that positive contributions to communities return long-lasting benefits to society and the company's employees and business. AEGL employees across the UK and Europe participated in volunteer projects focused on education, poverty, health and the environment in the communities where they live and work. AEGL also actively supports employees in personal fundraising efforts through an employee charity-matching scheme.

Details of the number of employees and related costs can be found in note 8 to the financial statements.

Approved by the Board of Directors

M K Hammond
Chief Financial Officer
31 March 2016

DIRECTORS' REPORT
31 December 2015

The directors are pleased to submit their report and the audited financial statements for the year to 31 December 2015.

Future Developments

Likely future developments in the business of the company are discussed in the Strategic Report.

Results and Dividends

The company made a profit on ordinary activities before tax for the year to 31 December 2015 of £56.9 million (2014: £246.9 million).

Shareholders' funds at the 31 December 2015 totalled £1,078.8 million (2014: £1,002.0 million).

The directors do not propose a dividend (2014: £50.0 million).

Employees

Staff based in the company's branches outside the UK are directly employed by the company. Staff that support the UK branch operations of the company are employed by an affiliate, ACE INA Services U.K. Limited. Their costs are included in management recharges from this service company.

Directors

The following have been directors from 1 January 2015 to the date of this report unless otherwise indicated:

Executive directors:

P J Drinan (resigned 14 December 2015)

M K Hammond

D Jaksic (appointed 7 March 2016)

A J Kendrick

J Moghrabi

R P Murray

D P Robinson

A M W Shaw

K L H Underhill (resigned 21 January 2016)

Non-executive directors:

J A Napier

M Bailey (appointed 10 December 2015)

L C Powers-Freeling (resigned 7 July 2015)

A R Prindl

C E Riley

T C Wade

M J Yardley

Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) are put in place for the benefit of the directors and, at the date of this report, are in in force in relation to certain losses and liabilities which they may incur (or have incurred) in connection with their duties, powers or office.

The company also has the benefit of a group insurance company management activities policy effected by Chubb Limited. No charge was made to the company during the year for this policy.

Financial Risk Management

Information on the use of financial instruments by the company and its management of financial risk is disclosed in note 2 to the financial statements. In particular the company's exposures to interest rate risk, equity price risk, currency risk, credit risk and liquidity risk are separately disclosed in that note. The company's exposure to cash flow risk is addressed under the headings of "Credit risk" and "Liquidity risk".

DIRECTORS' REPORT
31 December 2015

Branches Outside the UK
In addition, to the UK headquarters, the company has a further 19 branches across Europe.

Statement as to Disclosure of Information to Auditors

Each of the persons who is a director at the date of this report confirms that:

1. so far as he or she is aware, there is no information relevant to the audit of the company's financial statements for the year ended 31 December 2015 of which the auditors are unaware, and

2. the director has taken all steps that he or she ought to have taken in his duty as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditors

The auditors, PricewaterhouseCoopers LLP, will continue to hold office in accordance with Section 487 of the Companies Act 2006.

By Order of the Board

M L Mellor
for and on behalf of
ACE London Services Limited
Secretary, 31 March 2016
100 Leadenhall Street
London
EC3A 3BP

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ACE EUROPEAN GROUP LIMITED

31 December 2015

Report on the financial statements

Our opinion

In our opinion, ACE European Group Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2015;
- the Profit and Loss account for the year then ended;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice), having regard to the statutory requirement for insurance companies to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31 December 2015, and the effect of the movement in those provisions during the year on shareholders' funds, the balance on the general business technical account and profit before tax, are disclosed in note 21.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ACE EUROPEAN GROUP LIMITED

31 December 2015

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements 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 financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Nick Wilks

Nick Wilks (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
31 March 2016

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Technical account – general business			
Earned premiums, net of reinsurance:			
Gross premiums written – continuing operations	3	**2,202,229**	2,322,512
– discontinued operations	3	**(1,740)**	231
Gross premiums written	3	**2,200,489**	2,322,743
Outward reinsurance premiums		**(1,047,747)**	(1,219,065)
Net premiums written		**1,152,742**	1,103,678
Change in the gross provision for unearned premiums		**(36,721)**	(55,067)
Change in the provision for unearned premiums – reinsurers' share		**(5,406)**	19,709
Earned premiums, net of reinsurance		**1,110,615**	1,068,320
Claims incurred, net of reinsurance:			
Claims paid:			
Gross amount	3	**(1,186,461)**	(1,085,021)
Reinsurers' share		**614,621**	542,098
Net paid claims		**(571,840)**	(542,923)
Change in the provision for claims outstanding:			
Gross amount	3	**16,294**	(106,118)
Reinsurers' share		**43,028**	117,491
Change in the net provision for claims outstanding		**59,322**	11,373
Claims incurred, net of reinsurance		**(512,518)**	(531,550)
Net operating expenses	5	**(510,260)**	(484,310)
Change in the equalisation provision	21	**(6,260)**	(4,748)
Balance on the technical account for general business		**81,577**	47,712

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Non-technical account			
Balance on the technical account for general business		**81,577**	47,712
Investment income	9	**95,555**	97,563
Unrealised gains on investments	9	**10,976**	103,451
Investment expenses and charges	9	**(16,450)**	(23,646)
Unrealised losses on investments	9	**(83,705)**	(34,521)
Foreign exchange differences		**(30,509)**	59,811
Other expenses		**(538)**	(3,475)
Profit on ordinary activities before taxation		**56,906**	246,895
Continuing operations		**60,251**	247,815
Discontinued operations		**(3,345)**	(920)
Taxation on profit on ordinary activities	10	**(24,133)**	(63,489)
Profit for the financial year		**32,773**	183,406

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year for the current or prior year and their historical cost equivalents.

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2015

	2015	2014
Profit for the financial year	32,773	183,406
Other comprehensive income:		
Currency translation differences	**42,411**	(56,732)
Actuarial gain / (loss) recognised in relation to pension schemes	**2,192**	(6,890)
Movement on deferred taxation relating to pension liability	**(584)**	913
Total comprehensive income for the year	76,792	120,697

BALANCE SHEET
at 31 December 2015

	Note	2015 £'000	2014 £'000
Assets			
Investments			
Other financial investments	12	2,649,456	2,722,617
Financial derivative instruments	12	1,233	1,963
Deposits with ceding undertakings		-	7
		2,650,689	2,724,587
Reinsurers' share of technical provisions			
Provision for unearned premiums	19	344,592	361,792
Provision for claims outstanding	19	2,104,517	2,068,893
		2,449,109	2,430,685
Debtors – amounts falling due within one year			
Debtors arising out of direct insurance operations:			
amounts owed by policyholders		30,414	29,515
amounts owed by intermediaries		399,933	398,172
Debtors arising out of reinsurance operations		226,762	212,440
Other debtors	13	104,093	99,456
		761,202	739,583
Other assets			
Tangible assets	15	4,089	3,994
Cash at bank and in hand	2	63,274	75,542
		67,363	79,536
Prepayments and accrued income			
Accrued interest and rent		33,157	32,869
Deferred acquisition costs	18	129,213	151,986
Other prepayments and accrued income		602	642
		162,972	185,497
Total assets		6,091,335	6,159,888

BALANCE SHEET
at 31 December 2015

	Note	2015 £'000	2014 £'000
Liabilities			
Capital and reserves			
Called-up share capital	17	544,741	544,741
Profit and loss account		508,369	431,577
Merger reserve		25,653	25,653
Total shareholders' funds		1,078,763	1,001,971
Technical provisions			
Provision for unearned premiums	19	801,868	799,518
Provision for claims outstanding	19	3,656,716	3,713,917
Equalisation provision	21	105,102	98,842
		4,563,686	4,612,277
Deposits received from reinsurers		6,263	6,442
Creditors – amounts falling due within one year			
Creditors arising out of direct insurance operations		15,095	25,063
Creditors arising out of reinsurance operations		187,179	200,819
Bank overdraft	2	74,500	69,179
Other creditors including taxation and social security	20	94,583	128,150
		371,357	423,211
Other financial liabilities	12	495	4,566
Accruals and deferred income			
Deferred acquisition costs relating to reinsurance	18	31,792	66,954
Other accruals and deferred income		29,415	33,275
		61,207	100,229
Total liabilities excluding pension liability		6,081,771	6,148,696
Pension liability	16	9,564	11,192
Total liabilities		6,091,335	6,159,888

The notes on pages 24 to 49 are an integral part of these financial statements.

The financial statements on pages 19 to 49 were approved by the Board of Directors on 31 March 2016 and were signed on its behalf by:

M K Hammond
Chief Financial Officer
31 March 2016

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2015

	Note	Called-up share capital	Merger reserve	Profit and loss account	Total
		£'000	£'000	£'000	£'000
At 31 December 2013 as previously stated		544,741	25,653	357,854	928,248
Changes on transition to FRS 102 / 103	27	-	-	3,026	3,026
At 1 January 2014 as restated		**544,741**	**25,653**	**360,880**	**931,274**
Profit for the financial year				183,406	183,406
Other comprehensive income:					
Currency translation differences		-	-	(56,732)	(56,732)
Actuarial loss recognised in relation to pension schemes		-	-	(6,890)	(6,890)
Movement on deferred taxation relating to pension liability		-	-	913	913
Dividends paid on equity shares	11	-	-	(50,000)	(50,000)
As 31 December 2014		**544,741**	**25,653**	**431,577**	**1,001,971**
Profit for the financial year				32,773	32,773
Other comprehensive income:					
Currency translation differences		-	-	42,411	42,411
Actuarial gain recognised in relation to pension schemes		-	-	2,192	2,192
Movement on deferred taxation relating to pension liability		-	-	(584)	(584)
As 31 December 2015		**544,741**	**25,653**	**508,369**	**1,078,763**

On 1 January 2005 the company issued 376,567,035 £1 shares in consideration for the transfer of the assets, liabilities and obligations of ACE Insurance S.A.-N.V. The transfer was treated as a group reconstruction under FRS 6 "Acquisitions and Mergers" and consequently merger accounting principles were applied. The merger reserve was the difference between the net asset value of the transferred business and the nominal value of the shares issued by the company as consideration.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2015

1. ACCOUNTING POLICIES

Basis of preparation

ACE European Group Limited is a limited liability company incorporated in the United Kingdom. The financial statements have been prepared under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance companies' individual financial statements and applicable accounting standards in the United Kingdom, including Financial Reporting Standard FRS 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and Financial Reporting Standard FRS 103, "Insurance Contracts" ("FRS 103").

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated. The company has adopted FRS 102 and FRS 103 in these financial statements. The prior financial year financial statements were restated for material adjustments on adoption of FRS 102 and 103 in the current financial year. For more information see Note 27. The financial statements are prepared on a going concern basis, under the historical cost convention modified to include the revaluation of certain financial assets and liabilities. The company is a wholly owned subsidiary within the Chubb Limited group and is included within the consolidated financial statements of Chubb Limited, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement and disclosing details of share-based payments under the terms of FRS 102.

Continuing and discontinued operations

Discontinued operations include business underwritten by ACE European Group Limited ("AEGL") prior to its reauthorisation by the Financial Services Authority ("FSA") in 2003. This business included UK marine and aviation business underwritten until 1994, accident and health business underwritten until 1995 and United States surplus lines business underwritten until 1998. Following the group reconstruction in 2005 (see the Statement of changes in equity); discontinued operations now also include marine and aviation business underwritten by ACE Insurance S.A.-N.V. in the London market prior to 1999. All other operations are classified as continuing.

Premiums written

Premiums written, which are stated gross of brokerage but exclusive of premium taxes, relate to business incepted during the year, together with adjustments made in the year to premiums written in prior accounting periods. Estimates are made of pipeline premiums, representing amounts due but not yet received or notified to the company by intermediaries.

Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established risk profiles or time apportionment as appropriate.

Acquisition costs

Acquisition costs comprise brokerage, commissions and other related expenses, and are deferred over the period in which the related premiums are earned.

Claims incurred

Claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect expenses and adjustments to claims outstanding from previous years. Where applicable, deductions are made for reinsurance, salvage and other recoveries.

Provision for claims outstanding and related reinsurance recoveries

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ("IBNR") at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

The reinsurers' share of the provision for claims outstanding is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. A number of statistical methods are used to assist in making these estimates.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2015

1. ACCOUNTING POLICIES – continued

The two most critical assumptions as regards the provision for claims outstanding are that the past is a reasonable predictor of the likely level of claims development, and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

Provisions for claims outstanding and related reinsurance recoveries – continued

The directors consider that the provision for gross claims outstanding and related reinsurance recoveries is fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

When calculating the provision for claims outstanding, the reported business segments are subject to specific issues, as set out below:

Fire and other damage to property; marine, aviation and transport; accident and health

These business segments are predominantly "short tail"; that is, there is not a significant delay between the occurrence of the claim and the claim being reported to the company. The costs of claims notified to the company at the balance sheet date are estimated on a case by case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics, which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications.

Third party liability (including marine and aviation liability)

Liability claims are longer tail than the classes of business described above and so a larger element of the provision for claims outstanding relates to IBNR. Claims estimates for the company's liability business are derived from a combination of loss ratio based estimates and an estimate based upon actual claims experience using a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimate of the loss ratio, based on the experience of previous years adjusted for factors such as premium rate changes and claims inflation, and on the anticipated market experience, is an important assumption in this estimation technique. In respect of liability claims, the assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. The liability class of business is also subject to the emergence of new types of latent claims but no allowance is included for this as at the balance sheet date.

Reinsurance acceptances

This business segment includes both short tail and long tail business, and is subject to the issues laid out in the preceding two sections above.

Asbestos, pollution and health claims ("APH")

The company has some exposure to APH from its discontinued operations. There may be a long delay between the occurrence and notification of these types of claim. In estimating the cost of claims the company considers the type of risks written historically that may give rise to exposure to these risks, notifications received from policyholders, the nature and extent of the cover provided, the current legal environment, changes in the effectiveness of clean up techniques and industry benchmarks of the typical cost of claims of this kind and of total expected insured losses. The company is protected by way of a stop loss agreement with a fellow group undertaking from any adverse development arising from such exposures in its marine and aviation account for 1991 and prior years.

Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred. The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant investment return.

Equalisation provision

Amounts are set aside as equalisation provisions in accordance with the Prudential Regulation Authority's ("PRA") Handbook for the purpose of mitigating exceptionally high loss ratios in future years. The amounts provided are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Notwithstanding this, they are required by Schedule 3 to SI 2008/410 to be included within technical provisions.

Dividends

Dividends are recognised when they are approved by the Board of Directors.

1. ACCOUNTING POLICIES – continued

Financial Assets and Liabilities

The company recognises a financial asset or a financial liability on its balance sheet when it becomes a party to the contractual provisions of the instrument. On initial recognition the company determines the category of financial instrument and values it accordingly. The classification depends on the purpose for which the investments are acquired.

Investments – fair value through profit and loss

A financial asset is classified into this category at inception if they are acquired principally for the purpose of selling in the short term, if they form part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated to minimise any measurement or recognition inconsistency with the associated liabilities.

Financial assets designated as fair value through profit and loss are initially recognised at fair value with any transaction costs being expensed through the profit and loss account. For quoted investments where there is an active market, the fair value is their quoted bid price at the balance sheet date. For quoted investments where there is no active market, the fair value is determined by reference to prices for similar assets in active markets.

Realised gains and losses and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the profit and loss account in the period in which they arise.

Cash at bank and in hand and bank overdrafts

Cash at bank and in hand is cash in hand and deposits repayable on demand. Deposits are repayable on demand if they can be withdrawn at any time without notice and without penalty or if a maturity or period of notice of not more than 24 hours or one working day has been agreed. Bank overdrafts are repayable on demand.

Insurance and other receivables

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

Derivative financial instruments

The company has chosen to apply the disclosure requirements of FRS 102 in respect of financial instruments.

Derivative financial instruments are measured on initial recognition, and subsequently, at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the profit and loss account. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of interest rate swaps is the estimated amount that the company would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Purchases and sales of securities and currencies are recognised on trade date – the date on which the company commits to purchase or sell the asset.

Stock lending

The company is party to a securities lending agreement under which securities are lent to third parties on a short-term basis with collateral provided in return. The securities lent are not derecognised; rather they continue to be recognised within the appropriate investment classification.

Where the company is provided with collateral in the form of cash, it may hold the cash or reinvest it in other financial investments. The company recognises the cash or investments and the related obligation to return such collateral in the company's balance sheet.

1. ACCOUNTING POLICIES – continued

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. FRS 102 requires that, for insurance entities, both realised and unrealised investment gains and losses be included as part of investment return in the profit and loss account. Dividends are recorded on the date on which the shares are quoted ex-dividend. Interest and expenses are accounted for on an accruals basis.

Realised gains and losses on investments carried at fair value are calculated as the difference between net sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have previously been revalued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Stock lending fees are recognised as earned on a pro rata basis over the period of lending.

Tangible assets

Tangible assets are capitalised and depreciated by equal annual instalments over their estimated useful lives as follows:

Land and buildings	Over the shorter of the lease term or 50 years
Motor vehicles	4 years
Leasehold improvements	Over the remaining period of the lease
Fixtures and fittings	5 years
Computer, office equipment and software	up to 5 years

Deferred taxation

Deferred taxation is recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more tax in future, or a right to pay less tax in future. An asset is not recognised to the extent that the transfer of economic benefits in future is uncertain. Deferred tax assets and liabilities recognised are not discounted.

Operating leases

Rents payable under operating leases are charged to the profit and loss account as incurred over the lease term.

Pension costs

The company operates a small number of funded defined benefit pension schemes in Europe with assets held in separate trustee-administered funds. The pension asset or liability recognised in the balance sheet is the value of the schemes' assets less the present value of the schemes' liabilities.

The pension cost for the schemes is analysed between current service cost, past service cost and net expected return on pension schemes. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period. Past service costs, relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits, are recognised in the profit and loss account on a straight-line basis over the period in which the increase in benefits vest.

Net expected return comprises the expected return on the pension scheme assets less interest on scheme liabilities.

The actuarial gains and losses which arise from valuations and from updating the latest actuarial valuations to reflect conditions at the balance date are taken to the statement of comprehensive income for the period. The attributable deferred taxation is shown separately in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2015

1. ACCOUNTING POLICIES – continued

Foreign currencies

AEGL operates as a number of branches, each of which conducts business in a variety of transactional currencies. These branches include both UK and overseas insurance operations and centralised treasury operations. Each of the branches is designated a functional currency.

Foreign currency transactions are accounted for, in functional currency, at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, from translating such transactions into the functional currency of the branch, and from the revaluation to year end exchange rates of monetary assets and liabilities, are recognised in the profit and loss account.

At each period end foreign currency monetary items are translated using the closing rate. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Results of branches, recorded in their functional currency, are translated into sterling at average rates of exchange while assets and liabilities are translated to sterling at year end exchange rates. Differences arising on translation are recorded in the statement of comprehensive income.

2. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT

Capital management

AEGL 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 then 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, AEGL is regulated by the PRA and is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held. In line with regulatory requirements that were in force to the end of 2015, AEGL managed its capital levels in 2015 in the context of the minimum requirement, the Capital Resources Requirement, the Enhanced Capital Requirement, which computes a capital level using an allowance for industry risk factors related to premiums, reserves and assets, and its Individual Capital Guidance ("ICG").

Solvency II regulation comes into force on 1 January 2016. From 1 January 2016, AEGL's regulatory capital requirement will be set according to the Solvency II standard formula. The company performs tests and controls to ensure continuous and full compliance with the Solvency II regulations.

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 retain financial flexibility by maintaining strong liquidity.

Insurance risk

Insurance risk arises from fluctuations in the frequency and/or severity of claims. The company mitigates this risk by maintaining underwriting discipline throughout its operations. This policy is supported by each strategic business unit's underwriting guidelines, expertise and appropriate authority limits. These guidelines are updated regularly to reflect developments in the nature of the insurance risks being underwritten. The company also uses a reinsurance programme to manage its insurance risk by providing cover against certain large exposures.

Sensitivity to insurance risk

As highlighted in Note 1, there is inherent uncertainty in the ultimate cost of claims for which the company uses a variety of different actuarial techniques to estimate the provision for claims outstanding. If the net claims ratio for the year had been higher by 1%, then the profit for the financial year would have been lower by £11.1 million (2014: £10.7 million) and shareholders' funds would have been lower by £11.1million (2014: £10.7 million). If the net claims ratio had been lower by 1%, then the profit for the financial year would have been higher by £11.1 million (2014: £10.7 million) and shareholders' funds would have been higher by £11.1 million (2014: £10.7 million).

NOTES TO THE FINANCIAL STATEMENTS
31 December 2015

2. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

Concentrations of insurance risk

As set out in Note 3, the company writes a diverse book of business across a number of underwriting classes. Approximately 30% of the gross written premiums for 2015 (2014: 28%) related to fire and other damage to property and casualty line of insurance, with the remainder split across a number of other classes.

Geographically, 55% (2014: 56%) of gross premiums written in 2015 relates to risks within continental Europe, with the remainder being spread across the United Kingdom, Asia Pacific, the United States of America, Africa & Middle East and Latin America.

Financial risk management objectives

The company is exposed to a range of financial risks through its financial assets and financial liabilities. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), liquidity risk and credit risk.

These financial risks principally arise from the investment activity of the business and consequent holdings in fixed income investments, all of which are exposed to general and specific market movements. The underwriting activity of the business also generates financial risk, particularly in the form of currency risk as well as liquidity and credit risk through its insurance and reinsurance receivables and payables.

The notes below explain how financial risks are managed. The processes used to manage these risks are unchanged from previous periods, and cover areas such as investment activity through stochastic modelling of the portfolio, within its internal capital model and consequent capital requirements.

Investment activity governance
The company operates an Investment Committee which functions under terms of reference determined by the Executive Committee of the Board. The Committee is charged with establishing and effecting an appropriate investment policy for the company having regard to the financial risk appetite of the company. In addition, the Committee has the responsibility for recommending the appointment and removal of investment managers, for reviewing the managers' performance and for reporting on all other material aspects of the investment function.

The Investment Committee comprises senior Chubb management and is chaired by the Chief Executive Officer of ACE Asset Management, the group's investment specialists who provide advisory services to Chubb group companies including AEGL. The Committee also includes the Chief Executive Officer, Chief Financial Officer and Treasurer of the company.

The investment management function is outsourced to specialist external managers.

Asset allocation policy

The Investment Committee has established a broad asset allocation policy which defines the limits for different asset types. The asset allocation policy cites two major asset classes: investment grade fixed income securities and alternative assets. Alternative assets can include equities, high-yield and emerging market instruments. The policy stipulates a target range of between 75% and 100% for investment grade fixed income securities and a range of between 0% and 25% for alternative asset classes. The current allocation to alternative assets sits at the mid of the target range, however, the position is regularly reviewed by the Investment Committee.

Investment guidelines

Investment management agreements have been established with the external investment managers. The agreements include specific guidelines for each individual portfolio in order to limit risks arising from duration, equity price, currency, liquidity, credit and counterparty exposures. The managers provide quarterly affirmation of compliance with these guidelines.

Interest rate risk

The company is exposed to interest rate risk primarily through its investments in fixed interest securities and, to the extent that claims inflation is correlated to interest rates, its liabilities to policyholders. Interest rate risk arises in the fixed income investment portfolio primarily through instrument duration. Accordingly, 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.

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 £2,563 million at external managers as at 31 December 2015 (2014: £2,654 million), an increase of 100 basis points in interest yields across all portfolios consecutively (principally sterling, euro and US dollars) 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 £118.7 million and accordingly decrease total shareholders' funds by £95.0 million.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2015

2. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

Equity price risk

The company is exposed to equity price risk as a result of its holdings in equity investments, classified as financial assets at fair value through profit and loss.

The risk in respect of equities is moderated through the asset allocation policy which limits the allocation to equities. The investment guidelines restrict individual equity holdings relative to the size of the portfolio and the benchmark constituents.

All equity holdings of £33.4 million (2014: £30.7 million) are listed and represent 1% (2014: 1%) of the total investment portfolio. If the value of all equity markets in which the company invests decreased by 10%, with all other variables held constant, the total investment return would decrease by £3.3 million and the total shareholders' funds would decrease by £3.3 million.

Currency risk

The company is primarily exposed to currency risk in respect of assets and liabilities under policies of insurance denominated in currencies other than sterling. The company maintains various currency balances generated through regular business activity but the majority of the funds held are denominated in sterling, euros and US dollars. The company policy seeks to ensure that an approximate currency match of assets and liabilities is maintained, with the bulk of surplus funds held in sterling, euros and US dollars.

Any component of the shareholders' funds denominated in currencies other than sterling gives rise to currency risk due to exchange rate volatility relative to sterling.

The company is also exposed to currency risk in the investment portfolio as the investment guidelines allow the managers to invest a portion of the individual portfolios in securities not denominated in the designated core currency of the portfolio. However, the investment management agreements stipulate that the majority of any exposure to non-core currencies must be hedged, thus matching the risk. These allocations to non-core currencies are included within the quarterly evaluation of the currency alignment reviewed by the Investment Committee.

The accounting policy for foreign currencies is stated in note 1 to the financial statements. Profit and loss results pertaining to foreign branches are translated to sterling using the average rates of exchange for the year. Balance sheet components (monetary assets and liabilities) are translated to sterling using the rates of exchange at year end.

For the profit and loss account, the 2015 average euro/sterling rate of €1.375/£1 is up on the prior period (2014: €1.236/£1) and the US dollar/sterling rate of US$1.539/£1 is down on the prior period (2014: US$1.654/£1). Had sterling weakened by 10% against all currencies (primarily the euro and US dollar) and all other variables remained constant, the profit before tax for the year would have been £12.3 million less than the amount reported.

For the monetary components of the balance sheet, the year-end rates used to convert euro to sterling have increased by 7% to €1.364/£1 and US dollar to sterling has decreased 5% to US$1.489/£1 (2014: €1.274/£1 and US$1.56115/£1). Assuming sterling had weakened by 10% against all currencies (primarily the euro and US dollar) and all other variables remained constant, the effect of translating year end foreign branch net assets based on these parameters would have resulted in decreased shareholders' funds of £69.5 million, which would have appeared as a loss in the statement of comprehensive income.

Liquidity risk

Liquidity risk is the risk that the company is unable to meet its obligations as they fall due. To counter this risk, the company aims to maintain funds in the form of cash or cash equivalents to meet known cash flows. In addition, the asset allocation policy and the investment guidelines are structured in order to ensure that funds are predominantly held in investment grade fixed income securities, the proceeds of which are readily realisable.

AEGL participates in a notional pooling programme with other Chubb group companies under a facility operated by Bank Mendes Gans, a subsidiary of ING, which specialises in global liquidity management. The facility operates by the notional pooling of designated balances of the Chubb group participants in order to provide additional liquidity. Chubb group participants may overdraw individual account balances to fund immediate short term needs against credit balances held elsewhere within the pool. On this basis, AEGL maintained an overdraft of £74.5 million at year end (2014: £69.2 million) and credit balances of £63.3 million (2014: £75.6 million) as presented on the balance sheet.

The company also benefits from letter of credit facilities which can be utilised to meet certain funding needs and notional pooling facilities with other Chubb group companies which serve to provide additional liquidity.

As indicated in the balance sheet, the company's financial liabilities are all payable within one year. Non-derivative financial liabilities with contractual maturities are payable within normal terms of trade, which is on average 60 days. Non-derivative financial liabilities with contractual maturities are limited to reinsurance premiums payable and expense accruals. Derivative financial liabilities at the balance sheet date have remaining contractual maturities of £0.06 million within 1 month, £0.19 million between 1 and 3 months, £nil between 3 months and 1 year and £0.25 million after more than one year.

2. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The company is exposed to credit risk through its investment activity and its insurance operations.

Credit risk – investment

The company is exposed to investment credit and price risk as a result of its holdings in fixed income and equity investments. The risk in respect of fixed income investments is moderated by the application of detailed investment guidelines which limit the size of holdings with individual issuers, restrict duration and dictate minimum credit quality, both for individual holdings and for the aggregate weighted portfolio.

The average credit quality of investment portfolios using Standard and Poor's ratings remained high throughout the year and at year end was "A". This is comparable to the previous year ("AA"). AEGL had £33.4 million equity holdings at 2015 year end (2014: £30.7 million).

The risk in respect of equities is moderated through the asset allocation policy which limits the allocation to equities. The investment guidelines restrict individual equity holdings relative to the size of the portfolio and the benchmark constituents.

The investment guidelines seek to limit the credit risk of each of the portfolios through specifying eligible/ineligible investments; setting maximum counterparty exposures and minimum weighted credit quality and individual issuer credit quality; and requiring collateral and indemnity arrangements for stock lending transactions.

The company engages in a securities lending program from which it generates net investment income from the lending of certain of its investments to other institutions for short periods of time. The value of securities loaned is limited to 40% of the company's aggregate portfolio. Collateral is provided against the market value of the loaned securities. The market value is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities changes.

The company maintains strict control limits on open derivative positions, by both amount and term. The amount subject to credit risk at any one time is limited to the current fair value of derivative financial assets.

Credit risk – insurance operations

The company is exposed to credit risk as a result of its regular insurance and reinsurance activity. The areas of key exposure are:

- reinsurers' share of provision for claims outstanding;
- debtors arising from reinsurers in respect of claims already paid;
- amounts due from direct insurance and reinsurance policyholders; and
- amounts due from direct insurance and reinsurance intermediaries.

Ceded reinsurance is used to manage and mitigate inwards direct insurance and reinsurance risk. Ceded reinsurance does not discharge the company's liability as primary insurer. If a ceded reinsurer fails to pay a claim, the company remains liable for the payment to the policyholder. A Reinsurance Security Committee is operated by the Chubb group which analyses the creditworthiness of ceded reinsurers on a quarterly basis by reviewing their financial strength. In addition, the recent payment history of ceded reinsurers is used to update the reinsurance purchasing strategy.

With regard to direct insurance and reinsurance receivables, the company operates a committee to review broker security, a process for monitoring arrangements with managing general agents, and, in certain circumstances, the requirement for collateral to be posted by the policyholder to the benefit of the company.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2015

2. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

Credit risk – insurance and investment operations

The assets bearing credit risk are summarised below:

	2015	2014
	£'000	£'000
Other financial investments	2,649,456	2,722,617
Derivative financial instruments	1,233	1,963
Reinsurers' share of technical provisions	2,449,109	2,430,685
Debtors arising out of direct insurance operations	430,347	427,687
Debtors arising from reinsurance operations	226,762	212,440
Total assets bearing credit risk	5,756,907	5,795,392

Other financial investments and derivative financial instruments are designated as fair value through profit or loss at inception, and their performance evaluated on a fair value basis, in accordance with a documented investment strategy as detailed in note 1. The Standard and Poor's credit rating for other financial investments and derivative financial securities is detailed below.

	2015	2014
	£'000	£'000
AAA	805,243	876,479
AA	521,996	620,418
A	448,516	526,734
BBB	561,940	395,056
Below BBB or not rated	312,994	305,893
	2,650,689	2,724,580

Other financial investments and derivative financial instruments are neither past due nor impaired.

The amount of change, during the period and cumulatively, in the fair value of receivables that is attributed to changes in credit risk is represented by the provision for impairment against receivables past due.

Reinsurers' share of technical provisions includes claims outstanding, related claims handling costs, IBNR and unearned premium reserve. This is described along with the valuation methods in note 1. This balance includes 0.0% past due that have been impaired (2014: 0.0%).

Debtors arising out of direct and reinsurance operations are held at fair value less any provision for impairment as described in note 1. They include 0.2% (2014: 0.2%) that have been impaired and 24.5% (2014: 22.0%) that are past due, but not impaired. The latter is aged 23.5% up to six months (2014: 20.6%), 0.7% six months to a year (2014: 1.2%) and the remaining 0.3% is older than a year (2014: 0.2%).

The Standard and Poor's credit rating for reinsurers share of technical provisions and debtors arising out of reinsurance operations are detailed overleaf.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2015

2. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

	2015	2014
	£'000	£'000
AA	2,158,497	2,150,363
A	354,903	316,640
BBB	3,312	3,231
Below BBB or not rated	159,159	172,891
	2,675,871	2,643,125

Where appropriate the company seeks to obtain collateral from counterparties to mitigate the credit risk exposure from insurance and reinsurance receivables. At 31 December 2015 the collateral provided to the company totalled £808.2 million (2014: £582.1 million). This balance is represented by Letters of Credit – 25.8% (2014: 34.9%), trust funds – 72.9% (2014: 5.9%), cash – 1.3% (2014: 1.7%) and floating charge - 0.0% (2014: 57.5%).

The maximum exposure of receivables to credit risk at the balance sheet date is the carrying value less any collateral obtained from counterparties. For the purpose of this disclosure 'receivables' comprises 'Reinsurers' share of technical provisions', 'Debtors arising out of direct insurance operations' and 'Debtors arising from reinsurance operations'. At the balance sheet date the maximum exposure of receivables to credit risk was £2,298.0 million (2014: £2,484.0 million).

3. SEGMENTAL ANALYSIS

Segmental information in the format required by the Companies Act 2006 is as follows:

	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance
	£'000	£'000	£'000	£'000	£'000
Year to 31 December 2015					
Continuing operations:					
Direct insurance					
Accident and health	422,084	419,404	(147,250)	(147,066)	(39,048)
Marine, aviation and transport	95,589	94,834	(53,805)	(23,768)	(17,812)
Fire and other damage to property	669,137	640,403	(476,889)	(240,151)	(18,003)
Third party liability	458,353	461,397	(279,942)	(109,826)	(60,812)
Miscellaneous	147,988	145,723	(66,673)	(39,850)	(37,406)
Reinsurance acceptances	409,078	403,748	(150,137)	(114,275)	(52,377)
	2,202,229	2,165,509	(1,174,696)	(674,936)	(225,458)
Discontinued operations	(1,740)	(1,741)	4,529	(176)	(5,194)
	2,200,489	2,163,768	(1,170,167)	(675,112)	(230,652)

NOTES TO THE FINANCIAL STATEMENTS
31 December 2015

3. SEGMENTAL ANALYSIS – continued

	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance
	£'000	£'000	£'000	£'000	£'000
Year to 31 December 2014					
Continuing operations:					
Direct insurance					
Accident and health	505,907	478,320	(187,748)	(223,225)	(36,923)
Marine, aviation and transport	97,449	99,319	(54,537)	(25,753)	(21,607)
Fire and other damage to property	655,050	650,691	(376,228)	(219,952)	(142,153)
Third party liability	487,407	481,714	(209,098)	(110,181)	(143,306)
Miscellaneous	164,422	157,608	(78,509)	(39,689)	(28,606)
Reinsurance acceptances	412,277	399,795	(283,962)	(101,524)	69,856
	2,322,512	2,267,447	(1,190,082)	(720,324)	(302,739)
Discontinued operations	231	229	(1,057)	(1,585)	571
	2,322,743	2,267,676	(1,191,139)	(721,909)	(302,168)

The reinsurance balance represents the credit (charge) to the technical account from the aggregate of all items relating to outwards reinsurance.

Analysis by geographic area – origin

	Gross written premiums		Profit (loss) before taxation		Net assets	
	2015	2014	**2015**	2014	**2015**	2014
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
United Kingdom	**1,005,949**	1,033,092	**(65,443)**	96,329	**299,653**	278,141
Other EEA states	**1,170,222**	1,266,122	**114,763**	150,073	**732,774**	684,999
Other countries	**24,318**	23,529	**7,586**	493	**46,336**	38,831
	2,200,489	2,322,743	**56,906**	246,895	**1,078,763**	1,001,971

Gross written premium information by destination (location of risk) as required by FRS 102 as follows:

	2015	2014
	£'000	£'000
United Kingdom	**580,252**	596,492
United States of America	**56,668**	62,631
Continental Europe	**1,202,812**	1,290,996
Africa & Middle East	**45,937**	59,976
Asia/Pacific	**78,617**	84,393
Americas	**40,973**	55,181
Worldwide	**196,970**	172,843
Discontinued business	**(1,740)**	231
	2,200,489	2,322,743

4. MOVEMENT IN PRIOR YEARS' PROVISION FOR CLAIMS OUTSTANDING

The prior years' net provision for claims outstanding generated a surplus for 2015 (2014: surplus) as detailed below:

	2015	2014
	£'000	£'000
Continuing operations:		
Accident and health	6,907	6,969
Marine, aviation and transport	13,037	9,470
Fire and other damage to property	23,292	14,171
Third party liability	55,094	68,470
Miscellaneous	(5,662)	(6,329)
	92,668	92,751
Discontinued operations	(1,945)	1,370
	90,723	94,121

5. NET OPERATING EXPENSES – TECHNICAL ACCOUNT

	2015	2014
	£'000	£'000
Acquisition costs	413,106	480,614
Change in net deferred acquisition costs	(16,518)	(10,066)
Administrative expenses	254,403	253,517
Reinsurance commissions	(140,731)	(239,755)
	510,260	484,310

Administrative expenses include costs that are incurred by ACE INA Services U.K. Limited ("AIS"), a fellow group undertaking, and recharged to the company in the form of management charges. In particular, this charge includes the cost of the AIS staff engaged in the business of AEGL.

Total commissions for direct insurance accounted for by the company during the year amounted to £308.1 million (2014: £326.4 million), and are included within acquisition costs.

6. AUDITOR'S REMUNERATION

	2015	2014
	£'000	£'000
Fees payable to the Company's auditors for the audit of the Company's financial statements	469	487
Fees payable to the Company's auditors for other services:		
Audit-related assurance services	305	237
Tax compliance services	336	345
Tax advisory services	158	105
Other non-audit services	540	90
	1,808	1,264

Audit-related assurance services include reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act 2002 and also the audit of the Company's regulatory return.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2015

7. OPERATING LEASE RENTALS

The total rentals under operating leases, charged as an expense in the profit and loss account, are disclosed below:

	2015	2014
	£'000	£'000
Leasehold property	5,214	5,668

The total of future minimum lease payments under non-cancellable operating leases is as follows:

	2015	2014
	£'000	£'000
Operating leases which expire:		
Within 1 year	782	1,136
Between two and five years	10,350	12,895
More than five years	8,511	6,742
	19,643	20,773

8. DIRECTORS AND EMPLOYEES

	2015	2014
	£'000	£'000
Cost of staff employed by the company		
Wages and salaries	64,139	69,078
Social security costs	15,243	16,318
Other pension costs	5,641	5,240
Other staff costs	6,473	6,303
	91,496	96,939

The monthly average number of employees of the company during the year was as follows:

	2015	2014
	No.	No.
Underwriting	742	758
Claims	183	170
Other	277	282
	1,202	1,210

The disclosures above relate to staff based in the company's branches outside the UK who are directly employed by the company. Staff that support the UK branch operations of the company and centralised functions that are managed in the UK are employed by AIS and their costs are incorporated in management recharges from this service company. For disclosure purposes, it is not practical to allocate these amounts to the underlying entities to which the staff provide services.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2015

8. DIRECTORS AND EMPLOYEES - continued

Directors' emoluments

All directors received emoluments through AIS in respect of their services to ACE group companies. The cost of these emoluments is incorporated within the management recharges from AIS. 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 paid by AIS to the directors of this company.

	2015 £'000	2014 £'000
Aggregate emoluments and benefits	4,839	4,872
Company pension contributions to money purchase pension schemes	132	129
	4,971	5,001

Included in the above amounts paid by AIS in respect of the directors of this company, the highest paid director was paid a total of £787,668 (2014: £808,261) in respect of emoluments and benefits. The amount of accrued pension and accrued lump sum in relation to the highest paid director at the end of the year were £Nil (2014: £Nil) and £Nil (2014: £Nil) respectively.

The aggregate emoluments above do not include share based remuneration. All executive directors are entitled and received shares in Chubb Limited under long-term incentive plans. During the year, 3 directors 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 1 current director under the final salary section. Disclosures relating to this scheme are contained within the financial statements for AIS. From 1 April 2002, pension benefits are accruing to 6 current directors under the ACE European Group UK Pension Plan (Stakeholder scheme).

9. INVESTMENT RETURN

	2015 £'000	2014 £'000
Investment income		
Income from investments	81,656	81,368
Gains on the realisation of investments	13,899	16,195
	95,555	97,563
Investments on expenses and charges		
Investment management expenses	(9,231)	(9,041)
Losses on the realisation of investments	(7,219)	(14,605)
	(16,450)	(23,646)
Net unrealised gains less losses on investments		
Unrealised gains on investments	10,976	103,451
Unrealised losses on investments	(83,705)	(34,521)
	(72,729)	68,930
Total investment return	6,376	142,847

NOTES TO THE FINANCIAL STATEMENTS
31 December 2015

10. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2015 £'000	2014 £'000
Current taxation		
UK corporation tax at 20.25% (2014: 21.5%)	11,546	54,856
Adjustments in respect of prior years	(1,138)	239
Total current taxation	10,408	55,095
Double taxation relief	(11,546)	(28,297)
	(1,138)	26,798
Foreign taxation		
Current taxation on income for the period	32,284	45,555
Adjustments in respect of previous periods	(7,054)	(6,592)
	25,230	38,963
Deferred taxation (Note 14)		
Origination and reversal of timing differences	131	(1,807)
Adjustments in respect of previous periods	(109)	-
Effect of change in tax rates	19	(465)
Total deferred tax charged	41	(2,272)
Tax on profit on ordinary activities	24,133	63,489
Tax included in the statement of comprehensive income		
The tax credit / (charge) is made up as follows:		
Actuarial loss on pension scheme	382	(913)
Origination and reversal of timing differences		
Changes in rate	202	-
Total tax charge / (credit)	584	(913)

(b) Factors affecting the current tax charge

The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%).

The differences are reconciled below:

	2015 £'000	2014 £'000
Profit on ordinary activities before tax	56,906	246,895
Profit on ordinary activities multiplied by standard rate of UK corporation tax of 20.25% (2014: 21.5%)	11,523	53,082
Expenses not deductible for tax purposes	85	1,563
Higher taxation rates on overseas earnings	20,807	15,937
Other	-	(275)
Changes in rate	19	(465)
Adjustments in respect of prior periods - current tax	(8,192)	(6,353)
Adjustments in respect of prior periods - deferred tax	(109)	-
Total tax charge for the year	24,133	63,489

A reduction in the UK corporation rate from 21% to 20% took effect from 1 April 2015.

The adjustments in respect of previous periods arise from differences between overseas and UK tax bases.

The company has unrecognised eligible unrelieved foreign tax (EUFT) totalling £50.5 million as at 31 December 2015 which is unlikely to be relieved in the foreseeable future.

11. DIVIDENDS

During 2015 the company did not pay a dividend (2014: 9.2p per share totalling £50.0 million).

12. OTHER FINANCIAL INVESTMENTS

	Market Value 2015	Cost 2015	Market Value 2014	Cost 2014
	£'000	£'000	£'000	£'000
Shares and other variable yield securities and units in unit trusts	33,428	32,663	30,704	29,600
Private Equity	6,862	6,952	-	-
Debt securities and other fixed interest securities	2,562,813	2,514,988	2,654,139	2,527,734
Deposits with credit institutions*	46,353	46,353	37,774	37,774
	2,649,456	2,600,956	2,722,617	2,595,108

None of the above investments, except equities, are listed on a recognised exchange.

*Deposits with credit institutions includes £29.8 million (2014: £23.3 million) of collateral in respect of stock lending arrangements (note 22).

Derivative financial instruments

	Assets 2015	Liabilities 2015	Assets 2014	Liabilities 2014
	£'000	£'000	£'000	£'000
Forward foreign currency contracts	393	244	818	676
Fixed income options and futures	840	251	1,145	3,890
	1,233	495	1,963	4,566

The cost of entering into derivative financial instruments was £2,075 (2014: £397,032).

Currency derivatives

The company utilises currency derivatives to manage currency exposure which arises through the acquisition of investments in currencies other than the designated core currency of the investment portfolio.

At the balance sheet date, the total notional amount of outstanding forward foreign exchange contracts to which the company is committed are as follows:

	2015	2014
	£'000	£'000
Forward foreign exchange contracts	96	88

At 31 December 2015, the fair value of the company's currency derivatives results in a gain of £0.2 million (2014: gain of £0.1 million). These amounts are based on rates of exchange at the balance sheet date, comprising £0.4 million of assets (2014: £0.8 million) and £0.2 million of liabilities (2014: £0.7 million).

A loss of £0.7 million (2014: loss of £1.4 million) has been recognised in the profit and loss account in respect of contracts which matured during the period.

The company does not currently designate its foreign currency denominated debt as a hedging instrument for the purpose of hedging the translation of its foreign operations.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2015

12. OTHER FINANCIAL INVESTMENTS – continued

Fixed income options and futures

Options and futures contracts on fixed income securities may be utilised by the investment managers as part of their strategy to mitigate duration risk, enhance yield or to obtain exposure to a particular instrument or market.

At 31 December 2015, the fair value of the company's fixed income derivatives is an asset of £0.6 million (2014: liability of £2.7 million) comprising £0.8 million of assets (2014: £1.2 million) and £0.2 million of liabilities (2014: £3.9 million).

A gain of £2.4 million (2014: gain of £9.4 million) has been recognised in the profit and loss account in respect of contracts which matured in the period.

FRS 102 requires the company to classify financial instruments into a fair value hierarchy as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

For 2015 the company has taken early adoption of the Financial Reporting Council's Amendments to FRS 102 – Fair value hierarchy disclosure, the amendments of which simplify the preparation of disclosures about financial instruments for financial institutions and retirement benefit plans.

An analysis of financial instruments at 31 December 2015 by fair value hierarchy is set out below:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Assets:				
Shares and other variable yield securities and units in unit trusts	33,428	-	-	33,428
Private Equity	-	-	6,863	6,863
Debt securities and other fixed interest securities	101,003	2,450,987	10,823	2,562,813
Deposits with credit institutions	16,830	29,522	-	46,352
Derivative financial instruments	840	393	-	1,233
Total assets at fair value	152,101	2,480,902	17,686	2,650,689
Liabilities:				
Derivative financial instruments	251	244	-	495
Total liabilities at fair value	251	244	-	495

NOTES TO THE FINANCIAL STATEMENTS
31 December 2015

12. OTHER FINANCIAL INVESTMENTS – continued

An analysis of financial instruments at 31 December 2014 by fair value hierarchy is set out below:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Assets:				
Shares and other variable yield securities and units in unit trusts	30,704	-	-	30,704
Debt securities and other fixed interest securities	105,178	2,537,946	11,015	2,654,139
Deposits with credit institutions	14,719	23,055	-	37,774
Derivative financial instruments	1,145	818	-	1,963
Total assets at fair value	151,746	2,561,819	11,015	2,724,580
Liabilities:				
Derivative financial instruments	3,890	676	-	4,566
Total liabilities at fair value	3,890	676	-	4,566

Shares and other variable yield securities and units in unit trusts only comprise listed equities. As the fair values of these securities are based on quoted market prices they are classified within Level 1.

'Debt securities and other fixed interest securities' with active markets such as Government securities are classified within Level 1, as fair values are based on quoted market prices. For debt securities and other fixed interest securities that trade in less active markets, including corporate securities, fair values are based on the output of pricing models, the significant inputs into which include, but are not limited to, yield curves, credit risks and spreads, measures of volatility, and prepayment speeds. These debt securities and other fixed interest securities are classified within Level 2. Debt securities and other fixed interest securities for which pricing is unobservable are classified within Level 3.

'Deposits with credit institutions' includes short term investments, such as liquidity funds. Where such securities are traded in active markets, they are classified within Level 1, as fair values are based on quoted market prices. Where no active market exists for such securities they are typically classified within Level 2 and where pricing is unobservable, Level 3.

Where 'Derivative financial instruments' are actively traded the values of these securities are based on quoted market prices. Accordingly they are classified within Level 1. Instruments that are not actively traded are classified within Level 2.

During the period no significant investments were transferred between Level 1 and Level 2.

	2015	2014
	£'000	£'000
Balance at 1 January	**11,015**	6,243
Gains Recognised in the Profit and Loss Account*	**155**	473
Purchases	**6,952**	8,485
Sales	**(468)**	(4,212)
Transfers in/(out) of Level 3**	**31**	26
Balance at 31 December	**17,685**	11,015

* Gains Recognised in the Profit and Loss Account comprise realised gains of £Nil (2014: gain of £28,000) which are presented within Investment Income, unrealised losses of £382,000 (2014: gain of £137,000) and foreign exchange gains of £537,000 (2014: gain of £308,000) all of which are presented in the Non-Technical Account. Of this amount a £155,000 gain (2014: gain of £257,000) relates to investments held at the end of the period and comprises £Nil of realised gain (2014: £Nil), £382,000 of unrealised loss (2014: gain of £138,000) and £537,000 of foreign exchange gain (2014: gain of £119,000).

NOTES TO THE FINANCIAL STATEMENTS
31 December 2015

12. OTHER FINANCIAL INVESTMENTS – continued

** During the period a small number of investment grade and high yield fixed interest investments were transferred into and out of Level 3 due to changes in their pricing source. The net value of the investments transferred was £0.03 million (2014: £0.03 million).

13. OTHER DEBTORS

	2015	2014
	£'000	£'000
Amounts falling due within one year:		
Amounts due from group undertakings	94,529	88,989
Corporation tax receivable	-	-
Deferred taxation (note 14)	4,261	4,886
Receivable for sales of securities	1,122	886
Other debtors	4,181	4,695
	104,093	99,456

14. DEFERRED TAXATION

Deferred tax

The deferred tax included in the statement of financial position is as follows:

	2015	2014
	£'000	£'000
Accelerated capital allowances	857	641
Share-based payments	35	-
Pension costs	1,814	2,236
Deferred costs	1,358	1,774
UPR & DAC	197	235
Deferred tax	4,261	4,886

An analysis of the movement in deferred tax is as follows:

	2015	2014
	£'000	£'000
At 1 January	4,887	1,703
Prior year adjustment	109	-
Deferred tax charge to profit and loss account	(130)	1,807
Deferred tax credit to other comprehensive income	(381)	913
Change in tax rate	(224)	463
	4,261	4,886

The amount of the net reversal of deferred tax assets and liabilitites expect to occur in 2016 is £134k (2015: £134k) largely in respect of the reversal of timing differences on qualifying fixed assets.

Finance (No. 2) Act 2015 enacted a reduction in corporation tax rates to 20% from 1 April 2015, to 19% from 1 April 2017 and 18% from 1 April 2020.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2015

15. TANGIBLE ASSETS

	Land and Buildings	Motor Vehicles	Leasehold improvements, Fixtures and Fittings	Computer, Office Equipment and Software	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2015	1,355	1,081	12,041	10,566	25,043
Additions	18	33	2,083	559	2,693
Disposals	-	(404)	(4,131)	(4,589)	(9,124)
Foreign exchange differences	(89)	(75)	(797)	(693)	(1,654)
At 31 December 2015	1,284	635	9,196	5,843	16,958
Accumulated depreciation					
At 1 January 2015	1,000	1,035	9,641	9,373	21,049
Charge for the period	25	44	1,370	535	1,974
Disposals	-	(404)	(3,835)	(4,534)	(8,773)
Foreign exchange differences	(66)	(69)	(633)	(613)	(1,381)
At 31 December 2015	959	606	6,543	4,761	12,869
Net book value					
31 December 2015	325	29	2,653	1,082	4,089
31 December 2014	355	46	2,400	1,193	3,994

16. PENSIONS

The company operates a small number of defined benefit pension schemes in Continental Europe. As at 31 December 2015, the aggregate assets and liabilities relating to these schemes were £32.1 million (2014: £34.5 million) and £41.7 million (2014: £45.7 million) respectively. Company contributions to the schemes totalled £1.1 million (2014: 1.4 million) and the expense recognised in the profit and loss account was £1.6 million (2014: £1.0 million).

17. CALLED-UP SHARE CAPITAL

	2015	2014
	£'000	£'000
Allotted, issued and fully paid:		
376,567,035 'A' Ordinary £1 shares	376,567	376,567
168,174,109 'B' Ordinary £1 shares	168,174	168,174
	544,741	544,741

18. DEFERRED ACQUISITION COSTS

The reconciliation of opening and closing deferred acquisition costs is as follows:

	Gross		Reinsurers' share	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
At 1 January	151,986	121,159	66,954	57,611
Change in acquisition costs deferred during the year	(7,602)	12,220	(24,120)	2,154
Foreign exchange (losses) / gains	(15,171)	18,607	(11,042)	7,189
At 31 December	129,213	151,986	31,792	66,954

19. RECONCILIATION OF INSURANCE BALANCE

	Gross		Reinsurers' share	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
At 1 January	799,518	754,498	361,792	340,876
Increase/(decrease) in provision	36,721	55,067	(5,406)	19,709
Foreign exchange movements	(34,371)	(10,047)	(11,794)	1,207
At 31 December	801,868	799,518	344,592	361,792

The reconciliation of opening and closing provision for claims is as follows:

		Gross		Reinsurers' share
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
At 1 January	3,713,917	3,692,554	2,068,893	2,001,698
Increase/(decrease) in provision	(16,294)	106,118	43,028	117,491
Foreign exchange movements	(40,907)	(84,755)	(7,404)	(50,296)
At 31 December	3,656,716	3,713,917	2,104,517	2,068,893

20. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2015	2014
	£'000	£'000
Corporation taxation payable	**12,513**	39,273
Payable for purchases of securities	**5,927**	10,146
Other creditors	**46,375**	55,434
Liability for stock lending collateral (note 22)	**29,768**	23,297
	94,583	128,150

21. EQUALISATION PROVISION

As laid out in the accounting policies, an equalisation provision is established in the financial statements. The effect of this provision is to reduce shareholders' funds by £105,102,000 (2014: 98,842,000). The increase during the year had the effect of decreasing the balance on the technical account for general business and decreasing the profit on ordinary activities before taxation by £6,260,000 (2014: £4,748,000).

22. STOCK LENDING

The company participates in stock lending activities with State Street Bank and Trust company.

	2015	2014
	£'000	£'000
Aggregate value of securities on loan at 31 December	413,500	403,819
Income from stock during the year	491	713

In respect of securities on loan at the year end, the company held £422.9 million (2014: £413.9 million) as collateral, the value of which is above the value of the loan securities by 2.2% (2014: 2.5% above), as a result of unrealised gains generated by the liquidity fund in which the collateral is invested. These unrealised gains are included in investment return.

Included within the £422.6 million (2014: £413.9 million) of collateral held is £29.8 million (2014: £23.3 million) in the form of cash which has been reinvested by the company. This is included on the face of the balance sheet within 'Other financial investments'.

23. LETTER OF CREDIT FACILITIES

Under a facility with Citibank NA, the value of letters of credit outstanding was £54.5 million (2014: £42.8 million) with associated collateral of £64.7 million (2014: £55.6 million). Under a facility with Lloyds TSB Bank plc, there is a further letter of credit outstanding for £0.67 million (2014: £0.67 million), equally matched by collateral. Collateral is included within other financial investments and cash at bank and in hand on the face of the balance sheet.

24. CAPITAL COMMITMENTS

No capital expenditure was authorised at 31 December 2015 which has not been provided for in these financial statements.

25. TRANSACTIONS WITH RELATED PARTIES

During the year, there were no material transactions or balances between AEGL and fellow group companies, key management personnel or members of their close family, which require disclosure under the Companies Act 2006.

Advantage has been taken of the exemption in FRS 102 from disclosing details of transactions with Chubb Limited and its subsidiary undertakings as required by that standard.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2015

26. CLAIMS DEVELOPMENT TABLES

The following tables show the development of claims over a period of time on both a gross and net of reinsurance basis. FRS 103 requires that claims development shall go back to the period when the earliest claim arose for which there is still uncertainty about the amount and timing of the claims payment, but need not go back more than 10 years. The top half of the table shows how the estimates of total claims for each accident year develop over time. The lower half of the table reconciles the cumulative claims to the amount appearing in the balance sheet.

The cumulative claims estimates and payments for each accident year are translated into sterling at the year-end rates that applied at the end of each accident year.

Gross insurance contract outstanding claims provision as at 31 December 2015:

	2010 & prior	2011	2012	2013	2014	2015	Total
Accident year	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of cumulative claims incurred							
At end of accident year		1,401,687	1,259,371	1,267,073	1,342,382	1,310,472	
One year later		1,442,121	1,243,367	1,274,500	1,354,079		
Two years later		1,380,792	1,245,780	1,242,536			
Three years later		1,377,541	1,228,722				
Four years later		1,325,932					
Current estimate of cumulative claims incurred		1,325,932	1,228,722	1,242,536	1,354,079	1,310,472	
Cumulative claims paid							
At end of accident year		(316,817)	(316,119)	(358,367)	(384,875)	(428,122)	
One year later		(762,763)	(618,296)	(639,247)	(698,816)		
Two years later		(912,676)	(758,010)	(772,848)			
Three years later		(985,213)	(856,834)				
Four years later		(1,039,387)					
Cumulative payments to date		(1,039,387)	(856,834)	(772,848)	(698,816)	(428,122)	
Gross outstanding claims provision at 31 December 2015 at original exchange rates		286,545	371,888	469,688	655,263	882,350	
Foreign exchange adjustment		(15,981)	(44,543)	(22,577)	(14,336)	-	
Total gross outstanding claims provision per the Balance Sheet	1,088,419	270,564	327,345	447,111	640,927	882,350	3,656,716
% Surplus / (deficiency) of initial gross reserve		5.4%	2.4%	1.9%	-0.9%		

NOTES TO THE FINANCIAL STATEMENTS
31 December 2015

26. CLAIMS DEVELOPMENT TABLES - continued

Net insurance contract outstanding claims provision as at 31 December 2015:

	2010 & prior	2011	2012	2013	2014	2015	Total
Accident year	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of cumulative claims incurred							
At end of accident year		599,788	631,640	646,824	624,869	606,662	
One year later		646,805	624,444	646,418	645,855		
Two years later		633,292	619,605	614,374			
Three years later		641,861	598,982				
Four years later		624,663					
Current estimate of cumulative claims incurred		624,663	598,982	614,374	645,855	606,662	
Cumulative claims paid							
At end of accident year		(172,507)	(173,826)	(208,103)	(216,400)	(245,090)	
One year later		(345,947)	(324,187)	(358,320)	(353,312)		
Two years later		(425,469)	(387,698)	(408,476)			
Three years later		(455,909)	(434,325)				
Four years later		(485,823)					
Cumulative payments to date		(485,823)	(434,325)	(408,476)	(353,312)	(245,090)	
Net outstanding claims provision at 31 December 2015 at original exchange rates		138,840	164,657	205,898	292,543	361,572	
Foreign exchange adjustment		(8,889)	(12,608)	(10,592)	(5,601)	-	
Total net outstanding claims provision per the Balance Sheet	426,379	129,951	152,049	195,306	286,942	361,572	1,552,199
% Surplus / (deficiency) of initial net reserve		-4.1%	5.2%	5.0%	-3.4%		

NOTES TO THE FINANCIAL STATEMENTS
31 December 2015

27. EXPLANATION OF TRANSITION TO FRS 102 and FRS 103

This is the first financial year that the company has presented its financial statements under FRS 102 and FRS 103 issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the financial year ended 31 December 2014 and the date of the transition to FRS 102 was therefore 1 January 2014. As a consequence of adopting FRS 102 and 103, accounting policies have changed to comply with these standards.

Unearned premiums and Deferred acquisition costs

FRS 102 requires an entity, at the end of each reporting period, to translate foreign currency monetary items using the closing rate and non-monetary items using the exchange rate at the date of the transaction or the date when fair value was determined (for non-monetary items measured at fair value). For the purposes of applying the requirements of Section 30 *Foreign Currency Translation* of FRS 102 an entity shall treat all assets and liabilities arising from an insurance contract as monetary items. As such, unearned premiums and deferred acquisition costs, previously translated from transactional to functional currency at historic exchange rates, have been restated at closing rates with the resulting difference being accounted for within foreign exchange gains / losses.

Reconciliation of equity

	At 1 January 2014	At 31 December 2014
	£'000	£'000
Equity reported under previous UK GAAP	928,248	1,002,915
Adjustments to equity on transition to FRS 102 / 103		
Insurance balances treated as monetary items	3,784	(1,179)
Deferred tax on balances treated as monetary items	(758)	235
Equity reported under FRS 102 and 103	931,274	1,001,971

Notes to the reconciliation of equity at 1 January 2014

Insurance balances treated as monetary items

FRS 103 requires that all assets and liabilities arising from an insurance contract are treated as monetary items for foreign currency translation purposes. Previously, balances such as unearned premiums and deferred acquisition costs were treated as non-monetary items. Net of taxation, this had the impact of increasing total equity by £3.0 million upon transition and decreasing total equity by £0.9 million at the year ended 31 December 2014.

27. EXPLANATION OF TRANSITION TO FRS 102 and FRS 103 - continued

Reconciliation of total comprehensive income for 2014

	At 31 December 2014 £'000
Total comprehensive income for the financial year under previous UK GAAP	124,667
Insurance balances treated as monetary items	(4,963)
Deferred tax on insurance balances treated as monetary items	993
Total comprehensive income for the financial year under FRS 102 /103	120,697

Notes to the reconciliation of total comprehensive income for 2014

Insurance balances treated as monetary items

FRS 103 requires that all assets and liabilities arising from an insurance contract are treated as monetary items for foreign currency translation purposes. Previously, balances such as unearned premiums and deferred acquisition costs were treated as non-monetary items. Net of taxation, this had the impact of decreasing comprehensive income by £4.0 million for the year ended 31 December 2014 (£4.0 million decrease in profit or loss and £Nil change in other comprehensive income).

28. POST BALANCE SHEET EVENTS

On 30 June 2015, ACE Limited ("ACE"), together with its wholly owned indirect subsidiary, William Investment Holdings Corporation, entered into an Agreement and Plan of Merger ("the Merger") with The Chubb Corporation ("Chubb"), a company organised under the laws of the United States of America. The Merger was completed on 14 January 2016 and ACE Limited was renamed Chubb Limited.

The Merger will affect the company's activities as ACE and Chubb look to integrate both their European operations ("the Integration"), but the directors do not consider there to be any effect on these financial statements.

29. ULTIMATE PARENT COMPANY

The ultimate holding company is Chubb Limited, a company registered in Zurich, Switzerland, with its headquarters in Zurich, Switzerland and it is quoted on the New York Stock Exchange. Copies of the ultimate holding company's consolidated financial statements can be obtained from Investor Relations at ACE's executive offices at 17 Woodbourne Avenue, Hamilton HM 08, Bermuda.

Annual Report and Financial Statements

ACE European Group Limited

31 December 2016

COMPANY REGISTRATION NUMBER: 1112892

Table of Contents

President's Report
31 December 2016

ACE European Group Limited ("AEGL") is one of Europe's leading commercial insurance and reinsurance companies, providing a range of property and casualty, accident and health and personal lines insurance products for a diverse range of clients. With shareholders' funds approaching £1.4 billion at year end 2016, AEGL is a large, well-capitalised company operating a successful underwriting business throughout the UK, Ireland and Continental Europe.

2016: A remarkable year

In January 2016, ACE Limited acquired The Chubb Corporation to become the world's largest publicly traded property and casualty insurer. I was truly excited by the prospect of these two highly regarded insurance companies coming together, and the opportunities that it would bring for the group in Europe. I'm pleased to report that our plans for a fully integrated business are coming to fruition and the reality is as good as, if not better, than I'd hoped for.

As a combined organisation, we benefit from complementary business lines, greater market presence and deeper technical expertise. We have more in-depth client knowledge and have gained experience in new industry sectors. And we now benefit from a wider distribution network and better access to independent brokers across Europe.

We have made huge steps in integrating the companies this year. We have in place experienced leadership to guide the business into the future. We have brought our people together and co-located many of our teams in offices across the UK and Europe. I believe we have earned the respect of brokers, partners and clients, both in our interactions with them and in our expanded capabilities in finding solutions to their risk challenges.

In terms of our financial performance, we continue to produce great results, especially given current market conditions and the additional workload that integration has brought this year. AEGL's 2016 gross written premiums were £2.4 billion, up almost 9% over prior year, and our pre-tax profit of £193.2 million was over three times higher than the £56.9 million generated in 2015.

Integration work will continue throughout 2017. One of our key priorities is to simplify the legal entity structure of our European insurance entities and optimise operational efficiencies by consolidating Chubb's other European non-life retail companies, namely Chubb Insurance Company of Europe SE ("CICE") and Chubb Bermuda Insurance Ireland Designated Activity Company ("CBII"), into AEGL by means of a cross-border merger. Post integration, AEGL will be renamed Chubb European Group Limited in acknowledgement of the strength of the global Chubb brand.

Rising to the challenges of 2017

If 2016 proved anything, it was how difficult it is to make predictions. As insurers, we face an uncertain and rapidly changing landscape and we must be ready and more agile than ever in responding to new developments, challenges and risks on behalf of our brokers and clients.

The insurance industry environment in the UK and Europe today is incredibly difficult. Insurance rates have reached, or are in danger of reaching, unsustainable levels in many classes and with so much capital, both traditional and alternative, relatively benign loss experience over the past few years and continuing high levels of prior year reserve releases, it is hard to see why conditions should change significantly in the near term. So the way in which insurers define and implement their business appetites, underwriting discipline, risk selection, portfolio management and use of data could well be the differentiators that separate the winners from the losers over the next few years. We at Chubb are well prepared to rise to the challenges and the opportunities that will present themselves. We will continue to write for underwriting profit and I am confident we have the focus and the discipline to allow us to perform strongly and with margin to reinvest for the future.

We are cognisant of the need to remain relevant in a constantly changing environment. There are new types of risk entering the marketplace every day – many reflecting the technological advances that have begun to define the world we live in today.

We remain a key player in our chosen fields and are actively working to create new niche, packaged and enhanced tailored insurance and risk management solutions, which are more accessible to our customers and address their evolving needs. We believe that we also need to look beyond the traditional insurance policy and go beyond purely financial compensation, venturing deeper into risk management, loss control and "hands-on" crisis response.

In 2016 we launched a number of new products including Cyber Enterprise Risk Management, Warranties & Indemnities and Contingency coverages; and introduced a Biogas and Solar package product where clients can benefit from Chubb's tailored risk management services. We also enhanced our middle market proposition with the launch of 'MasterPackage', a single property and liability policy offering comprehensive, warranty-free cover for businesses with domestic and/or international operations. As a result of the acquisition of The Chubb Corporation, we have also added High Net Worth business, primarily motor and home and contents insurance including jewellery and fine art collections for affluent individuals, to our portfolio.

In conclusion

The events of 2016 have underlined to me the critical importance of values and culture in insurance. We will continue to focus on our clients, pooling our skills and expertise with our partners to provide the strategic counsel and risk management expertise they need. We pride ourselves on delivering superior customer service and outcomes, and adhere to clear and agreed service standards through risk management, compliance and conduct governance practices in all areas of the AEGL business.

Finally, I want to acknowledge the dedication and commitment of my colleagues throughout the region and thank everyone who has supported AEGL this year – the leadership teams, the underwriters, the support staff and of course all of our brokers, partners and clients. 2017 will bring with it a new set of opportunities and challenges and I am excited to be leading AEGL through the year ahead.

A J Kendrick
President
18 April 2017

Strategic Report
31 December 2016

The Board of AEGL has prepared this report in accordance with Section 414A of the Companies Act 2006. In addition to this statutory requirement, this report also addresses other aspects of the company's business which the Board believes will be of benefit to interested parties.

Ownership

Chubb Limited, the ultimate parent of AEGL; 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 ("Chubb") are a global insurance and reinsurance organisation. At December 31, 2016, Chubb Limited held total assets of $159.8 billion and shareholders' equity of $48.3 billion. It is listed on the New York Stock Exchange (NYSE: CB) and is a component of the S&P 500 index. The company maintains executive offices in Zurich, New York, London and other locations, and employs approximately 30,000 people worldwide.

Consolidation of Chubb's UK and European Operating Entities

The Chubb group includes a number of European insurers in addition to AEGL, principally Chubb Insurance Company of Europe SE ("CICE") and Chubb Bermuda International Insurance Designated Activity Company ("CBII"). In order to optimise operational efficiency, governance and capital, Chubb is intending to consolidate CICE and CBII into one entity, AEGL, through the operation of a Part VII transfer and cross border merger during 2017.

Potential Impact of the UK's Exit from the European Union

On 23 June 2016, the United Kingdom voted in a national referendum to withdraw from the European Union ("EU"). This unprecedented process will be triggered by invoking Article 50 of the Lisbon Treaty, paving the way for what is expected to be two years of negotiations to agree the terms of the UK's departure and its future relationship with the EU.

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. The Board has considered potential risks and uncertainties arising from the result of the referendum and the possible impact on the future performance and position of the business. Contingency plans are in place should the UK's exit from the European Union impede AEGL's current and planned operational model and business practices.

Business Overview

Chubb is the world's largest publicly traded property and casualty insurer. With operations in 54 countries, Chubb provides commercial and personal property and casualty insurance, personal accident and supplemental health insurance, reinsurance and life insurance to a diverse group of clients.

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

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

AEGL is a major contributor to Chubb, generating almost 10% of the group's overall gross written premium in 2016.

AEGL is one of Europe's leading commercial insurance and reinsurance companies and operates a successful underwriting franchise throughout the UK, Ireland and Continental Europe. Headquartered in the UK with branch offices across Europe, AEGL and its European Economic Area ("EEA") branches hold cross-border permissions throughout the EEA. AEGL is also a 'white listed' surplus lines insurance and reinsurance company in the United States, entitling it to write surplus lines in all US states and US territories. Business is accessed by a variety of distribution channels and the company has strong relationships with the broker community, its corporate partners and direct markets.

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

The principal business segments of Chubb Europe are managed as UK & Ireland Property and Casualty ("UK&I P&C"), Continental Europe Property and Casualty ("CE P&C"), Accident and Health ("A&H") and Specialty Personal Lines ("SPL").

The P&C operations provide client-focused insurance solutions and risk management and engineering services for a range of UK and European multinational, large and mid-sized commercial clients, with products encompassing property, primary and excess casualty, financial lines, surety, marine cargo and construction related risks.

The A&H division underwrites a range of A&H and leisure travel related products, providing benefits and services to individuals, employee groups and affinity groups throughout Europe. In some cases these products are packaged under other brands or form part of another service provider's products. A range of personal accident and sickness insurance products including short-term disability, critical condition and hospitalisation/recovery are also offered across a number of European countries.

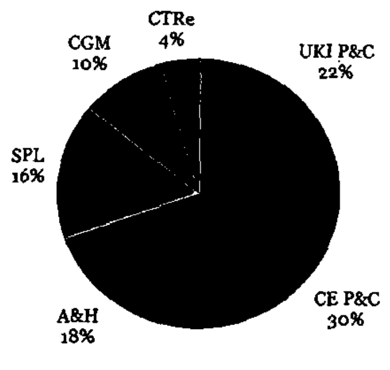
The SPL team has developed innovative insurance solutions and industry-leading claims capabilities for Mobile Network Operators and Electrical Retailers, in order to provide their customers with protection for their mobile devices.

Chubb Global Markets ("CGM") is the group's specialty international underwriting business. Its parallel distribution capabilities mean that underwriting products may be offered through both AEGL and Lloyd's Syndicate 2488, managed by ACE Underwriting Agencies Limited. CGM's product range includes tailored solutions for aviation, energy, financial lines, marine, property, political risks and excess & surplus lines ("E&S") insurance risks.

With underwriting operations located in London and Zurich, Chubb Tempest Re International ("CTRe") writes traditional and non-traditional aviation, casualty, marine and property treaty reinsurance worldwide. Products are offered predominantly through AEGL and Lloyd's Syndicate 2488, and also through various overseas Chubb group legal entities.

AEGL benefits from comprehensive and fully integrated support functions encompassing claims, finance and actuarial, risk management, legal and compliance, human resources, operations and IT.

The split of 2016 gross written premiums by business unit is illustrated below:



Business Objectives & Strategy

AEGL is distinguished by its market-leading risk expertise, a disciplined approach to underwriting, local presence offering fast access to decision makers and a commitment to its customers founded upon a superior claims service.

AEGL has an established underwriting ethos that permeates the company. Top line growth is not the primary driver for the company and underwriters are fully prepared to shed volume as necessary in order to maintain an underwriting profit. Using AEGL's underwriting skills and targeted marketing strategies, the company aims to generate growth in areas where risk-adjusted underwriting margins are favourable, and achieve better terms or shrink business where they are not.

AEGL is headquartered in London but can issue policies locally throughout its network of UK and European branch offices. This encourages underwriting flexibility and high levels of service for brokers and clients whilst ensuring local regulatory and tax requirements are adhered to. AEGL is an established player in the multinational marketplace and has the capability to provide fully integrated international insurance programmes for clients. AEGL's dedicated and experienced international underwriting and service teams work with Chubb's global network of offices to provide seamless, tailored solutions to the often unique and complex needs of multinational companies which includes agreeing coverage, issuing policies, adjusting claims and moving funds, all in accordance with legislative requirements and agreed service standards. The continuing trend of companies expanding beyond their local and national borders makes multinational business a key priority for AEGL.

The company strives to offer superior service levels in all aspects of its operations, from policy processing to engineering risk management and claims handling. AEGL continues to invest in technology to improve its operational efficiency, underwriter support and broker interfaces.

AEGL is committed to protecting and preserving its capital. It operates a conservative investment strategy and has maintained its focus on cash flow management and liquidity to secure its long term position in the insurance market.

Investment Strategy

AEGL operates a conservative investment strategy by establishing highly liquid, diversified, high quality portfolios managed by expert external managers. Detailed Chubb group investment guidelines are established for each managed portfolio including Chubb customised benchmarks against which the manager performance is measured.

AEGL maintains six active investment grade fixed income portfolios, the core currencies of which are sterling, euro and US dollars.

Further passive portfolios are maintained in Switzerland and Turkey to meet local solvency requirements. AEGL also allocates a limited proportion of funds available for investment to alternative strategies. These alternative strategies include high-yield bonds, syndicated bank loans, private loans and global equities.

Funds allocated to alternative strategies continued to fall comfortably within the established limits and the majority of AEGL's investments continued to be allocated to high quality, diversified, actively managed portfolios with exposure to a broad range of sectors. Consistent with previous years, AEGL's investment guidelines and external manager positioning continued to restrict exposure to peripheral Eurozone countries.

The approximate currency split of AEGL's investment portfolios is sterling 40%, US dollars 31% and euro 28%. Other currency investments comprise approximately 1% of the total.

Strategic Report
31 December 2016

Presentation of Financial Statements

The financial statements have been prepared under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance companies' individual financial statements and applicable accounting standards in the UK.

Key Performance Indicators

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

£ million	**2016**	**2015**
Gross premiums written	2,388.0	2,200.5
Net premiums written	1,318.0	1,152.7
Combined ratio % *	92.5%	92.1%
Profit before tax	193.2	56.9

* *Ratio of net claims incurred, commission and expenses to net premiums earned*

The Board also monitors the capital needs of the company. Further details in this regard are set out in the 'Financial position' section of this Strategic Report.

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

Results & Performance

2016 produced a pre-tax operating profit of £193.2 million and a combined ratio of 92.5%. A summary of the reported financial results is shown in the following table.

£ million	**2016**	**2015**
Gross premiums written	2,388.0	2,200.5
Net premiums written	1,318.0	1,152.7
Net premiums earned	1,260.4	1,110.6
Incurred losses	586.9	512.5
Operating expenses	578.7	510.3
Underwriting profit	**94.8**	**87.8**
Equalisation reserve movement	(105.1)	6.3
Investment return	120.9	6.4
Net other income / (charges)	(127.6)	(31.0)
Net pre-tax profit	**193.2**	**56.9**
Combined ratio %	92.5%	92.1%

Rating Environment

Retail commercial P&C insurance pricing in the UK and Ireland remained competitive during the year, with most lines experiencing single-digit rate reductions. Rating pressures were most pronounced on fire and technical lines renewals, although pockets of improvement were experienced in the marine sector. As in previous years, pricing was less volatile in the Continental Europe P&C markets and the overall price change on renewal business for the year was only marginally negative. Business retention across the region remained strong and although competition for new business was fierce.

There was no respite in competition for CGM's wholesale business during the year, and a number of accounts were non-renewed due to inadequate rating or terms. Overall pricing on renewal business was negative, driven by adverse rate movements, notably within the aviation and energy portfolios.

There was also sustained pressure on pricing and acquisition costs in the traditional A&H markets, with competitors increasingly willing to underwrite insurance business at aggressive combined ratios.

Conditions in the reinsurance market remained difficult as a consequence of over supply. Whilst the rate reductions were not as pronounced as the previous years, the market seemed more concerned with top line share rather than bottom line profitability.

All areas of the business experienced pressure on commission levels and fees. Brokers continued to push for increased remuneration and new facilities inundate the market, making some accounts less mobile or more expensive to underwrite. AEGL continues to leverage its position as a lead insurer to ensure that all commissions payable are justified and bring additional value to the company.

Drivers of Underwriting Result

AEGL underwrites UK, Continental Europe, US and international business which is principally transacted in sterling, euros and US dollars. For accounting purposes and within this report, the operating results of the business are presented in sterling. The significant depreciation of sterling against other currencies, notably the euro and US dollar, during the year has impacted the comparison of 2016 results against those of the prior year.

On an 'as reported' basis, gross written premiums increased by almost 9% in comparison to prior year. If the impact of currency movements is excluded, top line growth was just over 1%, with increases in the SPL and Tempest Re businesses offset by reductions in retail and wholesale P&C and A&H, primarily as a result of challenging market conditions.

AEGL purchases reinsurance to mitigate the impact of major events and an undue frequency of smaller losses. A number of the reinsurance programmes operated by AEGL during 2016 were with a Chubb company, Chubb Tempest Reinsurance Ltd. AEGL also has the benefit, particularly for US and worldwide catastrophe exposures, of reinsurance programmes shared with other Chubb entities, including Syndicate 2488 at Lloyd's. These arrangements result in an increase in the reinsurance purchasing power of Chubb, which ultimately benefits all subsidiaries, including AEGL. There were no significant changes to the company's reinsurance purchasing strategy in 2016.

After relatively benign natural catastrophe loss experience over the past few years, 2016 was hit by a number of devastating earthquakes and powerful storms. Global economic losses totalled approximately US$175 billion, with insured losses estimated at US$50 billion[1]. AEGL's exposure to large losses is managed by adherence to clear risk management and underwriting guidelines and the use of reinsurance protection and sophisticated modelling and analysis. The company's catastrophe losses net of reinsurance recoveries and reinstatement premiums during 2016 amounted to £6.8 million (2015: £4.4 million) with the most significant losses emanating from storms and flooding in the UK and Continental Europe, and hurricane activity in the US.

Prior period reserve releases were £54.1 million (2015: £90.7 million) with positive developments within a number of classes, particularly Casualty and Financial Lines. Excluding catastrophe losses and prior period development, the current accident year loss ratio for the year was 50.3% (2015: 53.9%), demonstrating the strength of the underlying business and the positive impact of the portfolio review process despite the sustained challenging conditions of the insurance and reinsurance markets.

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

[1] *Source: Munich Re press release, 4 January 2017*

Financial Markets Review

Volatility ebbed and flowed in 2016, with plummeting oil and commodity prices at the start of the year giving way to the surprising outcomes of the UK's Brexit referendum and the election of Donald Trump in the US. The year was also defined by a divergence in economic policy, as the Federal Reserve ("Fed") raised rates in December, while the European Central Bank ("ECB") continued easing.

Early in the year, global growth concerns in the midst of uncertainty from China, falling commodity prices and questions about the efficacy of central bank policies sparked a sell-off in risk assets. Despite the elevated volatility in financial markets, the fundamental backdrop remained mostly intact and supportive central banks helped reignite risk appetite in part with calming rhetoric and actions. The ECB announced additional easing measures in Europe, with a focus on credit expansion. Also, concerns about global influences and financial conditions kept the Fed on hold, with the statement suggesting a tolerance for overshooting their inflation target.

However, in late June, the unexpected outcome of the UK's Brexit referendum dominated headlines and market movements. Departing from the prevalent trend that began in mid-Q1 and extending through much of June, volatility began to rise as sovereign yields rallied significantly while risk assets generally underperformed. Still, the fundamental backdrop remained mostly intact and expectations for further central bank easing helped anchor risk appetite. Steadier commodity prices and fiscal stimulus in China helped bolster market sentiment, even as central banks remained on hold ahead of the referendum. Softer-than-expected employment data pushed market expectations for the next Fed rate hike out to 2018.

As the year progressed, markets shook off the impact of the Brexit vote and volatility decreased. Central banks featured prominently in the headlines as monetary policy concerns, in particular, the longevity of central bank support, lingered beneath the seemingly benign market environment. The Bank of Japan's "comprehensive review," the ECB's inaction, and the Fed's solidifying path towards an eventual December rate hike all contributed to sovereign yields generally rising.

Following the surprise election of Donald Trump, the market reaction was almost as surprising. In less than a day following Trump's decisive victory, volatility fell, equities rallied, credit spreads tightened and the dollar strengthened. Meanwhile, rates rose dramatically as most markets focused on the pro-growth and inflationary potential of expansionary fiscal policy, tax cuts, and deregulation. The risk seeking sentiment continued through December, even as market participants absorbed the potentially damaging protectionist rhetoric of the incoming Trump administration, leaving bond yields substantially higher than the low levels witnessed earlier in the year.

Investment Performance

Economic activity in 2016 provided a positive environment for fixed income investors. Yields on intermediate investment grade bonds fell significantly during the year for sterling and euro denominated portfolios. For AEGL this resulted in total returns in excess of 5.5% and 3.5% for sterling and euro mandates respectively. In the US, intermediate government yields increased modestly and investment grade corporate yields were broadly unchanged in 2016. For AEGL, this resulted in total returns of around 4% for US dollar investment grade mandates.

AEGL's alternative investment assets which constitute less than 14% of the total portfolio also generated strong absolute returns during 2016. The bulk of this allocation relates to upper tier US dollar high yield bonds which returned over 11% for the year. The modest allocations to equites, bank loans and private loans generated total returns of 9%, 7% and 10% respectively.

Overall, AEGL generated a total return of 4.6% on balances available for investment during 2016.

Financial Position

Capital

AEGL maintains an efficient capital structure consistent with the company's risk profile and regulatory and market requirements.

The company assesses its own capital needs on a detailed risk measurement basis, and then seeks to maintain financial strength and capital adequacy to support business objectives and meet the requirements of policyholders, regulators and rating agencies whilst retaining financial flexibility by ensuring liquidity.

Solvency II regulation came into force on 1 January 2016. AEGL managed its capital levels in 2016 in the context of the Solvency II Standard Formula Solvency Capital Requirement and the Solvency II Minimum Capital Requirement, which computes capital levels based on European industry risk factors related to premiums, reserves and assets. AEGL maintained capital throughout 2016 over and above the Solvency II Standard Formula Solvency Capital Requirement with an additional margin. With shareholders' funds of £1,397.5 million at year end 2016, the company continues to be appropriately capitalised against each of these measures.

For internal purposes, AEGL assesses its risk profile and own capital requirements using an internal model which has been developed to meet Solvency II requirements. The internal model is supported by a robust validation and governance framework which ensures its ongoing appropriateness and is refined to reflect AEGL's experience, changes in the risk profile and advances in modelling methodologies. An Internal Model Steering Committee that reports into the AEGL Executive Committee provides ongoing governance to ensure the Solvency II aspects are appropriately and continuously embedded into AEGL business as usual operations.

Ratings

AEGL holds financial strength ratings of "A++" from A.M. Best and "AA" from Standard & Poor's ("S&P"). Both ratings have a stable outlook.

Governance

AEGL has a documented corporate governance framework, the purpose of which is to exercise oversight and control over the management of the business.

The AEGL Board of Directors ("the Board") has reserved responsibility for decisions in connection with a number of matters, including those of a significant strategic, structural, capital, financial reporting, internal control, risk, policy or compliance nature. The Board meets routinely six times a year and additionally on other occasions to discharge its responsibilities in respect of these and other matters. In 2016 the Board met eleven times.

The Board comprises six independent non-executive directors and eight executive directors. In 2016 one executive and one non-executive director left the Board and two new executive directors and one non-executive director joined. Membership of the Board is kept under review to ensure that the composition and available expertise remains relevant to the current needs of the company. In 2016, two of the appointed executive and non-executive directors that joined the Board served also as directors of CICE; in an environment when the functions of the two companies were becoming closely aligned this enabled AEGL to take advantage of existing board level experience of CICE's business model.

AEGL greatly values the contribution of its non-executive directors in providing contrasting insights, experience and challenge in the Board's discussions. Details of director appointments and resignations can be found in the Directors' Report on page 17.

Key non-routine Board activity during the year included, i) consideration of conduct risk control frameworks and performance of the business and adoption of revised formal frameworks for customer and financial crime monitoring, ii) formalisation of the high level underwriting control framework, iii) plans for integration of European entities via cross border merger, iv) information security risk mitigation, v) assessment of the company's approach to gauging its culture, vi) consideration of the approach to capital management, vii) review of the status and effectiveness of integration of the functions supporting both AEGL and CICE during the process of alignment of those two companies and viii) consideration of the revision of certain policies in support of the alignment.

The Board received regular reports on the status of business results, business and function plans, resourcing, developments in the risk and regulatory environments, on consumer conduct, regulatory compliance, actuarial and solvency matters. One meeting was set aside to consider high-level business strategy.

The Board has delegated a number of matters to committees. Each of the following committees has formal terms of reference and matters reserved to it. Each, with the exception of the Executive Committee, Product Oversight Committee and the Routine Business Committee, includes non-executive directors in its membership, and each reports to the Board regularly in respect of its remit. The terms of reference of each Board committee were reviewed and refreshed in 2016, but not significantly amended.

The **Audit Committee**, which comprises exclusively non-executive directors, considers and makes recommendations to the Board on areas including validation of solvency calculations, internal controls, financial reporting, whistleblowing, 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. It meets regularly with the external Auditor without management being present.

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 Audit Committee kept a close review of the Internal Audit resources during 2016 to ensure that they remained adequate to carry out the annual audit plan for the year.

The Committee's role is aimed at providing assurance to the Board and Chubb 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 generally poor practice.

During 2016 the Committee in particular reviewed the approach taken to validation of internal model results, and also considered the effect on the finance and assurance functions of the integration of the company's operations with those of CICE.

The Board has delegated responsibility for the oversight and implementation of its risk management framework to the **Risk Committee**. The Committee oversees and advises the Board on risk exposures, future risk strategy, the design and implementation of the framework into the business on solvency and capital matters. It also ensures that business risks and controls are recorded and monitored. It receives regular reports on the Company's "Own Risk and Solvency Assessment" metrics, required by Solvency II, which helps to provide an independent overview of management's assessment of risk and a check against risk appetites agreed by the Board.

During the year the Risk Committee's non-routine activity included: i) reviewing reports on the improvement being made in cyber and information security and the development of the Cyber Risk Framework; ii) observations on the implementation of the Conduct Risk Framework; iii) consideration of integration risk during the alignment of AEGL and CICE systems and personnel and the impact to company culture; and iv) assessing the potential outcomes for the UK/European Union referendum and subsequent implications to the Company's operations.

The **Product Oversight Committee** provides organisation-wide consistent oversight in respect of conduct towards customers, receiving management information in line with the revised customer conduct control framework. The Committee's members include senior management representatives including those for all major lines of business. Non-Executive Directors are also invited to attend these meetings..

The remit of the **Nominations Committee** is to advise and recommend in connection with appointments to and the structure of the Board, including diversity and independence of composition, Board evaluation, succession planning for the non-executive directors and leadership needs.

The **Executive Committee** comprises all executive directors of AEGL and other members of the senior management team. The primary role of the Committee is to oversee the day-to-day management of business operations and performance, and to assist the President in implementing and overseeing operational strategies and decisions determined by the Board. The Executive Committee is also responsible for the oversight of support function activities, key steering groups and sub-committees including investment, internal model steering, credit risk, broker review, reserving, underwriting and project reporting. It meets monthly to oversee and discuss current issues. A number of specialist sub-committees, such as those for broker credit control and reserving, report to the Executive Committee to ensure that various aspects of the business are reviewed by a wide senior management group.

AEGL has a **Routine Business Committee** which meets on an ad hoc basis between formal Board meetings to consider authorisation of routine activity.

Risk & Control Framework

The Chubb Group is a global underwriting franchise 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.

AEGL has adopted the Chubb Group Enterprise Risk Management Framework ("RMF"), which describes the role of ERM within AEGL and how it helps the company achieve its business objectives, meet its corporate obligations and maintain the reputation of Chubb's business. Chubb's documented RMF is principles-based and sets out the organisational framework for risk taking, monitoring and governance.

The RMF adopts a "three lines of defence" model, comprising day-to-day risk management and controls, risk management oversight, and independent assurance.

The RMF identifies the key risks to which each business sector, and the company as a whole, is exposed, and their resultant impact on economic and regulatory capital. This framework employs Solvency II principles to assess risk and manage capital requirements to ensure the capital required to support AEGL's business objectives and to meet the requirements of policyholders, regulators and rating agencies is in place.

The AEGL Board is ultimately responsible for ensuring that the company operates within an established framework of effective systems of internal control, including the approval of the overall risk tolerance for the organisation and compliance with policies, procedures, internal controls and regulatory requirements.

The Board's oversight of the RMF is effected through the various committees and functions with particular purposes and direction around the monitoring of risk tolerances and oversight of internal controls and compliance procedures. AEGL's risk management function has a strong mandate from the Board to promote the RMF and embed it throughout the company.

The company's RMF was re-approved by the Board in 2016 together with a review of individual risk policies and risk appetite statements which set out defined risk-tolerance constraints for the execution of the business strategy. All key risk policies and procedures are subject to Board approval and ongoing review by executive management, the Risk Committee and the internal audit function.

Principal Risks

The RMF classifies individual risk sources 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. Risks associated with integration are actively considered but are not considered to be a new risk source – rather an extension of previously identified risks.

Insurance Risk

The principal risks from AEGL's insurance and reinsurance business 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 claims compared to expectations, inadequate reinsurance protection and inadequate reserving.

Underwriting risks and line sizes are continually monitored through the established peer review process and automated exception reporting. Each underwriter is given an authority based on technical expertise and experience to bind risks that fall within specified classes of insurance and specified maximum limits. Formal price monitoring procedures have been in place since early 2002 and form part of the standard monthly management statistics. These contribute to the quarterly actuarial review whereby the loss outcome of the underwriting activity is continually re-assessed and considered by the Reserve Sub-Committee.

With such a large and diverse book, it is vital that the company's aggregate exposures are continually monitored and adjustments made to the underwriting profile as appropriate. The company operates a dedicated catastrophe management function independent of underwriting management, whose responsibility is to model aggregate risk and assist with the pricing of this risk, providing a key control to the underwriting process.

Reinsurance is used to help mitigate some of the above insurance risk. However, the possibility of reinsurance risk itself arises when reinsurance purchasing proves inadequate in amount, fails to protect the underlying coverage or falls short when the reinsurer fails to pay.

Financial Risk

Financial risk includes a wide range of risks associated with activities such as investments, credit, liquidity and the impact of foreign exchange fluctuations:

- Investment risk includes the impact of market volatility on asset values attributable to such factors as interest rate movements and / or price changes.
- Credit risk arises from the possibility that the financial position of our counterparties deteriorates, and financial loss in the event of creditor default.
- Liquidity risk refers to the possibility that cash or equivalents, coupled with operating cash flows, will be insufficient to provide for claims payments to policyholders and other needs such as interest payments.
- Foreign exchange risk occurs when assets and liabilities are denominated in different currencies and materialises when asset holdings are decreased or liabilities increased by exchange rate movements.

Other financial risk sources manifest themselves through an impact on asset values. Among these are investment risk due to unanticipated interest rate movements having impacts on asset values, and asset-liability management risk when asset values are insufficient or unavailable to pay liabilities when due.

AEGL has an investment strategy which is aligned with its underwriting liabilities. There are also defined investment guidelines in respect of asset allocation, duration, liquidity and credit risk exposure with quality control around investment portfolio management to ensure compliance with the set guidelines.

These risks are discussed in more detail in Note 2 to the financial statements.

Operational Risk

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).

AEGL seeks to ensure that it is not exposed to operational risk in excess of the risk appetite with mitigating strategies including business continuity plans that have appropriate controls relating to key operational procedures and processes.

Strategic Risk

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 AEGL Board is responsible for the management of strategic risks arising from the execution of both the strategic and annual plans. The Board also receives reports produced to monitor and track business performance against the approved plan.

A key strategic risk continues to be the integration of AEGL with Chubb legal entities following the acquisition. The risks associated with the integration will continue to be measured and monitored on an on-going basis using the Chubb RMF.

The strategic risks associated with the UK's withdrawal from the EU were measured and monitored throughout 2016 using the Chubb RMF. Contingency plans are in place, where the risks associated will continue to be measured and monitored on an on-going basis.

Other Risks

Group risks: This 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, intra-group arrangements are governed in an appropriate arms-length manner. The intra-group arrangements 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.

Emerging risks: An integral part of the risk management framework is the identification and assessment of emerging risks. AEGL has defined emerging risks as any events, situations or trends that may arise within its internal and external operating environment that could significantly impact the achievement of its corporate objectives in either the short or long term. There is an internal system for the identification, assessment and monitoring of such risks with reports issued to senior management including analyses which are often iterative in nature and conclude with recommended action plans that can be implemented to minimise or otherwise manage the emerging risk.

Compliance

Compliance with regulation, legal and ethical standards is a high priority for Chubb and AEGL, and the compliance function has an important oversight role in this regard. Annual affirmation of the Chubb Code of Conduct is required of all employees and directors.

As a material subsidiary of Chubb Limited, a US listed company, the financial control environment in which the US GAAP financial statements are derived is subject to the requirements of US Sarbanes-Oxley legislation. AEGL has formalised documentation and tested controls to enable Chubb Limited to fulfil the requirements of the legislation.

AEGL is also committed to fulfilling its other compliance-related duties, including its observance of customer-focused policies, in line with regulatory principles, and it uses various metrics to assess its performance.

The company employs a skilled and specialist workforce to manage its regulatory and compliance responsibilities and aims to operate to a high standard. AEGL recognises and values its relationships with regulators in each of its jurisdictions and engages in open dialogue and communication to address and resolve any issues.

Employees

Chubb is dedicated to providing a safe and ethical working environment for its employees and is fundamentally committed to the creation of an inclusive, respectful and equitable workplace. Through its policies and practices for recruitment, development, retention and promotion, AEGL seeks a diverse workforce that is effective in its local markets and communities, and takes full advantage of a wide range of experiences and backgrounds.

Chubb is an equal opportunities employer and it is company policy to promote equality of opportunity and to avoid unlawful discrimination in employment. The company seeks to create a workplace where all employees, agency staff and contractors are treated appropriately, equitably and with dignity and respect.

Chubb is an organisation dedicated to providing superior underwriting, service and execution, and seeks to foster an environment of professional excellence that enables employees to be creative, agile, innovative and ethical in meeting customers' needs, whilst aligning personal development to the company's performance objectives. AEGL actively supports the personal and professional development of all its employees and operates talent and leadership development programmes to help staff realise their full career potential. The company operates a performance management process designed to allow each employee's performance to be objectively reviewed and measured so that AEGL can maximise potential, motivate, celebrate success and set clear expectations of its employees that are aligned to the company's strategic aims.

Communication with employees is primarily effected through the corporate intranet and regular briefings and presentations by Chubb Limited's Chief Executive Officer and local senior management. . Information provided is intended to present employees with key information on performance, strategy, market data and general information on the company. Employees are also provided with opportunities to raise questions in each of these forums.

AEGL supports a wide range of activities that benefit the community through the Chubb International Foundation and the Chubb Community Support Committee, predominantly in the areas of education, poverty, health and the environment. Employees also participate in a number of local voluntary community schemes and personal fundraising efforts which AEGL supports through a charity-matching scheme.

Details of the number of employees and related costs can be found in note 8 to the financial statements.

Approved by the Board of Directors

M K Hammond

Chief Financial Officer

18 April 2017

Directors' Report
31 December 2016

The directors are pleased to submit their report and the audited financial statements for the year to 31 December 2016.

Future Developments

Likely future developments in the business of the company are discussed in the Strategic Report.

Results and Dividends

The company made a profit on ordinary activities before tax for the year to 31 December 2016 of £193.2 million (2015: £56.9 million).

Shareholders' funds at the 31 December 2016 totalled £1,397.5 million (2015: £1,078.8 million).

An interim dividend of £100.0 million (2015: £Nil) was approved by the Board on 15 November 2016. The directors do not propose a final dividend.

Employees

Staff based in the company's branches outside the UK are directly employed by the company. Staff that support the UK branch operations of the company are employed by an affiliate, ACE INA Services U.K. Limited. Their costs are included in management recharges from this service company.

Directors

The following have been directors from 1 January 2016 to the date of this report unless otherwise indicated:

Executive directors:

M K Hammond

D Jaksic (appointed 7 March 2016)

A J Kendrick

J Moghrabi

R P Murray

J U Rehman (appointed 13 June 2016)

D P Robinson

A M W Shaw

K L H Underhill (resigned 21 January 2016)

Non-executive directors:

J A Napier

M Bailey

K N O'Shiel (appointed 14 November 2016)

A R Prindl (resigned 31 October 2016)

C E Riley

T C Wade

M J Yardley

Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) are put in place for the benefit of the directors and, at the date of this report, are in in force in relation to certain losses and liabilities which they may incur (or have incurred) in connection with their duties, powers or office.

The company also has the benefit of a group insurance company management activities policy effected by Chubb Limited. No charge was made to the company during the year for this policy.

Financial Risk Management

Information on the use of financial instruments by the company and its management of financial risk is disclosed in note 2 to the financial statements. In particular the company's exposures to interest rate risk, equity price risk, currency risk, credit risk and liquidity risk are separately disclosed in that note. The company's exposure to cash flow risk is addressed under the headings of "Credit risk" and "Liquidity risk".

Branches Outside the UK

In addition, to the UK headquarters, the company has a further 19 branches across Europe.

Statement as to Disclosure of Information to Auditors

Each of the persons who is a director at the date of this report confirms that:

1. so far as he or she is aware, there is no information relevant to the audit of the company's financial statements for the year ended 31 December 2016 of which the auditors are unaware, and
2. the director has taken all steps that he or she ought to have taken in his duty as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditors

The auditors, PricewaterhouseCoopers LLP, will continue to hold office in accordance with Section 487 of the Companies Act 2006.

By Order of the Board

M L Mellor
for and on behalf of
Chubb London Services Limited
Secretary, 18 April 2017
100 Leadenhall Street
London
EC3A 3BP

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ACE EUROPEAN GROUP LIMITED
31 December 2016

Report on the financial statements

Our opinion

In our opinion, ACE European Group Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2016;
- the Profit and Loss account and the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ACE EUROPEAN GROUP LIMITED
31 December 2016

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements 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 financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Nick Wilks (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
18 April 2017

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Technical account – general business			
Earned premiums, net of reinsurance:			
Gross premiums written – continuing operations	3	**2,390,113**	2,202,229
– discontinued operations	3	**(2,162)**	(1,740)
Gross premiums written	3	**2,387,951**	2,200,489
Outward reinsurance premiums		**(1,069,964)**	(1,047,747)
Net premiums written		**1,317,987**	1,152,742
Change in the gross provision for unearned premiums		**(59,207)**	(36,721)
Change in the provision for unearned premiums – reinsurers' share		**1,633**	(5,406)
Earned premiums, net of reinsurance		**1,260,413**	1,110,615
Claims incurred, net of reinsurance:			
Claims paid:			
Gross amount	3	**(1,272,709)**	(1,186,461)
Reinsurers' share		**662,328**	614,621
Net paid claims		**(610,381)**	(571,840)
Change in the provision for claims outstanding			
Gross amount	3	**(111,081)**	16,294
Reinsurers' share		**134,540**	43,028
Change in the net provision for claims outstanding		**23,459**	59,322
Claims incurred, net of reinsurance		**(586,922)**	(512,518)
Net operating expenses	5	**(578,676)**	(510,260)
Change in the equalisation provision	21	**105,102**	(6,260)
Balance on the technical account for general business		**199,917**	81,577

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Non-technical account			
Balance on the technical account for general business		**199,917**	81,577
Investment income	9	**96,220**	95,555
Unrealised gains on investments	9	**91,934**	10,976
Investment expenses and charges	9	**(41,401)**	(16,450)
Unrealised losses on investments	9	**(25,841)**	(83,705)
Foreign exchange differences		**(126,884)**	(30,509)
Other expenses		**(721)**	(538)
Profit on ordinary activities before taxation		**193,224**	56,906
Continuing operations		**197,314**	60,251
Discontinued operations		**(4,090)**	(3,345)
Taxation on profit on ordinary activities	10	**(32,841)**	(24,133)
Profit for the financial year		**160,383**	32,773

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year for the current or prior year and their historical cost equivalents.

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Profit for the financial year		**160,383**	32,773
Currency translation differences		**259,640**	42,411
Actuarial (loss) / gain recognised in relation to pension schemes		**(772)**	2,192
Movement on deferred taxation relating to pension liability		**(553)**	(584)
Total comprehensive income for the year		**418,698**	76,792

BALANCE SHEET
at 31 December 2016

	Note	2016 £'000	2015 £'000
Assets			
Investments			
Other financial investments	12	**2,997,692**	2,649,456
Financial derivative instruments	12	**745**	1,233
		2,998,437	2,650,689
Reinsurers' share of technical provisions			
Provision for unearned premiums	19	**365,539**	344,592
Provision for claims outstanding	19	**2,446,397**	2,104,517
		2,811,936	2,449,109
Debtors – amounts falling due within one year			
Debtors arising out of direct insurance operations:			
amounts owed by policyholders		**33,395**	30,414
amounts owed by intermediaries		**489,969**	399,933
Debtors arising out of reinsurance operations		**244,801**	226,762
Other debtors	13	**58,719**	104,093
		826,884	761,202
Other assets			
Intangible assets	15	**50,951**	-
Tangible assets	16	**3,593**	4,089
Cash at bank and in hand	2	**60,209**	63,274
		114,753	67,363
Prepayments and accrued income			
Accrued interest and rent		**35,597**	33,157
Deferred acquisition costs	19	**164,912**	129,213
Other prepayments and accrued income		**309**	602
		200,818	162,972
Total assets		**6,952,828**	6,091,335

BALANCE SHEET
at 31 December 2016

	Note	2016 £'000	2015 £'000
Liabilities			
Capital and reserves			
Called-up share capital	18	**544,741**	544,741
Profit and loss account		**827,067**	508,369
Merger reserve		**25,653**	25,653
Total shareholders' funds		**1,397,461**	1,078,763
Technical provisions			
Provision for unearned premiums	19	**929,851**	801,868
Provision for claims outstanding	19	**4,085,881**	3,656,716
Equalisation provision	21	-	105,102
		5,015,732	4,563,686
Deposits received from reinsurers		**7,892**	6,263
Creditors – amounts falling due within one year			
Creditors arising out of direct insurance operations		**20,863**	15,095
Creditors arising out of reinsurance operations		**253,872**	187,179
Bank overdraft	2	***51,821***	*74,500*
Other creditors including taxation and social security	20	**107,239**	94,583
		433,795	371,357
Other financial liabilities	12	**742**	495
Accruals and deferred income			
Deferred acquisition costs relating to reinsurance	19	**40,191**	31,792
Other accruals and deferred income		**48,769**	29,415
		88,960	61,207
Total liabilities excluding pension liability		**6,944,582**	6,081,771
Pension liability	17	***8,246***	*9,564*
Total liabilities		**6,952,828**	6,091,335

The notes on pages 27 to 53 are an integral part of these financial statements.

The financial statements on pages 22 to 53 were approved by the Board of Directors on 18 April 2017 and were signed on its behalf by:

M K Hammond
Chief Financial Officer
18 April 2017

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

	Note	Called-up share capital £'000	Merger reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2015		**544,741**	**25,653**	**431,577**	**1,001,971**
Profit for the financial year				32,773	32,773
Other comprehensive income:					
Currency translation differences		-	-	42,411	42,411
Actuarial gain recognised in relation to pension schemes		-	-	2,192	2,192
Movement on deferred taxation relating to pension liability		-	-	(584)	(584)
Dividends paid on equity shares	11	-	-	-	-
As 31 December 2015		**544,741**	**25,653**	**508,369**	**1,078,763**
Profit for the financial year				160,383	160,383
Other comprehensive income:					
Currency translation differences		-	-	259,640	259,640
Actuarial loss recognised in relation to pension schemes		-	-	(772)	(772)
Movement on deferred taxation relating to pension liability		-	-	(553)	(553)
Dividends paid on equity shares	11	-	-	(100,000)	(100,000)
As 31 December 2016		**544,741**	**25,653**	**827,067**	**1,397,461**

NOTES TO THE FINANCIAL STATEMENTS
31 December 2016

1. ACCOUNTING POLICIES

Basis of preparation

ACE European Group Limited is a limited liability company incorporated in the United Kingdom. The financial statements have been prepared under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance companies' individual financial statements and applicable accounting standards in the United Kingdom, including Financial Reporting Standard FRS 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and Financial Reporting Standard FRS 103, "Insurance Contracts" ("FRS 103").

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated. The company has adopted FRS 102 and FRS 103 in these financial statements. The financial statements are prepared on a going concern basis, under the historical cost convention modified to include the revaluation of certain financial assets and liabilities. The company is a wholly owned subsidiary within the Chubb Limited group and is included within the consolidated financial statements of Chubb Limited, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement and disclosing details of share-based payments under the terms of FRS 102.

Continuing and discontinued operations

Discontinued operations include business underwritten by ACE European Group Limited ("AEGL") prior to its reauthorisation by the Financial Services Authority ("FSA") in 2003. This business included UK marine and aviation business underwritten until 1994, accident and health business underwritten until 1995 and United States surplus lines business underwritten until 1998. Following the group reconstruction in 2005 (see the Statement of changes in equity); discontinued operations now also include marine and aviation business underwritten by Chubb Insurance S.A.-N.V. in the London market prior to 1999. All other operations are classified as continuing.

Premiums written

Premiums written, which are stated gross of brokerage but exclusive of premium taxes, relate to business incepted during the year, together with adjustments made in the year to premiums written in prior accounting periods. Estimates are made of pipeline premiums, representing amounts due but not yet received or notified to the company by intermediaries.

Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established risk profiles or time apportionment as appropriate.

Acquisition costs

Acquisition costs comprise brokerage, commissions and other related expenses, and are deferred over the period in which the related premiums are earned.

Claims incurred

Claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect expenses and adjustments to claims outstanding from previous years. Where applicable, deductions are made for reinsurance, salvage and other recoveries.

1. ACCOUNTING POLICIES – continued

Provision for claims outstanding and related reinsurance recoveries

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ("IBNR") at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

The reinsurers' share of the provision for claims outstanding is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. A number of statistical methods are used to assist in making these estimates.

The two most critical assumptions as regards the provision for claims outstanding are that the past is a reasonable predictor of the likely level of claims development, and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors consider that the provision for gross claims outstanding and related reinsurance recoveries is fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

When calculating the provision for claims outstanding, the reported business segments are subject to specific issues, as set out below:

Fire and other damage to property; marine, aviation and transport; accident and health

These business segments are predominantly "short tail"; that is, there is not a significant delay between the occurrence of the claim and the claim being reported to the company. The costs of claims notified to the company at the balance sheet date are estimated on a case by case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics, which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications.

Third party liability (including marine and aviation liability)

Liability claims are longer tail than the classes of business described above and so a larger element of the provision for claims outstanding relates to IBNR. Claims estimates for the company's liability business are derived from a combination of loss ratio based estimates and an estimate based upon actual claims experience using a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimate of the loss ratio, based on the experience of previous years adjusted for factors such as premium rate changes and claims inflation, and on the anticipated market experience, is an important assumption in this estimation technique. In respect of liability claims, the assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. The liability class of business is also subject to the emergence of new types of latent claims but no allowance is included for this as at the balance sheet date.

1. **ACCOUNTING POLICIES – continued**

Provisions for claims outstanding and related reinsurance recoveries – continued

Reinsurance acceptances

This business segment includes both short tail and long tail business, and is subject to the issues laid out in the preceding two sections above.

Asbestos, pollution and health claims ("APH")

The company has some exposure to APH from its discontinued operations. There may be a long delay between the occurrence and notification of these types of claim. In estimating the cost of claims the company considers the type of risks written historically that may give rise to exposure to these risks, notifications received from policyholders, the nature and extent of the cover provided, the current legal environment, changes in the effectiveness of clean up techniques and industry benchmarks of the typical cost of claims of this kind and of total expected insured losses. The company is protected by way of a stop loss agreement with a fellow group undertaking from any adverse development arising from such exposures in its marine and aviation account for 1991 and prior years.

Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred. The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant investment return.

Equalisation provision

From 1 January 2016, the requirement for UK insurers to maintain equalisation provisions was removed from the PRA Rulebook, and the requirements to maintain equalisation provisions under Council Directive 87/343/EEC were repealed by the Solvency II Directive.

Dividends

Dividends are recognised when they are approved by the Board of Directors.

Financial Assets and Liabilities

The company recognises a financial asset or a financial liability on its balance sheet when it becomes a party to the contractual provisions of the instrument. On initial recognition the company determines the category of financial instrument and values it accordingly. The classification depends on the purpose for which the investments are acquired.

Investments – fair value through profit and loss

A financial asset is classified into this category at inception if they are acquired principally for the purpose of selling in the short term, if they form part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated to minimise any measurement or recognition inconsistency with the associated liabilities.

Financial assets designated as fair value through profit and loss are initially recognised at fair value with any transaction costs being expensed through the profit and loss account. For quoted investments where there is an active market, the fair value is their quoted bid price at the balance sheet date. For quoted investments where there is no active market, the fair value is determined by reference to prices for similar assets in active markets.

1. ACCOUNTING POLICIES – continued

Realised gains and losses and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the profit and loss account in the period in which they arise.

Cash at bank and in hand and bank overdrafts

Cash at bank and in hand is cash in hand and deposits repayable on demand. Deposits are repayable on demand if they can be withdrawn at any time without notice and without penalty or if a maturity or period of notice of not more than 24 hours or one working day has been agreed. Bank overdrafts are repayable on demand.

Insurance and other receivables

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

Derivative financial instruments

The company has chosen to apply the disclosure requirements of FRS 102 in respect of financial instruments.

Derivative financial instruments are measured on initial recognition, and subsequently, at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the profit and loss account. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of interest rate swaps is the estimated amount that the company would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Purchases and sales of securities and currencies are recognised on trade date – the date on which the company commits to purchase or sell the asset.

Stock lending

The company is party to a securities lending agreement under which securities are lent to third parties on a short-term basis with collateral provided in return. The securities lent are not derecognised; rather they continue to be recognised within the appropriate investment classification.

Where the company is provided with collateral in the form of cash, it may hold the cash or reinvest it in other financial investments. The company recognises the cash or investments and the related obligation to return such collateral in the company's balance sheet.

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. FRS 102 requires that, for insurance entities, both realised and unrealised investment gains and losses be included as part of investment return in the profit and loss account. Dividends are recorded on the date on which the shares are quoted ex-dividend. Interest and expenses are accounted for on an accruals basis.

1. **ACCOUNTING POLICIES – continued**

Realised gains and losses on investments carried at fair value are calculated as the difference between net sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have previously been revalued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Stock lending fees are recognised as earned on a pro rata basis over the period of lending.

Intangible assets

Amortisation is provided on all intangible fixed assets to write off their cost on a straight line basis over their estimated useful lives as follows:

Computer software	Up to 12 years

Tangible assets

Tangible assets are capitalised and depreciated by equal annual instalments over their estimated useful lives as follows:

Land and buildings	Over the shorter of the lease term or 50 years
Motor vehicles	4 years
Leasehold improvements	Over the remaining period of the lease
Fixtures and fittings	5 years
Computer, office equipment and software	up to 5 years

Deferred taxation

Deferred taxation is recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more tax in future, or a right to pay less tax in future. An asset is not recognised to the extent that the transfer of economic benefits in future is uncertain. Deferred tax assets and liabilities recognised are not discounted.

Operating leases

Rents payable under operating leases are charged to the profit and loss account as incurred over the lease term.

Pension costs

The company operates a small number of funded defined benefit pension schemes in Europe with assets held in separate trustee-administered funds. The pension asset or liability recognised in the balance sheet is the value of the schemes' assets less the present value of the schemes' liabilities.

The pension cost for the schemes is analysed between current service cost, past service cost and net expected return on pension schemes. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period. Past service costs, relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits, are recognised in the profit and loss account on a straight-line basis over the period in which the increase in benefits vest.

Net expected return comprises the expected return on the pension scheme assets less interest on scheme liabilities.

The actuarial gains and losses which arise from valuations and from updating the latest actuarial valuations to reflect conditions at the balance date are taken to the statement of comprehensive income for the period. The attributable deferred taxation is shown separately in the statement of comprehensive income.

1. ACCOUNTING POLICIES – continued

Foreign currencies

AEGL operates as a number of branches, each of which conducts business in a variety of transactional currencies. These branches include both UK and overseas insurance operations and centralised treasury operations. Each of the branches is designated a functional currency.

Foreign currency transactions are accounted for, in functional currency, at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, from translating such transactions into the functional currency of the branch, and from the revaluation to year end exchange rates of monetary assets and liabilities, are recognised in the profit and loss account.

At each period end foreign currency monetary items are translated using the closing rate. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Results of branches, recorded in their functional currency, are translated into sterling at average rates of exchange while assets and liabilities are translated to sterling at year end exchange rates. Differences arising on translation are recorded in the statement of comprehensive income.

2. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT

Capital management

AEGL 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 then 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, AEGL is regulated by the PRA and is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held. Solvency II regulation came into force on 1 January 2016. AEGL manages its capital levels in the context of the Solvency II Standard Formula Solvency Capital Requirement and the Solvency II Minimum Capital Requirement, which computes capital levels based on European industry risk factors related to premiums, reserves and assets. The company performs tests and controls to ensure continuous and full compliance with the Solvency II regulations.

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 retain financial flexibility by maintaining strong liquidity.

2. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

Insurance risk

Insurance risk arises from fluctuations in the frequency and/or severity of claims. The company mitigates this risk by maintaining underwriting discipline throughout its operations. This policy is supported by each strategic business unit's underwriting guidelines, expertise and appropriate authority limits. These guidelines are updated regularly to reflect developments in the nature of the insurance risks being underwritten. The company also uses a reinsurance programme to manage its insurance risk by providing cover against certain large exposures.

Sensitivity to insurance risk

As highlighted in Note 1, there is inherent uncertainty in the ultimate cost of claims for which the company uses a variety of different actuarial techniques to estimate the provision for claims outstanding. If the net claims ratio for the year had been higher by 1%, then the profit for the financial year would have been lower by £12.6 million (2015: £11.1 million) and shareholders' funds would have been lower by £12.6 million (2015: £11.1 million). If the net claims ratio had been lower by 1%, then the profit for the financial year would have been higher by £12.6 million (2015: £11.1 million) and shareholders' funds would have been higher by £12.6 million (2015: £11.1 million).

Concentrations of insurance risk

As set out in Note 3, the company writes a diverse book of business across a number of underwriting classes. Approximately 30% of the gross written premiums for 2016 (2015: 30%) related to fire and other damage to property insurance, with the remainder split across a number of other classes.

Geographically, 55.9% (2015: 55%) of gross premiums written in 2016 relates to risks within continental Europe, with the remainder being spread across the United Kingdom, Asia Pacific, the United States of America, Africa & Middle East and Latin America.

Financial risk management objectives

The company is exposed to a range of financial risks through its financial assets and financial liabilities. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), liquidity risk and credit risk.

These financial risks principally arise from the investment activity of the business and consequent holdings in fixed income investments, all of which are exposed to general and specific market movements. The underwriting activity of the business also generates financial risk, particularly in the form of currency risk as well as liquidity and credit risk through its insurance and reinsurance receivables and payables.

The notes below explain how financial risks are managed. The processes used to manage these risks are unchanged from previous periods, and cover areas such as investment activity through stochastic modelling of the portfolio, within its internal capital model and consequent capital requirements.

Investment activity governance

The company operates an Investment Committee which functions under terms of reference determined by the Executive Committee of the Board. The Committee is charged with establishing and effecting an appropriate investment policy for the company having regard to the financial risk appetite of the company. In addition, the Committee has the responsibility for recommending the appointment and removal of investment managers, for reviewing the managers' performance and for reporting on all other material aspects of the investment function.

2. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

The Investment Committee comprises senior Chubb management and is chaired by the Chief Executive Officer of ACE Asset Management, the group's investment specialists who provide advisory services to Chubb group companies including AEGL. The Committee also includes the Chief Executive Officer, Chief Financial Officer and Treasurer of the company.

The investment management function is outsourced to specialist external managers.

Asset allocation policy

The Investment Committee has established a broad asset allocation policy which defines the limits for different asset types. The asset allocation policy cites two major asset classes: investment grade fixed income securities and alternative assets. Alternative assets can include equities, high-yield and emerging market instruments. The policy stipulates a target range of between 75% and 100% for investment grade fixed income securities and a range of between 0% and 25% for alternative asset classes. The current allocation to alternative assets sits at the mid of the target range, however, the position is regularly reviewed by the Investment Committee.

Investment guidelines

Investment management agreements have been established with the external investment managers. The agreements include specific guidelines for each individual portfolio in order to limit risks arising from duration, equity price, currency, liquidity, credit and counterparty exposures. The managers provide quarterly affirmation of compliance with these guidelines.

Interest rate risk

The company is exposed to interest rate risk primarily through its investments in fixed interest securities and, to the extent that claims inflation is correlated to interest rates, its liabilities to policyholders. Interest rate risk arises in the fixed income investment portfolio primarily through instrument duration. Accordingly, 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.

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 £2,870 million at external managers as at 31 December 2016 (2015: £2,563 million), an increase of 100 basis points in interest yields across all portfolios consecutively (principally sterling, euro and US dollars) 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 £133.8 million and accordingly decrease total shareholders' funds by £107.0 million.

Equity price risk

The company is exposed to equity price risk as a result of its holdings in equity investments, classified as financial assets at fair value through profit and loss.

The risk in respect of equities is moderated through the asset allocation policy which limits the allocation to equities. The investment guidelines restrict individual equity holdings relative to the size of the portfolio and the benchmark constituents.

All equity holdings of £42.2 million (2015: £33.4 million) are listed and represent 1% (2015: 1%) of the total investment portfolio. If the value of all equity markets in which the company invests decreased by 10%, with all other variables held constant, the total investment return would decrease by £4.2 million and the total shareholders' funds would decrease by £4.2 million.

2. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

Currency risk

The company is primarily exposed to currency risk in respect of assets and liabilities under policies of insurance denominated in currencies other than sterling. The company maintains various currency balances generated through regular business activity but the majority of the funds held are denominated in sterling, euros and US dollars. The company policy seeks to ensure that an approximate currency match of assets and liabilities is maintained, with the bulk of surplus funds held in sterling, euros and US dollars.

Any component of the shareholders' funds denominated in currencies other than sterling gives rise to currency risk due to exchange rate volatility relative to sterling.

The company is also exposed to currency risk in the investment portfolio as the investment guidelines allow the managers to invest a portion of the individual portfolios in securities not denominated in the designated core currency of the portfolio. However, the investment management agreements stipulate that the majority of any exposure to non-core currencies must be hedged, thus matching the risk. These allocations to non-core currencies are included within the quarterly evaluation of the currency alignment reviewed by the Investment Committee.

The accounting policy for foreign currencies is stated in note 1 to the financial statements. Profit and loss results pertaining to foreign branches are translated to sterling using the average rates of exchange for the year. Balance sheet components (monetary assets and liabilities) are translated to sterling using the rates of exchange at year end.

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) and the US dollar/sterling rate of US$1.375/£1 is down on the prior period (2015: US$1.539/£1). If sterling weakened by 10% against all currencies (primarily the euro and US dollar) and all other variables remained constant, the profit before tax for the year would have been £10.7 million less than the amount reported. This amount is calculated as 10% of the profits arising from non-sterling business. This is significantly lower than the actual foreign exchange loss in the current period as a result of various inter-branch currency balances that are in the process of being re-aligned. As a consequence, foreign exchange gains or losses in the profit and loss account are in the future expected to be less sensitive to changes in currency exchange rates.

For the monetary components of the balance sheet, the year-end rates used to convert euro to sterling have decreased by 12.7% to €1.191/£1 and US dollar to sterling has decreased 15% to US$1.266/£1 (2015: €1.364/£1 and US$1.489/£1). Assuming sterling had weakened by 10% against all currencies (primarily the euro and US dollar) and all other variables remained constant, the effect of translating year end foreign branch net assets based on these parameters would have resulted in decreased shareholders' funds of £87.6 million, which would have appeared as a loss in the statement of comprehensive income.

Liquidity risk

Liquidity risk is the risk that the company is unable to meet its obligations as they fall due. To counter this risk, the company aims to maintain funds in the form of cash or cash equivalents to meet known cash flows. In addition, the asset allocation policy and the investment guidelines are structured in order to ensure that funds are predominantly held in investment grade fixed income securities, the proceeds of which are readily realisable.

AEGL participates in a notional pooling programme with other Chubb group companies under a facility operated by Bank Mendes Gans, a subsidiary of ING, which specialises in global liquidity management. The facility operates by the notional pooling of designated balances of the Chubb group participants in order to provide additional liquidity. Chubb group participants may overdraw individual account balances to fund immediate short term needs against credit balances held elsewhere within the pool. On this basis, AEGL maintained an overdraft of £51.8 million at year end (2015: £74.5 million) and credit balances of £60.2 million (2015: £63.3 million) as presented on the balance sheet.

The company also benefits from letter of credit facilities which can be utilised to meet certain funding needs and notional pooling facilities with other Chubb group companies which serve to provide additional liquidity.

2. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

As indicated in the balance sheet, the company's financial liabilities are all payable within one year. Non-derivative financial liabilities with contractual maturities are payable within normal terms of trade, which is on average 60 days. Non-derivative financial liabilities with contractual maturities are limited to reinsurance premiums payable and expense accruals. Derivative financial liabilities at the balance sheet date have remaining contractual maturities of £0.00 million within 1 month, £0.27 million between 1 and 3 months, £nil between 3 months and 1 year and £0.47 million after more than one year.

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The company is exposed to credit risk through its investment activity and its insurance operations.

Credit risk – investment

The company is exposed to investment credit and price risk as a result of its holdings in fixed income and equity investments. The risk in respect of fixed income investments is moderated by the application of detailed investment guidelines which limit the size of holdings with individual issuers, restrict duration and dictate minimum credit quality, both for individual holdings and for the aggregate weighted portfolio.

The average credit quality of investment portfolios using Standard and Poor's ratings remained high throughout the year and at year end was "A". This is comparable to the previous year ("A"). AEGL had £42.2 million equity holdings at 2016 year end (2015: £33.4 million).

The risk in respect of equities is moderated through the asset allocation policy which limits the allocation to equities. The investment guidelines restrict individual equity holdings relative to the size of the portfolio and the benchmark constituents.

The investment guidelines seek to limit the credit risk of each of the portfolios through specifying eligible/ineligible investments; setting maximum counterparty exposures and minimum weighted credit quality and individual issuer credit quality; and requiring collateral and indemnity arrangements for stock lending transactions.

The company engages in a securities lending program from which it generates net investment income from the lending of certain of its investments to other institutions for short periods of time. The value of securities loaned is limited to 40% of the company's aggregate portfolio. Collateral is provided against the market value of the loaned securities. The market value is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities changes.

The company maintains strict control limits on open derivative positions, by both amount and term. The amount subject to credit risk at any one time is limited to the current fair value of derivative financial assets.

Credit risk – insurance operations

The company is exposed to credit risk as a result of its regular insurance and reinsurance activity. The areas of key exposure are:

- reinsurers' share of provision for claims outstanding;
- debtors arising from reinsurers in respect of claims already paid;
- amounts due from direct insurance and reinsurance policyholders; and
- amounts due from direct insurance and reinsurance intermediaries.

2. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

Ceded reinsurance is used to manage and mitigate inwards direct insurance and reinsurance risk. Ceded reinsurance does not discharge the company's liability as primary insurer. If a ceded reinsurer fails to pay a claim, the company remains liable for the payment to the policyholder. A Reinsurance Security Committee is operated by the Chubb group which analyses the creditworthiness of ceded reinsurers on a quarterly basis by reviewing their financial strength. In addition, the recent payment history of ceded reinsurers is used to update the reinsurance purchasing strategy.

With regard to direct insurance and reinsurance receivables, the company operates a committee to review broker security, a process for monitoring arrangements with managing general agents, and, in certain circumstances, the requirement for collateral to be posted by the policyholder to the benefit of the company.

Credit risk – insurance and investment operations

The assets bearing credit risk are summarised below:

	2016	2015
	£'000	£'000
Other financial investments	2,997,692	2,649,456
Derivative financial instruments	745	1,233
Reinsurers' share of technical provisions	2,811,936	2,449,109
Debtors arising out of direct insurance operations	523,364	430,347
Debtors arising from reinsurance operations	244,801	226,762
Total assets bearing credit risk	**6,578,538**	5,756,907

Other financial investments and derivative financial instruments are designated as fair value through profit or loss at inception, and their performance evaluated on a fair value basis, in accordance with a documented investment strategy as detailed in note 1. The Standard and Poor's credit rating for other financial investments and derivative financial securities is detailed below.

	2016	2015
	£'000	£'000
AAA	315,814	805,243
AA	1,049,792	521,996
A	579,778	448,516
BBB	640,254	561,940
Below BBB or not rated	412,799	312,994
	2,998,437	2,650,689

Other financial investments and derivative financial instruments are neither past due nor impaired.

The amount of change, during the period and cumulatively, in the fair value of receivables that is attributed to changes in credit risk is represented by the provision for impairment against receivables past due.

Reinsurers' share of technical provisions includes claims outstanding, related claims handling costs, IBNR and unearned premium reserve. This is described along with the valuation methods in note 1. This balance includes 0.0% past due that have been impaired (2015: 0.0%).

2. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

Debtors arising out of direct and reinsurance operations are held at fair value less any provision for impairment as described in note 1. They include 0.2% (2015: 0.2%) that have been impaired and 21.9% (2015: 24.5%) that are past due, but not impaired. The latter is aged 20.4% up to six months (2015: 23.5%), 1.2% six months to a year (2015: 0.7%) and the remaining 0.3% is older than a year (2015: 0.3%).

The Standard and Poor's credit rating for reinsurers share of technical provisions and debtors arising out of reinsurance operations are detailed below.

	2016	2015
	£'000	£'000
AA	2,343,931	2,158,497
A	519,779	354,903
BBB	1,788	3,312
Below BBB or not rated	191,239	159,159
	3,056,737	2,675,871

Where appropriate the company seeks to obtain collateral from counterparties to mitigate the credit risk exposure from insurance and reinsurance receivables. At 31 December 2016 the collateral provided to the company totalled £651.3 million (2015: £808.2 million). This balance is represented by Letters of Credit – 62.4% (2015: 25.8%), trust funds – 36.1 % (2015: 72.9%), cash – 1.4% (2015: 1.3%) and floating charge – 0.0% (2015: 0.0%).

The maximum exposure of receivables to credit risk at the balance sheet date is the carrying value less any collateral obtained from counterparties. For the purpose of this disclosure 'receivables' comprises 'Reinsurers' share of technical provisions', 'Debtors arising out of direct insurance operations' and 'Debtors arising from reinsurance operations'. At the balance sheet date the maximum exposure of receivables to credit risk was £2,928.8 million (2015: £2,298.0 million).

3. SEGMENTAL ANALYSIS

Segmental information in the format required by the Companies Act 2006 is as follows:

	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance
	£'000	£'000	£'000	£'000	£'000
Year to 31 December 2016					
Continuing operations: Direct insurance					
Accident and health	418,951	419,719	(155,428)	(154,151)	(40,830)
Marine, aviation and transport	111,592	110,318	(70,222)	(27,077)	(19,360)
Fire and other damage to property	725,433	721,610	(300,582)	(274,620)	(219,520)
Third party liability	517,786	498,979	(252,017)	(121,775)	(43,235)
Miscellaneous	159,765	153,253	(98,843)	(38,019)	(2,665)
Reinsurance acceptances	456,586	427,027	(501,572)	(117,738)	207,762
	2,390,113	2,330,906	(1,378,664)	(733,380)	(117,848)
Discontinued operations	(2,162)	(2,162)	(5,126)	-	1,089
	2,387,951	2,328,744	(1,383,790)	(733,380)	(116,759)

3. SEGMENTAL ANALYSIS – continued

	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance
	£'000	£'000	£'000	£'000	£'000
Year to 31 December 2015					
Continuing operations:					
Direct insurance					
Accident and health	422,084	419,404	(147,250)	(147,066)	(39,048)
Marine, aviation and transport	95,589	94,834	(53,805)	(23,768)	(17,812)
Fire and other damage to property	669,137	640,403	(476,889)	(240,151)	(18,003)
Third party liability	458,353	461,397	(279,942)	(109,826)	(60,812)
Miscellaneous	147,988	145,723	(66,673)	(39,850)	(37,406)
Reinsurance acceptances	409,078	403,748	(150,137)	(114,275)	(52,377)
	2,202,229	2,165,509	(1,174,696)	(674,936)	(225,458)
Discontinued operations	(1,740)	(1,741)	4,529	(176)	(5,194)
	2,200,489	2,163,768	(1,170,167)	(675,112)	(230,652)

The reinsurance balance represents the credit (charge) to the technical account from the aggregate of all items relating to outwards reinsurance.

Analysis by geographic area – origin

	Gross written premiums		Profit (loss) before taxation		Net assets	
	2016	2015	**2016**	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
United Kingdom	**1,045,345**	1,005,949	**136,515**	(65,443)	**460,467**	299,653
Other EEA states	**1,315,445**	1,170,222	**56,277**	114,763	**882,546**	732,774
Other countries	**27,161**	24,318	**432**	7,586	**54,448**	46,336
	2,387,951	2,200,489	**193,224**	56,906	**1,397,461**	1,078,763

Gross written premium information by destination (location of risk) as required by FRS 102 as follows:

	2016	2015
	£'000	£'000
United Kingdom	**564,153**	580,253
United States of America	**67,385**	56,668
Continental Europe	**1,334,213**	1,202,812
Africa & Middle East	**57,158**	45,937
Asia/Pacific	**90,560**	78,617
Americas	**50,108**	40,973
Worldwide	**226,537**	196,970
Discontinued business	**(2,162)**	(1,740)
	2,387,951	2,200,489

4. MOVEMENT IN PRIOR YEARS' PROVISION FOR CLAIMS OUTSTANDING

The prior years' net provision for claims outstanding generated a surplus for 2016 (2015: surplus) as detailed below:

	2016	2015
	£'000	£'000
Continuing operations:		
Accident and health	(20,462)	6,907
Marine, aviation and transport	(5,054)	13,037
Fire and other damage to property	15,360	23,292
Third party liability	61,081	55,094
Miscellaneous	7,178	(5,662)
	58,103	92,668
Discontinued operations	(4,038)	(1,945)
	54,065	90,723

5. NET OPERATING EXPENSES – TECHNICAL ACCOUNT

	2016	2015
	£'000	£'000
Acquisition costs	446,078	413,106
Change in net deferred acquisition costs	(10,999)	(16,518)
Administrative expenses	303,054	254,403
Reinsurance commissions	(159,457)	(140,731)
	578,676	510,260

Administrative expenses include costs that are incurred by ACE INA Services U.K. Limited ("AIS"), a fellow group undertaking, and recharged to the company in the form of management charges. In particular, this charge includes the cost of the AIS staff engaged in the business of AEGL.

In 2016 administrative expenses include integration costs of £45.1 million (2015: £Nil).

Total commissions for direct insurance accounted for by the company during the year amounted to £344.1 million (2015: £308.1 million), and are included within acquisition costs.

6. AUDITOR'S REMUNERATION

	2016	2015
	£'000	£'000
Fees payable to the Company's auditor for the audit of the Company's financial statements	694	469
Fees payable to the Company's auditor for other services:		
Audit-related assurance services	200	305
Tax compliance services	299	336
Tax advisory services	12	158
Other non-audit services	1,075	540
	2,280	1,808

Audit-related assurance services include reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act 2002 and also the audit of the Company's regulatory return.

7. OPERATING LEASE RENTALS

The total rentals under operating leases, charged as an expense in the profit and loss account, are disclosed below:

	2016	2015
	£'000	£'000
Leasehold property	7,011	5,214

The total of future minimum lease payments under non-cancellable operating leases are as follows:

	2016	2015
	£'000	£'000
Operating leases which expire:		
Within 1 year	1,262	782
Between two and five years	15,022	10,350
More than five years	3,497	8,511
	19,781	19,643

8. DIRECTORS AND EMPLOYEES

	2016	2015
	£'000	£'000
Cost of staff employed by the company		
Wages and salaries	71,559	64,139
Social security costs	16,415	15,243
Other pension costs	6,332	5,641
Other staff costs	7,315	6,473
	101,621	91,496

The monthly average number of employees of the company during the year was as follows:

	2016	2015
	No.	No.
Underwriting	646	742
Claims	202	183
Other	274	277
	1,121	1,202

The disclosures above relate to staff based in the company's branches outside the UK who are directly employed by the company. Staff that support the UK branch operations of the company and centralised functions that are managed in the UK are employed by AIS and their costs are incorporated in management recharges from this service company. For disclosure purposes, it is not practical to allocate these amounts to the underlying entities to which the staff provide services.

8. DIRECTORS AND EMPLOYEES – continued

Directors' emoluments

All directors received emoluments through AIS in respect of their services to Chubb group companies. The cost of these emoluments is incorporated within the management recharges from AIS. 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 paid by AIS to the directors of this company.

	2016	2015
	£'000	£'000
Aggregate emoluments and benefits	5,359	4,839
Company pension contributions to money purchase pension schemes	23	132
	5,382	4,971

Included in the above amounts paid by AIS in respect of the directors of this company, the highest paid director was paid a total of £979,163 (2015: £787,668) in respect of emoluments and benefits. The amount of accrued pension and accrued lump sum in relation to the highest paid director at the end of the year were £Nil (2015: £Nil) and £Nil (2015: £Nil) respectively.

The aggregate emoluments above do not include share based remuneration. All executive directors are entitled to receive shares in Chubb Limited under long-term incentive plans. During the year, 6 directors received shares in Chubb Limited under long-term incentive plans and 6 directors 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 1 current director under the final salary section. Disclosures relating to this scheme are contained within the financial statements for AIS. From 1 April 2002, pension benefits are accruing to 5 current directors under the ACE European Group UK Pension Plan (Stakeholder scheme).

9. INVESTMENT RETURN

	2016	2015
	£'000	£'000
Investment income		
Income from investments	84,286	81,656
Gains on the realisation of investments	11,934	13,899
	96,220	95,555
Investments on expenses and charges		
Investment management expenses	(10,635)	(9,231)
Losses on the realisation of investments	(30,766)	(7,219)
	(41,401)	(16,450)
Net unrealised gains less losses on investments		
Unrealised gains on investments	91,934	10,976
Unrealised losses on investments	(25,841)	(83,705)
	66,093	(72,729)
Total investment return	120,912	6,376

10. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2016	2015
	£	£
Current taxation		
UK corporation tax at 20% (2015: 20.25%)	18,863	11,546
Adjustments in respect of prior years	(846)	(1,138)
Total current taxation	18,017	10,408
Double taxation relief	(16,166)	(11,546)
	1,851	(1,138)
Foreign taxation		
Current taxation on income for the period	20,685	32,284
Adjustments in respect of previous periods	(8,110)	(7,054)
	12,575	25,230
Deferred taxation		
Origination and reversal of timing differences	20,123	131
Adjustments in respect of previous periods	-	(109)
Effect of change in tax rates	(1,708)	19
Total deferred tax charged	18,415	41
Tax on profit on ordinary activities	32,841	24,133

Tax included in the statement of comprehensive income		
The tax charge is made up as follows:		
Actuarial loss on pension scheme	287	382
Changes in rate	266	203
Total tax charge	553	585

(b) Factors affecting the current tax charge

The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 20% (2015: 2
The differences are reconciled below:

	2016	2015
	£	£
Profit on ordinary activities before tax	193,224	56,906
Profit on ordinary activities multiplied by standard rate of UK corporation tax of 20% (2015: 20.25%)	38,645	11,523
Expenses not deductible for tax purposes	543	85
Higher taxation rates on overseas earnings	4,317	20,807
Changes in rate	(1,708)	19
Adjustments in respect of prior periods - current tax	(8,956)	(8,192)
Adjustments in respect of prior periods - deferred tax	-	(109)
Total tax charge for the year	32,841	24,133

The adjustments in respect of previous periods arise from differences between overseas and UK tax bases. The company has unrecognised eligible unrelieved foreign tax (EUFT) totalling £59.9 million as at 31 December 2016 which is unlikely to be relieved in the foreseeable future.

11. DIVIDENDS

During 2016 the company paid a dividend of 18.4p per share totalling £100.0 million (2015 £Nil)

12. OTHER FINANCIAL INVESTMENTS

	Market Value 2016 £'000	Cost 2016 £'000	Market Value 2015 £'000	Cost 2015 £'000
Shares and other variable yield securities and units in unit trusts	42,237	38,077	33,428	32,663
Private Equity	25,043	23,896	6,862	6,952
Debt securities and other fixed interest securities	2,869,945	2,743,798	2,562,813	2,514,988
Deposits with credit institutions*	60,467	60,467	46,353	46,353
	2,997,692	2,866,238	2,649,456	2,600,956

None of the above investments, except equities, are listed on a recognised exchange.

*Deposits with credit institutions includes £30.1 million (2015: £29.8 million) of collateral in respect of stock lending arrangements (note 22).

Derivative financial instruments

	Assets 2016 £'000	Liabilities 2016 £'000	Assets 2015 £'000	Liabilities 2015 £'000
Forward foreign currency contracts	268	275	393	244
Fixed income options and futures	477	467	840	251
	745	742	1,233	495

The cost of entering into derivative financial instruments was £286,707 (2015: £2,075).

Currency derivatives

The company utilises currency derivatives to manage currency exposure which arises through the acquisition of investments in currencies other than the designated core currency of the investment portfolio.

At the balance sheet date, the total notional amount of outstanding forward foreign exchange contracts to which the company is committed are as follows:

	2016 £'000	2015 £'000
Forward foreign exchange contracts	(14)	96

At 31 December 2016, the fair value of the company's currency derivatives results in a loss of £0.01 million (2015: gain of £0.2 million). These amounts are based on rates of exchange at the balance sheet date, comprising £0.3 million of assets (2015: £0.4 million) and £0.3 million of liabilities (2015: £0.2 million).

A loss of £0.1 million (2015: loss of £0.7 million) has been recognised in the profit and loss account in respect of contracts which matured during the period.

12. OTHER FINANCIAL INVESTMENTS – continued

The company does not currently designate its foreign currency denominated debt as a hedging instrument for the purpose of hedging the translation of its foreign operations.

Fixed income options and futures

Options and futures contracts on fixed income securities may be utilised by the investment managers as part of their strategy to mitigate duration risk, enhance yield or to obtain exposure to a particular instrument or market.

At 31 December 2016, the fair value of the company's fixed income derivatives is an asset of £0.01 million (2015: asset of £0.6 million) comprising £0.48 million of assets (2015: £0.8 million) and £0.47 million of liabilities (2015: £0.2 million).

A loss of £2.8 million (2015: gain of £2.4 million) has been recognised in the profit and loss account in respect of contracts which matured in the period.

FRS 102 requires the company to classify financial instruments into a fair value hierarchy as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

For 2016 the company has taken early adoption of the Financial Reporting Council's Amendments to FRS 102 – Fair value hierarchy disclosure, the amendments of which simplify the preparation of disclosures about financial instruments for financial institutions and retirement benefit plans.

An analysis of financial instruments at 31 December 2016 by fair value hierarchy is set out below:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Assets:				
Shares and other variable yield securities and units in unit trusts	42,237	-	-	42,237
Private Equity	-	-	25,043	25,043
Debt securities and other fixed interest securities	80,723	2,775,134	14,088	2,869,945
Deposits with credit institutions	30,355	30,112	-	60,467
Derivative financial instruments	477	268	-	745
Total assets at fair value	153,792	2,805,514	39,131	2,998,437
Liabilities:				
Derivative financial instruments	468	275	-	743
Total liabilities at fair value	468	275	-	743

12. OTHER FINANCIAL INVESTMENTS – continued

An analysis of financial instruments at 31 December 2015 by fair value hierarchy is set out below:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Assets:				
Shares and other variable yield securities and units in unit trusts	33,428	-	-	33,428
Private Equity	-	-	6,863	6,863
Debt securities and other fixed interest securities	101,003	2,450,987	10,823	2,562,813
Deposits with credit institutions	16,830	29,522	-	46,352
Derivative financial instruments	840	393	-	1,233
Total assets at fair value	152,101	2,480,902	17,686	2,650,689
Liabilities:				
Derivative financial instruments	251	244	-	495
Total liabilities at fair value	251	244	-	495

Shares and other variable yield securities and units in unit trusts only comprise listed equities. As the fair values of these securities are based on quoted market prices they are classified within Level 1.

'Debt securities and other fixed interest securities' with active markets such as Government securities are classified within Level 1, as fair values are based on quoted market prices. For debt securities and other fixed interest securities that trade in less active markets, including corporate securities, fair values are based on the output of pricing models, the significant inputs into which include, but are not limited to, yield curves, credit risks and spreads, measures of volatility, and prepayment speeds. These debt securities and other fixed interest securities are classified within Level 2. Debt securities and other fixed interest securities for which pricing is unobservable are classified within Level 3.

'Deposits with credit institutions' includes short term investments, such as liquidity funds. Where such securities are traded in active markets, they are classified within Level 1, as fair values are based on quoted market prices. Where no active market exists for such securities they are typically classified within Level 2 and where pricing is unobservable, Level 3.

Where 'Derivative financial instruments' are actively traded the values of these securities are based on quoted market prices. Accordingly they are classified within Level 1. Instruments that are not actively traded are classified within Level 2.

During the period no significant investments were transferred between Level 1 and Level 2.

12. OTHER FINANCIAL INVESTMENTS – continued

	2016 £'000	2015 £'000
Balance at 1 January	17,685	11,015
Gains Recognised in the Profit and Loss Account *	3,790	155
Purchases	15,937	6,952
Sales	(572)	(468)
Transfers in/(out) of Level 3**	2,291	31
Balance at 31 December	39,131	17,685

* Gains recognised in the Profit and Loss Account comprise realised losses of £13,500 (2015: £Nil) which are presented within Investment Income, unrealised gains of £892,000 (2015: losses of 382,000) and foreign exchange gains of £2,911,000 (2015: gains of £537,000) all of which are presented in the Non-Technical Account. Of this amount a £3,790,000 gain (2015: gain of £155,000) relates to investments held at the end of the period and comprises £13,500 of *realised loss (2015: £Nil), £892,000 of unrealised gain (2015: loss of £382,000) and £2,911,000 of foreign exchange gain* (2015: gain of £537,000).

** During the period a small number of investment grade and high yield fixed interest investments were transferred into and out of Level 3 due to changes in their pricing source. The net value of the investments transferred was £2.29 million (2015: £0.03 million).

13. OTHER DEBTORS

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Amounts due from group undertakings	44,571	94,529
Corporation tax receivable	3,778	-
Deferred taxation (note 14)	-	4,261
Receivable for sales of securities	4,676	1,122
Other debtors	5,694	4,181
	58,719	104,093

14. DEFERRED TAXATION

The deferred tax included in the statement of financial position is as follows:

	2016	2015
	£	£
Unrealised gains on investments		
Accelerated capital allowances	(1,016)	857
Share-based payments	19	35
Pension costs	1,402	1,814
Deferred costs	791	1,358
UPR & DAC	168	197
Equalisation reserve	(16,071)	
Deferred tax	(14,707)	4,261

An analysis of the movement in deferred tax is as follows:

	2016	2015
	£	£
At 1 January	4,261	4,887
Prior year adjustment	-	109
Deferred tax charge to profit and loss account	(20,123)	(131)
Deferred tax charge to other comprehensive income	(553)	(585)
Change in tax rate	1,708	(19)
	(14,707)	4,261

The amount of the net reversal of deferred tax assets and liabilitites expect to occur in 2016 is £3,426k (2015: £134k) largely in respect of the reversal of timing differences on qualifying fixed assets.

Finance Act 2016 enacted a reduction in corporation tax rates to 19% from 1 April 2017 and 17% from 1 April 2020.

15. INTANGIBLE ASSETS

	Software	Total
	£'000	£'000
Cost		
At 1 January 2016	-	-
Additions*	50,193	50,193
Disposals	(123)	(123)
Transfers**	3,344	3,344
Foreign exchange differences	461	461
At 31 December 2016	53,875	53,875
Accumulated depreciation		
At 1 January 2016	-	-
Charge for the period	274	274
Disposals	(59)	(59)
Transfers**	2,378	2,378
Foreign exchange differences	331	331
At 31 December 2016	2,924	2,924
Net book value		
31 December 2016	50,951	50,951
31 December 2015	-	-

* Additions relate to Software balances acquired from ACE INA Services UK Limted at 31 December 2016.

** Transfers relate to the reclassification of Software balances as at 1 January 2016 from Tangible assets (see Note 16).

16. TANGIBLE ASSETS

	Land and Building	Motor Vehicles	Leasehold improvements, Fixtures and Fittings	Computer, Office Equipment and Software	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2016	1,284	635	9,196	5,843	16,958
Additions	-	-	963	32	995
Disposals	-	(296)	(8)	(21)	(325)
Transfers*	-	-	-	(3,344)	(3,344)
Foreign exchange differences	186	91	1,254	351	1,882
At 31 December 2016	1,470	430	11,405	2,861	16,166
Accumulated depreciation					
At 1 January 2016	959	606	6,543	4,761	12,869
Charge for the period	28	21	769	132	950
Disposals	-	(293)	(6)	(21)	(320)
Transfers*	-	-	-	(2,378)	(2,378)
Foreign exchange differences	140	89	944	279	1,452
At 31 December 2016	1,127	423	8,250	2,773	12,573
Net book value					
31 December 2016	343	7	3,155	88	3,593
31 December 2015	325	29	2,653	1,082	4,089

* Transfers relate to the reclassification of Software balances as at 1 January 2016 to Intangible assets (see Note 15).

17. PENSIONS

The company operates a small number of defined benefit pension schemes in Continental Europe. As at 31 December 2016, the aggregate assets and liabilities relating to these schemes were £43.5 million (2015: £32.1 million) and £51.7 million (2015: £41.7 million) respectively. Company contributions to the schemes totalled £1.3 million (2015: 1.1 million) and the expense recognised in the profit and loss account was £1.6 million (2015: £1.6 million).

18. CALLED-UP SHARE CAPITAL

	2016	2015
	£'000	£'000
Allotted, issued and fully paid:		
'A' Ordinary £1 shares	544,741	376,567
'B' Ordinary £1 shares	-	168,174
	544,741	544,741

On the 3 November 2016, the A and B class of shares were consolidated into Ordinary 'A' shares.

19. INSURANCE BALANCES

DEFERRED ACQUISITION COSTS

The reconciliation of opening and closing deferred acquisition costs is as follows:

	Gross		Reinsurers' share	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
At 1 January	129,213	151,986	31,792	66,954
Change in acquisition costs deferred during the year	15,752	(7,602)	4,753	(24,120)
Foreign exchange gains / (losses)	19,947	(15,171)	3,646	(11,042)
At 31 December	164,912	129,213	40,191	31,792

UNEARNED PREMIUM

The reconciliation of opening and closing unearned premium provision is as follows:

	Gross		Reinsurers' share	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
At 1 January	801,868	799,518	344,592	361,792
Increase/(decrease) in provision	59,207	36,721	1,633	(5,406)
Foreign exchange movements	68,776	(34,371)	19,314	(11,794)
At 31 December	929,851	801,868	365,539	344,592

CLAIMS OUTSTANDING

The reconciliation of opening and closing provision for claims is as follows:

	Gross		Reinsurers' share	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
At 1 January	3,656,716	3,713,917	2,104,517	2,068,893
Increase/(decrease) in provision	111,081	(16,294)	134,540	43,028
Foreign exchange movements	318,084	(40,907)	207,340	(7,404)
At 31 December	4,085,881	3,656,716	2,446,397	2,104,517

20. OTHER CEDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2016	2015
	£'000	£'000
Corporation taxation payable	-	12,513
Deferred taxation (note 14)	14,707	-
Payable for purchases of securities	13,056	5,927
Other creditors	49,216	46,375
Liability for stock lending collateral (note 22)	30,260	29,768
	107,239	94,583

21. EQUALISATION PROVISION

From 1 January 2016, the requirement for UK insurers to maintain equalisation provisions was removed from the PRA Rulebook, and the requirements to maintain equalisation provisions under Council Directive 87/343/EEC were repealed by the Solvency II Directive. As a result, in 2016 the prior year's closing equalisation provision of £105,102,000 has been released to the profit and loss account. The release had the effect of increasing the balance on the technical account for general business and increasing the profit on ordinary activities before taxation by £105,102,000 (2015: decrease on profit before tax of £6,260,000).

22. STOCK LENDING

The company participates in stock lending activities with State Street Bank and Trust company.

	2016	2015
	£'000	£'000
Aggregate value of securities on loan at 31 December	508,432	413,500
Income from stock during the year	776	491

In respect of securities on loan at the year end, the company held £545.2 million (2015: £422.9 million) as collateral, the value of which is above the value of the loan securities by 7.2% (2015: 2.2% above).

Included within the £545.2 million (2015: £422.9 million) of collateral held is £30.1 million (2015: £29.8 million) in the form of cash which has been reinvested by the company. This is included on the face of the balance sheet within 'Other financial investments'.

23. LETTER OF CREDIT FACILITIES

There were two Letter of Credit facilities open at the end of 2016. These were:

- Citibank NA: value £59.1m with associated collateral of £74.2m;
- Lloyds TSB: value £0.68m equally matched by collateral; and

Collateral is included within investments and cash on the balance sheet.

24. CAPITAL COMMITMENTS

No capital expenditure was authorised at 31 December 2016 which has not been provided for in these financial statements.

25. TRANSACTIONS WITH RELATED PARTIES

During the year, there were no material transactions or balances between AEGL and fellow group companies, key management personnel or members of their close family, which require disclosure under the Companies Act 2006.

Advantage has been taken of the exemption in FRS 102 from disclosing details of transactions with Chubb Limited and its subsidiary undertakings as required by that standard.

26. CLAIMS DEVELOPMENT TABLES

The following tables show the development of claims over a period of time on both a gross and net of reinsurance basis. FRS 103 requires that claims development shall go back to the period when the earliest claim arose for which there is still uncertainty about the amount and timing of the claims payment, but need not go back more than 10 years. The top half of the table shows how the estimates of total claims for each accident year develop over time. The lower half of the table reconciles the cumulative claims to the amount appearing in the balance sheet.

The cumulative claims estimates and payments for each accident year are translated into sterling at the year-end rates that applied at the end of each accident year.

Gross insurance contract outstanding claims provision as at 31 December 2016:

	2010 & prior	2011	2012	2013	2014	2015	2016	Total
Accident year	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of cumulative claims incurred								
At end of accident year		1,401,687	1,259,371	1,267,073	1,342,382	1,310,472	1,584,149	
One year later		1,442,121	1,243,367	1,274,500	1,354,079	1,338,040		
Two years later		1,380,792	1,245,780	1,242,536	1,313,318			
Three years later		1,377,541	1,228,722	1,215,146				
Four years later		1,325,932	1,256,996					
Five years later		1,325,932						
Current estimate of cumulative claims incurred		1,325,932	1,256,996	1,211,806	1,318,531	1,335,317	1,584,149	
Cumulative claims paid								
At end of accident year		(316,817)	(316,119)	(358,367)	(384,875)	(428,122)	(505,937)	
One year later		(762,763)	(618,296)	(639,247)	(698,816)	(734,612)		
Two years later		(912,676)	(758,010)	(772,848)	(817,975)			
Three years later		(985,213)	(856,834)	(834,510)				
Four years later		(1,039,387)	(917,799)					
Five years later		(1,039,387)						
Cumulative payments to date		(1,039,387)	(917,799)	(834,510)	(817,975)	(734,612)	(505,937)	
Gross outstanding claims provision at 31 December 2016 at original exchange rates		286,545	339,197	377,296	500,556	600,705	1,078,212	
Foreign exchange adjustment		(80,800)	(69,032)	12,745	25,700	56,733	(137)	
Total gross outstanding claims provision per the Balance Sheet	958,161	205,745	270,165	390,041	526,256	657,438	1,078,075	4,085,881
% Surplus / (deficiency) of initial gross reserve		5.4%	0.2%	4.4%	1.8%	-1.9%		

26. CLAIMS DEVELOPMENT TABLES - continued

Net insurance contract outstanding claims provision as at 31 December 2016:

	2010 & prior	2011	2012	2013	2014	2015	2016	Total
Accident year	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of cumulative claims incurred								
At end of accident year		599,788	631,640	646,824	624,869	606,662	657,581	
One year later		646,805	624,444	646,418	645,855	651,299		
Two years later		633,292	619,605	614,374	621,499			
Three years later		641,861	598,982	606,248				
Four years later		624,663	627,663					
Five years later		624,663						
Current estimate of cumulative claims incurred		624,663	627,663	606,248	621,499	651,299	657,581	
Cumulative claims paid								
At end of accident year		(172,507)	(173,826)	(208,103)	(216,400)	(245,090)	(273,969)	
One year later		(345,947)	(324,187)	(358,320)	(353,312)	(364,474)		
Two years later		(425,469)	(387,698)	(408,476)	(409,507)			
Three years later		(455,909)	(434,325)	(442,960)				
Four years later		(485,823)	(464,226)					
Five years later		(485,823)						
Cumulative payments to date		(485,823)	(464,226)	(442,960)	(409,507)	(364,474)	(273,969)	
Net outstanding claims provision at 31 December 2016 at original exchange rates		138,840	163,437	163,288	211,992	286,825	383,612	
Foreign exchange adjustment		(92,728)	(15,529)	1,745	11,505	25,486	0	
Total net outstanding claims provision per the Balance Sheet	361,011	46,112	147,908	165,033	223,497	312,311	383,612	1,639,484
% Surplus / (deficiency) of initial net reserve		-4.1%	0.6%	6.3%	0.5%	-7.4%		

27. POST BALANCE SHEET EVENTS

On 27th February the Lord Chancellor announced a change in the Ogden rate for discounting personal injury claims, reducing them to negative 0.75%. This change does not have a material effect on financial statements of ACE European Group Limited.

28. ULTIMATE PARENT COMPANY

The ultimate holding company is Chubb Limited, a company registered in Zurich, Switzerland, with its headquarters in Zurich, Switzerland and it is quoted on the New York Stock Exchange. Copies of the ultimate holding company's consolidated financial statements can be obtained from Investor Relations at Chubb's executive offices at 17 Woodbourne Avenue, Hamilton HM 08, Bermuda.

Annual Report and Financial Statements

Chubb European Group Limited (Formerly ACE European Group Limited)

CHUBB

31 December 2017

100 LEADENHALL STREE.
LONDON
EC3A 3BP

COMPANY REGISTRATION NUMBER: 1112892

Table of Contents

President's Report at 31 December 2017

What a remarkable year we have had. So many things have happened which have tested us, both as individuals and as a company, but I am pleased to say Chubb European Group Limited has ended 2017 with credible results, a strong balance sheet and the knowledge that we have served our clients to the best of our ability throughout this turbulent period.

Integration

This year marked the completion of the project to bring together Chubb's key European operating companies, combining the complementary strengths of each organisation for the benefit of our clients and partners across the region. On 1st May 2017, Chubb Insurance Company of Europe Limited and Chubb Bermuda International Insurance Ireland DAC merged into ACE European Group Limited by means of a Part VII transfer and cross-border merger. The company changed its name to Chubb European Group Limited ("CEGL") in acknowledgement of the Chubb global brand on 2nd May 2017.

Primarily as a result of the merger, CEGL's shareholders' funds increased to £2.4 billion at year end 2017, making it one of the largest property and casualty insurance and reinsurance companies operating in the UK and Continental Europe.

The combined organisation benefits from complementary business lines, greater market presence and deeper technical expertise, particularly in key areas such as Financial Lines, Casualty and Property. We have also added new products, including High Net Worth insurance, to our range and have expanded the company's distribution network and access to independent brokers across Europe.

A significant amount of work has also gone on behind the scenes to integrate the processes and systems of each business. This has required considerable effort across the whole company and I would like to extend my thanks to everyone at Chubb who has made the integration such a success.

Financial Performance

In terms of our financial performance, we continue to produce good results. CEGL's 2017 gross written premiums were £3.3 billion, up 37% in comparison to prior year primarily as a result of the merger.

Our pre-tax profit of £206.8 million was achieved despite significant losses emanating from the major catastrophe events of the year, including hurricanes Harvey, Irma and Maria, each of which broke records in terms of their scale and intensity and contributed to what is likely to be the costliest Atlantic hurricane season on record. The year also saw devastating earthquakes in Mexico and a spate of wildfires in the US, all of which resulted in tragic loss of life and incredible destruction of property and infrastructure.

With catastrophe losses estimated to cost the industry $135 billion this year[1], it is a stark reminder of why insurance companies like Chubb exist: to provide the support and means to help individuals, families, businesses and communities recover and rebuild in the wake of such devastation.

In aggregate, CEGL's net catastrophe related losses for the year amounted to £16.1 million, a significant number, but well within our risk tolerances and commensurate with the size of loss we would expect from these types of events.

Pricing

The scale and frequency of these catastrophe losses demonstrate the necessity of the viable price adequacy required for the insurance industry to continue to thrive. Underwriting conditions in the UK and European insurance markets have been challenging for a number of years with rates reaching unsustainable levels in many classes. However markets are now starting to show signs of firming in some areas around the world, including the UK and pockets of Continental Europe. There also appears to be some momentum in the markets to rectify inadequate pricing and terms and conditions, although the extent to which this firming will take hold remains to be seen.

[1] Source: Munich Re press release, 4 January 2018

President's Report
31 December 2017

CEGL is a key player in these markets and we recognise our responsibility as a lead insurer to drive pricing improvements. We will continue to insist on an adequate rate for the coverage provided in order to generate a reasonable risk-adjusted return and avoid more volatile price movements in the future should rates continue to stagnate or erode. We are in a great position in terms of risk management and financial strength to respond to any changes in the underwriting environment.

Looking ahead...

We know there will be other challenges to face as we look ahead to 2018.

Like many other companies in the financial services industry, Brexit has been a huge area of focus for us in 2017 and work will continue apace through 2018 as we prepare for the finality of the UK leaving the European Union. Whilst I believe that the London Insurance Market is strong enough to remain the centre of the insurance industry in Europe whatever happens, we have to assume a "hard Brexit" and prepare for the loss of passporting which allows firms to trade freely across the European Union. We have made good progress with our post-Brexit planning to identify and implement the steps needed to garner the best opportunities for our business, distribution partners and, of course, our clients across the UK and Continental Europe.

From a regulatory perspective, GDPR (General Data Protection Regulation), the new legal framework for data protection in Europe comes into force in May, with the Insurance Distribution Directive, covering requirements associated with the sale of insurance, also scheduled for implementation this year. Regulatory enforcement of directives such as these is becoming stricter as time goes on, and it is imperative that CEGL maintains its focus on ensuring its compliance with all aspects of current regulatory requirements.

We also need to consider the evolving insurance needs of our clients and broker partners and have implemented a segmented business structure to align with their needs. Innovation in the market place continues and there have been advancements both in the development of new products and the increasing digitalisation of distribution channels. There are a number of emerging risks manifesting themselves, many of which are driven by technology, and we need to be ready to help our clients manage these potential perils. To this end we have recently launched a new Cybercrime product, the first combined policy of its kind in the market and introduced new Industry Practices such as Real Estate.

In conclusion

2017 has been a crucially important year for our business and I am proud of what we have achieved. We have come together as one company and truly galvanised as a team. We have stepped up to meet the ongoing regulatory challenges and continued our drive to receive an adequate price for the risks we take onto our balance sheet. We have maintained excellent financial strength in light of substantial catastrophe related losses, and endeavored to offer best in class service levels to our clients and partners.

There is much to be done in 2018, but we have laid the foundations to execute on the strategies we have in place and I am confident that we can build upon our successes this year as CEGL goes from strength to strength.

A J Kendrick
President
23 March 2018

Strategic Report
31 December 2017

The Board of Chubb European Group Limited ("CEGL") has prepared this report in accordance with Section 414A of the Companies Act 2006. In addition to this statutory requirement, this report also addresses other aspects of the company's business which the Board believes will be of benefit to interested parties.

Ownership

Chubb Limited, the ultimate parent of CEGL, 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 ("Chubb") are a global insurance and reinsurance organisation. At 31 December 2017, Chubb Limited held total assets of $167.0 billion and shareholders' equity of $51.2 billion. It is listed on the New York Stock Exchange (NYSE: CB) and is a component of the S&P 500 index. The company maintains executive offices in Zurich, New York, London and other locations, and employs approximately 31,000 people worldwide.

Consolidation of Chubb's UK and European Operating Entities

In order to optimise operational efficiency, governance and capital across its European entities, Chubb consolidated two of its European insurance companies, Chubb Insurance Company of Europe SE ("CICE") and Chubb Bermuda International Insurance Ireland Designated Activity Company ("CBII") into its primary UK domiciled operation, ACE European Group Limited ("CEGL"), through the operation of a Part VII transfer of insurance business and cross border merger. From a legal perspective, the cross border merger was completed on 1 May 2017. However, from an accounting perspective the acquisition date was 01 January 2017, and a full year of financial performace has been reocgnised in relation to the former CICE and CBII business. The merged company was renamed Chubb European Group Limited ("CEGL") on 2 May 2017.

Brexit Contingency Planning

On 23 June 2016 the United Kingdom voted in a national referendum to withdraw from the European Union and on 29 March 2017 invoked Article 50 of the Treaty on European Union, with the leaving date currently set for 29 March 2019. Negotiations regarding the terms of the UK's exit from the EU officially began in June 2017 however the ultimate outcome of the discussions is difficult to predict and it remains unclear whether UK insurers will be permitted to continue to underwrite European risks through the EU Single Market or by an equivalent means.

As a result, Chubb has prepared contingency plans in the event that Brexit impedes on CEGL's current operational model and business practices, and has stated that, should the UK leave the EU as expected, it intends to locate its European Union headquarters in France. Post-Brexit, Chubb will continue to have a substantial presence in London in addition to its offices and operations across the UK and EU.

Chubb currently contemplates locating its EU headquarters in Paris and its UK and regional European headquarters in London. Chubb further plans to convert Chubb European Group Limited (CEGL) to a Societas Europaea and then if necessary redomicile the company to France. We are currently working on an operating model where Chubb would continue to have an authorised operation in the UK.

Additional information can be found on the Chubb UK website.

Business Overview

Chubb is the world's largest publicly traded property and casualty insurer. With operations in 54 countries, Chubb provides commercial and personal property and casualty insurance, personal accident and supplemental health insurance, reinsurance and life insurance to a diverse group of clients.

Chubb is distinguished by its extensive product and service offerings, broad distribution capabilities, exceptional financial strength, superior claims handling expertise and local operations globally. The company serves multinational corporations, mid-size and small businesses with property and casualty insurance and risk engineering services; affluent and high net worth individuals with substantial assets to protect; individuals purchasing life, personal accident, supplemental health, homeowners, automobile and specialty personal insurance coverage; companies and affinity groups providing or offering accident and health insurance programmes and life insurance to their employees or members; and insurers managing exposures with reinsurance coverage. Chubb's core operating insurance companies maintain financial strength ratings of "AA" from Standard & Poor's and "A++" from A.M. Best.

Chubb's operating companies utilise the group's global capabilities for the benefit of local clients, leveraging its global expertise and balance sheet strength to deliver a consistent global customer value proposition at a local level. Underwriting strategy is set globally, with local adaptation to deliver an acceptable return to shareholders commensurate with the risk that they are taking. This global proposition is delivered through Chubb's network of local companies and ensures that appropriate policyholder security and customer outcomes are provided to clients and activities comply with all local and global requirements.

CEGL is a major contributor to Chubb, generating over 11% of the group's overall gross written premium in 2017.

CEGL is one of Europe's leading commercial insurance and reinsurance companies and operates a successful underwriting business throughout the UK, Ireland and Continental Europe. It is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority and PRA.

Headquartered in the UK with branch offices across Europe, CEGL and its European Economic Area ("EEA") branches hold cross-border permissions throughout the EEA. CEGL is also a 'white listed' surplus lines insurance and reinsurance company in the United States, entitling it to write surplus lines in all US states and US territories. Business is accessed by a variety of distribution channels and the company has strong relationships with the broker community, its corporate partners and direct markets.

The company offers its clients a broad range of insurance and risk solutions encompassing property & casualty, accident & health and personal lines classes, with policies written under the names "Chubb Europe", "Chubb Global Markets" and "Chubb Tempest Re", which capitalise on the distinctiveness and strength of the Chubb brand and acknowledge the company's strong insurance platforms, reputation, skill sets, financial strength ratings and consistent management philosophy.

The principal business segments of Chubb Europe are managed as UK & Ireland Property and Casualty ("UK&I P&C"), Continental Europe Property and Casualty ("CE P&C"), Accident and Health ("A&H"), Specialty Personal Lines ("SPL") and High Net Worth ("HNW").

The P&C operations provide client-focused insurance solutions and risk management and engineering services for a range of UK and European multinational, large and mid-sized commercial clients, with products encompassing property, primary and excess casualty, financial lines, surety, marine cargo and construction related risks.

The A&H division underwrites a range of A&H and leisure travel related products, providing benefits and services to individuals, employee groups and affinity groups throughout Europe. In some cases these products are packaged under other brands or form part of another service provider's products. A range of personal accident and sickness insurance products including short-term disability, critical condition and hospitalisation/recovery are also offered across a number of European countries.

The SPL team has developed innovative insurance solutions and industry-leading claims capabilities for Mobile Network Operators and Electrical Retailers in order to provide their customers with protection for their mobile devices.

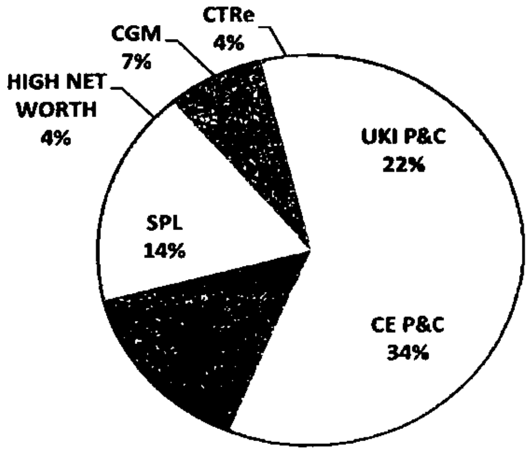
Chubb also offers insurance cover, primarily motor, home and contents insurance including jewellery and fine art collections, for affluent individuals within its HNW division.

Chubb Global Markets ("CGM") is the group's specialty international underwriting business. Its parallel distribution capabilities mean that underwriting products may be offered through both CEGL and Lloyd's Syndicate 2488, managed by Chubb Underwriting Agencies Limited. CGM's product range includes tailored solutions for aviation, energy, financial lines, marine, property, political risks and excess & surplus lines ("E&S") insurance risks.

With underwriting operations located in London and Zurich, Chubb Tempest Re International ("CTRe") writes traditional and non-traditional aviation, casualty, marine and property treaty reinsurance worldwide. Products are offered predominantly through CEGL and Lloyd's Syndicate 2488, and also through various overseas Chubb group legal entities.

CEGL benefits from comprehensive and fully integrated support functions encompassing claims, finance and actuarial, risk management, legal and compliance, human resources, operations and IT.

The split of 2017 gross written premiums by business unit is illustrated below:



Business Objectives & Strategy

CEGL's strategic vision is to pursue profitable growth by focusing on underwriting performance, product innovation, distribution and service and relevance to customers and brokers. The company benefits from underwriters' proven market-leading risk expertise, a disciplined approach to underwriting and a regional branch presence which provides brokers and customers with fast access to Chubb's decision makers.

CEGL has an established underwriting ethos that permeates the company. Top line growth is not the primary driver for the company and underwriters are fully prepared to shed volume as necessary in order to maintain an underwriting profit. Using CEGL's underwriting skills and targeted marketing strategies, the company aims to generate growth in areas where risk-adjusted underwriting margins are favourable, and achieve better terms or shrink business where they are not.

CEGL is headquartered in London but can issue policies locally throughout its network of UK and European branch offices. This encourages underwriting flexibility and high levels of service for brokers and clients whilst ensuring local regulatory and tax requirements are adhered to. CEGL is an established player in the multinational marketplace and has the capability to provide fully integrated international insurance programmes for clients. CEGL's dedicated and experienced international underwriting and service teams work with Chubb's global network of offices to provide seamless, tailored solutions to the often unique and complex needs of multinational companies which includes agreeing coverage, issuing policies, adjusting claims and moving funds, all in accordance with legislative requirements and agreed service standards.

The company strives to offer superior service levels in all aspects of its operations, from policy processing to engineering risk management and claims handling. CEGL continues to invest in technology to improve its operational efficiency, underwriter support and broker interfaces.

Chubb is committed to protecting and preserving its capital. CEGL effectively manages exposures to key risks, operates a conservative investment strategy and has maintained its focus on cash flow management and liquidity to secure its long term position in the insurance market.

Investment Strategy

CEGL operates a conservative investment strategy by establishing highly liquid, diversified, high quality portfolios managed by expert external managers. Detailed Chubb group investment guidelines are established for each managed portfolio including Chubb customised benchmarks against which the manager performance is measured.

CEGL maintains six active investment grade fixed income portfolios, the core currencies of which are sterling, euro and US dollars. Further passive portfolios are maintained in Switzerland and Turkey to meet local solvency requirements. CEGL also allocates a limited proportion of funds available for investment to alternative strategies. These alternative strategies include high-yield bonds, syndicated bank loans, private equity loans and global equities.

Funds allocated to alternative strategies continued to fall comfortably within the established limits and the majority of CEGL's investments continued to be allocated to high quality, diversified, actively managed portfolios with exposure to a broad range of sectors. Consistent with previous years, CEGL's investment guidelines and external manager positioning restrict exposure to peripheral Eurozone countries.

The approximate currency split of CEGL's investment portfolios is sterling 40%, euro 36% and US dollars 23%. Other currency investments comprise approximately 1% of the total.

Presentation of Financial Statements

The financial statements have been prepared under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance companies' individual financial statements and applicable accounting standards in the UK.

Key Performance Indicators

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

£ million	**2017**	**2016**
Gross premiums written	3,267.5	2,388.0
Net premiums written	1,850.7	1,318.0
Combined ratio % *	93.5%	92.5%
Profit before tax	206.8	193.2

** Ratio of net claims incurred, commission and expenses to net premiums earned*

The Board also monitors the capital needs of the company. Further details in this regard are set out in the 'Financial position' section of this Strategic Report.

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

Results & Performance

2017 produced a pre-tax operating profit of £206.8 million and a combined ratio of 93.5%. A summary of the reported financial results is shown in the following table.

£ million	**2017**	**2016**
Gross premiums written	3,267.5	2,388.0
Net premiums written	1,850.7	1,318.0
Net premiums earned	1,834.7	1,260.4
Incurred losses	970.5	586.9
Operating expenses	745.7	578.7
Underwriting profit	**118.5**	**94.8**
Equalisation reserve movement*	0.0	(105.1)
Investment return	89.9	120.9
Net other income / (charges)	(1.6)	(127.6)
Net pre-tax profit	**206.8**	**193.2**
Combined ratio %	93.5%	92.5%

* In 2016, requirements to maintain equalisation provisions under Council Directive 87/343/EEC were repealed by the Solvency II Directive. This resulted in a one off release to the income statement which was not repeated in 2017.

Rating Environment

Despite a challenging start to 2017, a more positive rating picture began to emerge towards the end of the year, particularly on London Market and catastrophe exposed business as a result of the loss activity in the latter half of the year. The retail commercial P&C insurance in the UK and Ireland benefited from Ogden-related rate increases in Casualty and some positive movement within Fire and Financial Lines classes however the rate movement on the overall portfolio remained negative with most other lines experiencing single-digit rate reductions on renewal business. Rate reductions slowed on the Continent with overall P&C pricing marginally down, in line with expectations. Rates on A&H and SPL business were effectively flat however there was some positive movement within the HNW portfolio as a result of the revised rate plan implemented midway through the year. In general, as in previous years, business retention across the region was strong in the majority of classes however competition for new business remained fierce and difficult to secure at adequate rates.

Conditions in the reinsurance market remained competitive for much of the year but were broadly in line with projections. A number of cedants modified their reinsurance purchases, with some increasing their retentions, combining programs together or, in some cases, dropping cover altogether.

Drivers of Underwriting Result

CEGL underwrites UK, Continental Europe, US and international business which is principally transacted in sterling, euro and US dollars. For accounting purposes and within this report, the operating results of the business are presented in sterling. Any appreciation or depreciation of sterling against other currencies during the year will impact the comparison of 2017 results against those of the prior year.

CEGL's 2017 gross written premiums of £3,267.5 million were 37% higher than those recorded in 2016, primarily as a result of the merger. Much of this growth can be attributed to Financial Lines, Casualty and HNW classes of business previously written in CICE and CBII. Comparative prior year combined gross written premiums were £3,145.0 million. Excluding the impact of the merger, growth in CEGL's underlying portfolios was limited, reflecting the difficult underwriting conditions in the UK and European insurance markets for much of the year.

CEGL purchases reinsurance to mitigate the impact of major events and an undue frequency of smaller losses. A number of the reinsurance programmes operated by CEGL during 2017 were with a Chubb company, Chubb Tempest Reinsurance Ltd. CEGL also has the benefit, particularly for US and worldwide catastrophe exposures, of reinsurance programmes shared with other Chubb entities, including Syndicate 2488 at Lloyd's. These arrangements result in an increase in the reinsurance purchasing power of Chubb, which ultimately benefits all subsidiaries, including CEGL. CEGL's reinsurance ceded costs increased by circa 33% in 2017, commensurate with the growth in gross written premiums. There were no significant changes to the company's reinsurance purchasing strategy in 2017.

A number of significant geophysical, meteorological, hydrological and climatological events occurred in 2017, including earthquakes, hurricanes, tropical storms, floods, landslides and wildfires, which are expected to cost the insurance industry a record $135 billion[2]. CEGL's exposure to large losses is managed by adherence to clear risk management and underwriting guidelines and the use of reinsurance protection and sophisticated modelling and analysis. The company's catastrophe losses net of reinsurance recoveries and reinstatement premiums during 2017 amounted to £16.1 million (2016: £6.8 million) with the most significant losses emanating from the hurricane trio of Harvey, Irma and Maria and wildfires in Europe.

Prior period reserve releases were £37.2 million (2016: £54.1 million) with positive developments within a number of classes, notably Property, Energy, Casualty, and A&H offsetting some strengthening in Financial Lines. Excluding catastrophe losses and prior period development, the accident year loss ratio for the year was 54.0% (2016: 50.3%), demonstrating the adherence to underwriting discipline and the positive impact of the portfolio review process.

Operating expenses constitute commissions and general administrative expenses. The expense ratio of 40.6% compares favourably to the 45.9% reported in 2016 reflecting the continued strict management of both components and expense related synergies emanating from the merger.

Financial Markets Review

Volatility remained low in 2017, with occasional market turbulence due to political or geopolitical events. Central banks began to take cautious steps away from excessively accommodative policies by announcing or implementing plans to wind down balance sheets and to consider raising interest rates.

For much of the start of 2017, the robust risk appetite that marked the post-US election period broadly continued. Early challenges in President Donald Trump's policy agenda, including the last-minute cancellation of a key healthcare vote in the House of Representatives, left some investors less optimistic about the potential for other highly anticipated agenda items such as tax reform. Still, solid fundamental data, relatively easy financial conditions, and optimism among businesses and consumers provided an opportunity for the US Federal Reserve ("Fed") to continue on its path towards policy normalisation.

In the second quarter, geopolitics, including elections in several countries as well as political controversies in the US and Brazil, dominated headlines and contributed to brief periods of market volatility. In the US, the Fed raised rates and unveiled details of its plan to gradually unwind its balance sheet, contributing to a flattening yield curve. A perceived hawkish shift in tone from other major central banks spurred most developed market yields to rise.

Geopolitical uncertainties, including escalating tensions between the US and North Korea and political turmoil within the Trump administration, weighed on yields early in the third quarter, though risk assets were generally resilient. Meanwhile, developed market central banks shifted towards a reduction in accommodation that pushed yields higher toward the end of the third quarter. The Fed detailed plans to unwind its balance sheet, the Bank of England and European Central Bank suggested less stimulus on the horizon, and the Bank of Canada raised rates twice after a 7-year gap. Still, the fundamental backdrop remained largely intact and the broader risk rally continued as equities marched higher, credit spreads tightened, and Emerging Market assets strengthened.

[2] *Source: Munich Re press release, 4 January 2018*

As the year came to a close, geopolitical uncertainties continued to concern investors but markets continued to rally. Buoyant sentiment was pushed higher by a successful outcome on US tax legislation. Meanwhile, the Fed began to carefully wind down its balance sheet while the European Central Bank announced plans to halve the amount it spends each month as part of its quantitative easing operations. Meanwhile, the Bank of England raised rates by 0.25% to 0.5%, its first hike in over a decade. With few signs of economic overheating or inflationary overkill on the horizon, investors looked ahead to 2018 with cautious optimism.

Investment Performance

Economic activity in 2017 provided a neutral environment for fixed income investors. Yields on intermediate sovereign bonds rose modestly during the year for sterling, euro and US dollar debt while yields on corporate investment grade bonds remained largely unchanged in the year. For CEGL this resulted in total returns of 1.4% for both sterling and euro mandates respectively. In the US, total returns exceeded 4% during the year reflecting significant excess performance generated by the manager through activity strategy.

CEGL's alternative investment assets which constitute less than 10% of the total portfolio generated strong absolute returns during 2017. The bulk of this allocation relates to upper tier US dollar high yield bonds which returned over 6% for the year. The modest allocations to equites, bank loans and private equity loans generated total returns of 20.8%, 3.4% and 8.1% respectively.

Overall, CEGL generated a total return of 2.4% on balances available for investment during 2017.

Financial Position

Capital

CEGL maintains an efficient capital structure consistent with the company's risk profile and regulatory and market requirements.

The company assesses its own capital needs on a detailed risk measurement basis, and then seeks to maintain financial strength and capital adequacy to support business objectives and meet the requirements of policyholders, regulators and rating agencies whilst retaining financial flexibility by ensuring liquidity.

CEGL managed its capital levels in 2017 in the context of the Solvency II Standard Formula Solvency Capital Requirement and the Solvency II Minimum Capital Requirement, which computes capital levels based on European industry risk factors related to premiums, reserves and assets. CEGL maintained capital throughout 2017 over and above the Solvency II Standard Formula Solvency Capital Requirement with an additional margin. With shareholders' funds of £2,405.4 million at year end 2017, the company continues to be appropriately capitalised against each of these measures.

For internal purposes, CEGL assesses its risk profile and own capital requirements using an internal model which has been developed to meet Solvency II requirements. The internal model is supported by a robust validation and governance framework which ensures its ongoing appropriateness and is refined to reflect CEGL's experience, changes in the risk profile and advances in modelling methodologies.

Ratings

CEGL holds financial strength ratings of "A++" from A.M. Best and "AA" from Standard & Poor's ("S&P"). Both ratings have a stable outlook.

Governance

CEGL has a documented corporate governance framework, the purpose of which is to exercise oversight and control over the management of the business.

The Board of Directors ("the Board") has reserved responsibility for decisions in connection with a number of matters, including those of a significant strategic, structural, capital, financial reporting, internal control, risk, policy or compliance nature. The Board meets routinely five times a year and additionally on other occasions to discharge its responsibilities in respect of these and other matters. In 2017 the Board met six times.

Membership of the Board is kept under review to ensure that the composition and available expertise remains relevant to the current needs of the company. The Board comprises five independent non-executive directors and six executive directors. In 2017 two executive and two non-executive directors left the Board and one non-executive director, Lord Turner, joined as a new Chairman. Lord Turner was executive chairman of the Financial Services Authority from 2008 to 2013, is a member of the House of Lords and has had a career spanning banking, consultancy and a wide range of entities in a non-executive capacity.

CEGL greatly values the contribution of its non-executive directors in providing contrasting insights, experience and challenge in the Board's discussions. Details of director appointments and resignations can be found in the Directors' Report on page 19.

Key non-routine Board activity during the year included, i) consideration of the cross-border merger between the Company, Chubb Bermuda International Insurance Ireland DAC and Chubb Insurance Company of Europe SE, ii) review of the operational integration of these companies' businesses, iii) consideration of the contingency planning for Brexit's impact on the business, iv) an investigation of the Company's culture, carried out by a dedicated working group, v) a review of the impact of the year's catastrophe events on the company and its reinsurance arrangements, and vi) investigation of cyber security. It also agreed changes to capital policy, the Company's internal solvency model and investment allocations.

The Board received regular reports on the status of business results, business and function plans, resourcing, developments in the risk and regulatory environments, on consumer conduct, regulatory compliance, underwriting controls, actuarial and solvency matters. One meeting is held each year to consider high-level business strategy.

The Board has delegated a number of matters to committees. Each of the following committees has formal terms of reference and matters reserved to it. Each, with the exception of the Executive Committee includes non-executive directors in its membership, and reports to the Board regularly in respect of its remit. The terms of reference of each Board committee were reviewed and refreshed in 2017, but not significantly amended. The Product Oversight Committee, which had previously reported direct to the Board, became a subcommittee of the Executive Committee.

The **Audit Committee**, which comprises exclusively non-executive directors, considers and makes recommendations to the Board on areas including validation of solvency calculations, internal controls, financial reporting, whistleblowing, 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. It meets regularly with the external Auditors without management being present.

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 Chubb 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 generally poor practice.

During 2017 the Committee in particular reviewed i) the impact of the revised "Ogden table" interest rates on reserves, ii) analysis on the impact of significant catastrophe events on reserves, iii) assurance over Cyber underwriting processes, iv) new Solvency II Pillar 3 reporting, and iv) alignment of internal and external actuarial practices and financial controls between the merged acquired Chubb business and the company's existing methodology.

The Board has delegated responsibility for the oversight and implementation of its risk management framework to the **Risk Committee**. The Committee oversees and advises the Board on risk exposures, future risk strategy, the design and implementation of the framework into the business on solvency and capital matters. It also ensures that business risks and controls are recorded and monitored. It receives regular reports on the Company's "Own Risk and Solvency Assessment" metrics, required by Solvency II, which helps to provide an independent overview of management's assessment of risk and a check against risk appetites agreed by the Board.

During the year the Risk Committee's non-routine activity included: i) a review of the effectiveness and independence of the Risk Management function throughout Europe, ii) review of the activity being carried out in preparation for the introduction of the General Data Protection Regulation, iii) assessment of outsourcing risk, iv) investigation into internal information security and cyber insurance risk and a change to Cyber Risk policy, v) introduction to a new regional risk reporting tool, vi) considering the risks relating to the Company's contingency proposals against the event of Brexit, and vii) receiving requested reports on inflation risk, talent retention, underwriting best practice and project risk management.

The remit of the **Nominations Committee** is to advise and recommend in connection with appointments to and the structure of the Board, including diversity and independence of composition, Board evaluation, succession planning for the non-executive directors and leadership needs.

The **Executive Committee** comprises all executive directors of CEGL and other members of the senior management team. The primary role of the Committee is to oversee the day-to-day management of business operations and performance, and to assist the President in implementing and overseeing operational strategies and decisions determined by the Board. The Executive Committee is also responsible for the oversight of support function activities, key steering groups and sub-committees including investment, internal model steering, credit risk, broker review, reserving, underwriting and project reporting. It meets monthly to oversee and discuss current issues. A number of specialist sub-committees, such as those for customer conduct, underwriting controls, broker credit control and reserving, report to the Executive Committee to ensure that various aspects of the business are reviewed by a wide senior management group.

CEGL has a **Routine Business Committee** which meets on an ad hoc basis between formal Board meetings to consider authorisation of routine activity.

Risk & Control Framework

The Chubb Group is a global underwriting franchise 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.

CEGL has adopted the Chubb Group Enterprise Risk Management Framework ("RMF"), which describes the role of ERM within CEGL and how it helps the company achieve its business objectives, meet its corporate obligations and maintain the reputation of Chubb's business. Chubb's documented RMF is principles-based and sets out the organisational framework for risk taking, monitoring and governance.

The RMF adopts a "three lines of defence" model, comprising day-to-day risk management and controls, risk management oversight, and independent assurance.

The RMF identifies the key risks to which each business segment, and the company as a whole, is exposed, and their resultant impact on economic and regulatory capital. This framework employs Solvency II principles to assess risk and manage capital requirements to ensure the capital required to support CEGL's business objectives and to meet the requirements of policyholders, regulators and rating agencies is in place.

The CEGL Board is ultimately responsible for ensuring that the company operates within an established framework of effective systems of internal control, including the approval of the overall risk tolerance for the organisation and compliance with policies, procedures, internal controls and regulatory requirements.

The Board's oversight of the RMF is effected through the various committees and functions with particular purposes and direction around the monitoring of risk tolerances and oversight of internal controls and compliance procedures. The risk management function has a strong mandate from the Board to promote the RMF and embed it throughout the company.

The company's RMF was re-approved by the Board in 2017 together with a review of individual risk policies and risk appetite statements which set out defined risk-tolerance constraints for the execution of the business strategy. All key risk policies and procedures are subject to Board approval and ongoing review by executive management, the risk management function and the internal audit function.

Principal Risks

The RMF classifies individual risk sources 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.

Insurance Risk

The principal risks from CEGL's insurance and reinsurance business 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 claims compared to expectations, inadequate reinsurance protection and inadequate reserving.

Underwriting risks and line sizes are continually monitored through an established peer review process and automated exception reporting. Each underwriter is given an authority based on technical expertise and experience to bind risks that fall within specified classes of insurance and specified maximum limits. Formal price monitoring procedures are in place and form part of the standard monthly management statistics. These contribute to the quarterly actuarial review whereby the loss outcome of the underwriting activity is continually re-assessed and considered by the Reserve Committee.

With such a large and diverse book, it is vital that the company's aggregate exposures are continually monitored and adjustments made to the underwriting profile as appropriate. The company operates a dedicated catastrophe management function independent of underwriting management, whose responsibility is to model aggregate risk and assist with the pricing of this risk, providing a key control to the underwriting process.

Reinsurance is used to help mitigate some of the above insurance risk. However, the possibility of reinsurance risk itself arises when reinsurance purchasing proves inadequate in amount, fails to protect the underlying coverage or falls short when the reinsurer fails to pay.

Financial Risk

Financial risk includes a wide range of risks associated with activities such as investments, credit, liquidity and the impact of foreign exchange fluctuations:

- Investment risk includes the impact of market volatility on asset values attributable to such factors as interest rate movements and / or price changes.
- Credit risk arises from the possibility that the financial position of our counterparties deteriorates, and financial loss in the event of creditor default.
- Liquidity risk refers to the possibility that cash or equivalents, coupled with operating cash flows, will be insufficient to provide for claims payments to policyholders and other needs such as interest payments.
- Foreign exchange risk occurs when assets and liabilities are denominated in different currencies and materialises when asset holdings are decreased or liabilities increased by exchange rate movements.

Other financial risk sources manifest themselves through an impact on asset values. Among these are investment risk due to unanticipated interest rate movements having impacts on asset values, and asset-liability management risk when asset values are insufficient or unavailable to pay liabilities when due.

CEGL has an investment strategy which is aligned with its underwriting liabilities. There are also defined investment guidelines in respect of asset allocation, duration, liquidity and credit risk exposure with quality control around investment portfolio management to ensure compliance with the set guidelines.

These risks are discussed in more detail in Note 2 to the financial statements.

Operational Risk

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).

CEGL seeks to ensure that it is not exposed to operational risk in excess of the risk appetite with mitigating strategies including business continuity plans that have appropriate controls relating to key operational procedures and processes.

Strategic Risk

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 CEGL Board is responsible for the management of strategic risks arising from the execution of both the strategic and annual plans. The Board also receives reports produced to monitor and track business performance against the approved plan.

A key strategic risk is the UK's proposed withdrawal from the EU. Contingency plans are in place with actions underway, where the risks associated will continue to be assessed and monitored on an on-going basis.

Other Risks

Group risks: This 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, intra-group arrangements are governed in an appropriate arms-length manner. The intra-group arrangements 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.

Emerging risks: An integral part of the risk management framework is the identification and assessment of emerging risks. CEGL has defined emerging risks as any events, situations or trends that may arise within its internal and external operating environment that could significantly impact the achievement of its corporate objectives in either the short or long term. There is an internal system for the identification, assessment and monitoring of such risks with reports issued to senior management including analyses which are often iterative in nature and conclude with recommended action plans that can be implemented to minimise or otherwise manage the emerging risk.

Compliance

Compliance with regulation, legal and ethical standards is a high priority for Chubb and CEGL, and the compliance function has an important oversight role in this regard. Annual affirmation of the Chubb Code of Conduct is required of all employees and directors.

As a material subsidiary of Chubb Limited, a US listed company, the financial control environment in which the US GAAP financial statements are derived is subject to the requirements of US Sarbanes-Oxley legislation. CEGL has formalised documentation and tested controls to enable Chubb Limited to fulfil the requirements of the legislation.

CEGL is also committed to fulfilling its other compliance-related duties, including its observance of customer-focused policies, in line with regulatory principles, and it uses various metrics to assess its performance.

The company employs a skilled and specialist workforce to manage its regulatory and compliance responsibilities and aims to operate to a high standard. CEGL recognises and values its relationships with regulators in each of its jurisdictions and engages in open dialogue and communication to address and resolve any issues.

Social and Employee Matters

The Chubb Code of Conduct

Chubb aims to comply with legal and regulatory requirements in all countries in which it operates and embed the Chubb Code of Conduct values in its activities. The Chubb Code of Conduct affirms Chubb's commitment to compliance with equal employment opportunity laws and other applicable civil rights, human rights and labour laws. Chubb expects staff to behave ethically and transparently and to be accountable for their actions. All employees, officers and directors are expected to acknowledge acceptance of this code confirming that they know and understand the standards expected. Chubb expects its business partners such as consultants, agents, third party representatives and service providers to also comply with the code. Appropriate measures may be taken if anyone fails to meet those standards or contractual obligations.

Human Rights

Chubb policies, frameworks and actions aim to prevent modern slavery and human trafficking in both the business and its supply lines by:

- Undertaking employment verification checks as part of the hiring process;
- Requiring agencies who supply workers to carry out employment verification checks, wherever staff are located;
- Procurement questionnaires require third party suppliers to state what steps they take to comply with the Modern Slavery Act 2015;
- Procurement agreements require third party suppliers to comply with applicable laws and regulations and permit Chubb to terminate relationships where they fail to do so;
- Subjecting key business transactions to both on boarding and periodic regulatory screening;
- Providing regular training for staff on sanctions restrictions, anti-bribery, anti-money laundering, and the Chubb Code of Conduct to which they must attest;

- Providing training and support for all staff on how and where they can raise concerns about wrongdoing and assurances that they will not suffer reprisals for doing so; and
- Taking appropriate action where potential violations of the Modern Slavery Act 2015 are identified.

Chubb's Procurement, Risk, Compliance, HR and Legal teams work together to apply these standards across the business. Policies, procedures and training materials are regularly reviewed to continue to make the company's commitment to anti-slavery and human trafficking explicit to its customers, employees, suppliers, and business partners.

Chubb's Modern Slavery and Human Trafficking Transparency statement has been published on the UK website.

Equal Opportunities, Diversity & Inclusion

Chubb is an equal opportunities employer and considers its people to be its fundamental competitive advantage. The company aims to provide a safe and ethical working environment where colleagues, candidates, clients and business partners are treated with equality, fairness and respect, regardless of age, disability, race, religion or belief, gender, sexual orientation, marital status or family circumstances.

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a disabled person should as far as possible, be identical to that of a person who does not suffer from a disability.

Chubb is an organisation dedicated to providing superior underwriting service and execution, and seeks to foster an environment of professional excellence enabling employees to be creative, agile, innovative and ethical in meeting customers' needs. Chubb's regional Diversity & Inclusion Council of senior representatives across Europe, Eurasia and Africa is responsible for developing and supporting the implementation of Chubb's Diversity and Inclusion strategy, taking into account the varied requirements and needs of the region.

With the support of the executive team, Chubb has launched a number of employee-led internal networks to provide opportunities for networking, education and development of business capabilities for all employees. These include the Gender Equality Network, the Parents and Carers Network and the Cultural Awareness Network. A resulting action from Chubb's Social Mobility network was the development of an 'Insight' programme, providing students from inner-city London schools with the opportunity to listen to and meet leaders in the insurance industry, and explore potential career opportunities in a variety of fields including underwriting, marketing, operations, HR and finance.

In addition to a number of internal employee networks, Chubb is also a founding member of the cross-market Gender Inclusion Network for Insurance, connecting a number of organisations across the insurance market in the UK and Ireland to work towards the common goal of establishing greater gender balance at all levels. Chubb is also a Stonewall Diversity Champion, an Out and Equal Workplace Advocate and a Working Families Employer Member. Additionally, Chubb was a gold sponsor of the global Dive In Festival in 2017, showcasing Diversity and Inclusion in Insurance.

CEGL supports a wide range of activities that benefit the community through the Chubb International Foundation and the Chubb Community Support Committee, predominantly in the areas of education, poverty, health and the environment. Chubb employees also participate in a number of local voluntary community schemes and personal fundraising efforts which CEGL supports through a charity-matching scheme. In 2017 Chubb contributed almost £225,000 to various charities across UK and Europe.

Talent Strategy

As well as having a robust diversity and inclusion strategy to ensure that all available talent is accessed, CEGL has a talent strategy which actively supports the personal and professional development of all its employees, operating talent and leadership development programmes to help staff realise their full career potential. Chubb's ability to deliver outstanding business results relies on the calibre of its talent and the efforts of its employees at all levels of the organisation. As a company, Chubb invests in its people, striving to attract, retain and grow employees to meet their career aspirations. A core element of Chubb's value proposition for employees is the opportunity to constantly evolve as a professional and reach one's full potential.

Chubb aims to build and develop mid and long-term talent pipelines to ensure the right quality and quantity of diverse talent is available for the company to deliver key business objectives. It endavours to identify talent on a regular basis and provide high quality development programmes that build leadership qualities. Robust succession plans are in place at the senior level.

Chubb expects all employees to own and drive their development by availing themselves of the structured and unstructured learning on offer. In turn, it will help those employees who are motivated to develop and grow by providing the critical experiences, resources, tools and opportunities to succeed in their career. Chubb internally sources talent to fill open positions where appropriate.

Details of the number of employees and related costs can be found in note 8 to the financial statements.

Environmental Matters

Chubb recognises its responsibility to provide solutions that help clients manage environmental risks, reduce any environmental impact and make meaningful contributions to environmental causes.

The Chubb group is one of the largest and most advanced global underwriters of environmental liability and pollution risks, and as a result has a significant interest in current and future regulatory requirements that may affect its operations. As an insurance company, Chubb's emissions produce a modest climate footprint and it continues to improve its facilities by implementing energy efficient projects such as lighting, heating, ventilation and air conditioning and increasing chiller set points across all of its operations. Chubb's commitment to the disclosure of environmental actions and philanthropic activities reduces the reputational risk relating to its environmental practices.

As a global property and casualty insurer, Chubb has significant exposure to potential losses from weather related events of any kind. Assessing and managing risk is a core competency for Chubb and hence the costs of managing climate change risk are embedded into its risk management process.

Chubb does not anticipate any significant risk to its European operations as a result of climate change.

Chubb produces an annual Environmental Report which outlines the full scope of the group's environmental programme and initiatives. It reports to the Carbon Disclosure Project on an annual basis disclosing climate change risks and opportunities as well as emissions performance. A third-party certified environmental statement on the company's greenhouse gas emissions program is also included. Chubb also demonstrated its commitment to increasing awareness within the industry by sponsoring Insurance Business Magazine to host the "The Environmental Liability and Risk Masterclass" and conference designed to inform brokers and other insurers about the importance of environmental risk liability insurance.

Chubb is a proud member of ClimateWise, an independent network of insurers, reinsurers, brokers and insurance industry service providers facilitated by the University of Cambridge Institute for Sustainability Leadership. Chubb discloses its global actions to ClimateWise annually based on the ClimateWise principles of direct consumption. This independent review enables Chubb to assess its influence on those it interacts with, from brokers and clients to government agencies and regulators. In 2017 Chubb scored 74%, placing it fifth out of sixteen ClimateWise members.

Chubb is committed to managing and reducing greenhouse gas emissions throughout its company operations, and plans to announce an updated greenhouse gas reduction goal for the combined company some time in 2018. The company will continue to deploy successful approaches for greenhouse gas emissions reduction including installing energy-efficient lighting and equipment with more efficient use of office space. In 2018, Chubb's London office will begin to transition to Activity Based Working, which will result in up to a 25% increase in efficiency of office space usage, as well as reducing emissions that result from commuting.

Breakdowns	2015	2016	2017
Net Emissions	5,462 tCO2e	3,095 tCO2e[1]	1,166 tCO2e
Number of UK Employees	1,794 FTE	1,976 FTE	2,090 FTE
Emissions per Employee	**3.04 tCO2e/FTE**	**1.566296 tCO2e/FTE**	**0.557895 tCO2e/FTE**

[1] *Since 2016 Chubb has committed to purchasing 100% renewable energy which has resulted in a significant reduction in reported net emissions*

In 2017, Chubb earned a score of 'A-' on the Carbon Disclosure Project's climate change program ranking and was one of only 22 insurers out of 148 analysed to earn a "High Quality" designation for the comprehensiveness of its climate risk disclosures by Ceres, the nonprofit sustainability organization.

Chubb is a pioneer in developing advanced environmental insurance solutions, including coverages for premises-based exposures, contractors' and project pollution liability, renewable energy, clean technology and environmental cleanup projects, as well as "green building" consulting services and a property policy that enables greener rebuilding after a loss. Chubb's role in mitigating supply chain and global operations risks through its risk engineering services helps organisations identify climate-related exposures while providing risk management expertise to help manage environmental challenges caused by climate change.

Anti-corruption and Bribery

Chubb recognises the importance of the effective management of financial crime risk in terms of its obligations to its customers, the expectations of its regulators and long term financial stability. The Financial Crime Framework is comprised of board policies and procedures and sets out the company's approach to the management of financial crime risk including bribery and corruption. This framework is underpinned by the Chubb Code of Conduct.

Risks relating to financial crime may include fines or penalties for non-compliance with laws and regulations, loss of licences or a restriction on the company's ability to transact business, additional regulatory scrutiny and a loss of reputation. The management of financial crime risk is fully integrated into Chubb's wider Risk Management Framework. All financial crime policies within this framework enable exemptions to be granted in accordance with the corresponding risk appetite statement, in part determining the exemption approval and reporting processes to the Board. The risk appetite statement also addresses the escalation procedure for non-compliance of policy standards and/or breaches of risk appetite.

Financial crime policies and explanatory guidance notes relating to financial crime are in place and are appropriately detailed and take into account the nature and complexity of Chubb's activities. The policies require that all Chubb business units develop and maintain controls that are sufficient to achieve compliance with the standards set out in each individual policy and the responsibility and accountability for the implementation and oversight of these controls is clearly allocated in the policy documents. Regular policy reviews are undertaken and new and emerging risks are considered. Oversight procedures are in place and all financial crime policies and procedures are subject to internal and external audit and review procedures.

Strategic Report
31 December 2017

As a regulated company, CEGL has to take reasonable steps to identify, prevent and report all identified incidents of bribery and corruption and ensure that it conducts its business with integrity and honesty at all times. Chubb's European Anti-Bribery & Corruption Policy describes a number of standards that must be adhered to, including the need to carry out due diligence checks when performing various business activities, adding relevant contractual clauses under certain circumstances, gifts and hospitality procedures, and how concerns or suspicious activity should be reported. All business lines are required to implement anti-bribery and corruption procedures and controls at each stage of the insurance transaction appropriate to their risk exposure and supported by compliance monitoring procedures to ensure compliance with the agreed standards. Training relating to the Anti-Bribery & Corruption Policy is provided to all new joiners as part of the induction programme, with all employees required to complete refresher training on a periodic basis.

Approved by the Board of Directors

M K Hammond

Chief Financial Officer

23 March 2018

Directors' Report
31 December 2017

The directors are pleased to submit their report and the audited financial statements for the year to 31 December 2017.

Future Developments

Likely future developments in the business of the company are discussed in the Strategic Report.

Results and Dividends

The company made a profit on ordinary activities before tax for the year to 31 December 2017 of £206.8 million (2016: £193.2 million).

Shareholders' funds at the 31 December 2017 totalled £2,405.4 million (2016: £1,397.5 million).

An interim dividend of £100.0 million (2016: £100.0 million) was approved by the Board on 11 December 2017. The directors do not propose a final dividend.

Employees

Staff based in the company's branches outside the UK are directly employed by the company. Staff that support the UK branch operations of the company are employed by an affiliate, ACE INA Services U.K. Limited. Their costs are included in management recharges from this service company.

Directors

The following have been directors from 1 January 2017 to the date of this report unless otherwise indicated:

Executive directors:

M K Hammond

D Jaksic (Resigned 31 December 2017)

A J Kendrick

J Moghrabi

R P Murray (Resigned 31 May 2017)

J U Rehman

D P Robinson

A M W Shaw

Non-executive directors:

M Bailey

K N O'Shiel

C E Riley

J A Turner (Appointed 18 May 2017)

T C Wade

M J Yardley (Resigned 31 December 2017)

J A Napier (Resigned 17 May 2017)

Directors' Report
31 December 2017

Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) are put in place for the benefit of the directors and, at the date of this report, are in in force in relation to certain losses and liabilities which they may incur (or have incurred) in connection with their duties, powers or office.

The company also has the benefit of a group insurance company management activities policy effected by Chubb Limited. No charge was made to the company during the year for this policy.

Financial Risk Management

Information on the use of financial instruments by the company and its management of financial risk is disclosed in note 2 to the financial statements. In particular the company's exposures to interest rate risk, equity price risk, currency risk, credit risk and liquidity risk are separately disclosed in that note. The company's exposure to cash flow risk is addressed under the headings of "Credit risk" and "Liquidity risk".

Branches Outside the UK

In addition, to the UK headquarters, the company has a further 19 branches across Europe.

Statement as to Disclosure of Information to Auditors

Each of the persons who is a director at the date of this report confirms that:

1. so far as he or she is aware, there is no information relevant to the audit of the company's financial statements for the year ended 31 December 2017 of which the auditors are unaware, and
2. the director has taken all steps that he or she ought to have taken in his duty as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditors

The auditors, PricewaterhouseCoopers LLP, will continue to hold office in accordance with Section 487 of the Companies Act 2006.

By Order of the Board

Rowan Hostler
for and on behalf of
Chubb London Services Limited
Secretary, 23 March 2018
100 Leadenhall Street
London
EC3A 3BP

Independent auditors' report to the members of Chubb European Group Limited

Report on the audit of the financial statements

Opinion

In our opinion, Chubb European Group Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance Sheet as at 31 December 2017; the profit and loss account, the statement of comprehensive income, the statement of changes in equity for the year ended 31 December 2017; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

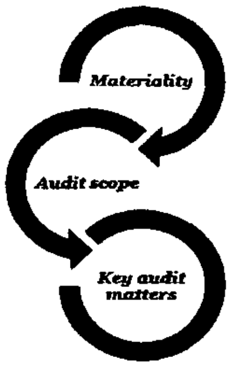
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in note 6 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview



Overall materiality: £29.0 million (2016: £26.2 million), based on 1% of Impact in COR from a change in gross premium.

Our audit over the financial statements of Chubb European Group Limited requires us to scope significant components (which include branches) to gain sufficient coverage over the operations of the entity. In making scoping decisions we consider

- those components which are individually financially significant;
- those line items within the financial statements, such as gross premiums written, which are significant by virtue of size; and
- those which have specific characteristics that are of higher risk.

As a result of these scoping decisions we have performed full scope audit procedures over all UK business and all claims provisions. This gave us coverage over 87% of the company's revenue, 88% of claims provisions and 93% of assets.

- We have reported on the following Key Audit matters:
    - Valuation of Claims Outstanding Reserves

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the company's financial statements, including, but not limited to, the Companies Act 2006, UK tax legislation and the Financial Services and Markets Act 2000. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, enquiries of management and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHUBB EUROPEAN GROUP LIMITED

31 December 2017

Key Audit Matter	How our audit addressed the area of focus
Valuation of Claims Outstanding Reserves *The net outstanding claims reserve is a material balance within the financial statements. Its determination has a significant impact on the financial result and there is a high degree of complexity and judgement involved in determining the estimate.* *The judgement includes both complex accounting treatments and complex methods and assumptions used to report and estimate technical provisions. Where complex estimates arise, estimation uncertainty increases and results in a higher risk in our audit.*	We have conducted detailed testing over the Technical Provisions within CEGL and the loss reserving cycle. In conducting our audit we performed the following: Controls testing over: • Reserving governance; • Actuarial peer reviews; • Third party actuarial reviews; • Data reconciliations. Testing of transactions and balances: • Testing by actuarial specialists of the methods and assumptions used by management to estimate technical provisions. Analysis of key indicators used for low risk classes; • Audit of management's actual vs expected process and adjustments; • Testing of large and catastrophe claims; • Use of market benchmarking to assess claims provisions for catastrophe losses incurred in the year; • Review of Willis Towers Watson's independent reserve review. Data testing: • Reconciled data used in the reserving process to source systems; • Tested qualitative and quantitative elements of underlying claims and reinsurance data.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Chubb European Group Limited is the lead European subsidiary of Chubb Limited a US based insurer. It is domiciled in the UK and carries out business through 19 branches across Europe. In addition to the branch structure there are also two other small areas of business which operate separately; Chubb Ireland and Tempest Re.

In scoping our audit we determine the Chubb Ireland and Tempest Re business to be immaterial and therefore focus our work on Chubb UK and the European branches. In doing so we treat the UK and European branches as one homogenous population given the control environment in place over Chubb Europe and perform a full scope audit over this area.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHUBB EUROPEAN GROUP LIMITED
31 December 2017

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£29.0 million (2016: £26.2 million).
How we determined it	1% of Impact in COR from a change in gross premium.
Rationale for benchmark applied	We believe that the impact in COR from a change in gross premium is a key operating metric for general insurance entities and therefore deemed an appropriate auditing benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2.9 million (2016: £2.6 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHUBB EUROPEAN GROUP LIMITED
31 December 2017

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of the Directors' Responsibilities set out on page 20, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by shareholders at the 1985 Annual General Meeting to audit the financial statements for the year ended 31 December 1985 and subsequent financial periods. The period of total uninterrupted engagement is 33 years, covering the years ended 31 December 1985 to 31 December 2017.

Nick Wilks (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 March 2018

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Technical account – general business			
Earned premiums, net of reinsurance:			
Gross premiums written – continuing operations	3	3,267,360	2,390,113
– discontinued operations	3	114	(2,162)
Gross premiums written	3	3,267,474	2,387,951
Outward reinsurance premiums		(1,416,763)	(1,069,964)
Net premiums written		1,850,711	1,317,987
Change in the gross provision for unearned premiums		(14,249)	(59,207)
Change in the provision for unearned premiums – reinsurers' share		(1,811)	1,633
Earned premiums, net of reinsurance		1,834,651	1,260,413
Claims incurred, net of reinsurance:			
Claims paid:			
Gross amount	3	(1,901,335)	(1,272,709)
Reinsurers' share		942,911	662,328
Net paid claims		(958,424)	(610,381)
Change in the provision for claims outstanding:			
Gross amount	3	64,664	(111,081)
Reinsurers' share		(76,690)	134,540
Change in the net provision for claims outstanding		(12,026)	23,459
Claims incurred, net of reinsurance		(970,450)	(586,922)
Net operating expenses	5	(745,707)	(578,676)
Change in the equalisation provision		-	105,102
Balance on the technical account for general business		118,494	199,917

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Non-technical account			
Balance on the technical account for general business		118,494	199,917
Investment income	9	132,730	96,220
Unrealised gains on investments	9	49,227	91,934
Investment expenses and charges	9	(23,679)	(41,401)
Unrealised losses on investments	9	(68,374)	(25,841)
Foreign exchange differences		(364)	(126,884)
Other (expenses) / income		(1,225)	(721)
Profit on ordinary activities before taxation		206,809	193,224
Continuing operations		204,101	197,314
Discontinued operations		2,708	(4,090)
Taxation on profit on ordinary activities	10	(56,718)	(32,841)
Profit for the financial year		150,091	160,383

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year for the current or prior year and their historical cost equivalents.

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2017

	2017 £'000	2016 £'000
Profit for the financial year	150,091	160,383
Currency translation differences	31,069	259,640
Actuarial gain / (loss) recognised in relation to pension schemes	1,920	(772)
Movement on deferred taxation relating to pension liability	614	(553)
Total recognised gains relating to the year	183,694	418,698

CHUBB EUROPEAN GROUP LIMITED
(Formerly ACE European Group Limited)

BALANCE SHEET
at 31 December 2017

	Note	2017 £'000	2016 £'000
Assets			
Investments			
Other financial investments	12	5,244,008	2,997,692
Financial derivative instruments	12	1,143	745
		5,245,151	2,998,437
Reinsurers' share of technical provisions			
Provision for unearned premiums		412,722	365,539
Provision for claims outstanding		2,804,657	2,446,397
		3,217,379	2,811,936
Debtors – amounts falling due within one year			
Debtors arising out of direct insurance operations:			
amounts owed by policy holders		27,921	33,395
amounts owed by intermediaries		695,608	489,969
Debtors arising out of reinsurance operations		240,815	244,801
Other debtors	13	181,923	58,719
		1,146,267	826,884
Other assets			
Intangible assets	15	38,774	50,951
Tangible assets	16	10,826	3,593
Cash at bank and in hand	2	169,722	60,209
		219,322	114,753
Prepayments and accrued income			
Accrued interest and rent		62,111	35,597
Deferred acquisition costs		236,755	164,912
Other prepayments and accrued income		936	309
		299,802	200,818
Total assets		10,127,921	6,952,828

BALANCE SHEET
at 31 December 2017

	Note	2017 £'000	2016 £'000
Liabilities			
Capital and reserves			
Called-up share capital	18	786,120	544,741
Share premium	18	682,834	-
Profit and loss account		910,761	827,067
Merger reserve		25,653	25,653
Total shareholders' funds		2,405,368	1,397,461
Technical provisions			
Provision for unearned premiums		1,232,644	929,851
Provision for claims outstanding		5,727,399	4,085,881
		6,960,043	5,015,732
Deposits received from reinsurers		8,652	7,892
Creditors – amounts falling due within one year			
Creditors arising out of direct insurance operations		3,729	20,863
Creditors arising out of reinsurance operations		265,262	253,872
Bank overdraft	2	146,237	51,821
Other creditors including taxation and social security	20	199,792	107,239
		615,020	433,795
Other financial liabilities	12	293	742
Accruals and deferred income			
Deferred acquisition costs relating to reinsurance		46,459	40,191
Other accruals and deferred income		85,761	48,769
		132,220	88,960
Total liabilities excluding pension liability		10,121,596	6,944,582
Pension liability	17	6,325	8,246
Total liabilities		10,127,921	6,952,828

The notes on pages 32 to 63 are an integral part of these financial statements.

The financial statements on pages 27 to 63 were approved and authorised for signature by the Board of Directors on 19 March 2018 and were signed on its behalf by:

M K Hammond
Chief Financial Officer
23 March 2018

CHUBB EUROPEAN GROUP LIMITED
(Formerly ACE European Group Limited)

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

	Note	Called-up share capital £'000	Share Premium £'000	Merger reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2016		**544,741**	-	**25,653**	**508,369**	**1,078,763**
Profit for the financial year		-	-	-	160,383	160,383
Other comprehensive income:						
Currency translation differences		-	-	-	259,640	259,640
Actuarial gain recognised in relation to pension schemes		-	-	-	(772)	(772)
Movement on deferred taxation relating to pension liability		-	-	-	(553)	(553)
Dividends paid on equity shares	11	-	-	-	(100,000)	(100,000)
As 31 December 2016		**544,741**	-	**25,653**	**827,067**	**1,397,461**
New shares issued as part of Group Reconstruction	26	241,379	682,834	-	-	924,213
Profit for the financial year		-	-	-	150,091	150,091
Other comprehensive income:						
Currency translation differences		-	-	-	31,069	31,069
Actuarial loss recognised in relation to pension schemes		-	-	-	1,920	1,920
Movement on deferred taxation relating to pension liability		-	-	-	614	614
Dividends paid on equity shares	11	-	-	-	(100,000)	(100,000)
As 31 December 2017		**786,120**	**682,834**	**25,653**	**910,761**	**2,405,368**

1. ACCOUNTING POLICIES

Basis of preparation

Chubb European Group Limited is a limited liability company incorporated in the United Kingdom. The financial statements have been prepared under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance companies' individual financial statements and applicable accounting standards in the United Kingdom, including Financial Reporting Standard FRS 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and Financial Reporting Standard FRS 103, "Insurance Contracts" ("FRS 103").

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated. The company has adopted FRS 102 and FRS 103 in these financial statements. The financial statements are prepared on a going concern basis, under the historical cost convention modified to include the revaluation of certain financial assets and liabilities. The company is a wholly owned subsidiary within the Chubb Limited group and is included within the consolidated financial statements of Chubb Limited, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement and disclosing details of share-based payments under the terms of FRS 102.

On 01 May 2017 the company merged with Chubb Insurance Company of Europe SE ("CICE") and Chubb Bermuda International Insurance Designated Activity Company ("CBII"). This has been treated as a group reconstruction in accordance with FRS 102. From an accounting perspective, the transaction has an effective date of 1 January 2017. All accounting policies have been aligned as at this date, and a full year of transactions has been included within the Profit and Loss Account. Greater detail around the nature of the merger and its financial impact is disclosed in note 26.

Continuing and discontinued operations

Discontinued operations include business underwritten by CEGL prior to its reauthorisation by the Financial Services Authority ("FSA") in 2003. This business included UK marine and aviation business underwritten until 1994, accident and health business underwritten until 1995 and United States surplus lines business underwritten until 1998. Following the group reconstruction in 2005 (see the Statement of changes in equity); discontinued operations now also include marine and aviation business underwritten by Chubb Insurance S.A.-N.V. in the London market prior to 1999. All other operations are classified as continuing.

Premiums written

Premiums written, which are stated gross of brokerage but exclusive of premium taxes, relate to business incepted during the year, together with adjustments made in the year to premiums written in prior accounting periods. Estimates are made of pipeline premiums, representing amounts due but not yet received or notified to the company by intermediaries.

Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established risk profiles or time apportionment as appropriate.

Acquisition costs

Acquisition costs comprise brokerage, commissions and other related expenses, and are deferred over the period in which the related premiums are earned.

1. ACCOUNTING POLICIES – continued

Claims incurred

Claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect expenses and adjustments to claims outstanding from previous years. Where applicable, deductions are made for reinsurance, salvage and other recoveries.

Provision for claims outstanding and related reinsurance recoveries

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ("IBNR") at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

The reinsurers' share of the provision for claims outstanding is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. A number of statistical methods are used to assist in making these estimates.

The two most critical assumptions as regards the provision for claims outstanding are that the past is a reasonable predictor of the likely level of claims development, and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors consider that the provision for gross claims outstanding and related reinsurance recoveries is fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

When calculating the provision for claims outstanding, the reported business segments are subject to specific issues, as set out below:

Fire and other damage to property; marine, aviation and transport; accident and health

These business segments are predominantly "short tail"; that is, there is not a significant delay between the occurrence of the claim and the claim being reported to the company. The costs of claims notified to the company at the balance sheet date are estimated on a case by case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics, which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications.

1. ACCOUNTING POLICIES – continued

Provisions for claims outstanding and related reinsurance recoveries – continued

Third party liability (including marine and aviation liability)

Liability claims are longer tail than the classes of business described above and so a larger element of the provision for claims outstanding relates to IBNR. Claims estimates for the company's liability business are derived from a combination of loss ratio based estimates and an estimate based upon actual claims experience using a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimate of the loss ratio, based on the experience of previous years adjusted for factors such as premium rate changes and claims inflation, and on the anticipated market experience, is an important assumption in this estimation technique. In respect of liability claims, the assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. The liability class of business is also subject to the emergence of new types of latent claims but no allowance is included for this as at the balance sheet date.

Reinsurance acceptances

This business segment includes both short tail and long tail business, and is subject to the issues laid out in the preceding two sections above.

Asbestos, pollution and health claims ("APH")

The company has some exposure to APH from its discontinued operations. There may be a long delay between the occurrence and notification of these types of claim. In estimating the cost of claims the company considers the type of risks written historically that may give rise to exposure to these risks, notifications received from policyholders, the nature and extent of the cover provided, the current legal environment, changes in the effectiveness of clean up techniques and industry benchmarks of the typical cost of claims of this kind and of total expected insured losses. The company is protected by way of a stop loss agreement with a fellow group undertaking from any adverse development arising from such exposures in its marine and aviation account for 1991 and prior years.

Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred. The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant investment return.

Dividends

Dividends are recognised when they are approved by the Board of Directors.

1. **ACCOUNTING POLICIES – continued**

Financial Assets and Liabilities

The company recognises a financial asset or a financial liability on its balance sheet when it becomes a party to the contractual provisions of the instrument. On initial recognition the company determines the category of financial instrument and values it accordingly. The classification depends on the purpose for which the investments are acquired.

Investments – fair value through profit and loss

A financial asset is classified into this category at inception if they are acquired principally for the purpose of selling in the short term, if they form part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated to minimise any measurement or recognition inconsistency with the associated liabilities.

Financial assets designated as fair value through profit and loss are initially recognised at fair value with any transaction costs being expensed through the profit and loss account. For quoted investments where there is an active market, the fair value is their quoted bid price at the balance sheet date. For quoted investments where there is no active market, the fair value is determined by reference to prices for similar assets in active markets.

Realised gains and losses and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the profit and loss account in the period in which they arise.

Cash at bank and in hand and bank overdrafts

Cash at bank and in hand is cash in hand and deposits repayable on demand. Deposits are repayable on demand if they can be withdrawn at any time without notice and without penalty or if a maturity or period of notice of not more than 24 hours or one working day has been agreed. Bank overdrafts are repayable on demand.

Insurance and other receivables

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

Derivative financial instruments

The company has chosen to apply the disclosure requirements of FRS 102 in respect of financial instruments.

Derivative financial instruments are measured on initial recognition, and subsequently, at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the profit and loss account. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of interest rate swaps is the estimated amount that the company would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Purchases and sales of securities and currencies are recognised on trade date – the date on which the company commits to purchase or sell the asset.

1. ACCOUNTING POLICIES – continued

Stock lending

The company is party to a securities lending agreement under which securities are lent to third parties on a short-term basis with collateral provided in return. The securities lent are not derecognised; rather they continue to be recognised within the appropriate investment classification.

Where the company is provided with collateral in the form of cash, it may hold the cash or reinvest it in other financial investments. The company recognises the cash or investments and the related obligation to return such collateral in the company's balance sheet.

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. FRS 102 requires that, for insurance entities, both realised and unrealised investment gains and losses be included as part of investment return in the profit and loss account. Dividends are recorded on the date on which the shares are quoted ex-dividend. Interest and expenses are accounted for on an accruals basis.

Realised gains and losses on investments carried at fair value are calculated as the difference between net sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have previously been revalued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Stock lending fees are recognised as earned on a pro rata basis over the period of lending.

Intangible assets

Amortisation is provided on all intangible fixed assets to write off their cost on a straight line basis over their estimated useful lives as follows:

Computer software	Up to 12 years

Tangible assets

Tangible assets are capitalised and depreciated by equal annual instalments over their estimated useful lives as follows:

Land and buildings	Over the shorter of the lease term or 50 years
Motor vehicles	4 years
Leasehold improvements	Over the remaining period of the lease
Fixtures and fittings	5 years
Computer, office equipment and software	up to 5 years

Deferred taxation

Deferred taxation is recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more tax in future, or a right to pay less tax in future. An asset is not recognised to the extent that the transfer of economic benefits in future is uncertain. Deferred tax assets and liabilities recognised are not discounted.

1. ACCOUNTING POLICIES – continued

Operating leases

Rents payable under operating leases are charged to the profit and loss account as incurred over the lease term.

Share premium

Share premium represents the any difference between the nominal value of issued share capital and the fair value of consideration transferred in exchange. In this case, the net assets of CICE and CBII assumed by CEGL as part of cross border merger were greater than the nominal value of the shars issued,which has resulted in a share premium reserve.

Pension costs

The company operates a small number of funded defined benefit pension schemes in Europe with assets held in separate trustee-administered funds. The pension asset or liability recognised in the balance sheet is the value of the schemes' assets less the present value of the schemes' liabilities.

The pension cost for the schemes is analysed between current service cost, past service cost and net expected return on pension schemes. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period. Past service costs, relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits, are recognised in the profit and loss account on a straight-line basis over the period in which the increase in benefits vest.

Net expected return comprises the expected return on the pension scheme assets less interest on scheme liabilities.

The actuarial gains and losses which arise from valuations and from updating the latest actuarial valuations to reflect conditions at the balance date are taken to the statement of comprehensive income for the period. The attributable deferred taxation is shown separately in the statement of comprehensive income.

The company also provides a guarantee to a defined benefit pension scheme held by Chubb Services UK Limited. Given the scheme is currently in a net asset position, no liability has been recognised by CEGL.

Foreign currencies

CEGL operates as a number of branches, each of which conducts business in a variety of transactional currencies. These branches include both UK and overseas insurance operations and centralised treasury operations. Each of the branches is designated a functional currency.

Foreign currency transactions are accounted for, in functional currency, at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, from translating such transactions into the functional currency of the branch, and from the revaluation to year end exchange rates of monetary assets and liabilities, are recognised in the profit and loss account.

At each period end foreign currency monetary items are translated using the closing rate. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Results of branches, recorded in their functional currency, are translated into sterling at average rates of exchange while assets and liabilities are translated to sterling at year end exchange rates. Differences arising on translation are recorded in the statement of comprehensive income.

2. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT

Capital management

CEGL 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 then 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, CEGL is regulated by the PRA and is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held. CEGL manages its capital levels in the context of the Solvency II Standard Formula Solvency Capital Requirement and the Solvency II Minimum Capital Requirement, which computes capital levels based on European industry risk factors related to premiums, reserves and assets. The company performs tests and controls to ensure continuous and full compliance with the Solvency II regulations.

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 retain financial flexibility by maintaining strong liquidity.

Insurance risk

Insurance risk arises from fluctuations in the frequency and/or severity of claims. The company mitigates this risk by maintaining underwriting discipline throughout its operations. This policy is supported by each strategic business unit's underwriting guidelines, expertise and appropriate authority limits. These guidelines are updated regularly to reflect developments in the nature of the insurance risks being underwritten. The company also uses a reinsurance programme to manage its insurance risk by providing cover against certain large exposures.

Sensitivity to insurance risk

As highlighted in Note 1, there is inherent uncertainty in the ultimate cost of claims for which the company uses a variety of different actuarial techniques to estimate the provision for claims outstanding. If the net claims ratio for the year had been higher by 1%, then the profit for the financial year would have been lower by £18.3 million (2016: £12.6 million) and shareholders' funds would have been lower by £18.3 million (2016: £12.6 million). If the net claims ratio had been lower by 1%, then the profit for the financial year would have been higher by £18.3 million (2016: £12.6 million) and shareholders' funds would have been higher by £18.3 million (2016: £12.6 million).

Concentrations of insurance risk

As set out in Note 3, the company writes a diverse book of business across a number of underwriting classes. Approximately 29% of the gross written premiums for 2017 (2016: 30%) related to fire and other damage to property insurance, with the remainder split across a number of other classes.

Geographically, 57.0% (2016: 55.9%) of gross premiums written in 2017 relates to risks within continental Europe (including Ireland), with the remainder being spread across the United Kingdom , Asia Pacific, the United States of America, Africa & Middle East and Latin America.

2. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

Financial risk management objectives

The company is exposed to a range of financial risks through its financial assets and financial liabilities. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), liquidity risk and credit risk.

These financial risks principally arise from the investment activity of the business and consequent holdings in fixed income investments, all of which are exposed to general and specific market movements. The underwriting activity of the business also generates financial risk, particularly in the form of currency risk as well as liquidity and credit risk through its insurance and reinsurance receivables and payables.

The notes below explain how financial risks are managed. The processes used to manage these risks are unchanged from previous periods, and cover areas such as investment activity through stochastic modelling of the portfolio, within its internal capital model and consequent capital requirements.

Investment activity governance

The company operates an Investment Committee which functions under terms of reference determined by the Executive Committee of the Board. The Committee is charged with establishing and effecting an appropriate investment policy for the company having regard to the financial risk appetite of the company. In addition, the Committee has the responsibility for recommending the appointment and removal of investment managers, for reviewing the managers' performance and for reporting on all other material aspects of the investment function.

The Investment Committee comprises senior Chubb management and is chaired by the Chief Executive Officer of Chubb Asset Management, the group's investment specialists who provide advisory services to Chubb group companies including CEGL. The Committee also includes the Chief Executive Officer, Chief Financial Officer and Treasurer of the company.

The investment management function is outsourced to specialist external managers.

Asset allocation policy

The Investment Committee has established a broad asset allocation policy which defines the limits for different asset types. The asset allocation policy cites two major asset classes: investment grade fixed income securities and alternative assets. Alternative assets can include equities, high-yield and emerging market instruments. The policy stipulates a target range of between 75% and 100% for investment grade fixed income securities and a range of between 0% and 25% for alternative asset classes. The current allocation to alternative assets sits at the mid of the target range, however, the position is regularly reviewed by the Investment Committee.

Investment guidelines

Investment management agreements have been established with the external investment managers. The agreements include specific guidelines for each individual portfolio in order to limit risks arising from duration, equity price, currency, liquidity, credit and counterparty exposures. The managers provide quarterly affirmation of compliance with these guidelines.

2. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

Interest rate risk

The company is exposed to interest rate risk primarily through its investments in fixed interest securities and, to the extent that claims inflation is correlated to interest rates, its liabilities to policyholders. Interest rate risk arises in the fixed income investment portfolio primarily through instrument duration. Accordingly, 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.

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 £4,959 million at external managers as at 31 December 2017 (2016: £2,870 million), an increase of 100 basis points in interest yields across all portfolios consecutively (principally sterling, euro and US dollars) 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 £228.3 million and accordingly decrease total shareholders' funds by £182.5 million.

Equity price risk

The company is exposed to equity price risk as a result of its holdings in equity investments, classified as financial assets at fair value through profit and loss.

The risk in respect of equities is moderated through the asset allocation policy which limits the allocation to equities. The investment guidelines restrict individual equity holdings relative to the size of the portfolio and the benchmark constituents.

All equity holdings of £48.3 million (2016: £42.2 million) are listed and represent 1% (2016: 1%) of the total investment portfolio. If the value of all equity markets in which the company invests decreased by 10%, with all other variables held constant, the total investment return would decrease by £4.8 million and the total shareholders' funds would decrease by £3.8 million.

Currency risk

The company is primarily exposed to currency risk in respect of assets and liabilities under policies of insurance denominated in currencies other than sterling. The company maintains various currency balances generated through regular business activity but the majority of the funds held are denominated in sterling, euros and US dollars. The company policy seeks to ensure that an approximate currency match of assets and liabilities is maintained, with the bulk of surplus funds held in sterling, euros and US dollars.

Any component of the shareholders' funds denominated in currencies other than sterling gives rise to currency risk due to exchange rate volatility relative to sterling.

The company is also exposed to currency risk in the investment portfolio as the investment guidelines allow the managers to invest a portion of the individual portfolios in securities not denominated in the designated core currency of the portfolio. However, the investment management agreements stipulate that the majority of any exposure to non-core currencies must be hedged, thus matching the risk. These allocations to non-core currencies are included within the quarterly evaluation of the currency alignment reviewed by the Investment Committee.

The accounting policy for foreign currencies is stated in note 1 to the financial statements. Profit and loss results pertaining to foreign branches are translated to sterling using the average rates of exchange for the year. Balance sheet components (monetary assets and liabilities) are translated to sterling using the rates of exchange at year end.

2. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

For the profit and loss account, the 2017 average euro/sterling rate of €1.146/£1 is down on the prior period (2016: €1.238/£1) and the US dollar/sterling rate of US$1.277/£1 is down on the prior period (2016: US$1.375/£1). If sterling weakened by 10% against all currencies (primarily the euro and US dollar) and all other variables remained constant, the profit before tax for the year would have been £2.9 million less than the amount reported. This amount is calculated as 10% of the profits arising from non-sterling business. This is significantly lower than the actual foreign exchange loss in the current period as a result of various inter-branch currency balances that are in the process of being re-aligned. As a consequence, foreign exchange gains or losses in the profit and loss account are in the future expected to be less sensitive to changes in currency exchange rates.

For the monetary components of the balance sheet, the year-end rates used to convert euro to sterling have decreased by 4.8% to €1.134/£1 and US dollar to sterling has increased 6.7% to US$1.351/£1 (2016: €1.191/£1 and US$1.266/£1). Assuming sterling had weakened by 10% against all currencies (primarily the euro and US dollar) and all other variables remained constant, the effect of translating year end foreign branch net assets based on these parameters would have resulted in decreased shareholders' funds of £148.8 million, which would have appeared as a loss in the statement of comprehensive income.

Liquidity risk

Liquidity risk is the risk that the company is unable to meet its obligations as they fall due. To counter this risk, the company aims to maintain funds in the form of cash or cash equivalents to meet known cash flows. In addition, the asset allocation policy and the investment guidelines are structured in order to ensure that funds are predominantly held in investment grade fixed income securities, the proceeds of which are readily realisable.

CEGL participates in a notional pooling programme with other Chubb group companies under a facility operated by Bank Mendes Gans, a subsidiary of ING, which specialises in global liquidity management. The facility operates by the notional pooling of designated balances of the Chubb group participants in order to provide additional liquidity. Chubb group participants may overdraw individual account balances to fund immediate short term needs against credit balances held elsewhere within the pool. On this basis, CEGL maintained an overdraft of £146.2 million at year end (2016: £51.8 million) and credit balances of £169.7 million (2016: £60.2 million) as presented on the balance sheet.

The company also benefits from letter of credit facilities which can be utilised to meet certain funding needs and notional pooling facilities with other Chubb group companies which serve to provide additional liquidity.

As indicated in the balance sheet, the company's financial liabilities are all payable within one year. Non-derivative financial liabilities with contractual maturities are payable within normal terms of trade, which is on average 60 days. Non-derivative financial liabilities with contractual maturities are limited to reinsurance premiums payable and expense accruals. Derivative financial liabilities at the balance sheet date have remaining contractual maturities of £0.00 million within 1 month, £0.32 million between 1 and 3 months, £nil between 3 months and 1 year and £0.88 million after more than one year.

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The company is exposed to credit risk through its investment activity and its insurance operations.

2. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

Credit risk – investment

The company is exposed to investment credit and price risk as a result of its holdings in fixed income and equity investments. The risk in respect of fixed income investments is moderated by the application of detailed investment guidelines which limit the size of holdings with individual issuers, restrict duration and dictate minimum credit quality, both for individual holdings and for the aggregate weighted portfolio.

The average credit quality of investment portfolios using Standard and Poor's ratings remained high throughout the year and at year end was "A". This is comparable to the previous year ("A"). CEGL had £48.3 million equity holdings at 2017 year end (2016: £42.2 million).

The risk in respect of equities is moderated through the asset allocation policy which limits the allocation to equities. The investment guidelines restrict individual equity holdings relative to the size of the portfolio and the benchmark constituents.

The investment guidelines seek to limit the credit risk of each of the portfolios through specifying eligible/ineligible investments; setting maximum counterparty exposures and minimum weighted credit quality and individual issuer credit quality; and requiring collateral and indemnity arrangements for stock lending transactions.

The company engages in a securities lending program from which it generates net investment income from the lending of certain of its investments to other institutions for short periods of time. The value of securities loaned is limited to 40% of the company's aggregate portfolio. Collateral is provided against the market value of the loaned securities. The market value is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities changes.

The company maintains strict control limits on open derivative positions, by both amount and term. The amount subject to credit risk at any one time is limited to the current fair value of derivative financial assets.

Credit risk – insurance and investment operations

The company is exposed to credit risk as a result of its regular insurance and reinsurance activity. The areas of key exposure are:

- reinsurers' share of provision for claims outstanding;
- debtors arising from reinsurers in respect of claims already paid;
- amounts due from direct insurance and reinsurance policyholders; and
- amounts due from direct insurance and reinsurance intermediaries.

Ceded reinsurance is used to manage and mitigate inwards direct insurance and reinsurance risk. Ceded reinsurance does not discharge the company's liability as primary insurer. If a ceded reinsurer fails to pay a claim, the company remains liable for the payment to the policyholder. A Reinsurance Security Committee is operated by the Chubb group which analyses the creditworthiness of ceded reinsurers on a quarterly basis by reviewing their financial strength. In addition, the recent payment history of ceded reinsurers is used to update the reinsurance purchasing strategy.

With regard to direct insurance and reinsurance receivables, the company operates a committee to review broker security, a process for monitoring arrangements with managing general agents, and, in certain circumstances, the requirement for collateral to be posted by the policyholder to the benefit of the company.

2. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

The assets bearing credit risk are summarised below:

	2017	2016
	£'000	£'000
Other financial investments	5,244,008	2,997,692
Derivative financial securities	1,143	745
Reinsurers' share of technical provisions	3,217,379	2,811,936
Debtors arising out of direct insurance operations	723,529	523,364
Debtors arising from reinsurance operations	240,815	244,801
Total assets bearing credit risk	9,426,874	6,578,538

Other financial investments and derivative financial instruments are designated as fair value through profit or loss at inception, and their performance evaluated on a fair value basis, in accordance with a documented investment strategy as detailed in note 1. The Standard and Poor's credit rating for other financial investments and derivative financial securities is detailed below.

	2017	2016
	£'000	£'000
AAA	714,029	315,814
AA	1,857,165	1,049,792
A	1,055,611	579,778
BBB	1,140,140	640,254
Below BBB or not rated	478,206	412,799
	5,245,151	2,998,437

Other financial investments and derivative financial instruments are neither past due nor impaired.

The amount of change, during the period and cumulatively, in the fair value of receivables that is attributed to changes in credit risk is represented by the provision for impairment against receivables past due.

Reinsurers' share of technical provisions includes claims outstanding, related claims handling costs and unearned premium. This balance includes 0.0% past due that have been impaired (2016: 0.0%).

Debtors arising out of direct and reinsurance operations are held at fair value less any provision for impairment as described in note 1. They include 0.2% (2016: 0.2%) that have been impaired and 18.9% (2016: 21.9%) that are past due, but not impaired. The latter is aged 16.7% up to six months (2016: 20.4%), 1.5% six months to a year (2016: 1.2%) and the remaining 0.7% is older than a year (2016: 0.3%).

The Standard and Poor's credit rating for reinsurers share of technical provisions and debtors arising out of reinsurance operations are detailed below.

	2017	2016
	£'000	£'000
AA	2,731,228	2,343,931
A	502,577	519,779
BBB	2,383	1,788
Below BBB or not rated	222,006	191,239
	3,458,194	3,056,737

2. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

Where appropriate the company seeks to obtain collateral from counterparties to mitigate the credit risk exposure from insurance and reinsurance receivables. At 31 December 2017 the collateral provided to the company totalled £330.7 million (2016: £651.3 million). This balance is represented by Letters of Credit – 80.0% (2016: 62.4%), trust funds – 18.9 % (2016: 36.1%), cash – 1.1% (2016: 1.4%) and floating charge – 0.0% (2016: 0.0%).

The maximum exposure of receivables to credit risk at the balance sheet date is the carrying value less any collateral obtained from counterparties. For the purpose of this disclosure 'receivables' comprises 'Reinsurers' share of technical provisions', 'Debtors arising out of direct insurance operations' and 'Debtors arising from reinsurance operations'. At the balance sheet date the maximum exposure of receivables to credit risk was £3,851.7 million (2016: £2,928.0 million).

3. SEGMENTAL ANALYSIS

Segmental information in the format required by the Companies Act 2006 is as follows:

	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance
	£'000	£'000	£'000	£'000	£'000
Year to 31 December 2017					
Continuing operations: Direct insurance					
Accident and health	490,100	478,012	(162,859)	(199,608)	(56,747)
Marine, aviation and transport	190,343	182,839	(102,579)	(44,193)	(21,711)
Fire and other damage to property	957,964	938,572	(588,489)	(316,920)	(116,584)
Third party liability	864,811	891,082	(632,730)	(240,608)	(88,123)
Miscellaneous	233,935	230,391	(81,839)	(43,186)	(57,464)
Reinsurance acceptances	530,207	532,215	(272,963)	(89,964)	(16,962)
	3,267,360	3,253,111	(1,841,459)	(934,479)	(357,591)
Discontinued operations	114	114	4,788	0	(5,990)
	3,267,474	3,253,225	(1,836,671)	(934,479)	(363,581)

	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance
	£'000	£'000	£'000	£'000	£'000
Year to 31 December 2016					
Continuing operations: Direct insurance					
Accident and health	418,951	419,719	(155,428)	(154,151)	(40,830)
Marine, aviation and transport	111,592	110,318	(70,222)	(27,077)	(19,360)
Fire and other damage to property	725,433	721,610	(300,582)	(274,620)	(219,520)
Third party liability	517,786	498,979	(252,017)	(121,775)	(43,235)
Miscellaneous	159,765	153,253	(98,843)	(38,019)	(2,665)
Reinsurance acceptances	456,586	427,027	(501,572)	(117,738)	207,762
	2,390,113	2,330,906	(1,378,664)	(733,380)	(117,848)
Discontinued operations	(2,162)	(2,162)	(5,126)	0	1,089
	2,387,951	2,328,744	(1,383,790)	(733,380)	(116,759)

The reinsurance balance represents the credit (charge) to the technical account from the aggregate of all items relating to outwards reinsurance.

3. SEGMENTAL ANALYSIS – continued

Analysis by geographic area – origin

	Gross written premiums		Profit (loss) before taxation		Net assets	
	2017	2016	2017	2016	2017	2016
	£'000	£'000	£'000	£'000	£'000	£'000
United Kingdom	1,399,832	1,045,345	178,117	136,515	951,030	460,467
Other EEA states	1,829,465	1,315,445	25,850	56,277	1,400,473	882,546
Other countries	38,177	27,161	2,842	432	53,865	54,448
	3,267,474	2,387,951	206,809	193,224	2,405,368	1,397,461

Gross written premium information by destination (location of risk) as required by FRS 102 as follows:

	2017	2016
	£'000	£'000
Continental Europe	1,863,266	564,153
United Kingdom	902,761	67,385
Asia/Pacific	103,815	1,334,213
United States of America	90,117	57,158
Africa & Middle East	58,151	90,560
Americas	49,882	50,108
Worldwide	199,369	226,537
Discontinued business	114	(2,162)
	3,267,474	2,387,951

4. MOVEMENT IN PRIOR YEARS' PROVISION FOR CLAIMS OUTSTANDING

The prior years' net provision for claims outstanding generated a surplus for 2017 (2016: surplus) as detailed below:

	2017	2016
	£'000	£'000
Continuing operations:		
Accident and health	8,039	(20,462)
Marine, aviation and transport	5,747	(5,054)
Fire and other damage to property	38,421	15,360
Third party liability	(21,002)	61,081
Miscellaneous	8,716	7,178
	39,921	58,103
Discontinued operations	(2,682)	(4,038)
	37,239	54,065

5. NET OPERATING EXPENSES – TECHNICAL ACCOUNT

	2017 £'000	2016 £'000
Acquisition Costs	**614,342**	446,078
Change in net deferred acquisition costs	**(10,977)**	(10,999)
Administrative expenses	**335,003**	303,054
Reinsurance commissions	**(192,661)**	(159,457)
	745,707	578,676

Administrative expenses include costs that are incurred by Chubb Services UK Limited ("CSUL"), a fellow group undertaking, and recharged to the company in the form of management charges. In particular, this charge includes the cost of the CSUL staff engaged in the business of CEGL.

In 2017 administrative expenses include integration costs of £18.8 million (2016: £45.1 million).

Total commissions for direct insurance accounted for by the company during the year amounted to £483.6 million (2016: £344.1 million), and are included within acquisition costs.

6. AUDITORS' REMUNERATION

	2017 £'000	2016 £'000
Fees payable to the Company's auditors for the audit of the Company's financial statements	**968**	694
Fees payable to the Company's auditors for other services:		
Audit-related assurance services	**155**	200
Tax compliance services	**0**	299
Tax advisory services	**0**	12
Other non-audit services	**500**	1,075
	1,623	2,280

Audit-related assurance services include reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act 2002 and also the audit of the Company's regulatory return.

7. OPERATING LEASE RENTALS

The total rentals under operating leases, charged as an expense in the profit and loss account, are disclosed below:

	2017	2016
	£'000	£'000
Leasehold property	8,284	7,011

The total of future minimum lease payments under non-cancellable operating leases is as follows:

	2017	2016
	£'000	£'000
Operating leases which expire:		
Within 1 year	79	1,262
Between two and five years	17,942	15,022
More than five years	17,261	3,497
	35,282	19,781

The disclosures above relate to operating leases held by branches outside the UK. Operating leases for UK properties are held by CSUL, and their costs are incorporated in management recharges from this service company. For disclosure purposes, it is not practical to allocate these amounts to the underlying entities which utilise the office space leased.

8. DIRECTORS AND EMPLOYEES

	2017	2016
	£'000	£'000
Cost of staff employed by the company		
Wages and salaries	88,489	71,559
Social security costs	23,641	16,415
Other pension costs	11,418	6,332
Other staff costs	9,767	7,315
	133,315	101,621

The monthly average number of employees of the company during the year was as follows:

	2017	2016
	No.	No.
Underwriting	833	646
Claims	302	202
Other	276	274
	1,410	1,122

The disclosures above relate to staff based in the company's branches outside the UK who are directly employed by the company. Staff that support the UK branch operations of the company and centralised functions that are managed in the UK are employed by CSUL and their costs are incorporated in management recharges from this service company. For disclosure purposes, it is not practical to allocate these amounts to the underlying entities to which the staff provide services.

8. DIRECTORS AND EMPLOYEES – continued

Directors' emoluments

All directors received emoluments through CSUL in respect of their services to Chubb group companies. The cost of these emoluments is incorporated within the management recharges from CSUL. 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 paid by CSUL to the directors of this company.

	2017 £'000	2016 £'000
Aggregate emoluments and benefits	**5,486**	5,359
Company pension contributions to money purchase pension schemes	**27**	23
	5,513	5,382

Included in the above amounts paid by CSUL in respect of the directors of this company, the highest paid director was paid a total of £835,764 (2016: £979,163) in respect of emoluments and benefits. The amount of accrued pension and accrued lump sum in relation to the highest paid director at the end of the year were £Nil (2016: £Nil) and £Nil (2016: £Nil) respectively.

The aggregate emoluments above do not include share based remuneration. All executive directors are entitled to receive shares in Chubb Limited under long-term incentive plans. During the year, 7 directors received shares in Chubb Limited under long-term incentive plans and 4 directors 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 1 current director under the final salary section. Disclosures relating to this scheme are contained within the financial statements for CSUL. From 1 April 2002, pension benefits are accruing to one current director under the Chubb European Group UK Pension Plan (Stakeholder scheme).

9. INVESTMENT RETURN

	2017 £'000	2016 £'000
Investment income		
Income from investments	**113,899**	84,286
Gains on the realisation of investments	**18,831**	11,934
	132,730	96,220
Investment expenses and charges		
Investment management expenses	**(16,254)**	(10,635)
Losses on the realisation of investments	**(7,425)**	(30,766)
	(23,679)	(41,401)
Net unrealised gains less losses on investments		
Unrealised gains on investments	**49,227**	91,934
Unrealised losses on investments	**(68,374)**	(25,841)
	(19,147)	66,093
Total investment return	**89,904**	120,912

10. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2017 £'000	2016 £'000
Current taxation		
UK corporation tax at 20% (2016: 20%)	50,934	18,863
Adjustments in respect of prior years	(1,426)	(846)
Total current taxation	49,508	18,017
Double taxation relief	(22,395)	(16,166)
	27,113	1,851
Foreign taxation		
Current taxation on income for the period	27,089	20,685
Adjustments in respect of previous periods	3,588	(8,110)
	30,677	12,575
Deferred taxation		
Origination and reversal of timing differences	(1,996)	20,123
Adjustments in respect of previous periods	1,459	-
Effect of change in tax rates	(535)	(1,708)
Total deferred tax charged	(1,072)	18,415
Tax on profit on ordinary activities	56,718	32,841

Tax included in the statement of comprehensive income

The tax charge is made up as follows:

	2017 £'000	2016 £'000
Actuarial loss on pension scheme	370	287
Changes in rate	244	266
Total tax charge	614	553

(b) Factors affecting the current tax charge

The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 20% (2016: 20%). The differences are reconciled below:

	2017 £'000	2016 £'000
Profit on ordinary activities before tax	206,809	193,224
Profit on ordinary activities multiplied by standard rate of UK corporation tax of 19.25% (2016: 20%)	39,811	38,645
Expenses not deductible for tax purposes	5,779	543
Higher taxation rates on overseas earnings	8,042	4,317
Changes in rate	(535)	
Adjustments in respect of prior periods - current tax	2,162	(1,708)
Adjustments in respect of prior periods - deferred tax	1,459	(8,956)
Total tax charge for the year	56,718	32,841

10. TAXATION ON PROFIT ON ORDINARY ACTIVITIES - continued

The adjustments in respect of previous period arise from differences between overseas and UK tax bases. The company has unrecognised eligible foreign tax UEUFT) totally £57.1m as 31 December 2017 which is unlikely to be relieved in the foreseeable future.

11. DIVIDENDS

During 2017 the company paid a dividend of 12.7p per share totalling £100.0 million (2016 £100.0 million).

12. OTHER FINANCIAL INVESTMENTS

	Market Value 2017 £'000	**Cost 2017 £'000**	Market Value 2016 £'000	Cost 2016 £'000
Shares and other variable yield securities and units in unit trusts	**48,337**	**39,919**	42,237	38,077
Private Equity	**50,297**	**46,329**	25,043	23,896
Debt securities and other fixed interest securities	**4,958,708**	**4,801,640**	2,869,945	2,743,798
Limited Partnerships	**32,589**	**33,055**	-	-
Deposits with credit institutions*	**154,077**	**154,077**	60,467	60,467
	5,244,008	**5,075,020**	2,997,692	2,866,238

None of the above investments, except equities, are listed on a recognised exchange.

*Deposits with credit institutions includes £126.2 million (2016: £30.1 million) of collateral in respect of stock lending arrangements (note 22).

Derivative financial instruments

	Assets 2017 £'000	**Liabilities 2017 £'000**	Assets 2016 £'000	Liabilities 2016 £'000
Forward foreign currency contracts	**307**	**118**	268	275
Fixed income options and futures	**836**	**175**	477	467

The cost of entering into derivative financial instruments was £309,859 (2016: £286,707).

12. OTHER FINANCIAL INVESTMENTS - continued

Currency derivatives

The company utilises currency derivatives to manage currency exposure which arises through the acquisition of investments in currencies other than the designated core currency of the investment portfolio.

At the balance sheet date, the total notional amount of outstanding forward foreign exchange contracts to which the company is committed are as follows:

	2017	2016
	£'000	£'000
Forward foreign exchange contracts	189	(14)

At 31 December 2017, the fair value of the company's currency derivatives results in an asset of £0.19 million (2016: liability of £0.1 million). These amounts are based on rates of exchange at the balance sheet date, comprising £0.31 million of assets (2016: £0.3 million) and £0.12 million of liabilities (2016: £0.3 million).

A gain of £0.7 million (2016: loss of £0.1 million) has been recognised in the profit and loss account in respect of contracts which matured during the period.

The company does not currently designate its foreign currency denominated debt as a hedging instrument for the purpose of hedging the translation of its foreign operations.

Fixed income options and futures

Options and futures contracts on fixed income securities may be utilised by the investment managers as part of their strategy to mitigate duration risk, enhance yield or to obtain exposure to a particular instrument or market.

At 31 December 2017, the fair value of the company's fixed income derivatives is an asset of £0.66 million (2016: asset of £0.1 million) comprising £0.84 million of assets (2016: £0.48 million) and £0.18 million of liabilities (2016: £0.47 million).

A loss of £1.0 million (2016: loss of £2.8 million) has been recognised in the profit and loss account in respect of contracts which matured in the period.

FRS 102 requires the company to classify financial instruments into a fair value hierarchy as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

For 2017 the company has taken early adoption of the Financial Reporting Council's Amendments to FRS 102 – Fair value hierarchy disclosure, the amendments of which simplify the preparation of disclosures about financial instruments for financial institutions and retirement benefit plans.

12. OTHER FINANCIAL INVESTMENTS – continued

An analysis of financial instruments at 31 December 2017 by fair value hierarchy is set out below:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Assets:				
Shares and other variable yield securities and units in unit trusts	48,337	-	-	48,337
Private Equity	-	-	50,297	50,297
Limited partnerships	-	-	32,590	32,590
Debt securities and other fixed interest securities	214,313	4,730,565	13,829	4,958,707
Deposits with credit institutions	27,933	126,144	-	154,077
Derivative financial instruments	836	307	-	1,143
Total assets at fair value	291,419	4,857,016	96,716	5,245,151
Liabilities:				
Derivative financial instruments	176	118	-	294
Total liabilities at fair value	176	118	-	294

An analysis of financial instruments at 31 December 2016 by fair value hierarchy is set out below:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Assets:				
Shares and other variable yield securities and units in unit trusts	42,237	-	-	42,237
Private Equity	-	-	25,043	25,043
Debt securities and other fixed interest securities	80,723	2,775,134	14,088	2,869,945
Deposits with credit institutions	30,355	30,112	-	60,467
Derivative financial instruments	477	268	-	745
Total assets at fair value	153,792	2,805,514	39,131	2,998,437
Liabilities:				
Derivative financial instruments	468	275	-	743
Total liabilities at fair value	468	275	-	743

12. OTHER FINANCIAL INVESTMENTS – continued

Shares and other variable yield securities and units in unit trusts only comprise listed equities. As the fair values of these securities are based on quoted market prices they are classified within Level 1.

'Debt securities and other fixed interest securities' with active markets such as Government securities are classified within Level 1, as fair values are based on quoted market prices. For debt securities and other fixed interest securities that trade in less active markets, including corporate securities, fair values are based on the output of pricing models, the significant inputs into which include, but are not limited to, yield curves, credit risks and spreads, measures of volatility, and prepayment speeds. These debt securities and other fixed interest securities are classified within Level 2. Debt securities and other fixed interest securities for which pricing is unobservable are classified within Level 3.

Where such securities are traded in active markets, they are classified within Level 1, as fair values are based on quoted market prices. Where no active market exists for such securities they are typically classified within Level 2 and, where pricing is unobservable, Level 3.

Where 'Derivative financial instruments' are actively traded the values of these securities are based on quoted market prices. Accordingly they are classified within Level 1. Instruments that are not actively traded are classified within Level 2.

During the period no significant investments were transferred between Level 1 and Level 2.

	2017 £'000	2016 £'000
Balance at 1 January	39,131	17,685
Gains Recognised in the Profit and Loss Account *	5,542	3,790
Purchases	64,571	15,937
Sales	(12,528)	(572)
Transfers in/(out) of Level 3**	-	2,291
Balance at 31 December	96,716	39,131

* Gains recognised in the Profit and Loss Account comprise realised gains of £0.1 million (2016: losses of £0.0 million) which are presented within Investment Income, unrealised gains of £9.7 million (2016: £0.9 million) and foreign exchange gains of £0.8 million (2016: £2.9 million) all of which are presented in the Non-Technical Account. Of this amount a £9.9 million gain (2016: £3.8 million) relates to investments held at the end of the period and comprises £0.1 million of realised gains (2016: £0.0 million), £9,7 million of unrealised gain (2016: £0.9 million) and £0.9 million of foreign exchange gain (2016: gain of £2.9 million).

** During the comparative period a small number of investment grade and high yield fixed interest investments were transferred into and out of Level 3 due to changes in their pricing source.

13. OTHER DEBTORS

	2017 £'000	2016 £'000
Amounts falling due within one year:		
Amounts due from group undertakings	133,495	44,571
Corporation tax receivable	18,218	3,778
Receivable for sales of securities	4,164	4,676
Other debtors	26,046	5,694
	181,923	58,719

14. DEFERRED TAXATION

	£'000	£'000
Accelerated capital allowances	(189)	1,016
Share-based payments	0	(19)
Pension costs	(6,350)	(1,402)
Deferred costs	(1,496)	(791)
UPR & DAC	3,215	(168)
Equalisation & IBNR reserves	10,207	16,071
Mark to market adjustment on merger	1,167	-
Other	1,971	-
Deferred tax liability	8,523	14,707

An analysis of the movement in deferred tax is as follows:

	2017 £	2016 £
At 1 January	14,707	(4,261)
Transferred as part of cross border merger	(4,497)	-
Prior year adjustment	1,459	-
Deferred tax charge to profit and loss account	(1,996)	20,123
Deferred tax charge to other comprehensive income	(614)	553
Change in tax rate	(535)	(1,708)
	8,523	14,707

Finance Act 2016 enacted a reduction in corporation tax rates to 19% from 1 April 2017 and 17% from 1 April 2020.

15. INTANGIBLE ASSETS

	Software	Total
	£'000	£'000
Cost		
At 1 January 2017	53,875	53,875
Disposals	(1,587)	(1,587)
Foreign exchange differences	238	238
At 31 December 2017	52,526	52,526
Accumulated depreciation		
At 1 January 2017	2,923	2,923
Disposals	(730)	(730)
Charge for the period	11,424	11,424
Foreign exchange differences	135	135
At 31 December 2017	13,752	13,752
Net book value		
31 December 2017	38,774	38,774
31 December 2016	50,591	50,591

16. TANGIBLE ASSETS

	Land and Building	Motor Vehicles	Leasehold improvements, Fixtures and Fittings	Office Equipment and Hardware	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2017	1,470	430	11,405	2,861	16,166
Transferred as part of cross border merger	10,782	429	8,321	1,341	20,873
Additions	-	-	4,030	30	4,060
Disposals	(1,024)	(502)	(4,026)	(1,545)	(7,097)
Foreign exchange differences	73	24	400	(285)	212
At 31 December 2017	11,301	381	20,130	2,402	34,214
Accumulated depreciation					
At 1 January 2017	1,127	423	8,250	2,773	12,573
Transferred as part of cross border merger	10,782	327	2,358	1,282	14,749
Charge for the period	13	56	1,458	53	1,580
Disposals	(757)	(482)	(2,207)	(1,622)	(5,068)
Foreign exchange differences	57	23	129	(655)	(446)
At 31 December 2017	11,222	347	9,988	1,831	23,388
Net book value					
31 December 2017	79	34	10,142	571	10,826
31 December 2016	343	7	3,155	88	3,593

17. PENSIONS

The company operates a small number of defined benefit pension schemes in Continental Europe. As at 31 December 2017, the aggregate assets and liabilities relating to these schemes were £87.9 million (2016: £43.5 million) and £94.2 million (2016: £51.7 million) respectively. Company contributions to the schemes totalled £1.4 million (2016: £1.3 million) and the expense recognised in the profit and loss account was £2.6 million (2016: £1.6 million).

18. CALLED-UP SHARE CAPITAL

	2017	2016
	£'000	£'000
Allotted, issued and fully paid:		
'A' Ordinary £1 shares	**786,120**	544,741
	786,120	544,741

On 1 May 2017, the Company issued an additional 241,378,735 shares at a nominal value of £1 per share. The shares were issued in exchange for the net assets of CICE and CBII, with the difference between the net asset value and the nominal value of the shares being treated as Share Premium.

19. *INSURANCE BALANCES*

DEFERRED ACQUISITION COSTS

The reconciliation of opening and closing deferred acquisition costs is as follows:

	Gross		Reinsurers' share	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
At 1 January	**164,912**	129,213	**40,191**	31,792
Transferred as part of cross border merger	**62,592**	0	**8,596**	0
Increase / (decrease) in acquisition costs deferred during the year	**14,866**	15,752	**3,889**	4,753
Foreign exchange gains / (losses)	**(5,615)**	19,947	**(6,217)**	3,646
At 31 December	**236,755**	164,912	**46,459**	40,191

19. INSURANCE BALANCES – continued

UNEARNED PREMIUM

The reconciliation of opening and closing unearned premium provision is as follows:

	Gross		Reinsurers' share	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
At 1 January	929,851	801,868	365,539	344,592
Transferred as part of cross border merger	324,168	0	70,796	0
Increase/(decrease) in provision	14,249	59,207	(1,811)	1,633
Foreign exchange movements	(35,624)	68,776	(21,802)	19,314
At 31 December	1,232,644	929,851	412,722	365,539

CLAIMS OUTSTANDING

The reconciliation of opening and closing provision for claims is as follows:

	Gross		Reinsurers' share	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
At 1 January	4,085,881	3,656,716	2,446,397	2,104,517
Transferred as part of cross border merger	1,642,717	0	389,434	0
Increase/(decrease) in provision	(64,664)	111,081	(76,690)	134,540
Foreign exchange movements	63,465	318,084	45,516	207,340
At 31 December	5,727,399	4,085,881	2,804,657	2,446,397

20. OTHER CEDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2017	2016
	£'000	£'000
Deferred taxation (note 14)	8,523	14,707
Payable for purchases of securities	27,078	13,056
Other creditors	37,988	49,216
Liability for stock lending collateral (note 22)	126,203	30,260
	199,792	107,239

21. STOCK LENDING

The company participates in stock lending activities with State Street Bank and Trust company.

	2017	2016
	£'000	£'000
Aggregate value of securities on loan at 31 December	759,121	508,432
Income from stock during the year	747	776

In respect of securities on loan at the year end, the company held £788.6 million (2016: £545.2 million) as collateral, the value of which is above the value of the loan securities by 3.9% (2016: 7.2% above).

Included within the £788.6 million (2016: £545.2 million) of collateral held is £126.2 million (2016: £30.1 million) in the form of cash which has been reinvested by the company. This is included on the face of the balance sheet within 'Other financial investments'.

22. LETTER OF CREDIT FACILITIES

There were five Letter of Credit facilities open at the end of 2017. These were:

- Citibank NA: value £52.9m with associated collateral of £74.7m;
- Lloyds TSB: value £0.67m equally matched by collateral;
- Barclays: value £0.53m unsecured;
- UBS: value £0.1m unsecured;
- HSBC: value £5.49m unsecured.

Collateral is included within investments and cash on the balance sheet.

23. CAPITAL COMMITMENTS

No capital expenditure was authorised at 31 December 2017 which has not been provided for in these financial statements.

24. TRANSACTIONS WITH RELATED PARTIES

Advantage has been taken of the exemption in FRS 102 from disclosing details of transactions with Chubb Limited and its subsidiary undertakings as required by that standard.

During the year, there were no material transactions or balances between CEGL and key management personnel or members of their close family, which require disclosure under the Companies Act 2006.

25. CLAIMS DEVELOPMENT TABLES

The following tables show the development of claims over a period of time on both a gross and net of reinsurance basis. FRS 103 requires that claims development shall go back to the period when the earliest claim arose for which there is still uncertainty about the amount and timing of the claims payment, but need not go back more than 10 years. The top half of the table shows how the estimates of total claims for each accident year develop over time. The lower half of the table reconciles the cumulative claims to the amount appearing in the balance sheet.

The cumulative claims estimates and payments for each accident year are translated into sterling at the year-end rates that applied at the end of each accident year.

The tables below include the claims portfolios which used to belong to CICE and CBII for all accident years. This has been included to ensure the tables provide an accurate representation of how CEGL's existing book of business has developed on historic years.

Gross insurance outstanding claims provisions as at 31 December 2017:

Accident year	2011 & prior £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	Total £'000
Estimate of cumulative claims incurred								
At end of accident year		1,764,980	1,727,577	1,808,515	1,744,820	2,190,055	1,885,987	
One year later		1,739,502	1,743,546	1,882,045	1,780,655	2,291,733		
Two years later		1,732,937	1,693,615	1,806,334	1,783,291			
Three years later		1,706,858	1,655,594	1,800,890				
Four years later		1,715,437	1,630,883					
Five years later		1,688,069						
Current estimate of cumulative claims incurred		1,688,069	1,630,883	1,800,890	1,783,291	2,291,733	1,885,987	
Cumulative claims paid								
At end of accident year		(386,534)	(431,958)	(472,193)	(516,843)	(613,582)	(507,304)	
One year later		(805,931)	(834,642)	(916,526)	(945,200)	(1,243,522)		
Two years later		(1,008,419)	(1,013,950)	(1,092,223)	(1,157,004)			
Three years later		(1,140,278)	(1,109,016)	(1,182,708)				
Four years later		(1,238,422)	(1,213,735)					
Five years later		(1,342,776)						
Cumulative payments to date		(1,342,776)	(1,213,735)	(1,182,708)	(1,157,004)	(1,243,522)	(507,304)	
Gross outstanding claims provision at 31 December 2017 at original exchange rates		345,292	417,148	618,182	626,287	1,048,210	1,378,683	
Foreign exchange adjustment		(25,218)	9,604	34,616	32,034	40,219	0	
Total gross outstanding claims provision per the Balance Sheet	1,202,343	320,074	426,752	652,798	658,320	1,088,429	1,378,683	5,727,399
% Surplus / (deficiency) of initial gross reserve		4.4%	5.6%	0.4%	-2.2%	-4.6%	0.0%	

25. CLAIMS DEVELOPMENT TABLES - continued

Net insurance outstanding claims provisions as at 31 December 2017:

Accident year	2011 & prior £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	Total £'000
Estimate of cumulative claims incurred								
At end of accident year		1,031,458	1,030,227	1,018,634	972,917	1,131,094	1,008,713	
One year later		1,005,375	1,033,568	1,085,062	1,018,471	1,192,576		
Two years later		1,004,250	992,996	1,036,860	1,014,539			
Three years later		989,400	984,551	1,031,442				
Four years later		1,007,644	981,706					
Five years later		1,024,529						
Current estimate of cumulative claims incurred		1,024,529	981,706	1,031,442	1,014,539	1,192,576	1,008,713	
Cumulative claims paid								
At end of accident year		(245,341)	(281,790)	(303,654)	(334,365)	(381,568)	(384,455)	
One year later		(491,657)	(534,833)	(553,082)	(557,673)	(601,083)		
Two years later		(616,599)	(629,775)	(664,524)	(640,117)			
Three years later		(696,522)	(697,009)	(712,984)				
Four years later		(759,331)	(770,269)					
Five years later		(827,211)						
Cumulative payments to date		(827,211)	(770,269)	(712,984)	(640,117)	(601,083)	(384,455)	
Gross outstanding claims provision at 31 December 2017 at original exchange rates		197,317	211,437	318,458	374,423	591,493	624,258	
Foreign exchange adjustment		(6,641)	8,905	6,008	37,070	22,401	0	
Total net outstanding claims provision per the Balance Sheet	537,613	190,676	220,342	324,466	411,493	613,894	624,258	2,922,742
% Surplus / (deficiency) of initial net reserve		0.7%	4.7%	-1.3%	-4.3%	-5.4%	0.0%	

26. CROSS BORDER MERGER WITH CHUBB EUROPEAN OPERATIONS

On 1 May 2017, ACE European Group Limited ("AEGL") completed a cross border merger with Chubb Insurance Company of Europe SE ("CICE") and Chubb Bermuda International Insurance Designated Activity Company ("CBII"). On 2 May 2017, AEGL was renamed to Chubb European Group Limited ("CEGL"). All operations of CICE and CBII were consolidated into CEGL. Shares in CEGL were issued to the shareholders of CICE and CBII in proportion to their new holding in CEGL.

CICE was a general insurance underwriter with a focus towards niche products and customer segments, encompassing property & casualty, accident & health and personal lines classes. CBII was a registered entity in Ireland with a UK branch which wrote Fire & Other Damage to Property and General Liability business. In addition it wrote Political Risk business through a managing agent.

This has been treated as a Group Reconstruction in accordance with FRS 102, with an effective date of 1 January 2017. The accounting policies of CICE and CBII have been aligned with those of CEGL, with no material impact upon results. The assets and liabilities of CICE and CBII were transferred on 1 January 2017 at their carrying values, as detailed on the following page:

26. CROSS BORDER MERGER WITH CHUBB EUROPEAN OPERATIONS - continued

	AEGL £'000	CICE £'000	CBII £'000	CEGL £'000
Assets				
Investments				
Other financial investments	2,997,692	2,120,415	130,386	5,248,493
Financial derivative instruments	745	-	83	828
	2,998,437	2,120,415	130,469	5,249,321
Reinsurers' share of technical provisions				
Provision for unearned premiums	365,539	54,476	16,320	436,335
Provision for claims outstanding	2,446,397	241,464	147,970	2,835,831
	2,811,936	295,940	164,290	3,272,166
Debtors - amounts falling due within one year				
Debtors arising out of direct insurance operations	523,364	132,266	12,781	668,411
Debtors arising out of reinsurance operations	244,801	22,307	5,865	272,973
Other debtors	58,719	51,795	240	110,754
	826,884	206,368	18,886	1,052,138
Other assets				
Intangible assets	50,951	67	-	51,018
Tangible assets	3,593	6,126	-	9,719
Cash at bank and in hand	60,209	18,175	6,995	85,379
	114,753	24,368	6,995	146,116
Prepayments and accrued income				
Accrued interest and rent	35,597	26,478	1,025	63,100
Deferred acquisition costs	164,912	58,973	3,619	227,504
Other prepayments and accrued income	309	1,166	15	1,490
	200,818	86,617	4,659	292,094
Total assets	6,952,828	2,733,708	325,299	10,011,835

26. CROSS BORDER MERGER WITH CHUBB EUROPEAN OPERATIONS - continued

	AEGL £'000	CICE £'000	CBII £'000	Total £'000
Liabilities				
Technical provisions				
Provision for unearned premiums	929,851	294,193	29,975	1,254,019
Provision for claims outstanding	4,085,881	1,473,859	168,860	5,728,600
	5,015,732	1,768,052	198,835	6,982,619
Deposits recveived from reinsurers	7,892	-	-	7,892
Creditors - amounts falling due within one year				
Creditors arising out of direct insurance operations	20,863	21,391	13,578	55,832
Creditors arising out of reinsurance operations	253,872	34,973	15	288,860
Bank overdraft	51,821	30,755	-	82,576
Other creditors including taxation and social security	107,239	33,476	544	141,259
	433,795	120,595	14,137	568,527
Other financial liabilities	742	-	87	829
Accruals and deferred income				
Deferred acquisition costs relating to reinsurance	40,191	6,519	2,077	48,787
Other accruals and deferred income	48,769	11,585	1,236	61,590
	88,960	18,104	3,313	110,377
Total liabilities excluding pension liability	5,547,121	1,906,751	216,372	7,670,244
Pension liability	8,246	11,670	-	19,916
Total liabilities	5,555,367	1,918,421	216,372	7,690,160
Net assets	1,397,461	815,287	108,926	2,321,674

NOTES TO THE FINANCIAL STATEMENTS
31 December 2017

27. POST BALANCE SHEET EVENTS

After the period end the company approved a capital reduction in accordance with the Companies Act to eliminate the share premium created as part of the cross border merger process - thereby restoring the distributable reserves of the company. This movement between equity reserves had no impact on net assets or solvency. The directors also approved a dividend of £100m.

28. ULTIMATE PARENT COMPANY

The ultimate holding company is Chubb Limited, a company registered in Zurich, Switzerland, with its headquarters in Zurich, Switzerland and it is quoted on the New York Stock Exchange. Copies of the ultimate holding company's consolidated financial statements can be obtained from Investor Relations at Chubb's executive offices at 17 Woodbourne Avenue, Hamilton HM 08, Bermuda.

SCHEDULE 2
BALANCE SHEET AS AT 10 APRIL 2018 FOR COLT MERGER 1 PLC

Colt Merger 1 plc

Statement of Financial Position
for the year ended 10 April 2018

	10 April 2018
	EUR' 000
Current assets	
Cash at bank and in hand	25
Net assets	25
Capital and reserves	
Called up share capital	25
Equity shareholders' funds	25

Company No. [•]

Part 1

Interpretation and Limitation of Liability

1. *Exclusion of other regulations and defined terms*

(1) No regulations or model articles contained in any schedule to or any statute or subordinate legislation, including those contained in Table A or the Model Articles, shall apply to the company.

(2) In these statutes, unless the context requires otherwise:

"the Act" means the Companies Act 2006 and any statutory modification or re enactment thereof for the time being in force;

"administrative organ" means the body responsible for the management of the company and in these statutes such term is used interchangeably with and should be construed synonymously with the term "the directors".

"the board" means the administrative organ;

"bankruptcy" includes individual insolvency proceedings in a jurisdiction other than England and Wales or Northern Ireland which have an effect similar to that of bankruptcy;

"capitalised sum" has the meaning given in article 46;

"chairman" has the meaning given in article 14;

"chairman of the meeting" has the meaning given in article 50;

"the company" means Chubb European Group SE;

"Conflict" has the meaning given in article 17;

"conflicts of interest" include a conflict of interest and duty and a conflict of duties and "interest" includes both direct and indirect interests;

"contract" in article 17 includes any transaction or arrangement (whether or not constituting a contract);

"corporate representative" means a person who has been authorised in accordance with the Companies Act 2006, by a member of the company which is a corporation, to act as its representative at any general meeting of the company;

"director" means a person appointed to the administrative organ of the company, and includes any person occupying the position of director, by whatever name called;

"distribution recipient" has the meaning given in article 41;

"document" includes, unless otherwise specified, any document sent or supplied in electronic form;

"fully paid" in relation to a share, means that the nominal value and any premium to be paid to the company in respect of that share have been paid to the company;

"group company" means a subsidiary undertaking or parent undertaking of the company or a subsidiary undertaking of any parent undertaking of the company;

"holder" in relation to shares means the person whose name is entered in the register of members as the holder of the shares;

"instrument" means a document in hard copy form;

"paid" means paid or credited as paid;

"participate", in relation to a directors' meeting, has the meaning given in article 11;

"Permitted Situation" has the meaning given in article 17;

"persons entitled" has the meaning given in article 46;

"proxy notice" has the meaning given in article 56;

"the Regulations" means the SE Regulations and the UK Regulations;

"SE Regulations" means Council Regulation (EC) No. 2157/2001 of 8 October 2001 on the Statute for a European Company (SE) including any statutory modification or re-enactment thereof for the time being in force;

"UK Regulations" means The European Public Limited-Liability Company Regulations 2004 including any statutory modification or re-enactment thereof for the time being in force;

"qualifying person" means an individual who is a member of the Company, a corporate representative or a person appointed as proxy of a member in relation to a meeting;

"shareholder" means a person who is the holder of a share;

"shares" means shares in the company;

"transmittee" means a person entitled to a share by reason of the death or bankruptcy of a shareholder or otherwise by operation of law; and

"writing" means the representation or reproduction of words, symbols or other information in a visible form by any method or combination of methods, whether sent or supplied in electronic form or otherwise.

(3) Unless the context otherwise requires, other words or expressions contained in these statutes bear the same meaning as in the Act and the Regulations as in force on the date when the statutes become binding on the company.

(4) The Company is a public company limited by shares.

2. Societas Europea

The company is a Societas Europea as defined in the Regulations and is registered in the United Kingdom, with its registered office situated in England and Wales. The liability of the members is limited to the amount, if any, unpaid on the shares held by them.

Part 2

Directors

Directors' Powers and Responsibilities

3. Administrative Organ

The Company shall be managed by a one-tier system of management, the administrative organ to which the directors are appointed.

4. Power of Directors

(1) The Company shall operate under a one tier management system as prescribed by the Regulations. Subject to the provisions of the Act, the Regulations and the statutes and to any directions given by special resolution, the business of the Company shall be managed by the directors who may exercise all the powers of the Company.

(2) The following transactions shall require an express decision of the administrative organ:

(a) the disposal of the whole of the Company's undertaking or property or a substantial part thereof; and

(b) the acquisition of the whole or any substantial part of the undertaking, assets or business or any other company or any firm or person or the entry into any joint venture or partnership with any other person where such operation would reasonably be expected to have a significant impact on the Company's undertaking or property or a substantial part thereof.

(3) No alteration of the statutes and no direction given by special resolution shall invalidate any prior act of the directors which would have been valid if that alteration had not been made or that direction had not been given. The powers given by paragraph 4(1) shall not be limited by any special power given to the directors by the statutes and a meeting of directors at which a quorum is present may exercise all powers exercisable by the directors.

5. Shareholders' reserve power and effect of altering the statutes

(1) The shareholders may, by special resolution, direct the directors to take, or refrain from taking, specified action.

(2) No such special resolution invalidates anything which the directors have done before the passing of the resolution.

(3) No alteration of the statutes invalidates anything which the directors have done before the alteration was made.

(4) These statutes may be amended by a special resolution of the shareholders.

6. Delegation of directors' power

The directors may delegate any of their powers to such person or committee by such means (including power of attorney), to such an extent and on such terms and conditions as they see fit. Any such committee must consist of one or more directors and the directors may also appoint to any such committee persons who are not directors. In particular, without limitation, the board may grant the power of any committee to sub-delegate. The board may also delegate to any managing director or any director holding any other executive office such of their powers as they consider desirable to be exercised by him or her. Any such delegation may be made subject to any conditions the directors may impose, and either collaterally with or to the exclusion of their own powers and may be revoked or altered.

7. Committees

(1) Committees to which the directors delegate any of their powers must follow procedures which are based as far as they are applicable on those provisions of the statutes which govern the taking of decisions by directors.

Decision-Making by Directors

(1) The directors shall meet at least once every three months to discuss the progress and foreseeable development of the Company's business.

(2) Subject to the provisions of the statutes, the directors may regulate their proceedings as they think fit. Each director shall be entitled to examine all information submitted to the board.

8. Directors to take decisions collectively

(1) Any decision of the directors must be either a majority decision at a meeting or a decision taken in accordance with article 9 and each director participating in a directors' meeting has one vote.

(2) If only one director is eligible to vote on any authorisation required under article 17, the general rule does not apply, and the eligible director may take decisions in relation to the relevant matter without regard to any of the provisions of the statutes relating to directors' decision-making.

9. Unanimous decisions

(1) A decision of the directors is taken in accordance with this article when all eligible directors indicate to each other by any means that they share a common view on a matter.

(2) Such a decision may take the form of a resolution in writing, at least one copy of which has been signed by each eligible director or to which each eligible director has otherwise indicated agreement in writing.

(3) References in this article to eligible directors are to directors who would have been entitled to vote on the matter and whose vote would have been counted had it been proposed as a resolution at a directors' meeting.

(4) A decision may not be taken in accordance with this article if the eligible directors would not have formed a quorum at such a meeting.

10. Calling a directors' meeting

(1) Any director may call a directors' meeting by giving notice of the meeting to the directors or by authorising the company secretary to give such notice.

(2) Notice of any directors' meeting must indicate:

(a) its proposed date and time;

(b) where it is to take place; and

(c) if it is anticipated that directors participating in the meeting will not be in the same place, how it is proposed that they should communicate with each other during the meeting.

(3) Notice of a directors' meeting must be given to each director, but need not be in writing.

(4) Notice of a directors' meeting need not be given to directors who waive their entitlement to notice of that meeting, by giving notice to that effect to the company either before or after the date on which the meeting is held. Where such notice is given after the meeting has been held, that does not affect the validity of the meeting, or of any business conducted at it.

11. Participation in directors' meetings

(1) Subject to the statutes, directors "**participate**" in a directors' meeting, or part of a directors' meeting, when:

(a) the meeting has been called and takes place in accordance with the statutes; and

(b) they can each communicate to the others any information or opinions they have on any particular item of the business of the meeting.

(2) In determining whether directors are participating in a directors' meeting, it is irrelevant where any director is or how they communicate with each other.

(3) If all the directors participating in a meeting are not in the same place, they may decide that the meeting is to be treated as taking place wherever any of them is.

12. Quorum for directors' meetings

(1) At a directors' meeting, unless a quorum is participating, no proposal is to be voted on, except a proposal to call another meeting

(2) Subject to article 8(2) the quorum for directors' meetings may be fixed from time to time by a decision of the directors, but it must never be less than two, and unless otherwise fixed it is two.

13. Meetings where total number of directors less than quorum

(1) This article 13 applies where the total number of directors for the time being is less than the quorum for directors' meetings.

(2) If there is only one director, that director may appoint sufficient directors to make up a quorum or may call a general meeting to do so.

(3) If there is more than one director but the total number of directors is less than the quorum for a directors' meeting:

(a) a directors' meeting may take place, if it is called in accordance with the statutes and at least two directors participate in it, with a view to appointing sufficient directors to make up a quorum or calling a general meeting to do so; and

(b) if a directors' meeting is called but only one director attends at the appointed date and time to participate in it, that director may appoint sufficient directors to make up a quorum or may call a general meeting to do so.

14. Chairing of directors' meetings

(1) The directors may appoint a director to chair their meetings.

(2) The person so appointed for the time being is known as the "**chairman**".

(3) The directors may terminate the chairman's appointment at any time.

(4) If the chairman is not participating in a directors' meeting within ten minutes of the time at which it was to start, the participating directors may appoint one of themselves to chair it.

15. Casting vote

(1) If the numbers of votes at a meeting of directors for and against a proposal are equal (ignoring any votes which are to be discounted in accordance with the statutes or the Act), the chairman or other director chairing the meeting has a casting vote.

(2) Article 15(1) does not apply in respect of a particular meeting (or part of a meeting) if, in accordance with the statutes, the chairman or other director is not to be counted as participating in the decision-making process for quorum or voting purposes.

16. Transactions or arrangements with the company

(1) Provided that he or she has disclosed to the directors the nature and extent of any interest of his or hers in accordance with and to the extent required by the Act, a director notwithstanding his or her office:

(a) may be a party to, or otherwise interested in, any contract with the company or in which the company is otherwise interested;

(b) may be a director or other officer of, or employed by, or a party to any contract with, or otherwise interested in, any group company or in any body corporate promoted by the company or any group company or in which the company or any group company is interested;

(c) may act as a trustee of any scheme for the benefit of employees or former employees of the Company or any group undertaking of the Company (including any pension, retirement, death or disability scheme or other bonus or employee benefit scheme);

(d) may act by himself or herself or his or her firm in a professional capacity for the company (otherwise than as auditor).

(2) For the purposes of this article:

(a) a director shall be deemed to have disclosed the nature and extent of an interest which consists of him or her being a director, officer or employee of any group company; and

(b) a general notice given to the directors that a director is to be regarded as having an interest of the nature and extent specified in the notice in any contract in which a specified person or class of persons is interested shall be deemed to be a disclosure that the director has an interest in any such contract of the nature and extent so specified.

(3) Where a director is a director or other officer of, or employed by, a group company, he or she:

(a) may in exercising his or her independent judgement take into account the success of other group companies as well as the success of the company; and

(b) shall in the exercise of his or her duties, where that other group company is a parent company, have a duty of confidentiality to the parent company in relation to confidential information of the parent company, but he or she shall not be restricted by any duty of confidentiality to the company from providing information to any parent company.

17. Conflicts of interest requiring board authorisation

(1) The directors may, subject to the quorum and voting requirements set out in the statutes, authorise any matter which would otherwise involve a director breaching his or her duty under the Act to avoid conflicts of interest ("**Conflict**").

(2) Any director (including the relevant director) may propose that the relevant director be authorised in relation to any matter the subject of a Conflict Such proposal and any authority given by the directors shall be effected in the same way that any other matter may be proposed to and decided upon by the directors under the provisions of the statutes save that the relevant director shall not count towards the quorum nor vote on any resolution giving such authority and save further that if there are insufficient directors eligible to vote and therefore to form a quorum, article 8(2) will apply.

(3) Where the directors give authority in relation to a Conflict:

(a) the terms of the authority shall be recorded in writing (but the authority shall be effective whether or not the terms are so recorded); and

(b) the directors may revoke or vary such authority at any time but this will not affect anything done by the relevant director prior to such revocation in accordance with the terms of such authority.

(4) Where the directors give authority in relation to a Conflict or where any of the situations referred to in article 16(1) ("**Permitted Situation**") applies:

(a) the directors may (whether at the relevant time or subsequently) (i) require that the relevant director is excluded from the receipt of information, the participation in discussion and/or the making of decisions (whether at meetings of the directors or otherwise) related to the Conflict or Permitted Situation, and (ii) impose upon the relevant director such other terms for the purpose of dealing with the Conflict as it may determine;

(b) the relevant director will be obliged to conduct himself or herself in accordance with any terms imposed by the board in relation to the Conflict or Permitted Situation; and

(c) the directors may provide that where the relevant director obtains (otherwise than through his or her position as a director of the company) information that is confidential to a third party, the director will not be obliged to disclose that information to the company, or to use or apply the information in relation to the company's affairs, where to do so would amount to a breach of that confidence.

(5) A director shall not, by reason of his or her office or of the fiduciary relationship thereby established, be liable to account to the company or the members for any remuneration, profit or other benefit realised by reason of his or her having any type of interest in a Conflict authorised under this article or in any Permitted Situation and no contract shall be liable to be avoided on the grounds of a director having any such interest.

18. Directors May Vote When Interested

(1) Subject where applicable to disclosure in accordance with the Act or the statutes subject to any terms imposed by the directors in relation to any Conflict or Permitted Situation, a director shall be entitled to vote in respect of any matter in which he or she is interested directly or indirectly and if he or she shall do so his or her vote shall be counted and, whether or not he or she does, his or her presence at the meeting shall be taken into account in ascertaining whether a quorum is present.

(2) Subject to paragraph (3), if a question arises at a meeting of directors or of a committee of directors as to the right of a director to participate in the meeting (or part of the meeting) for voting or quorum purposes, the question may, before the conclusion of the meeting, be referred to the chairman whose ruling in relation to any director other than the chairman is to be final and conclusive.

(3) If any question as to the right to participate in the meeting (or part of the meeting) should arise in respect of the chairman, the question is to be decided by a decision of the directors at that meeting, for which purpose the chairman is not to be counted as participating in the meeting (or that part of the meeting) for voting or quorum purposes.

19. Records of decisions to be kept

The directors must ensure that the company keeps a record, in writing, for at least 10 years from the date of the decision recorded, of every unanimous or majority decision taken by the directors.

20. Directors' discretion to make further rules

Subject to the statutes, the directors may make any rule which they think fit about how they take decisions, and about how such rules are to be recorded or communicated to directors.

21. Change of name

The company may change its name by a decision of the directors.

Appointment of Directors

22. Number of Directors

The number of directors (other than alternate directors) appointed to the administrative organ must not be less than two and is not subject to a maximum number.

23. Methods of appointing directors

(1) Any person who is willing to act as a director, and is permitted by law to do so, may be appointed to be a director--

(a) by ordinary resolution;

(b) by a decision of the directors;

(c) by a notice of his or her appointment given in accordance with article 25; or

(d) under article 13(2) if the company has only one director.

(2) In any case where, as a result of death, bankruptcy or other events, the company has no shareholders and no directors, the transmittee(s) of the last shareholder have the right, by notice in writing, to appoint one or more persons to be a director.

(3) For the purposes of paragraph (2), where two or more shareholders die in circumstances rendering it uncertain who was the last to die, a younger shareholder is deemed to have survived an older shareholder.

24. Termination of director's appointment

A person ceases to be a director as soon as:

(a) that person ceases to be a director by virtue of any provision of the Act or the Regulations or is prohibited from being a director by law;

(b) a bankruptcy order is made against that person;

(c) a composition is made with that person's creditors generally in satisfaction of that person's debts;

(d) a registered medical practitioner who is treating that person gives a written opinion to the company stating that that person has become physically or mentally incapable of acting as a director and may remain so for more than three months;

(e) by reason of that person's mental health, a court makes an order which wholly or partly prevents that person from personally exercising any powers or rights which that person would otherwise have and the directors resolve that he or she cease to be a director;

(f) notification is received by the company from the director that the director is resigning from office, and such resignation has taken effect in accordance with its terms;

(g) that person has for more than six consecutive months been absent without permission of the directors from meetings of directors held during that period and the directors resolve that that person should cease to be director; or

(h) notice of his or her removal is given in accordance with article 25.

25. Appointment and removal of directors by majority shareholders

A shareholder or shareholders holding a majority in nominal value of the issued shares may by notice in writing signed by or on behalf of him or her or them and delivered to the registered office or tendered at a meeting of the directors or at a general meeting of the company at any time and from time to time appoint any person who is willing to act, and is permitted by law to do so, to be a director (either to fill a vacancy or as an additional director) or remove any director from office (no matter how he or she was appointed). The appointment or removal takes effect immediately on deposit of the notice or on such later date (if any) specified in the notice.

26. Executive Directors

(1) Subject to the provisions of the Act and the Regulations, the directors may appoint one or more of their number to the office of chief executive officer or to any other executive office under the Company and may enter into an agreement or arrangement with any director for his or her employment by the company or for the provision by him or her of any services outside the scope of ordinary activities of a director.

(2) Any appointment, agreement or arrangement may be made upon such terms as the directors determine and they may remunerate any such director for his or her services as they see fit. Any appointment of a director to an executive office shall terminate if he or she ceases to be a director but without prejudice to any claim to damages for breach of the contract of service between the director and the company. A chief executive officer and a director holding any other executive office shall be subject to the same provisions as to resignation and removal as any other directors of the company.

27. Directors' remuneration

(1) Directors may undertake any services for the company that the directors decide.

(2) Directors are entitled to such remuneration as the directors determine:

(a) for their services to the company as directors; and

(b) for any other service which they undertake for the company.

(3) Subject to the statutes, a director's remuneration may take any form.

(4) Unless the directors decide otherwise, directors' remuneration accrues from day to day.

(5) Directors are not accountable to the company for any remuneration which they receive as directors or other officers or employees of the company, any group company or any other body corporate in which the company is interested, and the receipt of such benefit shall not disqualify any person from being a director of the company.

(6) The directors may provide benefits, whether by the payment of a pension, allowance or gratuities, or any death, sickness or disability benefits or by insurance or otherwise, for any director or former director who holds or has held any office or employment with the company, predecessor in business of the company or with any undertaking which is or has been a group company and for any member of his or her family (including a spouse or former spouse) or any person who is or was dependent on him or her, and may (before as well as after he or she ceases to hold such office or employment) contribute to any fund and pay premiums for the purchase or provision of any such benefit.

28. Directors' expenses

(1) The company may pay any reasonable expenses which the directors properly incur in connection with their attendance at:

(a) meetings of directors or committees of directors;

(b) general meetings; or

(c) separate meetings of the holders of any class of shares or of debentures of the company,

or otherwise in connection with the exercise of their powers and the discharge of their responsibilities in relation to the company.

(2) Subject to the Act, the directors shall have power to make arrangements to provide a director with funds to meet expenditure incurred or to be incurred by him or her for the purpose of the company or for the purpose of enabling him or her property to perform his or her duties as an officer of the company or to avoid him or her incurring any such expenditure.

Company Secretary

29. Secretary's terms of office

The directors may appoint any person who is willing and qualified to act to be the company secretary for such term and on such conditions as they think fit, and may remove any company secretary so appointed and appoint another or others in their place.

Part 3

Shares and Distributions

Shares

30. Allotment

(1) Subject to the Act and relevant authority given by the Company in general meeting, the directors have general and unconditional authority to allot, grant options over, or otherwise dispose of, unissued shares of the Company or rights to subscribe for or convert any security into shares, to such persons, at such times and on such terms as the directors may decide, except that no share may be issued at a discount.

(2) The directors may at any time after the allotment of a share, but before a person has been entered in the register as the holder of the share, recognise a renunciation of the share by the

allottee in favour of another person and may grant to an allottee a right to effect a renunciation on such terms and conditions as the directors think fit.

31. All shares to be fully paid

(1) No share is to be issued for less than the aggregate of its nominal value and any premium to be paid to the company in consideration for its issue.

(2) This does not apply to shares taken on the formation of the company by the subscribers to the company's memorandum.

32. Powers to issue different classes of share

(1) Subject to the statutes, but without prejudice to the rights attached to any existing share, the company may issue further classes of shares with such rights or restrictions as may be determined by ordinary resolution or, if no such resolution has been passed or so far as the resolution does not make specific provision, as the directors may decide.

(2) The company may issue shares which are to be redeemed, or are liable to be redeemed at the option of the company or the holder, and the directors may determine the terms, conditions and manner of redemption of any such shares.

(3) The rights, restrictions, terms and conditions attached to any shares issued pursuant to paragraph (1) or (2) of this article shall apply as if the same were set out in the statutes.

33. Company not bound by less than absolute interests

Except as required by law, no person is to be recognised by the company as holding any share upon any trust, and except as otherwise required by law or the statutes, the company is not in any way to be bound by or recognise any interest in a share other than the holder's absolute ownership of it and all the rights attaching to it.

34. Share certificates

(1) The company must issue each shareholder, free of charge, with one or more certificates in respect of the shares which that shareholder holds.

(2) Every certificate must specify:

(a) in respect of how many shares, of what class, it is issued;

(b) the nominal value of those shares;

(c) that the shares are fully paid; and

(d) any distinguishing numbers assigned to them.

(3) No certificate may be issued in respect of shares of more than one class.

(4) If more than one person holds a share, only one certificate may be issued in respect of it.

(5) Certificates must:

(a) have affixed to them the company's common seal; or

(b) be otherwise executed in accordance with the Act.

35. Replacement share certificates

(1) If a certificate issued in respect of a shareholder's shares is:

(a) damaged or defaced, or

(b) said to be lost, stolen or destroyed,

that shareholder is entitled to be issued with a replacement certificate in respect of the same shares.

(2) A shareholder exercising the right to be issued with such a replacement certificate:

(a) may at the same time exercise the right to be issued with a single certificate or separate certificates;

(b) must return the certificate which is to be replaced to the company if it is damaged or defaced; and

(c) must comply with such conditions as to evidence, indemnity and the payment of a reasonable fee as the directors decide.

36. Share transfers

(1) Shares may be transferred by means of an instrument of transfer in any usual form or any other form approved by the directors, which is executed by or on behalf of the transferor.

(2) No fee may be charged for registering any instrument of transfer or other document relating to or affecting the title to any share.

(3) The company may retain any instrument of transfer which is registered.

(4) The transferor remains the holder of a share until the transferee's name is entered in the register of members as holder of it.

(5) The directors may refuse to register the transfer of a share, and if they do so, the instrument of transfer must be returned to the transferee with the notice of refusal unless they suspect that the proposed transfer may be fraudulent.

37. Transmission of shares

(1) If title to a share passes to a transmittee, the company may only recognise the transmittee as having any title to that share.

(2) Subject to article 37(3), a transmittee who produces such evidence of entitlement to shares as the directors may properly require:

(a) may, subject to the statutes, choose either to become the holder of those shares or to have them transferred to another person, and

(b) subject to the statutes, and pending any transfer of the shares to another person, has the same rights as the holder from whom the transmittee derived such entitlement had.

(3) Transmittees do not have the right to attend or vote at a general meeting in respect of shares to which they are entitled, by reason of the event which gave rise to the transmission, unless they become the holders of those shares.

38. Exercise of transmittees' rights

(1) Transmittees who wish to become the holders of shares to which they have become entitled must notify the company in writing of that wish.

(2) If the transmittee wishes to have a share transferred to another person, the transmittee must execute an instrument of transfer in respect of it.

(3) Any transfer made or executed under this article is to be treated as if it were made or executed by the person from whom the transmittee has derived rights in respect of the share, and as if the event which gave rise to the transmission had not occurred.

39. Transmittees bound by prior notices

If a notice is given to a shareholder in respect of shares and a transmittee (or any person nominated under article 37(2) is entitled to those shares, the transmittee (and any person nominated under article 37(2) is bound by the notice if it was given to the shareholder before the transmittee's name has been entered in the register of members.

Dividends and Other Distributions

40. Procedure for declaring dividends

(1) The company may by ordinary resolution declare dividends, and the directors may decide to pay interim dividends.

(2) A dividend must not be declared unless the directors have made a recommendation as to its amount. Such a dividend must not exceed the amount recommended by the directors.

(3) No dividend may be declared or paid unless it is in accordance with shareholders' respective rights.

(4) Unless the shareholders' resolution to declare or directors' decision to pay a dividend, or the terms on which shares are issued, specify otherwise, it must be paid by reference to each shareholder's holding of shares on the date of the resolution or decision to declare or pay it.

(5) If the company's share capital is divided into different classes, no interim dividend may be paid on shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrear.

(6) The directors may pay at intervals any dividend payable at a fixed rate if it appears to them that the profits available for distribution justify the payment.

(7) If the directors act in good faith, they do not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on shares with deferred or non-preferred rights.

41. Payment of dividends and other distributions

(1) Where a dividend or other sum which is a distribution is payable in respect of a share, it must be paid by one or more of the following means:

(a) transfer to a bank or building society account specified by the distribution recipient either in writing or as the directors may otherwise decide;

(b) sending a cheque made payable to the distribution recipient by post to the distribution recipient at the distribution recipient's registered address (if the distribution recipient is a holder of the share), or (in any other case) to an address specified by the distribution recipient either in writing or as the directors may otherwise decide;

(c) sending a cheque made payable to such person by post to such person at such address as the distribution recipient has specified either in writing or as the directors may otherwise decide; or

(d) any other means of payment as the directors agree with the distribution recipient either in writing or by such other means as the directors decide.

(2) In the statutes, **"the distribution recipient"** means, in respect of a share in respect of which a dividend or other sum is payable:

(a) the holder of the share; or

(b) if the share has two or more joint holders, whichever of them is named first in the register of members; or

(c) if the holder is no longer entitled to the share by reason of death or bankruptcy, or otherwise by operation of law, the transmittee.

42. No interest on distributions

The company may not pay interest on any dividend or other sum payable in respect of a share unless otherwise provided by:

(a) the terms on which the share was issued, or

(b) the provisions of another agreement between the holder of that share and the company.

43. Non-cash distributions

(1) Subject to the terms of issue of the share in question, the company may, by ordinary resolution on the recommendation of the directors or by a decision of the directors, decide to pay all or part of a dividend or other distribution payable in respect of a share by transferring non-cash assets of equivalent value (including, without limitation, shares or other securities in any company).

(2) For the purposes of paying a non-cash distribution, the directors may make whatever arrangements they think fit, including, where any difficulty arises regarding the distribution:

(a) fixing the value of any assets;

(b) paying cash to any distribution recipient on the basis of that value in order to adjust the rights of recipients; and

(c) vesting any assets in trustees.

44. Waiver of distributions

(1) Distribution recipients may waive their entitlement to a dividend or other distribution payable in respect of a share by giving the company notice in writing to that effect, but if:

(a) the share has more than one holder, or

(b) more than one person is entitled to the share, whether by reason of the death or bankruptcy of one or more joint holders, or otherwise,

the notice is not effective unless it is expressed to be given, and signed, by all the holders or persons otherwise entitled to the share.

45. Distribution in specie on winding up

If the company is wound up, the liquidator may, with the sanction of a special resolution of the company and any other sanction required by law, divide among the shareholders in specie the whole or any part of the assets of the company and may, for that purpose, value any assets and determine how the division shall be carried out as between the shareholders or different classes of shareholders. The liquidator may, with the like sanction, vest the whole or any part of the assets in trustees upon such trusts for the benefit of the shareholders as he with the like sanction determines, but no member shall be compelled to accept any assets upon which there is a liability.

Capitalisation of Profits

46. Authority to capitalise and appropriation of capitalised sums

(1) Subject to the statutes, the directors may, if they are so authorised by an ordinary resolution:

(a) decide to capitalise any profits of the company (whether or not they are available for distribution) which are not required for paying a preferential dividend, or any sum standing to the credit of any of the company's reserves or funds, including but not limited to the share premium account, capital redemption reserve, merger reserve or revaluation reserve; and

(b) appropriate any sum which they so decide to capitalise (a "**capitalised sum**") to the persons who would have been entitled to it if it were distributed by way of dividend (the "**persons entitled**") and in the same proportions.

(2) Capitalised sums must be applied:

(a) on behalf of the persons entitled, and

(b) in the same proportions as a dividend would have been distributed to them.

(3) Any capitalised sum may be applied in paying up new shares of a nominal amount equal to the capitalised sum which are then allotted credited as fully paid to the persons entitled or as they may direct.

(4) A capitalised sum which was appropriated from profits available for distribution may be applied in paying up new debentures of the company which are then allotted credited as fully paid to the persons entitled or as they may direct.

(5) Subject to the statutes the directors may:

(a) apply capitalised sums in accordance with paragraphs (3) and (4) partly in one way and partly in another;

(b) make such arrangements as they think fit to deal with shares or debentures becoming distributable in fractions under this article (including the issuing of fractional certificates or the making of cash payments); and

(c) authorise any person to enter into an agreement with the company on behalf of all the persons entitled which is binding on them in respect of the allotment of shares and debentures to them under this article.

Part 4

Organisation of General Meetings

47. Annual general meetings

(1) Subject to the Act and the Regulations, the company shall hold an annual general meeting within 6 months of the end of its financial year (in addition to any other meetings held that year), except that the first annual general meeting of the Company may be held at any time during the period 18 months following the company's incorporation. Such meetings may be convened by the board at such time and place as it thinks fit.

48. Attendance and speaking at general meetings

(1) A person is able to exercise the right to speak at a general meeting when that person is in a position to communicate to all those attending the meeting, during the meeting, any information or opinions which that person has on the business of the meeting

(2) A person is able to exercise the right to vote at a general meeting when--

(a) that person is able to vote, during the meeting, on resolutions put to the vote at the meeting, and

(b) that person's vote can be taken into account in determining whether or not such resolutions are passed at the same time as the votes of all the other persons attending the meeting.

(3) The directors may make whatever arrangements they consider appropriate to enable those attending a general meeting to exercise their rights to speak or vote at it.

(4) In determining attendance at a general meeting, it is immaterial whether any two or more members attending it are in the same place as each other.

(5) Two or more persons who are not in the same place as each other attend a general meeting if their circumstances are such that if they have (or were to have) rights to speak and vote at that meeting, they are (or would be) able to exercise them.

49. Quorum for general meetings

(1) No business other than the appointment of the chairman of the meeting is to be transacted at a general meeting if the persons attending it do not constitute a quorum.

(2) If the Company has only one member entitled to attend and vote at the general meeting, one qualifying person present at the meeting and entitled to vote is a quorum.

(3) Subject to the Act and article 49(4) in all cases other than that in article 49(2) two qualifying persons present at the meeting and entitled to vote are a quorum.

(4) One qualifying person present at the meeting and entitled to vote:

(a) both in his or her own capacity as a member and as a corporate representative of one or more corporations, each of which is a member entitled to attend and vote upon the business to be transacted at the meeting;

(b) as the corporate representative of two or more corporations, each of which is a member entitled to attend and vote upon the business to be transacted at the meeting;

(c) both in his or her own capacity as a member and as a proxy duly appointed by one or more members entitled to attend and vote upon the business to be transacted at the meeting; or

(d) as a proxy duly appointed by two or more members entitled to attend and vote upon the business to be transacted at the meeting,

is a quorum.

(5) Two persons present at the meeting and entitled to vote do not constitute a quorum if they are each entitled to vote only as a duly appointed proxy for, or as a corporate representative for, the same member.

50. Chairing general meetings

(1) If the directors have appointed a chairman, the chairman shall chair general meetings if present and willing to do so.

(2) If the directors have not appointed a chairman, or if the chairman is unwilling to chair the meeting or is not present within ten minutes of the time at which a meeting was due to start:

(a) the directors present, or

(b) (if no directors are present), the meeting,

must appoint a director or shareholder to chair the meeting, and the appointment of the chairman of the meeting must be the first business of the meeting.

(3) The person chairing a meeting in accordance with this article is referred to as "**the chairman of the meeting**".

51. Attendance and speaking by directors and non-shareholders

(1) Directors may attend and speak at general meetings, whether or not they are shareholders.

(2) The chairman of the meeting may permit other persons who are not:

(a) shareholders of the company, or

(b) otherwise entitled to exercise the rights of shareholders in relation to general meetings,

to attend and speak at a general meeting.

52. Adjournment

(1) If the persons attending a general meeting within half an hour of the time at which the meeting was due to start do not constitute a quorum, or if during a meeting a quorum ceases to be present, the chairman of the meeting must adjourn it.

(2) The chairman of the meeting may adjourn a general meeting at which a quorum is present if:

(a) the meeting consents to an adjournment, or

(b) it appears to the chairman of the meeting that an adjournment is necessary to protect the safety of any person attending the meeting or ensure that the business of the meeting is conducted in an orderly manner.

(3) The chairman of the meeting must adjourn a general meeting if directed to do so by the meeting.

(4) When adjourning a general meeting, the chairman of the meeting must:

(a) either specify the time and place to which it is adjourned or state that it is to continue at a time and place to be fixed by the directors; and

(b) have regard to any directions as to the time and place of any adjournment which have been given by the meeting.

(5) If the continuation of an adjourned meeting is to take place more than 14 days after it was adjourned, the company must give at least 7 clear days' notice of it (that is, excluding the day of the adjourned meeting and the day on which the notice is given):

(a) to the same persons to whom notice of the company's general meetings is required to be given, and

(b) containing the same information which such notice is required to contain.

(6) No business may be transacted at an adjourned general meeting which could not properly have been transacted at the meeting if the adjournment had not taken place.

Voting at General Meetings

53. Voting: general

A resolution put to the vote of a general meeting must be decided on a show of hands unless a poll is duly demanded in accordance with the statutes.

54. Errors and disputes

(1) No objection may be raised to the qualification of any person voting at a general meeting except at the meeting or adjourned meeting at which the vote objected to is tendered, and every vote not disallowed at the meeting is valid.

(2) *Any such objection must be referred to the chairman of the meeting, whose decision is final.*

55. Poll votes

(1) A poll on a resolution may be demanded:

(a) in advance of the general meeting where it is to be put to the vote, or

(b) at a general meeting, either before a show of hands on that resolution or immediately after the result of a show of hands on that resolution is declared.

(2) A poll may be demanded by:

(a) the chairman of the meeting;

(b) the directors;

(c) two or more persons having the right to vote on the resolution;

(d) a person or persons representing not less than one tenth of the total voting rights of all the shareholders having the right to vote on the resolution; or

(e) a person or persons holding shares in the company conferring a right to vote on the resolution, being shares on which an aggregate sum has been paid up equal to not less than 10% of the total sum paid up on all the shares conferring that right.

A demand for a poll by a proxy counts, for the purposes of paragraph (c) above, as a demand by a member, for the purposes of paragraph (d) above, as a demand by a member representing the voting rights that the proxy is authorised to exercise, and, for the purposes of paragraph (e) above, as a demand by a member holding the shares to which those rights are attached.

(3) A demand for a poll may be withdrawn if:

(a) the poll has not yet been taken, and

(b) the chairman of the meeting consents to the withdrawal.

(4) Polls must be taken immediately and in such manner as the chairman of the meeting directs.

56. Content of proxy notices

(1) Proxies may only validly be appointed by a notice in writing (a "**proxy notice**") which:

(a) states the name and address of the shareholder appointing the proxy;

(b) identifies the person appointed to be that shareholder's proxy and the general meeting in relation to which that person is appointed;

(c) is signed by or on behalf of the shareholder appointing the proxy, or is authenticated in such manner as the directors may determine; and

(d) is delivered to the company in accordance with the statutes and any instructions contained in the notice of the general meeting (or adjourned meeting) to which they relate.

(2) The company may require proxy notices to be delivered in a particular form, and may specify different forms for different purposes.

(3) Proxy notices may specify how the proxy appointed under them is to vote (or that the proxy is to abstain from voting) on one or more resolutions.

(4) Unless a proxy notice indicates otherwise, it must be treated as:

(a) allowing the person appointed under it as a proxy discretion as to how to vote on any ancillary or procedural resolutions put to the meeting, and

(b) appointing that person as a proxy in relation to any adjournment of the general meeting to which it relates as well as the meeting itself.

57. Delivery of proxy notices

(1) A person who is entitled to attend, speak or vote (either on a show of hands or on a poll) at a general meeting remains so entitled in respect of that meeting or any adjournment of it, even though a valid proxy notice has been delivered to the company by or on behalf of that person.

(2) An appointment under a proxy notice may be revoked by delivering to the company a notice in writing given by or on behalf of the person by whom or on whose behalf the proxy notice was given.

(3) A notice revoking a proxy appointment only takes effect if it is delivered before the start of the meeting or adjourned meeting to which it relates.

(4) The directors may require the production of any evidence which they consider necessary to determine the validity of any proxy notice.

58. *Amendments to resolutions*

(1) An ordinary resolution to be proposed at a general meeting may be amended by ordinary resolution if:

(a) *notice of the proposed amendment* is given to the company in writing by a person entitled to vote at the general meeting at which it is to be proposed not less than 48 hours before the meeting is to take place (or such later time as the chairman of the meeting may determine), and

(b) the proposed amendment does not, in the reasonable opinion of the chairman of the meeting, materially alter the scope of the resolution.

(2) A special resolution to be proposed at a general meeting may be amended by ordinary resolution, if:

(a) the chairman of the meeting proposes the amendment at the general meeting at which the resolution is to be proposed, and

(b) the amendment does not go beyond what is necessary to correct a grammatical or other non-substantive error in the resolution.

(3) If the chairman of the meeting, acting in good faith, wrongly decides that an amendment to a resolution is out of order, the chairman's error does not invalidate the vote on that resolution.

59. Class meetings

The provisions of the statutes relating to general meetings shall apply, with any necessary modifications, to any separate general meeting of the holders of shares of a class For this purpose, a general meeting at which no holder of a share other than an ordinary share may, in his or her capacity as a member, attend or vote shall also constitute a separate general meeting of the holders of the ordinary shares.

Part 5

Administrative Arrangements

60. Means of communication to be used

(1) Subject to the statutes, anything sent or supplied by or to the company under the statutes may be sent or supplied in any way in which the Companies Act 2006 provides for documents or information which are authorised or required by any provision of that Act to be sent or supplied by or to the company.

(2) Subject to the statutes, any notice or document to be sent or supplied to a director in connection with the taking of decisions by directors may also be sent or supplied by the means by which that director has asked to be sent or supplied with such notices or documents for the time being.

(3) A director may agree with the company that notices or documents sent to that director in a particular way are to be deemed to have been received within a specified time of their being sent, and for the specified time to be less than 48 hours.

61. When notice or other communication deemed to have been received

(1) Any notice, document or information sent or supplied by the company to the shareholders or any of them:

(a) by post, shall be deemed to have been received 24 hours after the time at which the envelope containing the notice, document or information was posted unless it was sent by second class post, or there is only one class of post, or it was sent by air mail to an address outside the United Kingdom, in which case it shall be deemed to have been received 48 hours after it was posted. Proof that the envelope was properly addressed, prepaid and posted shall be conclusive evidence that the notice, document or information was sent;

(b) by being left at a shareholder's registered address, or such other postal address as notified by the shareholder to the company for the purpose of receiving company communications, shall be deemed to have been received on the day it was left;

(c) by electronic means, shall be deemed to have been received 24 hours after it was sent Proof that a notice, document or information in electronic form was addressed to the electronic address provided by the shareholder for the purpose of receiving communications from the company shall be conclusive evidence that the notice, document or information was sent; and

(d) by making it available on a website, shall be deemed to have been received on the date on which notification of availability on the website is deemed to have been received in accordance with this article or, if later, the date on which it is first made available on the website.

62. Company seals

(1) Any common seal may only be used by the authority of the directors.

(2) The directors may decide by what means and in what form any common seal is to be used.

(3) Unless otherwise decided by the directors, if the company has a common seal and it is affixed to a document, the document must also be signed by at least one authorised person in the presence of a witness who attests the signature.

(4) For the purposes of this article, an authorised person is:

(a) any director of the company;

(b) the company secretary; or

(c) any person authorised by the directors for the purpose of signing documents to which the common seal is applied.

Directors' Indemnity and Insurance

63. Indemnity and Insurance

(1) The company shall indemnify a relevant director of the company in respect of any relevant loss to the fullest extent permitted by the Act or by any other provision of law.

(2) The directors may decide to purchase and maintain insurance, at the expense of the company, for the benefit of any relevant director in respect of any relevant loss.

(3) In this article:

(a) a **relevant director** means any director or former director of the company; and

(b) a **relevant loss** means any loss or liability which has been or may be incurred by a relevant director in connection with that director's duties or powers in relation to the company.

SCHEDULE 4
MEMBERS OF THE FIRST CHUBB EUROPEAN GROUP SE ADMINISTRATIVE ORGAN

Marshall Bailey

Mark Hammond

Andrew Kendrick

Kevin O'Shiel

Jalil Rehman

Cathryn Riley

David Robinson

Matthew Shaw

Lord Jonathan Adair Turner

Timothy Wade