

ACE Europe Life SE
Solvency and Financial Condition Report
31 December 2019

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Summary and Introduction

Introduction

This document (“the Solvency and Financial Condition Report”, or “SFCR”) sets out the solvency and financial condition of ACE Europe Life SE (“AEL” or “the company”) as at 31 December 2019.

The Board of AEL has prepared this report in accordance with Article 51 of Directive 2009/138/EC (“The Solvency II Directive”), Commission Delegated Regulation (EU) 2015/35 and the European Insurance and Occupational Pensions Authority (“EIOPA”) guidelines on Reporting and Disclosure. On 1 January 2019 AEL successfully redomiciled from the UK to France and now operates under the supervision of the French regulator, the Autorité de Contrôle Prudentiel et de Résolution (“ACPR”). This is the first SFCR the company has prepared since being domiciled in France.

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

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

Figures are stated to the nearest €000 in SFCR Quantitative Reporting Templates (“QRTs”). Figures reported for the prior year have been restated from sterling, as reported in the 2018 SFCR, to euro.

Business and Performance Summary

AEL is a French regulated life insurance entity authorised to carry out long term insurance business. AEL is a wholly owned subsidiary of Chubb Tempest Reinsurance Ltd (“CTR”), based in Bermuda.

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

AEL has a shared services agreement with a regional affiliated company Chubb Services UK Limited (“CSUK”) which during 2019 capped the annual expenses of the business arising from shared service provision. AEL writes a combination of long and short term protection business across European countries, mainly health insurance, other life insurance and life reinsurance, with the largest blocks of business written in the United Kingdom, Sweden and the Netherlands.

The key drivers of AEL’s future underwriting performance are mortality and persistency experience. In the year to 31 December 2019 the company produced an underwriting profit of €445k. The aim of AEL’s investment strategy is to match technical provisions by currency and duration with government bonds and low risk corporate bonds. Total investment return for the year ended 31 December was a profit of €7,078k.

In the year ended 31 December 2019, the company produced a profit after tax of €4,757k on a UK GAAP basis. Own funds for Solvency II purposes were €69,207k.

On a French GAAP basis, the company produced a profit before tax of €5,454k. Investment performance generated a French GAAP investment income of € 1,4 million.

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

System of Governance Summary

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

The Company has a number of formal committees and sub-committees, described in section B1.1 of this document, which provide oversight over the Company's business units and functions. The heads of the regional functions report to the Regional President, Europe ("President") (except the Actuarial function which reports to the Senior Vice President, Chubb Life EMEA). The AEL Managing Director reports to the President and also, via a matrix structure, to the Life segment of the Chubb group of companies.

The Senior Managers & Certification Regime ("SMCR") came into force 10 December 2018 and applied to the Company as an entity from 10 December 2018 to 31 December 2018. Following the redomicile to France on 1 January 2019, SMCR applied only to the UK branch of the Company as the UK branch is regulated by the FCA. Prior to the SMCR, AEL was subject to the Senior Insurance Managers Regime ("SIMR"). There is currently no French equivalent of SMCR, however AEL has identified persons that effectively run the Company and holders of key functions in accordance with the ACPR's Fit & Proper requirements.

The Board has approved a number of policies, under which responsibilities which govern how certain key areas of the business, and the risks inherent to them, are controlled and reported.

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

AEL has a formal Own Risk and Solvency Assessment ("ORSA") process which sets out the list of activities that AEL undertakes in order to conduct a risk and solvency assessment. ORSA activities include business planning, strategy, risk profile, risk mitigation & tolerance, stress & scenario analysis, forward capital assessment, monitoring & tracking, and governance.

The ORSA is an integral part of the overall risk management framework and is a process which is conducted throughout the year to support the normal running of business within the company.

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

The Board believes these governance arrangements, as detailed in section B1.1, to be appropriate to and effective for the operations that AEL carries out.

Risk Profile Summary

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

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

The redomicile to France has not materially changed the risk profile.

Valuation for Solvency Purposes Summary

AEL performs annual experience investigations to validate the assumptions used for the valuation for Solvency II. Following the experience investigations performed in the period, AEL has made the following changes to assumptions to be more aligned to experience, the most significant one being an increase in the mortality assumptions for UIB ROP business.

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

Capital Management Summary

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

As at 31 December 2019	2019	2018
Own Funds (€'000)	69,207	58,392
Standard Formula SCR(€'000)	25,809	22,521
Solvency ratio %	268,15%	259%
Standard Formula MCR(€'000)	6,452	5,630
MCR ratio %	1,072%	1,037%

As well as benefitting from the support of Chubb Limited, the company has substantial financial resources in its own right. Even after allowing for the prudent standard formula capital requirement, the company has a surplus of €43.3m.

The SCR of the company shown above for 2019 has increased by 15% since 2018. This occurred primarily due to an increase in the market value of assets by €6.64m.

As a consequence of the increases in the SCR and Own funds the company's solvency ratios have improved in the year.

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

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

The company's own funds are comprised entirely of Tier 1 capital and totalled €69,207k as at 31 December 2019. There have been no changes to the nature of the items of the company's own funds during the year. The company's own funds are eligible to meet the Solvency Capital Requirements ("SCR") and Minimum Capital Requirement ("MCR"). Furthermore, all other Tier 1 capital is permanently available to cover losses.

Directors' Report

Directors

The following have been Directors from 1 January 2019 to the date of this report unless otherwise indicated:

Executive Directors:

V M J M Brionne (appointed 1 January 2019)

I Moffatt

Non-Executive Directors:

J A Turner (Chairman)

A P Clifford (appointed 1 January 2019)

M A Connole (appointed 1 January 2019)

A M Donselaar

D M A Furby

M K Hammond

Statement of Directors' Responsibilities

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

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

Approval of the Solvency and Financial Condition Report

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the Solvency II Regulatory Framework.

We are satisfied that:

- a) throughout the financial year in question, AEL has complied in all material respects with the requirements of the Regulatory Framework applicable to the company; and
- b) it is reasonable to believe that AEL has continued so to comply subsequently and will continue so to comply in future.

On Behalf of the Board

Ian Moffatt

Executive Director

6 April 2020

A. Business and Performance

A.1 Business

A.1.1 Name and Legal Form

AEL is a regulated life insurance entity authorised to carry out long term insurance business and is a wholly owned subsidiary of Chubb Tempest Reinsurance Ltd (“CTR”), based in Bermuda.

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

On 1 January 2019, AEL redomiciled from the UK to France and now operates under the supervision of the ACPR. The Company can be found in the ACPR’s published register of insurers and has its registered offices at La Tour Carpe Diem, 31 Place des Corolles, Esplanade Nord, 92400, Courbevoie, France. The UK branch of the Company is based at 100 Leadenhall Street, London EC3A 3BP and continues to be subject to limited regulation by the Financial Conduct Authority (“FCA”).

The company has branch offices across Europe and AEL and its European Economic Area (“EEA”) branches hold cross-border permissions throughout the EEA. AEL engaged the services of CSUK and Chubb European Group SE (“CEG”) for various operational functions (including the overall management of the life operations, product design and pricing and monitoring of underwriting and claims through the use of shared service provisions). This has enabled AEL to benefit from CEG’s direct marketing and broker distribution experience.

A.1.2 Supervisory Authority

From 1 January 2019, AEL is supervised by the *Autorité de contrôle prudentiel et de résolution* i.e. French Prudential Supervision and Resolution Authority (“ACPR”). The ACPR address is 4 Place de Budapest CS 92459, 75436 Paris, France. The UK operations of the Company is run through a UK branch which continues to be subject to limited regulation by the FCA. Prior to 1 January 2019, the Company was authorised by the UK’s PRA and regulated by both the FCA and the PRA.

A.1.3 Group Supervisory Authority

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

AEL is 99.99% owned by CTR. with one share held by Chubb Group Management and Holdings Ltd. The ultimate parent of AEL is Chubb Limited.

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

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

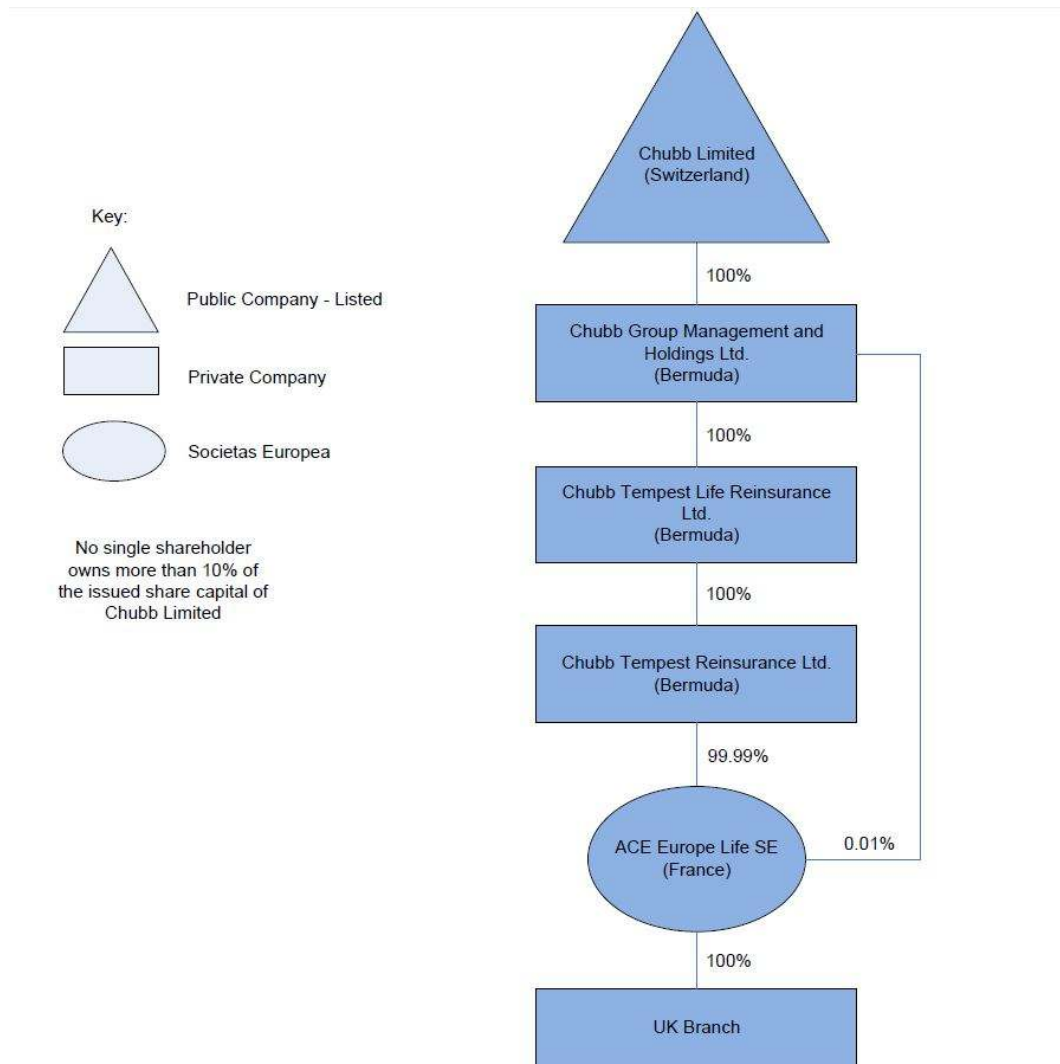
A.1.4 External Auditor

The Company’s Auditor is PricewaterhouseCoopers Audit, Chartered Accountants and Statutory Auditors with registered office at 63 rue de Villiers, 92208 Neuilly-sur-Seine Cedex.

A.1.5 Position within the Legal Structure of the Chubb Group

On 1 January 2019, AEL redomiciled from the UK to France.

The current group structure as at 31 December 2019 is summarised in the simplified chart below:



A.1.6 Material Related Undertakings

As at 31 December 2019, the company had no material related undertakings.

A.1.7 Material Lines of Business and Geographical Areas

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

A.1.8 Significant Business Events

Following its withdrawal from the EU on 31 January 2020, the UK has now entered a 'transition period' whereby it will effectively remain in the EU customs union and single market until 31 December 2020. During this period potential trade deals and agreements on a number of other key issues including law enforcement, data sharing and security will be negotiated.

As a French company, AEL will benefit from the UK's transition period for inbound passporting EEA firms until its expiry and the UK government's temporary permissions regime due to commence 1 January 2021. After that time and if required, Chubb intends to seek regulatory authorisation of the UK branches of its French companies, including AEL.

A.1.9 Coronavirus

During the first quarter of 2020, worldwide social and economic activity became severely impacted by the spread and threat of the novel coronavirus (COVID-19). The Company is taking actions to minimize risk to our employees, including restricting travel and instituting extensive work from home protocols. We seek to minimize any disruption to our clients and operations while ensuring the safety of our employees. The Company is unable to estimate the amount of losses, if any at this time. However, the Company anticipates that these events could adversely impact 2020 financial statements due to incurrence of losses and the impact of economic slowdown.

In view of this the directors have considered the impacts of Covid-19 on the Company and have concluded that, as at the date on which these regulatory returns are signed the Company is in a strong position to respond to the impacts of Covid-19 and support its policy holders and business partners. Despite the volatility in financial markets caused by the pandemic and its impact on investment valuations the Company maintains a strong balance sheet and continues to be more than adequately capitalised. The Company expects that any claims arising from the pandemic to be within appetite and manageable.

A.2 Underwriting Performance

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

The following financial key performance indicators (“KPIs”) have been deemed relevant to the company’s business. These KPIs are reviewed regularly by the AEL Audit & Risk Committee and Board.

KPIs	2019	2018
Gross written premiums (€’000)	34,276	33,305
Profit/(loss) after taxation (€’000)	4,757	189
Number of policies in force (000)	172,481	183,743

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

The company’s underwriting performance by Solvency II line of business, for the year ended 31 December 2019 is summarised in the table below:

SII Line of Business :	Gross written premiums €’000	Net earned premium €’000	Underwriting profit €’000	Gross written premiums €’000	Net earned premium €’000	Underwriting profit €’000
	2019	2019	2019	2018	2018	2018
Other life insurance	32,854	1,737	606	31,750	1,783	(228)
Health insurance	1,367	801	476	1,283	1,068	874
Life reinsurance	55	55	(637)	273	273	(308)
Total	34,276	2,593	445	33,305	3,124	338

A large part of the company’s income is derived from Continental Europe. During 2019 AEL did not enter into any new business and therefore the overall written premium shows little change between 2018 and 2019. The company’s KPI summary for its top countries (i.e. six of the nine countries AEL operates in), for the year ended 31 December 2019 is summarized in the table below.

Regions:	Gross written premiums €’000	Net earned premium €’000	Underwriting profit €’000
	2019	2019	2019
United Kingdom	5,439	1,025	-910
Netherlands	22,100	121	521
Sweden	3,000	257	339
Spain	1,980	912	468
Finland	571	147	158
France	559	24	-131
Total	33,649	2,486	445

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

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

Overall Performance

In the year to 31 December 2019 the company produced an underwriting profit of €445k.

In the year ended 31 December 2019, the company produced a surplus of €4,757k on a UK GAAP basis. Own funds for Solvency II purposes were €69,207k.

A.3 Investment Performance

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

In 2019, AEL maintained an investment grade Sterling bond portfolio. AEL maintained a consistent strategy throughout the year to target a balance between achieving adequate investment returns and a reasonable match to the company's technical liabilities and reserves.

The Sterling portfolio generated total returns of 11% for the year reflecting falling yields for intermediate and longer dated Sterling fixed income during the year.

The company's investment income by Solvency II assets class and expenses for the year ended 31 December 2019 is summarised in the table below:

SII asset class:	Income	Realised Gain/(Loss)	Unrealised Gain/(Loss)	Other	Total Return	Income	Realised Gain/(Loss)	Unrealised Gain/(Loss)	Other	Total Return
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
SII asset class:	2019	2019	2019	2019	2019	2018	2018	2018	2018	2018

Investment income by asset class:										
1	Government bonds	961	314	3,573		4,449	922	(30)	(884)	9
2	Corporate bonds	1,043	-11	1,277		2,309	885	(171)	(1,302)	(588)
4	Collective investment undertakings	2				2	1			1
6	Collateralised securities						1		1	
7	Cash and deposits	1				1			(3)	(2)
	Investment expenses				(82)	(82)			(71)	(71)
	Total investment return	2,007	303	4,850	(82)	7,078	1,810	(201)	(2,187)	(651)

Investment markets performed strongly in 2019 and all asset classes held by AEL generated strong total returns. Total investment return for the year ended 31 December 2019 was €7,078k compared to €(651)k in 2018, driven by unrealised gains.

Investment income was €2,007k, comparable to €1,810k in 2018. Realised gains of €303k in 2019 compared to realised losses of €(201)k in 2018. 2019 saw unrealised gains of €4,850k compared to unrealised losses of €(2,187)k in 2018.

The investment expenses are shown in total as they all relate to investment management fees.

There were no gains or losses recognised directly in equity. All changes to financial instruments are reflected directly in the income statement.

AEL does not hold investments in securitisations.

A.4 Performance of Other Activities

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

A.5 Other Information

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

B. System of Governance

B.1 General Information on the System of Governance

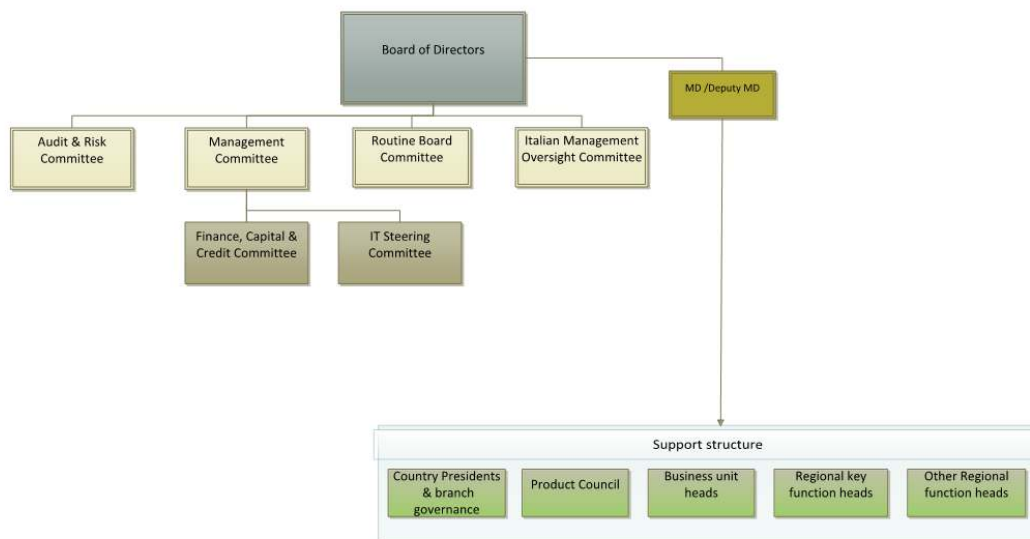
B.1.1 Board and Committees

The Board of Directors (“the Board”) has reserved 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. As at 31 December 2019, the Board membership comprised six Non-Executive Directors (“NEDs”) and two Executive Directors (the Managing Director and Deputy Managing Director).

The Audit & Risk Committee is composed of NEDs and reports to the Board regularly in respect of its remit.

On 1 January 2019, AEL redomiciled from the UK to France. The Company now operates under the supervision of and complies with the requirements of the French regulator, ACPR. The UK branch of the Company continues to be subject to limited regulation by the FCA. A Management Responsibility Map is maintained for the UK Branch in line with requirements of the FCA.

The Board has delegated a number of matters to committees. As at 31 December 2019, AEL’s governance structure is as follows:



The remainder of this section describes those committees which operated during 2019 and subsequent changes:

Management Committee

The Management Committee comprises of the Managing Director (“MD”) of AEL and other members of the company’s senior management team. The primary role of the Committee is to oversee the day-to-day management of business operations and their performance, and to assist the MD in implementing and overseeing operational strategies and decisions determined by the Board. The Management Committee is responsible for the embedding of risk management and monitoring control of risk; prioritising the allocation of resources; monitoring competitive forces and measuring management effectiveness.

Audit & Risk Committee¹

With effect from 1st January 2019, the Audit Committee and Risk Committees were combined to become one Committee known as the Audit & Risk Committee, composed of Non-Executive Directors. The level of oversight of the Company remains unchanged.

The Audit & Risk Committee, 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, risk, actuarial and finance functions and internal audit on a quarterly basis. From a risk perspective the Committee also considers risk exposures, future risk strategy, the design and implementation of the risk framework into the business, solvency and capital matters, the ORSA and internal controls, and where appropriate makes recommendations to the Board.

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

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

The Committee's role is aimed at providing assurance to the Board and Group management that the internal control systems, agreed by management as being appropriate for the prudent management of the business, are operating as designed.

At all times the Audit & Risk Committee is expected to challenge any aspect of these processes which it considers weak or poor practice.

Routine Board Committee

Prior to 1 January 2020 the Routine Board Committee was known as the Brexit Committee. It meets on an ad hoc basis between formal Board meetings and was initially established to consider and approve matters relating to the company's Brexit planning. In December 2019 the Board agreed to amend the remit of this Committee to deal with business issues of an administrative or routine nature where documentation of approval is required in between quarterly Board and Audit & Risk Committee meetings and for it to be renamed the Routine Board Committee.

Italian Management Oversight Committee

The Board established the Italian Management Oversight Committee in 2006 to oversee specific financial crime risks in Italy to comply with local regulatory requirements. The regulations require that this be renewed every three years and in December 2019, the Board approved the updated terms of reference for this committee until 2022.

B.1.2 Roles and Responsibilities of Key Functions

Internal Audit Function

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

Compliance Function

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

Risk Management Function

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

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

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

Actuarial Function

From 1 January 2019, in line with the ACPR requirements, the Head of the Actuarial function was brought in-house and resides within the Company's own Actuarial team. The function seeks accurately to assess the reserves required to satisfy known and estimated claims and claim expenses, providing a view of reserve adequacy independent of business line management. The function contributes to reserving, pricing, planning, ceded reinsurance analysis, business intelligence and regulatory reporting. It provides reports to the Audit & Risk Committee.

B.1.3 Roles and Responsibilities of Other Important Functions

Finance & Investment Functions

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

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

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

Claims Function

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

IT Function

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

Operations Function

The Operations function supports business and functional objectives via design and operation of underwriting, customer service, financial and other operating systems throughout the region in which the Company operates. The function incorporates a project management team.

Human Resources Function

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

Reinsurance

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

All function management heads are responsible for AEL's operations wherever geographically located. Risks, performance and controls are assessed centrally and functions' standards and procedures apply to branch operations in all countries of operation. Significant information is provided to the Management Committee via the Managing Director, who chairs the Management Committee, or via his reporting line to the Regional President.

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

With effect from 1 January 2019 the Audit Committee and Risk Committee became one committee known as the Audit & Risk Committee, composed of NEDs. The Brexit Committee became the Routine Board Committee and the status of the IT Steering Committee changed from a working group to a sub-committee reporting into the Management Committee from 1 January 2020. In addition the Italian Management Oversight Committee was renewed for a further three years to 2022.

B.1.5 Remuneration Policies and Practices

B.1.5.1 Principles of the Remuneration Policy

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

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

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

- Remuneration must be consistent with and promote sound and effective risk management in accordance with AEL's Risk Management Framework and not encourage risk-taking that exceeds the level of tolerated risk of AEL;

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

Fixed Remuneration

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

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

Variable Remuneration

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

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

- Remuneration schemes which include fixed and variable components shall be appropriately balanced so that the fixed (or guaranteed) component represents a high proportion of the total remuneration;
- The payment of equity-based variable remuneration should vest over a period of time which will help prevent employees taking excessive risks that could have negative effect upon the company and/or customers. This period is to be decided during the approval process to take into account all of the relevant factors and risks related to the specific situation; and
- Performance-related variable remuneration should be based upon a combination of performance measures including, but not limited to, the following:
 - Financial benefit to the company;
 - Quality of employee performance (in terms of how things are achieved as well as what is achieved), Board adopted policies and procedures and protocols including adherence to Chubb's risk management arrangements.

Termination Payments

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

Pensions

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

B.1.5.2 Performance Criteria

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

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

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

The PMPs also include the following features:

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

B.1.5.3 Pension or Early Retirement Schemes

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

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

Shareholders

There were no transactions with shareholders who were not members of key management (Executive Committee, Executive Directors and NEDs) in 2019.

Key Management

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

Material transactions	2019	2018
	€'000	€'000
Aggregate emoluments and benefits	3,239	2,494
Company pension contributions to money purchase pension schemes	44	20
Total	3,283	2,514

The aggregate emoluments above do not include share based remuneration. All executive directors are entitled to shares in Chubb Limited under long-term incentive plans. During the year, seven directors received shares

in Chubb Limited under long-term incentive plans and two directors exercised options over the shares of Chubb Limited.

B.2 Fit and Proper Requirements

B.2.1 Specific Fit and Proper Requirements

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

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

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

- a) insurance and financial markets;
- b) business strategy and business model;
- c) system of governance;
- d) financial and actuarial analysis; and
- e) regulatory framework and requirements.

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

- An individual's competence and capability to undertake the role, including professional and formal qualifications, as well as knowledge and relevant experience in the context of the respective duties allocated to that individual;
- Whether the person has sufficient qualifications and/or industry experience to carry out the intended functions; for example the financial, accounting, actuarial and management qualifications and skills;
- Whether the person satisfies the relevant regulator's training and competence requirements;
- Whether the person has demonstrated, by experience and training, that they are suitable to perform the role and possess the necessary skills, knowledge, expertise, diligence and soundness of judgment to undertake and fulfil the particular duties and responsibilities of the particular role;
- Regulatory referencing (where permitted);

- Whether the person has demonstrated the appropriate competence and integrity in fulfilling occupational, managerial or professional responsibilities previously or in their current role;
- Whether an individual acts with honesty, integrity and be of good repute; has been convicted of, dismissed or suspended from employment for drug or alcohol abuses or other acts that would constitute a breach of Conduct Rules, and whether this would impact a person's continuing ability to perform the particular role for which the person is or is to be employed; and
- Whether the person has any potential conflicts of interests.

Human Resources is responsible for conducting Fit and Proper assessments in accordance with Chubb's Fit and Proper Policy and for giving assurance to management that the persons in scope of the policy are Fit and Proper to carry out their roles. Human Resources are also responsible for ensuring that there is a documented and up to date Fit and Proper Procedure in place.

B.2.2 Assessment Process

An individual's Fitness and Propriety is defined as equating to their suitability to oversee, manage or perform their regulated role. The effective assessment of individuals holding such roles may include, but is not limited to, the following:

Pre-appointment:

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

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

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

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

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

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

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

B.3.1 Risk Management Framework at AEL

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

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

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

The achievement of AEL's overall high level business goals requires adherence to a structured ERM programme and strategy. The above ERM mission statement outlines the goals which AEL seeks to accomplish through ERM.

The global ERM framework has the following components:

- **Internal and external risks:** Identify, analyse, quantify, and where possible, mitigate significant internal and external risks that could materially hamper financial conditions and/ or the achievement of corporate business objectives over the next 36 months.
- **Exposure accumulations:** Identify and quantify the accumulation of exposure to individual counterparties, products or industry sectors, particularly those that materially extend across or correlate between different units or division and/or the balance sheet.
- **Risk modelling:** Develop and use various data-sets, analytical tools, metrics and processes (including economic capital models and advanced analytics) that help CEGSE make informed underwriting, portfolio management and risk management decisions within a consistent risk/reward framework.
- **Risk mitigation:** Internal controls operated at all levels of the business to mitigate risks within accepted levels, expressed through corporate policies, processes and procedures.
- **Governance:** Establish and coordinate risk guidelines that reflect the corporate appetite for risk, monitor exposure accumulations relative to established guidelines, and ensure effective internal risk management communication up to management and the Board, down to the various business units and legal entities, and across the firm.
- **Disclosure and reporting:** Develop protocols and processes for risk-related disclosure and reporting internally as well as externally to rating agencies, regulators and shareholders.

The company classifies individual risk sources across its landscape into four major reporting categories: Insurance, Financial, Operational and Strategic. Insurance is the company's primary risk category; the three

other risk categories present the remaining exposures. These risk reporting categories cover all risk types to which the company is exposed.

A Risk & Control Register is maintained on an on-going basis for AEL. The Risk & Control Register sets out the risks facing AEL, with details on the causes of the risks, consequences of the risks, risk owner, alongside the inherent and residual risk rating. Each risk included within the Risk & Control Register sets out the controls which are in place to mitigate the risk, including how the control is expected to impact the risk (i.e. reducing likelihood of the risk occurring, reducing the severity if the risk materialised or any combination) and the control owner, including a rating on the design and operational effectiveness of the control. Risk and control owners are required to conduct assessments on a regular basis.

B.3.2 Risk Governance

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

- **First Line:** Management and staff in the First Line of defence have direct responsibility for the management and control of risk (i.e. staff and management working within or managing operational business units and functions).
- **Second Line:** The coordination, facilitation and oversight of the effectiveness and integrity of the risk management framework and compliance monitoring (see section B.1.2 for risk management and compliance functions).
- **Third Line:** Independent assurance and challenge is applied across all business functions in respect of the integrity and effectiveness of the risk management framework (i.e. internal and external audit).

From 1 January 2019 the Risk Management Function reports to the Management Committee, Audit & Risk Committee and Board with sufficient oversight of the ERM framework and risk exposures, focusing on key risks which are evolving and those which are approaching risk appetite.

B.3.3 ORSA Process

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

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

Summary of the ORSA process



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

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

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

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

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

B.3.4 Understanding how these Risks could Impact the Business

The Risk Management Framework is supported by the stress and scenario testing framework. The stress and scenario testing framework is used to analyse the financial effect of plausible but severe scenarios and the impact on the company's financial position including capital, liquidity and corporate objectives.

The scenarios consider all risk categories and are developed based on the company risk's profile in conjunction with business stakeholders and relevant subject matter experts. The analysis is carried out on an annual basis.

The stress testing carried out throughout 2019 supports the adequacy of the current capital and liquidity positions adopted by the company.

B.4 Internal Control System

B.4.1 Internal Control System

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

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

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

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

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

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

B.4.2 Compliance Function

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

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

The Compliance function comprises 32 members, who operate via a "hub and spoke" model, with specialists (23 who have UK and region-wide responsibilities, and dedicated local Compliance Officers (8) based in offices throughout Continental Europe responsible for compliance activities in a given territory. They support the delivery of the regional Compliance Plan and perform the core compliance activities including compliance monitoring, advising, training and project support for their countries and country clusters.

The London team is organised into the following groups:

- **Compliance Advice Team** which provides advice and guidance to all business units in Europe in relation to their regulatory and compliance obligations. The Advice Team is responsible for developing and overseeing compliance training solutions and works closely with the business and other staff to develop e-learning, topical face-to-face learning modules and briefing sessions.
- **Regulatory Services Teams** which oversees regulatory interactions. It is also responsible for the gathering of Compliance Management Information and formal reporting by the function
- **Compliance Monitoring Team**, which is responsible for monitoring and assessing the adequacy and effectiveness of the measures and procedures in place to comply with regulatory obligations and internal

policies at both local and regional levels. AEL's approach in Europe continues to evolve with the implementation of the Global Business Compliance Frameworks.

- **Financial Crime Team**, which is responsible for assessing the Financial Crime Risk to Chubb and subsequently building and implementing a robust financial crime control framework across Europe, in line with applicable legal and regulatory requirements and Chubb Group standards. Areas covered include sanctions, anti-money laundering & counter terrorist financing, anti-bribery & corruption, non-claims fraud and market abuse.
- **Compliance Policy team** manages and maintains the standards for Compliance policy frameworks and procedural guidelines. The Policy team also monitors trends and developments in the regulatory environment.

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

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

B.5 Internal Audit Function

B.5.1 Internal Audit Function

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

The team is based principally in London, but carries out audits throughout the geographical areas in which AEL operates. Operational and Information Technology teams perform audits and control walkthroughs of AEL’s operations, identifying key risk exposures and assessing the design and effectiveness of risk management, controls, and governance processes for these exposures. Audits encompass the reliability and integrity of management and financial information processes; compliance with significant policies, plans and regulations; governance processes and risk management. In addition to the regional team, the function has access to further resource, skills and capabilities provided by the global internal audit function, and also has access to further technical and subject matter expertise through a global co-source arrangement with an external professional services firm.

The Group Internal Audit Charter, approved by the Audit Committee of Chubb Limited (the ultimate holding company), entitles the function to request and receive any information and/or explanations required to achieve its objectives. The function will have full access to all records, personnel or physical property and, without limitation, information and data held within any systems or databases.

An annual risk assessment is carried out in preparation of an Annual Audit Plan (aligning activity in conjunction with the external auditors and other assurance functions, where relevant) taking account of strategic objectives, risk exposures, and the company’s risk appetites. The Plan is reviewed and approved by the Board following consideration by the Audit & Risk Committee. The Audit & Risk Committee has oversight of the resources needed to complete the plan and regularly reviews progress against plan and management’s implementation of Internal Audit’s recommended remediations.

B.5.2 Independence and Objectivity

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

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

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

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

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

B.6 Actuarial Function

The Actuarial function is a key function. The Chief Actuary, as head of the Actuarial Function, is responsible to the Board, reports functionally and administratively to the Life Regional President, and has an additional reporting line to the Audit Committee. The function is operationally independent from the Risk Management, Compliance and Internal Audit functions. It has unfettered access to information from any part of the business that impacts the risk profile of the company.

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

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

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

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

B.7 Outsourcing

B.7.1 Outsourcing Policy

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

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

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

B.7.2 Activities that Represent Critical or Important Outsourcing

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

Outsourced Function	Provider	Nature of Service	Jurisdiction
Information Technology (“IT”)	CSUK (intra-group)	Provision of IT support & development services	UK
Actuarial	CSUK (intra-group)	Provision of actuarial services	UK
Treasury	CSUK (intra-group)	Provision of treasury services	UK
Compliance	CSUK (intra-group)	Provision of compliance services	UK
Internal Audit	CSUK (intra-group)	Provision of internal audit services	UK
Underwriting Operations	EXL Service Ltd (Noida, Delhi)	Provision of premium processing services	All Europe
Finance	EXL Service Ltd (Noida, Delhi)	Provision of accounts payable services	All Europe
Finance	EXL Service Ltd (Noida, Delhi)	Financial reconciliation	UK&I
Finance	EXL Service Ltd (Noida, Delhi)	Provision of credit control services	UK&I
Finance	EXL Service Ltd (Noida, Delhi)	Provision of transfers and payments services	All Europe
Claims Management	TAF	Provision of claims management services	Netherlands
Policy Administration	TAF	Policy administration	Netherlands
Claims	Van Ameyde	Provision of claims handling services	Norway
Policy Administration	Insurance Management Administrators & Advisors	Policy Administration of Policies	Norway
Treasury	Pacific Investment Management Company	Provision of investment management services	All Europe
Treasury	State Street Bank and Trust Company Contracting party changing from State Street International (Kansas USA) to State Street Banque SA - France.	Provision of investment custody services	France

B.8 Adequacy of System of Governance

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

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

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

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

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

B.9 Any Other Information

The Company's system of governance has been reviewed as the impact of Covid-19 develops and continues to be appropriate and operate effectively utilising Chubb's Business Continuity Plans.

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

C. Risk Profile

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

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

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

Risk	Capital Requirement	
	2019	2018
	€'000	€'000
Underwriting	8,052	6,583
<i>Life</i>	3,752	2,998
<i>Health</i>	4,300	3,585
Counterparty Default	1,18	910
Market	29,446	25,472
Undiversified Basic SCR	38,616	32,964
Operational Risk	1,199	1,333
Undiversified SCR	39,815	34,297
Diversification Credit	14,007	11,777
Total SCR	25,808	22,521

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

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

C.1 Underwriting Risk

C.1.1 Risk Description

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

C.1.2 Risk Measures and Mitigation

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

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

Underwriting risk comprises of 20% the undiversified SCR as at 31 December 2019 compared to 19% as at 31 December 2018.

C.1.2.1 Reinsurance

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

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

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

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

C.1.3 Risk Concentration

The tables below outline the gross written premium by SII line of business and region as at 31 December 2019. There have been no material changes in the risk concentration over the last 12 months.

Gross Written Premium based on SII Line of Business

SII Line of Business:	Gross premiums written €'000	Percentage of total gross written premium
Other life insurance	32 854	95.8%
Health insurance	1 367	4.0%
Life reinsurance	55	0.2%
Total	34,276	100%

Gross Written Premium based on Region

Regions:	Gross written premiums €'000 2019	Percentage of total gross written premium 2019
United Kingdom	5,439	16%
Netherlands	22,100	64%
Sweden	3,000	9%
Spain	1,980	6%
Finland	571	2%
France	559	2%
Others	627	2%
Total	34,276	100%

C.1.4 Risk Sensitivity

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

A 20% increase in the assumed mortality and morbidity rates results in approximately 2.7% reduction in Own Funds and a 0.4% decrease in SCR. In contrast a reduction in lapse rate of 50% in approximately 1.3% reduction in Own Funds and a 1.9% increase in SCR.

C.2 Market Risk

C.2.1 Description

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

C.2.2 Risk Measures and Mitigation

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

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

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

- Investment management agreements have been established. The agreements include specific guidelines for each individual portfolio in order to limit risks arising from duration, currency, liquidity, and credit and counterparty exposures. The managers provide quarterly affirmation of compliance with the guidelines. The investment guidelines include specific limits on exposure to individuals to minimise any concentration risk.
- The investment guidelines include restrictions relating to the maximum weighted average duration of the portfolio. The restriction is stated by reference to the permissible duration variance compared to the customised benchmark index by which the external investment managers' performance is assessed. The benchmarks have been established to provide comparable duration to the insurance liabilities.
- The Solvency Capital Requirement as calculated by the Standard Formula includes an assessment and quantification of the market risk exposure.
- Risk and control assessments are carried out throughout the year by management and staff which are subject to review and challenge by Risk Management for the on-going monitoring of the risk profile of the company.
- Specific targeted risk assessments are carried out throughout the year by Risk Management focussed on particular areas as initiated by the Risk management Function, the Audit & Risk Committee, the Board or the business.
- Where appropriate the company seeks to obtain collateral from counterparties to mitigate the credit risk exposure from insurance activities. At 31 December 2019 the collateral provided to the company totalled €64.3 million (2018: £54.0 million) of which €18.3 million is represented by a Letter of Credit and €45.8 million represented in the form of a Trust from Chubb Tempest Re. There are also two unlimited guarantees from Combined Insurance Company of America in respect of any fines and regulatory penalties that may be imposed.

Market risk represents 74% of the undiversified SCR as at 31 December 2019. This is driven by the currency risk capital requirement .

C.2.3 Prudent Person Principle

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

C.2.4 Risk Concentration

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

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

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

C.2.5 Risk Sensitivity

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

Sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. To illustrate the downside risk within the other financial investments portfolio of €69.0 million at external managers as at 31 December 2019 (2018: €58.7 million), an increase of 100 basis points in interest yields across the portfolio consecutively 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 €10.8 million (2018: €9.0 million) and accordingly decrease total shareholder's funds by €8.7 million (2018: €7.3 million).

Sensitivity analysis for currency risk illustrates how a change in the value of Sterling against other currencies impacts the profit and loss results and balance sheet components. For the profit and loss account, the average euro/sterling rate of €1.129/£1 is down on the prior period (2018:€1.134/£1). Had sterling weakened by 10% against all currencies (primarily the euro) and all other variables remained constant, the profit before tax for the year would have been €0.1m less than the amount reported. For the monetary components of the balance sheet, the year-end rates used to convert euro to sterling have decreased by 8% to €1.103/£1 (2017:€1.134/£1). Assuming sterling had weakened by 10% against all currencies (primarily the euro) and all other variables remained constant, the effect of translating year end foreign branch net assets based on these parameters would have no impact in the current year due to offsetting balance sheet asset / liability amounts denominated in foreign currencies.

C.3 Credit Risk

C.3.1 Risk Description

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

C.3.2 Risk Measures and Mitigation

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

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

Counterparty default risk represents 2.8% of the undiversified SCR as at 31 December 2019, where this considers credit risk exposures within cash at bank, investments and reinsurers. Credit risk exposures associated with investments is considered implicitly within the market risk calculations.

C.3.2.1 Intra-Group Reinsurance Credit Risk Mitigation

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

The company has received a guarantee as collateral for reinsurance recoveries from CTR as at 31 December 2019 which takes the form of a letter of credit.

C.3.3 Risk Concentration

The assets bearing credit risk are:

Asset Category:	Solvency II value €'000	Percentage of total Solvency II value
Investments	70,604	46%
Reinsurance recoverables	66,384	44%
Reinsurance receivables	5,728	4%
Insurance and intermediaries receivables	3,426	2%
Receivables (trade, not insurance)	5,787	4%
Total assets bearing credit risk	151,929	100%

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

Asset Category:	Investments €'000
AAA	519
AA	43,212
A	15,420
BBB	10,583
Below BBB or unrated	0
Total	69,734

The average Standard and Poor's credit rating for reinsurance recoverables and reinsurance receivables is AA as at 31 December 2019. This is unchanged from 31 December 2018.

Where appropriate the company seeks to obtain collateral from counterparties to mitigate the credit risk exposure from insurance activities. At 31 December 2019 the collateral held by the company totalled €64 million, of which €18 million is represented by Letters of Credit.

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

C.3.4 Risk Sensitivity

The company carries out stress tests as part of the ORSA process to test the resilience of AEL's solvency to the material credit risks. AEL carried out stresses on credit rating downgrade of key reinsurance counterparties which results in approximately a 25.2% increase in the SCR. The analysis showed that AEL's solvency position is resilient to credit risk. Sensitivity in respect to credit spread risk is covered in section C.2.5 Risk Sensitivity.

C.4 Liquidity Risk

C.4.1 Risk Description

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

C.4.2 Risk Measures and Mitigation

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

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

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

C.4.3 Risk Concentration

The bulk of AEL's investment portfolio is held in highly liquid instruments. As at 31 December 2019 a significant portion of the company's investment portfolio is held in cash, cash equivalent or highly rated sovereign fixed income securities which provides a material margin over and above planned operating cash flows.

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

C.4.4 Risk Sensitivity

The company carries out stress tests as part of the ORSA process to test the resilience of AEL's liquidity to the material risks. The liquidity test measures potential impact on liquidity in the aftermath of an event . The stress testing carried out throughout 2019 supports the adequacy of the liquidity positions adopted by the company.

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

The EPIFP as at 31 December 2019 is €1,896k

C.5 Operational Risk

C.5.1 Risk Description

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

C.5.2 Risk Measures and Mitigation

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

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

Operational risk represents 3.0% the undiversified SCR as at 31 December 2019.

C.5.3 Risk Concentration

There are no risk concentrations in respect of operational risk.

C.5.4 Risk Sensitivity

Operational risk is assessed through the ORSA process. The stress testing carried out throughout 2019, which includes a number of operational risk events, supports the adequacy of the current capital and liquidity positions adopted by the company in the event of adverse operational events.

C.6 Other Material Risks

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

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

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

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

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

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

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

C.7 Any Other Information

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

C.8 Material Risk Exposures

Material risk exposures are monitored continuously by the Risk Management function. Exposures are reviewed in the following areas:

- Investment exposures, by sector, asset type, country and top 11 corporate investment holdings
- Underwriting exposures, by product line, region, external reinsurers and top 10 intermediaries
- Underwriting Catastrophe exposures
- Reserve exposures

As at 31 December 2019, there were no material risk exposures anticipated over the business planning horizon over and above the risks described in Sections C.1 to C.7.

With regard to developments around COVID-19, we note that as part of Chubb's annual planning process, Chubb conducts scenario analysis for major stress events such as a pandemic. We employ and monitor risk guidelines to ensure acceptable risk accumulations; and our capital, earnings and liquidity positions are quite resilient. We are in the process of quantifying the impact of COVID-19 in these areas. We currently do not foresee any issues in timely satisfying our obligations, including payment of claims.

D. Valuation for Solvency Purposes

D.1 Assets

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

	Solvency II	French GAAP	Variance
As at 31 December	2019	2019	2019
	€'000	€'000	€'000
Deferred acquisition costs	-	0	-
Deferred tax assets	-	-	-
Investments (and assets held for index-linked and unit-linked contracts)	70,604	69,007	1,597
Reinsurance recoverables	66,384	134,046	-67,662
Insurance and intermediaries receivables	3,426	1,889	1,537
Reinsurance receivables	5,728	0	5,728
Receivables (trade, not insurance)	5,787	1,219	4,568
Cash and cash equivalents	10,149	10,149	0
Total assets	162,078	216,309	-54,231

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

D.1.1 Deferred Tax Assets and Liabilities

Under Solvency II, provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts at the reporting date. Under French GAAP, no allowances are made for deferred tax assets at all. The commentary below however is focussed on the deferred tax impact of Solvency II adjustments, since these are significant.

The rates enacted, or substantively enacted, at the reporting date are used to value the deferred tax assets (“DTAs”) and liabilities. DTAs are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

The principal temporary differences arise from valuation differences arising under the Solvency II regime for the technical provisions. As the company used French GAAP accounting principles in 2019, differences between Solvency II and French GAAP valuation bases are subject to deferred tax. Other temporary differences arise from the depreciation of property and equipment.

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

D.1.2 Investments

Investments comprise the following:

	Solvency II	French GAAP	Variance
As at 31 December	2019	2019	2019
	€'000	€'000	€'000
Government bonds	42,260	41,304	956
Corporate bonds	28,337	27,696	641
Collateralised securities	7	7	0
Collective investment undertakings	0	0	0
Total investments	70,604	69,007	1,597

	Solvency II	French GAAP	Variance
As at 31 December	2019	2019	2019
	€'000	€'000	€'000
Government bonds	42,260	41,839	422
Corporate bonds	28,337	27,892	444
Collateralised securities	7	7	0
Collective investment undertakings	0	0	0
Total investments	70,604	69,738	866

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

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

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

The difference between Solvency II and French GAAP is the unrealised gain and losses and the accrued interest on fixed income securities that is recognised in the investments value under Solvency II but not in French GAAP.

D.1.3 Reinsurance Recoverables

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

D.1.4 Insurance, Reinsurance & Intermediaries Receivables

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

D.1.5 Receivables (Trade, not Insurance)

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

D.1.6 Cash and Cash Equivalents

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

D.1.7 Changes to Valuation of Assets in the Period

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

D.1.8 Major Sources of Estimation Uncertainty

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

D.2 Technical Provisions

The value of technical provisions for solvency purposes, as at 31 December 2019, based on Solvency lines of business was as follows:

SII Line of Business:	Gross best estimate €'000	Ceded best estimate €'000	Net best estimate €'000	Add gross risk margin €'000	Add net risk margin €'000	Gross TPs €'000	Net TPs €'000
Health insurance	(11)	1,411	(1,422)	2,354	1,890	2,343	468
Other life insurance	72,544	64,973	7,572	27,930	1,903	100,474	9,475
Life reinsurance	4	-	4	-	-	4	4
Total	72,538	66,384	6,154	30,283	3,793	102,821	9,947

D.2.1 Summary

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

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

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

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

D.2.2 Best Estimate Liabilities (“BEL”)

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

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

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

- Future premiums, allowing for escalation
- Benefit payments, including death, sickness, disability and maturity benefits
- Expenses relating to the in-force business, with an allowance for expense inflation
- Commission payments in relation to the in-force business

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

The expense assumptions are based on identifying costs in respect of maintaining the inforce book and allowing for any appropriate inflationary costs.

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

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

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

D.2.3 Risk Margin

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

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

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

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

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

SCR Component	Varies by	Risk Driver	Justification
Life mortality risk	TAF	Present value of death benefits for TAF business	<p>The life mortality risk stress is a constant 15% percentage shock to mortality rates, which results in the present value of the stressed death benefits being 15% higher than the base death benefits, subject to the second order impact of a faster policy count run-off in the stress scenario.</p> <p>The mortality risk capital requirement is, subject to this second order impact, therefore constant as a percentage of the present value of death benefit outgo</p>
	Other long-term life	Present value of retained death benefits for other long-term life business	As above.
Life lapse risk	TAF	Premiums in-force on TAF business	<p>The lapse risk capital is expected to be positively related to:</p> <ol style="list-style-type: none"> 1. Volume of business in-force; and 2. Duration of in-force cashflows. <p>This is because, all else being equal, a greater volume of business will result in a greater lapse risk capital charge. Also, in a low interest rate environment, the BEL of policies with cashflows that have a longer duration will, all else being equal, be more greatly affected by a shock to lapse rates than policies of shorter durations, as the impact of the lapse shock is compounded such that long-dated cashflows are affected the most.</p> <p>Projecting the lapse risk capital with premiums in force will make allowance for 1 above, but does not make allowance for the reducing duration to which the in-force cashflows will be subject over the course of the projection. Therefore projecting the lapse risk capital requirement with premiums in-force is likely to slightly overstate the “true” projected figure. Given this, and given that there are no obvious simplifications that capture the progression of lapse risk capital more accurately without significantly increased complexity, we are therefore satisfied that this simplification is appropriate.</p> <p>It is assumed that the same lapse stress direction will be the most onerous throughout the lifetime of the contracts.</p> <p>Given the different run-off patterns of TAF and UIB, with UIB policies generally having longer terms than TAF policies, TAF lapse risk capital has been projected separately from UIB (and other).</p>

SCR Component	Varies by	Risk Driver	Justification
	Other long-term life	Premiums in-force on other long-term life business	Justification as per above.
Life disability risk	N/A	Run-off linearly until the final termination date for the Sweden Modular book.	The life morbidity risk capital arises only from the Sweden Modular business and is not material.
Life longevity risk	N/A	Premiums in-force on long-term life business (other than TAF)	<p>The longevity risk on life business relates to the risk of policyholders living longer to claim any disability benefits, or return of premium benefits payable on maturity.</p> <p>The longevity risk will therefore be proportional to the potential benefits payable on claim.</p> <p>Given the mix of lump sum benefits and monthly regular benefits, the relative size of the amount of risk is determined to be proportional to premiums, which should reflect benefit size and likelihood of claim.</p> <p>Given life longevity risk is not particularly material for AEL, this simplified risk driver is proportionate to the risk.</p>
Life expense risk	N/A	Present value of future expenses for life business	The life expense stress consists of an increase of 10% to expenses and a 1% increase to future expense inflation. We believe that the impact of such a stress would be likely to be roughly in proportion to the present value of future expenses.
Health mortality risk	N/A	Present value of retained benefits for health business	Justification as per above.
Health longevity risk	N/A	Premiums in-force on long-term health business	<p>The longevity risk on health business relates to the risk of policyholders living longer to claim critical illness and disability benefits. The longevity risk will therefore be proportional to the potential benefits payable on claim.</p> <p>Given the mix of lump sum benefits and monthly regular benefits, the relative size of the amount of risk is determined to be proportional to premiums, which should reflect benefit size and likelihood of claim.</p> <p>Given health longevity risk is not particularly material for AEL, this simplified risk driver is proportionate to the risk.</p>

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

D.2.4 Methods and Assumptions

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

Premium and Benefit Projections

Unearned Premium Reserves (“UPRs”)

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

Incurred But Not Reported Claims Reserves (“IBNRs”)

IBNR reserves are calculated as follows:

- For Norway Group Life business that inceptioned in 2011 and 2012, different IBNR factors are applied to the earned premium depending on the nature of the cover and time elapsed after the cover start date. These factors were supplied by the reinsurer and cross-checked against paid development ratios observed on a major Norwegian association scheme.
- For Norway Group Life business that inceptioned in 2013 or later, IBNR claims are estimated as the difference between the expected claims during the period (based on the most recent best estimate loss ratios) and any actual claims paid or reported during the period.
- For other Group Life business, IBNR percentages are based on the latest loss ratios, which are informed by those used in pricing and, in some cases, supplemented by experience, allowing for an assumed claims reporting delay which varies depending on the nature of the cover.
- For all YRT business, the allowance for IBNR claims is based on the average expected loss ratio from the pricing basis, with an assumed claims reporting delay.

Manual Reserves

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

Options & Guarantees

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

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

Events Not in Data (“ENIDs”)

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

Investment Expenses

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

Discounting

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

Contract Boundaries

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

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

Reinsurance

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

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

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

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

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

The main areas of uncertainty are:

- How future experience will emerge compared to the best estimate assumptions used to calculate the technical provisions. The key assumptions are mortality rates, lapse rates and interest rates. A 20% increase in the assumed mortality and morbidity rates results in approximately 17.8% increase in technical provisions. In contrast a reduction in lapse rate of 50% results in approximately 8.3% increase in technical provisions. Experience is monitored on a regular basis to ensure the uncertainty is well understood.
- For some product lines there is limited or no credible experience data available, so the assumptions have been set using expert judgement and peer group benchmarking.

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

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

D.2.7 Recoverables from Reinsurance Contracts and SPVs

Refer to “Reinsurance” in Section D.2.4 Methods and assumptions.

D.3 Other Liabilities

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

	Solvency II	French GAAP	Variance
As at 31 December	2019	2019	2019
	€'000	€'000	€'000
Deposits from reinsurers	93	0	93
Deferred tax liabilities	4	0	4
Reinsurance payables	8,016	786	7,229
Payables (trade, not insurance)	7,872	9,482	-1,610
Any other liabilities, not elsewhere shown	77	0	77
Total other liabilities	16,062	10,269	5,793

	Solvency II	French GAAP	Variance
As at 31 December	2019	2019	2019
	€'000	€'000	€'000
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Deferred tax liabilities	4	0	4
Reinsurance payables	8,016	786	7,229
Payables (trade, not insurance)	7,872	9,482	-1,610
Any other liabilities, not elsewhere shown	77	0	77
Total other liabilities	16,062	10,269	5,793

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

D.3.1 Deposits from Reinsurers

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

D.3.2 Deferred Tax Liabilities

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

D.3.3 Reinsurance Payables

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

D.3.4 Payables (Trade, not Insurance)

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

D.3.5 Any Other Liabilities, not elsewhere shown

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

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

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

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

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

D.4 Alternative Methods of Valuation

Alternative methods of valuation are not used by AEL.

D.5 Any Other Information

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

E. Capital Management

E.1 Own Funds

E.1.1 Capital Management Objectives (including Own Funds)

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

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

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

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

E.1.2 Policies and Processes

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

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

E.1.3 Summary of Own Funds

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

Own Funds	Tier 1	Tier 1
	unrestricted	unrestricted
As at 31 December	2019	2018
	€'000	€'000
Represented by:		
Ordinary share capital	6,128	6,128
Reconciliation reserve	63,079	52,461
Total basic own funds	69,207	58,392

Ordinary share capital comprises allocated, called up and fully paid ordinary shares of as at 31 December 2019. Dividends on ordinary shares are cancellable at any time prior to payment and therefore are classified as Tier 1 under Solvency II regime.

The key elements of the reconciliation reserves are as follows:

Reconciliation Reserve As at 31 December 2019	Tier 1 2019 €'000
Total assets (section D.1)	162,078
Less total liabilities (sections D2 and D3)	92,871
Excess of assets over liabilities	69,207
Share capital	-6,128
Total reconciliation reserve	63,079

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

E.1.4 Eligible Own Funds to cover SCR by Tier

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

E.1.5 Eligible Own Funds to cover MCR by Tier

The total Tier 1 own funds of are eligible to cover MCR. AEL has sufficient eligible own funds to cover MCR. The on-going coverage rate for MCR is 1,072%.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Solvency Capital Requirement

AEL applies the standard formula approach for the Solvency Capital Requirement (“SCR”) calculation. The SCR as at 31 December 2019 and its split by risk modules are summarised as follows:

As at 31 December 2019	Risk Category	€'000
(1a)	Lines 1 - 8 net of loss absorbing capacity of technical provisions	8,519
	Interest Rate Risk	
(1b)	Equity Risk	
(1c)	Property Risk	
(1d)	Spread Risk	3,170
(1e)	Concentration Risk	
(1f)	Currency Risk	17,757
(1g)	Diversification within market risk	(7,074)
(1)	Total Market Risk [sum (1a) - (1g)]	22,398
(2a)	Type 1 (Reinsurer Default, etc)	1,063
(2b)	Type 2 (Intermediary / Policyholder Default, etc)	56
(2c)	Diversification within Counterparty Default Risk	(13)
(2)	Total Counterparty Default Risk [sum (2a) - (2c)]	1,105
(3)	Total Life Underwriting Risk	2,670
(4a)	Health SLT Risk	3,181
(4b)	Health Non SLT Risk	
(4c)	Health Catastrophe Risk	12
(4d)	Diversification within Health Underwriting Risk	(9)
(4)	Total Health Underwriting Risk [sum (4a) - (4d)]	3,183
(5a)	Non-life Premium and Reserve Risk (ex Catastrophe Risk)	
(5b)	Non-life catastrophe Risk	
(5c)	Lapse Risk	
(5d)	Diversification within Non-Life Underwriting Risk	
(5)	Total Non-Life Underwriting Risk [sum (5a) - (5d)]	

(6)	Total Before Diversification Between Risk Categories [(1) + (2) + (3) + (4) + (5)]	29,358
(7)	Diversification Between Risk Categories	(4,748)
(8)	Intangible asset risk	
(9)	BSCR net of loss absorbing capacity of technical provisions [(6) + (7) + (8)]	24,609
(10)	BSCR gross of loss absorbing capacity of technical provisions	24,609
(11)	Total Operational Risk	1,199
(12)	Loss absorbing capacity of technical provisions	
(13)	Loss absorbing capacity of deferred tax	
(14)	Solvency Capital Requirement excluding capital add-on [(10) + (11) + (12) + (13)]	25,808
(15)	Capital add-on	
(16)	Solvency Capital Requirement including capital add-on [(14) + (15)]	25,808

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

- Type 1 Counterparty Default Risk calculation: In line with Article 107 of the Delegated Acts, AEL has applied the simplification for the Risk Mitigating Effect of reinsurance to simplify the calculation and inputs required for the calculation. This derives a Gross Underwriting Risk SCR from which the Net Underwriting Risk SCR is deducted in order to estimate the allowance of reinsurance on the SCR. This amount is then apportioned across the current reinsurance exposures in line with the outstanding recoverables.
- Type 1 Counterparty Default Risk calculation: In line with Article 112 of the Delegated Acts, AEL has applied the simplification for the risk adjusted value of collateral to take into account for the economic effect of the collateral.

E.2.2 Minimum Capital Requirement

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

As at 31 December 2018	Net (of reinsurance/SPV) best estimate and TP calculated as a whole (€'000)
(EUR BASE CURRENCY)	
Obligations with profit participation - guaranteed benefits	-
Obligations with profit participation - future discretionary benefits	-
Index-linked and unit-linked insurance obligations	-
Other life (re)insurance and health (re)insurance obligations	6,523
Total capital at risk for all life (re)insurance obligations	829,941

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

AEL uses the Standard Formula to calculate its MCR. The resulting MCR based on the above inputs is €6,452k.

Overall MCR Calculation	2019 €'000
Linear MCR	718
SCR	25,808
MCR cap	11,614
MCR floor	6,452
Combined MCR	6,452
Absolute floor of the MCR	3,779
Minimum Capital Requirement	6,452

E.2.3 Material changes over the reporting period

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

	Risk Category	As at 1 January 2018 (€'000)	As at 31 December 2018 (€'000)	Movement (€'000)
	Lines 1 - 8 net of loss absorbing capacity of technical provisions			
(1a)	Interest Rate Risk	7,722	8,519	797
(1b)	Equity Risk	-	-	-
(1c)	Property Risk	-	-	-
(1d)	Spread Risk	2,931	3,170	239
(1e)	Concentration Risk	-	-	-
(1f)	Currency Risk	16,716	17,757	1,041
(1g)	Diversification within market risk	(6,472)	(7,047)	(575)
(1)	Total Market Risk [sum (1a) - (1g)]	20,897	22,399	1,502
(2a)	Type 1 (Reinsurer Default, etc)	925	1,063	138
(2b)	Type 2 (Intermediary / Policyholder Default, etc)	53	55	2
(2c)	Diversification within Counterparty Default Risk	(13)	(13)	(1)
(2)	Total Counterparty Default Risk [sum (2a) - (2c)]	965	1,105	140
(3)	Total Life Underwriting Risk	2,150	2,670	521
(4a)	Health SLT Risk	2,856	3,181	325
(4b)	Health Non SLT Risk	-	-	-
(4c)	Health Catastrophe Risk	7	12	5
(4d)	Diversification within Health Underwriting Risk	(5)	(9)	(4)
(4)	Total Health Underwriting Risk [sum (4a) - (4d)]	2,857	3,184	326
(5a)	Non-life Premium and Reserve Risk (ex Catastrophe Risk)	-	-	-
(5b)	Non-life catastrophe Risk	-	-	-
(5c)	Lapse Risk	-	-	-
(5d)	Diversification within Non-Life Underwriting Risk	-	-	-

(5)	Total Non-Life Underwriting Risk [sum (5a) - (5d)]	-	-	-
(6)	Total Before Diversification Between Risk Categories [(1) + (2) + (3) + (4) + (5)]	26,870	29,358	2,488
(7)	Diversification Between Risk Categories	(4,103)	(4,749)	(645)
(8)	Intangible asset risk	-	-	-
(9)	BSCR net of loss absorbing capacity of technical provisions [(6) + (7) + (8)]	22,766	24,609	1,843
(10)	BSCR gross of loss absorbing capacity of technical provisions	22,766	24,609	1,843
(11)	Total Operational Risk	1,431	1,199	(232)
(12)	Loss absorbing capacity of technical provisions	-	-	-
(13)	Loss absorbing capacity of deferred tax	-	-	-
(14)	Solvency Capital Requirement excluding capital add-on [(10) + (11) + (12) + (13)]	24,198	25,808	1,611
(15)	Capital add-on	-	-	-
(16)	Solvency Capital Requirement including capital add-on [(14) + (15)]	24,198	25,808	1,611

The main reasons for the changes are as follows:

- Increase in market risk SCR module due to increase in market value of assets by c. €6,639k
- Increase in life underwriting SCR module and health underwriting SCR module primarily due to the introduction of expense risk as a result of the expense cap removal.

The MCR has changed from €5,629k as at 1 January 2019 to €6,452k as at 31 December 2019. This is proportional to the change in SCR.

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

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

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

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

E.4 Non-Compliance with the SCR and MCR

AEL has sufficient eligible own funds to cover both the SCR and MCR. The coverage ratios for the SCR and MCR are 266% and 1,062% respectively.

As at 31 December 2019	SCR	MCR
Eligible Own Funds (€'000)	69,207	69,207
Capital Requirements (€'000)	25,809	6,452
Coverage ratio	268%	1,072%

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

E.5 Any Other Information

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

Balance sheet

S.02.01.01.01

		Solvency II value		Statutory accounts value	
			C0010		C0020
Assets					
Goodwill	R0010				
Deferred acquisition costs	R0020				5,592.80
Intangible assets	R0030				
Deferred tax assets	R0040				
Pension benefit surplus	R0050				
Property, plant & equipment held for own use	R0060		0.00		
Investments (other than assets held for index-linked and unit-linked contracts)	R0070		70,603,800.02		65,790,337.20
Property (other than for own use)	R0080		0.00		
Holdings in related undertakings, including participations	R0090		0.00		
Equities	R0100		0.00		0.00
Equities - listed	R0110				
Equities - unlisted	R0120				
Bonds	R0130		70,603,800.02		65,790,337.20
Government Bonds	R0140		42,260,225.94		39,467,623.11
Corporate Bonds	R0150		28,336,844.73		26,316,135.06
Structured notes	R0160		0.00		0.00
Collateralised securities	R0170		6,729.35		6,579.03
Collective Investments Undertakings	R0180		0.00		0.00
Derivatives	R0190				0.00
Deposits other than cash equivalents	R0200		0.00		0.00
Other investments	R0210		0.00		0.00
Assets held for index-linked and unit-linked contracts	R0220		0.00		0.00
Loans and mortgages	R0230		0.00		0.00
Loans on policies	R0240		0.00		
Loans and mortgages to individuals	R0250				
Other loans and mortgages	R0260				
Reinsurance recoverables from:	R0270		66,383,964.23		66,384,292.95
Non-life and health similar to non-life	R0280		0.00		0.00
Non-life excluding health	R0290				
Health similar to non-life	R0300				
Life and health similar to life, excluding health and index-linked and unit-linked	R0310		66,383,964.23		66,384,292.95
Health similar to life	R0320		1,411,401.56		1,327,685.86
Life excluding health and index-linked and unit-linked	R0330		64,972,562.67		65,056,607.09
Life index-linked and unit-linked	R0340		0.00		0.00
Deposits to cedants	R0350		0.00		0.00
Insurance and intermediaries receivables	R0360		3,426,148.97		3,426,148.97
Reinsurance receivables	R0370		5,728,145.25		5,728,145.25
Receivables (trade, not insurance)	R0380		5,787,009.00		5,787,008.63
Own shares (held directly)	R0390				0.00
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400		0.00		0.00
Cash and cash equivalents	R0410		10,149,131.44		9,124,093.10
Any other assets, not elsewhere shown	R0420				821,022.97
Total assets	R0500		162,078,198.91		157,066,641.87
Liabilities					
Technical provisions – non-life	R0510		0.00		0.00
Technical provisions – non-life (excluding health)	R0520		0.00		
Technical provisions calculated as a whole	R0530				
Best Estimate	R0540				
Risk margin	R0550				
Technical provisions - health (similar to non-life)	R0560		0.00		
Technical provisions calculated as a whole	R0570				
Best Estimate	R0580				
Risk margin	R0590				
Technical provisions - life (excluding index-linked and unit-linked)	R0600		76,331,259.73		75,924,490.34
Technical provisions - health (similar to life)	R0610		1,879,375.53		1,518,489.81
Technical provisions calculated as a whole	R0620		0.00		
Best Estimate	R0630		-10,620.40		
Risk margin	R0640		1,889,995.93		
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650		74,451,884.20		74,406,000.53
Technical provisions calculated as a whole	R0660		0.00		
Best Estimate	R0670		72,548,741.69		
Risk margin	R0680		1,903,142.51		
Technical provisions – index-linked and unit-linked	R0690		0.00		
Technical provisions calculated as a whole	R0700		0.00		
Best Estimate	R0710		0.00		
Risk margin	R0720		0.00		
Other technical provisions	R0730				0.00
Contingent liabilities	R0740		0.00		0.00
Provisions other than technical provisions	R0750				0.00
Pension benefit obligations	R0760				0.00
Deposits from reinsurers	R0770		92,840.47		92,840.47
Deferred tax liabilities	R0780		4,474.24		4,474.24
Derivatives	R0790		0.00		0.00
Debts owed to credit institutions	R0800		477,917.78		
Financial liabilities other than debts owed to credit institutions	R0810				0.00
Insurance & intermediaries payables	R0820				
Reinsurance payables	R0830		8,015,600.24		8,015,600.24
Payables (trade, not insurance)	R0840		7,872,004.29		7,872,004.29
Subordinated liabilities	R0850		0.00		0.00
Subordinated liabilities not in Basic Own Funds	R0860				0.00
Subordinated liabilities in Basic Own Funds	R0870		0.00		0.00
Any other liabilities, not elsewhere shown	R0880		77,180.63		77,012.63
Total liabilities	R0900		92,871,277.38		91,986,422.21
Excess of assets over liabilities	R1000		69,206,921.53		65,080,219.66

Own funds

S.23.01.01

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	6,127,501.00	6,127,501.00		0.00	
Share premium account related to ordinary share capital	R0030	0.00	0.00		0.00	
Initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings	R0040	0.00	0.00		0.00	
Subordinated mutual member accounts	R0050	0.00		0.00	0.00	0.00
Surplus funds	R0070	0.00	0.00			
Preference shares	R0090	0.00		0.00	0.00	0.00
Share premium account related to preference shares	R0110	0.00		0.00	0.00	0.00
Reconciliation reserve	R0130	63,079,420.52	63,079,420.52			
Subordinated liabilities	R0140	0.00		0.00	0.00	0.00
An amount equal to the value of net deferred tax assets	R0160	0.00				0.00
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	0.00	0.00	0.00	0.00	0.00
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	0.00				
Deductions						
Deductions for participations in financial and credit institutions	R0230	0.00	0.00	0.00	0.00	
Total basic own funds after deductions	R0290	69,206,921.52	69,206,921.52	0.00	0.00	0.00
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	0.00				
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand	R0310	0.00				
Unpaid and uncalled preference shares callable on demand	R0320	0.00				
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	0.00				
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	0.00				
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	0.00				
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	0.00				
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	0.00				
Other ancillary own funds	R0390	0.00				
Total ancillary own funds	R0400	0.00			0.00	0.00
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	69,206,921.52	69,206,921.52	0.00	0.00	0.00
Total available own funds to meet the MCR	R0510	69,206,921.52	69,206,921.52	0.00	0.00	
Total eligible own funds to meet the SCR	R0540	69,206,921.52	69,206,921.52	0.00	0.00	0.00
Total eligible own funds to meet the MCR	R0550	69,206,921.52	69,206,921.52	0.00	0.00	
SCR	R0580	25,809,475.13				
MCR	R0600	6,452,368.78				
Ratio of Eligible own funds to SCR	R0620	2.6815				
Ratio of Eligible own funds to MCR	R0640	10.7258				

Reconciliation reserve

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	69,206,921.52
Own shares (held directly and indirectly)	R0710	0.00
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	6,127,501.00
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds	R0740	0.00
Reconciliation reserve	R0760	63,079,420.52
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	1,896,141.81
Expected profits included in future premiums (EPIFP) - Non-life business	R0780	
Total Expected profits included in future premiums (EPIFP)	R0790	1,896,141.81

