



# **XL Insurance Company SE, Dublin, Zurich Branch**

**AN AXA SA GROUP COMPANY**

## **Financial Condition Report**

**Year Ended**

**31 December 2018**

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## Branch Manager's Statement

The Branch Manager acknowledges his responsibility for ensuring that this Financial Condition Report has been properly prepared in all material respects in accordance with Swiss Financial Market Supervisory Authority ("FINMA") regulations. The Branch Manager is satisfied that:

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

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

This report was discussed and reviewed by various stakeholders and signed off on 30 April 2019.



Manuel Meier

Branch Manager

XL Insurance Company SE, Dublin, Zurich branch

30 April 2019



Paul Bradbrook

Director

XL Insurance Company SE, Dublin

30 April 2019

# Management summary

## General remarks

This report addresses the Swiss specific disclosure requirements for Swiss branches of foreign insurance companies as defined in FINMA circular "2016/2 - Disclosure - insurers" and should be read in conjunction with:

- XL Insurance Company SE, Dublin, Zurich Branch's ("XLICSE ZH" or "the Branch") audited financial statements for the year ended 31 December 2018 disclosed in [appendix 2](#), and
- the Solvency and Financial Condition Report ("SFCR") published by the home-office, XL Insurance Company SE ("XLICSE", "XL Insurance Company SE", or "the Company"). The report is available for [download](#) here.

Unless otherwise stated, all amounts in this report are presented in Swiss Francs ("CHF") being the reporting currency of the financial statements of XLICSE ZH.

Amounts shown in this report generally are disclosed in '000 CHF except for [appendix 1](#) which are displayed in CHF millions, with the consequence that the rounded amounts may not add up to the rounded total in all cases.

On 12 September 2018, XL Group Ltd ("XL"), the Company's previous ultimate parent, was acquired by AXA SA and became a fully-owned subsidiary of AXA. As a result of the merger, a new division, AXA XL, comprising of XL companies and certain existing AXA companies, was formed. XLICSE became a member of the AXA XL division. XL is domiciled in Bermuda and AXA is domiciled in France.

## Business activities

The principal activity of XLICSE is the transaction of general insurance 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.

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.

XL Insurance Company SE, Dublin, Zurich Branch, domiciled in Zurich, Switzerland, operates as the main insurance platform of AXA XL in Switzerland.

The Company was domiciled in the UK until 18 January 2019, when it redomesticated to Dublin, Ireland.

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

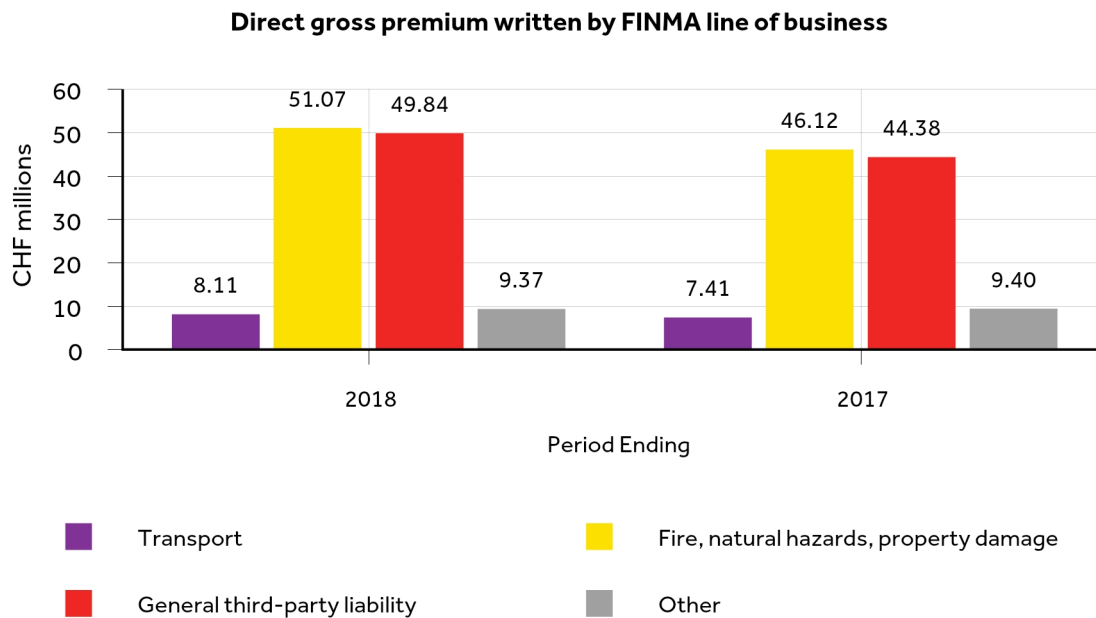
## Business performance

in CHF '000	Gross premium written	Net premium earned	Losses incurred	Acquisition costs and administrative expenses	Combined Ratio
<b>Total 2018</b>	<b>117,716</b>	<b>25,017</b>	<b>(11,345)</b>	<b>(13,742)</b>	<b>100%</b>
<b>Total 2017</b>	<b>108,216</b>	<b>28,732</b>	<b>(22,566)</b>	<b>(13,588)</b>	<b>126%</b>

The Branch generated CHF 118m of gross premium written in 2018 compared to CHF 108m in prior year. The increase is mainly due to growth initiatives and greater footprint in the Swiss commercial insurance market which materialised in most lines of business, with the largest increase in General third-party liability. Net premium earned decreased by CHF 4m to CHF 25m as a result of aligning cession ratios for all lines of business to XL Bermuda Ltd to 60%.

Losses in 2018 decreased by CHF 11m to CHF 11m mainly as a result of reserve releases on the assumed Group internal reinsurance agreements ("IGR") with XL Insurance Switzerland Ltd ("XLIS"), predominantly materialising in the Casualty line of business. This is partially offset by larger loss activity in the General third-party liability line of business from direct insurance.

Acquisition costs and administrative expenses remained stable compared to 2017, however increased from 47% to 55%, mainly as a result of the higher cession ratio and increased administration expenses.



Further details of the Branch's performance are provided in section [B](#) and the Annual Financial Statements in [appendix 2](#).

## A. Business activities

### A.1 Strategy, objectives and business segments

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 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 provide the best service to both brokers and clients.

The principal activity of XLICSE is the transaction of general insurance business. The Company provides the main insurance company platform to operate under the AXA XL brand within Europe and Asia Pacific.

XL Insurance Company SE, Dublin, Zurich Branch, domiciled in Zurich, Switzerland, operates as the main insurance platform of AXA XL in Switzerland. 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. The Branch offers its clients excess of loss, pro-rata and facultative insurance business both direct and through insurance brokers and fronting partners. In addition, the Branch assumes a series of Group-internal reinsurance contracts from XL Insurance Switzerland Ltd ("XLIS").

The Branch prudently manages insurance obligations through controlled risk taking, clear accountability and strong underwriting discipline.

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 fronting partners in the major locations of its (re)insurance clients and their respective (re)insurance risks. Apart from Switzerland, the Company operates branches in the rest of 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.

### A.2 Group information and group related transactions

XL Insurance Company SE was incorporated in the United Kingdom 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:

20 Gracechurch Street  
London  
EC3V 0BG  
United Kingdom

#### ***UK Regulators (until 18 January 2019)***

Prudential Regulatory Authority (PRA)  
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 January 18, 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

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

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



## ***Related party transactions***

The Branch actively monitors all related party transactions. The material transactions with the shareholder, 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.

## **A.3 Shareholder**

XLICSE ZH is a Branch of XLICSE Dublin, Ireland, which owns all capital rights.

## A.4 Major branches

XLICSE ZH belongs to the international Branch network of XLICSE Dublin, Ireland.

## A.5 External auditor

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

PricewaterhouseCoopers Ltd  
Birchstrasse 160  
Postfach  
8050 Zurich  
Switzerland

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

## A.6 Significant unusual events

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.

On 19 November 2018, the Company's rating along with other AXA XL core legal entities was 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.

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.



## B. Business performance

### B.1 Underwriting result

The table below provides the key performance indicators by FINMA line of business for both, direct and indirect business:

CHF '000	2018	2017	Change	Change in %
Gross premium written	117,716	108,216	9,500	9 %
Net earned premium	25,017	28,732	(3,715)	(13)%
Acquisition costs and administrative expenses for own account	(13,742)	(13,588)	(154)	1 %
Expenses for claims incurred for own account	(11,345)	(22,566)	11,221	(50)%
Net underwriting result	(70)	(7,422)	7,352	(99)%
Ratios				
Acquisition and administrative expense ratio	55%	47%	8 %	
Loss ratio	45%	79%	(34)%	
<b>Combined ratio</b>	<b>100%</b>	<b>126%</b>	<b>(26)%</b>	

#### B.1.1 Underwriting result Direct business

The tables below provide the key performance indicators by FINMA line of business:

CHF '000					2018
Line of business	Gross premium written	Net premium earned	Acquisition costs and administrative expenses	Net losses	Net underwriting result
Transport	8,110	2,120	(700)	(770)	650
Fire, natural hazards, property damage	51,070	10,160	(6,880)	(2,360)	920
General third-party liability	49,840	10,500	(4,660)	(12,390)	(6,550)
Other	9,370	2,350	(1,780)	(1,870)	(1,300)
<b>Total 2018</b>	<b>118,390</b>	<b>25,130</b>	<b>(14,020)</b>	<b>(17,390)</b>	<b>(6,280)</b>

CHF '000					2,017
Line of business	Gross premium written	Net premium earned	Acquisition costs and administrative expenses	Net losses	Net underwriting result
Transport	7,410	2,400	(700)	(1,080)	620
Fire, natural hazards, property damage	46,120	12,290	(5,370)	(6,570)	350
General third-party liability	44,380	10,150	(4,990)	(6,470)	(1,310)
Other	9,400	3,120	(1,880)	(2,600)	(1,360)
<b>Total 2017</b>	<b>107,310</b>	<b>27,960</b>	<b>(12,940)</b>	<b>(16,720)</b>	<b>(1,700)</b>

## B.1.2 Underwriting result Indirect business

The tables below provide the key performance indicators by FINMA line of business:

CHF '000

2018

Line of business	Gross premium written	Net premium earned	Acquisition costs and administrative expenses	Net losses	Net underwriting result
Marine, aviation, transport	(10)	—	—	730	730
Property	(300)	(180)	100	640	560
Casualty	(340)	80	110	4,700	4,890
Miscellaneous	(30)	(10)	10	(30)	(30)
<b>Total 2018</b>	<b>(680)</b>	<b>(110)</b>	<b>220</b>	<b>6,040</b>	<b>6,150</b>

CHF '000

2,017

Line of business	Gross premium written	Net premium earned	Acquisition costs and administrative expenses	Net losses	Net underwriting result
Marine, aviation, transport	(70)	(30)	(20)	(590)	(640)
Property	780	460	(360)	(1,970)	(1,870)
Casualty	770	530	(290)	(3,340)	(3,100)
Miscellaneous	(570)	(200)	30	60	(110)
<b>Total 2017</b>	<b>910</b>	<b>760</b>	<b>(640)</b>	<b>(5,840)</b>	<b>(5,720)</b>

## B.1.3 Comments on underwriting result

### Combined Direct and Indirect underwriting result:

The Branch generated CHF 118m of gross premium written compared to CHF 108m in the prior year. The increase is mainly due to growth initiatives and greater footprint in the Swiss commercial insurance market which materialised in most lines of business, with the largest increase in General third-party liability.

Net premium earned decreased by CHF 4m to CHF 25m as a result of aligning cession ratios for all lines of business to XL Bermuda Ltd to 60%.

Acquisition costs and administrative expenses remained stable compared to 2017, however increased from 47% to 55%, mainly as a result of the higher cession ratio and increased administration expenses.

Losses in 2018 amount to CHF 11m, compared to CHF 23m in the prior year, mainly as a result of material reserve releases from Group-internal reinsurance contracts assumed from XLIS (Indirect business), partially offset by higher losses in Direct business. The combined ratio for 2018 is 100% compared to 126% in the prior that was impacted by higher attritional losses on the Direct business as well as unfavorable loss experience on the assumed IGR's.

Further details on the quantitative performance are included in [appendix 1](#).

### Direct underwriting result:

Premium and acquisition costs and administrative expenses follow the comments provided above.

Net losses in 2018 amount to CHF 17.4, compared to CHF 16.7 in the prior year, with the loss ratio increasing from 60% in the prior year to 69% in 2018. The increase was mainly due to some larger losses in General third-party liability, partially offset by a favorable loss ratio in the Fire, natural hazards, property damage and Transport lines of business.

The combined ratio for 2018 is 125% compared to 106% in the prior.

### Indirect underwriting result:

The indirect business consists of the various assumed IGR's from XL Insurance Switzerland Ltd. With the subject business of XLIS being in run-off, results reported as indirect business are mainly related to favorable or unfavorable loss developments that may add considerable volatility to the net result of the Branch. 60% of the assumed result is retroceded to XL Bermuda Ltd.

2018 was characterized by net reserve releases in the amount of CHF 6.0m mainly resulting from the Casualty line of business, whereas in the prior year XLICSE ZH had to report CHF 5.8m unfavorable loss experience across most lines.

## B.2 Investment income and expenses

Investment Income				2018
CHF '000	Income	Realized gains	Unrealized gains	Total
Fixed income securities	3,629	69	82	3,780
<b>Total</b>	<b>3,629</b>	<b>69</b>	<b>82</b>	<b>3,780</b>

				2017
CHF '000	Income	Realized gains	Unrealized gains	Total
Fixed income securities	2,742	92	46	2,880
<b>Total</b>	<b>2,742</b>	<b>92</b>	<b>46</b>	<b>2,880</b>

The investment income amounts to CHF 3.8m compared to CHF 2.9m in 2017. The increase is mainly driven by higher interest income generated on fixed income securities following the higher average invested assets under management compared to 2017. The investment portfolio of the Branch has an average rating of AA, being highly secure and liquid. XLICSE ZH holds fixed income portfolios, which broadly correspond to the respective liabilities of the Branch, mainly held in CHF, USD and EUR portfolios. All assets are pledged for tied-asset purposes to fulfill Swiss regulatory requirements.

Investment Expenses				2018
CHF '000	Expenses	Realized losses	Unrealized losses	Total
Fixed income securities	(562)	(571)	(1,430)	(2,563)
<b>Total</b>	<b>(562)</b>	<b>(571)</b>	<b>(1,430)</b>	<b>(2,563)</b>

				2017
CHF '000	Expenses	Realized losses	Unrealized losses	Total
Fixed income securities	(454)	(203)	(3,256)	(3,913)
<b>Total</b>	<b>(454)</b>	<b>(203)</b>	<b>(3,256)</b>	<b>(3,913)</b>

The investment expenses amount to CHF 2.6m compared to CHF 3.9m in 2017. The decrease is mainly driven by incurring lower unrealised losses predominantly on USD denominated fixed-income securities after the rebalancing of the portfolio by selling parts of USD securities and increasing EUR and CHF exposures.

The Branch has recognized no profits or losses in the Branch capital.

### B.3 Other income and expenses

CHF '000	2018	2017	Change	Change in %
Other income	1,277	1,677	(400)	(24)%
Other expenses	(134)	(2,840)	2,706	(95)%
<b>Total</b>	<b>1,143</b>	<b>(1,163)</b>	<b>2,306</b>	

Other income amounts to CHF 1.3m in 2018 compared to CHF 1.7m in 2017. The decrease of CHF 0.4m mainly relates to lower fee income received, partially offset by CHF 0.2m realised FX gains in 2018.

Other expenses have decreased by CHF 2.7 to CHF 0.1m in 2018, mainly related to prior year's FX losses in the amount of CHF 2.7m.

# Glossary

ACPR	Autorité de Contrôle Prudentiel et de Résolution
ALM	Asset-Liability Management
AXA	AXA SA
AXA XL	Property, casualty, specialty and reinsurance division of AXA
CBI	Central Bank of Ireland
FCA	Financial Conduct Authority
FCR	Financial Condition Report
FED	United States Federal Reserve
FINMA	Swiss Financial Market Supervisory Authority
FX	Foreign Exchange
GPW	Gross premium written
IGR	Intra-group reinsurance
PRA	Prudential Regulatory Authority
P&C	Property & Casualty
PwC	PricewaterhouseCoopers Ltd
SFCR	Solvency and Financial Condition Report
UK	United Kingdom
XL	XL Group Ltd
XLB	XL Bermuda Ltd
XLICSE	XL Insurance Company SE, Dublin
XLICSE ZH	XL Insurance Company SE, Dublin, Zurich Branch
XLIS	XL Insurance Switzerland Ltd

## Appendices

Total			Direct Swiss business								Indirect business							
CHF millions			Transport		Fire, natural hazards, property damage		General third-party liability		Other		Marine, aviation, transport		Property		Casualty		Miscellaneous	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Gross premiums	108.22	117.72	7.41	8.11	46.12	51.07	44.38	49.84	9.40	9.37	(0.07)	(0.01)	0.78	(0.30)	0.77	(0.34)	(0.57)	(0.03)
Reinsurers' share of gross premiums	(79.75)	(91.78)	(5.01)	(5.85)	(33.58)	(39.90)	(34.39)	(39.22)	(6.23)	(7.21)	0.04	0.01	(0.47)	0.18	(0.46)	0.20	0.34	0.02
Premiums for own account	28.46	25.93	2.41	2.26	12.54	11.17	9.99	10.62	3.17	2.15	(0.03)	—	0.31	(0.12)	0.31	(0.13)	(0.23)	(0.01)
Change in unearned premium reserves	(1.63)	(4.10)	(0.19)	(0.35)	(0.28)	(2.96)	(1.74)	(1.16)	(0.41)	(0.03)	—	—	0.39	(0.14)	0.56	0.53	0.04	—
Reinsurers' share of change in UPR	1.90	3.19	0.19	0.21	0.03	1.95	1.90	1.04	0.37	0.23	—	—	(0.23)	0.08	(0.34)	(0.32)	(0.02)	—
Premiums earned for own account	28.73	25.02	2.40	2.12	12.29	10.16	10.15	10.50	3.12	2.35	(0.03)	—	0.46	(0.18)	0.53	0.08	(0.20)	(0.01)
Other income from insurance business	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total income from underwriting business	28.73	25.02	2.40	2.12	12.29	10.16	10.15	10.50	3.12	2.35	(0.03)	—	0.46	(0.18)	0.53	0.08	(0.20)	(0.01)
Payments for insurance claims (gross)	(53.96)	(63.29)	(31.50)	(14.69)	(10.29)	(26.71)	(6.36)	(12.36)	(0.93)	(4.59)	(0.58)	(0.02)	(2.61)	(0.22)	(1.65)	(4.61)	(0.03)	(0.09)
Reinsurers' share of payments for insurance claims	35.07	44.88	20.22	11.29	7.00	18.57	4.49	7.85	0.44	4.20	0.35	0.01	1.57	0.13	0.99	2.77	0.01	0.05
Change in technical provisions	(32.86)	(8.16)	21.68	10.44	(17.04)	(4.22)	(20.99)	(31.21)	(6.62)	(3.21)	(0.88)	1.84	(2.30)	1.83	(6.82)	16.35	0.11	0.01
Reinsurers' share of change in technical provisions	29.19	15.23	(11.49)	(7.81)	13.76	10.01	16.40	23.34	4.51	1.72	0.52	(1.10)	1.38	(1.10)	4.14	(9.81)	(0.04)	(0.01)
Expenses for insurance claims for own account	(22.57)	(11.34)	(1.08)	(0.77)	(6.57)	(2.36)	(6.47)	(12.39)	(2.60)	(1.87)	(0.59)	0.73	(1.97)	0.64	(3.34)	4.70	0.06	(0.03)
Acquisition and administration expenses	(31.84)	(34.38)	(1.99)	(2.13)	(12.14)	(14.43)	(13.95)	(14.92)	(2.92)	(3.11)	(0.03)	—	(0.50)	0.10	(0.45)	0.11	0.14	0.01
Reinsurers' share of acquisition and admin. expenses	18.22	20.58	1.29	1.43	6.76	7.55	8.94	10.26	1.04	1.33	(0.01)	—	0.16	—	0.15	—	(0.11)	—
Acquisition and admin. expenses for own account	(13.62)	(13.80)	(0.70)	(0.70)	(5.37)	(6.88)	(4.99)	(4.66)	(1.88)	(1.78)	(0.02)	—	(0.36)	0.10	(0.29)	0.11	0.03	0.01
Total expenses from underwriting business	(36.18)	(25.14)	(1.78)	(1.47)	(11.95)	(9.24)	(11.48)	(17.05)	(4.48)	(3.65)	(0.63)	0.73	(2.31)	0.74	(3.63)	4.80	0.08	(0.02)
Investment income	2.88	3.78																
Investment expenses	(3.91)	(2.56)																
Net investment income	(1.03)	1.22																
Other financial income	—	—																
Other financial expenses	—	—																
Operating result	(8.93)	(0.35)																
Interest expenses for interest-bearing liabilities	—	—																
Other income	1.68	1.28																
Other expenses	(2.84)	(0.13)																
Extraordinary income/expenses	—	—																
Profit / loss before taxes	(10.09)	0.79																
Direct taxes	(0.10)	(0.09)																
Profit / (loss)	(10.19)	0.70																

## **Appendix 2 Audited annual financial statements and report of the statutory auditor**





# **XL Insurance Company SE, Dublin, Zurich Branch**

**AN AXA SA GROUP COMPANY**

## **Financial Statements**

**Year Ended**

**31 December 2018**



# ***Report of the independent auditor to the General Manager of XL Insurance Company SE, Dublin, Zurich Branch Zurich***

## ***Report on the audit of the financial statements***

As a federally-supervised audit firm, we have audited the accompanying financial statements of XL Insurance Company SE, Dublin, Zurich Branch which comprise the balance sheet as at December 31, 2018, and the income statement and notes for the year then ended, in line with Article 28 para. 2 of the Insurance Supervision Act (ISA) and with reference to the FINMA guidelines "Preparation and audit of the financial statements of branch offices of foreign insurance companies (WNL)".

The financial statements have been prepared by the General Manager on the basis of the financial reporting provisions of the Swiss Code of Obligations and the requirements of the supervisory law.

### ***General Manager's Responsibility for the Financial Statements***

The General Manager is responsible for the preparation of these financial statements in accordance with the financial reporting provisions of the Swiss Code of Obligations and the requirements of the supervisory law – in particular the Financial Market Supervision Act (FINMASA), the Insurance Supervision Act (ISA), the Insurance Supervision Ordinance (ISO) and the FINMA Insurance Supervision Ordinance (ISO-FINMA) as well as with the FINMA guidelines "Preparation and audit of the financial statements of branch offices of foreign insurance companies (WNL)" –, and for such internal controls as the General Manager determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the regulatory requirements set out in Article 28 para. 2 ISA, the WNL and Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the branch office's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the branch office's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the General Manager, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### ***Opinion***

In our opinion, the financial statements of XL Insurance Company SE, Dublin, Zurich Branch as of and for the year ended December 31, 2018 are prepared, in all material respects, in accordance with the financial reporting provisions of the Swiss Code of Obligations, the requirements of supervision law (in particular FINMASA, ISA, ISO and ISO-FINMA) and with the WNL.

### ***Basis of Accounting***

Without modifying our opinion, we note that the financial statements of XL Insurance Company SE, Dublin, Zurich Branch are prepared on the basis of the accounting principles specified above. The financial statements are prepared to comply with the requirements of Article 25 para. 4 ISA. As a result, the financial statements may not be suitable for another purpose.

PricewaterhouseCoopers AG

Nebojsa Baratovic

Audit expert  
Auditor in charge

Nicolas Juillerat

Audit expert

Zurich, April 29, 2019

Enclosures:

- Financial statements (balance sheet, income statement and notes)



## Balance Sheet

	Notes	31 Dec 2018 CHF	31 Dec 2017 CHF
<b>Assets</b>			
Fixed income securities		238'100'068	222'422'421
<b>Total investments</b>		<b>238'100'068</b>	<b>222'422'421</b>
Cash and cash equivalents	1)	8'436'304	8'096'139
Reinsurer's share in insurance technical provisions	3)	140'997'528	122'624'538
Receivables from insurance business	2)	71'918'700	68'844'713
Other receivables		0	0
Accrued income and prepaid expenses		2'467'192	2'334'901
<b>Total other assets</b>		<b>223'819'724</b>	<b>201'900'291</b>
<b>Total assets</b>		<b>461'919'792</b>	<b>424'322'712</b>
<b>Liabilities</b>			
Technical Provision	3)	203'049'016	190'749'541
Payables from insurance business	4)	75'084'495	108'401'813
Other liabilities	5)	117'058'877	86'321'757
Accrued expenses and deferred income		1'067'114	831'590
<b>Total liabilities</b>		<b>396'259'502</b>	<b>386'304'700</b>
<b>Branch capital</b>	6)	<b>65'660'290</b>	<b>38'018'011</b>
Branch capital and retained earnings carried forward		38'018'011	10'409'636
Transfers to headoffice in current year		0	0
Transfers from headoffice in current year		24'899'568	37'328'100
Profit / (loss) of the year		2'742'711	-9'719'725
<b>Total branch capital</b>		<b>65'660'290</b>	<b>38'018'011</b>
<b>Total liabilities and branch capital</b>		<b>461'919'792</b>	<b>424'322'712</b>



## Profit and loss account

	Notes	FY 2018 CHF	FY 2017 CHF
Gross written premium		117'716'000	108'215'834
Premium ceded to reinsurer		-91'784'597	-79'752'585
<b>Premium written for own account</b>		<b>25'931'403</b>	<b>28'463'249</b>
Change in provision for unearned premiums		-4'103'032	-1'629'138
Share of reinsurer in change in provision for unearned premiums		3'188'484	1'897'958
<b>Earned premium for own account</b>	7)	<b>25'016'855</b>	<b>28'732'069</b>
<b>Total income out of insurance business</b>		<b>25'016'855</b>	<b>28'732'069</b>
Claims paid		-63'294'093	-53'962'366
Share of reinsurer in claims paid		45'381'728	35'067'553
Change in reserves for losses and loss expenses		-8'160'163	-32'861'481
Share of reinsurer in change in reserves for losses and loss expenses		14'727'901	29'189'852
<b>Expenses for claims incurred for own account</b>	8)	<b>-11'344'627</b>	<b>-22'566'442</b>
Acquisition costs and administrative expenses		-34'319'840	-31'809'161
Share of reinsurer in acquisition costs and administrative expenses		20'577'885	18'220'932
<b>Acquisition costs and administrative expenses for own account</b>	9)	<b>-13'741'955</b>	<b>-13'588'229</b>
<b>Total expenses from insurance business</b>		<b>-25'086'582</b>	<b>-36'154'671</b>
Investment income	10)	3'780'177	2'879'214
Investment expenses	11)	-2'562'927	-3'912'541
<b>Investment result</b>		<b>1'217'250</b>	<b>-1'033'327</b>
<b>Operating result</b>		<b>1'147'523</b>	<b>-8'455'929</b>
Other income		1'277'265	1'677'418
Other expenses		-134'188	-2'840'720
<b>Result before tax</b>		<b>2'290'600</b>	<b>-9'619'230</b>
Direct taxes		452'111	-100'495
<b>Result</b>		<b>2'742'711</b>	<b>-9'719'725</b>



## Notes to the financial statements

### Basis of preparation and summary of significant accounting policies

The financial statements as of 31 December 2018 of XL Insurance Company SE, Dublin, Zurich Branch ("XLICSE ZH" or the "Branch") have been prepared in accordance to the requirements by the 32nd title of the Swiss Code of Obligations and with additional requirements defined by FINMA (art. 5-6a AVO-FINMA, valid as of 15 December, 2015 - Preparation and audit of the financial statements of branch offices of foreign insurance companies ("WNL")). The valuation principles applied for each line item are further specified in the respective sections below.

### Investments

Securities are recorded not higher than according to the "Amortised Cost Scientific Method". Any further risk to the intrinsic value is taken into account by means of depreciation on individual bonds.

### Receivables and payables

Receivables and payables are recorded with their nominal value.

### Technical provisions

Technical provisions are calculated so as to match the expected liabilities to the insureds. The calculation formulae are laid down in the business plan and have been approved by the supervisory authorities.

### FX Rates

The financial statements of XLICSE ZH are disclosed in Swiss Francs ("CHF"). Expenses and income in foreign currency are calculated using respective foreign exchange rates at the transaction date.

#### 1) Cash pool facility

The Branch is part of AXA XL's notional cash pool facility and is thereby provided with additional liquidity. The facility is provided by Bank Mendes Gans, a subsidiary of ING and a market leader in notional cash pooling.

#### 2) Receivables from re/insurance business

	31 Dec 2018	31 Dec 2017
	CHF	CHF
Receivables from policyholders	8'859'082	15'710'845
Receivables from agents and brokers	17'265'320	12'636'975
Receivables from external re/insurance companies	6'227'252	4'749'898
Receivables from internal re/insurance companies	39'567'046	35'746'995
<b>Total</b>	<b>71'918'700</b>	<b>68'844'713</b>

#### 3) Technical Provision

		31 Dec 2018	31 Dec 2017
		CHF	CHF
Reserve for gross unearned premiums	Direct	50'691'641	46'192'075
	Assumed	2'689'032	3'085'567
Reserve for ceded unearned premiums		-34'927'740	-31'726'423
Net reserve for unearned premiums		18'452'933	17'551'218
Reserve for gross claims outstanding	Direct	161'569'959	134'505'689
	Assumed	-11'901'616	6'966'211
Reserve for ceded claims outstanding		-106'069'788	-90'898'115
Net reserve for claims outstanding		43'598'555	50'573'784
<b>Total</b>		<b>62'051'488</b>	<b>68'125'002</b>

<b>4) Payables from re/insurance business</b>	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>
	CHF	CHF
Payables to external re/insurance companies	0	0
Payables to internal re/insurance companies	75'084'495	108'401'813
<b>Total</b>	<b>75'084'495</b>	<b>108'401'813</b>

<b>5) Other liabilities</b>	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>
	CHF	CHF
Other liabilities to internal parties	107'235'092	75'028'552
Other liabilities to external parties	76'695	814'342
Unrealized foreign exchange gains	9'747'090	10'478'862
<b>Total</b>	<b>117'058'877</b>	<b>86'321'757</b>

<b>6) Branch capital</b>	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>
	CHF	CHF
<b>Retained earnings</b>	<b>38'018'011</b>	<b>10'409'636</b>
Transfers to headoffice in current year	0	0
Transfers from headoffice in current year	24'899'568	37'328'100
Profit / (loss) of the year	2'742'711	-9'719'725
<b>Q4 2018</b>	<b>65'660'290</b>	<b>38'018'011</b>

As the Branch is a member of XL Insurance Company SE, Dublin, Ireland, the amount reflected in the branch capital is the capital provided by the home office of XL Insurance Company SE, Dublin.

<b>7) Earned premium for own account</b>		<b>FY 2018</b>	<b>FY 2017</b>
		CHF	CHF
Gross written premium	Direct	118'395'345	107'306'261
	Assumed	-679'345	909'574
Premium ceded to reinsurer		-91'784'597	-79'752'585
Net written premiums		25'931'403	28'463'249
Change in unearned premium reserve	Direct	-4'499'567	-2'614'971
	Assumed	396'535	985'833
Ceded change in unearned premium reserve		3'188'484	1'897'958
Net change in unearned premium reserve		-914'548	268'820
<b>Total</b>		<b>25'016'855</b>	<b>28'732'069</b>

<b>8) Expenses for claims incurred for own account</b>		<b>FY 2018</b>	<b>FY 2017</b>
		CHF	CHF
Gross claims paid	Direct	-58'357'956	-49'084'122
	Assumed	-4'936'138	-4'878'244
Ceded claims paid		45'381'728	35'067'553
Net paid losses and loss expenses		-17'912'366	-18'894'813
Change in gross reserves for losses and loss expenses	Direct	-28'196'833	-22'975'760
	Assumed	20'036'670	-9'885'721
Change in ceded reserves for losses and loss expenses		14'727'901	29'189'852
Net change in reserves for losses and loss expenses		6'567'738	-3'671'629
<b>Total</b>		<b>-11'344'628</b>	<b>-22'566'442</b>

9) Acquisition costs and administrative expenses for own account		FY 2018	FY 2017
		CHF	CHF
Gross acquisition costs	Direct	-14'135'529	-12'578'078
	Assumed	217'946	-295'611
Reinsurer's share of acquisition costs		20'577'885	18'220'932
Net acquisition costs		6'660'301	5'347'243
Administrative expenses		-20'276'247	-18'821'222
Audit fees		-126'010	-114'250
<b>Total</b>		<b>-13'741'955</b>	<b>-13'588'229</b>

The average number of full time equivalents employed by the Branch for FY 2018 and FY 2017 is less than ten.

10) Investment income				FY 2018
	Income	Realized gains	Unrealized gains	Total
	CHF	CHF	CHF	CHF
Fixed income securities	3'628'989	68'841	82'346	3'780'177
<b>Total</b>	<b>3'628'989</b>	<b>68'841</b>	<b>82'346</b>	<b>3'780'177</b>

				FY 2017
	Income	Realized gains	Unrealized gains	Total
	CHF	CHF	CHF	CHF
Fixed income securities	2'741'676	91'964	45'574	2'879'214
<b>Total</b>	<b>2'741'676</b>	<b>91'964</b>	<b>45'574</b>	<b>2'879'214</b>

11) Investment expenses				FY 2018
	Expenses	Realized losses	Unrealized losses	Total
	CHF	CHF	CHF	CHF
Fixed income securities	-561'965	-570'678	-1'430'283	-2'562'927
<b>Total</b>	<b>-561'965</b>	<b>-570'678</b>	<b>-1'430'283</b>	<b>-2'562'927</b>

				FY 2017
	Expenses	Realized losses	Unrealized losses	Total
	CHF	CHF	CHF	CHF
Fixed income securities	-454'179	-202'792	-3'255'569	-3'912'541
<b>Total</b>	<b>-454'179</b>	<b>-202'792</b>	<b>-3'255'569</b>	<b>-3'912'541</b>