ACE EUROPE LIFE LIMITED

Annual Report and Financial Statements
31 December 2017

ACE Europe Life Limited

Registered office:
100 Leadenhall Street
London EC3A 3BP
United Kingdom

Registered in England & Wales
Number 5936400

Authorised by the Prudential Regulation Authority and
Regulated by the Financial Conduct Authority
and the Prudential Regulation Authority

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ACE EUROPE LIFE LIMITED

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Chief Executive's Report
31 December 2017

Performance in 2017
During 2017 ACE Europe Life Limited ("AELL" or the "Company") generated gross premiums of £31.4 million (2016: £38.6 million) and reported a profit on ordinary activities before taxation of £9.4 million (2016 (restated) : profit on ordinary activities before taxation £7.6 million).

Shareholder's funds at the close of the financial year were £53.2 million (2016 (restated) : £47.7 million). The Company is currently adequately capitalised.

During 2017 AELL did not enter into any new business and therefore the overall written premium has decreased slightly. The Company closed 2017 with an in force policy count of 194,338 (2016: 207,386), a decrease of 6%.

Market Environment
The European life insurance industry remains stable in spite of a continued low interest rate and competitive environment as well as an ever developing regulatory landscape. AELL has chosen this time to review its current operating environment and future strategy at the expense of short term growth.

Interest rates in the Company's two major currencies, Sterling and Euro, remained low throughout 2017.

Regulatory Environment
The current economic environment remains a challenge for companies, with the introduction of Solvency II compounding the strains on capital from low interest rates by introducing more volatility into reported capital positions.

AELL continues to ensure the customer remains at the heart of its business, with a clear goal to meet the needs of the consumer. Conduct is part of the culture of AELL and the measurement of customer outcomes remains core to day-to-day business activities.

Future prospects
2017 was a period of consolidation in the Life company. In 2017 the Company undertook a strategic review of the company and its role within the Chubb family of companies. This review concluded that the company would remain committed to existing policyholders and key strategic Chubb clients. It also resulted in a rationalisation of distribution partners. These lost income streams have not been replaced as the current market environment has not presented suitable opportunities. In the near term the company is expecting gross written premium to remain flat.

In conclusion, AELL has had a busy 12 months reviewing strategy and revising the reinsurance programme. During this time there has been strong focus on maintaining the Company's solvency position and in avoiding any detriment to policyholders or impact on their service. I would like to thank the Company's staff and also the CEGL team who support AELL for navigating the company through this period.

Ian Moffatt

I Moffatt
Chief Executive
26 March 2018

Strategic Report
31 December 2017

The board of AELL 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 AELL, 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, 2017, Chubb Limited held total assets of $167.0 billion and shareholder's 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.

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

AELL benefits from Chubb's strong platform, reputation, skill sets, financial strength ratings and consistent management philosophy. AELL operates in synergy with an affiliated Chubb non-life company, Chubb European Group Limited, ("CEGL"), by offering life products which complement CEGL's Accident & Health portfolio.

Organisation of the business
Headquartered in the UK and with branch offices in another 11 countries across Europe. The head office is based in London and handles core functions including overall management of the life operations, product design and pricing, definition and monitoring of underwriting and claims rules and the financial management of the Company. AELL has engaged the services of Chubb Services U.K. Limited ("CSUKL") and CEGL for various other operational functions. This has enabled AELL to benefit from CEGL's direct marketing and broker distribution experience.

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 AELL'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 further plans to convert AELL to a Societas Europaea and then if necessary redomicile the company to France.
Broadly, Chubb's operating model and underwriting approach and disciplines in the resultant operations will remain as they are currently in AELL.

Additional information can be found on the Chubb UK website.

Business Environment

Insurance market conditions
The Continental European markets continue to trade against a backdrop of a continued low interest environment, increased competition and an ever developing regulatory landscape.

The outlook for 2018 remains difficult although economic growth is picking up, inflation is likely to remain subdued for some time. Despite signs that interest rates could rise slowly, low interest rates will continue to pose substantial challenges to the industry by constraining investment yields and maintaining an environment that will be very unforgiving of poor investment decisions.

Financial market conditions
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.

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.

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.

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 AELL board.

	2017 **£'000**	**2016** **(restated)** **£'000**
Gross written premiums	31,428	38,574
Profit for the financial year	7,104	6,802
Number of policies in force	194,338	207,386

Results and performance

A summary of the reported financial results is shown in the following table.

	2017 £'000	2016 (restated) £'000
Net premiums written	4,339	(17,540)
Net claims incurred	(2,013)	(6,635)
Net decrease in policy reserves	6,180	20,668
Net operating expenses	(1,339)	1,022
Investment income / (loss)	1,433	9,595
Other income / (expenses)	838	453
Taxation charge	(2,334)	(761)
Profit / (loss) for the financial year	7,104	6,802

Financial position and capital

The net assets of AELL at 31 December 2017 stand at £53.2 million (2016 (restated) : net assets of £47.7 million) with regulatory capital of £53.2 million (2016 : £47.7million). Following the companies adoption of Solvency II valuation principles for statutory accounting the regulatory and statutory balance sheet positions are aligned.

The year-end reserves have been calculated using updated assumptions, particularly in respect of mortality. These updated assumptions were a key driver for the profit for the period and so therefore the improved financial position as at 31 December 2017.

AELL maintains a capital structure consistent with the Company's risk profile and regulatory requirements. Capitalisation is assessed on a regular basis in light of changes anticipated in the business. The Company considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance when assessing its deployment and usage of capital.

The Company has £53 million (2016: £47 million) of available capital resources at 31 December 2017. The Company's regulatory capital requirement is set according to the Solvency II standard formula. This produces a Solvency Capital Requirement of £11m. The company has a healthy solvency ratio therefore of 493%.

Further details regarding the Company's capital resources are set out in Note 3 to the financial statements.

Investment strategy
In 2017 AELL extended the existing reinsurance arrangements with Chubb Tempest Life Reinsurance to provide reinsurance protection for 100% of the Euro denominated liabilities. Subsequently, Euro denominated investments were transferred in the year as part of this transaction. For the remaining investment grade Sterling bond portfolio, AELL maintained a consistent strategy throughout the year. The Company continued to target a balance between achieving adequate investment returns and a reasonable match to the Company's technical liabilities and reserves. The Sterling portfolio generated total returns of 3.8% for the year reflecting modest decreases in yields for intermediate and longer dated Sterling fixed income during the year.

Governance
AELL 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 the responsibility for decisions in connection with a number of matters. These include those of a significant strategic, structural, capital, financial reporting, internal control, risk, policy or compliance nature. The Board membership comprises four independent Non-Executive Directors ("NEDs") and four Executive Directors. Details of director appointments and resignations can be found in the Directors' Report.

The Board meets formally 5 times a year and additionally on other occasions to discharge its responsibilities in respect of these and other matters. In 2017 the Board met 7 times.

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

Executive Committee
The Executive Committee comprises the Chief Executive Officer ("CEO") of AELL and other members of the company's senior management team. The primary role of the Committee is to oversee the day-to-day management of business operations and their performance, and to assist the CEO in implementing and overseeing operational strategies and decisions determined by the Board. The Executive Committee is responsible for the oversight of support function activities, project reporting and of sub-committees activity including investment product oversight.

Risk Committee
The Risk Committee was established in August 2017 and comprises the NEDs and four Executive Directors. The Committee is responsible for the oversight and implementation of its risk management framework and to advise 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 the 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 appetite statements agreed by the Board.

Audit Committee
The Audit Committee, which is composed exclusively of NEDs, considers and makes recommendations to the Board on areas including internal controls, financial reporting, whistleblowing, validation of solvency calculations, actuarial matters and the external audit. It receives reports from the Compliance, Actuarial and Finance functions and Internal Audit on a quarterly basis.

In relation to the external audit process, the Committee monitors the nature and scope of work in the audit of the statutory financial statements and other external reporting requirements. 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 Group management that the internal control systems, agreed by executive management as being appropriate for the prudent management of the business, are operating as designed. At all times the Audit Committee is expected to challenge any aspect of these processes which it considers weak or poor practice.

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

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

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

With effect from February 2017, the Board changed the reporting line of the Product Oversight Committee to the Executive Committee.

Risk & Control Framework
The Chubb Group is a global underwriting enterprise 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.

AELL has adopted the Group's Enterprise Risk Management Framework ("RMF") which describes the role of Enterprise Risk Management within AELL and how it helps the Company achieve its business objectives, meet its corporate obligations and maintain the reputation of the Chubb business. The 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 the company 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 AELL's business objectives and to meet the requirements of policyholders, regulators and rating agencies is in place.

The AELL 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 reapproved by the Board in 2017 together with a review of individual risk policies and risk appetite statements which set out and 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 the Company'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 AELL's 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 losses compared to expectations, inadequate reinsurance protection and inadequate reserving.

The Company mitigates this risk through a number of processes and controls, including underwriting guidelines and restrictions, actuarial price modelling, exposure monitoring, peer review, and the business planning 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:

- Investments 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 positions of the Company's counterparties deteriorate 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 meet the Company's obligations as they fall due.
- 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.

The Company 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 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 risks as defined below. Significant operational risk sources include premium and claims processing, IT security, outsourcing and vendor management, business continuity, fraud and regulatory compliance (including conduct risk).

AELL seeks to ensure that it is not exposed to operational risk in excess of its risk appetite with mitigating strategies (including business continuity plans) that have appropriate controls around 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 landscape.

The AELL Board is responsible for the strategic direction of the Company. The Board is actively involved in strategic decision making and monitors the performance of the business strategies undertaken.

A key strategic risk is the UK's 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 Risk: 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. 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 framework processes. Additionally, intra-group arrangements are governed in an appropriate arm-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. AELL has defined emerging risks as any events, situations or trends that may arise within the Company's 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 and reporting of such risks that 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 AELL, and the compliance function has an important oversight role in this regard. Annual affirmation of the Group Code of Conduct is required of all employees and directors.

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

As a member of Chubb, AELL has access to a skilled and specialist workforce to manage its regulatory and compliance responsibilities and aims to operate to a high standard. AELL 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, Chubb seeks to create a workplace that is effective in its local markets and communities, and takes 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 group 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 continues and that appropriate adjustments are made. It is the policy of Chubb that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Chubb 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. The group actively supports the personal and professional development of all its employees and operates talent and leadership development programs to help staff realise their full career potential.

Communication with employees is primarily effected through the corporate intranet and regular briefings and presentations by the European Group President and local management.

Approved by the Board of Directors

Ian Moffatt

I Moffatt
Director
26 March 2018

Directors' Report
31 December 2017

The directors of ACE Europe Life Limited (Company registration number 5936400) are pleased to submit their annual report and the audited financial statements for the year to 31 December 2017.

Principal activity
The Company's principal activity is the transaction of life assurance business in the United Kingdom and Continental Europe.

Business review
A review of the Company's activities and its future prospects is set out in the Chief Executive's Report and the Strategic Report.

Principal risks and uncertainties
A review of the Company's principal risks and uncertainties is set out in the Strategic Report.

Results and dividends
The results of the Company for the year show a profit on ordinary activities before taxation of £9.4 million (2016 (restated) : £7.6 million profit) and a profit after tax for the financial year of £7.1 million (2016 (restated) : £6.8 million profit). No dividends have been proposed or paid (2016: nil).

Shareholder's funds at 31 December 2017 totalled £53.2 million (2016 (restated) : £47.7 million).

Employees
Staff that support the Company's operations are employed by affiliates, either by CEGL or by Chubb Services UK Limited. Their costs are included in management recharges from these companies.

Directors
The following were the directors of the Company from 1 January 2017 to the date of this report unless otherwise indicated:

Executive directors:
A M Donselaar
I Moffatt
M K Hammond
A J Kendrick

Non-executive directors:
J A Napier (Resigned 17 May 2017)
M J Yardley (Resigned 31 December 2017)
J A Turner (Appointed 18 May 2017)
M C Bailey
T C Wade

Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) are 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 risks is disclosed in note 3 to the financial statements. In particular, the Company's exposures to interest rate risk, price risk, currency risk, liquidity risk and credit 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".

Statement of disclosure of information to auditors
Each of the persons who is a director at the date of this report confirms that:

i. 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

ii. the director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make himself/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.

Independent Auditors

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

By order of the Board

RHostler

R Hostler
For and on behalf of Chubb London Services Limited
Company Secretary, 26 March 2018

100 Leadenhall Street
London
EC3A 3BP

Independent Auditors' Report
to the members of ACE Europe Life Limited

Report on the audit of the financial statements

Opinion

In our opinion, Ace Europe Life 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 and Financial Statements (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 then ended; the accounting policies; and the notes to the financial statements.

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

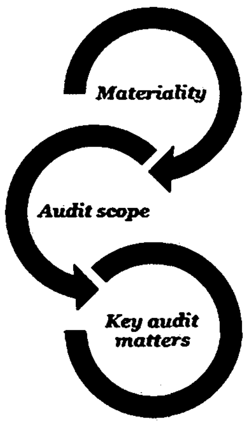
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance 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: £1,242,000 (2016: £805,000), based on 0.8% of total assets.

We performed a full scope audit of the complete financial information of the company in accordance with our materiality and risk assessment. In doing so, we also considered qualitative and quantitative factors across all financial statement line items in the financial statements.

We have focused on the valuation of technical provisions as the key audit matter.

Independent Auditors' Report
to the members of ACE Europe Life Limited

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 and UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting document, review of correspondence with regulators, attendance at audit committee meetings where significant entity risks are discussed and enquiries of management. 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.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Technical provisions The technical provisions are a material balance within the financial statements. Its determination has a significant impact on the financial result and there is significant complexity and judgement involved in determining the estimate. Significant judgement is inherent in the assumptions adopted over demographic and economic factors. We assess the appropriateness of these methodologies and assumptions by reference to actual experience and industry benchmarks.	The work to address the valuation of technical provisions in ACE Europe Life Limited included the following procedures: - We tested the design and operating effectiveness of controls over the data used in reserving. - Using our actuarial specialists we applied our industry knowledge and experience and we compared the methodology, models and assumptions used against actuarial practices. - We tested the key judgements used in the actuarial process; in particular the demographic assumptions applied in setting the provision figures. This included: • Testing of the methodology used by management in order to derive the assumptions, with reference to relevant rules and actuarial guidance and by applying our industry knowledge and experience. • Assessing the results of experience investigations carried out by management over the assumptions used to determine whether this provided support for the assumptions used by management. - We reviewed the analysis prepared by management over the technical provisions. - We tested the relevant disclosures in the financial statements.

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.

We performed a full scope audit of the complete financial information of the company in accordance with our materiality and risk assessment. In doing so, we also considered qualitative and quantitative factors across all financial statement line items in the financial statements.

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	£1,242,000 (2016: £805,000).
How we determined it	0.8% of total assets.
Rationale for benchmark applied	As ACE Europe Life Limited's business is significantly reinsured an income statement is not deemed to be an appropriate metric and therefore we have used total assets.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £124,000 (2016: 40,000) 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.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, 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.

Independent Auditors' Report
to the members of ACE Europe Life Limited

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 first appointed by the directors on 13 November 2006 to audit the financial statements for the year ended 31 December 2007 and subsequent financial periods.

Following a tender, we were reappointed by the audit committee on 16 May 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods.

The period of total uninterrupted engagement is 11 years, covering the years ended 31 December 2007 to 31 December 2017.

James Pearson (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

26 March 2018

Profit and Loss Account
For the year ended 31 December 2017

	Note	2017 £'000	2016 (restated) £'000
Technical account – Long-term business			
Earned premium, net of reinsurance:			
Gross premiums written	4	31,428	38,574
Outward reinsurance premiums		(27,089)	(56,114)
Earned premium, net of reinsurance		4,339	(17,540)
Investment income	8	3,642	2,591
Unrealised gains / (losses) on investments	8	(2,222)	3,855
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		(16,490)	(15,157)
Reinsurers' share		14,089	8,665
Net claims paid		(2,401)	(6,492)
Change in the provision for claims			
Gross amount		(747)	(95)
Reinsurers' share		1,135	(48)
Net change in provision for claims outstanding		388	(143)
Claims incurred, net of reinsurance		(2,013)	(6,635)
Change in other technical provisions, net of reinsurance			
Long-term business provision, net of reinsurance			
Gross amount		36,403	(24,366)
Reinsurers' share		(30,223)	45,034
Net change in other technical provisions		6,180	20,668
Net operating expenses	5	(1,339)	1,022
Investment expenses and charges	8	(114)	(22)
Taxation attributable to the long-term business	9	(2,310)	(693)
Balance on the technical account – long-term business		6,163	3,246

All of the above results derive from continuing operations.

Profit and Loss Account
For the year ended 31 December 2017

	Note	2017 £'000	2016 (restated) £'000
Non-technical account			
Balance on the long-term business technical account		6,163	3,246
Tax credit attributable to balance on long-term business technical account		2,310	693
Shareholder's pre-tax profit from long-term business		8,473	3,939
Investment income	8	3,777	1,108
Unrealised gains on investments	8	-	2,075
Investment expenses and charges	8	(178)	(12)
Unrealised losses on investments	8	(3,472)	-
Other expenses		838	453
Profit on ordinary activities before taxation	4	9,438	7,563
Taxation on profit on ordinary activities	9	(2,334)	(761)
Profit for the financial year		7,104	6,802

Statement of Comprehensive Income
For the year ended 31 December 2017

	2017 £'000	2016 (restated) £'000
Profit for the financial year	7,104	6,802
Currency translation differences	(1,631)	1,703
Total comprehensive income / (expense) for the financial year	5,473	8,505

All of the above results derive from continuing operations.

Statement of Changes in Equity
For the year ended 31 December 2017

	2017			
	Called up share capital £'000	Other reserves – capital contribution £'000	Profit and loss account £'000	Total Shareholder's funds £'000
At 1 January	5,375	29,011	13,316	47,702
Profit for the financial year	-	-	7,104	7,104
Currency translation differences	-	-	(1,631)	(1,631)
At 31 December	5,375	29,011	18,789	53,175

	2016 (restated)			
	Called up share capital £'000	Other reserves – capital contribution £'000	Profit and loss account £'000	Total Shareholder's funds £'000
At 1 January	5,375	29,011	4,811	39,197
Profit for the financial year	-	-	6,802	6,802
Currency translation differences	-	-	1,703	1,703
At 31 December	5,375	29,011	13,316	47,702

Balance Sheet
as at 31 December 2017

	Note(s)	2017 £'000	2016 (restated) £'000
Assets			
Investments			
Other financial investments	11	51,527	87,627
Reinsurer's share of technical provisions			
Long-term technical provision	19	51,858	74,075
Ceded Risk Margin	19	26,017	32,150
Claims outstanding	19	4,059	2,889
		81,934	109,114
Debtors – amounts falling due within one year			
Debtors arising out of direct insurance operations:			
Amounts owed by intermediaries		4,920	3,144
Debtors arising out of reinsurance operations	12	6,539	5,025
Other debtors	13	2,672	3,933
		14,131	12,102
Other assets			
Cash at bank and in hand		3,792	6,108
Prepayments and accrued income			
Accrued interest and rent		662	923
Total assets		152,046	215,874
Liabilities			
Capital and reserves			
Called up share capital	14	5,375	5,375
Other reserves - capital contribution		29,011	29,011
Profit and loss account		18,789	13,316
Total shareholder's funds		53,175	47,702
Technical provisions			
Long-term technical provision			
Best Estimate of Liabilities	15,19	55,638	80,295
Risk Margin	15,19	29,001	38,308
Claims outstanding	19	5,333	4,535
		89,971	123,138
Provisions for other risks and charges	16	176	211
Deposits received from reinsurers		138	151
Creditors– amounts falling due within one year			
Creditors arising out of reinsurance operations	17	6,882	42,385
Other creditors including taxation and social security	18	1,654	2,209
		8,536	44,594
Accruals and deferred income		50	78
Total liabilities		152,046	215,874

The financial statements on pages 14 to 37 were approved by the board of directors on 19 March 2018 and were signed on its behalf by:

Ian Moffatt

I Moffatt
Director
26 March 2018

1 Accounting policies

Basis of presentation

ACE Europe Life Limited ("the Company") is a limited liability company incorporated in the United Kingdom. The Company's 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 in compliance with United Kingdom accounting standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103") and the Companies Act 2006.

The Company has adopted FRS 102 and FRS 103 and 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. There was no impact on the prior year financial statements on adoption of FRS 102 and FRS 103.

These financial statements have been prepared on a going concern basis, under the historical cost convention modified to include 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 key management personnel and related party transactions under the terms of FRS 102.

Prior year restatement

During the year the Company changed its methodology for calculating it's long term technical provision from a UK GAAP basis to a Solvency II basis as this creates consistency with the regulatory returns. This provides the users of the financial statements with more relevant information in how the company is managed which is also consistent with the company's SFCR. Below is a table showing the impact on the opening shareholders' funds:

	As previously stated	Change in accounting policy	Restated
Net assets as at 1 January 2016	35,556	3,641	39,197

Below is a table showing the impact on the Balance Sheet:

Balance Sheet as at 31 December 2016

	As previously stated	Change in accounting policy	Restated
Other Financial Investments	87,627		87,627
Reinsurer's share of technical provisions	110,388	(1,274)	109,114
Debtors – amounts falling due within one year	12,002	100	12,102
Cash at bank and in hand	6,108		6,108
Deferred Acquisition Costs	109	(109)	-
Accrued interest and rent	923		923
Total assets	217,157	(1,283)	215,874
Shareholder's funds	48,254	(552)	47,702
Technical provisions	123,820	(682)	123,138
Provisions for other risks and charges	211		211
Deposits received from reinsurers	151		151
Creditors – amounts falling due within one year	44,643	(49)	44,594
Accruals and deferred income	78		78
Total liabilities	217,157	(1,283)	215,874

1 Accounting policies (continued)

Below is a table showing the impact on the Profit and Loss Account:

Profit and Loss Account for the year ended 31 December 2016

	As previously stated	Change in accounting policy	Restated
Earned premium, net of reinsurance	(17,540)		(17,540)
Investment income	2,591		2,591
Unrealised gains / (losses) on investments	3,855		3,855
Net claims paid	(6,492)		(6,492)
Net change in provisions for claims outstanding	(143)		(143)
Net change in other technical provisions	36,631	(15,963)	20,668
Net operating expenses	(2,953)	3,975	1,022
Investment expenses and charges	(22)		(22)
Taxation attributable to the long-term business	(3,090)	2,397	(693)
Balance on the technical account	12,837	(9,591)	3,246
Tax credit attributable to balance on long term business	3,090	(2,397)	693
Investment income	1,108		1,108
Unrealised gains on investments	2,075		2,075
Investment expenses and charges	(12)		(12)
Other expenses	453		453
Profit on ordinary activities before tax	19,551	(11,988)	7,563
Tax on ordinary activities	(3,158)	2,397	(761)
Profit for the financial year	16,393	(9,591)	6,802
Currency translation differences	(3,695)	5,398	1,703
Total comprehensive income	12,698	(4,193)	8,505

Under the old UK GAAP accounting policy, at year end 2015, the required reserves were considerably higher than under the Solvency II basis of calculating long term technical provisions. Following changes to the reinsurance structure in 2016, the difference between the two accounting bases narrowed significantly such that the closing 2016 shareholder's funds are only £0.5m different under the new Solvency II based accounting policy.

Premiums written
Premiums written, including reinsurance premiums, are stated gross of brokerage but exclusive of premium taxes and are accounted for when due for long term insurance policies and when on risk for short term policies.

Reinsurance
Long-term business is ceded to reinsurers under contracts to transfer part or all of one or more of the following risks: mortality, morbidity, investment, persistency and expenses. Such contracts are accounted for as insurance contracts provided the risk transfer is significant. Contracts with the legal structure of reinsurance contracts which do not transfer significant insurance risk are classified as financial assets.

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurance companies.

The reinsurers' share of claims incurred, in the profit and loss account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as 'Outwards reinsurance premiums' when due.

Claims
Claims are accounted for when notified. Claims payable include internal and external claims handling costs.
The provision for claims outstanding includes amounts set aside in respect of all claims notified but not yet settled.

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. Interest and expenses are accounted for on an accruals basis.

Investment return relating to investments which are directly connected with the carrying on of the long-term business is recorded in the long-term business technical account. The investment return arising in relation to all other investments is recorded in the non-technical account.

Financial assets and liabilities
The Company recognises a financial asset or a financial liability on its balance sheet when it becomes 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, or 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 and loss are included in the profit and loss account in the period in which they arise.

Cash and bank and in hand and overdrafts
Cash at bank and in hand is cash in hand and deposits repayable on demand, less overdrafts 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.

Insurance and other receivables
Insurance and other receivables are recognised at fair value less any provisions 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.

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 taxation in future, or a right to pay less taxation 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.

Provisions
Provisions are recognised when the company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Foreign currencies
The Company financial statements are presented in pound sterling and rounded to thousands, except where indicated otherwise.

The Company operates a number of branches, each of which conducts business in a variety of currencies. These branches include both UK and overseas insurance operations across the European Economic Area ("foreign branches").

Within each branch, transactions in currencies other than the currency of the branch are translated into the branch currency at the rates of exchange ruling at the date the transaction is processed.

All monetary assets and liabilities denominated in currencies other than the branch's currency are translated into the branch's currency at the rates of exchange ruling at the balance sheet date. Non-monetary assets and liabilities are translated into the branch's currency at their historic rates of exchange.

Differences arising from the translation of assets and liabilities denominated in currencies other than the branch's currency are included in the profit and loss account. Where such differences arise in relation to the carrying on of long-term business, they are accounted for in the technical account. All other exchange differences are accounted for in the non-technical account.

Results of the foreign branches, recorded in the foreign branches' currencies, 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.

Judgements and key sources of estimation uncertainty
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year.

However, the nature of estimation means that actual outcomes could differ from those estimates. The Company's key sources of estimation uncertainty are set out below.

Long-term technical provision
The technical provisions are calculated as a best estimate and a risk margin. The best estimate is based on probability-weighted cashflows with consideration for the time value of money, and considers all cash inflows and outflows. The cash flows are derived by using best estimate assumptions to project expected premiums, claim benefits and expenses, with allowances for reinsurance recoveries where appropriate. The discount rates are derived from the swap rates prevalent in the relevant markets, with a mathematical extrapolation carried out for risk-free discount rates beyond the tenors at which swap markets cease to be deep and liquid. These have all be taken from the publicly available rates from EIOPA.

Under Solvency II rules, future premiums on existing insurance contracts are allowed to be recognised up until the contract boundary – the point at which the firm has the unilateral right to terminate the contract, reject or review premiums or review benefits payable. This depends on the nature of the products, and the assessment of contract boundaries for each of the products is performed annually.

The risk margin is assumed to be the amount required to take over and meet the (re)insurance obligations, and represents the cost of providing eligible own funds equal to SCR necessary to support these obligations. To determine the risk margin, a series of "risk drivers" is used to project the run-off of each non-hedgeable component of the initial expected capital requirements over the lifetime of the existing business. This is then multiplied by an expected cost of capital and then discounted using the GBP discount curve for the valuation date as provided by EIOPA.

The technical provisions are calculated gross of reinsurance with appropriate allowance for reinsurance recoveries.
- Consideration is given to the time delay between recoveries and direct payments.
- An allowance is made for potential default of counterparties.

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

Further details relating to the key assumptions used are contained in note 15.

Fair value of financial assets determined using valuation techniques
Where financial assets trade in less active markets, the fair values recorded on the Balance Sheet are based on the output of pricing models. The significant inputs into such models include, but are not limited to, yield curves, credit risks and spreads, measures of volatility, and prepayment speeds.

2. Management of financial risk

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.

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 from within both the Company and Chubb Asset Management, the group's investment specialists who provide advisory services to Chubb. The Committee is chaired by the Chief Financial Officer and also includes the Chief Executive Officer and Treasurer of the Company.

The investment management function is outsourced to specialist external managers.

Asset allocation policy

The Investment Committee has established an 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. Currently the policy only permits investment grade securities, although this approach 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, 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 through both its investments in fixed interest securities and 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. These restrictions are set by reference to the duration of the insurance liabilities. The Investment Committee monitors both the duration of the assets and liabilities and the sensitivity to changes in interest rates.

Sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. To illustrate the downside risk within the other financial investments portfolio of £51.5 million at external managers as at 31 December 2017 (2016: £77.1 million), an increase of 100 basis points in interest yields across all portfolios consecutively (principally sterling and Euro) has been calculated. Such an increase would decrease the market value of the investment portfolio and lead to a decrease in the total investment return of £7.5million (2016: £11.5 million) and accordingly decrease total shareholder's funds by £6.0 million (2016: £9.2 million).

Information relating to the sensitivity of the insurance liabilities to interest rate changes is set out in Note 15.

Equity price risk

The Company's asset allocation policy does not permit investment in alternative classes of assets and, as a consequence, no equity investments (2016: nil) are held.

2. Management of financial risk (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 and euros. 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 and euros. The Investment Committee performs a quarterly evaluation of currency alignment.

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

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. 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 2017 average euro/sterling rate of €1.146/£1 is down on the prior year (2016: €1.238/£1). Had sterling weakened by 10% against all currencies (primarily the euro) and all other variables remained constant, the profit before tax for the year would not impact the reported profit and loss account.

For the monetary components of the balance sheet, the year-end rates used to convert euro to sterling have decreased by 13% to €1.134/£1 (2016: €1.191/£1). Assuming sterling had weakened by 10% against all currencies (primarily the euro) and all other variables remained constant, the effect of translating year end foreign branch net assets based on these parameters would decrease the shareholder's funds by £0.4m..

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, and seeks to match the duration of assets and liabilities, where practical. In addition, the asset allocation policy and the investment guidelines are structured in order to ensure that funds are held in investment grade fixed income securities, the proceeds of which are readily realisable.

As indicated in the balance sheet, the Company's financial liabilities are all payable within one year. Financial liabilities with contractual maturities are limited to reinsurance premiums payable and expense accruals and are payable within normal terms of trade, which is average is 60 days.

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 risk as a result of its holdings in fixed income 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 investment guidelines seek to limit the credit risk of each of the portfolios through specifying eligible/ineligible investments, setting maximum counterparty exposures, minimum weighted credit quality, and individual issuer credit quality.

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 technical provisions;
- debtors arising from reinsurers in respect of claims already paid; and
- amounts due from direct insurance and reinsurance intermediaries.

Ceded reinsurance is used to manage and mitigate inwards direct insurance 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 Chubb 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.

2. Management of financial risk (continued)

Credit risk – insurance and investment operations

The assets bearing credit risk are summarised below:

	2017	2016 (restated)
	£'000	£'000
Other financial investments	**51,527**	87,627
Reinsurers' share of technical provisions	**81,934**	109,114
Debtors arising out of direct insurance operations	**4,920**	3,144
Debtors arising from reinsurance operations	**6,539**	5,025
Total assets bearing credit risk	**144,920**	204,910

Other financial investments 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. The credit rating for other financial investments is detailed on the following page.

	2017	2016
	£'000	£'000
AAA	909	13,812
AA	32,045	45,134
A	9,635	9,487
BBB	8,672	8,468
Below BBB or not rated	266	10,726
	51,527	87,627

Other financial investments are neither past due nor impaired.

The amount of change, during the year 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, the long term business provision, IBNR and unearned premium reserve. The reinsurers' share of technical provisions does not contain any balances that are past due and have been impaired (2016: nil).

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 nil% (2016: nil%) that have been impaired and 2% (2016: 3%) that are past due, but not impaired. The latter is aged 1% up to six months (2016: 1%), 1% six months to a year (2016: 2%) and the remaining nil% is older than a year (2016:nil%).

2 Management of financial risk (continued)

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 (restated)
	£'000	£'000
AA	**88,473**	114,139
A	**-**	-
BBB	**-**	-
Below BBB or not rated	**-**	-
	88,473	114,139

Where appropriate the Company seeks to obtain collateral from counterparties to mitigate the credit risk exposure from insurance activities. At 31 December 2017 the collateral provided to the Company totalled £82.3 million (2016: £4.2 million) of which £45.9 million is represented by a Letter of Credit and £36.4 million represented in the form of a Trust CTLR.

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 £11.1 million (2016 (restated): £113.1 million).

3 Capital management

The analysis below shows the regulatory capital resources as calculated in accordance with the Solvency II framework.

Available capital resources	2017	2016 (restated)
	£'000	£'000
Total shareholder's funds at 1 January	**47,702**	**39,197**
Total comprehensive income	**5,473**	**8,505**
Total shareholder's funds at 31 December	**53,175**	**47,702**

Following the introduction of Solvency II principles in deriving the technical provisions there is no difference between Shareholder's funds and own funds for regulatory solvency purposes.

Note 16 (Long-term business provision) sets out the methodology for determining the policyholders' liabilities as well as the sensitivity of the liabilities to changes in key assumptions prior to the adjustments made for Solvency II valuation.

The Company has £53 million (2016 (restated): £48 million) of available capital resources at 31 December 2016. The company now calculates regulatory capital requirements under Solvency II and are also disclosed separately and in more detail in the company's SFCR.

Capital management

The Company maintains a capital structure consistent with the Company's risk profile and the regulatory and market requirements of its business. The Company is subject to a number of regulatory capital tests and also employs a number of realistic tests to allocate capital and manage risk.

From 1 January 2016 the Company is subject to the requirements of the Solvency II regime. Solvency II is a risk-based solvency framework required under the European Solvency II Directive as implemented by the PRA in the UK. The Solvency II surplus represents the aggregated capital held by the Company less solvency capital requirements.

Capital management policies and objectives

The Company's objectives in managing its capital can be summarised as follows:

- to satisfy the requirements of its policyholders and regulators;
- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to manage exposures to key risks;
- to allocate capital efficiently by ensuring that returns on capital employed meet requirements of its capital providers and of its shareholder; and
- to retain financial flexibility by maintaining strong liquidity.

The Company considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance when assessing its deployment and usage of capital.

Capital resource sensitivities

The capital position is sensitive to changes in market conditions, due to both changes in the value of the assets and the effect that changes in investment conditions may have on the value of the liabilities. It is also sensitive to assumptions and experience relating to termination rates, mortality, expenses and persistency.

4 Segmental analysis

In the opinion of the directors, the Company operates two business segments, being that of non-linked, non-profit individual long-term insurance business and group term life business.

An analysis of gross written premiums by business segment is set out below:

	2017 £'000	2016 £'000
Individual long-term business	31,610	31,361
Group life business	(182)	7,213
TOTAL	31,428	38,574

Geographically, the Company operates in the UK and in other European Economic Community countries ("EEA"). Gross premiums written by destination of risk are not materially different from gross premiums written by origin. There were no single premium contracts written in the year.

There were no intra-group revenues with entities affiliated to the Company.

Inward reinsurance premiums written during the year amount to £0.3 million (2016: £0.3 million).

Geographical analysis 2017	Gross premiums written £'000	Profit before taxation £'000	Reinsurance balance £'000	Net Assets £'000
United Kingdom	5,095	2,799	2,745	40,963
Other EEA states	26,333	6,639	(30,258)	12,212
TOTAL	31,428	9,438	(27,513)	53,175
2016 (restated)				
United Kingdom	6,370	299	4,100	40,232
Other EEA states	32,204	7,354	10,733	7,470
TOTAL	38,574	7,563	14,833	47,702

New business analysis

The annualised equivalent new business premiums ("APE") is as analysed below:

	2017 £'000	2016 £'000
Term life new business APE	-	1,375
TOTAL	-	1,375

The premiums written are regular periodic premiums.

5 Net operating expenses

	Gross £'000	Reinsurance £'000	Net £'000
2017			
Acquisition costs	6,024	(7,223)	(1,199)
Administrative expenses	3,764	(1,226)	2,538
	9,788	(8,449)	1,339
2016 (restated)			
Acquisition costs	7,705	(5,449)	2,256
Administrative expenses	(1,432)	(1,846)	(3,278)
	6,273	(7,295)	(1,022)

Foreign exchange gains of £281,000 (2016: foreign exchange gains of £5,527,000) are included in administrative expenses.

Administrative expenses include costs that are incurred by Chubb Services UK Limited ("CSUKL"), a fellow group undertaking, and recharged to the Company in the form of management charges. In particular, this charge includes the cost of the CSUKL staff engaged in the business of the Company.

Total commissions for direct insurance accounted for by the Company during the year amounted to £6.0 million (2016: £7.7 million) and are included within acquisition costs.

6 Auditors' remuneration

During the year the Company (including its overseas branches) obtained the following services from the Company's auditors at costs as detailed below:

	2017 £'000	2016 £'000
Fees payable to the Company's auditors for the audit of the financial statements	186	172
Fees payable to the Company's auditors and their associates for other services:		
Audit-related assurance services	70	113
Tax compliance services	-	25
Tax advisory services	-	10
	256	320

Audit-related assurance services include the audit of the Company's regulatory return.

7 Directors and employees

Staff costs

The Company has no employees. Staff that support the Company are employed by CSUKL or CEGL and their costs are recovered through a recharge as described in note 5.

Directors' emoluments

Directors received emoluments from CSUKL and CEGL in respect of their services to Chubb. The cost of these emoluments is incorporated within the management recharges from CSUKL. For disclosure purposes, it is not practical to allocate these amounts to the underlying entities to which the directors provide services. Consequently, the following amounts represent the total emoluments in respect of the directors of this Company.

	2017 £'000	2016 £'000
Aggregate emoluments and benefits	2,144	2,363
Company pension contributions to money purchase pension schemes	-	19
	2,144	2,382

Included in the above amounts paid by CSUKL and CEGL in respect of the directors of this Company, the highest paid director was paid a total of £835,764 (2016: £829,033) in respect of emoluments and benefits. The amounts of accrued pension and accrued lump sum in relation to the highest paid director at the end of the year were £nil (2016: £nil) and £nil (2016: £nil) respectively.

The aggregate emoluments above do not include share based remuneration. All executive directors are entitled to and received shares in Chubb Limited under long-term incentive plans. During the year, 2 directors received shares in Chubb Limited under long-term incentive plans and 1 director exercised options over the shares of Chubb Limited. The highest paid director exercised share options during the year.

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

8 Investment income

Technical account

	2017 £'000	2016 £'000
Investment income		
Income from investments	513	1,152
Gains on the realisation of investments	3,129	1,439
	3,642	2,591
Investment expenses and charges		
Investment management expenses	-	-
Losses on the realisation of investments	(114)	(22)
	(114)	(22)
Net unrealised gains / (losses) on investments		
Unrealised gains on investments	-	3,855
Unrealised losses on investments	(2,222)	-
	(2,222)	3,855
Total investment return	1,306	6,424

Non-technical account

	2017 £'000	2016 £'000
Investment income		
Income from investments	802	451
Gains on the realisation of investments	2,975	657
	3,777	1,108
Investment expenses and charges		
Investment management expenses	-	-
Losses on the realisation of investments	(178)	(12)
	(178)	(12)
Net unrealised gains / (losses) on investments		
Unrealised gains on investments	-	2,075
Unrealised losses on investments	(3,472)	-
	(3,472)	2,075
Total investment return	127	3,171

9 Taxation on profit on ordinary activities

	2017 £'000	2016 £'000
Long-term business technical account - analysis of charge:		
Current taxation		
UK Corporation tax at 19.25% (2016: 20%)		
Current taxation on income for the year	1,701	1.860
Adjustments in respect of previous periods	750	(3,283)
	2,451	(1,423)
Double taxation relief	(394)	(398)
	2,057	(1,821)
Foreign taxation		
Current taxation on income for the year	564	531
Adjustments in respect of previous periods	(276)	2,421
Current tax charge/(credit) on result for the year	2,345	1,131
Deferred tax (note 16)		
Effect of decreased tax rate on opening liability	5	-
Adjustments in respect of previous periods	-	(20)
Deferred tax charge/(credit) for the year	(40)	(418)
	(35)	(438)
Tax charge on profit on ordinary activities	2,310	693
Non-technical account - analysis of charge:		
UK Corporation tax at 19.25% (2016: 20%)		
Current taxation on income for the year	24	68
Tax charge attributable to balance on long term business technical account	2,310	693
Tax on profit on ordinary activities	2,334	761
Factors affecting the taxation charge for the year		
Non-technical account		
Profit on ordinary activities before taxation	9,438	7.562
Profit on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK of 19.25% (2016: 20%)	1,817	1,512
Effect of:		
Adjustments in respect of CT rate difference	5	-
Deferred tax rate differential arising in overseas branches	-	-
Permanent differences	(132)	(91)
Net overseas tax	170	133
Tax expense relating to prior periods	474	(794)
Total taxation charge for the year	2,334	761

A reduction in the UK corporation tax rate from 20% to 19% will take effect from 1 April 2017.

10 Dividends

No dividends were paid during the year (2016: nil). The directors do not propose the payment of a dividend.

11 Other financial investments

	Market value 2017 £'000	Cost 2017 £'000	Market value 2016 £'000	Cost 2016 £'000
Debt securities and other fixed interest securities	51,527	45,887	87,627	76,341
	51,527	45,887	87,627	76,341

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

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)

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 presentation of disclosures about financial instruments for financial institutions.

An analysis of financial instruments at 31 December 2017 by fair value hierarchy is set out below:

	Level 1 £'000	**Level 2** £'000	**Level 3** £'000	**Total** £'000
Debt securities and other fixed interest securities	**125**	**51,402**	**-**	**51,527**
Total assets at fair value	**125**	**51,402**	**-**	**51,527**

An analysis of financial instruments at 31 December 2016 by fair value hierarchy is set out below:

	Level 1 £'000	**Level 2** £'000	**Level 3** £'000	**Total** £'000
Debt securities and other fixed interest securities	**10,660**	**76,967**	**-**	**87,627**
Total assets at fair value	**10,660**	**76,967**	**-**	**87,627**

'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.

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

12 Debtors arising out of reinsurance operations

	2017 £'000	2016 £'000
Amounts due from other reinsurers	1,226	3,055
Amounts due from group undertakings	5,313	1,970
	6,539	5,025

13 Other debtors

	2017 £'000	2016 £'000
Other debtors	2,672	3,833
	2,672	3,833

14 Called up share capital

	2017 £'000	2016 £'000
Allotted, issued and fully paid:		
5,375,001 (2016:5,375,001) Ordinary £1 shares	5,375	5,375

15 Long-term technical provision

Methodology
The long term technical provision is calculated on a Solvency II basis to maintain a consistent approach with the solvency reporting requirement. The long term technical provision is the sum of the Best Estimate Liabilities (BEL) and the Risk Margin.

For the long term business written (business of term greater than one year), the BEL is calculated using best estimate assumptions and is calculated gross without any deduction of the amount recoverable from reinsurance contracts, which are subject to separate calculations. The BEL is determined by projecting separately each policy in force, for each future year, the expected amount of income and outgo in that year gross of reinsurance, allowing for premiums paid, expenses, commissions and any insured benefits. The total outgo less income in each year is discounted to the valuation date to give the BEL.

The BEL may be negative in the early years for some products (and may turn positive later on). It should be noted that any negative reserves arising on product/sponsor level as a result of the valuation method adopted at this year-end is allowed for under Solvency II.

For short-term policies such as the yearly renewable term (YRT) , credit and group life, the reserve held is the sum of:

- an unearned premium reserve (UPR); and
- an incurred but not reported claims reserve (IBNR)

The risk margin is calculated as the cost to a reference undertaking of holding an amount of funds equal to the Solvency Capital Requirement necessary to support the insurance contracts over their life time. As part of this calculation, it is assumed that all market risk is hedgeable.

As specified by EIOPA's guidelines, AELL uses a series of risk drivers to project the run-off of each non-hedgeable component of the initial capital requirement over the lifetime of the existing business in order to calculate the risk margin. Expert judgement has been applied in determining appropriate risk drivers which adequately reflect the expected run-off of each of the underlying risks covered by the capital requirement.

Principal Assumptions
Assumptions are set initially by reference to the Company's pricing assumptions. Regular experience studies are carried out on product lines with sufficient credible data to ensure that actual experience is in line with expectations. No prudent margins are added to the best estimate basis to form the overall assumptions used for valuing the long term business provisions The basis is continually reviewed and discussed with the Chief Actuary prior to being submitted to the Board for approval.
In line with the Solvency II directive, all liability cashflows are discounted using term-dependent discount rates as published by EIOPA. These discount rates are derived from the swap rates prevalent in the relevant markets, with a mathematical extrapolation carried out for risk-free discount rates beyond the tenors at which swap markets cease to be deep and liquid.

15 Long-term technical provision (continued)

The principal assumptions used for the calculation of the long term technical provisions for the most material long term business products are as follows:

TAF		**Assumptions in 2017**	**Assumptions in 2016**
Mortality :	Male non smoker	38.25% GBMNS0005	45% GBMNS0005
	Female non smoker	38.25% GBFNS0005	45% GBFNS0005
	Male smoker	38.25% GBMS0005	45% GBMS0005
	Female smoker	38.25% GBFS0005	45% GBFS0005
Lapse Rate (%pa) : (Level Term)	Year 1	2.56%	2.56%
	Year 2	2.0%	2.0%
	Year 3	2.67%	2.67%
	Year 4 +	2.22% – 5.67%	2.22 – 6.11%
Lapse Rate (%pa) : (Decreasing Term)	Year 1	1.44%	1.44%
	Year 2	1.43%	1.33%
	Year 3	2.12%	1.90%
	Year 4 +	1.33% – 4.67%	1.33 – 5.0%
Valuation interest rate (Euro cash flows) :	2017: Term dependent rates		2016: Term dependent rates

CICA UK Whole of Life		**Assumptions in 2017**	**Assumptions in 2016**
Mortality:	Male	95% of AMC00	125% of AMC00
	Female	95% of AMC00	125% of AMC00
Lapse Rates:		0%	0%

UIB Return of Premium		**Assumptions in 2017**	**Assumptions in 2016**
Mortality :	Sum assured <=£10,000		
	Male non smoker	75% RGA GA MNS	75% RGA GA MNS
	Female non smoker	75% RGA GA FNS	75% RGA GA FNS
	Male smoker	75% RGA GA MS	75% RGA GA MS
	Female smoker	75% RGA GA FS	75% RGA GA FS
	Sum assured > £10,000		
	Male non smoker	125% RGA GA MNS	
	Female non smoker	125% RGA GA FNS	
	Male smoker	125% RGA GA MS	
	Female smoker	125% RGA GA MS	
Lapse Rate (%pa) :	Year 1	33.0%	31.1%
	Year 2	14.4%	14.4%
	Year 3	9.7%	8.9%
	Year 4	6.6%	5.6%
	Years 5-8	5.6%	5.6%
	Years 9-11	4.4%	4.4%
	Years 12-14	2.2%	2.2%
	Years 15+	0.5%	0.5%
Valuation interest rate	2017: Term dependent rates		2016: Term dependent rates

For the Return of Premium product the persistency assumption is dependent on term, the rates shown are based on the average term (20 years).

The UPR is calculated based on the premium frequency and follows a pro-rata temporis methodology based on the earned pattern and timing of booking.

15 Long-term technical provision (continued)
Sensitivity of provision to changes in significant assumptions

The IBNR methodology differs between the following two groups of short-term business. For business other than Norwegian group business, the IBNR is based on the pricing loss ratio and the average notification delays. For Norwegian group business for underwriting years 2013, 2014, 2015 and 2016, the IBNR is based on the difference between the expected claims based on pricing loss ratios and any claims reported for these underwriting years. The IBNR for earlier underwriting years are based on IBNR tail factors recommended by the reinsurer which are based on paid development ratios observed on other larger portfolios in Norway.

For long term business, the most significant assumptions are interest rates, mortality rates and lapse rates.

A decrease in interest rates will increase both the BEL and the risk margin. For example a decrease of valuation interest rates by 0.7% will increase the BEL by approximately 8% and the risk margin by approximately 3%. The solvency capital requirement will also change when interest rates change, leading to an additional movement in the risk margin, the direction of which is determined by the inherent risk.

If higher mortality rates were assumed, the BEL will increase. For example, an increase in mortality rates by 15% would result in a gross BEL increase by approximately 58%. The risk margin is positively correlated with the solvency capital requirement, which will change when assumptions change, the direction of which is determined by the inherent risk.

If higher persistency rates were assumed, the BEL will increase. For example, a reduction in lapse rates by 50% would result in a gross BEL increase by approximately 35%. The risk margin is positively correlated with the solvency capital requirement, which will change when assumptions change, the direction of which is determined by the inherent risk.

16 Provisions for other risks and charges / deferred taxation

	Deferred tax £'000	**Total £'000**
At 1 January 2017	211	211
Effect of decreased tax rate on opening liability	5	5
Deferred tax charge for prior period adjustment	-	-
Utilised in the year	(40)	(40)
Foreign exchange movement	-	-
At 31 December 2017	176	176

Deferred tax

	2017 £'000	2016 £'000
Deferred tax		
At 1 January	211	649
Movement in the year	(35)	(438)
Foreign Exchange in the year	-	-
At 31 December	176	211

The provision for deferred tax in the financial statements is as follows:

	2017 £'000	2016 £'000
Deferred acquisition costs	-	-
Total transitional differences	176	211
Deferred tax liability	176	211

17 Creditors arising out of reinsurance operations

	2017 £'000	2016 £'000
Amounts due to other reinsurers	522	3,874
Amounts due to group undertaking	6,360	38,511
	6,882	42,385

18 Other creditors including taxation and social security

	2017 £'000	2016 (restated) £'000
Amounts payable to group undertakings	514	1,834
Other creditors	1,140	375
	1,654	2,209

19 Reconciliation of insurance balances

The reconciliation of opening and closing long term business provision is as follows:

	Gross		Reinsurers' share	
	2017 £'000	2016 (restated) £'000	2017 £'000	2016 (restated) £'000
At 1 January	118,603	91,697	106,225	56,856
Movement in provision	(36,403)	24,366	(30,223)	45,035
Foreign exchange movements	2,438	2,540	1,873	4,334
At 31 December	84,638	118,603	77,875	106,225

The reconciliation of opening and closing claims outstanding is as follows:

	Gross		Reinsurers' share	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
At 1 January	4,535	3,865	2,889	2,506
Movement in provision	745	93	1,135	(48)
Foreign exchange movements	53	577	35	431
At 31 December	5,333	4,535	4,059	2,889

20 Capital commitments

No capital expenditure was authorised at 31 December 2017 which has not been provided for in these financial statements (2016: nil).

21 Transactions with related parties

During the year, there were no material transactions or balances between AELL 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 provided in FRS 102 from disclosing details of transactions with Chubb Limited and its wholly owned subsidiary undertakings as required by that standard.

22 Subsequent events

There have been no material subsequent events which require disclosure in the financial statements.

23 Ultimate Parent undertaking
The Company changed its immediate parent undertaking from Chubb Tempest Life Reinsurance Limited to Chubb Tempest Reinsurance Limited during 2017. As a result of this transfer the AELL transferred its reinsurance operations from Chubb Tempest Life Reinsurance Limited to Chubb Tempest Reinsurance Limited.

The Company is a wholly owned subsidiary of Chubb Tempest Reinsurance Limited ("immediate parent"), a Company registered in Bermuda.

The ultimate parent Company is Chubb Limited, a Company registered in Zurich, Switzerland. Chubb Limited's headquarters are in Zurich, Switzerland and quoted on the New York Stock Exchange. Copies of the consolidated financial statements of the immediate parent and of the ultimate parent companies can be obtained from Investor Relations at ACE Global Headquarters, 17 Woodbourne Avenue, Hamilton HM 08, Bermuda.