XL Insurance Company SE

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 (PRA) 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 Insurance Company SE 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

J R Harris

Chief Executive Officer

18 April 2019

P R Bradbrook

Director

18 April 2019

Independent Auditor's Report to the Directors

Report of the external independent auditors to the Directors of XL Insurance Company SE ('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 Directors of the Company to comply with their obligations under External Audit rule 2.1 of the Solvency II firms section of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose 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 Euros (€'000), with the Euro being the Company's reporting currency in the Financial Statements. The Quantitative Reporting Templates (QRT) included in Section E are presented in Euro whole numbers. This may result in a limited number of immaterial rounding differences in the report.

2018 is the third year of Solvency II being in force, having been implemented with effect from 1 January 2016. As a result comparative figures and commentary have been disclosed where appropriate.

On 12 September 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 12 September 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 and certain existing AXA companies. This new division AXA XL is the property and casualty, 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. XL Insurance Company SE (XLICSE or the Company) is part of the AXA XL division.

Business and performance

The principal activity of XLICSE is the transaction of general (re)insurance business (the business). The business conducted is primarily commercial insurance, providing property, casualty, financial lines and specialty products to industrial, commercial and professional firms across its network of branches and through fronting partners.

XLICSE is a member of the AXA XL division within AXA and became a member of the AXA Group during the year as described further in the section 'significant business or other events'. The Company provides the main insurance company platform to operate under the AXA XL brand within Europe and Asia Pacific. AXA XL, through its operating carriers, is a global insurance and reinsurance group of companies and other enterprises situated around the world.

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

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 the 2018 earnings presentation is here.

The Company was domiciled in the UK until 18 January 2019, when it redomesticated to Dublin, Ireland. The Company issues policies globally through its network of branches (or through the use of fronting partners) in the major locations of its (re)insurance clients and their respective (re)insurance risks. Its branches are in Europe, Australia, Hong Kong, Labuan (Malaysia), Singapore and India. This allows the Company to service brokers and clients efficiently providing both local service and global expertise, ensuring that it is able to deliver solutions to the often complex risks of multinational companies. As the Company's clients expand into new and emerging markets, the Company seeks to ensure that it can support that international expansion with the capability to provide local (re)insurance solutions and local service.

Gross premiums written have increased from €2,271m in 2017 to €2,560m in 2018. The premium growth was recognised across all operating business groups with the largest increases seen within International business and Global Lines. International Property and Casualty reported GWP growth over 2017 results of 16% and 7% respectively. The largest growth areas within Global lines were within the Political Risk and Retail Accident and Health lines whilst North America recognised growth in Property. The Indian reinsurance branch, in its second year of operations contributed to the overall growth for the year.

Overall the final results are a loss before taxation of €81m (2017: €104m). The loss is reflective of two key items: 1) Large loss activity (excluding CAT) on the current accident year, particularly within International Property, International Construction, North America and Energy lines. 2) Adverse prior year development (PYD) across North American Excess Casualty, International Property, International Casualty, Marine, International Financial Lines and International Construction. This is what somewhat offset by favorable development on North American Property. The total net prior year development for the year was €52m.

As a result of the impact of the aforementioned PYD and large loss activity the combined ratio for the year was 113.1% compared to 112.6% in 2017. Contributing to the year on year increase was that the expense ratio increased by 3.6% (2018: 34.4% versus 2017: 30.8%). This was driven by a change in the Company's expense methodology during 2017 which allowed for the deferral of certain expenses into future periods, which started to earn through in 2018.

Investment income reported a slight increase on prior year at €39m compared to €38m in 2017. Within this is realized gains on sales of equities of €18m. The underlying reduction relative to 2017 reflects the fact that XLICSE holds a greater portion of its cash and investments in Euros compared to USD in 2018 than 2017, which reported relatively lower returns. Unrealised losses on investments were (€52m) in 2018 compared to (€14m) in 2017, driven by both the fixed income and equity securities held. The fixed income securities were impacted by the increasing base rates in Europe and the USD and widening of credit spreads, whilst the broader equity market declines in Q4 2018 impacted the value of the equity securities. Total investment return was a loss of (€20m) compared to a gain of €18m in 2017.

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 Euro (EUR).

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.

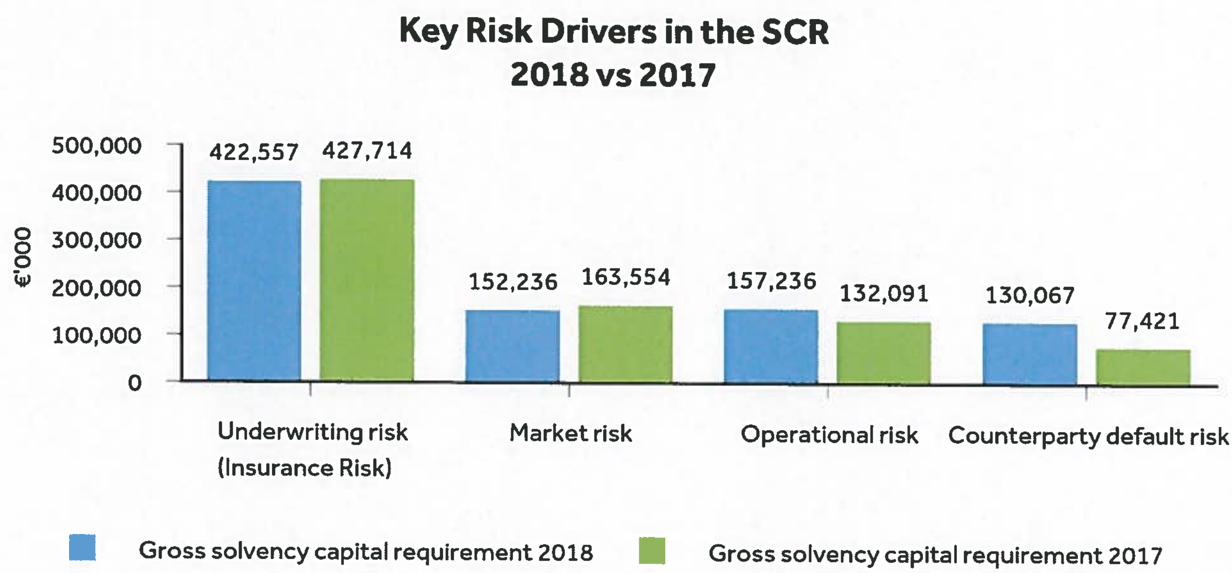
The internal control framework determines risk appetites and risk limits, establishes risk policies, identifies and manages the risks to the Company's objectives and monitors the capital requirements. All of this is captured by the Risk Management Framework (RMF) and Own Risk and Solvency Assessment (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.

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

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

Risk profile

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



The risk profile of XLICSE, 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;
- Enterprise Risk Management (ERM) risk assessment processes;
- The use of Realistic Disaster Scenarios (RDS) 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. The reduction in Underwriting risk year on year is due to the benefit of increased reinsurance coverage and a reduction to 2019 plan premium compared to that planned for 2018 last year.

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

Operational risk is driven by the gross claims reserves, as the standard formula mandates a 3% shock to reserves, though this has been capped at 30% of the Basic Solvency Capital Requirement (BSCR) for 2018. All other risk categories are less significant to the Company.

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 XLICSE 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.

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	875,206	890,649
SCR	713,745	667,727
Ratio of Eligible own funds to SCR	122.6%	133.4%

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.

The decrease in eligible own funds is a result of losses during the year, and an increase in best estimate liabilities, driven by increases to plan loss ratios, future reinsurance spend and expense loading. The increase in SCR is a result of increases to operational and counterparty risk.

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**	**Tier 2**	***Total***
	€'000	**€'000**	**€'000**
Ordinary share capital	259,157	—	259,157
Reconciliation reserve	563,583	—	563,583
Subordinated liabilities	0	52,466	52,466
Total basic own funds after deductions	**822,740**	**52,466**	**875,206**

The classification into tiers is relevant to the determination of eligible own funds. These are the own funds that are eligible for covering the SCR and the minimum capital requirement (MCR). No restriction applies to eligible own funds covering the SCR. As Tier 2 own fund items are subject to restrictions when covering the MCR, the amount of Tier 2 items eligible to cover the MCR is less than 100% of the total amount of Tier 2 items included in the table above. This is reflected in the table below:

	2018	2017
	€'000	€'000
SCR	713,745	667,727
MCR	191,720	189,629
Total eligible own funds to meet the SCR	875,206	890,649
Total eligible own funds to meet the MCR	861,084	878,328
	%	%
Ratio of Eligible own funds to SCR	**122.6%**	**133.4%**
Ratio of Eligible own funds to MCR	**449.1%**	**463.2%**

The Company does not use any volatility/matching adjustment, has not used transitional adjustments to the relevant risk-free interest rate term structure or transitional measures on technical provisions.

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

Significant Business or other events

Significant events during the year include:

- Approval to re-domesticate to Dublin, Ireland from the UK as a response to the UK's decision to leave the EU. This process was completed 18 January 2019;
- The Company reinsured the reserves and unearned premium run-off of the UK branch effective 31 December 2018 to XL Bermuda Ltd. (XLB). This was part of the Brexit planning to minimize the exposure XLICSE would have to UK risks in 2019 and beyond; and
- On 12 September 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 12 September 2018 the ultimate owner of the Company became AXA. For further information, refer to section A 1.7 Significant events in the last reporting year.

These impacted the solvency and financial condition as follows:

- Reinsurance to XLB decreased the underwriting risk within the SCR, as the reserve risk decreased in line with a reduction in net claims reserves and net unearned premiums, offset by an increase in counterparty risk; and
- The company benefited from XLB's rating upgrade to AA- from A+ under Standard & Poor's rating methodology, as it now benefits from being part of the AXA Group. This benefit of this is within counterparty risk.

A. Business and Performance

A.1. Business

A.1.1 Name and legal form of the undertaking

XL Insurance Company SE was incorporated in the United Kingdom for the period until 18 January 2019 and incorporated in Ireland from 18 January 2019. The company is limited by shares. The registered office when the company was domiciled in the UK was:

United Kingdom
AXA XL
20 Gracechurch Street
London
EC3V 0BG
United Kingdom

A.1.2 Supervisory authorities

UK Regulators (until 18 January 2019)

Prudential Regulatory Authority
Bank of England
Threadneedle Street
London EC2R 8AH
United Kingdom

Financial Conduct Authority (FCA)
25 The North Colonnade
Canary Wharf
London E14 5HS
United Kingdom

Irish Regulator (post 18 January 2019)

Central Bank of Ireland (CBI)
P.O.Box 559
New Wapping Street
North Wall Quay
Spencer Dock
Dublin 1
Ireland

Group Supervisor

Autorité de Contrôle Prudentiel et de Résolution (ACPR)
4, place de Budapest
CS 92459
75436 PARIS CEDEX 09
France

A.1.3 External auditor

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London SE1 2RT
United Kingdom

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

The Company's immediate parent is XL Insurance (UK) Holdings Limited, a company incorporated in England and Wales. The Company's ultimate parent undertaking is AXA S.A, a company incorporated in France.

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

A.1.5 Related undertakings

XLICSE is the parent entity of the following companies:

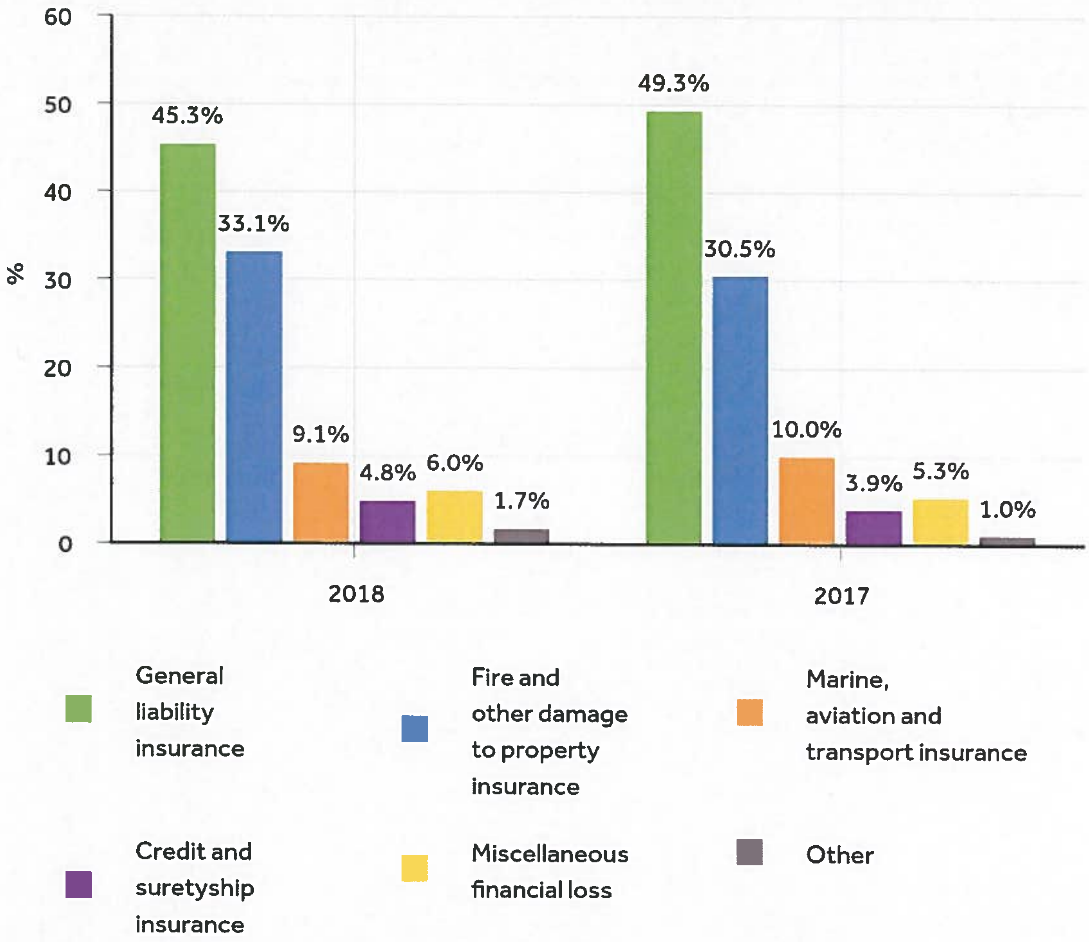
	Principal trading activity	Country of incorporation	Class of shares held	Percentage of nominal value and voting rights held
XL Insurance (China) Company Limited	Insurance Co.	China	Ordinary	49%
XL Seguros Brazil S.A.	Insurance Co.	Brazil	Ordinary	100%

A.1.6 Material lines of business and geographical areas

The Company was domiciled in the UK for the year to 31 December 2018, but issues policies globally through its network of branches (or through the use of fronting partners) in the major locations of its (re)insurance clients and their respective (re)insurance risks. Its branches are in Europe, Australia, Hong Kong, Labuan (Malaysia), Singapore and India. This allows the Company to service brokers and clients efficiently providing both local service and global expertise, ensuring that it is able to deliver solutions to the often complex risks of multinational companies. As the Company's clients expand into new and emerging markets, the Company seeks to ensure that it can support that international expansion with the capability to provide local (re)insurance solutions and local service.

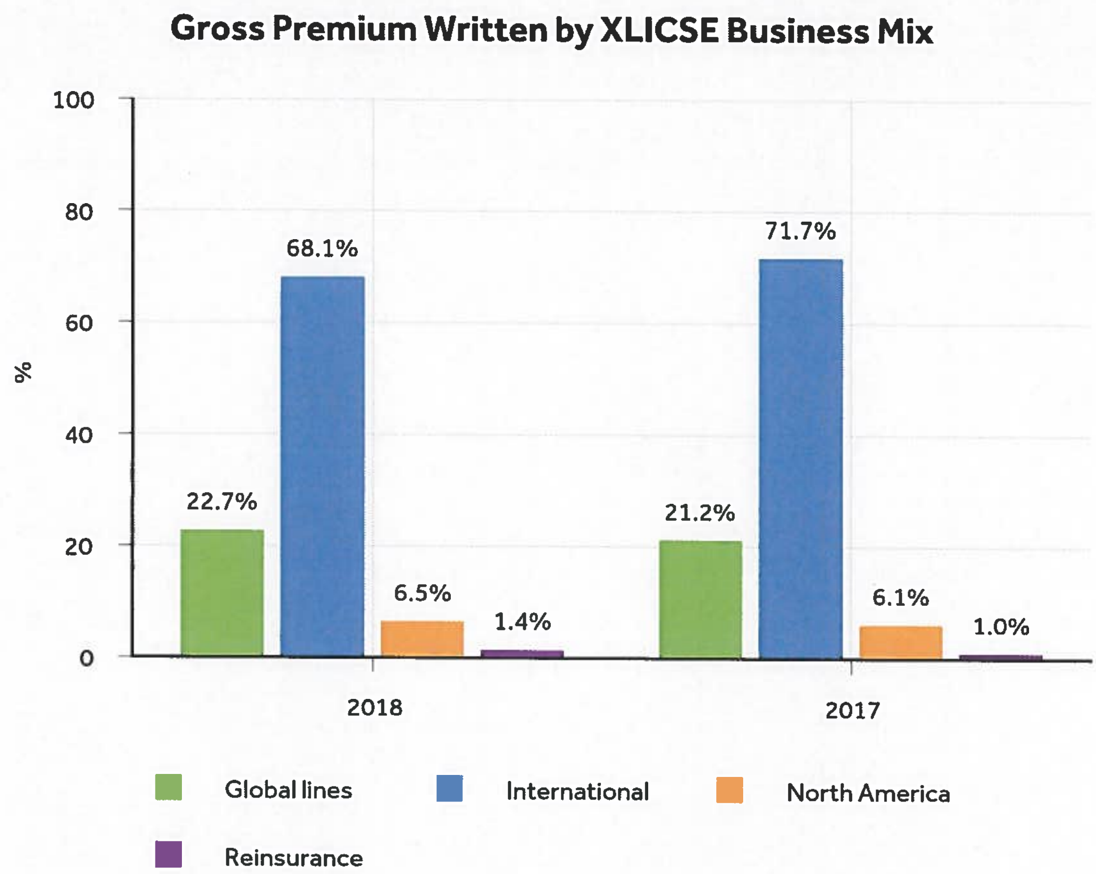
Gross Premium Written by line of business and geography are presented below:

Gross Premium Written by Solvency II Business Mix



The lines of business which reflected year on year movements that warrant comment are:

- General liability insurance (reduction of 4.0%): International casualty and financial lines are the largest lines of business within this Solvency II category. Whilst their amount of premium written have increased over 2017 results they didn't increase at the same proportion as other lines of business, namely property, discussed below.
- Fire and other damage to property insurance (increase of 1.6%): International property is the key driver of growth within this Solvency II line of business and reflects significant new business written during the year.
- Other: This reflects increases in the reinsurance business that the 2017 formed Indian Branch of the Company started to write in 2018.



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.

The International Group consists of the following:

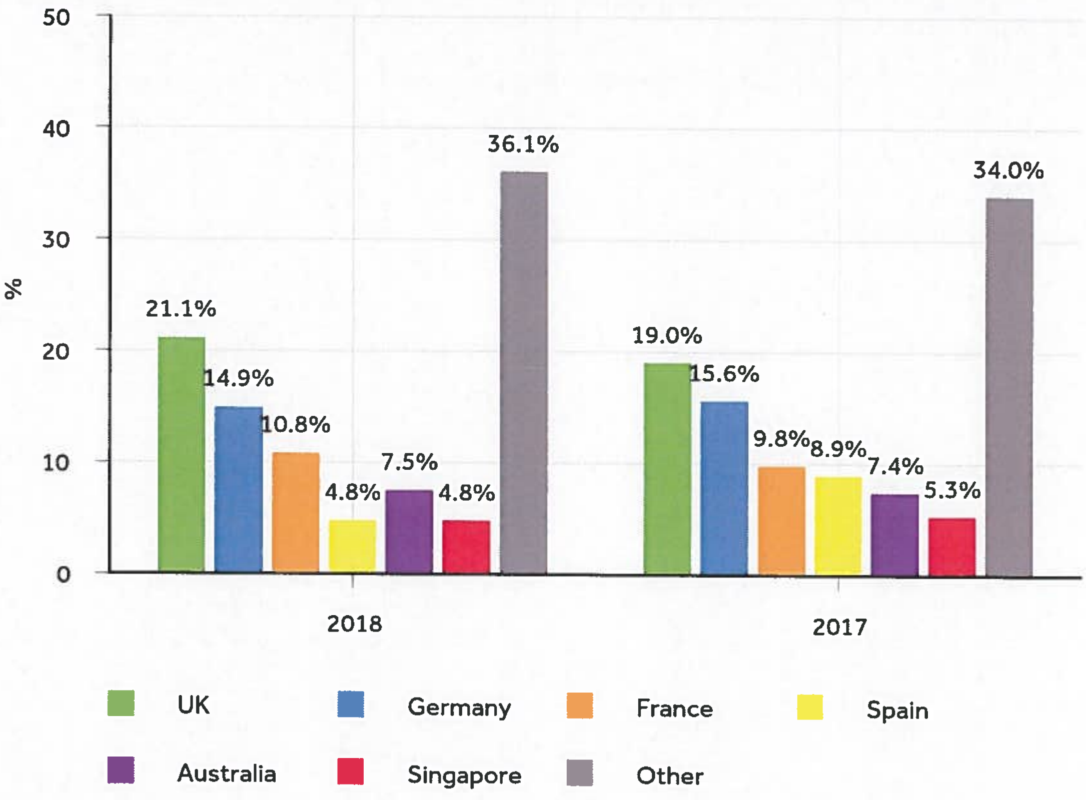
- International Property, which includes Construction, constitutes 23% (2017: 28%) of the Company's gross written premium and is comparable in size with International Casualty within the International Group. It is focused on the delivery of global insurance solutions to large sophisticated corporate clients.
- International Casualty constitutes a further 25% of gross written premium (2017: 28%) in the Company's portfolio. The Company specialises in the provision of insurance solutions for large global corporate clients utilising its global network. In addition to General Liability products, this category includes Environmental Pollution and Structured Risk Solutions.
- International Professional Financial Lines constitutes 16% of gross written premium (2017: 16%) in the Company's portfolio and includes Management Liability, Professional Liability, Crime and Cyber.

Global Lines constitutes 23% (2017: 21%) of the Company's gross written premium and includes Marine, Energy, Political Risk, Equine, Aerospace, Fine Art and Specie and Crisis Management.

North America constitutes 7% (2017: 6%) of the Company's gross written premium and includes a number of portfolios including Excess Casualty, North America Casualty and North America Property.

Reinsurance contributes 1% of the Company's gross written premium and represents business written from the India branch commenced operations in 2017.

Gross Premium Written by Main Solvency II Geographic Areas



The increase in the Other geography is offset by a reduction in Spain due to the fact that Italy and Switzerland wrote proportionally more business in 2018 than in the prior year. In addition, the UK branch wrote more business year on year (€108m).

A.1.7 Significant events in the last reporting year

On 12 September 2018, XL Group Ltd (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 5 March 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 12 September 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 canceled 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.

In January 2019, AXA XL completed the transfer of 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. The Board continues to review the potential impact of Brexit including the benefits of having full 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. This will result in XLICSE becoming the Division's European legal entity platform.

The Company reinsured the reserves and unearned premium run-off of the UK branch effective 31 December 2018 to XLB. This was part of the Brexit planning to minimize the exposure XLICSE would have to UK risks in 2019 and beyond.

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

2018

	Income protection insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Miscellaneous financial loss	Other	Total 2018
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Gross Written Premiums	22,601	233,657	847,438	1,159,729	123,824	154,157	18,167	2,559,573
Net Earned Premiums	5,518	77,236	193,028	239,285	25,415	38,326	15,280	594,088

2017

	Income protection insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Miscellaneous financial loss	Other	Total 2017
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Gross Premiums Written	2,784	226,790	692,348	1,118,983	87,754	120,567	21,434	2,270,660
Net Premiums Earned	592	57,671	170,669	290,709	15,204	30,368	11,171	576,384

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

	2018	2017
	€'000	€'000
Gross Premiums Written	2,559,573	2,270,660
Net Premiums Earned	594,086	576,384
Net Loss Ratio	80.0%	81.8%
Combined Ratio	113.1%	112.6%

Gross premiums written increased by 13% (circa €0.3bn) when compared to the previous year,largely due to the continued strategic alignment of the businesses written on the International carriers of the AXA XL Division.

Overall the final results are a loss before taxation of €81m (2017: €104m). The loss is reflective of two key items: 1) Large loss activity (excluding CAT) on the current accident year, particularly within International Property, International Construction, North America and Energy lines. 2) Adverse prior year development across North American Excess Casualty, International Property, International Casualty, Marine, International Financial Lines and International Construction. This is what somewhat offset by favorable development on North American Property. The total net prior year development for the year was €52m.

The tables below provide the 2018 and 2017 Gross Premiums Written and Net Premiums Earned performance by geographical area:

2018	**GB**	**GERMANY**	**FRANCE**	**ITALY**	**AUSTRALIA**	**SWITZERLAND**	**OTHER**	**TOTAL**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Premiums written								
Gross Premiums Written	541,096	380,328	276,645	123,021	192,381	172,449	873,652	2,559,572
Premiums earned								
Net Premiums Earned	85,053	92,717	70,811	35,943	32,515	36,901	240,146	594,086

2017	**GB**	**GERMANY**	**FRANCE**	**SPAIN**	**AUSTRALIA**	**SINGAPORE**	**OTHER**	**TOTAL**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Premiums written								
Gross Premiums Written	432,510	355,126	221,600	202,408	167,891	121,238	769,887	2,270,660
Premiums earned								
Net Premiums Earned	124,838	96,201	59,948	40,505	28,601	37,390	188,901	576,384

The increase in the Other geography is offset by a reduction in Spain. Other increased due to the fact that Italy and Switzerland wrote proportionally more business in 2018 than in the prior year. In addition, the UK branch wrote more business year on year (€108m).

A.3. Investment performance

The primary objective of the Company's investment strategy is to maximize the risk adjusted return on economic capital employed subject to a variety of constraints including: maintaining adequate regulatory and rating agency capitalization; maintaining sufficient liquidity to ensure payment of claims, operating expenses and other obligations even during stressed scenarios; and generating stable net investment income.

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 Euro.

The Company uses a fair value hierarchy for its investment portfolio that prioritises inputs to its valuation techniques which are used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets, 6% of the total portfolio, and then quoted prices in markets that are not active or inputs that are observable either directly or indirectly (92% of the total portfolio). The equity accounting method is used for the Affiliates holdings, 2% of the total portfolio.

The total investment return for the year is negative €20m (including realised and unrealised losses), compared to a gain of €18m in 2017. Income from financial investments has decreased from €37m to €21m year on year. The investment return was impacted by both the fixed income portfolio and non-fixed income portfolio. The fixed income portfolio had net realised and unrealised losses of €24m as the increases in government base rates in Europe and the US and widening of credit spreads impacted the Corporate Credit Assets and Government Securities. The non-fixed income portfolio comprises Public Equities and this suffered net realised and unrealised losses of €10m as a result of the decline in the broader equity markets at the end of 2018.

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**
Investment Fund		
Equities Fund	(7,694)	2,297
Bonds		
Government Bonds	5,922	(2,396)
Corporate Bonds	(304)	22,083
Collateralised securities	844	(340)
Cash and cash equivalents	(12,031)	2,845
Investment management expenses	(6,397)	(6,074)
	(19,660)	18,415

Below are components of the net investment return:

	2018	**2017**
	€'000	**€'000**
Income from financial investments	21,227	37,328
Net gains on the realisation of investments	18,469	1,106
Unrealised losses on investments	(52,959)	(13,945)
Investment management expenses	(6,397)	(6,074)
	(19,660)	18,415

A.3.2 Gains and losses recognized directly in equity

Realised gains and losses on investments are calculated as the difference between sale proceeds and purchase price.

Unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, where acquired in previous years, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

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

A.3.3 Investments in securitisation

The Company invested in asset backed securities with a market value of €196m at 31 December 2018 (2017: €194m)

	2018	2017
	€'000	€'000
Agency mortgage-backed securities	131,569	102,805
Commercial mortgage-backed securities (CMBS)	987	215
Covered Bonds *	63,460	89,935
Other asset-backed securities	78	811
Total Fixed Income investments in securitisations	**196,094**	**193,766**

***Covered bonds** are debt securities backed by cash flows from mortgages or public sector loans. They are similar in ways to asset-backed securities created in securitisation, but covered bond assets remain on the issuer's consolidated balance sheet (usually with an appropriate capital charge).

A.4. Performance of other activities

Other income and expenses are set out below:

	2018	2017
	€'000	€'000
Gain/(Loss) on foreign exchange	20,572	(26,265)
Impairment of Group undertakings	(1,394)	(13,403)
Other (charges)/Income	(3,295)	3,705
Canada receivable written off	—	(13,863)
	15,883	(49,826)

The Company operates in a number of overseas branches. Each overseas branch determines its own functional currency based on factors specific to its operations and is usually the currency of the primary economic environment in which it operates. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and the translation of foreign currency denominated monetary assets and liabilities at year end exchange rates are recognised in the income statement as part of other charges.

The Company has no leases classified as finance leases throughout the reporting period.

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made by the Company for operating leases are charged to the statement of profit or loss on a straight-line basis over the period of the lease.

Total operating lease charges paid during the year:

	2018	2017
	€'000	€'000
Land and buildings	1,183	2,573
Other leases	29	33
	1,212	2,606

A.5. Any other information

The Company has not availed itself of any transitional arrangements following the introduction of the Solvency II Directive.

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.

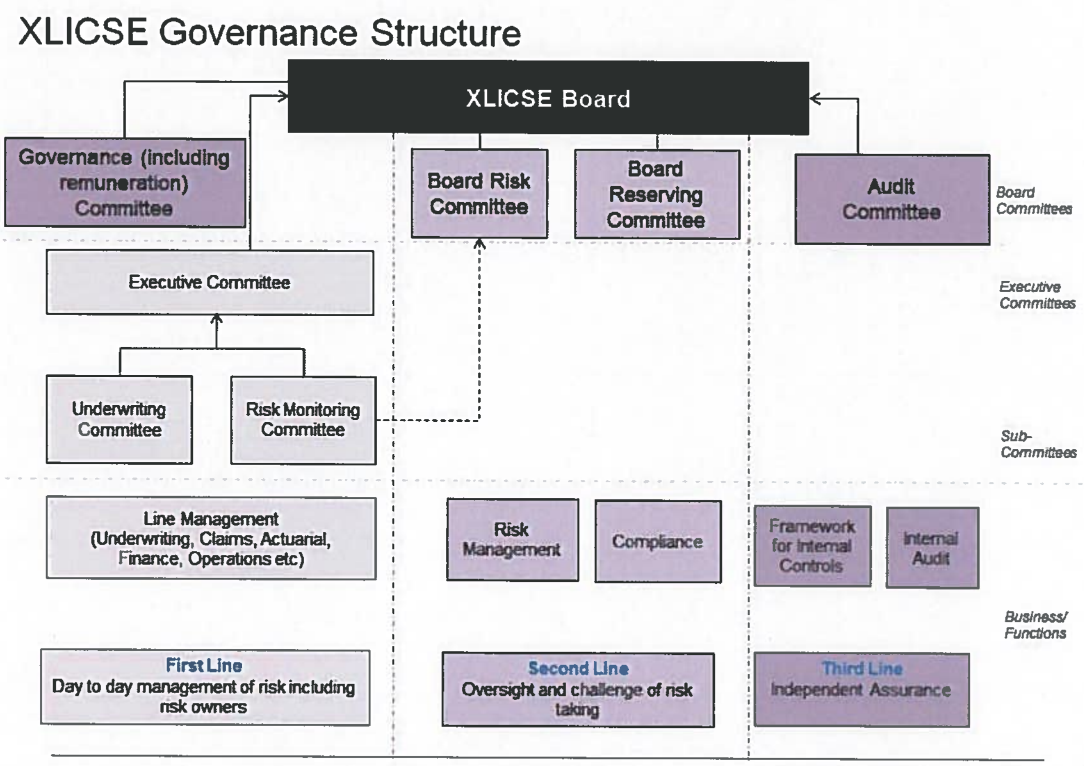
The names of the persons who are directors of the Company as at the date of this report are:

Bryan Joseph	Independent Non-Executive Director
Claire Ighodaro	Independent Non-Executive Director
Paul Wilson	Independent Non-Executive Director
Jason Harris	Executive Director, Chief Executive Officer and Chief Underwriting Officer
Paul Bradbrook	Executive Director, Chief Financial Officer
Yvonne Slattery	Executive Director, Chief Operating Officer

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 split out the Board Risk and Board Reserving Committees, and create a Governance Committee (including remuneration) 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 six times a year and its key responsibilities include approval of the strategy and risk appetite of the Company.

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

The Board Risk Committee consists of non-executive directors 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) and to oversee and challenge the Risk Management and Compliance functions.

Board Reserving Committee

The Board Reserving Committee consists of both non-executive directors and key executive management. The key responsibility of this committee is to oversee and challenge the Company reserving processes and practice.

Governance Committee (including remuneration)

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

Executive Committee

The Executive Committee 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 and has charged day to day monitoring of it to the RMC, which reports to the ExCo.

Underwriting Committee

The 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 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 Board Reserving Committee's 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

The Company actively monitors 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.

During 2018 XLICSE received two capital injections from its immediate parent company totalling €111m (2017: €159m). These were provided to ensure that a sufficient buffer was maintained over its SCR capital requirement. These capital injections illustrate the continued support the Company has from the Group.

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

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 ERM function who implement the RMF.

The RMF is reviewed by the RMC and recommended for approval by the Board, at least annually. The RMF would be reviewed more regularly if the Company was subject to a major change in regulatory requirements, strategy or organisational structure. 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.

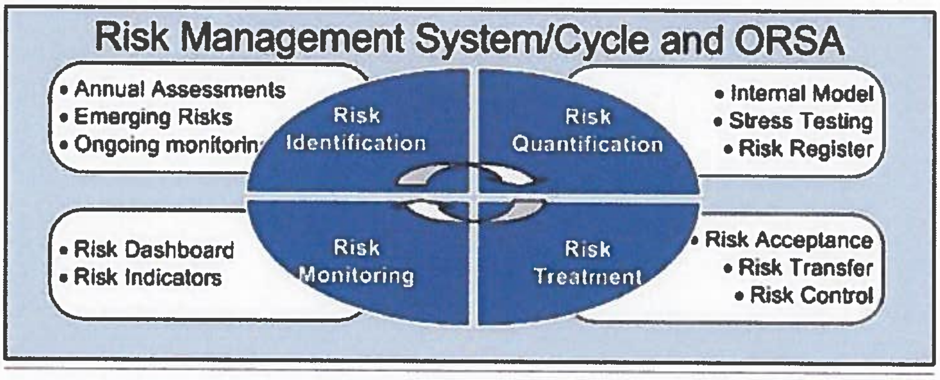
- **Risk definition and categorisation -** provides a common taxonomy and language for risk to allow for categorisation of all risks in a way which facilitates links between the business, risk management processes and Internal Capital Model (ICM).
- **Risk cycle and processes -** are the approach taken 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 on a regular basis to the RMC. The dashboard measures the status against risk appetite statements and the associated monitoring triggers and limits using the latest output from the business, the ICM, and 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.

B.3.2 Own risk and solvency assessment

The Company's 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 XLICSE's system of internal control and report to the Audit Committee.

B.4.1 Framework for internal controls

The 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 is the Compliance Officer for the Company and is supported by the wider UK Compliance team as well as members of the Legal & Compliance team based in the branches of the Company.

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 Chief 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 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 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 Board receives analyses of quarterly reserve movements.

B6.3 Actuarial Function Responsibilities

The Actuarial Function is involved in many of the key processes across the Company's business and provides technical expertise and assurance over the methods used. 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, an 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; and
- Comparing best estimates against experience.

Additional responsibilities relating to capital modelling within the ORSA:

- The Actuarial Function has an additional responsibility in contributing to the effective implementation of the risk management system, in particular with respect to offering insights related to the risk modelling underlying the calculation of the capital requirements within the internal model; and
- The Actuarial Function is responsible for specifying which risks within their domain of expertise are covered by the internal model. The Actuarial Function also offers insights into the nature of dependencies between these risks.

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 the service company XL Catlin Services SE (XLCSSE). A formal Service Level Agreement governs the provision of employees and services between the Company and XLCSSE, and XLCSSE which employs most of the individuals who provide services to the Company. XLCSSE is currently headquartered in the UK and has branches throughout the EU.

Outside of the intra-Group service provision framework outlined above, 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 services can be summarised as follows:

- Advising on investment strategy;
- Appointing investment managers;
- Providing investment reporting; and
- 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.

Risk universe

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

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 driven by natural catastrophes (in particular European Earthquake) and man-made perils (in particular economic, terrorism and political risk exposure); and
- Reserving risk: The majority of volatility arising from reserving risk is not related to a specific event but reflects the potential for many different areas of carried reserve to deteriorate at the same time.

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 pay outs 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.

The Company also has an intra-Group reinsurance arrangement of a Whole Account Quota Share to XL Bermuda Ltd for 2018 which is protected by a floating charge. The amount of the floating charge increases in the event of an XL Bermuda Ltd rating downgrade.

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 meet its clients' needs while controlling its 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.

Business Acceptance Sub-Committee

This sub-committee reports to the Underwriting Committee and is tasked with reviewing and ultimately, approving or declining business for the XLICSE platform The Sub-Committee is tasked with undertaking an assessment to ensure that business presented in this forum:

a) Is of sufficient quality and pricing;

b) Fits with the stated risk appetite of XLICSE;

c) Is complementary to the Plan approved by the Board (if a proposal results in a significant shift in the Plan then would need to inform Exco, the Board and regulators);

d) Can be serviced appropriately by XLICSE; and

e) Doesn't create any operational, regulatory or reputational risk

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% total value at risk (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.

The Company review a range of extreme scenarios intended to stress its capital position and also take a view at the 1% TVaR, which is the point at which the natural catastrophe underwriting limits and appetites are set. Considering the 1% TVaR underwriting risk, the key natural catastrophe exposure for the Company is a Central European Earthquake with a magnitude of 6.2 with an epicentre located in Austria affecting Upper Austria state (Oesterreich). 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 Earthquake 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 XL 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.
ERM Risk assessment and stress testing 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 is primarily exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than Euro. The most significant currencies to which the Company is exposed to (in terms of currency risk) are Sterling and the Australian 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 current exposure by currency:

XLICSE Net Asset Mix by Currency (as at December 31, 2018)

Exposure by currency	% Market Value
EUR	84%
AUD	7%
INR	5%
HKD	4%
SGD	4%
CHF	3%
Other*	(7)%
Total	**100%**

Other* - At the year end the Company held liabilities in excess of their assets in some underlying currencies. This has resulted in a negative market value as illustrated above.

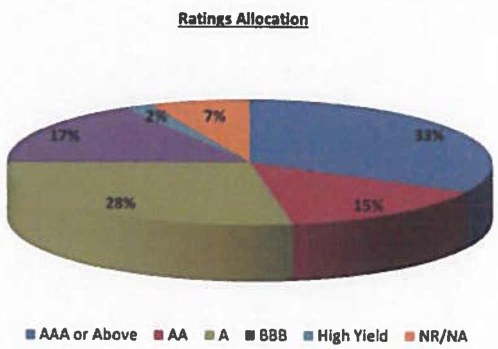
Risk monitoring

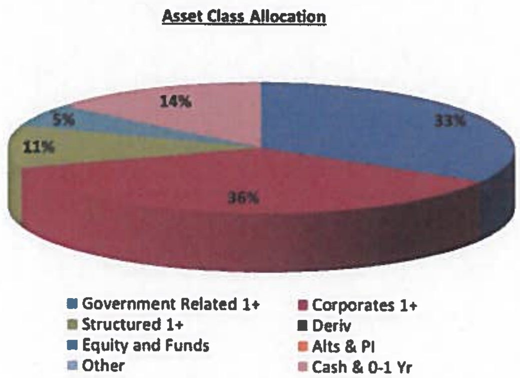
Day-to-day management of the investment portfolio is conducted through a combination of in-house portfolio management teams and external asset managers in accordance with detailed investment guidelines and risk tolerances that are closely monitored by Group Investments. This hybrid implementation approach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

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





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.
ERM Risk assessment and processes	Through the risk assessment processes, the Company quantifies existing risks and also identifies new risks.
Emerging risks	The Group operates an emerging risks identification process. This assessment identifies key external factor changes that may give rise to credit risk issues. The process also evaluates potential opportunities that might arise from these emerging risks.

Risk mitigation

Credit risk is managed through:

- **Credit risk framework -** Credit risk arising from credit sensitive underwriting activities is managed via the underwriting limit framework. Credit risk is managed within the investment portfolio through the Authorities Framework and established investment credit policies, which address the quality of obligors and counterparties, industry limits, and diversification requirements. Exposure to market credit spreads primarily relates to market price and cash flow variability associated with changes in credit spreads.
- **Intra-group credit arrangements -** The Company derives significant reductions in risk resulting from intra-Group reinsurance arrangements including a whole account quota share to XLB set out above. The collateralisation arrangement of the floating charge is instrumental in mitigating exposures from the whole account quota share arrangement.
- **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.

		2018	2017
Reinsurer	**Rating**	**% of exposure**	**% of exposure**
Swiss Reinsurance Co.	AA	22%	22%
Munich Reinsurance Co.	AA	13%	17%
Everest Reinsurance Holdings	A+	5%	3%
National Indemnity Company	AA	2%	6%

- **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 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.
ERM 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 and 2017 was €458m and €77m respectively.

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 the Company's Code of Conduct. Employees will conduct the Company's business in such a way as to comply with laws and regulations. The Company 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.
ERM risk assessment and processes	The risk assessment processes assists in identifying if there are any changes to ALM risks from those that had been identified in the previous risk assessment.

Risk treatment

The Company controls asset liability mismatch risk through:

- **Asset Liability Management analysis**

  The Company will conduct detailed ALM analyses to match the average duration and currency of its liabilities with appropriate assets as well as to match the currency of its assets and liabilities in order to limit the impact of interest rate and foreign exchange rate movements on enterprise value.

- **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

On 19 November 2018, the Company's rating, along with other AXA XL core legal entities, were upgraded from 'A+' to 'AA-' with stable outlook from S&P,mainly driven by the strategic fit and core operation to the AXA Group. Additionally the rating from A.M. Best was upgraded from 'A' to 'A+' stable during the year.

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 E1.2. Eligible Own Funds below.

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.

		2018			2017
	Reference	UK GAAP Value	Adjustment	Solvency II Value	Solvency II Value
Assets		€'000	€'000	€'000	€'000
Deferred Acquisition Costs (DAC)	1	307,712	(307,712)	—	—
Deferred tax asset	2	4,851	(1,242)	3,609	9,105
Property, plant and equipment	3	70	—	70	588
Investments (excl participations)	4	1,652,563	70,480	1,723,043	1,670,449
Participations	5	25,073	3,808	28,881	29,974
Reinsurance recoverables	6	5,522,656	(1,212,008)	4,310,648	3,321,694
Deposits to cedants		165	—	165	—
Insurance and intermediaries receivables	7	568,576	(414,513)	154,063	175,837
Reinsurance receivables	8	585,032	(246,004)	339,028	241,868
Receivables (trade, not insurance)	9	313,115	30,000	343,115	85,889
Cash and cash equivalents	10	57,526	41,475	99,001	137,817
Any other assets, not elsewhere shown	11	14,531	10,955	25,486	1,397
Total assets		**9,051,870**	**(2,024,761)**	**7,027,109**	**5,674,618**
Liabilities					
Technical provisions (best estimates) - Non life & health similar to non life	12	6,597,502	(1,356,315)	5,241,187	4,403,047
Technical provisions (risk margin) - Non life & health similar to non life	12	—	122,163	122,163	115,274
Pension benefit obligations	13	2,324	—	2,324	2,385
Deferred tax liabilities	14	23,167	4,636	27,803	11,487
Debts owed to credit institutions	15	—	98,560	98,560	23,944
Insurance & intermediaries payables	16	9,123	—	9,123	12,207
Reinsurance payables	17	1,035,650	(642,316)	393,334	68,848
Payables (trade, not insurance)	18	212,886	24,350	237,236	137,427
Subordinated liabilities	19	—	52,466	52,466	50,247
Any other liabilities, not elsewhere shown	20	310,627	(290,454)	20,173	9,350
Total liabilities		**8,191,279**	**(1,986,910)**	**6,204,369**	**4,834,216**
Excess of assets over liabilities		**860,591**	**(37,851)**	**822,740**	**840,402**

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.

VI. The Company uses a fair value hierarchy for its investment portfolio that prioritises inputs to its valuation techniques which are used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets, 6% of the total portfolio, and then quoted prices in markets that are not active or inputs that are observable either directly or indirectly (92% of the total portfolio). The equity accounting method is used for the Affiliates holdings, 2% of the total portfolio.

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. Under Solvency II the valuation of deferred tax assets is determined by the differences between the economic valuation of an asset or liability on the Solvency II balance sheet and its tax base. A deferred tax asset can only be recognized to the extent it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized. The criteria for holding a deferred tax asset is similar under UK GAAP and Solvency II and a review under both basis of accounting has been performed.

3. Property, plant and equipment is held at cost less any depreciation and impairment loss under UK GAAP. This valuation is a proxy for fair value under Solvency II.

4. The reason for the differences between Solvency II and UK GAAP for investments is that 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. In addition, certain cash instruments in the UK GAAP balance sheet are classified as investments under Solvency II.

5. 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;

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

7. 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.

8. 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.

9. 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.

10. Cash and cash equivalents are measured at fair value under both UK GAAP and Solvency II. The difference in cash valuation is because any bank accounts in an overdraft position are moved to debts owed to credit institutions. In addition, certain cash instruments in the UK GAAP balance sheet are classified as investments under Solvency II.

11. Other assets are measured at cost less provision for impairment under UK GAAP, which is a reasonable proxy for fair value under Solvency II given the short term nature of the assets. The difference is due to the fact that under Solvency II accrued investment income is included within the value of the investment; whereas it is disclosed within Other assets in the UK GAAP section of the Balance Sheet.

D.2. Technical provisions

Items 6 and 12 from the Solvency II Balance Sheet in Section D above are combined below to present net technical provisions:

		Solvency II Value	
		2018	2017
		€'000	€'000
Technical provisions (best estimates) - Non life & health similar to non life	12	5,241,187	4,403,047
Technical provisions (risk margin) - Non life & health similar to non life	12	122,163	115,274
Gross technical provisions		5,363,350	4,518,321
Reinsurance recoverables	6	4,310,648	3,321,694
Net technical provisions		**1,052,702**	**1,196,627**

Regarding 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 GAAP reserves as the starting point and then performing a series of adjustments:

- 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 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 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 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, the total net technical provisions amounted to €1,053m (2017: €1,197m) comprising the following:

	2018	2017
	€'000	€'000
Claims Provision	868,467	1,042,592
Premium Provision	62,072	38,761
Risk Margin	122,163	115,274
Total Technical Provisions	**1,052,702**	**1,196,627**

The following tables show the breakdown of total net technical provisions as at 31 December 2018, for each material line of business:

2018

Solvency II Lines of Business	Best Estimate	Risk Margin	Total Technical Provisions	Percentage of Total
	€'000	€'000	€'000	%
General liability	358,812	65,096	423,908	40%
Fire and other damage to property	230,399	27,785	258,184	25%
Other	341,328	29,282	370,610	35%
Total	930,539	122,163	1,052,702	100%

2017

Solvency II Lines of Business	Best Estimate	Risk Margin	Total Technical Provisions	Percentage of Total
	€'000	€'000	€'000	%
General liability	842,571	102,251	944,822	79%
Fire and other damage to property	127,062	4,626	131,688	11%
Other	111,720	8,397	120,117	10%
Total	1,081,353	115,274	1,196,627	100%

The General Liability business makes up approximately 40% (2017: 79%) of the Company's net technical provisions because of the long-tail nature of potential liabilities. The main methods and assumptions used to calculate the General Liability technical provisions are consistent with those used on all the other lines of business, although the underlying parameters are specific to each line of business. For example, there is a higher discounting credit on the General Liability business relative to the other lines of business due to longer settlement durations.

The methods and assumptions are described above.

General Liability

General Liability business represents 40% of the Company's net technical provisions.

Solvency II adjustments are applied to the GAAP reserves to get to the Solvency II technical provisions. The most material adjustments to the net GAAP reserves are losses on the GAAP unearned premium reserves and the addition of Risk Margin, which increase the net GAAP reserves by €77.0m (2017: €98.5m) and €65.1m (2017: €102.3m) respectively.

Fire and Other Damage to Property

Fire and Other Damage business represents 25% of the Company's net technical provisions.

The aforementioned Solvency II adjustments increase the net UK GAAP reserves by €87.9m (2017: €62.5m); whereas the addition of future premiums (both receivable and payable) decrease the net UK GAAP reserves by €17.6m (2017: €85.8m).

D2.2. Description of Recoverables from Reinsurance Contracts

The reinsurance recoverables for the claims provisions are sourced directly from the 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**
Pension benefit obligations	13	2,324	—	2,324	2,385
Deferred tax liabilities	14	23,167	4,636	27,803	11,487
Debts owed to credit institutions	15	—	98,560	98,560	23,944
Insurance & intermediaries payables	16	9,123	—	9,123	12,207
Reinsurance payables	17	1,035,650	(642,316)	393,334	68,848
Payables (trade, not insurance)	18	212,886	24,350	237,236	137,427
Subordinated liabilities	19	—	52,466	52,466	50,247
Any other liabilities, not elsewhere shown	20	310,627	(290,454)	20,173	9,350
Total other liabilities		**1,593,777**	**(752,758)**	**841,019**	**315,895**

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:

13 Under both UK GAAP and Solvency II the pension benefit obligations are measured as the excess of the projected benefit obligation over the plan assets. This is considered a reasonable proxy for fair value, particularly given the immateriality of the liability.

14 Under Solvency II the valuation of deferred tax liabilities is determined by the differences between the economic valuation of an asset or liability on the Solvency II balance sheet and its tax base. The deferred tax liability valuation has changed given the differences between the tax base of the Solvency II balance sheet and the tax base of the UK GAAP balance sheet.

15 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.

16 Insurance and intermediaries payables are measured at amortized cost under UK GAAP and are not discounted. The difference under Solvency II is a result of a balance sheet reclassification to move a debit balance to Insurance receivables.

17 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).

18 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.

19 Subordinated liabilities comprise a $60m (2017: $60m) USD loan explained in Section E1.2 Eligible Own Funds.

20 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.

D.4. Alternative methods for valuation

Approximately 6% (2017: 6%) of investments (excluding participations) are valued using the unadjusted quoted price in an active market for identical assets or liabilities that the Company can access at the measurement date. All remaining 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, to which any subordinated debt is then added. This combined amount is 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 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 per Solvency II	**€000's**	**€000's**
Shareholder equity per financial statements	860,590	857,888
Adjustments for technical provision and risk margin under Solvency II	3,943	93,124
Adjustments for DAC	(307,712)	(263,422)
Deferred Tax Adjustment	(5,878)	552
Other adjustments	271,797	152,260
Net assets per Solvency II	**822,740**	**840,402**

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	Tier 2	*Total*
	€'000	**€'000**	**€'000**
Ordinary share capital	259,157	—	259,157
Reconciliation reserve	563,583	—	563,583
Subordinated liabilities	0	52,466	52,466
Total basic own funds after deductions	**822,740**	**52,466**	**875,206**

2017	Tier 1 - unrestricted	Tier 2	*Total*
	€'000	**€'000**	**€'000**
Ordinary share capital	259,157		259,157
Reconciliation reserve	581,245		581,245
Subordinated liabilities		50,247	50,247
Total basic own funds after deductions	**840,402**	**50,247**	**890,649**

The Company's 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 is not subordinated and has no restricted duration. There is no intention to increase share capital in the foreseeable future. There are no foreseeable dividends or own shares held. The reconciliation reserve of €564m (2017:€581m) comprises net assets from the Solvency II balance sheet of €757m (2017:€840m) less ordinary share capital of €259m (2017:€259m). The change in valuation of the reconciliation reserve is driven entirely by the change in net assets on the Solvency II balance sheet.

The Company has the following subordinated loan note at 31 December 2018 and 2017 respectively :

	Interest Rate	2018	2017
		€'000	€'000
US$60m fixed rate note due 2028	2.70%	52,466	50,247

The above subordinated loan note, taken up in 2013, is repayable at the option of the Company after a period of five years has elapsed, i.e. in 2018. The subordinated loan note is not secured and is categorised as Tier 2 Capital. There is no plan to repay the note during 2019, or to increase the amount. The change in value is driven entirely by fluctuations in the USD/EUR exchange rate.

The Company has had no defaults of principal, interest or other breaches with respect to their subordinated loan note during the period.

XLICSE also has a Capital Maintenance Agreement of €400m (2017:€400m) which is not classified as Eligible Own Funds under Solvency II rules, but is a potential source of additional capital to the Company from the Group.

Eligible Own Funds to cover the SCR and MCR

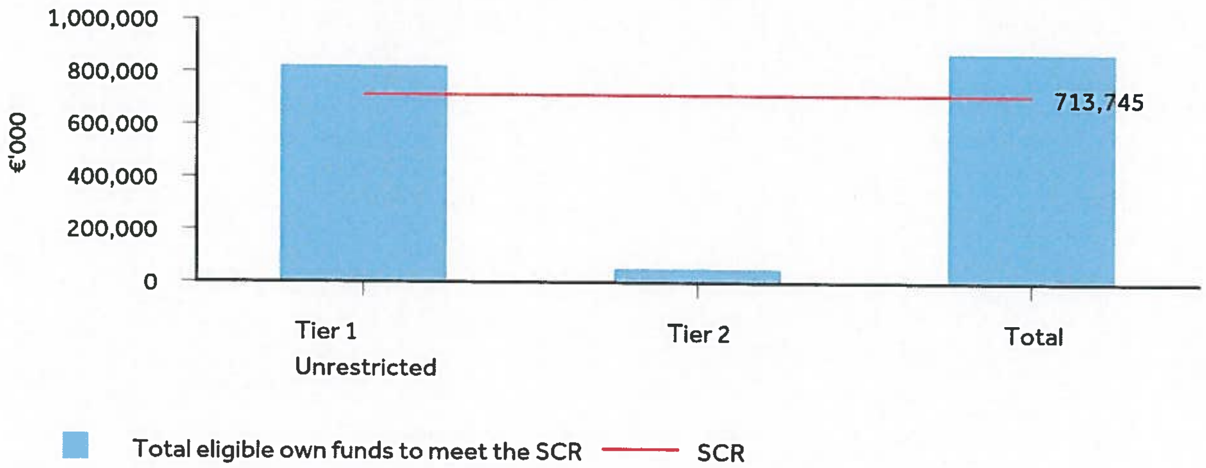
The classification into tiers is relevant to the determination of eligible Own Funds. These are the Own Funds that are eligible for covering the SCR and the MCR.

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

2018	Tier 1 - unrestricted	Tier 2	Total
	€'000	€'000	€'000
Total eligible own funds to meet the SCR	822,740	52,466	875,206
Total eligible own funds to meet the MCR	822,740	38,344	861,084

2017	Tier 1 - unrestricted	Tier 2	Total
	€'000	€'000	€'000
Total eligible own funds to meet the SCR	840,402	50,247	890,649
Total eligible own funds to meet the MCR	840,402	37,926	878,328

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	713,745	667,727
MCR	191,720	189,629
Total eligible own funds to meet the SCR	875,206	890,649
Total eligible own funds to meet the MCR	861,084	878,328
	%	%
Ratio of Eligible own funds to SCR	**122.6%**	**133.4%**
Ratio of Eligible own funds to MCR	**449.1%**	**463.2%**

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	713,745	667,727
MCR	191,720	189,629

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	
	2018	2017
	€'000	€'000
Linear MCR	191,720	189,629
SCR	713,745	667,727
MCR cap	321,185	300,477
MCR floor	178,436	166,932
Combined MCR	191,720	189,629
Absolute floor of the MCR	3,700	3,700
Minimum Capital Requirement	**191,720**	**189,629**

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.

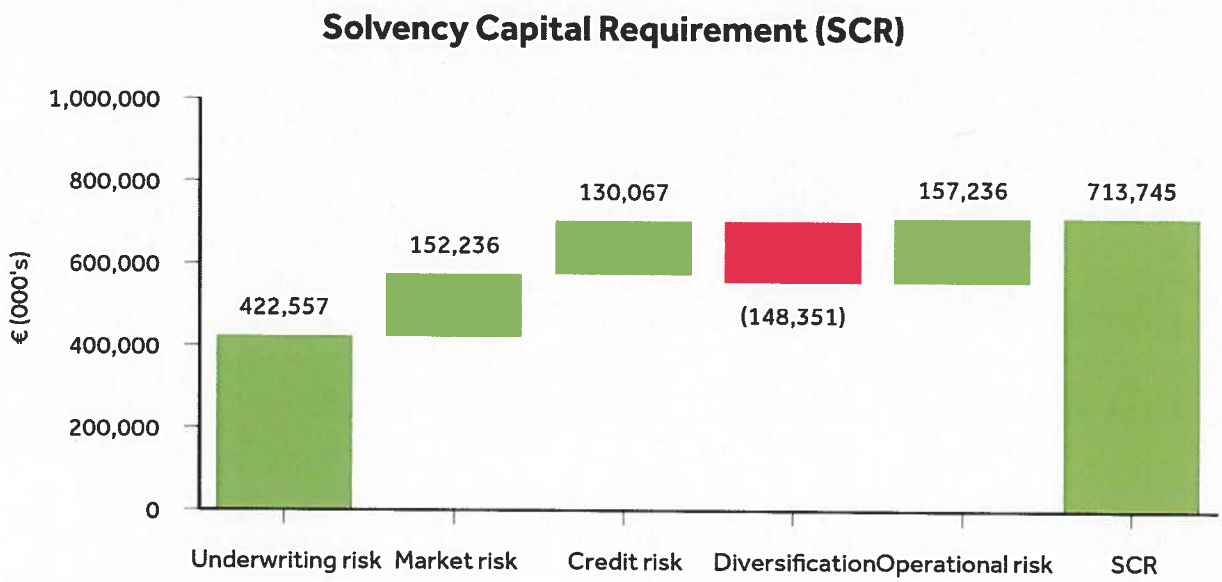
The following table illustrates the inputs to the MCR calculation for 2018 and 2017.

	Net (of reinsurance) best estimate provisions		Net (of reinsurance) written premiums in the last 12 months	
Inputs to MCR calculation	2018	2017	2018	2017
	€'000	€'000	€'000	€'000
Income Protection	3,322	1,224	5,945	831
Marine, aviation and transport insurance and proportional reinsurance	81,755	78,334	66,923	79,527
Fire and other damage to property insurance and proportional reinsurance	230,399	127,061	190,923	193,611
General liability insurance and proportional reinsurance	358,813	842,571	293,610	292,709
Credit and suretyship insurance and proportional reinsurance	—	19,351	32,052	52,685
Miscellaneous financial loss insurance and proportional reinsurance	260,826	10,113	27,072	37,180
Non-proportional health reinsurance	25	4	47	11
Non-proportional casualty reinsurance	2,465	490	1,031	1,162
Non-proportional marine, aviation and transport reinsurance	195	—	31	431
Non-proportional property reinsurance	15,795	2,263	15,978	12,821

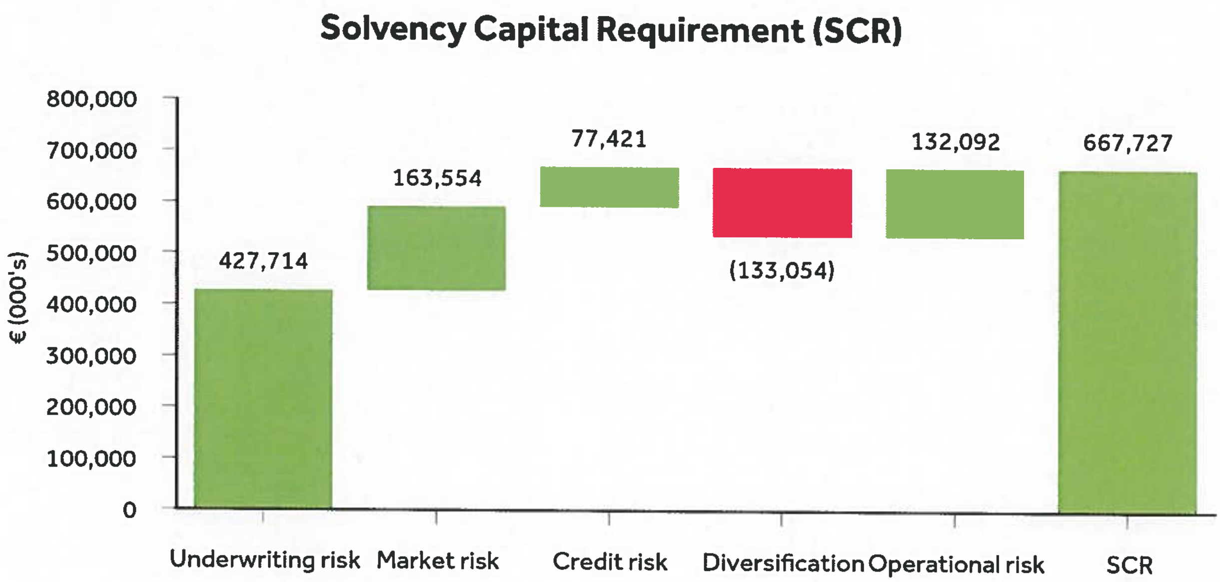
E.2.2 SCR by risk module

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)

The Company is exposed to non-life underwriting risk as a result of the policies it sells. The decrease in premium and reserve risk is driven by an increase in reinsurance purchased and a reduction to the planned earned premium in the next 12 months. The reduction in lapse risk is a result of increased plan loss ratios, and increased reinsurance spend. The reduction in Catastrophe risk is also a result of an increase in reinsurance spend.

Non-life underwriting risk (incl. Health)	2018 €000's	2017 €000's
Non-life premium and reserve risk	335,734	367,006
Non-life lapse risk	27,297	30,941
Non-life catastrophe risk	174,049	137,667
Diversification within non - life underwriting risk module	(121,180)	(111,509)
Health underwriting risk	6,657	3,609
Non Life Underwriting Risk (incl. Health) Total	**422,557**	**427,714**

Market risk

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

- €72m (2017:€99m) 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 an increased focus on risk reduction.
- €70m (2017:€58m) of spread risk mainly driven by the Company's investments in bonds and securitised assets. The increase is driven by a focus on increased investment yield.
- €36m (2017:€43m) of equity risk due to Subsidiaries and an investment in an equity fund. The decrease is a result of decreased investment in the equity fund.
- €50m (2017:€34m) of interest rate risk driven by the changes in assets and liabilities of the Company due to changes in discount rates. The increase is driven by a decrease in the value of net reserves.

Market Risk	2018 €000's	2017 €000's
Interest rate risk	49,799	34,291
Equity risk	35,797	42,988
Spread risk	70,231	57,744
Concentration risk	3,571	82
Currency risk	71,569	99,690
Diversification within market risk module	(78,731)	(71,241)
Total Market Risk	**152,236**	**163,554**

Operational risk

The capital requirement for operational risk is capped at 30% of the BSCR as the standard measure of 3% of gross best estimate liabilities breached the cap. This reduced the operational risk charge to €156m from €165m (2017:3% of Gross Best Estimate Liabilities).

Operational risk	208 €000's	2017 €000's
Non-life gross technical provisions (excluding risk margin)	5,241,187	4,403,047
Capital requirement for operational risk based on technical provisions	**157,236**	**132,092**

Counterparty default risk (Credit risk)

The Company is exposed to €130m (2017: €77m) of counterparty risks in the form of cash deposits and recoveries from reinsurers (type 1) and from receivables from intermediaries, policyholders and other debtors (type 2). This has increased as a result of buying additional reinsurance cover.

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	XL Insurance Company SE
Undertaking identification code	LEI/635400PTQW4DT3C4DG08
Type of code of undertaking	LEI
Type of undertaking	3 – Non–Life undertakings
Country of authorisation	GB
Language of reporting	English
Reporting submission date	04/18/2019
Reporting reference date	12/31/2018
Currency used for reporting	EUR
Accounting standards	UK GAAP
Method of Calculation of the SCR	1 – Standard formula
Use of undertaking specific parameters	2 - Don't use undertaking specific parameters
Ring-fenced funds	2 - Not reporting activity by RFF
Matching adjustment	2 - No use of matching adjustment
Volatility adjustment	2 - No use of volatility adjustment
Transitional measure on the risk-free interest rate	2 - No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	2 - No use of transitional measure on technical provisions

S.02.01.02 Balance Sheet

	Solvency II value	
	2018	2017
	€'000	€'000
Assets		
Intangible assets	—	—
Deferred tax assets	3,609	9,105
Pension benefit surplus	—	—
Property, plant & equipment held for own use	70	588
Investments (other than assets held for index-linked and unit-linked contracts)	1,751,925	1,700,423
Property (other than for own use)	—	—
Holdings in related undertakings, including participations	28,881	29,974
Equities	—	—
Equities - listed	—	—
Equities - unlisted	—	—
Bonds	1,613,737	1,568,975
Government Bonds	703,766	878,103
Corporate Bonds	774,874	689,809
Structured notes	—	—
Collateralised securities	135,097	1,063
Collective Investments Undertakings	109,306	101,474
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:	4,310,648	3,321,694
Non-life and health similar to non-life	4,310,648	3,321,694
Non-life excluding health	4,301,244	3,321,694
Health similar to non-life	9,404	—
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	165	—
Insurance and intermediaries receivables	154,063	175,837
Reinsurance receivables	339,028	241,868
Receivables (trade, not insurance)	343,115	85,889
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	99,001	137,817
Any other assets, not elsewhere shown	25,485	1,397
Total assets	**7,027,109**	**5,674,618**

	Solvency II value	
	€'000	€'000
Liabilities		
Technical provisions – non-life	5,363,350	4,518,321
Technical provisions – non-life (excluding health)	5,350,379	4,518,321
TP calculated as a whole	—	—
Best Estimate	5,228,437	4,403,047
Risk margin	121,942	115,274
Technical provisions - health (similar to non-life)	12,972	—
TP calculated as a whole	—	—
Best Estimate	12,750	—
Risk margin	221	—
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	2,324	2,385
Deposits from reinsurers	—	—
Deferred tax liabilities	27,803	11,487
Derivatives	—	—
Debts owed to credit institutions	98,560	23,944
Financial liabilities other than debts owed to credit institutions	—	—
Insurance & intermediaries payables	9,123	12,207
Reinsurance payables	393,334	68,848
Payables (trade, not insurance)	237,236	137,427
Subordinated liabilities	52,466	50,247
Subordinated liabilities not in BOF	—	—
Subordinated liabilities in BOF	52,466	50,247
Any other liabilities, not elsewhere shown	20,173	9,350
Total liabilities	**6,204,369**	**4,834,216**
Excess of assets over liabilities	**822,740**	**840,402**

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: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)	Line of business for: accepted non-proportional reinsurance				
	Income protection 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**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Premiums written											
Gross - Direct Business	18,227	147,131	518,406	1,021,090	115,502	107,920					1,928,276
Gross - Proportional reinsurance accepted	4,375	86,527	329,032	138,639	8,323	46,237					613,133
Gross - Non-proportional reinsurance accepted							56	1,156	24	16,931	18,167
Reinsurers' share	16,563	152,782	640,092	907,450	97,510	112,824		15	(4)	2,102	1,927,236
Net	6,038	80,875	207,346	252,278	26,315	41,333	56	1,141	28	14,829	630,239
Premiums earned											
Gross - Direct Business	14,032	147,805	466,838	970,757	58,269	98,769					1,756,470
Gross - Proportional reinsurance accepted	2,537	81,472	321,370	132,141	3,139	40,735					581,394
Gross - Non-proportional reinsurance accepted							45	1,035	209	16,109	17,398
Reinsurers' share	11,051	152,041	595,180	863,613	35,993	101,179		15	6	2,100	1,761,178
Net	5,518	77,236	193,028	239,285	25,415	38,326	45	1,021	204	14,010	594,084
Claims incurred											
Gross - Direct Business	8,010	214,603	640,037	716,644	6,761	91,060					1,677,115
Gross - Proportional reinsurance accepted	1,651	41,706	192,980	61,835	5,149	14,449					317,770
Gross - Non-proportional reinsurance accepted							35	216	297	12,460	13,008
Reinsurers' share	1,280	154,231	646,749	665,003	7,710	69,929		31	224	3,192	1,548,349
Net	8,380	102,078	186,269	297,514	4,200	15,037	25	185	73	4,760	459,544
Expenses incurred	4,675	8,736	89,992	81,778	(2,809)	9,675	1	451	24	251	192,774
Other expenses											3,145
Total expenses											195,919

S.05.02.01 Premiums, claims and expenses by country

	Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
	GB	AUSTRALIA	FRANCE	GERMANY	SWITZERLAND	ITALY	
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Premiums written							
Gross - Direct Business	438,439	173,232	241,767	323,700	120,503	120,503	1,418,144
Gross - Proportional reinsurance accepted	102,657	19,149	34,878	56,628	51,946	51,946	317,204
Reinsurers' share	456,471	161,387	202,350	283,683	135,415	135,415	1,374,721
Net	137,551	30,994	64,369	96,644	35,119	41,859	406,536
Premiums earned							
Gross - Direct Business	399,375	157,797	220,226	294,859	109,767	109,767	1,291,791
Gross - Proportional reinsurance accepted	97,344	18,157	33,073	53,696	49,257	49,257	300,784
Reinsurers' share	411,666	145,546	182,488	255,838	122,123	122,123	1,239,784
Net	85,053	30,409	59,947	40,506	36,901	36,901	289,717
Claims incurred							
Gross - Direct Business	381,332	150,668	210,277	281,537	104,808	104,808	1,233,430
Gross - Proportional reinsurance accepted	53,205	9,924	18,077	29,349	26,922	26,922	164,399
Gross - Non-proportional reinsurance accepted	—	—	—	—	—	—	—
Reinsurers' share	361,921	127,958	160,437	224,923	107,366	107,366	1,089,971
Net	72,616	57,670	67,916	56,407	24,364	24,364	303,337
Expenses incurred	43,833	17,319	24,171	32,362	12,047	12,047	141,779
Other expenses							3,145
Total expenses							182,629

S.17.01.02 Non-life Technical Provisions

	Direct business and accepted proportional reinsurance				
	Income protection insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance
Technical provisions calculated as a sum of BE and RM	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Best estimate					
Premium provisions					
Gross	3,345	20,171	141,912	106,459	(280,808)
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	2,562	5,336	98,557	84,892	(248,143)
Net Best Estimate of Premium Provisions	783	14,835	43,355	21,567	(32,665)
Claims provisions					
Gross	9,394	271,891	1,182,882	2,771,266	40,391
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	6,855	204,972	995,838	2,434,021	30,778
Net Best Estimate of Claims Provisions	2,539	66,919	187,044	337,245	9,613
Total Best estimate - gross	12,739	292,062	1,324,794	2,877,725	(240,417)
Total Best estimate - net	3,322	81,754	230,399	358,812	(23,052)
Risk margin	221	6,387	27,785	65,096	949
Technical provisions - total	12,959	298,449	1,352,580	2,942,821	(239,467)
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	9,417	210,308	1,094,395	2,518,913	(217,365)
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	**3,542**	**88,141**	**258,185**	**423,908**	**(22,102)**

	Direct business and accepted proportional reinsurance	Accepted non-proportional reinsurance				Total Non-Life obligation
	Miscellaneous financial loss	Health	Casualty	Marine, aviation and transport	Property	
	€'000	€'000	€'000	€'000	€'000	€'000
Best estimate						
Premium provisions						
Gross	58,756	(14)	379	437	(9,398)	40,470
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	45,441	(13)	182	248	(10,058)	(21,602)
Net Best Estimate of Premium Provisions	13,315	(1)	197	189	660	62,072
Claims provisions						
Gross	905,343	26	2,310	28	16,863	5,200,718
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	657,831	—	42	22	1,729	4,332,250
Net Best Estimate of Claims Provisions	247,512	26	2,268	6	15,134	868,468
Total Best estimate - gross	964,098	12	2,689	465	7,466	5,241,187
Total Best estimate - net	260,826	25	2,465	195	15,795	930,539
Risk margin	21,266	1	54	1	396	122,163
Technical provisions - total	985,364	13	2,743	466	7,862	5,363,350
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	703,272	(13)	224	271	(8,329)	4,310,648
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	**282,092**	**25**	**2,519**	**195**	**16,191**	**1,052,702**

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											79	79	79
N-9	57	106	72	64	37	41	29	20	25	6		6	458
N-8	101	168	181	49	33	43	28	30	8			8	642
N-7	173	265	85	75	52	42	30	10				10	732
N-6	78	167	131	66	58	39	30					30	570
N-5	130	212	127	84	92	24						24	668
N-4	67	207	127	73	92							92	566
N-3	97	188	184	128								128	597
N-2	104	290	186									186	580
N-1	193	483										483	676
N	132											132	132
											Total	**1,179**	**5,700**

Gross undiscounted Best Estimate Claims Provisions

(absolute amount)

	Development year											
Year	—	—	—	—	—	—	—	—	—	—	10 & +	Year end (discounted data)
Prior									471	348	483	461
N-9								201	159	156		143
N-8							159	112	78			75
N-7						223	171	126				122
N-6					294	245	208					193
N-5				345	224	199						189
N-4			464	345	299							289
N-3		798	465	548								525
N-2	1,070	948	591									560
N-1	1,343	1,008										970
N	1,823											1,714
											Total	5,241

S.23.01.01 Own funds

	Total €'000	Tier 1 - unrestricted €'000	Tier 1 - restricted €'000	Tier 2 €'000	Tier 3 €'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)	259,157	259,157	—	—	—
Share premium account related to ordinary share capital	—	—	—	—	—
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	563,583	563,583	—	—	—
Subordinated liabilities	52,466	—	—	52,466	—
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	**875,206**	822,740	—	52,466	—
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	875,206	822,740	—	52,466	—
Total available own funds to meet the MCR	875,206	822,740	—	52,466	—
Total eligible own funds to meet the SCR	**875,206**	822,740	—	52,466	—
Total eligible own funds to meet the MCR	**861,084**	822,740	—	38,344	—
SCR	713,745				

MCR	191,720
Ratio of Eligible own funds to SCR	**122.6%**
Ratio of Eligible own funds to MCR	**449.1%**

	€'000
Reconciliation reserve	
Excess of assets over liabilities	822,740
Own shares (held directly and indirectly)	—
Foreseeable dividends, distributions and charges	—
Other basic own fund items	259,157
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	—
Reconciliation reserve	563,583
Expected profits	
Expected profits included in future premiums (EPIFP) - Life business	—
Expected profits included in future premiums (EPIFP) - Non-life business	457,860
Total Expected profits included in future premiums (EPIFP)	457,860

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

	Gross solvency capital requirement	USP	Simplifications
	€'000	€'000	€'000
Market risk	152,236	—	—
Counterparty default risk	130,067	—	—
Life underwriting risk	—	—	—
Health underwriting risk	6,657	—	—
Non-life underwriting risk	415,900	—	—
Diversification	(148,351)	—	—
Intangible asset risk	—	—	—
Basic Solvency Capital Requirement	556,509		

Calculation of Solvency Capital Requirement	
Operational risk	157,236
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	713,745
Capital add-ons already set	—
Solvency capital requirement for undertakings under consolidated method	**713,745**

Other information on SCR	—
Capital requirement for duration-based equity risk sub-module	—
Total amount of Notional Solvency Capital Requirements for remaining part	697,339
Total amount of Notional Solvency Capital Requirements for ring fenced funds	—
Total amount of Notional Solvency Capital Requirements 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	191,064

	Net (of reinsurance/ SPV) best estimate and TP calculated as a whole €'000	Net (of reinsurance) written premiums in the last 12 months €'000
Medical expense insurance and proportional reinsurance	—	—
Income protection insurance and proportional reinsurance	3,322	5,945
Workers' compensation insurance and proportional reinsurance	—	—
Motor vehicle liability insurance and proportional reinsurance	—	—
Other motor insurance and proportional reinsurance	—	—
Marine, aviation and transport insurance and proportional reinsurance	81,755	66,923
Fire and other damage to property insurance and proportional reinsurance	230,399	190,923
General liability insurance and proportional reinsurance	358,813	293,610
Credit and suretyship insurance and proportional reinsurance	—	32,052
Legal expenses insurance and proportional reinsurance	—	—
Assistance and proportional reinsurance	—	—
Miscellaneous financial loss insurance and proportional reinsurance	260,826	27,072
Non-proportional health reinsurance	25	47
Non-proportional casualty reinsurance	2,465	1,031
Non-proportional marine, aviation and transport reinsurance	195	31
Non-proportional property reinsurance	15,795	15,978

Overall MCR calculation

	€'000
Linear MCR	191,720
SCR	713,745
MCR cap	321,185
MCR floor	178,436
Combined MCR	191,720
Absolute floor of the MCR	3,700
Minimum Capital Requirement	**191,720**

Glossary

AC	Audit Committee
ACPR	Authorité de Contrôle Prudentiel et de Résolution
AFR	Actuarial Function Report
ALM	Asset Liability Management
APAC	Asia Pacific
APSs	Actuarial Profession Standards
AXA	AXA SA
AXA XL	AXA division comprising legacy XL companies and certain existing AXA companies
BBNI	Bound But Not Incepted
BRRC	Board Risk & Reserving Committee
Board	Board of Directors
BOF	Basic Own Funds
BSCR	Basic Solvency Capital Requirement
CAT	Catastrophe
Code	Code of Conduct
Companies Act	Bermuda Companies Act 1981
Company Share	Each issued and outstanding common share, par value $0.01 per common share of XL
COR	Combined Operating Ratio
CRO	Chief Risk Officer
DAC	Deferred Acquisition Costs
DTA	Deferred Tax Asset
DTL	Deferred Tax Liability
EMEA	Europe, Middle East and Africa
ENiD	Events not in Data
ERM	Enterprise Risk Management
Exco	Executive Committee
EUR	Euro
FCA	Financial Conduct Authority
FIC	Framework for Internal Control
FX	Foreign exchange
GAAP	Generally Accepted Accounting Principles
GN	Guidance notes
HR	Human Resources
ICM	Internal Capital Model
IIA	The Institute of Internal Auditors
Key Functions	The Company's risk management, compliance, internal audit and actuarial functions
LOD	Losses Occurring During
Merger sub	Camelot Holdings Ltd.
Merger Agreement	Agreement and Plan of Merger, dated as of March 5, 2018, by and among XL, Merger Sub and AXA
MCR	Minimum Capital Requirement
MTM	Mark to market
NAT CAT	Natural Catastrophe
OEP	Occurrence exceedance probability
ORSA	Own Risk and Solvency Report
P&C	Property and Casualty
PAP	Product Approval Process
PRA	Prudential Regulatory Authority
PWC	PriceWaterhouseCoopers

QRT	Quantitative Reporting Template
RDS	Realistic Disaster Scenario
RI	Reinsurance
RIBD	Reinsurance Bad Debt
RM	Risk Margin
RMC	Risk Monitoring Committee
RMF	Risk Management Framework
RMS	Risk Management Solutions
SAA	Strategic Asset Allocation
SCR	Solvency Capital Requirement
SF	Standard Formula
SF SFCR	Standard Formula Solvency and Financial Condition Report
SFCR	Solvency and Financial Condition Report
SII	Solvency II
S&S	Stress & Scenario
UC	Underwriting Committee
UEPR	Unearned Premium Reserve
UK&I	United Kingdom and Ireland
XL	XL Group Ltd.
XLB	XL Bermuda Ltd.
XLCICL UK	XL Catlin Insurance Company UK Limited
XLCSSE	XL Catlin Services SE
XLGIL	XL Group Investments Limited
XLICSE	XL Insurance Company SE