XL Catlin Insurance Company UK Limited

(Formerly Catlin Insurance Company (UK) Limited)

AN AXA GROUP COMPANY

Solvency and Financial Condition Report

Year Ended

31 December 2018

Contents

Directors' Statement

The Board of Directors acknowledge their responsibility for ensuring that this Solvency and Financial Condition Report (SFCR) has been properly prepared in all material respects in accordance with the Prudential Regulatory Authority rules and Solvency II regulations. The Board confirms that there is a written Solvency II Disclosure Policy in place to ensure the ongoing appropriateness of any information disclosed. The Board is satisfied that:

(a) throughout the financial year in question, XL Catlin Insurance Company UK Limited has complied in all material respects with the requirements of the Prudential Regulatory Authority rules and Solvency II regulations as applicable to the Company; and

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

By order of the Board

P Greensmith

Chief Executive Officer

18 April 2019

M Cummings

Director

18 April 2019

Independent Auditor's Report to the Directors

Report of the external independent auditors to the Directors of XL Catlin Insurance Company UK Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

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

Opinion

We have audited the following documents prepared by the Company as at 31 December 2018:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2018, ('**the Narrative Disclosures subject to audit**'); and

- Company templates S.02.01.02, S.17.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 ('**the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the '**relevant elements of the Solvency and Financial Condition Report'**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the **Other Information** which comprises:

- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;

- Company templates S.05.01.02, S.05.02.01 and S.19.01.21;

- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2018 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is not appropriate; or

- the directors have not disclosed in the Solvency and Financial Condition Report any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Solvency and Financial Condition Report is authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

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

Report on Other Legal and Regulatory Requirements

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants

London

18 April 2019

Summary

Unless otherwise stated, all amounts in this report are presented in thousands of Pound Sterling (£'000), with Sterling being the Company's reporting currency in the Financial Statements. The Quantitative Reporting Templates (QRT) included in Section E are presented in Sterling whole numbers. This may result in a limited number of immaterial rounding differences in the report.

On September 12, 2018, AXA SA (AXA) acquired XL Group Ltd (XL), the Company's previous ultimate parent, when Camelot Holdings Ltd, a wholly-owned subsidiary of AXA, merged with and into XL with XL as the surviving company in the merger. For the period prior to the merger, the Company's ultimate owner was XL. As a result of the merger, XL became a direct wholly-owned subsidiary of AXA and from September 12, 2018 the ultimate owner of the Company became AXA. XL is domiciled in Bermuda and AXA is domiciled in France.

As a result of the merger, a new division "AXA XL" was formed comprising the legacy XL companies (including XLCICL UK) and certain existing AXA companies. AXA XL is the P&C and Specialty division of AXA comprising global insurance and reinsurance companies that provide property, casualty and specialty products to industrial, commercial and professional firms, insurance companies and other enterprises on a worldwide basis. XLCICL UK is part of the AXA XL division.

Business and performance

The Division's operating entities underwrite both insurance and reinsurance business within its Property and Casualty (P&C) business segment. P&C is structured into two segments; Insurance and Reinsurance with Insurance further divided into Global Lines, International and North America business. The Division underwrites across all the platforms available, to best service both brokers and clients.

The Company's strategy and focus is to continue the pursuit of sustainable and disciplined growth through our Specialty, P&C and Reinsurance business lines. By using effective distribution channels, we will continue to offer a suite of products and services to meet the evolving needs of our clients, and contribute to AXA's "Ambition 2020" plan. The Company is an important part of AXA's business model transformation to anticipate the evolving needs of the customer and articulate this through its preferred segments which include P&C commercial lines. The Company continues to provide AXA with a diversified and scalable operation to service UK based risks and clients.

The Company operates primarily in the UK, but also writes business in other parts of Europe, North America and the Asia-Pacific region.

Gross Written Premiums have decreased to £274m in 2018 (2017: £312m). The reduction is a reflection of challenging market conditions and the continued strategic alignment of the businesses written on the International carriers of AXA XL. Global Lines saw a 4% growth in GWP, largely driven by an expansion in the Aerospace portfolios, with a year on year increase of 65%. A majority of this expansion is due to business transferring from other carriers in the Division including the Lloyd's Syndicate. International businesses reported a 4% decline in GWP driven by the reduction in Casualty lines written compared to the prior year.

The company reported £1m profit on ordinary activities before taxation, compared to a loss of £7m in the prior year. An investment gain of £4m in the year (2017: loss of £6m) is driven by portfolio gains across all sectors with longer duration assets being positively impacted by rising UK and US interest rates in the year.

The Company benefited from favourable prior year development in the year of £7.1m.

Further details of the Company's business and performance are provided in Section A below. Also refer to AXA's Annual Report for the year ended 31 December 2018 for additional information on the AXA Group's performance. A link to AXA's 2018 Annual Report is here.

System of governance

The Board of Directors (Board) and management are committed to effective corporate governance and have established a comprehensive framework for the Company's operations. The key component of this framework is the Board, which has ultimate responsibility for the implementation and maintenance of an effective corporate governance framework, and the various Board and management committees through which the Board discharges its legal and fiduciary responsibilities.

The Board is responsible for the internal control framework and the Company operates a 'Three Lines of Defence' model where (1) the business, (2) risk management and compliance and (3) independent audit work together to ensure that risk management is effective.

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 the capital requirements. All of this is captured by the Risk Management

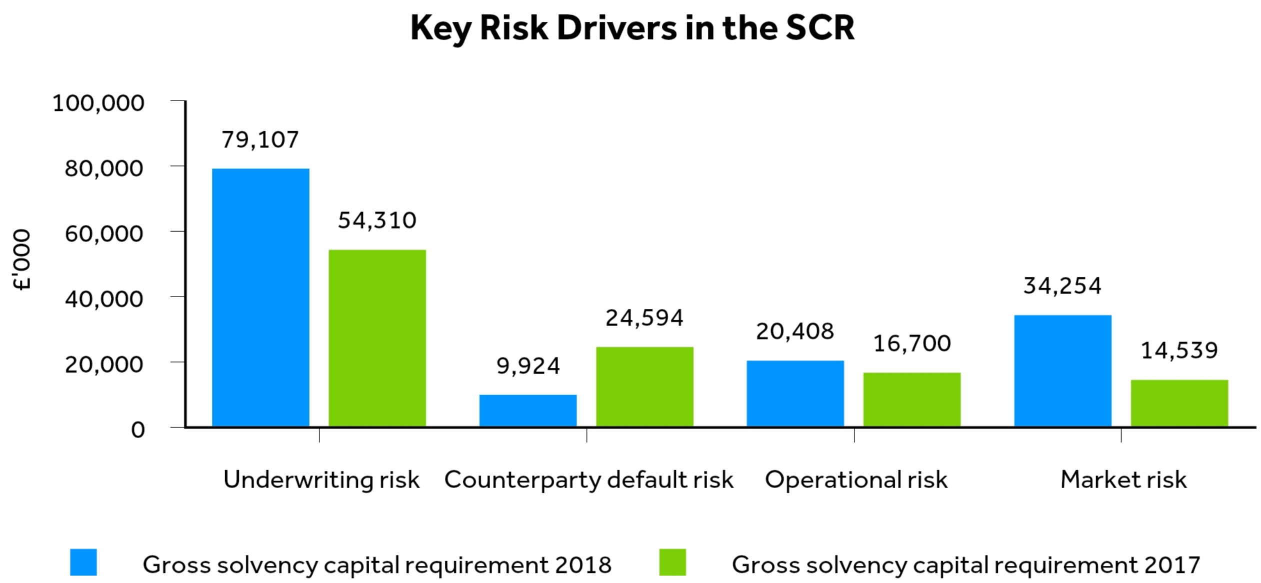
Framework (RMF) and Own Risk and Solvency Assessment (ORSA) activities that are carried out throughout the year with oversight by the Board. The Company is supported by a number of Group-wide processes in the achievement of its risk management objectives.

No material changes were made to the Company's system of governance during the reporting period.

Further details of the Company's Systems of Governance are provided in Section B below.

Risk profile

The key risks within the Solvency Capital Requirement (SCR) are shown below:



The risk profile of XLCICL UK, as a non-life insurance company, is dominated by underwriting risk. 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;
- Underwriting processes (including guidelines and escalation authorities);
- Reserving and claims processes;
- Risk assessment processes;
- The use of Realistic Disaster Scenarios and other scenarios; and
- Independent underwriting peer reviews.

Underwriting risk is mitigated through the purchase of reinsurance, controls over the Actuarial function, rating adequacy, underwriting authorities and guidelines, and the new product process.

Counterparty risk arises from balances XLCICL UK is owed from reinsurance providers and premium debtors. The decrease is due to a decrease in premium debtors on the Solvency II balance sheet.

Operational risk is driven by the gross claims reserves, as the standard formula mandates a 3% shock to reserves.

Market risk is driven primarily by currency risk due to the various markets XLCICL UK operates in, and the resultant mix of currencies in claims reserves, and spread risk from the bonds held against those reserves. XLCICL UK also incurs interest rate risk from both investments held and claims liabilities as well as a small amount of equity risk from equity investments held against claims reserves.

Further information on each separate category of risk can be found in detail in Section C below including a description of the measures used to assess these risks and a description of the material risks which XLCICL UK is exposed to.

Valuation for solvency purposes

An analysis of the valuation of non-technical assets and liabilities in the Solvency II balance sheet, together with the recognition and valuation bases applied, is provided in Sections D.1 and D.3.

Section D.2 discloses the value of technical provisions as well as a description of the bases, methods and main assumptions used for their valuation for solvency purposes.

There were no material changes to the entity's valuation for solvency purposes over the reporting period.

Capital management

The Company is required to measure its assets and liabilities according to the European Solvency II Directive and its associated rules, regulations and guidelines. This regulatory framework for the European insurance industry adopts a dynamic risk-based approach based on economic principles that measure assets and liabilities to appropriately align insurers' risks with the capital they hold to safeguard policyholders.

The Company calculates its SCR using the Standard Formula.

	2018	**2017**
	£'000	**£'000**
Total eligible own funds to meet the SCR	155,893	170,060
SCR	114,331	89,030
	%	**%**
Ratio of Eligible own funds to SCR	136.4%	191.0%

The decrease in eligible own funds is driven by an increase in additional run-off expenses and future reinsurance spend included within the best estimate liabilities. The increase in SCR is a result of planned increases in premium volumes to be written by the Company in 2019 compared to 2018.

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

- Match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- Maintain financial strength to support new business growth; and
- Satisfy the requirements of its policyholders and regulators;

All of the Company's basic own funds are Tier 1. There is therefore no restriction to the own funds eligible to meet either the SCR or MCR.

	2018	**2017**
	£'000	**£'000**
SCR	114,331	89,030
MCR	31,686	37,629
Total eligible own funds to meet the SCR	155,893	170,060
Total eligible own funds to meet the MCR	155,893	170,060
	%	**%**
Ratio of Eligible own funds to SCR	**136.4%**	**191.0%**
Ratio of Eligible own funds to MCR	**492.0%**	**451.9%**

The Company met all of the SCR and MCR compliance requirements during the reporting period.

Significant Business or other events

No significant business or other events with material impact on the solvency and financial condition of the Company occurred during the reporting period.

A. Business and Performance

A.1. Business

A.1.1 Name and legal form of the undertaking

XL Catlin Insurance Company UK Limited is incorporated in the United Kingdom and is a company limited by shares. The registered office is:

AXA XL
20 Gracechurch Street
London
EC3V 0BG
United Kingdom
Telephone: +(44) 020 7626 0486

A.1.2 Supervisory authorities

UK Regulators

Prudential Regulatory Authority ('PRA')
Bank of England
Threadneedle Street
London EC2R 8AH
United Kingdom
Telephone: +(44) 20 3461 4444

Financial Conduct Authority ('FCA')
25 The North Colonnade
London E14 5HS
United Kingdom
Telephone: +(44) 20 7066 1000

Group Supervisor

Autorité de Contrôle Prudentiel et de Résolution (ACPR)
4, place de Budapest
CS 92459
75436 PARIS CEDEX 09
France
Telephone: +(33) 1 49 95 40 00

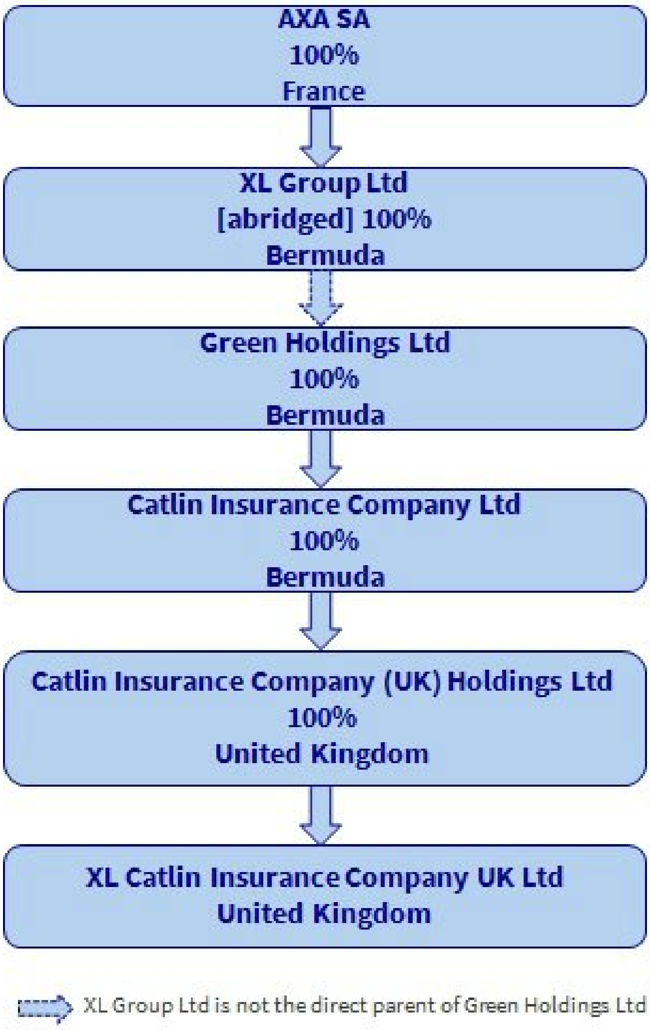
A.1.3 External auditor

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London SE1 2RT
United Kingdom
Telephone: +(44) 020 7583 5000

A.1.4 Company holders and position within legal structure of the Group

The Company's immediate parent is Catlin Insurance Company (UK) Holdings Ltd, a company incorporated in England and Wales, which holds 100% of the ownership interest and voting rights. The Company's ultimate parent and controlling undertaking is AXA SA, a company incorporated in France. The Company consolidates its reporting into the group financial statements of AXA SA.

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



A.1.5 Related undertakings

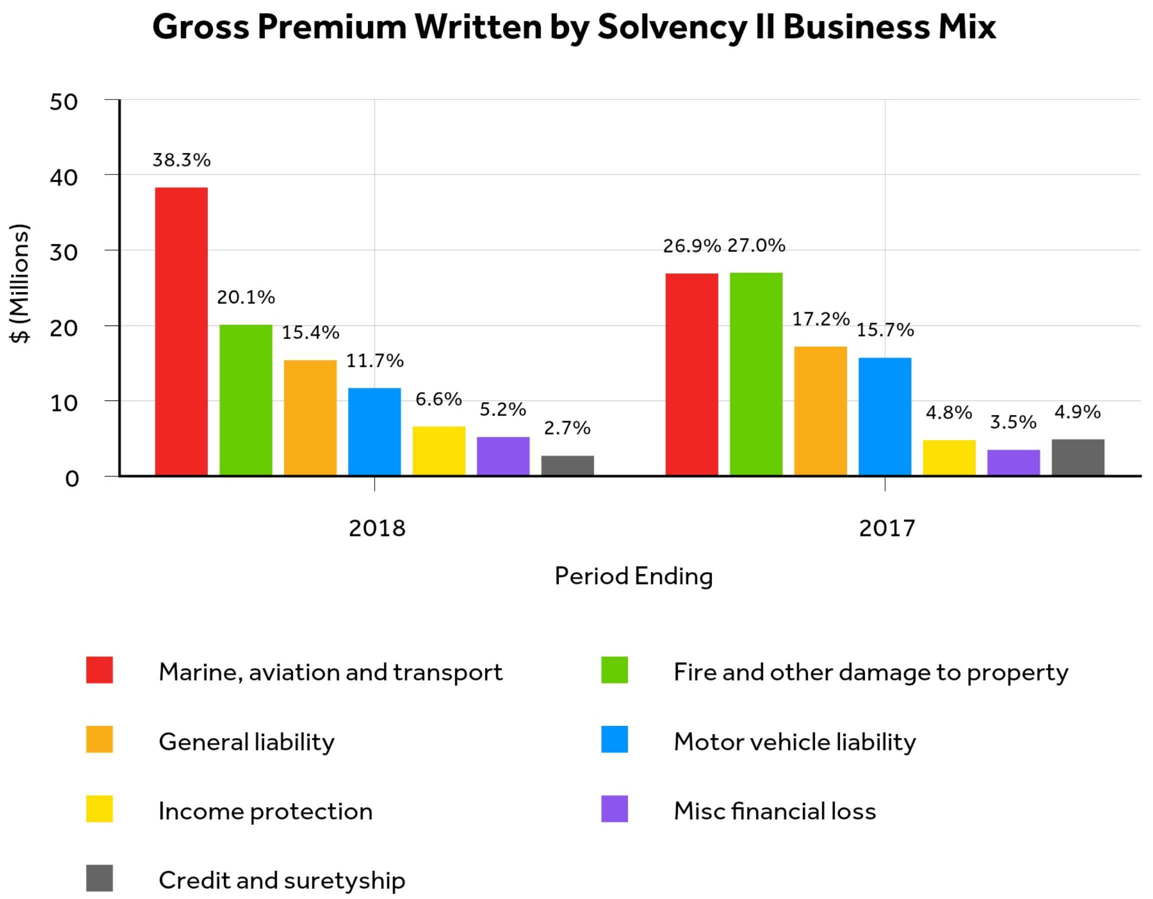
XLCICL UK is the parent entity of the following companies:

Name	Principal trading activity	Country of incorporation	Class of shares held	Share ownership and voting rights
XL Catlin Insurance Company UK Ltd - Escritorio de Representacao no Brazil Ltda	Representative office	Brazil	Ordinary	99.99%
Catlin Treasury Luxembourg S.A.R.L.	Insurance services	Luxembourg	Ordinary	100%

A.1.6 Material lines of business and geographical areas

The Company is domiciled in the United Kingdom and writes business in the United Kingdom and elsewhere.

Gross Premium Written by line of business and geography are presented below:



Gross Written Premiums by business mix

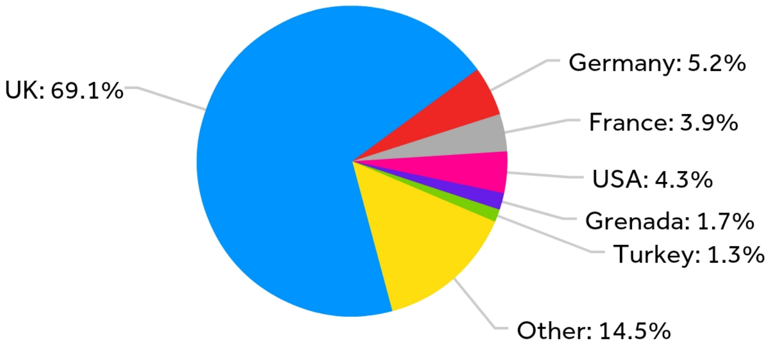
	2018	2017	Variance
Global lines	84 %	80 %	4 %
International	17 %	21 %	(4)%
Reinsurance	(1)%	(1)%	— %
	100 %	100 %	— %

AXA XL manages its business units on a geographical and product basis with consideration towards legal entities. The term "International" is used to refer to non-North American geographies. These groupings are mapped into Solvency II lines of business for regulatory reporting purposes.

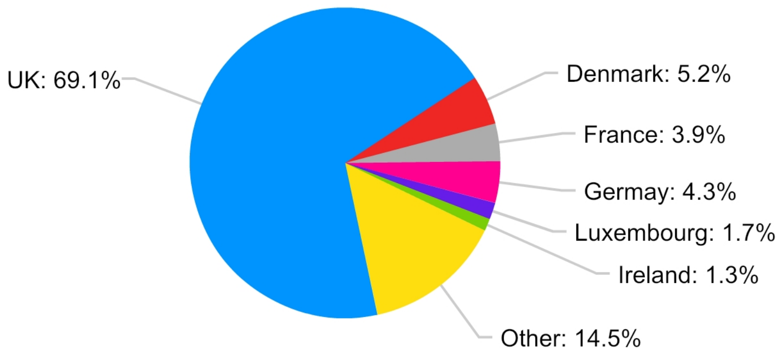
Global Lines constitutes 84% of the Company's portfolio and includes London Market Wholesale Property and Casualty, Aerospace, Energy and Crisis Management.

International which comprises Casualty, Motor vehicle, Construction and Property constitutes 17% of the Company's portfolio.

2018 Gross Premium Written by Main Solvency II Geographic Areas



2017 Gross Premium Written by Main Solvency II Geographic Areas



A.1.7 Significant events in the last reporting year

The Board continues to review the potential impact of Brexit including the full loss of passporting rights in Europe and the impact this may have on portfolio mix and GPW volume as well as business written on other carriers within the Division. In January 2019, AXA XL completed the transfer of XL Insurance Company SE (XLICSE) from the UK to Dublin, Ireland, in response to the UK's decision to leave the EU. With much undecided around Brexit, this move will create certainty for our clients and brokers. This will result in XLCICL UK becoming the Division's UK legal entity platform.

On September 12, 2018, XL Group Ltd (the "XL") the Company's previous ultimate parent completed its previously announced merger with Camelot Holdings Ltd. ("Merger Sub"), a wholly owned subsidiary of AXA SA ("AXA").Pursuant to the Agreement and Plan of Merger, dated as of March 5, 2018, by and among XL, Merger Sub and AXA (the "Merger Agreement"),and the statutory merger agreement required in accordance with Section 105 of the Bermuda Companies Act 1981, as amended (the "Companies Act"), by and among XL, Merger Sub and AXA, dated as of September 12, 2018, Merger Sub merged with and into XL in accordance with the Companies Act (the "Merger"), with XL continuing as the surviving corporation and as a direct wholly-owned subsidiary of AXA. Pursuant to the Merger Agreement, each issued and outstanding common share, par value $0.01 per common share, of XL (each, a "Company Share") (other than any Company Shares that were owned (i) by XL as treasury shares, (ii) by wholly owned subsidiaries of XL or (iii) by AXA, Merger Sub or by wholly owned subsidiaries of AXA (with certain exceptions)), including each outstanding restricted Company Share (unless otherwise agreed between AXA and the holder of the award), were automatically cancelled and converted into the right to receive $57.60 in cash, without interest and subject to any applicable tax withholdings. The completion of the transaction followed the fulfillment of customary closing conditions, including approval by XL's shareholders and obtainment of all necessary regulatory approvals.

A.2. Underwriting performance

A.2.1 Underwriting performance: Current year

Since the Company prepares its financial statements in accordance with UK Generally Accepted Accounting Principles (GAAP), the underwriting performance information provided in this section is on a UK GAAP basis unless otherwise stated.

The table below provides the 2018 and 2017 key performance indicators on a UK GAAP basis:

	2018	2017
	£'000	**£'000**
Gross premium written	273,938	312,192
Net earned premium	86,173	63,610
Loss ratio	45.3%	60.5%
Combined ratio	116.7%	110.8%

Gross Written Premiums have decreased to £274m in 2018 (2017: £312m). The reduction is a reflection of challenging market conditions and the continued strategic alignment of the businesses written on the International carriers of AXA XL. Global Lines saw a 4% growth in GWP, largely driven by an expansion in the Aerospace portfolios, with a year on year increase of 65%. A majority of this expansion is due to business transferring from other carriers in the Division including the Lloyd's Syndicate. International businesses reported a 4% decline in GWP driven by the reduction in Casualty lines written compared to the prior year.

The Company benefited from favourable prior year development in the year of £7.1m.

The tables below provide the 2018 and 2017 gross written premiums and net earned premiums on a Solvency II Line of Business basis:

2018

	Motor vehicle liability insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Other	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Gross Written Premiums	31,627	103,187	54,300	41,509	7,214	36,100	273,938
Net Earned Premiums	15,156	23,865	16,172	5,920	8,512	16,549	86,173

2017

	Motor vehicle liability insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Other	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Gross Written Premiums	47,855	82,044	82,224	52,273	14,855	32,941	312,192
Net Earned Premiums	15,714	6,925	20,943	9,727	5,251	5,050	63,610

The business is not managed on a Solvency II basis, however the only significant difference from UK GAAP is in the net loss ratio which is driven by the Solvency II adjustments to arrive at the economic balance sheet position.

The tables below provides the 2018 and 2017 gross written premiums and net earned premiums performance by geographical areas:

2018

	UK	GERMANY	FRANCE	DENMARK	IRELAND	NETHERLANDS	OTHER	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross Written Premiums	227,804	3,195	22,632	5,716	7,558	4,906	2,127	273,938
Net Earned Premiums	71,660	1,005	7,119	1,798	2,378	1,543	670	86,173

2017

	UK	GERMANY	FRANCE	USA	GRENADA	TURKEY	OTHER	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross Written Premiums	215,687	16,078	12,237	13,500	5,436	4,051	45,203	312,192
Net Earned Premiums	44,250	3,299	2,510	2,543	1,115	831	9,062	63,610

A.3. Investment performance

The net investment return for the year was a gain of 1.5% (2017: 2.1% loss), an increase on the prior year due to strong performance on all classes of assets held and the weakening of Pound Sterling against the US Dollar

The Company 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 GBP.

Investment results in the year were driven by portfolio gains across all sectors with longer duration assets being positively impacted by rising UK and US interest rates. No significant changes were implemented by the Company in the year to either the existing asset allocation or investment strategy, and the Company will continue to maintain diversified, actively managed portfolios with exposure to a broad range of sectors.

A.3.1 Investment performance during the reporting period

Net income and expenses arising from investments by asset class during the reporting period were as follows:

Solvency II Asset Class	Net investment return 2018	Net investment return 2017
	£'000	£'000
Bonds		
Government Bonds	1,106	(1,379)
Corporate Bonds	1,151	(11,288)
Collateralised securities	126	6,362
Collective Investments Undertakings	101	145
Cash	1,870	936
Investment management expenses	(810)	(1,041)
	3,544	(6,265)

Below are components of the net investment return:

	2018 £000	2017 £000
Income from financial investments	6,237	6,609
Loss on realisation of investments	(715)	(9,152)
Investment management expenses	(810)	(1,041)
Net unrealised losses on investments	(1,168)	(2,681)
Total investment return	3,544	(6,265)

The company reported £1m profit on ordinary activities before taxation, compared to a loss of £7m in the prior year. An investment gain of £4m in the year (2017: loss of £6m) is driven by portfolio gains across all sectors with longer duration assets being positively impacted by rising UK and US interest rates in the year.

A.3.2 Gains and losses recognized directly in equity

All investment gains and losses are recognized in the income statement.

A.3.3 Investments in securitisation

The Company invested in other asset backed securities with a market value of £9.8m at 31 December 2018 (2017: £5.1m) comprising consumer asset backed securities.

A.4. Performance of other activities

	2018 £'000	2017 £'000
Gain on foreign exchange	10,890	5,937
Other income	763	129
	11,653	6,066

The Company has no material finance or operating leases.

A.5. Any other information

There is no other material information regarding the business and performance of the undertaking.

B. System of Governance

B.1. General information on the system of governance

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

The Company's governance framework begins with the Board and the Board Committees (for further information see below). No material changes were made to the Company's system of governance during the reporting period.

The Board is composed of a mixture of executive and non-executive directors;

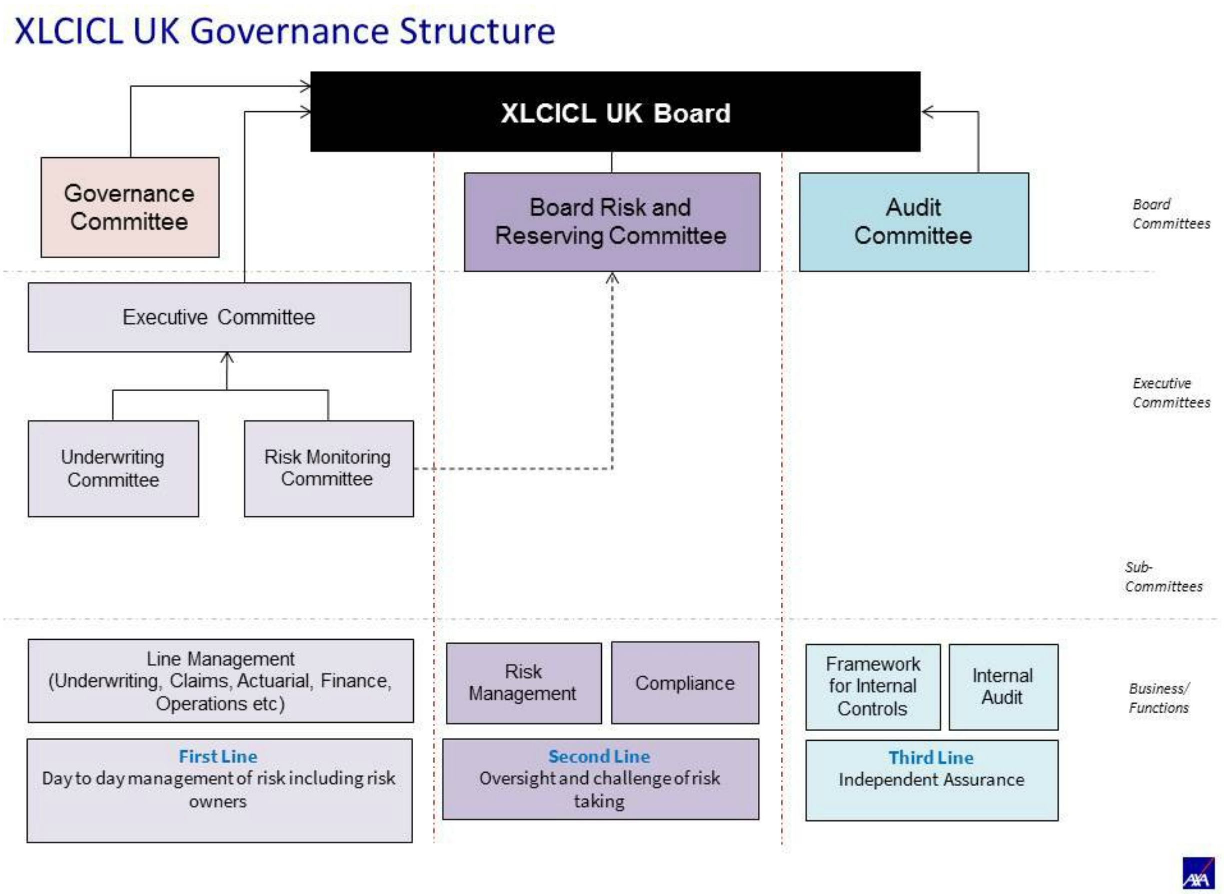
The names of the persons who are directors of the Company as at the date of this report are:

C Ighodaro	Non-Executive Chair of the Board
P Wilson	Non-Executive Chair of the Board Risk and Reserving Committee and Senior Independent Director
B Joseph	Non-Executive Chair of the Audit Committee
Sir John Vereker	Non-Executive Director
P Greensmith	Chief Executive Officer
M Cummings	Chief Financial Officer
R Littlemore	Chief Underwriting Officer, Reinsurance

Board meetings are held at least quarterly with additional meetings held as required. 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, risk management, compliance and reserving.

Governance structure

The Governance structure of the Company is set out below. During 2018, the decision was taken to create a Governance Committee as a sub-Committee of the Board.



The Board seeks to ensure that the operations of the Company 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. Management are 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 exercise 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 non-executive Directors. It meets at least four times a year and its key responsibilities include approval of the strategy and risk appetite of the Company.

In addition, the Board has three Board committees, the Governance Committee, the Board Risk & Reserving Committee (BRRC), and the Audit Committee (AC). Supplementing the governance structure are three formal management committees: the Executive Committee (ExCo), the Risk Monitoring Committee (RMC) and the Underwriting Committee (UC). Both the RMC and UC committees report to the ExCo.

The Company undertakes a thorough strategic planning process considered within the overall strategy of the AXA XL division and overseen by the Board. The ExCo is responsible for implementing the Company's strategy, and for the on-going oversight and management of the risks associated with the strategy.

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. The Company undertakes regular Board effectiveness and Governance reviews to ensure the governance framework is effective and appropriate.

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.

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 oversight 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 report to the Audit Committee.

In addition, the Company operates a Framework for Internal Control (FIC) process which provides assurance on the controls around financial reporting.

Audit Committee

The Audit Committee (AC) is responsible for oversight and review of external and internal audit processes and consists of non-executive directors. In the case of the external audit process, this involves reviewing their terms of engagement, their proposed audit scope and approach and their performance in the preparation of the statutory financial statements and any external reporting requirements. In the case of the internal audit function, the role involves agreeing and monitoring the nature and scope of work to be carried out. This is aimed at providing assurance to management that the internal control systems are appropriate for the prudent management of the business and are operating as planned.

Board Risk & Reserving Committee

The Board Risk and Reserving Committee (BRRC), consists of non-executives and is attended by members of senior management. Key responsibilities of this committee include advising the Board in relation to material risk issues relating to, or arising from, the Company's strategy, risk appetite and tolerances; providing review and appropriate challenge to the risk strategy, risk appetite, stress testing, and oversight arrangements (including oversight of the executive management of risk); overseeing and challenging the Risk Management and Compliance functions; and overseeing and challenging the reserving processes and practice.

Governance Committee

The Governance Committee considers matters of governance, board composition and remuneration on behalf of the board of directors.

Executive Committee

The Executive Committee (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. The Board has approved the Risk Management Framework (RMF) and has charged day to day monitoring of it to the RMC, which reports to the ExCo.

Underwriting Committee

The Underwriting Committee (UC) monitors and oversees the underwriting strategy, policy and appetite for the Company. The UC also advises, makes recommendations and escalates (where necessary) issues to the ExCo.

Risk Monitoring Committee

The Risk Monitoring Committee (RMC) oversees the risk management framework of the Company, including those risks emanating from regions outside of the UK.

Key Functions

The Company's risk management, compliance, internal audit and actuarial functions are the key functions in its system of governance (Key Functions). 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 or Board Committee as appropriate;
- Cooperates with the other functions, where appropriate, in carrying out their roles;
- Is able to communicate, at their own initiative, with any staff member and have the necessary authority, resources and expertise and have unrestricted access to all relevant information necessary to carry out their responsibilities; and
- Promptly reports any major problem in their area of responsibility to the Board.

There should be as much independence between functions as possible and the individuals carrying out the internal audit function do not assume any responsibility for any other function.

The Company has written policies in place in relation to risk management, internal audit, compliance and the actuarial function and further information on these functions is contained within sections B3 (Risk Management), B4 (Compliance function), B5 (Internal Audit) and B6 (Actuarial Function). The implementation of Key Functions within the Company is explained below.

As well as the required key functions, the Board has designated underwriting, finance and claims as functions which are of specific importance to the sound and prudent management of the Company. These functions all report directly to the Board. The risk management, compliance and actuarial functions report into the Board Risk and Reserving Committee whilst Internal Audit reports to the Audit Committee. During the period, the Company implemented the requirements of the Senior Managers and Certification Regime and as a result, all key function holders now hold Senior Management Functions.

The underwriting, finance, claims, risk management, actuarial and compliance functions are members of the ExCo .

Remuneration policy and practices

Remuneration Principles

The Company has a Remuneration Policy in place, the purpose of which is to outline how the Company ensures that the setting of remuneration is appropriate and transparent, and promotes sound and effective risk management within approved risk tolerance limits.

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 Company 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, recognize 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 Company's most senior leaders, shares awarded under the long-term incentive program are subject to holding and minimum ownership requirements.

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.

Material related party transactions

We actively monitor all related party transactions. The material transactions with shareholders, persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory body include the intra-group reinsurance arrangements.

No additional capital contributions were made in the year from XLCICL UK's immediate parent company (2017: £30m).

B.2. Fit and proper requirements

B.2.1 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 judgement and integrity, who have knowledge or experience in the areas of insurance, reinsurance, financial services or other aspects of the 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 Board 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 and Senior Management 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. This discussion and evaluation of diversity occurs at the Governance Committee with recommendations made to the Board.

B.2.2 Recruitment process

All permanent recruitment within the Company is undertaken in line with the standard AXA XL recruitment process.

Human Resources (HR) undertake, on an outsourced basis, a series of checks in relation to a candidate after an offer has been communicated to them. The offer of employment is made subject to the satisfactory completion of detailed relevant background checks. These checks are commensurate to the seniority of the position and if the checks are not completed to the Company's satisfaction or the candidate provides false or misleading information, the Company reserves the right to withdraw the contract. For Executive Management positions these checks include:

- Electoral roll and address search
- Credit review
- Employment history and references
- Academic qualifications
- Identity check
- Prior directorships search
- Compliance database check
- Professional membership and qualifications
- For senior appointments in the UK which fall under the Senior Managers Regime, HR liaise with Compliance in relation to necessary regulatory approvals and obtain the information necessary for the approval, including a regulatory reference.

B.2.3 Code of conduct

The Company operates a Code of Conduct ('the Code') that all employees must adhere to. The Code explains the standards expected of all employees and underpins the Company's values and behaviours. The Code applies to all employees, officers and directors, including the independent directors on the Company's Board. Anyone acting on the Company's behalf (e.g. agents, consultants, contractors etc.) is expected to uphold these standards when conducting Company business.

B.2.4 Fit & Proper Reassessment

All employees are subject to a performance appraisal process, which evaluates, on an ongoing basis, employee's continued fitness for their roles and responsibilities and identifies any necessary training and development needs.

B.3. Risk management system including the own risk and solvency assessment

B.3.1 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 is managed by the Enterprise Risk Management (ERM) function who implement the Risk Management Framework (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. The aim of the RMF is to:

- Support business objectives and strategy;
- Obtain 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;
- Support regulatory risk management requirements.

The RMC meets regularly and oversees the implementation and embedding of the RMF and monitoring of Company performance against risk appetite. The RMC has responsibility for overseeing the preparation of the ORSA and SCR and makes recommendations and escalates any issues to the Executive and 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.

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 Chief Risk Officer (CRO) and a 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 the Company's 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 Company;
- 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 Risk Appetite Framework (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 (NAT CAT), RDS that cross multiple lines of business etc.), liquidity standards, tolerance to specific investment related risks and operational risk. The Board approved risk appetites and risk tolerances were reviewed during the 2019 business planning process and it was determined that all statements and tolerances were appropriate to allow the Company to execute the 2019 business plan.

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 processes - 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.

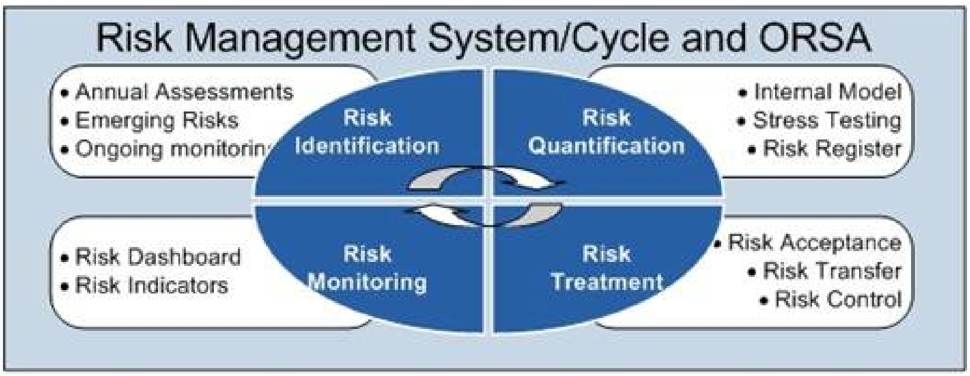
Skills, Resources and Risk Culture. Organisational Learning. Change Management Governance - All enable a mature risk culture throughout the Company.

Risk Reporting

A risk dashboard is presented at every 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 Standard Formula. 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 CRO Board report.

B3.2 Own risk and solvency assessment (ORSA)

The Company's Own Risk and Solvency Assessment (ORSA) process includes all of the material risks, processes and procedures employed to identify, assess, monitor, manage, and report the short and long term risks the Company faces or may face. It also assists to determine the own funds necessary to ensure that the Company's overall solvency needs are met at all times. See the figure below which outlines the continuous ORSA process:



The Regulatory Capital Requirement is derived using the Solvency II Standard Formula profile. The ICM output together with Standard Formula results are presented to the RMC and the Board to provide richer insights on risk exposures to inform and drive risk and capital based decision making.

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,as described in the annually 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 but regular management information that is produced by the ORSA processes is provided continuously 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.

B.4. Internal control system

The ‘Three Lines of Defence’ approach which ensures effective and robust day to day governance is in place as described in Section B1 above.

The Framework for Internal Control (FIC) provides assurance on the controls around financial reporting. This 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 FIC framework is to be expanded in line with the AXA framework in 2019.

The Internal Audit Function provides the ‘third line of defence’ where they provide independent assessment of the effectiveness of XLCICL UK’s system of internal control and report to the Audit Committee.

B.4.1 Framework for internal controls

The Framework for Internal Controls (FIC) function is committed to promoting a robust internal financial control framework for the Audit Committee, 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 Committee 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.

B.4.2 Compliance function

The compliance function is responsible for advising the Company’s management and board on compliance with applicable laws, regulations and administrative provisions adopted in accordance with the Solvency II Directive and other local laws and regulations, and on the impact of changes in the legal and regulatory environment applicable to AXA XL’s operations. AXA XL’s compliance function provides expertise, advice and support to various departments of the Company to assess situations and compliance matters, analyze compliance risk and contribute to design solutions to mitigate those risks to which AXA XL is exposed.

The Head of Compliance and Regulatory Affairs for Europe, Middle East and Latin America is the Compliance Officer for the Company and is supported by the wider UK Compliance team.

AXA XL’s compliance function manages a wide range of compliance related matters including (i) regular reporting on significant compliance and regulatory matters to senior management and to regulators, (ii) financial crime matters (which include anti-corruption, anti-bribery, anti-money laundering programs as well as international sanctions/embargo compliance), (iii) data privacy, (iv) employee Compliance & Ethics Guide, (v) the monitoring of compliance and regulatory risks.

The Company's compliance function undertakes an annual Compliance Risk Assessment to identify the most significant compliance risks to which the business is exposed. Based on this assessment, an Annual Compliance Plan is developed at the end of each year for the following year.

The compliance activities within AXA XL are articulated around a number of Group Standards and Policies which set the minimum requirements expected to be covered by AXA XL. The Compliance Group Standards Handbook (GSH) and the Compliance Professional Family Policy Manual (PFPM) contain standards and policies on significant risks affecting the compliance activities as well as the high level control and monitoring principles to which AXA XL must adhere. Both the standards and policies contained in the GSH and PFPM (e.g. Compliance Governance, Anti-Money Laundering, Sanctions, Anti-Bribery) are mandatory. In addition, the compliance function has adapted the Group requirements and developed local policies to align with the relevant laws and regulations in the jurisdiction in which AXA XL operates and conducts business.

On a quarterly basis the Company's compliance function reports directly to the Board on significant compliance matters. These include major regulatory changes that have compliance implications, results of the Compliance Risk Assessment, the Annual Compliance Plan, remediation plans and any other significant issues that require escalation

B.5. 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 ethics 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.

B.5.1 Internal audit independence

To provide for the independence of the Internal Audit Department, the Head of Internal Audit for the Company reports to the AXA XL Chief Audit Executive and to the Company's Audit Committee. Since finalization of the acquisition by AXA in September 2018, the Chief Audit Executive for AXA XL also functionally reports through to AXA's Global Head of Audit, who reports to the AXA Group Audit Committee Chairman. 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.

B.5.2 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.

The Annual Risk Assessment process is coordinated with PricewaterhouseCoopers (external auditors) and Framework of Internal Controls to review the corporate-wide integrated audit universe of business functions, risks, processes and controls, as well as with other assurance functions within the Integrated Internal Control Framework, including Compliance - monitoring and testing of key compliance risks; and first line Underwriting and Claims assurance activities (e.g. Independent Underwriting Review (IUR), Claims Quality Assurance (QA), Delegated Underwriting Governance (DUG), and Claims Delegated Authority Governance (CDAG)). 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 as 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 Company's Audit Committee for approval.

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

B.5.3 Internal audit engagement process

The internal audit engagement process is set out below:

1. 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 other assurance providers and external auditors.

2. Risk & Control Evaluation: The objective of this phase to understand the business process, the key controls and the primary risks associated with the business process.

3. Fieldwork & Testing: The auditor will determine whether the controls supporting the audit objectives are adequately designed and effective through the gathering of audit evidence.

4. 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.

5. Follow-up & Closure: The objective of this phase is to monitor the outstanding audit recommendations and agreed-upon audit issue resolutions to ensure their timely implementation.

B.6. Actuarial Function

B6.1 Roles and Structure

The Company's Responsible Actuary and the Actuarial Function which advises the Board is established internally within the Division, as opposed to being outsourced to third-party service providers, and is embedded in the UK corporate governance framework. The Division is committed to maintaining an effective Actuarial Function to ensure that the business is conducted in a prudent manner within the Company.

The Actuarial Function is split into two core functions: Actuarial Reserving/ Financial Reporting (AFR) which is responsible for loss reserving and reporting and Insurance Pricing and Analytics which is responsible for pricing and underwriting. The Head of Risk Capital also contributes to the Actuarial Function of the Company.

The responsibilities of the Actuarial Function are shared by a number of key individuals who are supported by their respective teams. These teams are of sufficient size, and consist of suitably qualified and experienced people that meet the Company's minimum fitness and proper employment criteria. The teams are structured with varying lines of defence to facilitate effective peer review and independent challenge.

In carrying out their duties, the Actuarial Function follows the Actuaries' Code, the Actuarial Profession Standards (APSs) and all relevant Guidance Notes (GNs) set out by the Institute and Faculty of Actuaries.

B6.2 Reports of the Actuarial Function to the Board and Regulators

The Board delegates responsibilities to the Actuarial Function. The Actuarial Function in turn provides expert actuarial advice to the Board through formal reports and presentations to the Board.

The Actuarial Function Report (AFR) documents all material tasks that have been undertaken by the Actuarial Function and include the disclosure of key results and the evaluation of any deficiencies and recommendations for addressing any such deficiencies.

The Actuarial Function contributes to the preparation of the SFCR and other regulatory reports.

The above mentioned AFR documentations is produced and provided to the Board on an annual basis.

The Board is presented with a quarterly report known internally as the Board Report covering quarterly reserve movements.

B6.3 Actuarial Function Responsibilities

The Actuarial Function is involved in many of the key processes across the business and provides technical expertise and assurance over the methods used. The Actuarial Function Report sets out the responsibilities of the Actuarial Function in detail. The key processes are:

- Estimating the gross and net technical provisions;
- Ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions and explaining any material effect of change of data, methodologies or assumptions between valuation dates on the amount of technical provisions;
- Assessing the sufficiency and quality of the data used in the calculation of technical provisions and where relevant providing recommendations on internal procedures to improve data quality;
- Informing the Board on the reliability and adequacy of the calculation of technical provisions; overseeing the calculation of technical provisions;
- Assisting in the execution of the risk management framework and ensuring effective governance framework around the review and validation of loss reserves (including technical provisions), policyholder obligations and potential exposures, which includes:
    i. Regular contact by reserving actuaries with underwriting and claims teams;
    ii. Review of technical provision results by an escalating series of reviews from reserving actuaries to the Division Actuarial Function Holder;
    iii. Review of technical provisions to provide sufficient independence from management;
    iv. Independent external analysis of the reserving requirements; and
- Setting and maintaining actuarial standards to be applied across the business, ensuring that the actuarial methods and techniques are compliant with all the appropriate Division and local regulatory requirements;
- Providing, at least annually, opinion on underwriting policy and overall reinsurance arrangements;
- Assisting with the underwriting process, including those surrounding pricing and design of underwriting contracts and risk transfer mechanisms;
- Helping to maintain a competent, effective and efficient approach to pricing;
- Comparing best estimates against experience;

Additional responsibilities relating to capital modelling within the Own Risk and Solvency Assessment (ORSA):

- The Actuarial Function has an additional responsibility in contributing to the effective implementation of the risk management system, including offering insights related to the risk modelling and reserve uncertainty parameterisation.

B.7. Outsourcing

Outsourcing involves the contracting out of a business process to a service provider. Outsourcing may affect the Company's exposure to operational risk through reduced control over people, processes and systems. The Company has established its own Outsourcing Policy to manage the risks associated with the outsourcing of certain activities to a third party service provider. The Outsourcing policy also covers the provision of services, functions and activities by another company within the AXA Group described as Insourcing. The critical or important operational functions that the Company outsources are the provision of employees and services and investment management.

The provision of employees and services to the Company is primarily through AXA XL service companies. A formal Service Level Agreement governs the provision of employees and services between entities in the AXA XL Division. The main Service Company is XL Catlin Services SE (XLCSSE) which employs most of the individuals who provide services to XLCICL UK. XLCSSE is headquartered in the UK and has branches throughout the EU.

Outside of the intra-Group service provision framework outlined above in relation to XLCSSE, additional agreements may be in place for further specific functions provided by companies within the AXA Group. For example, XL Group Investments Limited (XLGIL), based in Bermuda, provides investment management services to the Company. These can be summarised as follows:

- Advising on investment strategy;
- Appointing investment managers;
- Providing investment reporting;
- Setting benchmarks

B.8. Any other information

There is no other material information regarding the system of governance.

C. 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.

As outlined in section B.3.2 the Standard Formula is used to calculate the regulatory capital requirement and the ICM is used as a risk management tool until the Company's ICM is approved. A full breakdown of the key risk drivers of the Standard Formula SCR can be found in Section E.2.2 below.

The key risks and capital drivers identified from the ICM and from the risk identification processes are as follows:

- Underwriting risk is a significant risk that XLCICL UK is exposed to. This underwriting risk is heavily driven by man made events including professional, economic and terrorism exposure.
- XLCICL UK benefits from certain intra-Group reinsurance contracts. Any change to this arrangement would impact XLCICL UK risk profile and associated capital requirements.

C.1. Underwriting 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 payments do not align with the timing or amounts of the estimated claims pay outs and that there are changes in the valuation of the market value margin (risk margin) during the time horizon for solvency assessment
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 renewal 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 -** 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 reporting and monitoring process -** Through these processes, the Company quantifies existing risks and also identifies new risks;

- **RDS and other scenarios -** Used to monitor exposure to the defined scenarios and monitor compliance with underwriting risk tolerances and limits; and

- **Independent underwriting peer reviews -** conducted on a risk based approach by the Underwriting Governance team.

Risk mitigation

Reinsurance purchase

The Company participates in AXA XL managed outwards 3rd party reinsurance risk transfer programme to support the Company's underwriting strategy within risk appetite and to ensure efficient use of capital. Business ceded varies by location and line of business based on a number of factors, including market conditions. The goals of the outwards reinsurance risk transfer programme 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 overall capital efficiency.

The adequacy of the AXA XL reinsurance strategy as a protection mechanism for the Company is considered and is approved by the Company Board as part of the annual business planning process, and the impact of that strategy is monitored quarterly by both the RMC and Board.

XLCICL UK also has an intra-Group reinsurance arrangement of a Whole Account Quota Share to XL Bermuda (XLB) for 2018. As security for the Company's intra-group quota share contracts, the reinsurer is required to maintain a segregated account which is subject to a first legal charge for the benefit of the Company. The balance on this account is £433m (2017: £373.2m). This gives a surplus over the security required per the intra-group reinsurance contract of £63m (Surplus in 2017: £43.7m).

It is required that the balance of the segregated account be adjusted quarterly on the payment date. Any balance in excess of the required balance may be withdrawn, and any deficits shall be funded, by the reinsurer.

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 and strictly defined and controlled and includes several layers of oversight.

Rating adequacy

Underwriters are supported by dedicated teams of claims personnel and pricing actuaries. Premiums are set and adjusted based, in large part, on the industry group in which the insured is placed and the perceived risk of the insured relative to the other risks in that group. The rating methodology used for individual insureds seeks to set premiums in accordance with claims potential. Underwriting guidelines and policy forms differ by product offering as well as by legal jurisdiction.

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

New product process

The Innovation Product Acceleration Strategy (iPAS), an AXA XL procedure, is designed to track and manage product innovation and obtain approval of new products by the appropriate committees and leadership. All new products are also approved by the Company at UW Committee and ExCo.

Risk monitoring

On a quarterly basis catastrophe exposures are measured and monitored and reported to the RMC and Board. RDS are also produced twice a year and monitored and reported to RMC and Board. In addition Large Losses are regularly monitored at Board and Exec level.

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 underwriting risk appetite statements:

Risk type	Risk appetite statement
Underwriting risk	The 1%TVaR OEP limit for the largest natural peril not to exceed the largest planned exposure plus half the capital buffer.
	The 1:100 limit for the largest man-made peril not to exceed the largest planned exposure plus half the capital buffer.

For further information regarding the monitoring of insurance risk through the RMF and RAF, please see Section B.3.1.

Stress testing framework

There is an embedded stress testing framework that is used to understand possible impacts of major risks, including underwriting and reserving 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
Nat Cat reporting	To monitor Nat Cat exposures against risk appetite
RDS reporting	To monitor non-Nat Cat 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 are produced a minimum of twice per year to understand the Company's exposure to defined non-Nat Cat scenarios, which have been designed by experts and 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.

We review a range of extreme scenarios intended to stress our capital position and also take a view at the 1% TVaR, which is the point our natural catastrophe underwriting limits and many of our appetites are set. Considering the 1% TVaR underwriting risk, our key natural catastrophe exposure for the Company is a Northern Europe windstorm. The 1% TVaR exposure is set on a net occurrence exceedance probability (OEP) basis which is calculated using Risk Management Solutions (RMS) catastrophe modelling software. The Company's largest RDS exposure is a political risk event. The capital buffer is larger than either the 1% TVaR European Windstorm or the largest RDS

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.

C.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 and spread risk	Financial loss or volatility of profits due to the combined sensitivity of the economic value of the investment portfolio and (re)insurance liability cash flows and debt securities issued to changes in the level or volatility of benchmark interest rates and spreads.
Market risk concentrations	Financial loss or volatility of profits due to the increased sensitivity of the market value of the investment portfolio to other risks specifically due to concentrations of investments such as in specific geographical region, industry or company.
Foreign exchange risk	Financial loss due to volatility in the value of the Company's assets following changes in currency exchange rates.
Equity price risk	Financial loss or volatility of profits 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.

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 Group Investment Portfolio Guidelines, Authorities and Monitoring Framework, which applies to the Company, sets ranges for tactical deviation from the benchmark and is reviewed 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 explored through underwriting and the Emerging Risk process which has Company representation. The Emerging Risk Task Force, comprised of senior leadership from across the organisation, actively monitors a wide array of emerging risks to provide the Company's 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

The Company's investment management strategy ensures its continued compliance with the Prudent Person Principle set out in Article 132 of Directive 2009/138/EC.

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 implementation of the Company's 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 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 AXA XL.

- **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 on a regular basis and subject to monitoring and reporting to the Company's Board as described below.

Currency risk mitigation

The Company's currency exposure is dominated by Sterling and US Dollar. 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. The table below outlines the Company's year end exposure by currency:

XL CICL UK Asset Mix by Currency (as at 31 December)

Exposure by currency	% Market Value 2018	% Market Value 2017
USD	21%	21%
GBP	79%	79%
Total	**100%**	**100%**

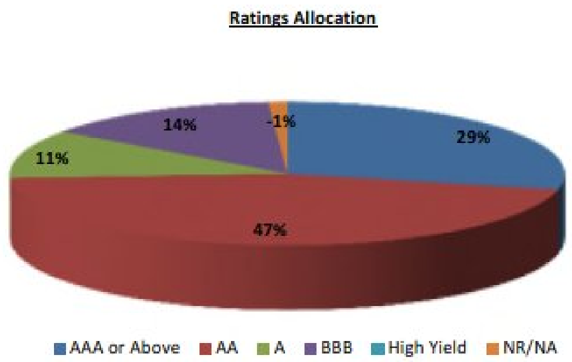
Risk monitoring

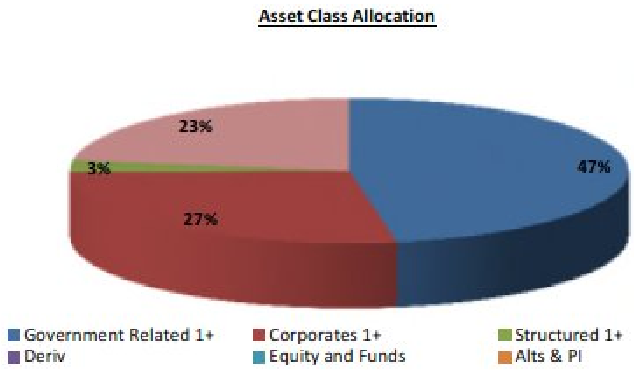
Day-to-day management of the investment portfolio is conducted through a combination of in-house portfolio management teams and external asset managers in accordance with detailed investment guidelines and risk tolerances that are closely monitored by Group Investments. This hybrid implementation approach 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.

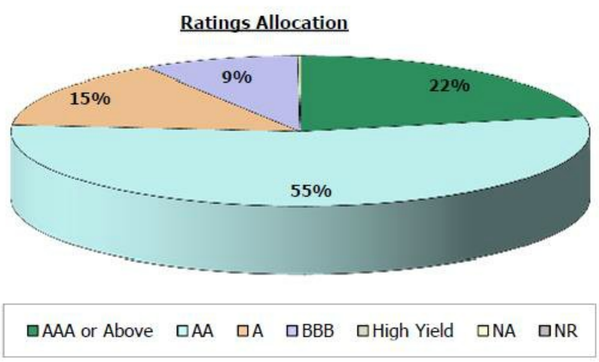
The delegation of investment authority to Group Investments is supplemented by robust compliance monitoring with defined escalation and notification procedures. This framework is designed to identify investment risks in absolute and relative terms and to consistently and objectively measure, assess, 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.

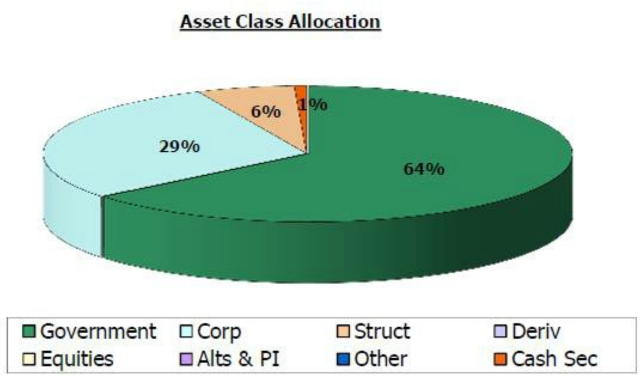
The Company's investment portfolio mostly contains high rated government and corporate assets as seen in the figure below. This is reported to the RMC via the risk dashboard, with any breaches in guidelines highlighted to the Board.

XLCICL UK US GAAP portfolio rating allocation and asset class allocation (as at December 31, 2018)









Portfolio ratings and asset class allocations are managed by the Division's global Investment team and reporting is on a US GAAP basis.

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 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 identified by ERM and the Group Investments 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 as identified above which intend to stress its capital position and also take a view at the 1 in 100, which is the point at which its market risk limit and appetite is set. Considering the 1 in 100 annual Value-at-Risk (VaR) (1 year weighted average) 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 Standard Formula Solvency Capital Requirement (SF SCR).

As part of the Historical Stress Testing outlined above, the Lehman Bankruptcy (examined over a stress period of 12/09/08 to 03/11/08) has been identified as the largest historical market risk stress test to the Company via BlackRock Solutions. Following this stress test the solvency ratio remains above 100% and therefore does not breach the Standard Formula SCR or risk appetite.

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

C.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	Counterparty default risk is the 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 and 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 Division 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 significant reductions in risk resulting from intra-Group reinsurance arrangements including a whole account quota share to XL Bermuda Ltd (XLB).

- **Underwriting authorities and limits -** See C1 Underwriting 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. The following table outlines the Company's top external reinsurance credit exposures as at 31 December 2018.

Reinsurer	Rating	% of exposure 2018	% of exposure 2017
Lloyd's of London	AA-	19%	16%
Swiss Re Limited	AA-	15%	14%
Munich Reinsurance Co.	AA	11%	24%

- **Premium payment and brokers -** The Company underwrites a significant amount of its (re)insurance business through brokers and credit and premium risk exists should any of these brokers be unable to pay premium due. 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 RMC and Board.

Investment portfolio

On a regular basis a review is undertaken of the investment portfolio to improve the Company's understanding of asset concentrations as well as, credit quality and adherence to its credit limit guidelines. Any issuer over its credit limit 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, liquidity to manage through the event and maintain the Company as a going concern. Based on the factors considered in scenario and stress testing, all credit risks are deemed to be well managed.

C.4. 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 by legal entity to cover a 1:100 worldwide aggregate Nat Cat loss over a twelve month horizon.
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.

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 requirements 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 C.6 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.

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 by Treasury, which includes the Company's own view of the stressed sources and uses of liquidity.

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.

Expected profit in future premium

The expected profit in future premium at 31 December 2018 was £24.9m (2017: £4.2m).

C.5. 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 (re)insurance business and having operations to support the writing of that business. The current uncertainty around transition periods and the form of the final Brexit agreement (if any) adds operational risk linked to the business challenges of managing through the change. The impact of this is being monitored at the RMC and Board via the Brexit Steer Co and specific reporting such as business movement approvals. Impacts of the AXA transition have been actively considered and monitored by the RMC and Board through 2018.

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 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 operates 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 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 purchases historical loss data from an external provider. Large events from this database are used to identify new emerging risks. In addition the data is used in the parameterisation of the ICM.

Risk mitigation and monitoring

The Company's risk register details the controls in place that mitigate specific risks. The nature of the controls and the strength of control exercised are 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. The following outlines the Company's operational risk appetite statement:

Risk type	Risk appetite statement
Operational risk	Employees should conduct themselves in accordance with XL Catlin's Code of Conduct. We will conduct our business in such a way as to comply with laws and regulations. We will comply with the RMF.

Stress testing framework

To support the identification and quantification of operational risks within the business and to help parameterise the internal model, the Company has a stress and scenario testing framework.

The stress testing includes multiple operational risk scenarios which are evaluated over multiple return periods for each scenario.

The operational scenarios are developed from the top risks assessed during the annual risk assessment process on both a gross and net assessment basis. The scenarios have multiple uses including:

- To monitor against tolerances;
- To better understand economic and reputational impact of the identified top operational risk exposures; and
- To parameterise the operational risk module in the ICM.

C.6. Other material risks

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	Mismatches 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 creates 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 C2 Market Risk. FX risk arises from mismatches in the currency denomination of assets relative to that of 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 asset liability mismatch 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 (ALM) analysis**

  The Company will conduct detailed ALM analyses to match the average duration and currency 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. Investments undertakes a number of stress tests covering historical events and hypothetical scenarios to understand the impact of such scenarios to the investment portfolio.

Strategic risk

A strategic risk is the risk that a negative impact (current or prospective) on earnings or capital, material at the Group level, arises from a lack of responsiveness to industry changes or adverse business decisions regarding:

• Significant changes in footprint, including through mergers and acquisitions;

• Product offering and client segmentation;

• Distribution model (channel mix including alliances/partnerships, multi-access and digital distribution).

Given the nature of strategic risks, there is no capital charge assessment but rather a strong strategic risk management framework in place in order to assess, anticipate and mitigate these risks.

C.7. Any other information

There is no other material information regarding the risk profile.

D. Valuation for Solvency Purposes

This section contains information regarding the valuation of balance sheet items for solvency purposes. The Solvency II Balance Sheet S.02.01.02 is shown in the Public QRT section at the end of this report.

A reconciliation between the UK GAAP balance sheet and the Solvency II balance sheet is presented below.

A reconciliation between the UK GAAP equity and Solvency II equity is provided in Section E1.2below.

Each material asset class is described in paragraph D.1. Valuation of technical provisions is described in paragraph D.2. Other liabilities are described in paragraph D.3.

	Reference	UK GAAP Value	Revaluation	Solvency II Value	2017
		£'000	£'000	£'000	£'000
Assets					
Deferred Acquisition Costs (DAC)	1	58,481	(58,481)	—	—
Investments (excl participations)	2	196,153	7,677	203,830	273,512
Participations	3	88	—	88	88
Reinsurance recoverables	4	704,584	(246,907)	457,678	314,691
Deposits to cedants		130	—	130	—
Insurance and intermediaries receivables	5	85,021	(70,816)	14,205	89,282
Reinsurance receivables	6	141,009	(30,503)	110,506	106,413
Receivables (trade, not insurance)	7	56,979	—	56,979	16,130
Cash and cash equivalents	8	20,078	47,342	67,420	45,144
Any other assets, not elsewhere shown		1,847	(1,846)	1	—
Total assets		**1,264,370**	**(353,534)**	**910,838**	**845,260**
Liabilities					
Technical provisions (best estimates) - Non Life & health similar to non life	9	834,672	(154,409)	680,264	556,658
Technical provisions (risk margin) - Non Life & health similar to non life	9	—	13,106	13,106	15,668
Debts owed to credit institutions	11	1,308	53,173	54,481	3,288
Insurance & intermediaries payables	12	1	—	1	—
Reinsurance payables	13	178,342	(175,048)	3,294	21,689
Payables (trade, not insurance)	14	3,786	—	3,786	77,883
Any other liabilities, not elsewhere shown	15	39,130	(39,117)	13	14
Total liabilities		**1,057,239**	**(302,296)**	**754,945**	**675,200**
Excess of assets over liabilities		**207,131**	**(51,238)**	**155,893**	**170,060**

D.1. Assets

This section describes the bases, methods and main assumptions used in the valuation for solvency purposes of each material class of assets. The material quantitative differences between the value of assets in the 31 December 2018 balance sheets presented in Section D above are explained. The numbering of the balance sheet line items refers to the comments below. Based on the differences in this template a reconciliation is prepared to reflect the difference between the UK GAAP equity and Solvency II equity.

The Solvency II Balance Sheet requires an economic (fair) valuation for all assets and other liabilities. On this basis, the following hierarchy of high level principles for the valuation of all assets and other liabilities is used:

I. Undertakings must use quoted market prices in active markets for the same assets or liabilities as the default valuation method, notwithstanding if the applicable GAAP would allow a different approach. An active market is one in which transactions for assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis;

II. Where the use of quoted market prices for the same assets or liabilities is not possible, quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences shall be used;

III. If there are no quoted market prices in active markets available, undertakings should use mark-to-model techniques, which is any alternative valuation technique that has to be benchmarked, extrapolated or otherwise calculated as far as possible from a market input;

IV. Undertakings have to make maximum use of relevant observable inputs and market inputs and rely as little as possible on undertaking-specific inputs, minimising the use of unobservable inputs;

V. When valuing liabilities using fair value, an adjustment is required to remove the own credit risk of the liability.

The differences between the UK GAAP and Solvency II valuation for assets are set out below:

1. Deferred acquisition costs (DAC) are costs relating to the acquisition of new business for insurance contracts. Under UK GAAP 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 Solvency II;

2. The reasons for the differences between Solvency II and UK GAAP for investments are set out below:

    - Accrued investment income is included within the value of the investment under Solvency II, whereas it is disclosed separately in the UK GAAP balance sheet; and

    - Certain cash instruments in the UK GAAP balance sheet are classified as investments under Solvency II.

3. Participations are equivalent to Associates in the UK GAAP balance sheet and are accounted for under the adjusted equity method under both UK GAAP and Solvency II. The adjusted equity method is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets, which for Solvency II is calculated on an economic basis;

4. See Section D2.2 for a discussion of reinsurance recoveries under UK GAAP compared to Solvency II;

5. Insurance and intermediaries receivables under UK GAAP are measured at cost less provision for impairment and are not discounted. The valuation differs to Solvency II due to the fact that all of the not-yet-due insurance and intermediaries receivables are transferred to technical provisions under Solvency II (See Section D2 for details). As this is simply a balance sheet re-class between assets and liabilities there is no material impact on equity (apart from the fact that receivables not-yet-due are discounted within technical provisions). Only the due receivables remain in assets under Solvency II and are measured at cost less provision for impairment as a reasonable proxy for fair value given the short term nature of these assets.

6. Reinsurance receivables under UK GAAP are measured at cost less provision for impairment and are not discounted. The difference represents assumed premium debtors which are offset against technical provisions under Solvency II. Therefore there is no impact on equity for this adjustment. Cost less provision for impairment is a reasonable proxy for fair value for the Solvency II measurement given the short term nature of these assets.

7. Trade receivables under UK GAAP are measured at cost less provision for impairment and are not discounted. There is no change in valuation under Solvency II as cost less provision for impairment is a reasonable proxy for fair value for the Solvency II measurement given the short term nature of these assets.

8. Cash and cash equivalents are measured at fair value under both UK GAAP and Solvency II. The difference in cash valuation is because certain cash instruments under UK GAAP are classified as investments under Solvency II. Also some of the overdrawn balances have moved to Debt owed to credit institutions. Please see note 11 for a further description of the balances moved to Debt owed to credit institutions.

D.2. Technical provisions

Items 4 and 9 from the Solvency II Balance Sheet in Section D above are combined below to present Net Technical Provisions:

		2018 Solvency II Value £'000	2017 Solvency II Value £'000
Technical provisions (best estimates) - Non life & health similar to non life	9	680,264	556,658
Technical provisions (risk margin) - Non life & health similar to non life	9	13,106	15,668
Gross Technical Provisions		693,370	572,326
Reinsurance recoverables	4	457,678	314,691
Net Technical Provisions		**235,692**	**257,635**

D2.1 Valuation Bases, Assumptions and Methods to Derive the Value of Technical Provisions

Technical provisions are valued based on best estimate cash flows, adjusted to reflect the time value of money using risk-free discount rate term structures. In addition, there is a risk margin to reflect the uncertainty inherent in the underlying cash flows which is calculated using the cost of capital approach and risk-free discount rate term structures. The discount rate term structures are prescribed by EIOPA for each reporting period.

The best estimate for the claims provision is calculated by using the claims reserves on a UK GAAP basis, and then performing a series of adjustments:

- Unwinding of discounting permissible under UK GAAP (e.g. Periodic Payment Orders and Workers' Compensation);
- Incorporation of expected reinsurance counterparty defaults (bad debt);
- Incorporation or the identification of events not in data (ENID) as appropriate;
- Future premiums (payables and receivables);
- Other adjustments related to the consideration of investment and operating expenses, etc.; and
- Discounting credit.

Please note that the following adjustment is not applicable:

- Removal of prudence margins (as UK GAAP reserves are established on a best estimate basis).

The best estimate for the premium provision is calculated by using the gross unearned premium reserve on a UK GAAP basis, and then performing a series of adjustments:

- Gross and ceded premiums on already obliged but yet to incept business;
- Applying expected future gross loss ratios;
- Reinsurance recoveries (less bad debt);
- Future Losses Occurring During (LOD) reinsurance cost covering existing incepted policies;
- Incorporation or the identification of events not in data (ENID) as appropriate;
- Future premiums (payables and receivables);
- Other adjustments related to the consideration of investment and operating expenses, etc.;
- Adjustments for lapses as appropriate;
- Discounting credit.

In the valuation of the (re)insurance obligations within the technical provisions, the Company has not applied any of the following adjustments to the EIOPA risk-free interest rate term structure:

- matching adjustments (referred to in Article 77b of Directive 2009/138/EC);
- volatility adjustments (referred to in Article 77d of Directive 2009/138/EC);
- transitional risk-free interest rate term structure (referred to in Article 308c of Directive 2009/138/EC); and
- transitional deductions (referred to in Article 308d of Directive 2009/138/EC).

At 31 December 2018 and with comparatives for 2017, the total net Technical Provisions amounted to £235.7m comprising the following (reported in GBP thousand units):

	2018	2017
	£'000	£'000
Claims Provision	115,773	126,981
Premium Provision	106,813	114,986
Risk Margin	13,106	15,668
Total Technical Provisions	**235,692**	**257,635**

The following tables show the breakdown of total net technical provisions as at 31 December:

2018

Solvency II Lines of Business (in GBP 000's)	Best Estimate	Risk Margin	Total Technical Provisions	Percentage of Total
	£'000	£'000	£'000	%
Motor vehicle liability insurance	48,127	1,691	49,818	21.0%
Marine, aviation and transport insurance	56,123	3,719	59,842	25.4%
Fire and other damage to property insurance	36,730	2,067	38,797	16.5%
Miscellaneous financial loss	25,000	956	25,956	11.0%
General liability insurance	28,993	3,937	32,930	14.0%
Credit and suretyship insurance	14,212	62	14,274	6.1%
Other	13,401	674	14,075	6.0%
Total	**222,586**	**13,106**	**235,692**	**100.0%**

2017

Solvency II Lines of Business (in GBP 000's)	Best Estimate	Risk Margin	Total Technical Provisions	Percentage of Total
	£'000	£'000	£'000	%
Motor vehicle liability insurance	20,452	974	21,426	8.3%
Marine, aviation and transport insurance	18,887	1,565	20,452	8.0%
Fire and other damage to property insurance	45,636	2,393	48,029	18.6%
Miscellaneous financial loss	62,144	2,335	64,479	25.0%
General liability insurance	61,204	6,068	67,272	26.1%
Credit and suretyship insurance	19,515	214	19,729	7.7%
Other	14,129	2,119	16,248	6.3%
Total	**241,967**	**15,668**	**257,635**	**100.0%**

Motor vehicle liability insurance, Marine aviation and transport insurance, and Fire and other damage to property insurance represent 62% of the Company's net Technical Provisions. The main methods and assumptions are applied consistently across all lines of business. Although it is worth noting that the underlying values are specific to each line of business. For example, there is a higher discounting credit on the General liability insurance business relative to the other lines of business due to longer settlement durations.

The methods and assumptions are described above.

Motor vehicle liability insurance

Motor vehicle liability insurance business represents 21% of the Company's net Technical Provisions.

Solvency II adjustments are applied to the UK GAAP reserves to get to the Solvency II Technical Provisions. The most material adjustments to the net UK GAAP reserves are the addition of run-off expenses and risk margin, which increase the Net UK GAAP reserves by £3.5m (2017 £0.5m) and £1.7m (2017 £1.0m) respectively.

Marine, aviation and transport insurance

Marine, aviation and transport insurance business represents 25% of the Company's net Technical Provisions.

Solvency II adjustments are applied to the UK GAAP reserves to get to the Solvency II Technical Provisions. The most material adjustments to the net UK GAAP reserves are the addition of future premiums (both receivable and payable) and the losses on the UK GAAP Premium reserves, which increase the Net UK GAAP reserves by £22.4m (2017 £7.7m) and £10.5m (2017 £7.3m decrease) respectively.

Fire and other damage to property insurance

Fire and other damage to property insurance business represents 16% of the Company's net Technical Provisions.

Solvency II adjustments are applied to the UK GAAP reserves to get to the Solvency II Technical Provisions. The most material adjustments to the net UK GAAP reserves are the addition of run-off expenses and the addition of future premiums (both receivable and payable) which increase the Net UK GAAP reserves by £8.4m (2017 £1.5m) and £13.5m (2017 £10.6m) respectively.

D2.2 Description of Recoverables from Reinsurance Contracts

The reinsurance recoverables for the claims provisions are sourced directly from the UK GAAP submissions.

Within the premium provisions, the estimated ceded recoveries are calculated by applying ceded-to-gross ratios reflecting the reinsurance programmes applicable to the gross claims amounts.

Principle of Correspondence

Under the principle of correspondence, the technical provisions allow for the renewal cost of future LOD reinsurance programmes insofar as they would benefit already incepted policies. For unincepted business, future reinsurance cost is explicitly allowed for, and its associative benefit is recognised within the ceded recoveries.

Reinsurance counterparty risk is the risk that ceded recoverables cannot be collected. To cover this risk a reinsurance bad debt (RIBD) allowance is created. This RIBD allowance is calculated based on the credit rating for each reinsurer over the lifetime of the liabilities.

D2.3 Uncertainty/limitations associated with the value of the technical provisions

General As with all insurance business, there is inherently a degree of uncertainty over the exact amount that will be needed to settle the future liabilities. In addition to the inherent uncertainty regarding claims outcomes, there are a number of potential specific sources which contribute to further increasing this uncertainty. It should be noted that these potential specific sources of uncertainty are monitored and discussed regularly in risk committees, management committees and / or reserve committees and actions taken as appropriate.

Eurozone uncertainty following the UK's vote to leave the EU during June 2016 is expected to result in increased uncertainty in the Eurozone. This is expected to increase the volatility of settling insurance claims for several years. This will stem from potential quantitative easing in the EU but is likely to then knock on to other areas of the market (e.g. wages may ultimately also be affected). Nonetheless, it is possible that the additional financial impacts could be significantly in excess of the projected claims amounts, investment income and expenses.

Ongoing economic uncertainty The Actuarial Function would also note that the current uncertainty in the financial markets has the potential to create market conditions which could lead to increased frequency of casualty losses. However, there is significant uncertainty in this regard. More widely, the global economic downturn is likely to raise the frequency and increase the uncertainty around the severity of claims generally across the insurance market.

Volume of premium underwritten There exists uncertainty as to the level of business volume being written into future projection years. This could be impacted by the premium rating environment as well at the macro-economic environment. A change in the volume underwritten will cause uncertainty in the following areas of the financial projections. A change in volumes of business underwritten may materially impact the mix of business underwritten. A significant change in the mix of business could change the projected loss ratio performance compared to that stated in the income statement. A reduction in the volume of business would mean the level of fixed expenses, relative to the premium volumes would increase. This could materially impact the combined ratios stated in the income statement. A change in the mix of business underwritten could impact the reinsurance coverage provided. If the mix of business were to materially differ it could be that the current plan for reinsurance coverage would no longer be appropriate.

Underwriting cycle During the last few years the insurance industry has been considered to be in the 'soft' part of the underwriting cycle i.e. with excess capacity in the market leading to increased competition and falling rates. Efforts have been taken to include an allowance for the insurance cycle within the financial projection, however, a material change in the underwriting cycle could materially lead to a change to the projected income statement.

Exposure to large losses or an accumulation of losses The Company has exposure to large events or accumulation of a number of smaller events. The emergence of a large loss event of this type could significantly alter the estimate of financial projections on a gross of reinsurance basis. The Company note that the reinsurance protection in place mitigates the impact on a net of reinsurance basis. Further,a very large loss across the insurance market can significantly change the underwriting environment and can have a material impact on the financial projections.

Inflationary impacts - severity An increase in the total cost of settling individual claims could materially impact the future claims cost for future projection periods.

Frequency trends An increase in the frequency claims occurring could materially impact the total future claims cost for future projection periods.

Legislative changes in particular jurisdictions A change to the legislative environment could impact the severity and frequency of losses which could have the potential to materially impact the total future claims cost for future projection periods.

Reinsurance coverage A change in the reinsurance coverage purchased could lead to a material deviation from the estimates stated in the financial projections. For example, an increase in the level of reinsurance coverage purchased could lead to an increase in the combined ratio but, in turn, may lead to a reduction in the SCR.

Underwriting strategies A change in AXA XL's underwriting strategy could materially change the results in the financial projections. This could materially impact the claims loss ratios and hence the combined ratio stated in the income statements.

D.3. Other liabilities

The following table details the value of each material class of other liabilities under both UK GAAP and Solvency II at 31 December 2018 and comparatives for 2017.

				2018	2017
Other liabilities	Reference	UK GAAP Value	Adjustment	Solvency II Value	Solvency II Value
		£'000	£'000	£'000	£'000
Debts owed to credit institutions	11	1,308	53,173	54,481	3,288
Insurance & intermediaries payables	12	1	—	1	—
Reinsurance payables	13	178,342	(175,048)	3,294	21,689
Payables (trade, not insurance)	14	3,786	—	3,786	77,883
Any other liabilities, not elsewhere shown	15	39,130	(39,117)	13	14
Total other liabilities		**222,567**	**(160,992)**	**61,575**	**102,874**

Details on the material differences between the bases, methods and main assumptions between UK GAAP and Solvency II valuation for liabilities are set out below:

11 Debts owed to credit institutions represent the reclassification of overdrafts from cash and cash equivalents when moving from UK GAAP to Solvency II. They are measured at fair value under both UK GAAP and Solvency II. The Company uses a group cash pooling account to manage currency risk, and this drives the total balance. The increase from 2017 is a result of cash movements made to manage currency risk.

12 Insurance and intermediaries payables are measured at amortized cost under UK GAAP and are not discounted. There is no difference under Solvency II as undiscounted amortized cost is deemed a reasonable proxy for fair value, given the short term nature of these liabilities.

13 Reinsurance payables are held at amortized cost under UK GAAP. All of these amounts that are due to be paid at a future date have been transferred to technical provisions under Solvency II and therefore there is no impact on Own Funds for this adjustment (apart from an immaterial amount due to the discounting of reinsurance premium payables within technical provisions).

14 Payables (trade, not insurance) are held at amortized cost under both UK GAAP and Solvency II. This is deemed a reasonable proxy for fair value given the short term nature of these liabilities. An adjustment has been made to move debit balances up to trade receivables when creating the Solvency II balance sheet.

15 Any other liabilities, not elsewhere shown include ceded unearned commissions. This income is deferred under UK GAAP but written off as it is not permitted under Solvency II.

If the movement from UK GAAP to Solvency II was an increase to net assets, a deferred tax liability related to the tax effect of the movement would need to be considered. The Company made no deferred tax provision as at 31 December 2018 (2017: nil).

D.4. Alternative methods for valuation

At the year end, all investments are valued using inputs that management consider to be "Level 2". Level 2 inputs include: quoted prices for similar (but not identical) assets; quoted prices in markets that are not active; or other inputs that are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets.

With respect to investments, it is common industry practice to use pricing services as a source for determining fair values where the pricing services are able to obtain sufficient market-corroborating information to allow them to produce a valuation at a reporting date. In the vast majority of valuations, the pricing services use market approaches to valuations using primarily Level 2 inputs. For a small percentage of fixed income securities, the pricing services may use some form of discounted cash flow analysis. Standard inputs to the valuations provided by the pricing services listed in approximate order of priority for use when available include: reported trades, benchmark yields, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data.

Given the nature of the Company's debt security portfolio, management considers the approach to provide an appropriate measure of fair value, with limited valuation uncertainty.

The Company performs regular reviews of the prices received from third party valuation sources to assess whether the prices represent a reasonable estimate of the fair value. This process is completed by investment and accounting personnel who are independent of those responsible for obtaining the valuations. The approaches the Company take include, but are not limited to, annual reviews of the controls of the external parties responsible for sourcing valuations that are subjected to automated tolerance checks, quarterly reviews of the valuation sources and dates, and comparison of executed sales prices to prior valuations.

There are no other material assets or liabilities which are valued using alternative methods of valuation.

D.5. Any other information

There is no other material information regarding the valuation of assets and liabilities for Solvency II.

E. Capital Management

E.1. Own Funds

This section provides a view of the capital management activities of the Company, its capital management methods and the structure, amount and quality of it's own funds. Under Solvency II, capital is referred to as "Own Funds". Own funds are calculated from the excess of assets over liabilities in the Solvency II balance sheet. Adjustments may then be required, but are not for XLCICL UK. The adjusted own funds are known as "Basic Own Funds". Total Own Funds may include "Ancillary Own Funds" which are off-balance-sheet items that can be called up to absorb losses, however the Company does not have any Ancillary Own Funds. Own funds are classified into tiers and restrictions are applied to limit the extent to which the various components of own funds can be used to meet the capital requirements.

E.1.1 Objective, policies and processes for managing own funds

The objective of Own Funds management is to maintain, at all times, sufficient Own Funds to cover the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR). The Own Funds should be of sufficient quality to meet the eligibility requirements in Article 82 of the Delegated Regulation. The Company allocates capital efficiently to achieve sustainable returns and facilitate growth, and strive to maintain capital levels that are consistent with the Company's risk appetite, corporate strategy and statutory requirements

The Company monitors its Own Funds and the Solvency Ratio at least quarterly and the Board receives a regular assessment of the capital position. In addition a dashboard of capital triggers is monitored to identify any instances which would require a recalculation of the standard formula capital requirement. The Committees which review solvency are described in more detail in Section B1 General Information on the System of Governance, and responsibility ultimately rests with the Board. As part of Own Funds management, the Company prepares ongoing solvency projections and reviews the structure of its Own Funds and future requirements. The business plan, which forms the base for the Own Risk and Solvency Assessment (ORSA), contains a five year projection of funding requirements and this helps focus actions for future funding.

E.1.2 Eligible Own Funds

The starting point to determine Eligible Own Funds is to prepare the Company balance sheet on a Solvency II basis. The Solvency II balance sheet is derived from the UK GAAP balance sheet by making the adjustments necessary to reflect the Solvency II valuation basis of assets and liabilities. This Solvency II balance sheet then provides the Basic Own Funds which are categorized into the three Solvency II tiers. There are restrictions on the amount of Tier 2 and Tier 3 capital which can be used to meet the SCR, as well as the MCR.

The difference between the net assets of the Company in the financial statements and the solvency valuation of the excess of the assets over liabilities is set out below. The adjustments are documented in section D covering valuation of assets and liabilities.

	2018	**2017**
Difference between equity shown in the financial statements and net assets	**£000's**	**£000's**
Shareholder's equity per financial statements	207,133	206,478
Adjustments for technical provision and risk margin under solvency II	(31,874)	17,909
Adjustments for DAC	(58,481)	(57,655)
Other adjustments	39,116	3,328
Net assets per Solvency II	**155,894**	**170,060**

An additional analysis is performed to determine the eligibility of these Own Funds to meet the SCR. Own Funds of subsidiaries are assessed to identify any elements which are not fungible (i.e. cannot cover losses), not transferable or not liquid (within 9 months), and hence not available for the Company.

Tiering of Basic Own Funds

At 31 December 2018 the Company's Basic Own Funds were assigned to the Solvency II tiers as shown in the following table:

2018	**Tier 1 - unrestricted**	**Total**
	£'000	**£'000**
Ordinary share capital	809	809
Share premium account related to ordinary share capital	166,510	166,510
Reconciliation reserve	(11,426)	(11,426)
Total basic own funds after deductions	**155,893**	**155,893**

2017	**Tier 1 - unrestricted**	**Total**
	£'000	**£'000**
Ordinary share capital	809	809
Share premium account related to ordinary share capital	166,510	166,510
Reconciliation reserve	2,741	2,741
Total basic own funds after deductions	**170,060**	**170,060**

The Company's ordinary share capital, share premium account related to ordinary share capital and reconciliation reserve are all available as Tier 1 unrestricted own funds as per Article 69 (a) (i) of the Delegated Regulation. The ordinary share capital and share premium account related thereto are not subordinated and have no restricted duration. There is no intention to increase the share capital or share premium in the foreseeable future. There are no foreseeable dividends or own shares held. The reconciliation reserve of £(11.4)m (2017; £2.7m) comprises net assets from the Solvency II balance sheet of £156m (2017; £170m) less ordinary share capital of £0.8m (2017; £0.8m) and share premium of £167m (2017; £167m).

Eligible Own Funds to cover the SCR and MCR

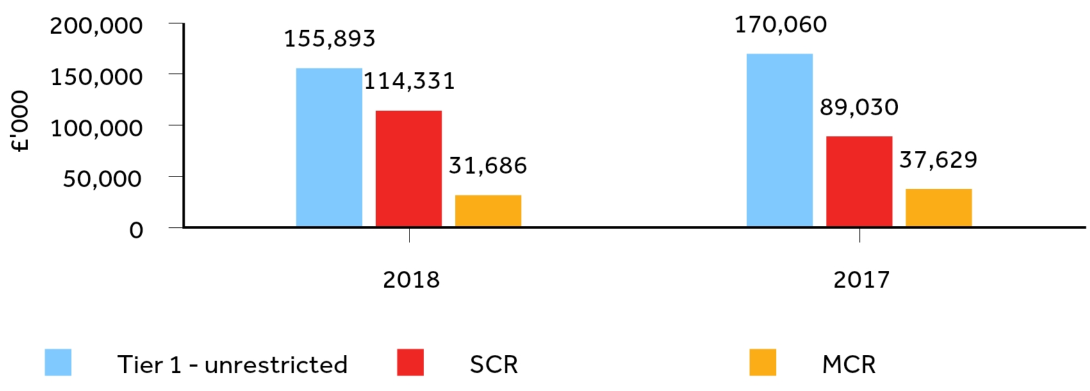
The classification into tiers is relevant to the determination of eligible own funds. These are the own funds that are eligible for covering the solvency capital requirement (SCR) and the minimum capital requirement (MCR).

Eligible Own Funds to meet the Standard Formula SCR and MCR at 31 December 2018 and 2017 is detailed below:

2018	**Tier 1 - unrestricted**	**Total**
	£'000	**£'000**
Total eligible own funds to meet the SCR	155,893	155,893
Total eligible own funds to meet the MCR	155,893	155,893

2017	**Tier 1 - unrestricted**	**Total**
	£'000	**£'000**
Total eligible own funds to meet the SCR	170,060	170,060
Total eligible own funds to meet the MCR	170,060	170,060

Eligible Own Funds to meet the SCR



The solvency capital requirement is set at a level to ensure that insurers can meet their obligations to policy holders over the following 12 months with a 99.5% probability, giving reasonable assurance to policyholders that payments will be made as they fall due.

The Board holds the view that the Standard Formula overstates the Company's 1 in 200 loss scenario and as such the SCR is an inherently prudent risk measure when compared to the comparable calculations by the ICM.

The table below shows the ratio of eligible Own Funds that the Company holds to cover the SCR and MCR at 31 December 2018 and 2017:

	2018	**2017**
	£'000	**£'000**
SCR	114,331	89,030
MCR	31,686	37,629
Total eligible own funds to meet the SCR	155,893	170,060
Total eligible own funds to meet the MCR	155,893	170,060
	%	**%**
Ratio of Eligible own funds to SCR	136.4%	191.0%
Ratio of Eligible own funds to MCR	492.0%	451.9%

E.2. Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 SCR and MCR results

The SCR is the amount of Own Funds that the Company is required to hold in line with the Solvency II Directive. The Standard Formula SCR calculation is calibrated to ensure that all quantifiable risks are taken into account.

The SCR and MCR under the Standard Formula at 31 December 2018 and 2017 are set out below:

	2018	2017
	£'000	**£'000**
SCR	114,331	89,030
MCR	31,686	37,629

The Standard Formula process is owned by the Finance function and involves a cooperative cross-functional effort across the organization, with input from Risk, Finance, Actuarial, Underwriting, Ceded Reinsurance, Investments and other relevant stakeholders. The results are subject to various levels of review, including by Senior Management.

The Standard Formula MCR is calculated based on the same data sources used to produce the Standard Formula SCR.

	MCR	MCR
	2018	**2017**
	£'000	**£'000**
Linear MCR	31,686	37,629
SCR	114,331	89,030
MCR cap	51,449	40,064
MCR floor	28,583	22,258
Combined MCR	31,686	37,629
Absolute floor of the MCR	3,330	3,251
Minimum Capital Requirement	**31,686**	**37,629**

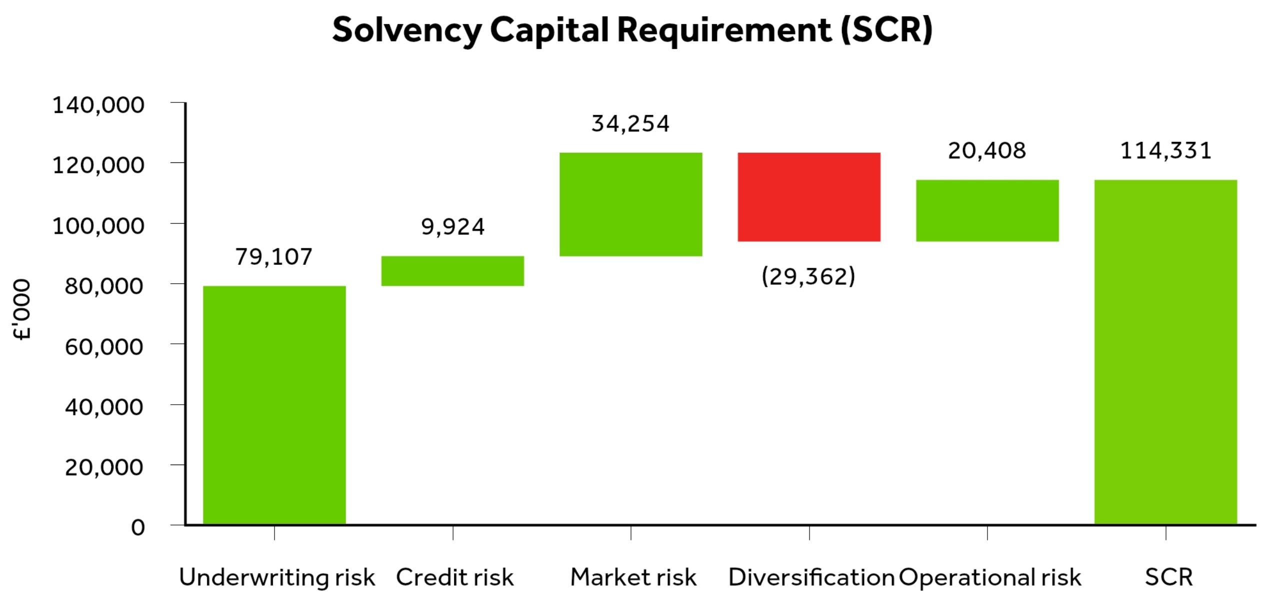
The non-life linear MCR is based on factors applied to net written premiums amounts in the previous 12 months and the net best estimate technical provisions both split by Solvency II Class of business. The charge for premium and technical provision elements are then summed to create a total charge.

	Net (of reinsurance) best estimate provisions		Net (of reinsurance) written premiums in the last 12 months	
	2018	**2017**	**2018**	**2017**
Income protection insurance and proportional reinsurance	5,449	6,444	4,601	1,983
Motor vehicle liability insurance and proportional reinsurance	48,127	20,452	14,290	11,713
Marine, aviation and transport insurance and proportional reinsurance	56,123	18,887	10,845	12,601
Fire and other damage to property insurance and proportional reinsurance	36,730	45,636	8,620	19,780
General liability insurance and proportional reinsurance	28,993	61,204	6,867	9,066
Credit and suretyship insurance and proportional reinsurance	14,212	19,515	1,442	798
Miscellaneous financial loss insurance and proportional reinsurance	25,000	62,144	3,514	—
Non-proportional health reinsurance	0.53	228	102.51	—
Non-proportional casualty reinsurance	7,030	6,272	479	—
Non-proportional marine, aviation and transport reinsurance	625	404	262	—
Non-proportional property reinsurance	297	781	3,102	1,697

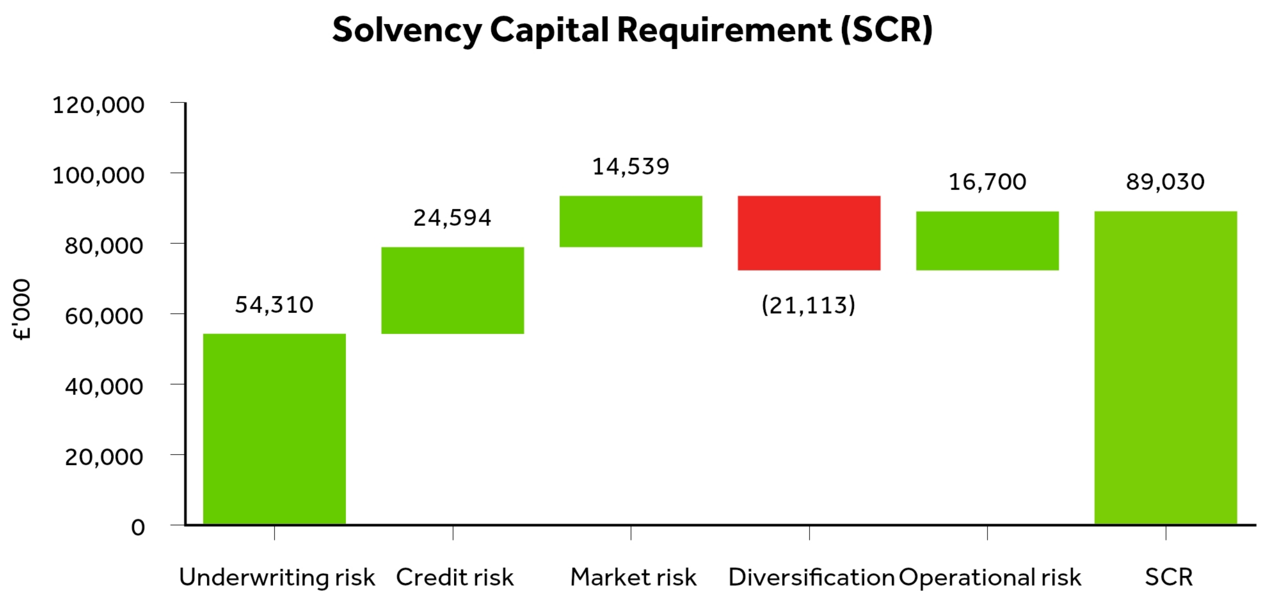
E.2.2 SCR by risk module

The Standard Formula SCR by risk module is set out below:

2018



2017



The Company has only used simplified calculations in applying the standard formula module for Counterparty default risk (Credit risk).

There has been no use of Undertaking Specific Parameters in the underwriting risk calculations.

Non-life underwriting risk (incl. Health)

Non-life underwriting risk is the largest component of the standard formula SCR and is mainly driven from:

- £54m (2017: £41m) of premium and reserve risk driven by earned premiums, forecast premiums and claims provisions of non-life business lines. This has increased from 2017 due to an increase in premium planned to be written in the next year.

- £33m (2017: £21m) of catastrophe risk driven by the Company's exposure to both man-made catastrophe and natural catastrophe risks. This has increased from 2017 due to an increase in premium planned to be written in the next year.

	2018	2017
Non-life underwriting risk (incl. Health)	**£'000**	**£'000**
Non-life premium and reserve risk	51,303	40,846
Non-life lapse risk	1	1,688
Non-life catastrophe risk	39,707	20,965
Diversification within non - life underwriting risk module	(18,712)	(13,111)
Total health underwriting risk	6,808	3,922
Non Life Underwriting Risk (incl. Health) Total	**79,107**	**54,310**

Counterparty default risk (credit risk)

The Company is exposed to £18m (2017: £25m) of counterparty risk in the form of cash deposits and recoveries from reinsurers (Type 1) and from receivables from intermediaries, policyholders and other debtors (Type 2). The decrease of £7m is a result of a decrease in premium debtors on the Solvency II balance sheet. This is a result of an increase in collection of premium debtors.

Market risk

The Company is exposed to market risk derived predominately from the assets held to meet its insurance liabilities.

- £8m (2017: £8m) of spread risk mainly driven by the Company's investments in bonds and securitised assets.
- £4m (2017: £6m) of interest rate risk driven by the changes in assets and liabilities of the Company due to changes in discount rates. The decrease is due to a reduction in applicable assets.
- £30m (2017: £8m) of currency risk mainly driven by the exposure of the Company's assets and liabilities denominated in foreign currencies. The decrease is a result of a decrease in net assets due to increases in Solvency II best estimate reserves, and changes to the currency mix, due primarily to steps taken to better match assets and liabilities.

	2018	2017
Market risk	**£'000**	**£'000**
Interest rate risk	3,781	5,716
Equity risk	19	19
Spread risk	8,049	7,627
Currency risk	30,246	8,126
Market Risk Diversification	(7,841)	(6,949)
Total Market Risk	**34,254**	**14,539**

Operational risk

The capital requirement for operational risk is calculated as 3% on technical provisions. The increase in operational risk is driven by an increase in gross technical provisions, which have been impacted by claim events in 2018.

	2018	2017
Operational risk	**£'000**	**£'000**
Non-life gross technical provisions (excluding risk margin)	680,264	572,326
Capital requirement for operational risk based on technical provisions	**20,408**	**16,700**

E.3. Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The Company is not using the duration-based equity risk sub-module. This is not applicable to the Company as it does not provide retirement benefits.

E.4. Differences between the standard formula and any internal model used

This section is not applicable to the Company as it does not use an approved internal model.

E.5. Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

The Company met all of the SCR and MCR compliance requirements during the year.

E.6. Any other information

There is no other material information regarding capital management.

Public Quantitative Reporting Templates

S02.01.01 Basic information

Undertaking name	R0010	XL Catlin Insurance Company UK Ltd
Undertaking identification code	R0020	LEI/2138003CMF813DZA4E20
Type of code of undertaking	R0030	LEI
Type of undertaking	R0040	3 – Non–Life undertakings
Country of authorisation	R0050	GB
Language of reporting	R0070	English
Reporting submission date	R0080	3/5/2018
Financial year end	R0081	31/12/2018
Reporting reference date	R0090	31/12/2018
Currency used for reporting	R0110	GBP
Accounting standards	R0120	UK GAAP
Method of Calculation of the SCR	R0130	1 – Standard formula
Use of undertaking specific parameters	R0140	2 - Don't use undertaking specific parameters
Ring-fenced funds	R0150	2 - Not reporting activity by RFF
Matching adjustment	R0170	2 - No use of matching adjustment
Volatility adjustment	R0180	2 - No use of volatility adjustment
Transitional measure on the risk-free interest rate	R0190	2 - No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	R0200	2 - No use of transitional measure on technical provisions

S.02.01.02 Balance Sheet

	Solvency II value	
	2018	2017
Assets	£'000	£'000
Intangible assets	—	—
Deferred tax assets		
Pension benefit surplus		
Property, plant & equipment held for own use	—	—
Investments (other than assets held for index-linked and unit-linked contracts)	203,918	273,601
Property (other than for own use)		
Holdings in related undertakings, including participations	88	88
Equities	—	—
Equities - listed	—	—
Equities - unlisted	—	—
Bonds	199,650	266,503
Government Bonds	108,160	174,583
Corporate Bonds	86,268	88,469
Structured notes	—	—
Collateralised securities	5,221	3,451
Collective Investments Undertakings	4,180	7,010
Derivatives		
Deposits other than cash equivalents	—	—
Other investments	—	—
Assets held for index-linked and unit-linked contracts		
Loans and mortgages	—	—
Loans on policies	—	
Loans and mortgages to individuals		
Other loans and mortgages		
Reinsurance recoverables from:	457,678	314,691
Non-life and health similar to non-life	457,678	314,691
Non-life excluding health	447,788	315,529
Health similar to non-life	9,890	(838)
Life and health similar to life, excluding health and index-linked and unit-linked	—	—
Health similar to life	—	—
Life excluding health and index-linked and unit-linked	—	—
Life index-linked and unit-linked	—	—
Deposits to cedants	130	—
Insurance and intermediaries receivables	14,205	89,282
Reinsurance receivables	110,506	106,413
Receivables (trade, not insurance)	56,979	16,130
Own shares (held directly)	—	—
Amounts due in respect of own fund items or initial fund called up but not yet paid in	—	—
Cash and cash equivalents	67,420	45,144
Any other assets, not elsewhere shown	1	
Total assets	**910,838**	**845,260**

	2018 £'000	2017 £'000
Liabilities		
Technical provisions – non-life	693,370	572,326
Technical provisions – non-life (excluding health)	677,748	566,399
TP calculated as a whole	—	—
Best Estimate	664,924	550,824
Risk margin	12,825	15,575
Technical provisions - health (similar to non-life)	15,621	5,927
TP calculated as a whole	—	
Best Estimate	15,340	5,834
Risk margin	281	93
Technical provisions - life (excluding index-linked and unit-linked)	—	—
Technical provisions - health (similar to life)	—	—
TP calculated as a whole	—	—
Best Estimate	—	—
Risk margin	—	—
Technical provisions – life (excluding health and index-linked and unit-linked)	—	—
TP calculated as a whole	—	—
Best Estimate	—	—
Risk margin	—	—
Technical provisions – index-linked and unit-linked	—	—
TP calculated as a whole	—	—
Best Estimate	—	—
Risk margin	—	—
Contingent liabilities	—	—
Provisions other than technical provisions	—	—
Pension benefit obligations	—	—
Deposits from reinsurers	—	—
Deferred tax liabilities	—	—
Derivatives	—	—
Debts owed to credit institutions	54,481	3,288
Financial liabilities other than debts owed to credit institutions	—	—
Insurance & intermediaries payables	1	—
Reinsurance payables	3,294	21,689
Payables (trade, not insurance)	3,786	77,883
Subordinated liabilities	—	—
Subordinated liabilities not in BOF	—	—
Subordinated liabilities in BOF	—	—
Any other liabilities, not elsewhere shown	13	14
Total liabilities	**754,945**	**675,200**
Excess of assets over liabilities	**155,893**	**170,060**

S.05.01.02 Premiums, claims and expenses by line of business

	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)							Line of business for: accepted non-proportional reinsurance				
	Income protection insurance	Motor vehicle liability insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	**Total**
Premiums written												
Gross - Direct Business	17,766	31,627	26,278	53,714	41,509	7,214	13,222					191,330
Gross - Proportional reinsurance accepted	2,008	—	76,910	586	—	—	727					80,231
Gross - Non-proportional reinsurance accepted								388	175	888	926	2,377
Reinsurers' share	15,316	31,425	82,408	44,526	33,798	2,118	10,840	99	60	22	121	220,733
Net	4,458	202	20,780	9,774	7,711	5,096	3,109	289	115	866	805	53,205
Premiums earned												
Gross - Direct Business	17,958	55,078	19,715	78,453	34,100	9,671	13,919					228,896
Gross - Proportional reinsurance accepted	1,707	—	74,412	599	—	—	333					77,051
Gross - Non-proportional reinsurance accepted								387	4,670	1,053	3,527	9,637
Reinsurers' share	14,273	39,922	70,263	62,881	28,180	1,160	9,994	99	813	165	1,661	229,411
Net	5,392	15,156	23,864	16,172	5,920	8,511	4,258	288	3,857	888	1,866	86,173
Claims incurred												
Gross - Direct Business	13,768	47,895	92,212	2,650	15,639	984	5,311					178,459
Gross - Proportional reinsurance accepted	589	—	52,368	532	62	63	188					53,802
Gross - Non-proportional reinsurance accepted								257	1,873	1,978	678	4,786
Reinsurers' share	9,610	44,331	137,396	797	4,080	483	1,702	243	1,015	994	488	201,139
Net	4,747	3,564	7,184	2,385	11,621	564	3,797	14	858	984	190	35,908
Expenses incurred	(21)	2,031	25,423	(2,753)	31,861	1,018	2,317	171	2,919	665	917	64,548
Other expenses												—
Total expenses												**64,548**

S.05.02.01 Premiums, claims and expenses by country

	Home Country	Top 5 countries (by amount of gross written premiums) - non-life obligations					Total Top 5 and home country
	GB	GERMANY	DENMARK	FRANCE	IRELAND	NETHERLANDS	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Premiums written							
Gross - Direct Business	159,109	2,231	3,992	15,807	5,279	3,426	189,844
Gross - Proportional reinsurance accepted	66,719	936	1,674	6,629	2,214	1,437	79,609
Gross - Non-proportional reinsurance accepted	1,977	28	50	196	66	43	2,360
Reinsurers' share	183,560	2,574	4,606	18,237	6,090	3,953	219,020
Net	44,245	621	1,110	4,395	1,469	953	52,793
Premiums earned							
Gross - Direct Business	190,347	2,669	4,776	18,911	6,315	4,099	227,117
Gross - Proportional reinsurance accepted	64,075	899	1,608	6,366	2,126	1,380	76,454
Gross - Non-proportional reinsurance accepted	8,014	112	201	796	266	173	9,562
Reinsurers' share	190,776	2,675	4,787	18,954	6,330	4,108	227,630
Net	71,660	1,005	1,798	7,119	2,377	1,544	85,503
Claims incurred							
Gross - Direct Business	148,405	2,081	3,724	14,744	4,924	3,196	177,074
Gross - Proportional reinsurance accepted	44,741	627	1,123	4,445	1,484	963	53,383
Gross - Non-proportional reinsurance accepted	3,980	56	100	395	132	86	4,749
Reinsurers' share	167,266	2,346	4,197	16,618	5,550	3,602	199,579
Net	29,860	418	750	2,966	990	643	35,627
Expenses incurred	53,678	753	1,347	5,333	1,781	1,156	64,048
Other expenses							
Total expenses							64,048

S.17.01.02 Non-life Technical Provisions

	Direct business and accepted proportional reinsurance						
	Income protection insurance	Motor vehicle liability insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Miscellaneous financial loss
	£'000						
Technical provisions calculated as a sum of BE and RM							
Best estimate							
Premium provisions							
Gross	825	(1,431)	5,696	8,394	(6,558)	(6,959)	4,119
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	(3,300)	(3,122)	(32,186)	(20,534)	(21,106)	(20,367)	(1,233)
Net Best Estimate of Premium Provisions	4,125	1,691	37,882	28,928	14,548	13,408	5,352
Claims provisions							
Gross	14,513	87,292	192,031	106,708	203,278	3,188	49,354
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	13,189	40,856	173,790	98,906	188,833	2,384	29,706
Net Best Estimate of Claims Provisions	1,325	46,436	18,241	7,802	14,445	804	19,648
Total Best estimate - gross	15,338	85,861	197,727	115,102	196,720	(3,771)	53,472
Total Best estimate - net	5,449	48,127	56,123	36,730	28,993	14,212	25,000
Risk margin	281	1,691	3,719	2,067	3,937	62	956
Technical provisions - total	15,619	87,552	201,446	117,169	200,657	(3,709)	54,428
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	9,889	37,735	141,604	78,372	167,727	(17,983)	28,473
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	**5,730**	**49,818**	**59,843**	**38,797**	**32,930**	**14,274**	**25,956**

	Accepted non-proportional reinsurance				Total Non-Life obligation
	Non-proportional health reinsurance	**Non-proportional casualty reinsurance**	**Non-proportional marine, aviation and transport reinsurance**	**Non-proportional property reinsurance**	
Best estimate					
Premium provisions					
Gross	(1)	(76)	(8)	(369)	3,631
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	(2)	(695)	(46)	(591)	(103,182)
Net Best Estimate of Premium Provisions	1	619	38	222	106,813
Claims provisions					
Gross	3	17,063	1,074	2,128	676,633
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	3	10,652	487	2,054	560,859
Net Best Estimate of Claims Provisions	—	6,411	587	75	115,773
Total Best estimate - gross	2	16,987	1,066	1,759	680,264
Total Best estimate - net	1	7,030	625	297	222,586
Risk margin	—	331	21	41	13,106
Technical provisions - total	2	17,318	1,086	1,801	693,370
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	1	9,957	441	1,462	457,678
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	**1**	**7,360**	**645**	**338**	**235,692**

S.19.01.21 Non-life Insurance Claims Information

Total Non-Life Business

Accident year /
Underwriting year

Gross Claims Paid (non-cumulative)

(absolute amount)

	Development year												
Year	**—**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10 & +**	**In Current year**	**Sum of years (cumulative)**
Prior											11,436	11,436	11,436
N-9	11,247	76,723	28,987	19,123	17,170	11,819	4,332	1,010	5,057	527		527	175,995
N-8	14,967	68,853	37,797	19,934	14,194	1,458	12,931	8,532	3,085			3,085	181,751
N-7	13,432	89,777	60,981	29,955	13,494	10,215	8,269	7,762				7,762	233,885
N-6	17,514	99,350	70,277	31,618	22,912	18,575	11,082					11,082	271,328
N-5	21,328	101,619	78,696	23,593	15,363	11,351						11,351	251,950
N-4	14,560	99,793	72,882	31,032	24,652							24,652	242,919
N-3	26,354	112,780	75,374	39,465								39,465	253,973
N-2	19,574	69,689	58,440									58,440	147,703
N-1	7,958	76,663										76,663	84,621
N	13,885											13,885	13,885
Total												258,347	1,869,446

Gross undiscounted Best Estimate Claims Provisions

(absolute amount)

	Development year											
Year	**—**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10 & +**	**Year end (discounted data)**
Prior											55,418	53,127
N-9								14,416	6,397	2,663		2,810
N-8							19,408	9,246	15,327			15,140
N-7						57,952	43,873	26,228				24,626
N-6					56,593	32,838	16,190					15,523
N-5				78,917	67,624	46,378						45,791
N-4			152,401	103,271	54,450							52,910
N-3		210,384	149,685	121,766								117,708
N-2	80,751	157,780	119,855									116,617
N-1	58,518	180,487										177,354
N	56,659											55,027
											Total	**676,633**

S.23.01.01 Own funds

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
	£'000	£'000	£'000	£'000	£'000
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35					
Ordinary share capital (gross of own shares)	809	809			
Share premium account related to ordinary share capital	166,510	166,510			
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	—				
Subordinated mutual member accounts	—				
Surplus funds	—				
Preference shares	—				
Share premium account related to preference shares	—				
Reconciliation reserve	(11,426)	(11,426)			
Subordinated liabilities	—				
An amount equal to the value of net deferred tax assets	—				
Other own fund items approved by the supervisory authority as basic own funds not specified above	—				
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
Deductions					
Deductions for participations in financial and credit institutions	—				
Total basic own funds after deductions	**155,893**	155,893	—	—	—
Ancillary own funds					
Unpaid and uncalled ordinary share capital callable on demand	—				
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	—				
Unpaid and uncalled preference shares callable on demand	—				
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	—				
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	—				
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	—				
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	—				
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	—				
Other ancillary own funds	—				
Total ancillary own funds	—			—	—

Available and eligible own funds					
Total available own funds to meet the SCR	155,893	155,893	—	—	—
Total available own funds to meet the MCR	155,893	155,893	—	—	
Total eligible own funds to meet the SCR	**155,893**	155,893	—	—	—
Total eligible own funds to meet the MCR	**155,893**	155,893	—	—	
SCR	**114,331**				
MCR	**31,686**				
Ratio of Eligible own funds to SCR	**136.4%**				
Ratio of Eligible own funds to MCR	**492.0%**				

	£'000
Reconciliation reserve	
Excess of assets over liabilities	155,893
Own shares (held directly and indirectly)	
Foreseeable dividends, distributions and charges	—
Other basic own fund items	167,319
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
Reconciliation reserve	(11,426)
Expected profits	
Expected profits included in future premiums (EPIFP) - Life business	
Expected profits included in future premiums (EPIFP) - Non-life business	24,850
Total Expected profits included in future premiums (EPIFP)	24,850

S.25.01.21 Solvency Capital Requirement - for undertakings on Standard Formula

	Gross solvency capital requirement £'000	USP £'000	Simplifications £'000
Market risk	34,254		—
Counterparty default risk	9,924		
Life underwriting risk	—	—	—
Health underwriting risk	6,807	—	
Non-life underwriting risk	72,300	—	—
Diversification	(29,362)		
Intangible asset risk	—		
Basic Solvency Capital Requirement	93,923		

Calculation of Solvency Capital Requirement	
Operational risk	20,408
Loss-absorbing capacity of technical provisions	
Loss-absorbing capacity of deferred taxes	
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
Solvency capital requirement excluding capital add-on	114,331
Capital add-on already set	
Solvency capital requirement	**114,331**

Other information on SCR	
Capital requirement for duration-based equity risk sub-module	
Total amount of Notional Solvency Capital Requirement for remaining part	114,331
Total amount of Notional Solvency Capital Requirements for ring fenced funds	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	
Diversification effects due to RFF nSCR aggregation for article 304	

S.28.01.01 Minimum Capital Requirement - Only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

	£'000
MCRNL Result	31,686

	Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
	£'000	£'000
Income protection insurance and proportional reinsurance	5,449	4,601
Motor vehicle liability insurance and proportional reinsurance	48,127	14,290
Marine, aviation and transport insurance and proportional reinsurance	56,123	10,845
Fire and other damage to property insurance and proportional reinsurance	36,730	8,620
General liability insurance and proportional reinsurance	28,993	6,867
Credit and suretyship insurance and proportional reinsurance	14,212	1,442
Miscellaneous financial loss insurance and proportional reinsurance	25,000	3,514
Non-proportional health reinsurance	1	103
Non-proportional casualty reinsurance	7,030	479
Non-proportional marine, aviation and transport reinsurance	625	262
Non-proportional property reinsurance	297	3,102

Overall MCR calculation

	£'000
Linear MCR	31,686
SCR	114,331
MCR cap	51,449
MCR floor	28,583
Combined MCR	31,686
Absolute floor of the MCR	3,330
Minimum Capital Requirement	**31,686**

Glossary

AC	Audit Committee
APAC	Asia Pacific
AXA SA	AXA Société Anonyme
BBNI	Bound But Not Incepted
BRRC	Board Risk & Reserving Committee
BOF	Basic Own Funds
BSCR	Basic Solvency Capital Requirement
CAT	Catastrophe
COR	Combined Operating Ratio
CRO	Chief Risk Officer
XLCICL UK	XL Catlin Insurance Company UK Limited
DAC	Deferred Acquisition Costs
DTA	Deferred Tax Asset
DTL	Deferred Tax Liability
EMEA	Europe, Middle East and Africa
ENiD	Events not in Data
Exco	Executive Committee
FIC	Framework for Internal Control
GAAP	Generally Accepted Accounting Principles
ICM	Internal Capital Model
MCR	Minimum Capital Requirement
ORSA	Own Risk and Solvency Report
PRA	Prudential Regulatory Authority
PWC	PriceWaterhouseCoopers
QRT	Quantitative Reporting Template
RDS	Realistic Disaster Scenario
RI	Reinsurance
RMC	Risk Monitoring Committee
RMF	Risk Management Framework
RM	Risk Margin
SCR	Solvency Capital Requirement
SF	Standard Formula
SII	Solvency II
S&S	Stress & Scenario
UC	Underwriting Committee
UK&I	United Kingdom and Ireland
UEPR	Unearned Premium Reserve
XLC	XL Catlin
XLICSE	XL Insurance Company SE