XL CATLIN

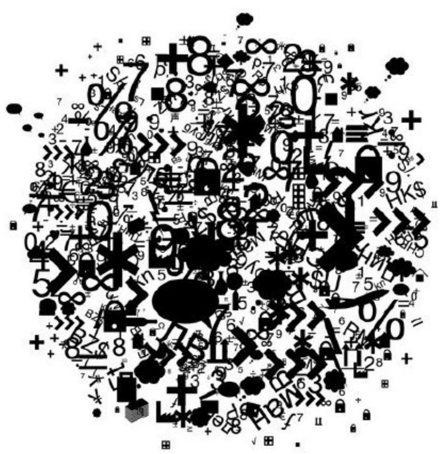
Catlin Re Switzerland Ltd

AN XL GROUP LTD COMPANY

Financial Condition Report

Year Ended

31 December 2017



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Contents

Directors' statement

The Board of Directors acknowledge their responsibility for ensuring that this Financial Condition Report has been properly prepared in all material respects in accordance with FINMA regulations. The Board is satisfied that:

(a) throughout the financial year disclosed in this report, Catlin Re Switzerland Ltd has complied in all material respects with the requirements of the FINMA regulations as applicable to the Company; and

(b) it is reasonable to believe that, at the date of the publication of this report, the Company has continued to comply, and will continue to comply in future.

This report was discussed and reviewed at the Board Meeting held in Zurich on 20 April 2018 and signed off on 30 April 2018.

By order of the Board

Claus-Michael Dill

Chairman of the Board

30 April 2018

Andreas Weber

Director

30 April 2018

Management summary

General remarks

This report should be read in conjunction with the Company's audited financial statements for the year ended 31 December 2017 disclosed in appendix 4.

Unless otherwise stated, all amounts in this report are presented in Swiss Francs which is the reporting currency of the financial statements of Catlin Re Switzerland Ltd.

Due to the capitalisation and the business environment in which the Company primarily operates, US Dollar is the currency for capital modelling and the Swiss Solvency Test. As such numbers reported in sections E, F and G are predominantly presented in US Dollars.

Amounts shown in this report generally are rounded to the nearest million, with the consequence that the rounded amounts may not add up to the rounded total in all cases.

XL Group Ltd, the ultimate parent company, domiciled in Bermuda will publish its Group Financial Condition Report in line with Bermuda Monetary Authority requirements by 31 May 2018 and will be available to download from the XL Group website (www.xlgroup.com).

Business activities

The Company's ultimate holding company is XL Group Ltd, incorporated in Bermuda, which through its subsidiaries ("the XL Group", "Group" or "XL") is a leading provider of insurance and reinsurance coverages to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. XL Group Ltd's ordinary shares are listed on the New York stock exchange (NYSE: XL).

Catlin Re Switzerland Ltd ("CRCH", "Catlin Re" or "the Company"), domiciled in Zurich, Switzerland, operates as a multi-line property, casualty and specialty reinsurance company and as one of XL Group Ltd's main Intra-Group reinsurance ("IGR") carriers.

The Company underwrites property, casualty and specialty classes of reinsurance in Continental Europe, Latin America and the Middle East as well as trade credit, surety and political risk reinsurance on a global basis. The Company offers its clients excess of loss, pro-rata and facultative reinsurance business through reinsurance brokers and a network of Group offices. The Company prudently manages reinsurance obligations through controlled risk taking, clear accountability and strong underwriting discipline. Through its Bermuda branch, the Company also underwrites property, casualty, crop and structured risks on a global basis. The needs of the Central and South American, Brazilian and the Caribbean reinsurance markets are served through local offices in Colombia, Brazil and Argentina as well as a binder agreement with an XL Catlin US office in Miami. In particular, the Company offers short-tail multi-peril property reinsurance as well as casualty, crop, accident & health, marine and other lines of reinsurance. Brazil business is written both through Catlin Re Switzerland on an admitted basis as well as through the fully owned subsidiary XL Resseguros Brasil S.A.

To simplify the corporate structure, XL Re Latin America Ltd ("XLReLA") was integrated into Catlin Re by universal succession and by way of a merger by absorption according to art. 3 para. 1 letter a of the Swiss Federal Act on Merger, Demerger, Transformation and Transfer of Assets (Merger Act; MerA). XL Re Latin America Ltd was a fully owned subsidiary of Catlin Re Switzerland Ltd and dissolved on 28 June 2017, the legal effective date of the merger.

The assumed intra Group reinsurance contracts with North American XL Catlin entities were not renewed for 2018. As a result of the non-renewal, the ceding companies and Catlin Re agreed on a cut-off termination with any unearned risk exposures as at December 31, 2017 being returned to the ceding company. The Company's net premium written will materially decrease in 2018 as compared to 2017.

XL Group Ltd ("XL") has entered into a definitive agreement and plan of merger (the "Merger Agreement") with AXA SA ("AXA") dated March 5, 2018, under which AXA would acquire 100% of XL's common shares in exchange for cash proceeds of $57.60 per common share, or approximately $15.3 billion in the aggregate (the "AXA Transaction"). The Merger Agreement provides that, subject to the satisfaction or waiver of certain conditions set forth therein, XL will merge with an existing AXA subsidiary in accordance with the Companies Act 1981 of Bermuda (the "Merger"), with XL surviving the Merger as a wholly owned subsidiary of AXA. All preferred shares issued by subsidiaries of XL will remain issued and outstanding upon completion of the Merger.

The Merger is expected to close during the second half of 2018, subject to approval by the XL shareholders and other customary closing conditions, including the receipt of required regulatory approvals. The Merger Agreement, among other stipulations, permits: (i) XL to pay out regular quarterly cash dividends not to exceed $0.22 per XL common share per quarter, (ii) subsidiaries of XL to pay period cash dividends on preferred shares not to exceed amounts contemplated by the applicable bye-laws or resolutions approving such preferred shares, and (iii) subsidiaries of XL to pay dividends to XL or any subsidiary of XL.

The Company carries a rating from Standard & Poor's of 'A+' with stable outlook as well as A.M. Best's rating of 'A' with stable outlook. The assigned ratings are the same as the other Group's core entities.

Further details of the Company's business activities are provided in section A.

Business performance

In the first six months of 2017, the reinsurance markets were characterized by on-going fierce competition and abundantly available capital. Despite the competitive trading environment, Catlin Re Switzerland Ltd was able to leverage XL Group's enhanced market position and financial strength to create new opportunities. After the natural catastrophe events during Q3 and Q4 the situation changed with rate erosion firming up, in particular in loss affected areas. Catlin Re continued its disciplined underwriting and dedicated tailor-made client offerings. Global credit and surety markets remained overall stable and allowed a solid positioning in Europe, Asia and US trade credit as well as in Latin American surety.

Throughout 2017 Catlin Re has continued to position itself successfully in its core markets. This confirms the growing demand for high quality reinsurance expertise offered on a strong capital base and highly rated security. The Company has continued to expand its casualty and specialty offerings to complement its strong property and credit positions.

The 2017 loss ratio of 75% was mainly affected by natural catastrophe activity in the second half of 2017 for Hurricanes Harvey, Irma and Maria and to a lesser degree for the Mexican Earthquake as well as the Northern and Southern California Wildfires. The impacts from those events were partially offset by recoveries from an outward stop loss agreement with another Group company. The net loss amount after internal and external reinsurance amounts to CHF 230mm.

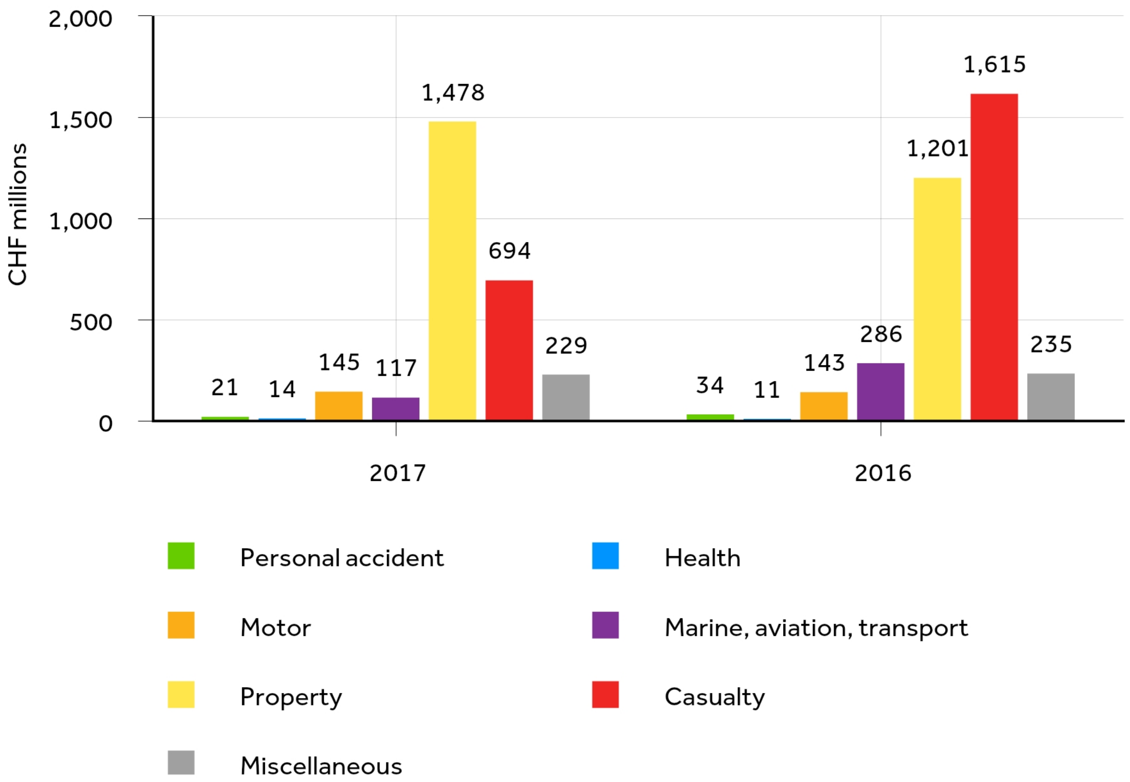
The Company generated CHF 2,698m of gross premium written in 2017 and a combined ratio of 108%.

CHF millions

2017	Gross premium written	Net premium earned	Acquisition cost ratio	Loss ratio	Combined ratio
Personal accident	21	42	30%	71%	101%
Health	14	13	34%	65%	100%
Motor	145	182	26%	98%	124%
Marine, aviation, transport	117	199	33%	81%	113%
Property	1,478	1,199	34%	92%	126%
Casualty	694	1,245	32%	59%	91%
Miscellaneous	229	191	36%	49%	85%
Total 2017	**2,698**	**3,070**	**33%**	**75%**	**108%**

2016	Gross premium written	Net premium earned	Acquisition cost ratio	Loss ratio	Combined ratio
Personal accident	34	35	18%	83%	101%
Health	11	11	30%	84%	113%
Motor	143	108	21%	75%	96%
Marine, aviation, transport	286	270	28%	70%	98%
Property	1,201	790	31%	67%	98%
Casualty	1,615	1,249	32%	76%	108%
Miscellaneous	235	153	42%	57%	99%
Total 2016	**3,525**	**2,616**	**31%**	**72%**	**103%**
Change	**(827)**	**454**	**2%**	**3%**	**5%**

Gross premium written by FINMA line of business



Further details of the Company's performance are provided in section B and the Annual Financial Statements in appendix 4. Also refer to XL Group's Form 10-K for the year ended 31 December 2017 for additional information on the Group's performance.

Corporate governance and risk management

The Board of Directors ("Board") and management are committed to ensure effective corporate governance with the objective to provide oversight over the Company. The Board regularly reviews their comprehensive corporate governance framework, policies and practices to ensure that they meet the expectation of its shareholder and evolve in compliance with the Swiss requirements and Group best practice in corporate governance. The board has the ultimate responsibility for setting the strategy regarding the business and is accountable for the performance of the Company towards the shareholder.

The Board is responsible for the Company's internal control system. The Company operates a 'Three Lines of Defence' model where (1) the business through its risk owners, (2) Risk Management and Compliance and (3) Internal Audit work together to ensure that the internal control system is effective.

The Board and Executive Management Committee composition is outlined in section C.

The internal control framework determines risk appetites and risk limits, establishes risk policies, identifies and manages the risks to the Company's objectives and monitors its resources and capital requirements. All of this is captured by the Risk Management Framework ("RMF") and Own Risk and Solvency Assessment ("ORSA") activities that are carried out throughout the year with oversight by the Board. The Company is supported by a number of Group-wide processes in the achievement of its risk management objectives.

Further details of the Company's corporate governance and RMF are provided in section C.

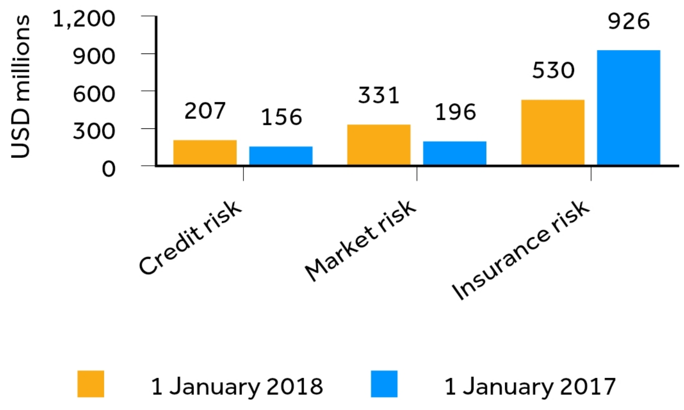
Risk profile

CRCH is a reinsurance company and therefore materially exposed to insurance, market and credit risk. The Company uses the Swiss Solvency Test ("SST") basis at the 1% Tail Value at Risk ("TVaR") to calculate the capital requirements. This statistic indicates the average amount of net loss estimated to be incurred if a loss above the 1% exceedance probability level has occurred.

CRCH uses a partial internal model to calculate the capital requirements. Insurance risk and reinsurance credit risk are based on the internal model while market risk and investment credit risk are based on the FINMA standard models. The aggregation of the risk types is also based on the FINMA standard methodology.

Shortly before year-end 2017, and after the Board had approved the risk appetite framework ("RAF") for 2018, the Company was informed by the Group's internal US cedants (by the respective pool leaders), of their desire to terminate the quota share contracts effective 31 December 2017. The Company accepted the request. This cancellation has resulted in a materially lower risk profile of the Company as at 1 January 2018 as compared to 2017 and compelled the Company's Board to revise its RAF for 2018 to reflect the risk profile changes.

The key risks before diversification for CRCH as at 1 January 2018 and the previous year are shown below:



Each separate category of risk is described in detail in section D including a description of the measures used to assess these risks and a description of the material risks including operational risks to which CRCH is exposed. Risk concentrations and risk mitigation measures are further detailed in section D.

Valuation

An analysis of the valuation of asset classes and the market consistent valuation of provisions for insurance obligations used in the SST balance sheet, together with the recognition and valuation bases applied, is provided in section E.

Capital management

CRCH applies a dynamic risk-based approach based on economic principles to align its risk takings with the capital held to safeguard policyholders.

The Company calculates and manages its capital requirements based on SST principles and in line with the Own Risk and Solvency Assessment ("ORSA") policy which are further detailed in section C.2 and G.

USD millions	**1 January 2017**	**1 January 2018**	**Change**	**Change in %**
Risk bearing capital ("RBC")	1,331	1,210	(121)	(9)%
Target capital ("TC")	1,065	840	(225)	(21)%
Market value margin ("MVM")	187	123	(64)	(34)%
SST ratio	**130%**	**152%**	**22%**	**17 %**

The ratio is calculated as: (RBC-MVM)/(TC-MVM).

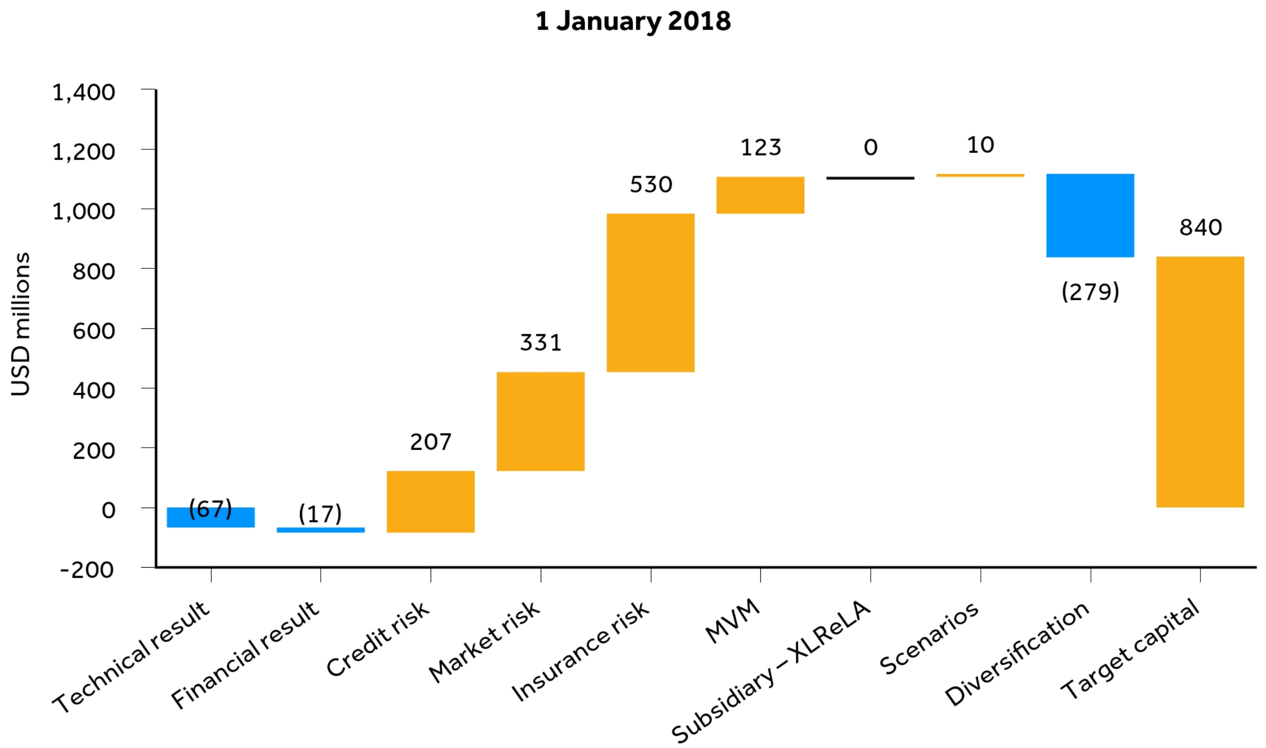
The Company's objectives in managing its capital are to:

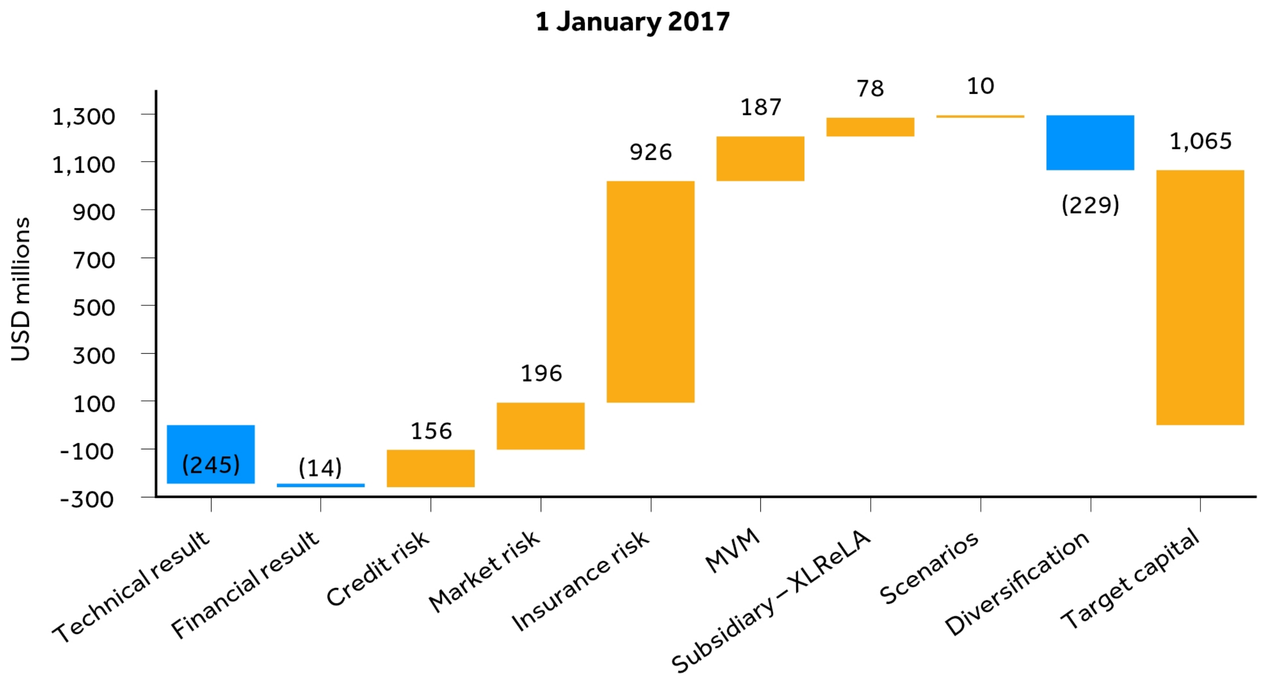
- maintain financial strength to support new business;
- satisfy the requirements of its policyholders and regulators;
- match the profile of its assets and liabilities, taking into account risks inherent in the business;
- achieve appropriate risk adjusted returns; and
- maintain capital levels that are consistent with the risk appetite, corporate strategy, rating agency and the statutory requirements.

Solvency

Section G provides information on the use of the internal and standard model for the SST with further breakdowns of the target capital as at 1 January 2018.

The following chart shows a break-down of the target capital into the relevant categories as defined by FINMA:





The technical result and the financial result are elements of the profit expected in the current year that reduce the target capital.

Credit risk includes investment credit risk and reinsurance credit risk. The investment credit risk is calculated based on the FINMA standard model whereas reinsurance credit risk is calculated using the internal model.

Market risk is calculated using the FINMA standard model whereas insurance risk and the MVM are obtained from the internal model.

XL Re Latin America Ltd was a subsidiary of Catlin Re Switzerland Ltd in 2016 and merged with the Company during 2017. As such, the target capital for XLReLA in 2017 was calculated and disclosed separately. The 2018 includes the risks related to XLReLA embedded within each risk category.

Scenarios include financial scenarios that are obtained from the FINMA standard model calculation of market risk. Additionally, CRCH separately identifies scenarios to capture risks not included in other areas of the model. All scenarios are run through the FINMA aggregation tool in order to calculate their diversified impact on capital.

The risk categories based on the internal model are aggregated within the internal model by applying different correlation assumptions. Internal model results are aggregated with standard models using the FINMA aggregation approach.

The results are shown at a 1% TVaR level of confidence.

Overall, the target capital for 2018 declined by USD 225m compared to last year. This is primarily driven by the the following:

- Reduction in expected technical result due to the cancellation of the US internal reinsurance
- Increase in investment credit risk due to increase in the invested assets held by the Company
- Increase in reinsurance credit risk due to increased reinsurance
- Increase in market risk due to change in the treatment of XL Resseguros Brasil S.A., a subsidiary of CRCH. Previously this subsidiary was modelled explicitly with its target capital included within XLReLA in the chart above. This year the subsidiary is included within market risk as an investment.
- The decline in target capital is driven primarily by a significant decline in insurance risk. A number of factors have led to this but the most notable reasons are:
    - Reduction in underwriting risk due to the cancellation of the internal US contracts which accounted for approximately 80% of the risk last year.
    - Reduction in reserve risk as the significant loss activity in 2017 from the natural catastrophe losses has triggered the internal whole account stop loss. Any further deterioration in reserve risk for 2017 is protected up to the limit of the stop loss contract.
- In 2017, XLReLA was merged into the Company. Previously, the capital requirements for this entity were reported separately, however the risks are now embedded within each risk category.

A. Business activities

A.1 Strategy, objectives and business segments

The Company's ultimate holding company is XL Group Ltd, incorporated in Bermuda, which through its subsidiaries ("the XL Group", "Group" or "XL") is a leading provider of insurance and reinsurance coverages to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. XL Group Ltd's ordinary shares are listed on the New York stock exchange (NYSE: XL).

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Transitioning into 2018, the January renewals were successful for the Company. The disciplined underwriting has led to consequent adjustment of shares where rate improvements did not materialize to the levels expected. At the same time, the Company has reduced cat aggregate on business and improved overall portfolio metrics to better position the book for continued profitability. Market sentiment indicates the Company is successfully established amongst the second tier reinsurers, which positively impacts negotiation leverage and overall opportunities.

A.2 Group information and group related transactions

The Company's ultimate parent undertaking is XL Group Ltd, a company incorporated in Bermuda and listed on the New York Stock Exchange ("NYSE"). XL Group is supervised by:

Bermuda Monetary Authority ("BMA")
BMA House
43 Victoria Street
Hamilton, P.O. Box 2447
Bermuda

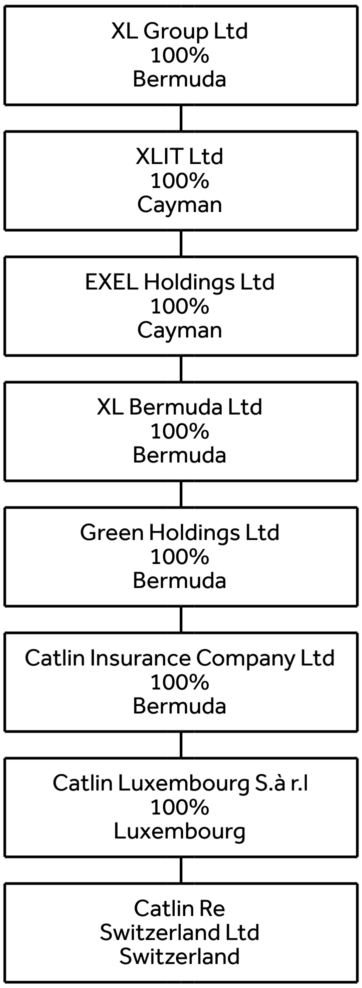
Catlin Re Switzerland Ltd is the parent company of the following subsidiaries:

as of 31 December 2017	City, Country	Net book value in CHF millions	Equity interest	Voting shares
XL Resseguros Brasil S.A.	São Paulo, Brasil	86	100%	100%
XL Investments Latin America Ltd, in liquidation	Hamilton, Bermuda	—	100%	100%
XL Re Latin America Argentina SA	Buenos Aires, Argentina	—	80%	80%
Catlin US Investment Holdings LLC	Wilmington, USA	11	15%	40%
XL Value Offshore LLC	Hamilton, Bermuda	41	25%	25%

as of 31 December 2016	City, Country	Net book value in CHF millions	Equity interest	Voting shares
XL Re Latin America Ltd	Zurich, Switzerland	116	100%	100%
Catlin US Investment Holdings LLC	Wilmington, USA	11	15%	40%
Catlin CCC Holdings LLC	Wilmington, USA	2	100%	100%

In connection with the merger with XL Re Latin America Ltd, XL Resseguros Brasil S.A., XL Investments Latin America Ltd, in liquidation and XL Re Latin America Argentina SA became subsidiaries of the Company. During 2017 Catlin CCC Holdings LLC was sold to another Group company, while XL Value Offshore LLC was newly formed with Catlin Re acquiring a 25% stake.

CRCH's position within the legal structure of the Group can be seen from the chart below:



Material related party transactions

The Company actively monitors all related party transactions. The Company has a whole account stop loss agreement in place with XL Bermuda Ltd. The Company also makes regular payments to XL Group companies in respect of services provided to the Company. The Company regularly purchases or sells financial investments from and to other Group companies. During 2017, the Company granted a loan of USD 60m to Green Holdings Ltd, a fully owned Group company, repayable until 31 December 2018. Any such transactions are priced at arm's length. Save for the above, there were no transactions with the Company's direct or indirect shareholders, with persons who exercise a significant influence on the Company or with members of the Board which are deemed material.

A.3 Shareholder

The Company's immediate parent is Catlin Luxembourg S.à r.l., a company incorporated in Luxembourg which holds 100% of the ownership interest and voting rights.

Catlin Luxembourg S.à r.l.
14, rue Edward Steichen
L - 2540 Luxembourg

R.C.S. Luxembourg: B154964; subscribed capital: USD 100m

A.4 Major branches

Catlin Re Switzerland Ltd, Bermuda Branch
O'Hara House
P.O. Box HM 2245
One Bermudiana Road
Hamilton, HM 08
Bermuda

A.5 External auditor

According to Article 28 of the Insurance Supervisory Act the Company has appointed PricewaterhouseCoopers ("PwC") as statutory auditor.

PricewaterhouseCoopers AG
Birchstrasse 160
Postfach
8050 Zurich
Switzerland

The auditor in charge is Philip Kirkpatrick. PwC is accredited with the Federal Audit Oversight Authority in Berne, Switzerland.

A.6 Significant unusual events

To simplify the corporate structure, XL Re Latin America Ltd ("XLReLA") was integrated into Catlin Re by universal succession and by way of a merger by absorption according to art. 3 para. 1 letter a of the Swiss Federal Act on Merger, Demerger, Transformation and Transfer of Assets (Merger Act; MerA). XL Re Latin America Ltd was a fully owned subsidiary of Catlin Re Switzerland Ltd and dissolved on 28 June 2017, the legal effective date of the merger. The absorption caused no increase of the acquiring company's share capital. Any legal acts taken by XLReLA since 1 January 2017 shall be considered as being taken in the name and for the account of Catlin Re Switzerland Ltd.

The outwards intra Group reinsurance program has undergone some changes with a new whole account stop loss agreement covering accident year 2017, providing flexible capital for growth and mitigation of peak risks to the Company. In addition the outwards Group reinsurance quota share coverage of former XL Re Latin America Ltd was commuted in 2017.

In September 2017, there was significant cat loss activity in CRCH resulting from the Hurricane Harvey, Irma and Maria and Mexican earthquakes, as well as California Wildfires in Q3 and Q4. For 2017, the net loss of these events to the Company after internal and external reinsurance is CHF 230m. As a result and to ensure the Company is within its risk appetite limit, Green Holdings Limited, a company incorporated in Bermuda and a fully owned Group company, contributed USD 60m (CHF 59m) in cash to Catlin Re Switzerland Ltd. The contributor acquired no rights as shareholder of Catlin Re.

To better manage its investment portfolio, the Company decided in 2017 to sell its 100% owned subsidiary Catlin CCC Holdings LLC to another Group company, while a 25% stake in XL Value Offshore LLC was acquired.

The assumed intra Group reinsurance contracts with North American XL Catlin entities were not renewed for 2018. As a result of the non-renewal, the ceding companies and Catlin Re agreed on a cut-off termination with any unearned risk exposures as at December 31, 2017 being returned to the ceding company. The Company's net premium written will materially decrease in 2018 as compared to 2017.

XL Group Ltd ("XL") has entered into a definitive agreement and plan of merger (the "Merger Agreement") with AXA SA ("AXA") dated March 5, 2018, under which AXA would acquire 100% of XL's common shares in exchange for cash proceeds of $57.60 per common share, or approximately $15.3 billion in the aggregate (the "AXA Transaction"). The Merger Agreement provides that, subject to the satisfaction or waiver of certain conditions set forth therein, XL will merge with an existing AXA subsidiary in accordance with the Companies Act 1981 of Bermuda (the "Merger"), with XL surviving the Merger as a wholly owned subsidiary of AXA. All preferred shares issued by subsidiaries of XL will remain issued and outstanding upon completion of the Merger.

The Merger is expected to close during the second half of 2018, subject to approval by the XL shareholders and other customary closing conditions, including the receipt of required regulatory approvals. The Merger Agreement, among other stipulations, permits: (i) XL to pay out regular quarterly cash dividends not to exceed $0.22 per XL common share per quarter, (ii) subsidiaries of XL to pay period cash dividends on preferred shares not to exceed amounts contemplated by the applicable bye-laws or resolutions approving such preferred shares, and (iii) subsidiaries of XL to pay dividends to XL or any subsidiary of XL.

B. Business performance

The Company prepared its financial statements on a Swiss Statutory accounting rule basis in accordance with the provisions of accounting and financial reporting of the 32nd title of the Swiss Code of Obligations ("OR") and with the additional requirements defined by FINMA (Art. 5-6a AVO-FINMA, valid as of 15 December 2015).

The table below provides the main 2017 and 2016 key performance indicators; the quantitative template with more granular information can be found in appendix 1.

B.1 Underwriting result

CHF millions	2016	2017	Change	Change in %
Gross premium written	3,525	2,698	(827)	(23)%
Net earned premium	2,616	3,070	454	17 %
Net acquisition costs	(810)	(1,012)	(202)	25 %
Net claims incurred	(1,875)	(2,330)	(455)	24 %
Change in equalisation provision	—	29	29	100 %
Net reinsurance result	(27)	(188)	(161)	596 %
Ratios				
Acquisition cost ratio	31%	33%		2 %
Loss ratio	72%	75%		3 %
Combined ratio	**103%**	**108%**		**5 %**

In the first six months of 2017, the reinsurance markets were characterized by on-going fierce competition and abundantly available capital. Despite the competitive trading environment, Catlin Re Switzerland Ltd was able to leverage XL Group's enhanced market position and financial strength to create new opportunities. After the natural catastrophe events during Q3 and Q4 the situation changed with rate erosion firming up, in particular in loss affected areas. Catlin Re continued its disciplined underwriting and dedicated tailor-made client offerings. Global credit and surety markets remained overall stable and allowed a solid positioning in Europe, Asia and US trade credit as well as in Latin American surety.

Throughout 2017 Catlin Re has continued to position itself successfully in its core markets. This confirms the growing demand for high quality reinsurance expertise offered on a strong capital base and highly rated security. The Company has continued to expand its casualty and specialty offerings to complement its strong property and credit positions.

In 2017, net earned premium increased by CHF 454m to CHF 3,070m compared to the previous year. This was driven mainly by 2017 earnings on a large external quota share that was written for the first time at the end of 2016, the merger with XL Re Latin America Ltd in 2017, as well as the increased share in an internal quota share with a US cedant. This was partially offset by an increase in the outward premium earned due to a whole account stop loss Intra-Group reinsurance contract with a Group company, first placed in 2017.

Acquisition costs increased mainly in relation with net earned premium, but were also affected by the change in the business mix due to a large quota share with higher commission rates. This is reflected in a change of the net acquisition cost ratio from 31% in 2016 to 33% in 2017. Net acquisition costs include allocated operating costs in the amount of CHF 44m for 2017 and CHF 46m for 2016.

Net claims incurred are CHF 2,330m, compared to CHF 1,874m in the previous year. The 2017 loss ratio of 75% was mainly affected by natural catastrophe activity in the second half of 2017 for Hurricanes Harvey, Irma and Maria and to a lesser degree for the Mexican Earthquake as well as the Northern and Southern California Wildfires. The impacts from those events were partially offset by recoveries from an outward stop loss agreement with another Group company. The net loss amount after internal and external reinsurance amounts to CHF 230m.

The equalisation provision of CHF 29m was released during 2017 as Swiss statutory technical provisions were sufficient to cover the market consistent values. The change in equalisation provision is included in the loss ratio.

The table below provides the 2017 key performance indicators by FINMA line of business:

CHF millions					**2017**
Line of business	**Gross premium written**	**Net premium earned**	**Acquisition cost ratio**	**Loss ratio**	**Combined ratio**
Personal accident	21	42	30 %	71 %	101 %
Health	14	13	34 %	65 %	100 %
Motor	145	182	26 %	98 %	124 %
Marine, aviation, transport	117	199	33 %	81 %	113 %
Property	1,478	1,199	34 %	92 %	126 %
Casualty	694	1,245	32 %	59 %	91 %
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Total 2017	**2,698**	**3,070**	**33%**	**75%**	**108%**

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Health	11	11	30%	84%	113%
Motor	143	108	21%	75%	96%
Marine, aviation, transport	286	270	28%	70%	98%
Property	1,201	790	31%	67%	98%
Casualty	1,615	1,249	32%	76%	108%
Miscellaneous	235	153	42%	57%	99%
Total 2016	**3,525**	**2,616**	**31%**	**72%**	**103%**

Further details on the quantitative performance are included in appendix 1.

B.2 Investment income and expenses

CHF millions	**2016**	**2017**	**Change**	**Change in %**
Investments				
Investment income	93	184	91	98%
Investment expenses	(48)	(79)	(31)	65%
Net investment contribution	**45**	**105**	**60**	**133%**
Allocated investment return	(42)	(54)	(12)	29%
Net investment result	**3**	**51**	48	1,600%

The net investment result as disclosed in the annual report in appendix 4 amounts to earnings of CHF 51m compared to CHF 3m in 2016 after deducting the investment return allocated to the reinsurance result.

The allocated investment return is the calculated interest generated on the investment covering the technical provisions and represents a reallocation from the net investment result to the underwriting result. The interest rate reflects the currency-weighted average yield on five-year government bonds.

The Company did not recognise any profits or losses in shareholder's equity.

B.2.1 Investment income and expenses by asset class

Investment income				**2017**
CHF millions	**Income**	**Unrealised gains**	**Realised gains**	**Total**
Investments in affiliated companies	12	—	42	53
Fixed income securities	101	2	24	127
Equity securities	—	—	—	—
Short term investments	1	—	—	1
Hedge Fund investments	—	—	—	—
Private Equity investments	—	—	—	—
Other investments	1	—	1	2
Cash and cash equivalents	—	1	—	1
Total Investment income	**114**	**3**	**67**	**184**

Investment expenses				**2017**
CHF millions	**Expenses**	**Unrealised losses**	**Realised losses**	**Total**
Fixed income securities	—	(45)	(20)	(65)
Equity securities	—	—	—	—
Short term investments	—	—	—	—
Hedge Fund investments	—	—	—	—
Private Equity investments	—	—	—	—
Alternative investments	—	—	(3)	(3)
Other investments	—	—	(3)	(3)
Cash and cash equivalents	—	—	—	—
Investment management fees	(11)	—	—	(11)
Total Investment expenses	**(11)**	**(45)**	**(23)**	**(79)**

Total net investment contribution	**103**	**(42)**	**44**	**105**

Investment income				**2016**
CHF millions	**Income**	**Unrealised gains**	**Realised gains**	**Total**
Fixed income securities	52	1	32	86
Equity securities	—	—	5	5
Short term investments	1	—	—	1
Hedge Fund investments	—	—	—	—
Private Equity investments	—	—	—	—
Other investments	1	—	—	1
Cash and cash equivalents	—	—	—	—
Total investment income	**54**	**1**	**38**	**93**

Investment expenses				**2016**
CHF millions	**Expenses**	**Unrealised losses**	**Realised losses**	**Total**
Fixed income securities	—	(12)	(23)	(35)
Equity securities	—	(1)	(3)	(3)
Short term investments	—	—	(4)	(4)
Other investments	—	—	(4)	(4)
Cash and cash equivalents	—	—	—	—
Investment management fees	(5)	—	—	(5)
Total investment expenses	**(5)**	**(13)**	**(29)**	**(48)**
Total net investment contribution	**49**	**(12)**	**9**	**45**

The net investment contribution amounts to CHF 105m (including realised and unrealised losses), compared to CHF 45m in the previous year. Investment income has increased from CHF 93m to CHF 184m year on year which is mainly due to the sale of the subsidiary Catlin CCC Holdings LLC to another Group company and a dividend income from XL Resseguros Brasil S.A. In addition, the asset base increased by CHF 882m compared to the prior year mainly due to net cash inflows from reinsurance activities, resulting in higher interest income on fixed income securities. During 2017, the fixed income portfolios have seen some further asset reallocations from lower yielding government securities into corporate and structured credits with higher book yields.

The Company predominantly holds investment grade fixed and variable income portfolios denominated in a variety of currencies, which broadly correspond to the respective liabilities of the Company. Assets representing capital of the Company, which are not matched to specific liabilities, are generally held in US Dollars.

B.3 Other income and expenses

CHF millions	**2016**	**2017**	**Change**	**Change in %**
Interest expense	(2)	(1)	1	(50)%
Other income	30	34	4	13 %
Administration and other expenses	(63)	(84)	(21)	33 %
Allocated operating costs	46	44	(2)	(4)%
Foreign exchange	—	(32)	(32)	(100)%
Total other income and expenses	**11**	**(39)**	**(50)**	**(455)%**

Administration and other expenses increased by CHF 21m to CHF 84m in 2017. The increase is mainly attributable to the integration of former XL Re Latin America Ltd into the Company's results including its administration expenses, one-off expenses in relation to remaining lease obligation expenses of office space, as well as higher Group recharges as a result of materially more third party business written. The allocation of operating costs to the reinsurance business (2017: CHF 44m and 2016: CHF 46m) is performed on an imputed basis.

The foreign exchange loss of CHF 32m (2016: CHF 0m) arises from foreign currency transactions incurred in each of the Company's business units and the revaluation of monetary assets and liabilities denominated in foreign currencies into the functional currencies at the period end rates. Revaluation gains and losses are deemed realised and recorded in the income statement. Each business unit with a different functional currency from the Company's Statutory reporting currency is translated to Swiss Francs; resulting unrealised gains are deferred and recorded under the balance sheet line item provision for currency fluctuation. Unrealised losses from translation are either offset against the provision for currency fluctuation or recorded in the income statement. In 2017, unrealised translation losses in the amount of CHF 21m have been recorded against the provision for currency fluctuation, while in 2016 the provision was increased for foreign exchange gains in the amount of CHF 22m.

C. Corporate governance and risk management

C.1 Corporate governance

C.1.1 Board of Directors composition

The names of the persons who are directors of the Company as at the date of this report are:

Claus-Michael Dill (German)	Independent Non-Executive Chairman
Robert Littlemore (British)	Non-Executive
Rhicert Jerome Peter Webb (British)	Non-Executive
Andreas Weber (Swiss)	Non-Executive
Angela Zeier Röschmann (Swiss)	Independent Non-Executive

During the period, the following appointments and resignations took place:

Paul Brand (British)	Resigned	28 November 2017	Non-Executive
Stephen Catlin (British)	Resigned	16 June 2017	Non-Executive Chairman
Esther Kramer-Graf (Swiss)	Resigned	9 February 2017	Non-Executive
Robert Littlemore (British)	Appointed	28 November 2017	Non-Executive
Peter Schmidt (Swiss)	Resigned	20 April 2018	Executive
Rhicert Jerome Peter Webb (British)	Appointed	24 April 2018	Non-Executive
Andreas Weber (Swiss)	Appointed	10 April 2017	Non-Executive
Angela Zeier Röschmann (Swiss)	Appointed	10 April 2017	Independent Non-Executive

Board meetings are held at least quarterly and five meetings are generally scheduled per year. Detailed Board reports are prepared and circulated in advance of meetings, addressing all major areas of the Company's operations, encompassing underwriting performance, financial results, reserving, risk management, legal and compliance and internal audit.

The Board has the power to adopt resolutions in all matters which do not fall within the shareholder's meeting or any other body by virtue of law, the Articles of Association or the organisational regulations.

Qualifications of the Board and key function holders

The Board regularly considers the qualifications necessary for its members. In this regard, the Board believes that its members should be persons with superior business judgment and integrity, who have knowledge or experience in the areas of insurance, reinsurance, financial services or other aspects of the Company's business, operations or activities, and who have distinguished themselves in their chosen fields of endeavour. In addition, the Board believes its members should have the talent and vision to provide oversight and direction in the areas of strategy, operating performance, corporate governance and risk management in order to protect the interests of the shareholder and the policyholder whilst maintaining the highest standards of ethical business conduct. The Company supports these objectives through an ongoing program of compliance training. The Board believes that each of its Directors contributes a strong background and set of skills to enable the Board to meet its responsibilities and that key function holders possess the skills, knowledge and expertise to carry out their regulatory obligations.

The Board considers diversity among other factors in assessing the skills and characteristics of Director candidates and the Board as a whole. This consideration includes a broad evaluation of diversity of viewpoints, skills, experience and other demographics represented on the Board as a whole. The discussion and evaluation of diversity occurs at the Board and committee levels.

C.1.2 Executive Committee composition

The Executive Committee ("ExCo") is composed of the following members:

Peter Schmidt (Swiss)	Chief Executive Officer and Chief Underwriting Officer a.i.
Benno Schaffhauser (Swiss)	Chief Financial Officer
Jonathan Gale (British)	Principal representative of Bermuda Branch

There were no changes in the Executive Committee composition during 2017.

Further information on the Executive Committee can be found in section C.1.3 below.

C.1.3 General information corporate governance

Corporate governance provides the framework through which:

- Objectives and strategy of the Company are set, and the means of attaining those objectives and monitoring performance are determined;
- Roles and responsibilities of the Board and senior management are described;
- At an operational level, policies are set, risk management is developed and carried out, and the business is operated on a day to day basis;
- The activities and behaviour are aligned with the expectation that Board, management and staff will operate in a prudent and sound manner, and in compliance with applicable laws and regulations; and
- The interests of policyholders, beneficiaries and reinsurance claimants are protected.

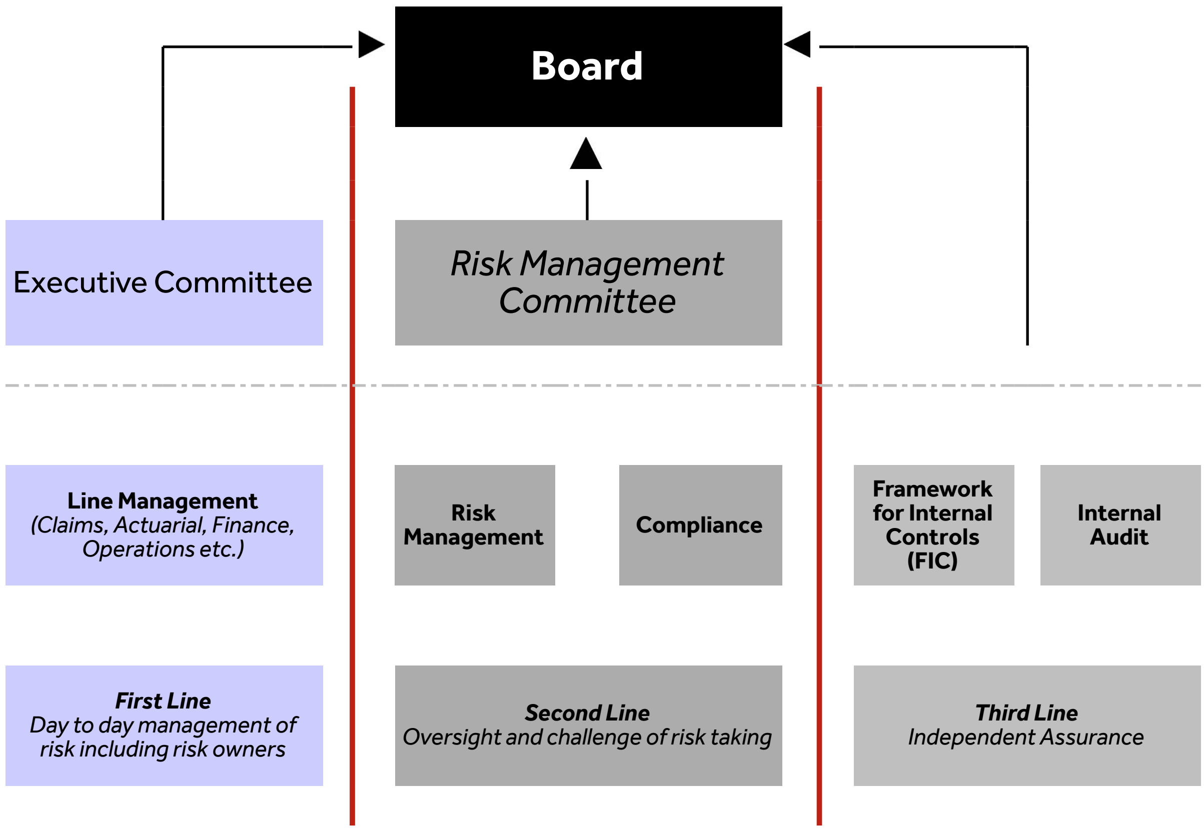
Essential elements of the corporate governance incorporate its corporate values, i.e. respect, ethics, teamwork and excellence.

The Board has ultimate responsibility for directing the strategy of the business; setting the Company's risk appetites; and the implementation and maintenance of an effective corporate governance framework for the Company. The key components of this framework are discussed below. The Company's framework is designed to demonstrate the Board's and management's commitment to effective governance; and to meet the requirements of the FINMA circular 2017/2 'Corporate Governance - Insurers' that applies to the Company.

The Board is satisfied that the Company's system of governance is appropriate and effective, taking into account the nature, scale and complexity of the risks inherent in the Company's business.

The system of governance applies to the Company and its Bermuda Branch.

This section provides details of the Company's management structure along with roles and responsibilities and committees.



The Board seeks to ensure that the operations are conducted within a framework of prudent and effective controls that enables effective risk management, and conformity with the applicable legal and regulatory requirements. The Board sets the risk appetites for the Company and its business units. Management is responsible for monitoring risks against risk appetite and for escalating any risks that breach risk appetite to the Board.

The Board recognises the need for strong organisational governance to ensure there is effective oversight of the management of the business, that senior management exercises their responsibilities appropriately, and that robust internal systems and controls are in place.

The Board comprises a balance of members of the Executive Management team and (independent) non-executive Directors. It meets at least four times a year and its key responsibilities include approval of the strategy and risk appetite. The FINMA circular 2017/2 around Board composition and Board committees is currently being implemented in order to be fully compliant by 2019 at the latest.

Supplementing the governance structure are two formal committees: the Executive Committee and the Risk Management Committee ("RMC"), both reporting to the Board.

The Company undertakes a thorough strategic planning process considered within the overall strategy of the Group and overseen by the Board. According to the Swiss Code of Obligation Art. 716a, the Board is responsible for implementing the Company's strategy, and for the on-going oversight and management of the risks associated with the strategy which are delegated to the ExCo for implementation.

The ExCo is responsible for ensuring there is a governance framework in place to support the delivery of the Company's strategic plan by the business.

Internal controls

The Company operates a 'Three Lines of Defence' approach to ensure effective and robust day to day governance is in place. The operational, or the 'first line of defence', starts with the employees, who are tasked with identifying and managing risk on a day to day basis as part of their roles. They are supported by the 'second line of defence', which is made up of oversight functions - specifically Risk Management and Compliance. These functions have responsibility for overseeing and challenging day to day management, control and reporting of risks. The Risk Management and Compliance functions are independent of management and individuals with responsibility for taking on risk exposures. The Internal Audit function provides the 'third line of defence' which provides independent assessment of the effectiveness of the Company's system of internal control and reports to the Board.

In addition, the Company operates a Framework for Internal Control ("FIC") process which provides assurance on the controls around financial reporting; further details are included in Section C.3.1.

Executive Committee

The ExCo is responsible for the development and implementation of the strategy for the Company. This includes assessment of the performance of the business to ensure risks associated with the strategy and its implementation are understood and managed - with action taken to mitigate those risks and challenges in line with the risk appetite of the Company.

Risk Management Committee

The RMC oversees the RMF of the Company, including those risks emanating from regions outside in which it is operating. Its role is to:

- Monitor all material risks associated with the strategic direction of the Company's business;
- Advise the Board on the effectiveness of strategies and policies with respect to maintaining both ORSA and SST capital which are adequate to cover the risks of the Company; and
- Provide review and challenge to the Company's RMF including risk strategy, risk appetites, stress testing, and risk oversight arrangements.

The Board has approved a RMF and has charged day to day monitoring of it to the RMC, which reports to the Board. The RMC is supported in its functions by the local Risk Manager ("RM") who has responsibility for the Company's risk management function. The RM is a member of the RMC, which reports to the Board.

C.1.4 Key functions

The Company's Risk Management, Compliance, Internal Audit and Actuarial functions are the key functions in its system of governance. Holders of key functions are authorised to operate free from influences which may compromise their ability to undertake their duties in an objective, fair and independent manner.

Each of these key function holders:

- Operates under the ultimate responsibility of, and reports to the Board as appropriate;
- Cooperates with the other functions, where appropriate, in carrying out their roles, but operates independently;
- Is able to communicate, at their own initiative, with any staff member and has the necessary authority, resources and expertise and unrestricted access to all relevant information necessary to carry out their responsibilities; and
- Promptly reports to the Board any significant issues arising in their area of responsibility.

Key function holders co-operate with each other but operate independently. Individuals carrying out the Internal Audit function do not assume any responsibility for any other function.

The Company has in place written policies in relation to its key functions. Further information on these functions is contained within sections C.2 (Risk Management), C.2.3 (Internal Audit) and C.2.4 (Compliance). The implementation of key functions within the Company is explained below.

Risk Management

The Company's Risk Management function is responsible for maintaining and monitoring the effectiveness of the Company's risk management system. The Company's Risk Manager plays a key role in the operation of the RMC. The RM is a member of the RMC, which reports to the Board. Further information about the Risk Management function is set out in section C.2.

Compliance

The Compliance function is responsible for promoting a robust compliance culture in the Company, advising on all regulatory compliance matters affecting the Company and the identification and assessment of compliance risk. The Compliance Officer reports to the Board periodically and has direct access to the Chairman of the Board. The Compliance Officer also reports to the RMC on a regular basis. Further information about the Compliance function is set out in section C.2.4.

Internal Audit

The Head of Internal Audit ("HoIA") leads the Company's Internal Audit function, supported by XL Group's Internal Audit Department. The HoIA is responsible for evaluating the adequacy and effectiveness of the Company's internal control system and other elements of the system of governance. Their key responsibilities are set out in the Internal Audit policy. The HoIA reports directly to the Board. Further information about the Internal Audit function is set out in section C.2.3.

Other critical and important functions

In addition to the above, the Board has identified Underwriting, Claims Management, Finance and Investment Management as functions which are of specific importance to the sound and prudent management of the Company. The Chief Underwriting Officer, Claims Manager and Chief Financial Officer are responsible for ensuring that their respective activities are aligned to the risk appetites of the Company. These functions report to the Board either directly or through the CEO. The Investment Management function is in-sourced from XL Group Investments Ltd ("XLGIL").

C.1.5 Remuneration policy and practices

The Company ensures that its remuneration policies and practices are in line with its business strategy, risk profile, objectives, risk management practices and long-term interests and ensures measures are in place to avoid conflicts of interest. Its remuneration policy promotes sound and effective risk management and does not encourage risk-taking that exceeds the Company's level of tolerated risk. The Company operates a Code of Conduct that all employees must adhere to.

The balance of fixed and variable compensation is consistent with competitive market practice in the insurance industry, while permitting the Company to operate fully flexible variable compensation policies. Variable pay for colleagues in independent control functions is not aligned with the performance of the businesses they oversee, and is designed to avoid conflicts of interest while appropriately balancing risk and reward.

An overview of the arrangements that are in place are as follows:

- ***Fixed remuneration*** - The Group considers multiple factors - including an individual's role and responsibilities, performance, experience, expertise and peer market compensation information in setting target levels of base compensation.
- ***Variable remuneration*** - Individual bonus awards are determined based on performance reviews of individual and overall performance and are fully discretionary, allowing for full flexibility to award no variable remuneration if warranted. Staff have a bonus target amount expressed as a percentage of base pay.
- ***Long term incentive plan*** - Long-term incentive awards are reserved for those who perform at a high level, recognise the recipient's anticipated future contributions, and take relative and absolute performance, individual potential and unique skills into consideration. Grants of long-term incentives are based on sustained individual performance and criticality of skills. For the most senior leaders, shares in XL Group awarded under the long term

incentive program are subject to holding and minimum ownership requirements. Individual awards under the Group's long-term incentive plans are also capped and subject to claw-back provisions.

Supplementary pension schemes

The Company's remuneration program does not include any supplementary pension or early retirement schemes for members of the Board or its other key function holders.

C.2 Risk Management

C.2.1 Risk management framework

The Company faces strategic, financial and operational risks related to, among others: underwriting activities, financial reporting, changing macroeconomic conditions, investment, reserving, changes in laws or regulations, information systems, business interruption and fraud. An enterprise view of risk is required to identify and manage the consequences of these common risks and risk drivers on the Company's profitability, capital strength and liquidity which are managed by the Enterprise Risk Management ("ERM") function who implement the RMF.

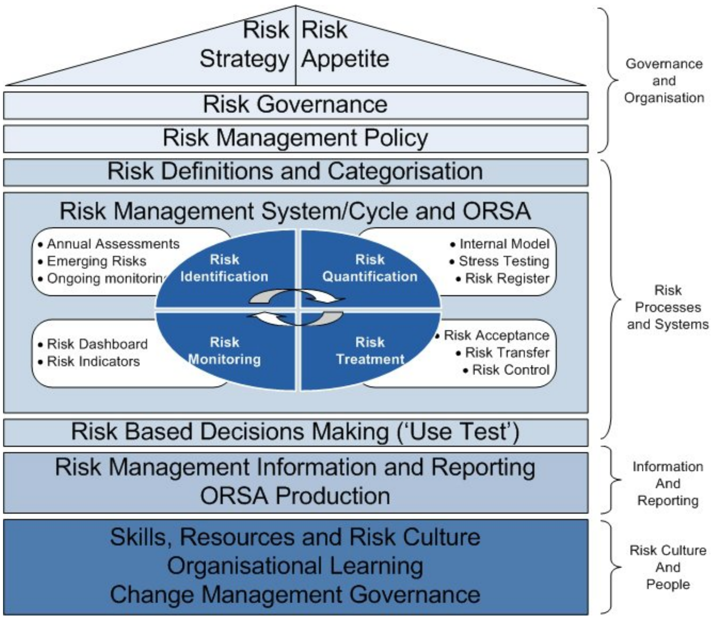
The RMF is reviewed by the RMC and recommended for approval by the Board, at least annually. The RMF would be reviewed more regularly if the Company was subject to a major change in regulatory requirements, strategy or organisational structure. Due to the cancellation of the Group internal reinsurance agreements with US cedants, the Company's RAF, which is a component of the RMF, was revised in line with the risk profile changes as of 1 January 2018.

The aim of the RMF is to:

- Support business objectives and strategy;
- Provide management information to facilitate the identification and understanding of material risks including related mitigants;
- Contribute to the Company's overall internal control framework by helping to manage the inherent complexity within the business;
- Improve the Group's ERM rating and credit rating which is applicable to the Company; and
- Support regulatory risk management requirements.

The RMC meets quarterly and oversees the implementation and embedding of the RMF and monitoring of Company performance against risk appetite. The RMC has responsibility for capital monitoring and makes recommendations and escalates any issues to the Board, related to risk and capital management. The RMC ensures that material and emerging risks are identified and reported and that appropriate arrangements are in place to manage and mitigate those risks effectively. The Company's stress testing framework and outputs are reviewed by the RMC and support understanding of the risk profile.

The RMF comprises the following:



Risk Management Strategy

The risk management strategy is overseen by the Board and supports the delivery of the overall business strategy. To support the Board, the Company has an appointed RM, supported by the Global ERM team and the RMC to oversee more detailed risk management activity and the Board approved risk appetites.

The risk management strategy is to ensure that risk is considered alongside reward in setting its strategic and business objectives. The strategy is articulated in the RMF and risk policies and is achieved by incorporating risk processes, information and decisions in the day to day running of the business.

The Company's strategy involves taking on risk in order to generate return. Risks are selected and controlled or traded off through the risk strategy that focuses on:

- Retaining risk within an approved risk appetite that is consistent with the Company's strategic objectives, with appropriate levels of capital with excess held by the Company;
- A diversified portfolio of underwriting and financial markets risks;
- Managing excessive aggregation risk via a limit framework;
- Exercising consistency and transparency of risk management and control across the entity;
- Risk mitigation on key underwriting and financial market risks to protect capital from the impact of extreme events; and
- Risk reporting to the RMC, the Board and other stakeholders (e.g. regulators).

Risk Appetite Framework

The Company's RAF is a key dimension to the risk management strategy and is used to provide governance for setting new monitoring requirements as well as reviewing and updating existing risk appetite statements, tolerances and limits so that these are aligned with business and risk management strategies. The Company's RAF focuses on regulatory capital at risk, tolerances to risks from material individual events (e.g. natural catastrophes, realistic disaster scenarios ("RDS") that cross multiple lines of business etc.), liquidity standards, tolerance to specific investment related risks and operational loss. The Board approved risk appetites and risk tolerances were reviewed during the 2018 business planning process and it was determined that all statements and tolerances were appropriate to allow the Company to execute the 2018 business plan. Subsequent to Board approval of the RAF,the Company was informed by the Group's internal US cedants (by the respective pool leaders), of their desire to terminate the quota share contracts effective 31 December 2017. The Company accepted the request. This cancellation has resulted in a materially lower risk profile of the Company as at 1 January 2018 as compared to 2017 and compelled the Company's Board to revise its RAF for 2018 to reflect the risk profile changes.

The risk strategy and risk appetite frameworks are supported by the following:

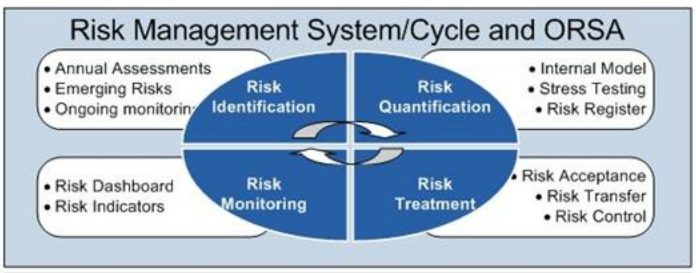
- **Risk governance** sets out a clear and cost effective organisational structure for risk management, including clear roles and responsibilities. As part of the Risk Governance Framework the Company operates a 'Three Lines of Defence' governance structure, at a functional level as well as a management committee level;
- **Risk policies** document the Company's approach to the management of each category of risk to which the Company is exposed;
- **Risk definition and categorisation** provides a common taxonomy and language for risk to allow for categorisation of all risks in a way which facilitates links between the business, risk management processes and Internal Capital Model ("ICM");
- **Risk cycle and processe**s are the approach taken to top down, bottom up and process led risk identification, quantification and management and control;
- **Risk-based decision making ('use test'):** The results of the ORSA and the insights gained in the ORSA process are taken into account for a range of business decisions;
- **Risk Management information and reporting, including ORSA production** ensuring timely and accurate information is reviewed in line with the governance structure;
- **Skills, resources and risk culture. Organisational learning. Change management governance** - All enable a mature risk culture throughout the Company.

Risk Reporting

A risk dashboard is presented quarterly to the RMC. The dashboard measures the status against risk appetite statements and the associated monitoring triggers and limits using the latest output from the business, the ICM, and SST. The dashboard includes information related to the monitoring against all of the Company's material risk categories. Highlights from the dashboard including performance against appetite and limits are reported to the Board through the Risk Board report.

C.2.2 Own risk and solvency assessment

The Company's ORSA process includes all of the processes and procedures employed to identify, assess, monitor, manage, and report the short and long term risks the Company faces or may face and to determine the capital necessary to ensure that the Company's overall solvency needs are met at all times (see section F.1 for the time horizon of capital planning). The graph below outlines the continuous ORSA process:



The regulatory capital requirement is on the SST basis. Market and investment credit risk are calculated using the standard model, whereas insurance and reinsurance credit risks are calculated using the internal model. The ICM output together with SST results are presented to the RMC and the Board provide richer insights on risk exposures, and to inform and drive risk and capital based decision making. This process is linked closely with capital management activities and the level of capital in excess of Regulatory (SST) and Economic (ORSA) capital in line with the Company's capital buffer policies.

The processes for the ORSA and production of the ORSA report are tailored to fit into the Company's organisational structures in a proportionate manner with techniques to assess the overall solvency needs and taking into consideration the nature, scale and complexity of the risks inherent to the business.

The risk management cycle is set for key aspects of the risk management process that are deemed to be part of the ORSA process and that will support the production of the Company's ORSA Report. The ORSA process includes procedures that enable the Company to monitor its compliance with its risk appetites, risk limits, economic capital and also regulatory capital requirements whilst taking into account potential future changes in the risk profile and considering stressed situations.

ORSA governance

All risk management and capital assessment processes form part of the ORSA. The ORSA is not a single task undertaken at one point in time, but rather it encompasses the entirety of the risk and capital management activity undertaken during the year. The risk and capital management activities are set out in the Board approved ORSA policy. Key tasks within that activity are reviewed and approved by the Board as part of the process (e.g. capital to support the business plan and risk appetites) and this is then included in the Board approved ORSA report. The production of the full ORSA report is performed annually or more often if significant changes happen. Regular management information that is produced by the ORSA processes is provided continuously to the Board during the year.

The frequency of each ORSA process mentioned above has been set to allow for appropriate identification, assessment, measurement, control and monitoring of risks to the business.

C.2.3 Internal Audit function

The objectives of the Internal Audit function are to provide assurance that the Company's network of risk management, internal control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed;
- Internal accounting and operating controls are adequate and operating effectively;
- Financial, managerial, operating and technology systems information is appropriate, accurate, reliable, and timely;
- Compliance with Company policies, standards, procedures, code of conduct and applicable country laws and regulations;
- Resources are acquired economically, used efficiently, and adequately protected;
- Programs, plans, and objectives are achieved;
- Quality and continuous improvement are fostered in the Company's control processes;
- Significant legislative or regulatory issues impacting the Company are recognized and addressed properly; and
- Achievement of the Company's strategic objectives.

C.2.3.1 Internal Audit independence

To provide for the independence of the Internal Audit Department, the Head of Internal Audit for the Company reports to the Board of Directors.

Activities performed by Internal Audit do not relieve management of their assigned responsibilities. Internal Audit has no authority over, or responsibility for, activities audited. Internal Audit will avoid activities that are not audit functions and that may be perceived to impair audit objectivity.

The Internal Audit Department complies with the International Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors ("IIA"). The Standards apply to individual internal auditors and internal audit activities. All internal auditors are accountable for conforming to the Standards related to individual objectivity, proficiency and due professional care.

The IIA has also established a Code of Ethics which covers basic principles of the internal auditing practice. Internal Audit has a responsibility to conduct itself so that its good faith and integrity are not open to question.

C.2.3.2 Internal Audit work-plan

To most effectively execute the Internal Audit Department's mission, the audit plan is risk-based and is focused on the key business risks relevant to the Company.

Formally on an annual basis (during Q4), the Internal Audit Department, in conjunction with the Enterprise Risk Management , Framework for Internal Control, and the external auditors, review the corporate-wide integrated audit universe of business functions, risks, processes and controls. Risk assessment includes discussions with management and all designated functions and processes within the audit universe are risk assessed based on changing business conditions, the evolving operating environment and associated risks, among other risk criteria. Each auditable entity receives an overall risk rating as well ratings for each of the four components of COSO's ERM Framework (Strategic, Operations, Reporting and Compliance), and used to produce a risk based annual audit plan. During each year, the audit universe is subject to ongoing risk assessment to identify significant changes to the universe and risk ratings, which can result in changes to the annual audit plan. The Company's annual audit plan, along with any key changes to it, are reported to the Board of Directors for approval.

All audits are performed and documented in accordance with the IIA Standards.

C.2.3.3 Internal Audit engagement process

The Internal Audit engagement process is set out below:

- **Engagement planning:** The objectives of this phase are to refine the scope of internal audit activities for the engagement; identify which business processes, systems and controls will be evaluated; determine which techniques will be used; manage expectations; and coordinate with FIC (and/or any other assurance providers) and external auditors.
- **Risk and control evaluation:** The objective of this phase is to understand the business process, the key controls and the primary risks associated with the business process.
- **Fieldwork and testing:** The auditor will determine whether the controls supporting the audit objectives are adequately designed and effective through the gathering of audit evidence.
- **Reporting:** This phase provides a well-supported opinion on the controls in place, provide value added recommendations and identify opportunities to improve the internal control environment.
- **Follow-up and closure:** The objective of this phase is to monitor the outstanding audit recommendations and agreed-upon audit issue resolutions to ensure their timely implementation.

C.2.4 Compliance function

The Company's Compliance function forms part of the internal control system, along with Internal and External Audit, Risk Management and Actuarial functions. It has responsibility for advising on all regulatory compliance matters affecting the Company. Its role includes an assessment of the possible impact of any changes in the legal environment on the operations of the Company and the identification and assessment of compliance risk.

In carrying out its responsibilities, the Compliance function works closely with all of the business divisions including Underwriting, Claims, Investments, Finance and Human Resources. However Compliance is a corporate function and is not tied to any business unit. Although it supports operational functions within the business, particularly with regard to advising on compliance with appropriate regulations, it has i) the necessary authority from the Board, ii) independence, and iii) access to act, inspect records, challenge and report in order to discharge its responsibilities properly and independently.

A compliance training and assessment is formally conducted by the Compliance function annually or more frequently if there is a material change to the Company's regulatory risk profile or control framework. The risk assessment determines the content of the compliance plan including monitoring activities and training. The results of the assessment are reported to the Board.

C.2.5 Material changes in risk management

There were no material changes to the risk management function or governance in 2017.

C.3 Internal control system

C.3.1 Framework for Internal Controls

The Company's 'Three Lines of Defence' approach, as described in section C.1.3, ensures that effective and robust day to day governance is in place. The Internal Audit function provides independent assessment of the effectiveness of the Company's system of internal control.

In addition, assurance on the controls around financial reporting is provided by XL Group's Framework for Internal Controls function. This function provides reasonable assurance that financial reporting is reliable and compliant with applicable laws and regulations and provides comfort over the completeness, accuracy and appropriateness of data.

The Framework for Internal Controls function is committed to promoting a robust internal financial control framework for the Audit function, Executive Management and external stakeholders to rely on for financial and regulatory reporting purposes.

FIC's core strategic objectives include:

- Conducting an effective and efficient assessment of the design and operating effectiveness of internal controls over financial reporting;
- Identifying areas in which the inherent risk of financial misstatement is high so that management can address these risks before they manifest themselves in an actual misstatement;
- Providing the Audit function and Executive Management with the information they need to make the assertions and certifications required; and
- Adding value by helping management promote a robust control environment.

The FIC function performs an annual assessment of the control framework which includes: Risk identification, risk assessment and planning; documenting business processes; evaluation and validation of key risks and controls; and issue management.

D. Risk profile

Risk governance requires that the Company can comprehensively articulate the profile/universe of its risks over which its governance processes operates. To this end, the Company has an agreed approach to the definition and categorisation of risks.

The risk universe outlines the major risk categories that the Company has determined it is exposed to:

Insurance Risk	Market Risk	Credit Risk	Operational Risk	Liquidity Risk	ALM Risk	Group Risk	Strategic Risk

Credit risk includes investment credit risk and reinsurance credit risk. Investment credit risk, market risk and ALM risk (included within market risk) are modelled using the FINMA standard models. Insurance risk and reinsurance credit risk are modelled within the internal model. These are all combined to produce the regulatory capital requirement. Liquidity risk, operational risk, group risk and strategic risk are not included within the regulatory capital requirement, however, these are monitored on a regular basis.

Due to the cancellation of the reinsurance business from US cedants there has been a material change to the company's risk profile. Using 1 January 2018 exposures, the Company's largest natural catastrophe exposures are Chile Earthquake and South America Earthquake and man-made perils such as a Global credit crisis.

Reserve risk is a significant driver of insurance risk and hence target capital. This risk is driven by simultaneous deterioration in held reserves impacting multiple lines of business.

D.1 Insurance risk

Risk definition

Insurance risk is defined using the following categories:

Component	Definition
Underwriting risk	Underwriting risk derives from insurance and reinsurance policies written for the current period and also from unearned exposure from prior periods. The risk is that the corresponding premium will be insufficient to cover future claims and other costs or more generally that the underwriting profitability from this tranche of business will be less than expected; Underwriting risk includes man-made catastrophe events and natural catastrophe events.
Reserve risk	Reserve risk relates to policy liabilities (corresponding to business written in prior periods where the exposure has already been earned at the opening balance sheet date) being insufficient to cover the cost of claims and associated expenses until the time horizon for the solvency assessment. Additional risks are that the timing or amount of actual claims pay outs do not align with the timing or amounts of the estimated claims pay outs.
Lapse risk	Lapse risk is the risk of loss, or of adverse change in the value of insurance future profits, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrenders. This includes policies where an assumption has been made about renewals that may not be warranted based on past experience either in terms of actual treaties or underlying policies issued and renewable.

Risk identification

Underwriting and loss experience is reviewed regularly for, among other things, loss trends, emerging exposures, changes in the regulatory or legal environment as well as the efficacy of policy terms and conditions. Underwriting risk is also identified through:

- **Business planning** - Analysis is undertaken of the underwriting portfolio, exposures, loss experience and changes to the external environment (including market cycle, economic environment) to identify any changes to the insurance risk profile for the forthcoming period of the budget / business plan;
- **Underwriting processes (including guidelines and escalation authorities)** - Each individual contract written is assessed, by the underwriting process (which is subject to granular underwriting guidelines and escalation authorities) for the nature and level of insurance risk that it brings to the business including consideration of the exposure by nature of the limit, the risks insured, the location of the risks and other underwriting criteria;
- **Reserving and claims process -** On an ongoing basis, claims trends are monitored and analysed for any indications of change in the nature of the underlying insurance risk;
- **Risk assessment process -** Through the risk assessment processes, the Company quantifies existing risks and also identifies new risks;
- **RDS and other scenarios;** and
- **Emerging risk process** (see also section D.4)

Risk mitigation

Reinsurance purchases

A Group managed outwards third party reinsurance ceded risk transfer program is employed to support the underwriting strategy within risk appetite and to ensure efficient use of capital. Reinsurance ceded varies by location and line of business based on a number of factors, including market conditions. The goals of the outwards reinsurance ceded risk transfer program include reducing exposure on individual risks, protecting against catastrophic risks, maintaining acceptable capital ratios and enabling the writing of additional business. The overall goal of the program is to reduce volatility and enhance the overall capital efficiency.

Reinsurance is purchased on planned gross exposures. The adequacy of the reinsurance strategy is approved by the Board as part of the annual business planning process, and the impact of the strategy is monitored quarterly via the RMC and Board.

As of 1 January 2017, the Company purchased an Intra-Group reinsurance Whole Account Stop Loss ("WASL") cover of a 15% loss ratio in excess of a 75% loss ratio on a losses occurring basis, with an event cap of USD 500m. The contract was renewed for 1 January 2018.

Actuarial function

To mitigate the risk of large changes of reserves from one period to the next which are not due to external but to internal factors such as human errors, the reserving process performed by the Actuarial function is highly structured, strictly defined and controlled and includes several layers of oversight.

Underwriting authorities and guidelines

All underwriters are assigned individual underwriting authorities with the objective of preserving the capital base and controlling earnings volatility. Authorities within the business units are delegated through the underwriting management structure and the annual review of underwriting limits is part of the business planning process. Authorities are also set in line with agreed risk appetites and risk tolerances for material individual events, the investment portfolio, RDS that cross multiple lines of business and from risks related to some or all of the above that may occur concurrently.

The Company underwrites and prices most treaties individually following a review of the exposure and in accordance with its underwriting guidelines. The Company seeks to serve its clients while controlling its exposure both on a portfolio basis and on individual reinsurance contracts through terms and conditions, policy limits and sub-limits, attachment points and ceded reinsurance arrangements on certain types of risks.

Risk monitoring

On a quarterly basis catastrophe exposures are measured and monitored and reported to the RMC and Board. RDS' are produced twice a year and monitored and reported to the RMC and Board as outlined in section C.1.3.

In relation to event risk management, net underwriting risk tolerances are established for the individual largest events in the risk profile. These are captured through risk reporting to the RMC and Board and monitored as part of the RAF. The following outlines the Company's insurance risk appetite statements:

Risk type	CRCH Risk appetite statement
Underwriting risk	- The 1% TVaR per event limits (occurrence exceedance probability) for the key Natural Catastrophe Perils approved by the Board. - Board approved limits for key RDS.

The Company monitors prior year development on its held reserves on an ongoing basis. The Company will be enhancing its risk monitoring processes by developing a set of triggers that monitor risks (including reserve risk) at a more granular level to ensure early notification and monitoring of the risks.

For further information regarding the monitoring of insurance risk through the RMF and RAF, please see section C.2.1.

Stress testing framework

There is an embedded stress testing framework that is used to understand possible impacts of major risks, including underwriting risks. These impacts include the earnings, underwriting, investments, liquidity and capital implications of low frequency, high severity events. For underwriting risks the main stress tests approaches used cover natural catastrophe peril exposure results production and RDS production as outlined below.

Test type	Reason performed
Natural Catastrophe reporting	To monitor Natural Catastrophe exposures against risk appetite
RDS reporting	To monitor non-Natural Catastrophe exposures against risk appetite and to assist in the setting of overall risk limits

Natural catastrophe exposure results and RDS exposure results are used to monitor exposure to the defined scenarios and monitor compliance with underwriting risk tolerances and limits. RDS cover both short and long tail lines of business and cross class event exposures. The RMC (and Board) are informed of results of stress tests performed via risk dashboards and the ORSA report throughout the year where discussions and challenge include whether the results fall within relevant approved risk tolerances and limits.

The Company undertakes a range of extreme events intended to stress the capital position. Considering the 1 in 100 TVaR underwriting risk, the key natural catastrophe exposures for the Company at 1 January 2018 include Chile Earthquake and South America Earthquake. The 1 in 100 TVaR exposure is measured on a per event net occurrence exceedance probability ("OEP") basis which is calculated using 'Risk Management Solution' software. The largest man-made peril is a Global credit crisis.

Based on the above factors considered in stress testing the underwriting limits, all underwriting risks are deemed to be well managed and within risk appetite as reported via the risk dashboard and ORSA report to the RMC and Board.

Quantitative impacts from insurance risk are included in section G.2.2.

D.2 Market risk

Risk definition

Market risk represents the potential for loss due to adverse changes in the fair value of financial and other instruments. The Company is principally exposed to the following market risks:

Component	Definition
Interest rate risk	Financial loss due to the combined sensitivity of the economic value of the investment portfolio and (re)insurance liability cash flows to changes in the level or volatility of benchmark-interest rates.
Spread risk	Financial loss due to sensitivity of the value of the debt securities to changes in the level or volatility of credit spreads.
Foreign exchange risk	Financial loss due to volatility in the value of the Company's assets and liabilities following changes in currency exchange rates.
Equity price risk	Financial loss due to the sensitivity of the value of the investment portfolio to changes in the level or in the volatility of market prices of equities.
Real estate risk	Financial loss due to the sensitivity of the value of the investment portfolio to changes in the level or in the volatility of market prices of real estate.
Hedge fund risk	Financial loss due to the sensitivity of the value of the investment portfolio to changes in the level or in the volatility of market prices of hedge funds.
Private equity risk	Financial loss due to the sensitivity of the value of the investment portfolio to changes in the level or in the volatility of market prices of private equities.
Investment risk	Financial loss due to the sensitivity of the value of the investment portfolio to changes in the level or volatility of market prices of private investments/subsidiaries.

Risk identification

The Company identifies market risk through the following processes:

Process	Description
Business planning	As part of the annual planning process, a review is undertaken of the nature of assets required to support the business plan and the expected liabilities.
Investment decisions and asset allocations	The Investment Portfolio Guidelines, Authorities and Monitoring Framework for the Company sets ranges for tactical deviation from the benchmark and is reviewed at least annually.
Risk assessment and processes	The risk assessment process assists in identifying if there are any changes to market risks already identified in the previous assessment.

Market risk is also identified through underwriting and the Group's Emerging Risk Taskforce which has Company representation. The Task Force is comprised of senior leadership from across the organisation and actively monitors a wide array of emerging risks to provide our underwriters, as well as clients, with pertinent information regarding new and existing trends. This involves the ongoing review of strategic and risk management processes, identifying potential opportunities in the market and providing thought leadership around emerging risk issues to optimise underwriting and strategic decisions.

Risk mitigation

Strategic Asset Allocation

The Strategic Asset Allocation ("SAA") process establishes a benchmark that is constructed to maximise enterprise value, subject to various considerations and constraints. It is subject to the risk tolerances recommended by management, and is approved at least annually by the Company's Board.

- **Authorities Framework** - As part of the SAA Benchmark, a comprehensive framework of investment decision authorities is employed. The objective of the Authorities Framework is to ensure that the risk profile of the investment portfolio is consistent with the Company's risk tolerance as reflected in the SAA Benchmark. The Authorities Framework controls active or tactical deviations from the SAA Benchmark. As the magnitude of these deviations increases or the resulting impact on the risk profile of the investment portfolio reaches certain predetermined thresholds, additional levels of authority and approval are required.

The statement of investment policy, authorities and guidelines and XL Group investment portfolio guidelines, authorities and monitoring framework comprise a market risk authority and guidelines structure that addresses all the key market risk factors and is commensurate with the volume and complexity of activity undertaken by XL Group.

- **Service level agreements** - Service level agreements are in place between XLGIL and the Company. These include guidance on type of investments and the average weighted credit ratings of the portfolio that can be made on behalf of the Company. Adherence to policies and guidelines is monitored and signed off by XLGIL on a regular basis and subject to monitoring and reporting to the Company's RMC and Board as described below.

Currency risk mitigation

The Company is primarily exposed to currency risk in respect of liabilities under policies of reinsurance denominated in currencies other than US Dollar. The most significant currencies to which the Company is exposed to are Euro, Pound Sterling and Canadian Dollars. The Company seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. Asset liability management analysis is run regularly to adjust surplus and shortfall currencies, ensuring that the entity exposures are broadly matched.

Risk monitoring

Day to day management of the investment portfolio is conducted through a combination of in-house portfolio management teams and external asset managers in accordance with detailed investment guidelines and risk tolerances, that are closely monitored by XLGIL. This hybrid implementation approach provides access to external asset managers with specialised skills across a broad range of investment products, as well as the flexibility to actively manage the overall structure of the portfolio in line with the Company's specific business needs. Interaction between the internal and external managers provides additional insight to take advantage of opportunities as they present themselves.

The delegation of investment authority to XLGIL is supplemented by a robust compliance monitoring with defined escalation and notification procedures. This framework is designed to identify investment risks in absolute and relative terms, and to consistently and objectively measure, assess, manage and report such risks on an ongoing basis. The framework is cascaded down to the Company, and approved by the Board. Any breaches in limits of the authority framework are highlighted in the risk dashboard presented to the RMC and escalated to the Board.

Risk appetite

Risk appetite and compliance with investment guidelines and authorities is captured through risk reporting to the RMC and Board and monitored as part of the RAF. The following outlines the Company's market risk appetite statement:

Risk type	Risk appetite statement
Market risk	The 1:100 Market Value at Risk ("VaR") to not exceed the approved limit set by the Board.

Stress testing framework

An embedded stress testing framework is used to understand possible impacts of major risks, including market risks. The following stress and scenario tests are used to identify risk exposures:

- Interest rate and spread sensitivities: by re-valuing current portfolio holdings assuming various changes in the level and term structure of interest rates and the level of credit spreads;
- Historical stress tests and Black Swan scenarios covering economic, financial and political events and the potential impact to the investment portfolio;
- RDS aggregations; and
- Ad hoc review of enterprise risk scenarios.

The Company undertakes a range of extreme events testing as identified above which intends to stress the capital position and also take a view at the 1 in 100, which is the point at which the market risk limit and appetite is set. Although the SST is calibrated at the 1% TVaR, internal risk monitoring and risk appetite is set at the 1 in 100 VaR risk measure. Considering the 1 in 100 annual VaR (1 year historical risk factor returns, exponentially-weighted) for market risk using BlackRock Solutions, the exposure does not breach risk appetite or result in the Company's solvency ratio dropping below 100% and therefore does not breach the SST minimum ratio.

The RMC and Board, where appropriate, are informed of results of stress tests performed throughout the year including whether the results fall within relevant approved risk tolerances and limits set out in the investment guidelines. Based on the above factors considered in scenario and stress testing, all market risks are deemed to be well managed and within risk appetite, as reported via the Risk Dashboard and ORSA report to the RMC and Board.

Test type	Reason performed
Market Risk scenarios	To evaluate the exposure to certain market risk events

Quantitative impacts from market risk are included in section G.2.1.

D.3 Credit risk

Risk definition

Credit risk is defined as the risk of loss due to an unexpected default, or deterioration in the credit standing of the counterparties and debtors or uncertainty of an obligator's continued ability to make timely payments in accordance with the contractual terms of the instrument.

Credit risk through the risk framework is categorised by the following:

Component	Description
Reinsurance counterparty risk	Risk of losses due to the default of a reinsurer or a deterioration of its credit worthiness.
Investment counterparty risk	Risk of possible losses due to the unexpected default, or deterioration in the credit standing of investment counterparties.
Premium counterparty risk	Premium counterparty default risk is the risk of possible losses due to unexpected default, or deterioration in the credit standing of the premium debtors in relation to insurance contracts written.
Underwriting counterparty risk	Exposure to credit risk through certain credit sensitive underwriting activities which include, but are not limited to, surety, worker's compensation, environmental, political risk and trade credit.

Risk identification

The Company identifies credit risk through the following processes:

Process	Description
Business planning	Analysis is undertaken of the credit risk exposures, loss experience and changes to the external environment (including market cycle and economic environment) to identify any changes to the credit risk profile for the forthcoming period of the business plan.
Underwriting	Each individual contract written is assessed, by underwriting process (which is subject to granular underwriting guidelines and escalation authorities) for the nature and level of credit risk that it brings to the business including consideration of the exposure by nature of the limit, the risks insured, the location of the risks and other underwriting criteria.
Risk assessment and processes	Through the risk assessment processes, the Company quantifies existing risks and also identifies new risks.
Emerging risks	The Group operates an emerging risks identification process. This assessment identifies key external factor changes that may give rise to credit risk issues. The process also evaluates potential opportunities that might arise from these emerging risks.

Risk mitigation

Credit risk is managed through:

- **Credit risk framework:** Credit risk arising from credit sensitive underwriting activities is managed via the underwriting limit framework. Credit risk is managed within the investment portfolio through the Authorities Framework and established investment credit policies, which address the quality of obligors and counterparties, industry limits, and diversification requirements. Exposure to market credit spreads primarily relates to market price and cash flow variability associated with changes in credit spreads.
- **Intra-Group credit arrangements:** The Company derives some reductions in risk resulting from purchased Intra-Group reinsurance arrangements via the whole account stop loss to XL Bermuda Ltd. The resulting credit risk to the Company is small, given XL Group's capitalisation and rating.
- **Underwriting authorities and limits:** See D.1 Insurance risk.
- **Investment portfolio:** Credit risk is managed in the investment portfolio, including fixed income, alternative and short-term investments, through the credit research performed by both investment management service providers and the in house portfolio management team.
- **Reinsurance Security Department:** The Company manages its credit risk in its external reinsurance relationships by transacting with reinsurers that it considers financially sound, and if necessary, collateral in the form of funds, trust accounts and/or irrevocable letters of credit may be held.
- **Premium payment and brokers:** The Company underwrites a significant amount of its reinsurance business through brokers. Credit and premium risk exists should any of these brokers be unable to fulfil their contractual obligations with respect to payment balances. Premium credit risk is controlled by premium cancellation provisions for certain lines of business which allow underwriting businesses to cancel policies for non-payment of premium. A list of approved broking houses is maintained.

Risk monitoring

ERM consolidates credit exposure reports from corporate functions and underwriting businesses on a regular basis for aggregating, monitoring and reporting to the Group Credit Risk Committee, as well as to the Company's RMC and Board.

Investment portfolio

Quarterly reviews are undertaken of the investment portfolio to enrich the understanding of asset concentrations as well as, credit quality and adherence to our credit limit guidelines. Any issuer over its credit limits or experiencing financial difficulties, material credit quality deterioration or potentially subject to forthcoming credit quality deterioration is placed on a watch list for closer monitoring. Where appropriate, exposures are reduced or prevented from increasing.

Stress testing framework

There is an embedded stress testing framework that is used to understand possible impacts of major risks, including credit risks. Stress tests and scenario analysis are undertaken to monitor exposure to the defined scenarios that allows monitoring of exposure to credit risks. These scenarios help to understand potential losses to ensure that the Company is prepared to withstand projected losses from these events, including ensuring that there is adequate capital and liquidity to manage through the event and maintain the Company as a going concern.

The quantitative impacts from credit risk are included in section G.2.3.

D.4 Operational risk

Risk definition

The Company defines operational risk as the risk of loss, resulting from inadequate or failed internal controls and / or processes, or from people and systems, or from external events. In line with business objectives, the Company does not take on operational risk with a view to achieving enhanced return. Rather, it accepts operational risk as a consequence of writing reinsurance business and having operations to support the writing of that business.

Risk identification

Operational risk is identified through the following processes:

Process	Description
Annual risk assessment	A risk register is maintained of the material risks faced by the Company. On an annual basis (or more often if needed) an assessment is performed on the risks on the risk register.
Consultation regarding new regulations	When the regulatory authorities announce potential changes to the regulatory environment (such as new rules and regulations) the Legal and Compliance team is responsible for reviewing the proposed changes and for highlighting any increase in regulatory risk that might arise. When new financial reporting regulations are announced, the CFO is responsible for reviewing the proposed changes and for highlighting any increase in regulatory risk that might arise.
Business planning	Any changes to the operational risk environment that arise as a result of the business planning (such as entry into new territories) must be identified and accounted for during the planning process.
Ongoing operations	Function heads and risk owners are responsible for identifying any new (or changed) risks during the normal course of business, and notifying the policy owners so any required changes to the risk register can be implemented.
Emerging risks	The Company benefits from a Group wide emerging risks identification process which captures emerging risks. This assessment identifies key external factor changes that may give rise to operational risk issues.
Internal loss data	The Company benefits from a Group process which collects data relating to operational risk losses and near misses on a quarterly basis. The data collected is used, among other things, to track incidents, identify key risk indicators and to validate and challenge operational risk quantification.
External loss data	The Company benefits from a Group process which purchases historical loss data from an external provider. Large events from this database are used to identify new emerging risks.

As a result from the annual risk assessment, the following ranking occurred for top operational risks in 2017:

- Failure in reserving processes
- Failure to comply with existing legislation or regulation
- Loss of key staff
- Internal fraud - unauthorized activity (corporate fraud)
- Failure in the Capital Modelling process

Conclusion: All risks were deemed to be within acceptable levels with appropriate controls in place.

As a result from the process of internal loss data/near misses gathering, there were no losses with significant financial impact.

Risk mitigation and monitoring

The Company's operational risk policy and risk register details the controls in place that mitigate specific risks. The nature of the controls (e.g. preventative or detective; manually operated or automatic) and the strength of control exercised are in line with the 'three line of defence' model in section C.1.3 and based upon the:

- Potential severity of the risk;
- Frequency of the risk occurring;
- Cost of implementing controls relative to the significance of the risk; and
- Appetite and tolerance for the risk.

Purchase of insurance

It is recognised that while the Company may buy insurance with the aim of reducing the monetary impact of certain operational risk events (e.g. physical damage), non-monetary impacts may remain (including impact on the Company's reputation). This is considered in the risk assessment process and risk register.

The risks are monitored and managed through the risk framework and the operational loss event reporting process.

Based on the above factors considered in scenario and stress testing, all operational risks are deemed to be well managed and within risk appetite, as reported via the Risk Dashboard and ORSA report to the RMC and Board.

Risk appetite

Risk appetite is captured through risk reporting to the RMC and Board and monitored as part of the RAF. Employees are expected to conduct themselves in accordance with XL Group's Code of Conduct and to conduct their business in such a way as to comply with laws and regulations as well as with the RMF.

Stress testing framework

To support the identification and quantification of operational risks within the business, the Company performs risk assessment processes.

In addition, CRCH has a Business Continuity Management ("BCM") plan and policy in place. The BCM program is focused on mitigating business disruption risk and provides the guidance and framework to ensure continuation of essential operations in the event of a business disruption or threat of one. A Swiss Crisis Management Team is in place which meets at least twice a year to discuss existing and emerging risks.

D.5 Other material risks

D.5.1 Liquidity risk

Risk definition

Liquidity risk is defined as the inability to meet cash and collateral posting obligations when they come due. Liquidity risk arises from three principal areas: operating, financing and investing cash flows. The RMF addresses how the Company manages liquidity both under a normal and a stressed environment.

Risk identification

The Company identifies liquidity risk through the following processes:

Process	Description
Stress testing	Stressing known and forecasted liquidity positions, downgrade triggers, collateral demands and cash flows.
Treasury	Treasury has responsibility to identify and monitor concentration risk of cash at banks, along with funding requirements.
Risk assessment and processes	Through the risk assessment processes, the Company quantifies existing risks and also identifies new risks.

For the Company, liquidity risk is mainly driven by the following factors:

- Significant exposure to natural catastrophes;
- Ring-fencing of assets supporting existing liabilities; and
- Collateralisation requirements in connection with its writing of US reinsurance business.

The Company has the necessary resources available to meet its stressed liquidity requirements. This includes its ability to have access, with Group consent, to the Group's USD 750m unsecured credit facility.

Risk mitigation

One of the principal objectives of liquidity risk management is to ensure that there is readily available access to funds with which to settle large or multiple unforeseen claims. It is generally expected that positive cash flow from operations (underwriting activities and investment income) will be sufficient to cover cash outflows under most future loss scenarios.

Cash needs include all possible claims on cash from policyholders, shareholders and operations. Some of these cash outflows are scheduled while others are known with much less certainty. The goal is to ensure sufficient liquidity in the asset portfolio, together with secured external cash sources, to provide for timely payment of potential cash demands under both normal business conditions and under extreme conditions resulting from unforeseen events over a 12 month horizon.

Liquidity risk is managed through:

- **Investment portfolio liquidity -** The annual SAA process determines the structure of the benchmark that maximises the value of the Company subject to risk tolerance and other constraints. The key output of the SAA process is an investment portfolio benchmark, which takes into account management's risk tolerance, liability cash flows, business plan, peer analysis and regulatory considerations.
- **Asset Liability Management ("ALM")** - See section D.5.2 for further details of the ALM framework.
- **Special funding clauses** - The major source of liquidity risk within underwriting contracts is the provision of rating triggers, which are common practice. These triggers typically necessitate the cancellation of the policy and the return of the cedant's unearned premium in the event of being downgraded below a certain rating level, which has the potential to be a material liquidity event when aggregated. There are controls in place to ensure that there is appropriate authorisation for the inclusion of a downgrade clause in a contract.

Risk monitoring

The Treasury department serves as the focal point for liquidity monitoring, drawing on the expertise of other internal functions, as well as managing cash held at bank accounts covering day to day cash requirements, typically referred to as 'operating cash'. Operating cash balances, together with cash managed within the investments portfolio, comprise the primary sources of liquidity with the Company as well as the access to the Group's notional cash pool facility.

Risk appetite

Risk appetite is captured through risk reporting to the RMC and Board and monitored as part of the RAF. The following outlines the Company's Liquidity risk appetite statement:

Risk type	Risk appetite statement
Liquidity risk	Ensure there are sufficient liquid assets to fund all obligations in the event that ratings downgrade triggers are hit following a pre-defined stress scenario.

Risk appetite links directly to the stress testing framework outlined below.

Stress testing framework

There is an embedded stress testing framework that is used to understand possible impacts of major risks, including liquidity risks. A stressed liquidity analysis report is prepared on a quarterly basis, which includes the Company's own view of the stressed sources and uses of liquidity. The analysis includes actual and forecasted stressed liquidity positions, downgrade triggers, collateral demands, market values in our investment portfolio and cash flows by legal entity.

Based on the above factors considered in scenario and stress testing, all liquidity risks are deemed to be well managed and within risk appetite, as reported via the Risk Dashboard and ORSA report to the RMC and Board.

D.5.2 Asset liability mismatch risk

Risk definition

Asset liability mismatch risk arises directly from a mismatch between assets and liabilities due to changes in market and credit risks, liquidity and foreign exchange and also arises from events affecting both asset and liability values.

In particular, two market risks influence both assets and liabilities and are hence key drivers of risk:

Component	Definition
Interest rate and spread risk and asset composition risk	A mismatch between asset composition and maturities and the profile of liability cash flows creates economic risks from changes in benchmark interest rates, spreads and asset values. This is due to changes in the nominal mark-to-market (MTM) value of assets not exactly offsetting changes in the nominal economic value (net-present value) of liability cash flows.
Inflation risk	Differences in the inflation sensitivity of investments, liability and debt cash flows create a risk to unexpected changes in different types of inflation (consumer price index, wage, etc.). This is due to changes in the real mark-to-market value of assets not offsetting changes in the real economic value (net-present value) of liability cash flows.

Foreign exchange ("FX") risk is also a key consideration under asset liability mismatch risk which was outlined in section D2 Market risk. FX risk arises from mismatches in the currency denomination of assets relative to financial liabilities.

Risk identification

The following outlines the processes used to identify asset liability mismatch risk:

Process	Description
Business planning	As part of the annual strategic planning process, a review is undertaken of the nature (quality, duration, currency and liquidity) of assets required to support the business plan and the expected liabilities.
Investment decisions and asset allocation	The Investment Portfolio Guidelines, Authorities and Monitoring Framework sets ranges for tactical deviation from the benchmark and is reviewed annually in conjunction with the SAA process as outlined in C2 Market Risk.
Risk assessment and processes	The risk assessment processes assists in identifying if there are any changes to ALM risks from those that had been identified in the previous risk assessment.

Risk treatment

The Company controls asset liability mismatch risk through:

- **Asset Liability Management analysis** - The Company will conduct detailed ALM analyses to match the average duration of its liabilities with appropriate assets.
- **Investment authorities and guidelines** - Board approved market risk authority and guidelines are in place that addresses all the key market risk factors and is commensurate with the volume and complexity of activity undertaken by the Company.
- **Reserving process controls** - Among the key drivers of the Company's reserve risks are inflation, correlation across lines of business, legislative and regulatory changes, loss trend movements, timing and reporting changes at underlying ceding companies, and the excess nature of exposures in certain lines including non-proportional reinsurance

Stress testing framework

The Company uses scenario testing as one method to assess asset liability mismatch risk exposures. CRCH undertakes a number of stress tests covering historical events and hypothetical scenarios to understand the impact of such scenarios to the investment portfolio.

D.5.3 Group Risk

This refers to the potential impact of risk events, of any nature, arising in or from membership of a corporate group, e.g. loss of capital or downgrade.

D.5.4 Strategic Risk

This arises out of the prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions or lack of responsiveness to industry changes. Catlin Re's RAF captures the risk strategy, tolerances and limits and is regularly monitored by the RMC.

D.6 Off-balance-sheet risks

The Company is committed to an operating lease agreement until 30 September 2019, as a lessee of office space. Management decided to consolidate XL Catlin's dual Zurich offices whereby Catlin Re's office space was vacated during 2016. In 2017 the Zurich office was sublet. The difference between the remaining lease obligations less the sub-rental income was fully expensed in the 2017 fiscal year in the administration and other expenses line item. As a result, the Company is not exposed to any further non-cancellable future obligations as per the balance sheet date.

CHF millions	2016	2017
Year 2017	1	—
Year 2018	1	—
Year 2019	1	—
Total non-cancellable future payments	**4**	**—**

The Company has access to unsecured and secured letter of credit facilities to support its reinsurance business. As at 31 December 2017, unsecured irrevocable letters of credit in the amount of CHF 122m (2016: CHF 481m) have been issued under these facilities.

These letters of credit are used to secure the reserves ceded to the Company under certain reinsurance contracts.

D.7 Risks transferred to special purpose vehicles ("SPV")

During 2017, CRCH became one of three initial investors in XL Value Offshore LLC, along with two other fully owned affiliates of the Group. CRCH acquired 25% of the membership interests of XL Value Offshore LLC by contributing its special situations portfolio ("SSP") and cash. Administrative matters between XLGIL, as investment manager, and XL Value Offshore are detailed in the LLC agreement and the Investment Management Services Agreement.

The new structure allows the Company to better diversify its investments within the SSP by indirectly participating in all underlying securities of the SPV. The membership in the SPV does not materially impact the results of the SST as a lookthrough is applied on the underlying securities that are modelled within Market Risk.

CRCH discloses the SPV as investments in affiliated companies in its statutory financial statements and is valued at the lower of cost or market value. The book value of the SPV as per 31 December 2017 amounts to CHF 41m and can be seen in section A.2 (Group information and transactions with Group companies).

D.8 Risk concentrations

Assets

Catlin Re has an extensive set of processes and controls in respect of its investment portfolio which include continuous portfolio monitoring to ensure that concentration to issuers, countries and industries to not exceed its stated risk appetite.

Approximately USD 1,098m of the invested assets are United States Government bonds. A further USD 328m are United States government related bonds (US Municipals).

Of the corporate bonds of USD 1,038m, the largest exposure to a single issuer is approximately USD 42m.

The Company uses the FINMA Standard Model to model the credit risk of its invested assets. Credit risk in respect of the outwards reinsurance is modelled using the internal model (section G.2.2).

Catlin Re's largest single asset is funds held in respect of assumed internal quota share business from the Group's Syndicate business. Also, a portion of the assets are held as Funds at Lloyd's ("FAL"). The funds held exposure to CRCH further reduced in 2017 as the underlying internal quota share was commuted on one of the older years. The FAL, although expected to reduce in 2017 has largely remained the same as in the previous year due to deterioration in related reserves. It is expected that the final year of the quota share will be commuted during 2018 at which point CRCH will not have any FAL or funds held in relation to the Syndicate business.

Catlin Re has limited external retroceded business and most material third party agreements are collateralised.

Liabilities

Underwriting risk concentrations are included in the 'threat' scenarios process which explicitly takes into account underwriting risk concentrations that cross multiple lines of business. Natural catastrophe losses are modelled using external vendor models such as RMS. The output from the vendor models is examined using other proprietary tools which simulate losses for these threats. Section G.2.2 provides more details.

Management of risk concentrations

The Company seeks to manage its asset and liability exposures within a robust, but flexible, Risk Appetite Framework. Details around the tools used to reduce risk and of the processes used to monitor the ongoing effectiveness are described in section C.2.1.

Legal entity risk limits and tolerances are aligned to the Group risk limits, where applicable, through the budget process and local underwriting governance. The net aggregate amount is translated through to Underwriters as a series of individual limits on both individual risks or normal maximum lines ("NML's") and foreseeable maximum accumulations on a per occurrence basis, gross of reinsurance. Individual risks and threats are managed within agreed limits.

E. Valuation

This section contains information regarding the valuation of balance sheet items for solvency purposes. The Market-consistent balance sheet ("MCBS") as part of the quantitative template is shown in appendix 2.

Methods and assumptions used for the valuation of assets, provisions for insurance obligations and provisions for other liabilities follow the approach described under the SST valuation rules and Swiss Statutory accounting principles as appropriate.

The SST valuation rules are used to produce the MCBS. The predominant accounting principle is that any assets and liabilities are measured according to the present value of expected future cashflows.

Swiss Statutory financial statements are prepared in accordance with the provisions on accounting and financial reporting of the 32nd title of the Swiss Code of Obligations and with the additional requirements defined by FINMA (Art. 5-6a AVO-FINMA, valid as of 15 December 2015).

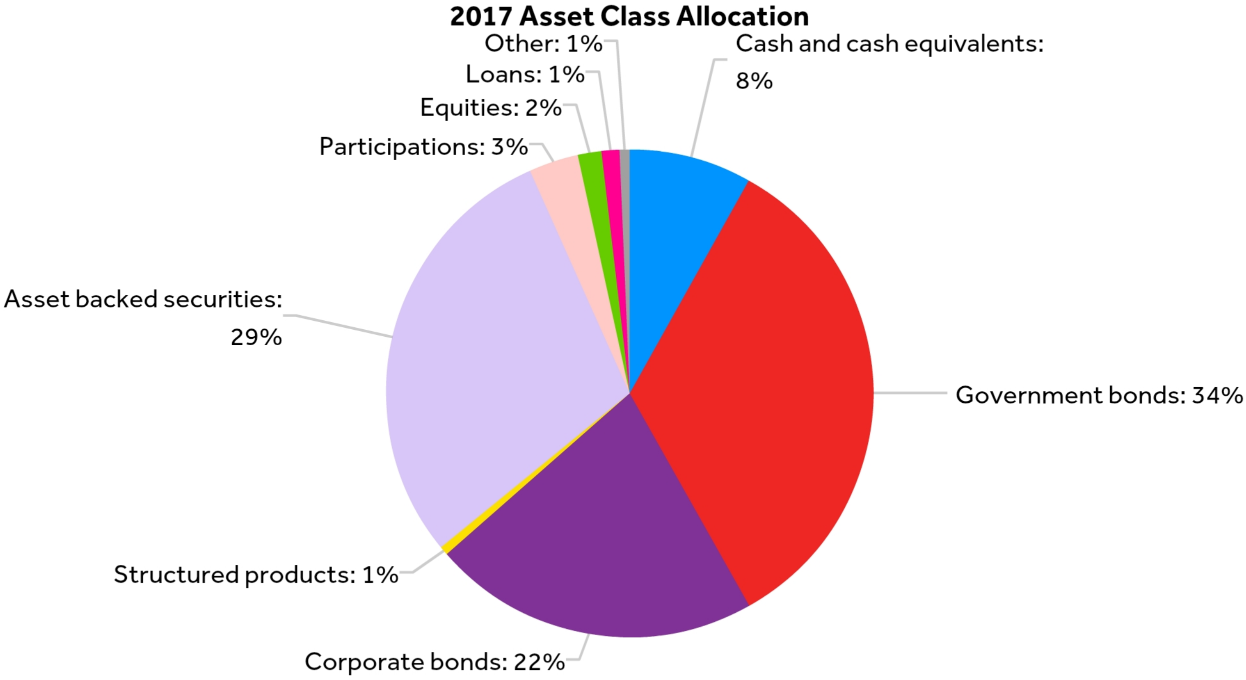
		2017			2016	
in millions as per 31 December	**Statutory (CHF)**	**Statutory (USD)**	**Adjustment (USD)**	**MCBS (USD)**	**MCBS (USD)**	**Item**
Investments, cash and cash equivalents	4,921	5,030	49	5,079	3,876	1
Premiums and other receivables	1,445	1,477	(22)	1,455	1,364	2
Deferred acquisition costs	423	433	(433)	—	—	3
Reinsurance recoverables	274	280	(280)	—	—	4
Other assets	706	722	—	722	69	
Reduction for liquidity charges	—	—	(66)	(66)	(53)	5
Total Assets	**7,770**	**7,942**	**(752)**	**7,190**	**5,256**	
Losses and loss expense reserves	3,776	3,859	(467)	3,392	2,419	6
Unearned premiums	1,211	1,237	(572)	665	1,039	7
Other insurance obligations	5	5	—	5	11	
Total provisions for insurance obligations	**4,992**	**5,102**	**(1,040)**	**4,062**	**3,469**	
Other liabilities	1,769	1,808	(146)	1,662	256	8
Proposed dividend	—	—	256	256	200	9
Total provisions for other liabilities	**1,769**	**1,808**	**110**	**1,918**	**456**	
Total liabilities	**6,761**	**6,910**	**(930)**	**5,980**	**3,925**	
Shareholder's equity (Net assets)	**1,009**	**1,031**	**179**	**1,210**	**1,331**	

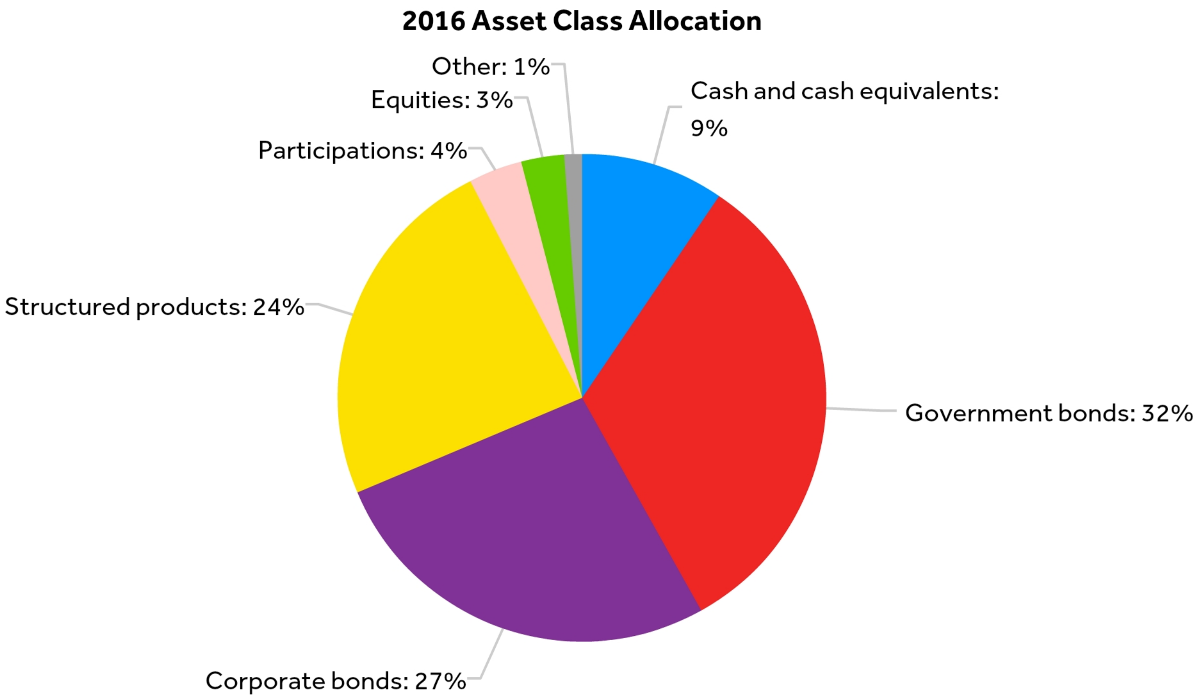
E.1 Assets

Basis, key assumptions and methods used for valuation of assets

Item	Valuation difference (USD millions)	Asset class	Difference between MCBS and Swiss Statutory accounting principles
1	**49**	**Investments, cash and cash equivalents**	Investments, cash and cash equivalents are generally measured at fair value in the MCBS. Under Swiss Statutory valuation rules, all investments are carried at cost less necessary and legally permissible depreciation. Securities use quoted market prices in active markets for the same asset as the default valuation method. Where the use of quoted market prices for the same asset is not possible, quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences are used. If there are no quoted market prices in active markets available, securities use mark-to-model techniques, which is an alternative valuation technique that has to be benchmarked, extrapolated or otherwise calculated as far as possible from a market input.
2	**(22)**	**Premiums and other receivables**	Premium and other reinsurance receivables under Swiss Statutory accounting rules are measured at cost less a provision for impairment and are not discounted. The valuation differs to the MCBS in that the receivables are discounted.
3	**(433)**	**Deferred acquisition costs**	Deferred acquisition costs ("DAC") are costs relating to the acquisition of new business for reinsurance contracts. Under Swiss Statutory accounting rules these costs are deferred to the extent that they are expected to be recovered out of future margins in revenues on these contracts. Recognition of DAC is not permitted under the MCBS and therefore eliminated.
4	**(280)**	**Reinsurance recoverables**	Reinsurance recoverables are netted against gross losses and loss expense reserves for USD 203m and unearned premium reserves ("UPR") for USD 77m under provisions for insurance obligations.
5	**(66)**	**Reduction for liquidity charges**	Certain of the Company's restricted assets are held in trust and therefore may not be available to pay claims as they fall due. These assets are predominantly related to FAL and segregated Reg 114 trusts for Group internal assumed reinsurance contracts as well as deposits held by cedants. Under Swiss Statutory accounting rules those assets are carried at cost less necessary and legally permissible depreciation.

The breakdown of USD 5,079m (2016: USD 3,876m) for the market consistent value of invested assets is as follows:





E.2 Provisions for insurance obligations

Basis, key assumptions and methods used for the valuation of insurance obligations

Item	Valuation difference (USD millions)	Provisions for insurance obligations	Difference between MCBS and Swiss Statutory accounting principles
6	**(467)**	**Losses and loss expense reserves**	Overall the losses and loss expense reserves are adjusted for the effects of discounting, the allowance for reinsurance recoverables and the elimination of equalisation reserves to get to a market consistent view: • USD 279m is due to the discounting impact which is derived from the expected future payment patterns and currency mix of the loss reserves and applying the standard risk-free rates obtained from FINMA for 2018. Adjustments for discounting have been allocated in proportion to the underlying liabilities. • USD 188m of reinsurance loss recoverables are netted from losses and loss expense reserves (see also asset item 4).
7	**(572)**	**Unearned premiums**	Overall the unearned premiums are adjusted for future profits, discounting and adjustments to the allowance of DAC to get to a market consistent view: • USD 433m: The recognition of DAC is not permitted under the MCBS, as such the entire balance is netted off from the UPR as the statutory UPR allows for DAC (see also asset item 3). • USD 69m: In order to set the UPR on a market consistent basis, the UPR on the balance sheet is multiplied by the expected combined ratio to get the best estimate losses and costs for the unearned business, which is then discounted. The discounting impact was determined using a similar approach as described under losses and loss expense reserves. • USD 70m of the reinsurers' share of UPR are netted from item 4 on the asset side. The combined net impact of USD 7m is due to the reinsurer's share of UPR being set on a market-consistent basis, similar to the adjustment above for USD 69m.

Methodology

Unearned premium reserves are set at the policy or treaty level. The statutory reserves are based on the estimated ultimate premium for the respective underwriting year and the estimated proportion of the cover not yet expired. The process is as follows:

- For **direct insurance business** written into CRCH through the Intra-Group reinsurance treaties, the proportion unearned is calculated directly as the proportion of the policy not yet expired. In cases where the exposure is not earned evenly over the period, an adjusted pattern may be used;

- For **reinsurance business, written on a losses occurring during** basis, the proportion unearned is calculated directly as the proportion of the treaty not yet expired;

- For **reinsurance business, written on a risks attaching during** basis, the underlying policies are assumed to be annual and incepting evenly over the year. The proportion earned in each month is then calculated to allow for the fact that the incepted exposure increases evenly over the first year and then tails off to zero in the second year. Where the underlying exposures are longer than one year, or where there are exposure peaks, e.g. for credit, surety or engineering, manual patterns are used to reflect the length of the exposure more accurately;

- The **unearned premium reserve** on the MCBS is net of external commission and acquisition costs already paid; these amounts are declared as DAC in the Swiss Statutory balance sheet. In order to set the unearned reserve to a MCBS basis, the unearned premiums, gross of external commission and acquisition costs, are reduced for the expected profit, the commission and acquisition costs already paid and the amount of discount to reflect the time value of money;

- The **loss and loss expense reserves** shown in the MCBS relate to the earned portion of the outstanding claim reserves, and are discounted for the time value of money. Outstanding claim reserves include reported case reserves, true IBNR, IBNER (deterioration on existing claims) and potential reopened claims. They are set on a best estimate basis, by underwriting year and line of business. The claim reserves are then separated between earned claims and unearned exposures based on the earning patterns described above.

The reserves are evaluated by line of business based on historical information, changes in exposure, benchmarks, etc. The reserves are calculated by reserving actuaries and are subject to numerous reviews across the Group to ensure consistency in approach.

E.3 Provisions for other liabilities

Item	Valuation difference (USD millions)	Provisions for other liabilities	Difference between MCBS and Swiss Statutory accounting principles
8	**(146)**	**Other liabilities**	The difference of USD 146m is mainly due to the elimination of the provision for currency fluctuation (USD 136m) which is not eligible under the Market-consistent balance sheet as well as the discounting impact on other liabilities (USD 10m). The increase in total other liabilities compared to 2016 is mainly related to payables as a result of the clean cut termination of an IGR contract and non-technical receivables/payables towards other Group companies.
9	**256**	**Proposed dividend**	The difference of USD 256m represents the proposed dividend of the Company to its sole shareholder Catlin Luxembourg S.à r.l., subject to all regulatory approvals.

E.4 Risk margin

The risk margin (market value margin, "MVM") for the Company as per 1 January 2018 amounts to USD 123m (1 January 2017: USD 187m) and incorporates the FINMA prescribed cost of capital of 6%.

The risk margin is defined as the capital cost for future regulatory capital needed for the run-off of the portfolio, as such it can be considered as the profit load that an assuming entity might require in excess of their discounted mean value to accept all future insurance payments on a portfolio of policies.

The risk margin considers all relevant risks that would still exist in case of a run-off scenario, especially the risks related to the reserves at the point of the hypothetical run-off and the respective credit risk.

Market risk and associated scenarios are excluded from the MVM calculations as it is assumed that in a hypothetical run-off the asset portfolio will change such that it optimally hedges the insurance liabilities and hence there will be no market risk. Additionally, it is assumed that hedging costs will be minimal. These assumptions are consistent with FINMA requirements.

F. Capital management

This section provides a view of capital management activities in the Company, its capital management methods and the structure, amount and quality reported in the annual report. Under the SST, capital is referred to as the excess of assets over liabilities in the MCBS as reported in appendix 2.

F.1 Goals, strategy and time horizon for capital planning

The basic objective of capital management is to maintain, at all times, sufficient risk bearing capital to cover the target capital. The Company allocates capital efficiently to achieve appropriate risk adjusted returns and facilitate the business, and strive to maintain capital levels that are consistent with our risk appetite, corporate strategy, rating agency and the statutory requirements.

The Company monitors capital triggers on an ongoing basis and the Board is informed frequently on material events that could potentially and materially change the Company's capital position.

The business plan, which forms the base for the ORSA, contains a three year projection of funding requirements and this helps identify future funding actions. As part of long term capital planning the Company also performs a high level five year strategic business plan to review capital adequacy as part of the Company's and the Group's business initiatives.

There have been no changes to CRCH's capital management objectives during the year.

The Company currently maintains a level of capital in excess of Regulatory (SST) and Economic (ORSA) capital in line with the Company’s capital buffer policies. Due to the Company’s definitions of Economic capital there are no material differences in use between ORSA and regulatory capital. There is a Group capital management framework in place which sets out capital management principles for major regulated subsidiaries, including the Company. This includes both a target buffer to the Company's requirements as well as the process around capital injections and distributions.

F.2 Structure and quality of equity capital reported in the annual report

The following table provides an overview of the shareholder's equity as reported in the audited statutory financial statements:

CHF millions as of 31 December	2016	2017	Change	Change in %
Common stock	100	100	—	— %
Legal capital reserves from capital contribution	883	883	—	— %
Legal profit reserves	152	203	51	34 %
Profit / (loss) for the financial year	(12)	(178)	(166)	1,383 %
Total shareholder's equity	**1,123**	**1,009**	**(114)**	**(10)%**

	Common Stock	Legal reserves from capital contribution	Legal profit reserves	Retained earnings	Total
CHF millions as of 31 December 2016	**100**	**883**	**152**	**-12**	**1,123**
Allocation of profit to legal profit reserves	—	—	-12	12	**—**
Merger profit	—	—	5	—	**5**
Capital contribution	—	—	59	—	**59**
Loss for the financial year	—	—	—	-178	**-178**
CHF millions as of 31 December 2017	**100**	**883**	**203**	**-178**	**1,009**

- **Share capital** (common stock) of the Company amounts to CHF 100m, issued in the form of authorised share capital. It is divided into ten million registered shares with a nominal value of ten Swiss Francs per share. The shares are fully paid.

- **Legal reserves from capital contribution** in the amount of CHF 883m represent additional paid-in capital from Catlin Luxembourg S.à r.l., the Company's shareholder. Legal reserves from capital contribution have been confirmed by the Swiss Federal Tax Authority and entitle the Company to repatriate CHF 883m without adverse tax impacts.

- **Legal profit reserves** in the amount of CHF 203m represent:

  - Capital contributions from Group legal entities other than Catlin Luxembourg S.à r.l.; and
  - Allocations from previous years retained earnings less dividend paid in previous periods. As a result of the merger with XL Re Latin America, the Company realised a merger profit in the amount of CHF 5m which was booked in legal profit reserves.

The Company's shareholder's equity is unrestricted, not subordinated and has no restricted duration.

On 19 December 2017, Green Holdings Limited, a company incorporated in Bermuda and a member of XL Group, contributed CHF 59m (USD 60m) in Cash to the Company. The contributor did not acquire any rights as shareholder of CRCH.

For 2018, Catlin Re Switzerland Ltd proposes to pay a dividend from legal reserves from capital contribution of CHF 250m to its 100% shareholder Catlin Luxembourg S.à r.l., subject to all regulatory approvals and the annual general meeting to be held at the end of June. There were no dividend payments during 2017.

The net loss for the financial year 2017 amounts to CHF 178m and is proposed to be allocated to retained earnings.

F.3 Difference between statutory and solvency net assets

The main differences of USD 179m between the equity of the Company in the statutory financial statements and the solvency valuation of the excess of assets over liabilities are explained in section E (Valuation).

G. Solvency

The information provided in section E (Valuation) and section G (Solvency) are identical to the information submitted to FINMA. The SST report is made available to FINMA on 30 April 2018, at the same time as the publication of this report.

G.1 Solvency model

Catlin Re Switzerland has estimated its capital requirements for market risk and investment credit risk using the FINMA standard model while the internal model is used in order to determine the insurance risk and reinsurance credit risk for the 2018 SST.

Any deviations in the methodology have been considered and allowed for in order to ensure that the internal model calculations are consistent with the methodology used in the SST standard calculations.

The parameterisation is carried out based on detailed analysis of the underlying business.

Since inception of the Company, FINMA has granted annual approval to Catlin Re to use the internal model for SST calculations for insurance risk and reinsurance credit risk. During 2017, Catlin Re submitted a "Proof of Need" to FINMA which was accepted. Additionally, FINMA granted the Company approval to use the 2017 model for the 2018 SST.

A large part of Catlin Re's risks arise from its reinsurance of other companies within the Group. The internal model is a Group model that explicitly captures all risks to the Group and its material legal entities. Due to the unique nature of CRCH's reinsurance structure (both internal and external), the Company believes that the internal model is better able to capture the risks and dependencies compared to the standard model.

G.2 Target capital

The following table shows a decomposition of the target capital into the relevant categories as defined by FINMA:

USD millions	1 January 2017	in %	1 January 2018	in %
Technical result	(245)	(19)%	(67)	(6)%
Financial result	(14)	(1)%	(17)	(2)%
Credit Risk	156	12 %	207	18 %
Market Risk	196	15 %	331	30 %
Insurance risk	926	72 %	530	47 %
Market Value Margin ("MVM")	187	14 %	123	11 %
Subsidiary – XLReLA	78	6 %	0	0 %
Scenarios	10	1 %	10	1 %
Total before diversification	**1,294**	**100 %**	**1,119**	**100 %**
Diversification	(229)		(279)	
Target Capital	**1,065**		**840**	

The technical and the financial result are elements of the profit expected in the current year that reduce the required capital.

Credit Risk includes investment and reinsurance credit risk. The investment credit risk is calculated based on the FINMA standard model whereas reinsurance credit risk is calculated using the internal model.

Market risk is calculated using the FINMA standard model whereas insurance risk and the MVM are obtained from the internal model.

XLReLA was a subsidiary of Catlin Re Switzerland Ltd in 2016 and merged with the Company during 2017. As such, the target capital for XLReLA in 2017 was calculated and disclosed separately. The 2018 target capital includes the risks related to XLReLA embedded within each risk category.

Scenarios include financial scenarios that are obtained from the FINMA standard model calculation of market risk. Additionally, CRCH separately identifies scenarios to capture risks not included in other areas of the model. All scenarios are run through the FINMA aggregation tool in order to calculate their diversified impact on capital.

The risk categories are aggregated by applying different correlation assumptions in order to get the diversification benefit to the target capital.

The results are shown at a 1% TVaR level of confidence. This statistic indicates the average amount of net loss expected to be incurred if a loss above the 1% probability level has occurred.

G.2.1 Market risk

The following table sets out the Company's standalone 1% TVaR for each risk category as calculated within the FINMA market risk standard model.

USD millions	1 January 2017	1 January 2018	Change	Change in %
Risk category				
Interest rate risk	21	30	9	43 %
Spread risk	155	203	48	31 %
Foreign exchange risk	19	29	10	53 %
Equity risk	57	55	(2)	(4)%
Real estate risk	1	—	(1)	(100)%
Investments	—	68	68	100 %
Total before diversification	252	384	132	52 %
Diversification within market risk	(56)	(53)	3	(5)%
Market risk (all risk factors)	**196**	**331**	**135**	**69 %**

The Company is exposed to Market risk derived predominantly from the assets held by the Company to meet its insurance liabilities.

Market risk, on a diversified basis, accounts for 17% of the total target capital. Catlin Re holds a significant portion of its assets in bonds and hence spread risk is the largest driver of market risk.

- USD 30m (2017: USD 21m) of **interest rate risk** driven by the changes in assets and liabilities of the Company due to changes in discount rates. The increase is a result of an increase in investments and an increase in average duration of reserves
- USD 203m (2017: USD 155m) of **spread risk** is mainly driven by the Company's investments in bonds and securitised assets.
- USD 29m (2017: USD 19m) of **foreign exchange risk** mainly driven by the exposure of the Company's assets and liabilities denominated in foreign currencies. The increase is a result of an increase in net assets and changes to the currency mix.
- USD 55m (2017: 57m) of **equity risk** mainly driven by investments in equities. The decrease is a result of lower investments in equities.
- USD 68m (2017: 0m) of **investments risk** is due to the inclusion of the 100% owned subsidiary XL Resseguros Brasil S.A. within market risk. Last year,the target capital for this subsidiary was explicitly calculated by considering each risk category separately. This year the treatment was changed to be in line with FINMA guidance.

G.2.2 Insurance risk

The following table sets out the breakdown of the one-year insurance risk for CRCH into its components.

USD millions	1 January 2017	1 January 2018	Change	Change in %
1-year underwriting risk	559	211	(348)	(62)%
1-year reserve risk	629	440	(189)	(30)%
Total before diversification	**1,188**	**651**	**(537)**	**(45)%**
Diversification impact within insurance risk	(262)	(121)	141	(54)%
1-year insurance-technical risk	**926**	**530**	**(396)**	**(43)%**

Insurance risk is the largest driver of capital for the Company accounting for approximately 55% of the total capital requirement on a diversified basis. On a diversified basis, underwriting risk contributes 25% to the total target capital while reserve risk contributes 52%.

Underwriting risk

Underwriting risk reflects the volatility measured on a one-year time horizon of losses earned after 31 December 2017 allowing for one year of new business. This is made up of the portion of the 2017 (and prior) underwriting years not earned by 31 December 2017 and new policies anticipated to be written that attach to the 2018 underwriting year and are earned in 2018.

Underwriting risk has reduced by USD 348m compared to last year. This reduction is largely due to the cancellation of the internal reinsurance with the US cedants. In 2017, approximately 81% of the total underwriting risk was driven by these contracts and hence the non-renewal has resulted in a substantial reduction in total underwriting risk.

Approximately 72% of the total underwriting risk arises from low frequency, high severity threat events estimated using the internal model that can lead to simultaneous losses from a number of lines of business and policies at the same time. Third-party reinsurance contracts mitigate the impact of these substantially, but net of reinsurance their effect is still significant to the Company. A list of the largest threats to the Company is included in section D.1.

Reserve risk

Reserve risk reflects the volatility measured on a one-year time horizon of losses earned before 31 December 2017. Most of the volatility arising from reserve risk is not related to a given specific event, but reflects the potential for many different areas to deteriorate at the same time. In particular it is influenced by the volume of reserves held at any given time, and hence casualty business is a key constituent.

The largest driver of reserve risk is the Intra-Group reinsurance of other Group companies.

Reserve risk has reduced by USD 189m compared to the previous year. This reduction is largely driven by the 2017 accident year. Due to the natural catastrophes incurred in 2017, the resulting loss ratio subject to the stop loss for the year is 79%. The internal whole account stop loss attaches at 75% loss ratio and any further deterioration in reserves on this year are protected by this contract, thereby reducing reserve risk.

G.2.3 Other components

Expected insurance-technical result: The expected insurance-technical result for underwriting year 2018 is USD 67m (2017: USD 245m) on a discounted basis. The reduction compared to last year is mainly driven by the cancellation of the internal reinsurance agreements with US cedants which was a large driver of profit in the previous year.

Expected financial result: The financial result of USD 17m for 2018 (2017: USD 14m) was calculated by applying a return of 0.38% above risk-free rates on total assets.

1-year credit risk: Credit risk, on a diversified basis, accounts for 22% of the total target capital. Credit risk is split into two categories, investment credit risk modelled using the standard model and reinsurance credit risk modelled using the internal model. The 1-year credit risk of USD 207m (2017: USD 156m) is made up of USD 157m (2017: USD 130m) investment credit risk and USD 50m (2017: USD 26m) reinsurance credit risk.

The increase in investment credit risk of USD 27m is due to increase in invested assets. The increase in reinsurance credit risk of USD 24m is largely due to an additional year of protection on the whole account stop loss.

Market value margin: The market value margin (risk margin) of USD 123m (2017: USD 187m) is described in more detail in section E.4.

Subsidiary XLReLA: For the 2017 SST calculations, XLReLA was a subsidiary of the Company. The SST was therefore modelled separately on an unconsolidated basis. As such the individual risk categories excluded the risks from XLReLA and the subsidiary was shown separately under target capital contributing USD 78m. During 2017, XLReLA merged into the Company and hence no longer exists as a standalone entity. As a result, the risks associated with the business written by this former subsidiary are now embedded within each individual risk category of the Company.

Scenarios: The diversified impact of scenarios in the amount of USD 10m (2017: USD 10m) is attributable to the scenarios which are not already captured as part of the internal model, FINMA prescribed or Company specific. The diversified impact is calculated by using the FINMA aggregation template.

Diversification impact: The amount of USD 279m (2017: USD 229m) is the diversification benefit between risk categories. Market risk is assumed to be independent with other risk categories as per the FINMA standard aggregation method. Within the internal model, there are correlations between insurance and reinsurance credit risk to allow for scenarios where a significant insurance loss to the Company is also likely to materially impact the market and hence allow for downgrade or default on other reinsurers.

G.2.4 Risks not included in the target capital

The Company believes that all material risks under the definition of SST capital are included in the calculation of target capital.

Operational and liquidity risks are not captured in the SST. For details around the RMF and the processes to mitigate operational risks please refer to section C.2 and D.4. and D.5.1, respectively, for liquidity risks.

G.3 Breakdown of risk-bearing capital

The risk-bearing capital ("RBC") of the Company is broken down into its key components in sections E.1, E.2 and E.3.

G.4 Solvency ratio

The SST ratio 2018 as per 1 January 2018 for Catlin Re Switzerland Ltd is 152%.

USD millions	1 January 2017	1 January 2018	Change	Change in %
Risk bearing capital	1,331	1,210	(121)	(9)%
Target capital	1,065	840	(225)	(21)%
MVM	187	123	(64)	(34)%
SST ratio	**130%**	**152%**	**22%**	**17 %**

As per margin 62 of the 2017 SST circular (2017/3), the ratio is calculated as: (RBC-MVM)/(TC-MVM).

The Company currently maintains a level of capital in excess of regulatory capital requirements and above the internal guideline of capital adequacy. The surplus is in line with the Company's risk appetite and strategy to facilitate growth while being able to absorb the common threats to the Company. The RBC and as such the SST ratio of 152% includes a proposed dividend in the amount of USD 256m, subject to all regulatory approvals and the annual general meeting to be held at the end of June. The SST ratio before the proposed dividend is 187%.

The rating from Standard and Poor's of 'A+' with positive outlook as well as A.M. Best's rating of 'A' with stable outlook did not change in 2017. The assigned ratings are the same as the other Group's core entities.

XL Group Ltd, the ultimate parent company, domiciled in Bermuda will publish its Group Financial Condition Report in line with Bermuda Monetary Authority requirements by 31 May 2018 and will be available to download from the XL Group website (www.xlgroup.com).

Glossary

ALM	Asset-Liability Management
BCM	Business Continuity Management
BMA	Bermuda Monetary Authority
CO	Compliance Officer
CRCH	Catlin Re Switzerland Ltd
DAC	Deferred Acquisition Costs
ERM	Enterprise Risk Management
ExCo	Executive Committee
FAL	Funds at Lloyd's
FIC	Framework for Internal Control
FX	Foreign Exchange
FINMA	Swiss Financial Market Supervisory Authority
HoIA	Head of Internal Audit
IBNR	Incurred But Not Reported Losses
ICM	Internal Capital Model
IGR	Intra-Group Reinsurance
MCBS	Market-Consistent Balance Sheet
MVM	Risk Margin (Market Value Margin)
NML	Normal Maximum Line
NYSE	New York Stock Exchange
OEP	Net Occurrence Exceedance Probability
OR	Swiss Code of Obligation
ORSA	Own Risk and Solvency Assessment
PwC	PricewaterhouseCoopers Ltd
RAF	Risk Appetite Framework
RBC	Risk Bearing Capital
RDS	Realistic Disaster Scenario
RM	Risk Manager
RMC	Risk Management Committee
RMF	Risk Management Framework
SAA	Strategic Asset Allocation
SPV	Special Purpose Vehicles
SSP	Special Situations Portfolio
SST	Swiss Solvency Test
UPR	Unearned Premium Reserve
TC	Target Capital
TVaR	1% Tail Value at Risk
UPR	Unearned premium reserves
XLB	XL Bermuda Ltd
XLC	XL Catlin
XLGIL	XL Group Investments Ltd
XLReLA	XL Re Latin America Ltd

Appendices to the Financial Condition Report 2017

Appendix 1 Quantitative template "Performance solo reinsurance"

CHF millions	Total		Personal accident		Health		Motor		Marine, aviation, transport		Property		Casualty		Miscellaneous	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Gross premium written	2,698	3,525	21	34	14	11	145	143	117	286	1,478	1,201	694	1,615	229	235
Reinsurance premium ceded	(141)	(32)	—	—	—	—	(8)	(1)	(2)	—	(121)	(27)	(11)	—	1	(4)
Net premium written	**2,556**	**3,493**	**20**	**34**	**13**	**11**	**137**	**142**	**115**	**286**	**1,357**	**1,174**	**683**	**1,615**	**231**	**231**
Change in gross UPR	518	(870)	22	1	(1)	—	45	(35)	86	(16)	(174)	(372)	563	(367)	(23)	(82)
Change in ceded UPR	(4)	(7)	—	—	—	—	—	1	(3)	—	17	(13)	(1)	1	(17)	4
Net premium earned	**3,070**	**2,616**	**42**	**35**	**13**	**11**	**182**	**108**	**199**	**270**	**1,199**	**790**	**1,245**	**1,249**	**191**	**153**
Allocated investment return	54	42	—	—	—	—	3	2	2	3	30	14	14	19	5	3
Total income from reinsurance activities	**3,124**	**2,658**	**43**	**36**	**13**	**11**	**185**	**110**	**201**	**273**	**1,229**	**804**	**1,259**	**1,269**	**195**	**156**
Gross claims paid	(1,333)	(1,019)	(23)	(36)	(12)	(7)	(116)	(29)	(124)	(203)	(633)	(505)	(334)	(182)	(91)	(58)
Ceded claims paid	173	16	1	—	—	—	6	1	13	—	101	10	11	3	40	3
Net claims paid	**(1,161)**	**(1,003)**	**(22)**	**(36)**	**(12)**	**(7)**	**(110)**	**(28)**	**(111)**	**(203)**	**(532)**	**(495)**	**(322)**	**(179)**	**(51)**	**(55)**
Change in gross loss reserves	(1,182)	(876)	(9)	6	3	(3)	(82)	(53)	(47)	14	(597)	(37)	(439)	(770)	(11)	(33)
Change in ceded loss reserves	13	5	1	—	—	—	13	1	(4)	—	12	3	24	—	(34)	1
Net claims incurred	**(2,330)**	**(1,875)**	**(30)**	**(29)**	**(8)**	**(9)**	**(179)**	**(81)**	**(161)**	**(189)**	**(1,118)**	**(529)**	**(737)**	**(949)**	**(96)**	**(88)**
Gross acquisition costs	(998)	(772)	(12)	(6)	(4)	(3)	(45)	(20)	(63)	(72)	(406)	(230)	(393)	(376)	(74)	(64)
Ceded acquisition costs	30	8	—	—	—	—	1	—	—	—	19	4	1	—	9	3
Net acquisition costs	**(968)**	**(764)**	**(12)**	**(6)**	**(4)**	**(3)**	**(45)**	**(20)**	**(63)**	**(72)**	**(387)**	**(226)**	**(392)**	**(376)**	**(65)**	**(60)**
Change in equalisation provision	29															
Allocated operating costs	(44)	(46)	—	—	—	—	(2)	(2)	(2)	(4)	(24)	(16)	(11)	(21)	(4)	(3)
Total expenses from reinsurance activities	**(3,312)**	**(2,685)**	**(43)**	**(36)**	**(13)**	**(13)**	**(225)**	**(103)**	**(225)**	**(265)**	**(1,512)**	**(771)**	**(1,133)**	**(1,347)**	**(162)**	**(151)**
Net reinsurance result	**(188)**	**(27)**	**—**	**—**	**—**	**(1)**	**(40)**	**7**	**(24)**	**8**	**(283)**	**34**	**126**	**(78)**	**33**	**5**
Investments																
Investment income	184	93														
investment expenses	(79)	(48)														
Net investment contribution	**105**	**45**														
Allocated operating costs	—	—														
Allocated investment return	(54)	(42)														
Net investment result	**51**	**3**														
Operating result	**(137)**	**(24)**														
Interest expense	(1)	(2)														
Other income	34	30														
Administration and other expenses	(84)	(63)														
Allocated operating costs	44	46														
Foreign Exchange	(32)															
Income / loss before tax	**(177)**	**(12)**														
Direct taxes	(1)	—														
Net income / loss	**(178)**	**(12)**														
Acquisition cost ratio	33%	31%	30%	18%	34%	30%	26%	21%	33%	28%	34%	31%	32%	32%	36%	42%
Loss ratio	75%	72%	71%	83%	65%	84%	98%	75%	81%	70%	92%	67%	59%	76%	49%	57%
Combined ratio	**108%**	**103%**	**101%**	**101%**	**100%**	**113%**	**124%**	**96%**	**113%**	**98%**	**126%**	**98%**	**91%**	**108%**	**85%**	**99%**

Appendix 2 Quantitative template "Market-consistent balance sheet solo"

USD millions		1 January 2017	1 January 2018	Delta
Market-consistent value of investments	Real estate	9	—	(9)
	Shareholdings	138	167	29
	Fixed-income securities	3,214	4,325	1,111
	Loans	—	60	60
	Mortgages	—	—	—
	Equities	110	80	(30)
	Other investments	**37**	**34**	**(3)**
	Collective investment schemes	—	—	—
	Alternative investments	—	—	—
	Other investments	37	34	(3)
	Total investments	**3,508**	**4,666**	**1,158**
	Financial investments from unit-linked life insurance	—	—	—
	Receivables from derivative financial instruments	—	—	—
Market-consistent value of other assets	Cash and cash equivalents	368	413	45
	Receivables from insurance business	1,364	1,455	91
	Other receivables	—	—	—
	Other assets	16	656	640
	Total other assets	**1,748**	**2,524**	**776**
Total market-consistent value of assets		**5,256**	**7,190**	**1,934**

Best estimate liabilities (BEL)	Best estimate of provisions for insurance liabilities	**3,529**	**4,319**	**790**
	Inward reinsurance: non-life insurance business	3,529	4,319	790
	Reinsurers' share of best estimate of provisions for insurance liabilities	**(60)**	**(257)**	**(197)**
	Outward reinsurance: non-life insurance business	(60)	(257)	(197)
Market-consistent value of other liabilities	Non-technical provisions	256	1,662	1,406
	Interest-bearing liabilities	—	—	—
	Liabilities from derivative financial instruments	—	—	—
	Deposits retained on ceded reinsurance	—	—	—
	Liabilities from insurance business	—	—	—
	Other liabilities	200	256	56
Total BEL plus market-consistent value of other liabilities		**3,925**	**5,980**	**2,055**

	Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	**1,331**	**1,210**	**(121)**

Appendix 3 Quantitative template "Solvency solo"

USD millions		1 January 2017	1 January 2018	Change
Derivation of RBC	Market-consistent value of assets minus total from best estimate liabilities plus market-consistent value of other liabilities	1,331	1,210	(121)
	Deductions	—	—	—
	Core capital	1,331	1,210	(121)
	Supplementary capital	—	—	—
	RBC	**1,331**	**1,210**	**(121)**

Derivation of target capital	Underwriting risk	926	530	(396)
	Market risk	196	331	135
	Diversification effects	(229)	(279)	(50)
	Credit risk	156	207	51
	Risk margin and other effects on target capital	16	50	34
	Target capital	**1,065**	**840**	**(225)**

SST ratio	Risk-bearing capital / target capital	**130%**	**152%**	**22%**

MVM	Market value margin "MVM"	**187**	**123**	**(64)**

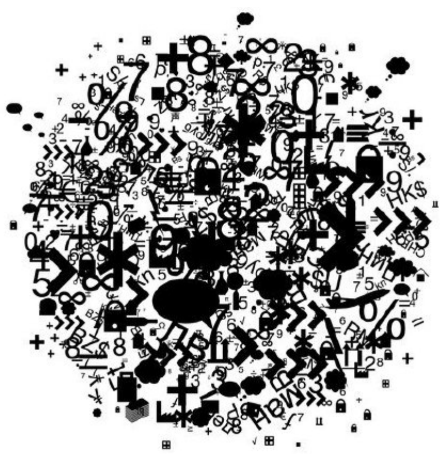
Appendix 4 Audited annual financial statements and report of the statutory auditor

XL CATLIN

Catlin Re Switzerland Ltd

AN XL GROUP LTD COMPANY

Annual Report 2017



MAKE YOUR WORLD GO

Report of the statutory auditor

to the General Meeting of Catlin Re Switzerland Ltd

Zurich

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of Catlin Re Switzerland Ltd, which comprise the balance sheet, income statement and notes, for the year ended 31 December 2017.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2017 comply with Swiss law and the company's articles of incorporation.

PricewaterhouseCoopers AG, Birchstrasse 160, Postfach, CH-8050 Zürich, Switzerland
Telefon: +41 58 792 44 00, Telefax: +41 58 792 44 10, www.pwc.ch

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Philip Kirkpatrick	Nicolas Juillerat
Audit expert Auditor in charge	Audit expert

Zürich, 24 April 2018

Enclosures:

- Financial statements (balance sheet, income statement and notes)
- Proposed appropriation of the available earnings

FINANCIAL STATEMENTS

INCOME STATEMENT

CHF millions	Notes	**2016**	**2017**
Reinsurance			
Gross premiums written		3,525.40	2,697.71
Reinsurance premiums ceded		-32.17	-141.47
Net premium written		**3,493.23**	**2,556.24**
Change in gross unearned premiums		-870.20	518.00
Change in ceded unearned premiums		-6.81	-3.85
Net premium earned		**2,616.22**	**3,070.39**
Allocated investment return		41.95	53.94
Total income from reinsurance activities		**2,658.18**	**3,124.33**
Gross claims paid and claim adjustment expenses		-1,019.05	-1,333.37
Ceded claims paid and claim adjustment expenses		15.79	172.54
Net claims paid		**-1,003.26**	**-1,160.83**
Change in gross loss reserves and loss expenses		-876.36	-1,182.34
Change in ceded loss reserves and loss expenses		5.00	13.44
Claims incurred		**-1,874.61**	**-2,329.73**
Gross acquisition costs		-771.68	-997.85
Ceded acquisition costs		7.54	29.58
Acquisition costs		**-764.15**	**-968.27**
Change in equalisation provision		—	29.25
Allocated operating costs		-46.21	-43.68
Total expenses from reinsurance activities		**-2,684.97**	**-3,312.43**
Net reinsurance result		**-26.80**	**-188.10**
Investments	1		
Investment income		92.68	183.99
investment expenses		-47.68	-79.18
Net investment contribution		**45.00**	**104.81**
Allocated investment return		-41.95	-53.94
Net investment result		**3.05**	**50.87**
Operating result		**-23.75**	**-137.23**
Interest expense		-1.60	-1.48
Other income		29.81	33.84
Administration and other expenses	2	-62.97	-84.27
Allocated operating costs		46.21	43.68
Foreign exchange		—	-31.89
Loss before tax		**-12.29**	**-177.35**
Direct taxes		-0.02	-0.53
Net loss		**-12.31**	**-177.88**

The accompanying notes form an integral part of the financial statements

FINANCIAL STATEMENTS

BALANCE SHEET

As of December 31

Assets

CHF millions	Notes	**2016**	**2017**
Investments			
Real Estate		9.57	—
Investments in affiliated companies	11	129.22	138.64
Fixed income securities		3,257.73	3,956.61
Equity securities		50.56	25.96
Short term investments		*39.76*	*260.31*
Hedge Fund investments		*35.99*	*22.37*
Private Equity investments		*15.44*	*22.01*
Alternative investments		*17.11*	*11.80*
Other investments		108.30	316.49
Total investments		**3,555.38**	**4,437.70**
Funds withheld		864.64	436.67
Cash and cash equivalents		364.15	403.66
Reinsurer's share in technical provisions	4	68.21	273.71
Tangible assets		—	0.03
Deferred acquisition costs		539.18	423.16
Premiums and other receivables from reinsurance, net of bad debts	3	560.49	1,008.56
Other receivables		71.42	764.79
Other assets		0.44	0.37
Accrued income		18.60	20.89
Total assets		**6,042.52**	**7,769.54**

The accompanying notes form an integral part of the financial statements.

FINANCIAL STATEMENTS

BALANCE SHEET

As of December 31

Liabilities and shareholder's equity

CHF millions	Notes	2016	2017
Technical provisions	4		
Reserves for losses and loss expenses		2,699.76	3,776.00
Unearned premiums		1,758.32	1,210.53
Provision for profit commissions		12.56	5.25
Equalisation provision		30.85	—
Total technical provisions		**4,501.49**	**4,991.78**
Non-technical provisions			
Provision for taxation		0.11	0.05
Provision for currency fluctuation		154.11	132.77
Total non-technical provisions		**154.22**	**132.82**
Funds held under reinsurance treaties		41.12	53.17
Payables to reinsurance companies	5	29.12	938.32
Other liabilities		178.91	635.48
Accrued expenses		14.88	9.27
Total liabilities		**4,919.74**	**6,760.84**
Shareholder's equity	6		
Common stock		100.00	100.00
Legal capital reserves		883.24	883.24
Legal capital reserves from capital contribution		*883.24*	*883.24*
Legal profit reserves		151.86	203.34
Profit / loss for the financial year		-12.31	-177.88
Total shareholder's equity		**1,122.79**	**1,008.70**
Total liabilities and shareholder's equity		**6,042.52**	**7,769.54**

The accompanying notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

SIGNIFICANT ACCOUNTING PRINCIPLES

Basis of preparation

The financial statements are prepared in accordance with Swiss Company Law. The 2017 financial year comprises the accounting period from January 1 to December 31, 2017. The prior period was from January 1 to December 31, 2016.

These financial statements have been prepared in accordance with the provisions on accounting and financial reporting of the 32nd title of Swiss Code of Obligations and with the additional requirements defined by FINMA (Art. 5-6a AVO-FINMA, valid as of December 15, 2015).

Use of estimates in the preparation of annual accounts

The preparation of the annual accounts requires management to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses as well as the related disclosures. Actual results could differ significantly from the estimates.

Foreign currency translation

Foreign currency transactions incurred in each of the Company's business units are revalued into the functional currency using average exchange rates applicable to the period in which the transactions take place. Foreign exchange gains and losses resulting from the settlement of such transactions and from revaluation at the period end of monetary assets and liabilities denominated in foreign currencies are deemed realised exchange gains and losses and recorded in the income statement.

Each business unit with a different functional currency from the Company are translated into Swiss Francs as follows:

– income and expenses at the monthly average rates of exchange; and
– assets and liabilities at exchange rates prevailing at the balance sheet date; and
– resulting unrealised exchange losses either offset against the provision for currency fluctuation or recorded in the income statement. Unrealised exchange gains are deferred and recorded as a separate line item on the balance sheet.

All assets and liabilities arising from reinsurance contracts are treated as monetary items. At each period end foreign currency monetary items are revalued and translated using the closing rate (including unearned premiums and deferred acquisitions costs). Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction.

Unrealised losses from translation are either offset against the provision for currency fluctuation or recorded in the income statement.

Investments

The following assets are carried at cost less necessary and legally permissible depreciation:
– Real estate
– Investments in affiliated companies
– Fixed income securities
– Equity securities
– Short term investments
– Hedge Fund investments
– Private Equity investments
– Alternative investments (Art)
– Other Investments

Short-term investments are composed of instruments with original maturities of more than 90 days and less than one year from the date of purchase.

Derivative financial instruments may be used to manage market and interest rate risk as a tool for efficient portfolio management.

The valuation rules prescribed by Swiss Financial Market Supervisory Authority FINMA are observed whereby all investments are valued individually.

Funds at Lloyd's

Business written in Lloyd's by Syndicate 2003 is supported by Funds at Lloyd's (FAL). Part of Catlin Re's investment portfolio has been put under the control of the Society of Lloyd's in support of Catlin Syndicate Limited's Lloyd's business. The amount of and compensation for providing FAL support is determined as part of the Intra-Group reinsurance contract between Catlin Re and Catlin Syndicate Limited.

Tangible assets

Tangible assets are carried at cost less individually scheduled straight-line depreciation over their useful lives. Items of minor value are not capitalized.

Funds withheld

Funds withheld are balances held by cedants in respect of open reinsurance contracts. In the case of the Intra-Group reinsurance contract with Catlin Syndicate Limited, no payments will be made until a year of account has been closed three years after the start of the year of account. This is to mirror the fact that premiums net of claims and commissions received by the Syndicate are held in trust until the year of account is closed.

Reinsurer's share in technical provisions

Reinsurer's share in technical provisions includes the balances due from reinsurance companies for paid and unpaid losses and loss expenses that will be recovered from reinsurers, based on contracts in force.

The technical provisions pertaining to retroceded business are determined or estimated according to the contractual agreement and the underlying gross business data per treaty.

Deferred acquisition costs

Deferred acquisition costs principally consist of commissions and other external variable costs directly connected with the acquisition or renewal of existing reinsurance contracts. Deferred acquisition costs represent the proportion of commission incurred which corresponds to the element of the premium that is unearned on the related contracts. Deferred acquisition costs are capitalised in accordance with the business plan submitted to FINMA.

Other assets and other receivables

Other assets are carried at nominal value after deduction of known credit risks, and if applicable, less necessary and legally permissible depreciation.

Technical provisions

The technical provisions are valued in accordance with the following principles:

A liability is established for unpaid losses and loss expenses when insured events occur. The liability is based on the expected ultimate cost of settling the claims. The reserves for losses and loss expenses include: (1) case reserves for known but unpaid claims as at the balance sheet date, including any potential deterioration on existing estimates; (2) incurred but not reported reserves ('IBNR') for claims where the insured event has occurred but has not been reported to Catlin Re as at the balance sheet date; and (3) loss adjustment expense reserves for the expected handling costs of settling the claims.

The estimation of the necessary claim reserves requires the use of informed estimates and judgements and as such are subject to considerable uncertainty. Reserves for losses and loss expenses are based on the analysis of the historical amounts reported by the ceding companies together with other relevant information. The methods and assumptions chosen follow generally accepted actuarial principles.

The equalisation provision is established to ensure the recommended statutory technical provisions equal or exceed the market consistent value of technical provisions.

Premiums written relating to future periods are stated as unearned premiums and are calculated by statistical methods. The accrual of commission is determined correspondingly and is reported in the line item "Deferred acquisition costs".

Non-technical provisions

Provisions for profit commissions are to cover instances where the commission is dependent on the claim experience of the contract, e.g. sliding scale or profit commission, so that an additional liability is due in excess of the commission already incurred or, in the case where the loss experience is worse than expected, a rebate of commission is due.

Provision for taxation contains taxes for the financial year.

Provision for currency fluctuation comprises of unrealised foreign exchange gains from the translation of assets and liabilities from the business units functional currencies to the reporting currency Swiss Francs. Until 2016 the provision for currency fluctuation comprised all currency differences arising from the revaluation of the balance sheet and the adjustments from application of year-end and monthly rates as well as any other foreign exchange transactions.

Funds held under reinsurance treaties

Funds held under reinsurance treaties mainly contain cash deposits withheld from retrocessionaires, which are stated at redemption value.

Payables to reinsurance companies

Payables to reinsurance companies are held at redemption value.

Allocated investment return

The allocated investment return contains the calculated interest generated on the investment covering the technical provisions. The interest rate reflects the currency-weighted average yield on five-year government bonds.

Operating costs

Administration and other expenses are allocated to the reinsurance business and investment result on an imputed basis.

Direct taxes

Direct taxes relate to the financial year and include income and capital tax.

FINANCIAL STATEMENT NOTES

Note 1: Net investment result

CHF millions				**2017**
	Income	Unrealised gains	Realised gains	Total
Investments in affiliated companies	11.73	—	41.75	53.48
Fixed income securities	101.20	1.60	24.40	127.20
Equity securities	—	—	0.18	0.18
Short term investments	*0.80*	*0.33*	*0.06*	*1.19*
Hedge Fund investments	—	—	—	—
Private Equity investments	—	—	—	—
Alternative investments	—	—	*0.89*	*0.89*
Other investments	0.80	0.33	0.95	2.08
Cash and cash equivalents	0.25	0.80	—	1.05
Total Investment income	**113.98**	**2.73**	**67.28**	**183.99**

	Unrealised losses	Realised losses	Total
Fixed income securities	-44.60	-20.05	-64.65
Equity securities	—	-0.02	-0.02
Short term investments	*-0.01*	*-0.04*	*-0.05*
Hedge Fund investments	*-0.15*	—	*-0.15*
Private Equity investments	*-0.14*	—	*-0.14*
Alternative investments	—	*-2.89*	*-2.89*
Other investments	-0.30	-2.93	-3.23
Cash and cash equivalents	—	—	—
Investment management fees			-11.28
Total Investment expenses	**-44.90**	**-23.00**	**-79.18**

CHF millions				**2016**
	Income	Unrealised gains	Realised gains	Total
Investments in affiliated companies	0.30	—	—	0.30
Fixed income securities	52.35	0.98	32.47	85.80
Equity securities	0.18	—	4.91	5.09
Short term investments	*1.23*	—	*0.15*	*1.38*
Hedge Fund investments	—	—	—	—
Private Equity investments	—	—	—	—
Other investments	1.23	—	0.15	1.38
Cash and cash equivalents	0.09	—	0.02	0.11
Total Investment income	**54.15**	**0.98**	**37.55**	**92.68**

	Unrealised losses	Realised losses	Total
Investments in affiliated companies	—	—	—
Fixed income securities	-12.30	-22.62	-34.92
Equity securities	-0.74	-2.68	-3.42
Short term investments	*-0.06*	*-3.95*	*-4.01*
Other investments	-0.06	-3.95	-4.01
Cash and cash equivalents	—	—	—
Investment management fees			-5.33
Total Investment expenses	**-13.10**	**-29.25**	**-47.68**

Note 2: Audit fees

CHF millions	2016	2017
Audit fees	0.32	0.30
Total	**0.32**	**0.30**

The 2017 audit fees amount to CHF 0.30 million (2016: CHF 0.32 million) as noted above and are included in the administration and other expenses.

Note 3: Premiums and other receivables from reinsurance

CHF millions	2016	2017
Receivables from policy holders	—	—
Receivables from agents and brokers	231.86	895.61
Receivables from reinsurance companies	328.63	112.95
Total premiums and other receivables from reinsurance	**560.49**	**1,008.56**

Note 4: Net technical provisions

CHF millions			2016			2017
	Gross	Ceded	Net	Gross	Ceded	Net
Reserves for losses and loss expenses	2,699.76	-41.04	2,658.72	3,776.00	-199.31	3,576.69
Unearned premiums	1,758.32	-27.17	1,731.15	1,210.53	-74.40	1,136.13
Provisions for profit commissions	12.56	—	12.56	5.25	—	5.25
Equalisation provision	30.85	—	30.85	—	—	—
Total net technical provisions	**4,501.49**	**-68.21**	**4,433.28**	**4,991.78**	**-273.71**	**4,718.07**

Note 5: Payables to reinsurance business

CHF millions	2016	2017
Payables to policy holders	—	—
Payables to agents and brokers	—	—
Payables to reinsurance companies	29.12	938.32
Total payables to reinsurance companies	**29.12**	**938.32**

Note 6: Shareholder's equity rollforward

CHF millions	Common Stock	Legal reserves from capital contribution	Legal profit reserves	Retained earnings	Total
as of 31 December 2016	**100.00**	**883.24**	**151.86**	**-12.31**	**1,122.79**
Allocation of loss to Legal profit reserves	—	—	-12.31	12.31	**—**
Merger profit	—	—	4.62	—	**4.62**
Capital contribution	—	—	59.17	—	**59.17**
Loss for the financial year	—	—	—	-177.88	**-177.88**
as of 31 December 2017	**100.00**	**883.24**	**203.34**	**-177.88**	**1,008.70**

Share capital of the Company amounts to CHF 100 million issued in the form of authorised share capital. It is divided into ten million registered shares with a nominal value of ten Swiss Francs per share. The shares are fully paid. During December 2017 Green Holdings Limited, a company incorporated in Bermuda and a fully owned XL Group Ltd company, contributed USD 60 million (CHF 59.17m) in cash to Catlin Re Switzerland Ltd. The contributor did acquire no rights as shareholder of Catlin Re.

Note 7: Contingent liabilities

The Company is committed to an operating lease agreement until 30 September 2019, as a lessee of office space. Management decided to consolidate XL Catlin's dual Zurich offices whereby Catlin Re's office space was vacated during 2016. In 2017 the Zurich office was sublet. The difference between the remaining lease obligations less the sub-rental income was fully expensed in the 2017 fiscal year in the administration and other expenses line item. As a result, the Company is not exposed to any further non-cancellable future obligations as per the balance sheet date.

CHF millions	**2016**	**2017**
Year 2017	1.33	—
Year 2018	1.33	—
Year 2019	1.00	—
Total non-cancellable future payments	**3.66**	**—**

The Company has access to unsecured and secured letter of credit facilities to support its reinsurance business. As at December 31, 2017, unsecured irrevocable letters of credit in the amount of CHF 122.30 million (2016: CHF 480.94 million) have been issued under these facilities.

These letters of credit are used to secure the reserves ceded to the Company under certain reinsurance contracts.

Note 8: Funds withheld

Funds withheld of CHF 436.67 million (2016: CHF 864.64 million) represent deposits held by cedants, of which CHF 208.31 million (2016: CHF 600.90 million) are deposits held by Intra-Group ceding companies. The decrease of CHF 427.97 million is driven by the commutation and settlement of Intra-Group reinsurance treaties in line with agreed schedules.

Note 9: Restricted assets

In certain markets, the Company is required to maintain assets in accounts pledged for the benefit of ceding companies. These requirements are generally promulgated in the statutory regulations of the individual jurisdictions.

The Company also has investments in segregated portfolios to provide collateral for certain bank letters of credit issued for the benefit of ceding companies.

In connection with the Intra-Group reinsurance of the Syndicate business, the Company also provides Funds at Lloyd's in support of Catlin Syndicate Limited’s business at Lloyd’s. In connection with the US Intra-Group reinsurance business, the Company has investments held in portfolios to fulfill Reg 114 Trust fund requirements.

The total value of these restricted assets by category at 31 December 2017 and 2016 are as follows:

CHF millions	2016	2017
Fixed income securities	2,356.27	3,015.83
Short term investments	34.80	135.30
Cash and cash equivalents	114.30	301.35
Accrued income and other receivables	11.84	15.03
Total restricted assets	**2,517.21**	**3,467.51**

Note 10: Claims on and obligations towards XL Group companies

CHF millions	2016	2017
Assets		
Premiums and other receivables from reinsurance	272.28	—
Funds withheld	600.9	208.31
Other receivables	71.36	526.54
Liabilities		
Payables to reinsurance companies	—	717.92
Other liabilities	167.57	336.49

Note 11: Investments in affiliated companies

in CHF millions as of 31 December 2017	City, Country	Net book value	Equity interest	Voting shares
XL Resseguros Brasil S.A.	São Paulo, Brasil	86.12	100%	100%
XL Investments Latin America Ltd, in liquidation	Hamilton, Bermuda	—	100%	100%
XL Re Latin America Argentina SA	Buenos Aires, Argentina	—	80%	80%
Catlin US Investment Holdings LLC	Wilmington, USA	11.29	15%	40%
XL Value Offshore LLC	Hamilton, Bermuda	41.23	25%	25%
Total Investments in affiliated companies		**138.64**		

in CHF millions as of 31 December 2016	City, Country	Net book value	Equity interest	Voting shares
XL Re Latin America Ltd	Zurich, Switzerland	115.86	100%	100%
Catlin US Investment Holdings LLC	Wilmington, USA	11.29	15%	40%
Catlin CCC Holdings LLC	Wilmington, USA	2.07	100%	100%
Total Investments in affiliated companies		**129.22**		

In connection with the merger with XL Re Latin America Ltd, subsidiaries XL Resseguros Brasil S.A., XL Investments Latin America Ltd and XL Re Latin America Argentina SA became subsidiaries of the Company. During 2017 Catlin CCC Holdings LLC was sold to another Group company, while as XL Value Offshore LLC was established with Catlin Re acquiring a 25% stake.

Note 12: Staff

The average number of full time equivalents employed by the Company for 2017 is more than 10 but less than 50 as compared to 2016 which was more than 50 but less than 250.

Note 13: Change in accounting policy for foreign exchange

Foreign currency transactions incurred in each of the Company's business units are revalued into the functional currency using average exchange rates applicable to the period in which the transactions take place. Foreign exchange gains and losses resulting from the settlement of such transactions and from the revaluation at the period end of monetary assets and liabilities denominated in foreign currencies are deemed realised exchange gains and losses and recorded in the income statement. Each business unit with a different functional currency from the Company's Statutory reporting currency is translated to Swiss Francs, resulting unrealised gains are deferred and recorded under the balance sheet line item provision for currency fluctuation. Unrealised losses from translation are either offset against the provision for currency fluctuation or recorded in the income statement.

Until 2016, all monetary items denominated in foreign currencies were translated straight into the statutory reporting currency Swiss Francs. All currency differences arising from the revaluation of the balance sheet and the adjustments from the application of the year end and monthly exchange rates for foreign exchange transactions were first recognised in the provision for currency fluctuation. Negative foreign exchange impacts were recorded in the income statement.

Non-monetary items such as investments in affiliated companies continue to be measured at historical cost and are translated using the exchange rate at the date of the transaction.

In 2017, unrealised translation losses in the amount of CHF 21m have been recorded against the provision for currency fluctuation, realised losses of CHF 32m are recognised in the income statement.

Note 14: Change in accounting policy for deferred acquisition costs on merged XL Re Latin America Ltd

As a result of the absorption of XL Re Latin America Ltd, the accounting for recording deferred acquisition costs has been aligned to the policy of Catlin Re Switzerland Ltd. Until 2016, any acquisition costs incurred by XL Re Latin America Ltd were earned in full in the year the contracts were written. Under the policy of Catlin Re Switzerland Ltd, acquisition costs which relate to subsequent financial periods are deferred in proportion to the unearned premiums and charged to the financial periods in which the related premiums are earned.

Note 15: Subsequent events

The group internal reinsurance contracts with US cedants for accident year 2018 were not renewed, as a result, the Company's net premium written will materially decrease in 2018 as compared to 2017.

XL Group Ltd (“XL”) has entered into a definitive agreement and plan of merger (the “Merger Agreement”) with AXA SA (“AXA”) dated March 5, 2018, under which AXA would acquire 100% of XL’s common shares in exchange for cash proceeds of $57.60 per common share, or approximately $15.3 billion in the aggregate (the “AXA Transaction”). The Merger Agreement provides that, subject to the satisfaction or waiver of certain conditions set forth therein, XL will merge with an existing AXA subsidiary in accordance with the Companies Act 1981 of Bermuda (the “Merger”), with XL surviving the Merger as a wholly owned subsidiary of AXA. All preferred shares issued by subsidiaries of XL will remain issued and outstanding upon completion of the Merger.

The Merger is expected to close during the second half of 2018, subject to approval by the XL shareholders and other customary closing conditions, including the receipt of required regulatory approvals. The Merger Agreement, among other stipulations, permits: (i) XL to pay out regular quarterly cash dividends not to exceed $0.22 per XL common share per quarter, (ii) subsidiaries of XL to pay period cash dividends on preferred shares not to exceed amounts contemplated by the applicable bye-laws or resolutions approving such preferred shares, and (iii) subsidiaries of XL to pay dividends to XL or any subsidiary of XL.

There have been no other further material events between December 31, 2017 and the date of this report which are required to be disclosed.

APPROPRIATION OF EARNINGS

The Board of Directors will propose at the Annual Shareholder Meeting to be held in Zurich on June 19, 2018 to allocate the loss of the financial year of CHF 177,878,221 to retained earnings:

in CHF	**2016**	**2017**
Retained earnings balance brought forward from the prior year	—	—
Loss for the financial year	-12,311,082	-177,878,221
Allocation to Legal profit reserves	12,311,082	
Retained earnings after allocation	**—**	**-177,878,221**