AXA XL Insurance Company UK Limited

An AXA S.A. Company

Solvency and Financial Condition Report

Year Ended

31 December 2023

Contents

Directors' Statement

The Board of Directors acknowledge their responsibility for ensuring that this Solvency and Financial Condition Report (SFCR) has been properly prepared in all material respects in accordance with the Prudential Regulatory Authority rules and Solvency II regulations as applicable to the Company.. 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, AXA XL Insurance Company UK Limited has complied in all material respects with the requirements of the Prudential Regulatory Authority rules and Solvency II regulations as applicable to the Company.

(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

S McGovern

Chief Executive Officer

4 April 2024

M Cummings

Director

4 April 2024

Independent Auditors' Report to the Directors

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

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

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2023:

- The 'Valuation for Solvency Purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2023 **('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 'Business and Performance', 'System of Governance' and 'Risk Profile' elements of the Solvency and Financial Condition Report;

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

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

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of AXA XL Insurance Company UK Limited as at 31 December 2023 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 *(Revised) Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks'* and 'ISA (UK) 805 *(Revised) Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement'*. Our responsibilities under those standards are further described in the *Auditor's 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

In auditing the relevant elements of the Solvency and Financial Condition Report, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- confirming our understanding of management's going concern assessment process and obtaining management's assessment which covers the period to 30 September 2025;

- verifying the accuracy and reasonableness of management's analysis by testing the inputs, assessing key assumptions and checking the clerical accuracy of the models used;

- evaluating the solvency and liquidity position of the Company by reviewing base case solvency and liquidity projections that take into account future funding requirements for the Company as well as stress scenarios prepared by management;

- evaluating the reasonableness of management's forecast analysis to understand the severity of downside scenarios that would result in the elimination of solvency and liquidity headroom and assessing the plausibility of available management actions to mitigate the impact of such key risks;
- performing enquiries of management and those charged with governance to identify risks or events that may impact the Company's ability to continue as a going concern. We also reviewed management's assessment approved by the Board, minutes of meetings of the Board and made enquiries as to any subsequent events that may have a material impact on the business; and
- assessing the appropriateness of the going concern disclosures by comparing the disclosures with management's assessment and for compliance with the relevant reporting requirements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period to 30 September 2025.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. 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.

Emphasis of matter – basis of accounting and restriction on use

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections 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 ('PRA'). As a result, the Solvency and Financial Condition Report may not be suitable for another purpose.

This report is made solely to the Directors of the Company in accordance with Rule 2.1 of the External Audit Part of the PRA Rulebook for Solvency II firms. Our work has been undertaken so that we might report to the Directors those matters that we have agreed to state to them in this report and for no other purpose.

Our opinion is not modified in respect of these matters.

Other information

The Directors are responsible for the Other Information contained within the Solvency and Financial Condition Report.

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.

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 course of 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 this gives rise to a material misstatement in the relevant elements of the Solvency and Financial Condition Report themselves. 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.

In preparing the Solvency and Financial Condition Report, the Directors are responsible for assessing the Company's ability to continue in operation, disclosing as applicable, matters related to its ability to continue in operation and using the going concern basis of accounting unless the Directors either intend to cease to operate the Company, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's 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 relevant elements of the Solvency and Financial Condition Report are prepared, in all material respects, with the 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 auditor's 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the relevant laws and regulations related to elements of the Solvency II regulations, company law and tax legislation, and the financial reporting framework. Our consideration of other laws and regulations that may have a material effect on the relevant elements of the SFCR included authorisation conditions and regulatory requirements of the regulators of the regulated business carried out by the Company which include the PRA and the Financial Conduct Authority ('FCA').

- We understood how AXA XL Insurance Company UK Limited is complying with those frameworks by making enquiries of management, internal audit and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and the regulatory bodies, reviewed minutes of the Board and its committees and gained an understanding of the Company's approach to governance.

- We assessed the susceptibility of the relevant elements of the Company's SFCR to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the Company, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, including complex transactions, performance targets, external pressures and the impact these have on the control environment and their potential to influence management to manage earnings or influence the perceptions of investors and stakeholders. The fraud risk was considered to be higher within the valuation of gross Solvency II Technical Provisions.

  Our audit procedures included:

  - Reviewing accounting estimates for evidence of management bias. We assessed if there were any indicators of management bias in the valuation of Solvency II Technical Provisions, which included the support of our actuaries;

  - Evaluating the business rationale for significant and/or unusual transactions; and

  - In addition, we performed analytical review procedures to assess for unusual movements throughout the year. Our audit procedures also incorporated unpredictability into the nature, timing and extent of our testing.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations; enquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees at the company level; enquiring about the Company's methods of enforcing and monitoring compliance with such policies; and inspecting significant correspondence with the FCA and the PRA.

- The Company operates in the insurance industry which is a highly regulated environment. As such the Engagement Partner considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities**.**This description forms part of our auditor's Report on the Solvency and Financial Condition Report.

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 required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of AXA XL Insurance Company UK Limited'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.

DocuSigned by:

Ernst & Young LLP

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Ernst & Young LLP

London

4 April 2024

Summary

Unless otherwise stated,all amounts in this report are presented in thousands of Pound Sterling (£'000), with Sterling being the Company's reporting currency in the Financial Statements. This may result in a limited number of immaterial rounding differences in the report.

AXICL UK and AXA XL

AXA XL Insurance Company UK Limited (the Company or AXICL UK) is domiciled in the United Kingdom and is a member of AXA XL (the Division), which is a part of the AXA SA group of companies. AXA XL, through its subsidiaries and other participations is a global insurance and reinsurance group of companies, and other enterprises, situated around the world. AXA is a French Societe Anonyme (AXA SA or the Group) and is domiciled in France.

The strategy and focus of the Division continues to be the pursuit of sustainable growth through its commercial Speciality, Property & Casualty and Reinsurance business lines offered globally, and contributing to AXA's strategic objectives by strengthening underwriting performance and growing cash-flows. AXA's purpose is to act for human progress by protecting what matters.

AXA will publish its Group Solvency and Financial Condition Report in May 2024, and a copy will be available on the AXA website (https://www.axa.com/). Any references to AXA group refer to AXA SA together with its direct and indirect subsidiaries.

Business and performance

The operating entities of AXA XL underwrite both insurance and reinsurance business within its Property and Casualty (P&C), Speciality and Reinsurance business lines.

The Company's strategy and focus is to continue the pursuit of sustainable and disciplined growth through these business lines, and provides AXA XL's customers with a viable London Market alternative to its Lloyd's of London operations. By utilising effective distribution channels, the Company continues to offer a suite of products and services to meet the evolving needs of its clients, and during 2023 contributed to AXA Group's 'Driving Progress 2023' initiatives. The Company is an important part of AXA's business model to underwrite UK based commercial risks and partner with our clients.

AXA SA has released the next strategic plan called 'Unlock the Future' for 2024 to 2026 details of which can be found on the AXA Group website here.

The Company operates primarily in the UK, but also writes business in North and South America, Middle East, Africa and the Asia-Pacific region.

Gross Written Premiums have grown by 16% year on year at £1,143m (2022: £984m), with growth achieved through significant rate increases across most lines of business .

The company reported a £51m profit on ordinary activities before taxation for the year (2022: loss £115m). In 2023, Catastrophe events were within expected ranges and large losses were favourable to plan. In aggregate the Company was impacted by adverse prior year development circa £17m partially offset by favourable investment performance of £27m in the year (2022: loss of £56m) driven by mark-to-market adjustments leading to unrealised gains.

Further details of the Company's business and performance are provided in Section A below. Please also refer to AXA's Annual Report for the year ended 31 December 2023 for additional information on AXA S.A.'s performance. A link to AXA's 2023 Annual Report is here.

System of governance

The 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.

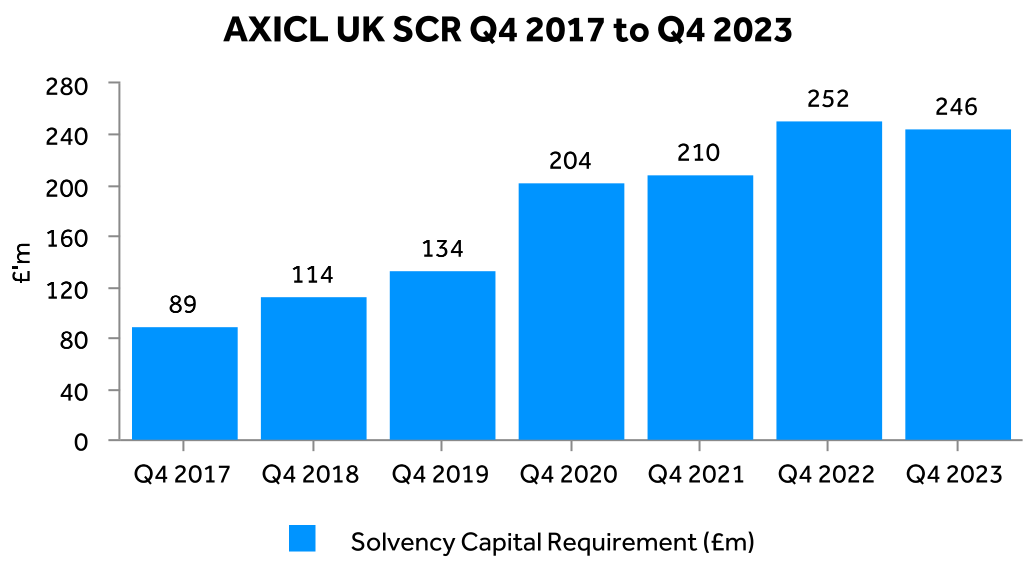
The Board is responsible for the internal control framework and the Company operates a 'Three Lines of Defence' model where (1) the business, (2) risk management and compliance and (3) independent (internal and external) audit work together to ensure that risk management is effective.

The risk management 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. This risk management framework establishes the 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 provided by risk management "Centres of Excellence" in the achievement of its risk management objectives.

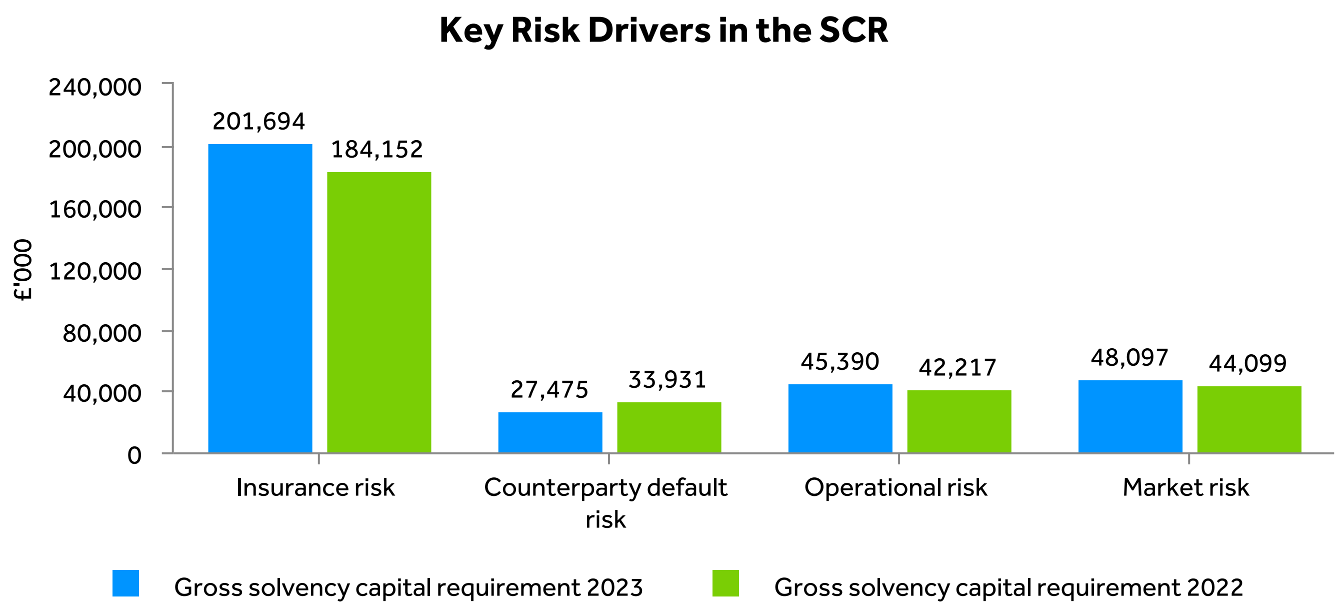
Further details of the Company's Systems of Governance are provided in Section B below.

Risk profile

The SCR has continued to increase since Q4 2017 as a result of increased business volumes written onto the Company. The SCR for 2023 has come down due to the provision of loss absorbing capacity of deferred tax (LACDT) of £25.2m (2022: £Nil) against the SCR. A summary of the rising SCR amounts since 2017 are shown in the chart below:



The main Solvency Capital Requirement (SCR) modules for 2023 and 2022 are shown below (excluding diversification):



The risk profile of AXICL UK, as a non-life insurance company, is dominated by underwriting risk. Underwriting and loss experience is reviewed regularly for, among other things, loss trends, emerging exposures, changes in the regulatory or legal environment as well as the efficacy of policy terms and conditions. Underwriting risk is also identified through:

- Business planning and forecasting exercises;
- Underwriting processes (including guidelines and escalation authorities);
- Reserving and claims processes;
- Risk assessment processes;

- The use of Realistic Disaster Scenarios and other scenarios; and
- Independent underwriting peer reviews.

Underwriting risk is made up of Premium, Reserve and Catastrophic risk. Premium risk is driven by the volume of business earned during the year or expected to be earned in the next 12 months and also what lines of business the company will write. Reserve risk is purely driven by the claims provision of the technical provision and the Catastrophic risk is made up of all the Natural or Man-Made risk that the company has insured. See section E2.2 for further breakdown

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

Counterparty risk arises from balances AXICL UK is owed from reinsurance providers and premium debtors. The decrease is due to a decrease in reinsurance recoverables and decrease in debtors over 90 days on the Solvency II balance sheet.

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

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

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 AXICL UK is exposed to.

The Company considers its exposure to Climate Risk as significant and categorises this exposure in three main areas:

- Physical Risks - weather related Catastrophe events;
- Transition Risks - financial risks which could arise from moving to a lower-carbon economy; and
- Liability and Litigation Risks - which might arise as parties who have suffered loss or damage from climate change, and then seek to recover losses.

Valuation for solvency purposes

The Company is required to measure its assets and liabilities according to the Valuation and Technical Provisions Parts of the PRA Rulebook for Solvency II firms and the Solvency II Delegated Regulation (as implemented in the UK). Following Brexit and the UK's decision to leave the European Union, the European Solvency II Directive and its associated rules, regulations and guidelines no longer apply although there are similarities between the regulations with both regimes looking for the insurance industry to adopt dynamic risk-based approaches based on economic principles that measure assets and liabilities to appropriately align insurers' risks with the capital they hold to safeguard policyholders.

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.

Differences between Shareholder's Equity and Solvency II Own Funds	**2023**	**2022**
	£'000	**£'000**
Shareholder's equity as shown in the financial statements	368,769	331,269
Solvency II valuation adjustments on:		
Assets	(458,743)	(405,596)
Technical provisions	244,734	165,955
Other liabilities	262,767	259,450
Solvency II Own Funds	417,527	351,078

Valuation adjustments on assets

Valuation adjustments on assets relate primarily to removal of deferred acquisition costs and insurance and reinsurance receivables not yet due as these are taken into account in the valuation of technical provisions under Solvency II. No adjustments have been made to the valuation of investments for the purposes of Solvency II as they are already valued on a market consistent basis under UK GAAP.

Valuation adjustments on technical provision

Adjustments have been made to statutory technical provisions and reinsurance recoverables (consistent with the adjustments to valuation of assets) to reflect Solvency II valuation requirements. Solvency II requires the technical provisions ("claims provisions" plus "premium provisions") to be a best estimate of the current liabilities relating to insurance contracts, plus a risk margin. The best estimate liabilities are calculated as the discounted best estimate of all future cash flows relating to claim events prior to the valuation date, as well as the discounted best estimate of all future cash flows relating to future exposure arising from policies that the insurer is obligated to at the valuation date.

Valuation adjustment on other liabilities

Valuation adjustments to other liabilities relate primarily to adjustments to remove deferred acquisition costs payable in the financial statements (relating to reinsurance ceded) and insurance and reinsurance payables not yet due as these are taken into account in the valuation of reinsurance recoverables under Solvency II. There are no other contingent liabilities that require recognition as liabilities under Solvency II balance sheet.

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

The Company does not use the matching adjustment, volatility adjustment, transitional risk-free interest rate term structure or transitional deductions on technical provisions.

Capital management

The Board monitors the capital requirements of the Company and seeks to maintain an efficient capital structure consistent with the Company's risk profile and the regulatory and market requirements of its business. The Company holds a board approved buffer above the SCR of 30% (2022: 30%).

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

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

The Company operates within AXA XL's overall capital management process which is aligned to performance objectives and ensures that the Division is focused on the creation of value for shareholders. Several sources of capital are available to the Company and consideration is given to all sources of capital including reinsurance, when assessing its deployment and use of capital.

AXICL UK is subject to insurance solvency regulations (Solvency II) which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities. In accordance with these rules, the Company has embedded in its Capital Management Policy the necessary tests to ensure continuous and full compliance with such regulations.

The Solvency II Directive adopts a more dynamic risk-based approach and implements a non-zero failure regime. This is 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.

The Company's basic own funds consist of Tier 1 capital in 2023 (In 2022 the Tier 3 capital was £19.5m). There is no restriction to the own funds eligible to meet the SCR but only the Tier 1 capital is eligible to meet the MCR.

	2023	2022
	£'000	£'000
SCR	246,150	252,415
MCR	61,537	63,104
Total eligible own funds to meet the SCR	417,527	351,079
Total eligible own funds to meet the MCR	417,527	331,536
	%	%
Ratio of Eligible own funds to SCR	**169.6 %**	**139.1 %**
Ratio of Eligible own funds to MCR	**678.5 %**	**525.4 %**

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

The decrease in SCR year on year is circa £6m driven by several components of the SCR:

- Market Risk - Interest risk is higher due to higher yield rates experienced in the year, and spread risk is higher due to increase in investment assets during the year, compared to the previous period;
- Default Risk - Decrease in debtors due over 90 days and an decrease in reinsurance recoveries;
- Reserve Risk - Higher than 2022 due to an increase in current and historic losses, including an increase in General Liability risks. Catastrophe risk is also higher due to business expected to be underwritten in 2024 and the associated reinsurance protection.
- LACDT - Increase in the provision of the LACDT during the year.

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.

Significant Business or other events

Geopolitical risk and conflict

On 24 February 2022, Russia invaded Ukraine and the war between the two countries continues. In addition to the human toll and impact of the events on entities that have operations in Russia, Ukraine, or neighbouring countries (e.g. Belarus) or that conduct business with their counterparties, the war is affecting economic and global financial markets and exacerbating ongoing economic challenges, including issues such as higher inflation and global supply-chain disruption.

The ongoing conflict in Israel and Gaza, and subsequent regional impacts including but not limited to the Red Sea and international shipping, have further exacerbated these pressures.

During the year the Directors have been monitoring these situations closely to identify potential exposures arising out of underwriting but also to investments, operational issues including potential cyber attacks, impacts from sanctions and the Directors have considered expansion or changes to the conflicts. From a claims perspective AXICL UK is exposed to potential losses from its Aerospace and Marine lines of business. No increase in reserves was made in 2023 but a significant amount of uncertainty remains due to a large number of potential outcomes regarding the length of both conflicts, sanctions, exposures, coverages, event aggregation for reinsurance recovery and loss expectancy for example.

A. Business and Performance

A.1. Business

A.1.1 Name and legal form of the undertaking

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

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

A.1.2 Supervisory authorities

UK Regulators

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

Financial Conduct Authority ('FCA')
12 Endeavour Square
London E20 1JN
United Kingdom
Telephone: +(44) 20 7066 1000

Group Supervisor

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

A.1.3 External auditor

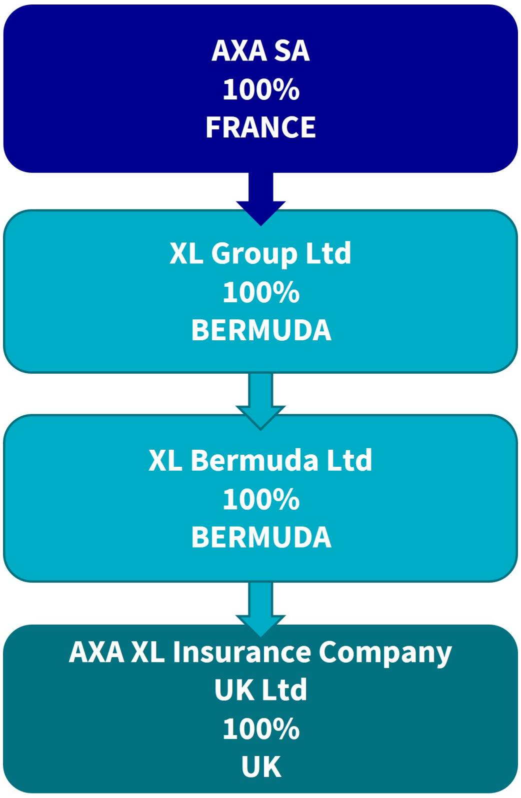
Ernst & Young LLP
25 Churchill Place
London
E14 5EY
United Kingdom
Telephone: +(44) 20 7951 2000

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

The Company's immediate parent is XL Bermuda Limited, a company incorporated in Bermuda, which holds 100% of the ownership interest and voting rights.

The Company's ultimate parent and controlling undertaking is AXA SA, a company incorporated in France. The Company consolidates its reporting into the group financial statements of AXA SA.

AXICL UK's position within the legal structure of the AXA SA Group can be seen from the structure chart below. The country of incorporation and percentages of ownership are included:



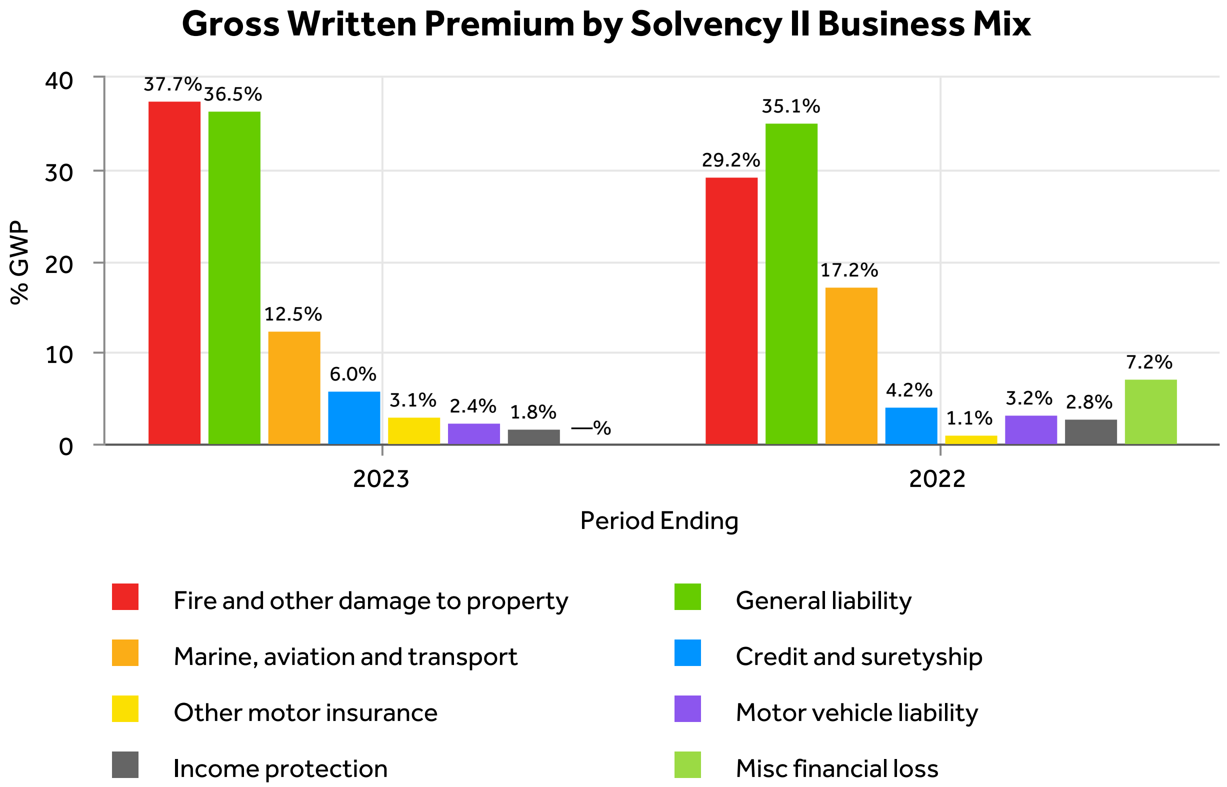
A.1.5 Related undertakings

AXICL UK has no investments in related undertakings.

A.1.6 Material lines of business and geographical areas

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

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



Gross Written Premiums by business mix

	2023	2022	Variance
Retail P&C	43 %	43 %	— %
Wholesale P&C	21 %	21 %	— %
Aero, Energy & Marine	16 %	18 %	(2)%
Specialty	18 %	17 %	1 %
North America P&C	2 %	1 %	1 %
	100 %	**100 %**	— %

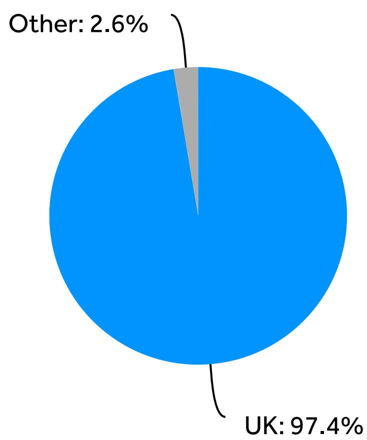
AXA XL manages its business units on a geographical and product basis with consideration towards legal entities. These groupings are mapped into Solvency II lines of business for regulatory reporting purposes. The target operating model for AXA XL has dual accountability for regions and the legal entities within those regions. Whilst AXA XL leadership will define the global strategy, the UK region (referred to as “UK & Lloyd’s”) will have primary accountability for the Profit & Loss account, headcount and the budget of entities within the region, which includes AXICL UK.

Underwriting business units are now grouped as follows:

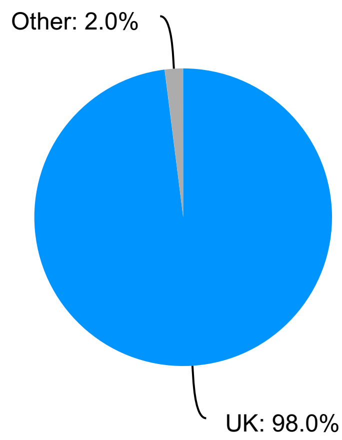
- UK Speciality (18%): Includes Fine Art, Specie, Accident & Health, Crisis Management, Equine & Livestock, Political Risk, Credit & Bond, International Financial Lines for Mergers & Acquisitions & Cyber and Structured Risk Solutions
- UK Wholesale (21%): Property and Casualty
- UK Retail (43%): Property, Casualty, Construction, Motor and Parametric, and International Financial Lines for Professional Indemnity (PI)
- Aerospace, Energy and Marine (16%)

- North America (2%): Incoming global program business and other Non-UK business

2023 Gross Written Premium by Main Solvency II Geographic Areas



2022 Gross Written Premium by Main Solvency II Geographic Areas



A.1.7 Significant events in the last reporting year

Despite the ongoing geopolitical conflicts, the company has no significant events to report this year.

A.2. Underwriting performance

A.2.1 Underwriting performance: Current year

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

The table below provides the 2023 and 2022 key performance indicators on a UK GAAP basis:

	2023 £'000	2022 £'000
Gross Written Premium	1,143,180	983,544
Net earned premium	238,975	216,170
Loss ratio	57.6 %	68.6 %
Combined ratio	91.9 %	111.8 %

Gross Written Premiums have grown by around 16% at £1,143m (2022: £984m), with growth achieved through significant rate increases across most lines of business. Positive rate change was seen in particular for Equine, Livestock & Aquaculture, London Wholesale Property, Marine, Parametric, Energy Property and International Casualty.

The tables below provide the 2023 and 2022 Gross Written Premiums and Net Earned Premiums on a Solvency II Line of Business basis:

2023

	Motor vehicle liability insurance £'000	Other motor insurance £'000	Marine, aviation and transport insurance £'000	Fire and other damage to property insurance £'000	General liability insurance £'000	Credit and suretyship insurance £'000	Other £'000	Total £'000
Gross Written Premiums	27,694	35,203	142,679	431,509	417,332	68,370	20,393	1,143,180
Net Earned Premiums	8,577	13,122	29,599	89,383	86,602	3,235	8,457	238,975
Net Claims Incurred	81	4,765	16,121	32,952	14,980	320	4,904	74,123
Expenses Incurred	2,566	7,145	19,867	54,504	54,258	1,396	4,309	144,045
Underwriting Performance	5,930	1,212	(6,389)	1,927	17,364	1,519	(756)	20,807

2022

	Motor vehicle liability insurance £'000	Marine, aviation and transport insurance £'000	Fire and other damage to property insurance £'000	General liability insurance £'000	Credit and suretyship insurance £'000	Miscellaneous financial loss £'000	Other £'000	Total £'000
Gross Written Premiums	30,996	169,344	287,567	345,087	41,270	70,890	38,390	983,544
Net Earned Premiums	8,939	47,657	53,553	70,483	3,202	14,688	17,648	216,170
Net Claims Incurred	3,949	19,540	38,804	20,278	1,223	5,860	8,352	98,006
Expenses Incurred	6,611	32,448	34,655	46,071	1,713	10,822	10,185	142,505
Underwriting Performance	(1,621)	(4,331)	(19,906)	4,134	266	(1,994)	(889)	(24,341)

The tables below provides the 2023 and 2022 Gross Written Premiums and Net Earned Premiums performance as produced by geographical areas.

2023

	UK	USA	OTHER	TOTAL
	£'000	£'000	£'000	£'000
Gross Written Premiums	1,113,172	19,504	10,504	1,143,180
Net Earned Premiums	232,838	4,129	2,008	238,975
Net Claims Incurred	72,118	1,310	695	74,123
Expenses Incurred	140,149	2,546	1,350	144,045
Underwriting Performance	20,571	273	(37)	20,807

2022

	UK	USA	OTHER	TOTAL
	£'000	£'000	£'000	£'000
Gross Written Premiums	964,071	13,729	5,744	983,544
Net Earned Premiums	211,980	4,231	(41)	216,170
Net Claims Incurred	95,165	1,119	1,722	98,006
Expenses Incurred	138,374	1,627	2,504	142,505
Underwriting Performance	(21,559)	1,485	(4,267)	(24,341)

A.3. Investment performance

The net investment return for the year was a gain of 4.0% (2022: -9.5% loss), which is an increase on the prior year result. This is due to favourable mark-to-market adjustments as interest rates decreased.

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

The investment strategy was aligned to AXA XL's investment strategy, with the proportion of Government Bonds being reduced and replaced with Corporate Bonds with more favourable returns. The Company will continue to maintain diversified and actively managed portfolios with exposure to a broad range of sectors.

A.3.1 Investment performance during the reporting period

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

Solvency II Asset Class	Net investment return 2023 £'000	Net investment return 2022 £'000
Bonds		
Government Bonds	10,296	(32,853)
Corporate Bonds	15,657	(22,816)
Collateralised securities	1,767	(8)
Collective Investments Undertakings	110	233
Cash	174	802
Investment management expenses	(1,084)	(1,046)
	26,920	(55,688)

Below are components of the net investment return:

	2023	2022
	£000	£000
Income from other investments	15,071	9,204
Gain on realisation of investments	1,948	791
Investment expenses and charges		
Investment management expenses	(1,084)	(1,046)
Losses on realisation of investments	(2,604)	(1,352)
Unrealised gains on investments	23,950	5,372
Unrealised losses on investments	(10,361)	(68,657)
Net investment results	26,920	(55,688)

An investment gain of £27m in the year (2022: loss £56m) is driven by income from other investments, lower than expected inflation and unrealised gains due to previous unrealised losses which have now started to unwind.

A.3.2 Gains and losses recognized directly in equity

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

A.3.3 Investments in securitisation

The Company invested in other asset backed securities with a market value of £47.1m at 31 December 2023 (2022: £0.1m) comprising consumer asset backed securities.

A.4. Performance of other activities

	2023	2022
	£'000	£'000
Loss on foreign exchange	3,923	(33,736)
Other (charges) / income	1,055	(315)
	4,978	(34,051)

The Company has no material finance or operating leases.

A.5. Any other information

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

B. System of Governance

B.1. General information on the system of governance

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

The Company's governance framework begins with the Board and the Board Committees (for further information see below).

The Board is comprised 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:

	Executive Directors	Non-Executive Director
S McGovern	Chief Executive Officer	
M Cummings	Chief Financial Officer	
N Hinshelwood		Non-Executive Chair of the Board
P Bishop		Non-Executive Chair of the Audit Committee
M Cantor-Grable		Non-Executive Director and Chair of the Board Claims & Reserves Committee
C Richmond		Non-Executive Director and Chair of the Board Risk & Compliance Committee
J Lejeune		Non-Executive Director
B Poupart-Lafarge		Non-Executive Director
N Williams		Non-Executive Director

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, claims and reserving.

Material Changes in the Governance Structure

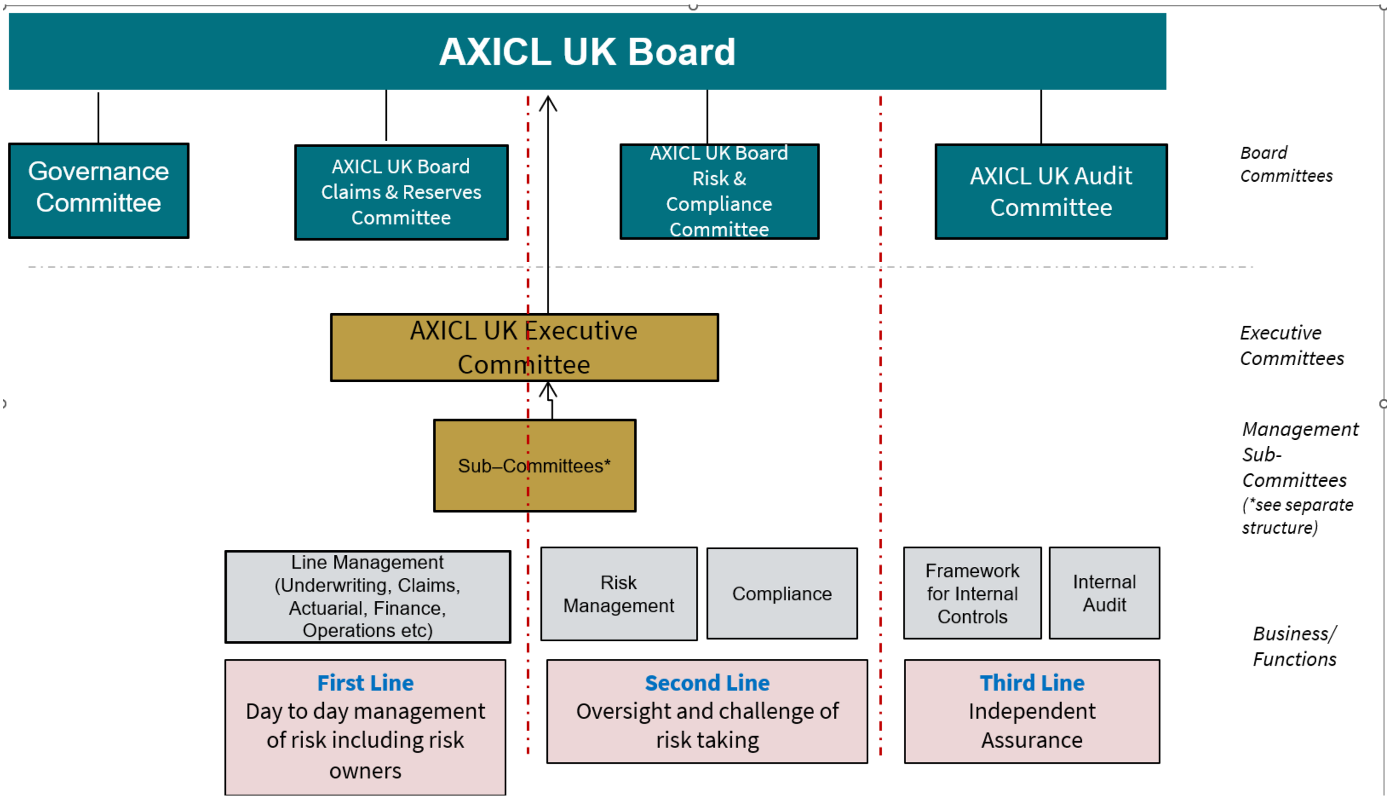
The Terms of Reference for the Board, the Governance Committee and the Board Claims & Reserves Committee were updated during the year to provide clarity on responsibilities with respect to the FCA Consumer Duty, together with other non-material changes. The Terms of Reference for the Audit Committee were updated in February 2024 to include oversight of non-financial reporting (in addition to financial reporting) within its scope of responsibilities.

Changes in Board membership in 2023 and up to the date of this report were as follows:

- Paul Bishop was appointed as Chair of the Audit Committee and Non-Executive Director on 17 May 2023;
- Luis Prato resigned from the role of Chief Underwriting Officer and Executive Director on 20 June 2023;
- James Weatherstone retired from the role of Chair of the Board Risk and Compliance Committee and Non-Executive Director on 30 September 2023;
- Carol Richmond was appointed as Non-Executive Director on 10 July 2023 and as Chair of the Board Risk and Compliance Committee on 1 October 2023;
- Jennifer Lejeune was appointed as a Non-Executive Director on 1 September 2023;
- Nathan Williams was appointed as a Non-Executive Director on 11 September 2023; and
- At its meeting on 12 December 2023, the Board approved the appointment of Mike Gosselin as Chief Underwriting Officer and Executive Director of the Company, with effect from and subject to receipt of regulatory approval, which at the date of this report is pending.

Governance structure

The Governance structure of the Company is set out below.



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

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

The Board comprises a balance of members of the executive management team and non-executive Directors. It meets at least four times a year and its key responsibilities include approval of the strategy and risk appetite of the Company.

In addition, the Board has four Board committees, the Governance Committee, the Board Risk and Compliance Committee (BRCC), the Board Claims and Reserves Committee (BCRC) and the Audit Committee (AC). Supplementing the governance structure is the Executive Committee (ExCo). There are various management committees which 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 line, 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 including Internal Control, Internal Financial Control & 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 reports to the Audit Committee.

The Company is also part of AXA XL division's Internal Control Programme which addresses internal controls across 30 macro-processes covering all AXA XL departments and processes, as well as having an Internal Financial Control Framework looking at key controls around financial reporting. The internal control framework considers the controls in place across processes to meet control objectives and manage key risks within the process. For the UK, controls have been added to supplement those in place across AXA XL where management of the risk and control objective takes place locally. The controls are subject to Design and Operational Effectiveness Testing based on a cycle.

Audit Committee

The Audit Committee (AC) consists of non-executive directors and is attended by members of senior management. The purpose of the AC is to assist the Board of Directors of the Company oversight of the:

1.1 Adequacy and effectiveness of the internal control and risk management frameworks.

1.2 Financial and non-financial reporting processes, including the integrity of the associated publicly reported disclosures.

1.3 Effectiveness, performance and independence of the internal and external auditors.

Board Claims and Reserves Committee (BCRC)

The Board Claims and Reserves Committee (BCRC) consists of non-executive directors and is attended by members of senior management. Key responsibilities of the BCRC include recommending to the Board the Company's booked reserves; reviewing the reserving methodology and process of establishing the Company's reserves; reviewing and challenging the assumptions made by the Chief Actuary and his/her team and the uncertainties underlying outstanding claims; having a clear understanding of the key risks and significant issues associated with the loss reserving process; overseeing the governance of the setting of the Company's Technical Provisions; reviewing reserve movements, claims trends and potential large losses; and overseeing and challenging the Actuarial and Claims functions.

Board Risk and Compliance Committee (BRCC)

The Board Risk and Compliance Committee (BRCC), consists of non-executive directors and is attended by members of senior management. Key responsibilities of the BRCC 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 challenge to the risk management framework including risk strategy, risk appetite, stress testing, oversight arrangements, material transactions, risk culture and oversight of the executive management of risk; overseeing and challenging the Risk Management and Compliance functions and the management of compliance and risk management; and overseeing compliance with legal and regulatory requirements.

Governance Committee

The Governance Committee consists of non-executive directors. It considers matters of governance, board composition and succession planning, appointment of senior management function holders, corporate culture and values, and remuneration on behalf of the Board of Directors.

Executive Committee

The role of the Executive Committee (ExCo) and its sub-committees is to support the CEO and ultimately the Board in the effective management of the Company.

The ExCo has responsibility for managing and overseeing the execution of the strategy of the Company in line with the agreed business plan and applicable legal and regulatory requirements; and the management of risk and performance in line with that strategy and the agreed risk appetite.

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 B.3 (Risk Management), B.4 (Compliance function), B.5 (Internal Audit) and B.6 (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. The underwriting and finance functions report directly to the Board. The claims and actuarial functions report into the BCRC, the risk management and compliance functions report into the BRCC, whilst Internal Audit reports to the Audit Committee. Under the requirements of the Senior Managers and Certification Regime, all key function holders hold Senior Management Functions.

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

Remuneration policy and practices

Remuneration Principles

The AXA XL Division of AXA Group, of which the Company is a part, maintains a Remuneration Policy, 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 Company formally adopted the AXA XL Division Policy and has operated in conformity with it since 2019. The Remuneration Policy contains a multi-tiered governance and compliance structure including oversight at the AXA Group, AXA XL Division and Company levels. Together, the AXA Group and AXA XL Remuneration Policies are designed to support AXA Group and AXA XL's long-term business strategy and to align the interests of its employees and other stakeholders, by:

- Establishing a clear link between performance and remuneration over the short, medium and long term;

- Ensuring that the Company can offer competitive compensation arrangements across the multiple markets in which it operates while avoiding potential conflicts of interest that may lead to undue risk taking for short-term gain; and

- Ensuring compliance with SII regulations and any other applicable regulatory requirements.

AXA XL's Remuneration Policy follows four main guiding principles:

- Competitiveness and market consistency of the remuneration practices;

- Fairness, based on individual and collective performance in order to ensure remuneration is reflecting employee's individual quantitative and qualitative achievements and impact;

- Internal equity based on remuneration policies and procedures designed to ensure that employees are paid equitably based on criteria such as role, experience, education, skills, contribution or impact only; and do not discriminate on the basis of gender or other factors; and

- Achievement of AXA Group and AXA XL's overall financial and operational objectives over the short, medium and long-term as well as execution against medium and long-term strategic objectives as a prerequisite to fund any mid-to long-term award.

The balance of fixed and variable compensation is consistent with competitive market practice in the insurance industry. Variable pay for senior leaders of 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 fixed component is comprised of base salary and any other fixed allowances. Fixed remuneration primarily reflects the relevant organizational responsibility, professional experience, technical and leadership skills required of the role, criticality or scarcity of skills as well as the individual's capability to sustainably perform the duties of the role.

- Short-Term Incentives - Individual bonus awards are determined based on an assessment of both business and individual performance. Business performance is linked to key performance indicators established at the beginning of the year whilst individual performance is assessed through a robust performance management process. Staff have a bonus target amount typically expressed as a percentage of base pay. Individual bonuses are not guaranteed and pay-outs are capped at 200% of individual target, which prevents employees from taking excessive risks to obtain an excessive pay-out.

- Long-Term Incentive Plan - Long-term incentive awards are reserved for those who perform at a high level, with the recipient's anticipated future contributions, individual potential and unique skills taken into consideration. Grants of long-term incentives are based on the criticality of the job within the organization, the criticality of the individual in the current job and potential for the future, and the sustainability of the individual contribution.

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.

Termination Payments

AXA XL ensures that termination payments are correlated to performance achievement and termination payments for Identified Staff beyond mandatory payments under national labour law may be subject to deferrals.

Material related party transactions

We actively monitor all related party transactions. The material transactions with shareholders, persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory body include the intra-group reinsurance arrangements. XL Catlin Services SE (XLCSSE), a divisional service company, recharges administrative, support and staff costs to AXICL UK.

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, risk management and culture 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 Function holders possess the skills, knowledge and expertise to carry out their regulatory obligations.

The Board considers diversity among other factors in assessing the skills and characteristics of Director candidates and the Board as a whole. This consideration includes a broad evaluation of diversity of viewpoints, skills, experience and other demographics represented on the Board as a whole. 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 Senior Management Functions, Key Function Holders and Certification Regime positions these checks include:

- Criminal record check
- Right to work check
- Credit check
- Employment history and references
- Education check (academic qualifications)

- Identity check
- Prior directorships search
- Professional membership and qualifications
- Gap search (any gap in activities such as employment gaps)
- Global Sanctions & Enforcement
- International Financial Regulatory Body Search

For appointments of Senior Management Functions and Certification staff in the UK as part of the Senior Managers and Certification Regime, HR liaise with Compliance in relation to necessary regulatory approvals and notifications as well as obtaining the information necessary for the approval, including a regulatory reference where required.

B.2.3 Code of conduct

The Company operates a Compliance & Ethics Code & Supplement (the Code) that all employees must adhere to. The Code sets out AXA Values: Customer First, Integrity, Courage and One AXA and the high standards of ethical behaviour and compliance that are expected of all employees. Areas covered include Treating Customers Fairly, Data Privacy, Workplace Conduct, Financial Crime and Competition. The Code also includes the Division's Speaking Up/ Whistleblowing policy and processes which is supplemented by a specific UK Whistleblowing policy.

The Code applies to all employees, officers and directors, including the independent directors on the Company's Board. The Company seeks to work with business partners and others who share our values and standards and expect them to behave consistently with the provisions of the Code. On an annual basis, all employees are asked to complete and to submit an annual acknowledgement stating that they are aware and have complied (or to report any potential deviations) with the Code.

On a regular basis, the Company rolls out FCA Conduct Rules training to in scope staff. Conduct rules are intended to improve standards of individual behaviour and aims to improve individual accountability and awareness of conduct across the Company.

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.

Certified and Senior Management Function staff are subject to an annual fitness and propriety assessment. The assessment includes: completion of a fitness and propriety assessment questionnaire by the employee, Human Resources, Compliance and the employee's Line Manager. Every two years full background checks are completed by a third-party provider, so far as permitted by law, which include financial, civil and criminal checks.

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

B.3.1 Risk Management Framework (RMF)

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. This is managed by the Risk Management function, an integrated part of all business processes, who define and deploy the RMF.

The risk management framework (in particular the policies and appetites) is reviewed at least annually by the CRO and more frequently if required. the results of the review and action plans arising are shared with the Board of the Company.

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;
- Support the Company's Risk Management standing; and
- Support regulatory risk management requirements.

The Risk Monitoring Committee ("RMC") and its sub-committees meet 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 makes recommendations and escalates any issues to the Executive and the Board and its Committees, 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 CRO, and established an RMC to oversee more detailed risk management activity and monitoring against the Board approved risk appetites.

The risk management strategy is to ensure that risk implications, as well as reward, are considered in both setting and implementing the Company's strategic and business objectives, and risks associated with the strategic direction of the business are appropriately monitored. The strategy is articulated in the 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;
- Managing 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 (RAF)

The Company's RAF is a key dimension of the risk management strategy and mirrors the AXA Group RAF. The RAF distinguishes between 'Risk Appetite Statements' which apply to multiple risk types, and 'Risk Appetite Exposures' which apply to single risk types. The RAF 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 board meeting in December 2023 and it was determined that all statements and tolerances were appropriate to allow the Company to execute the 2024 business plan.

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

Risk Governance - A clear and cost-effective organisational structure for risk management, including clear roles and responsibilities. The Company operates a 'Three Lines of Defence' governance structure, at a functional level as well as a management committee level. The RMC has specialist sub committees (operational risk, financial risk and customer) from 2023.

Risk Policies & Standards - AXA and the Company recognises the importance and value of a consistent approach to governance, supported by an effective RMF. This is particularly relevant in the context of Solvency II and other regulatory requirements to ensure that there is a clear understanding of risks, both locally and Group-wide. The policies document the Company's approach to the management of each category of risk to which the Company is exposed. These policies are supported by AXA Group Standards which apply across the Division.

Risk definition and categorisation - provides a common risk universe and language for risk to allow for categorisation of all risks in a way which facilitates links between the business and risk management processes.

Risk cycle and processes - the approach taken to top down, bottom up, and process led - risk identification, quantification, management and control. The (non-approved) internal model is used in the risk assessment process.

Risk-based decision making - 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.

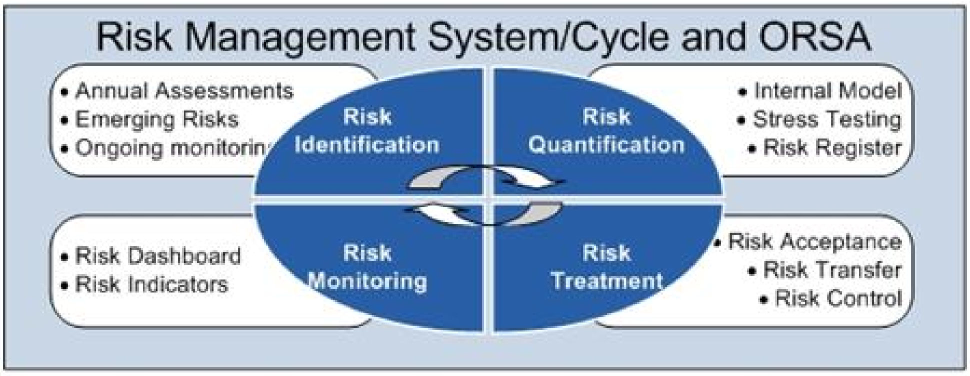
Risk Reporting

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

The RMF remains appropriate for 2024.

B3.2 Own risk and solvency assessment (ORSA)

The Company's ORSA process includes all of the processes and procedures employed to identify, assess, monitor, manage, and report the short and long term risks the Company faces or may face and to determine the 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 underwriting units' internal model output together with Standard Formula results are presented to the RMC and the Board 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 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.

The Company Board approves the ORSA at least annually.

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 B.1 above.

AXA XL Internal Control team, in Risk Management, is in charge of maintaining the Internal Control Framework at AXA XL Division and of monitoring the overall system of controls, ensuring all controls are performed by somebody. A roll-out of controls is performed in all AXA XL key legal entities.

The Internal Control Framework by ensures a robust and effective control environment by:

- Implementing a risk-based approach to focus on risks that really matter;
- Promoting management accountability for controls;
- Introducing a common set of tools and techniques to be consistently used across the Group;
- Improving coordination between the different control functions.

AXA XL Internal Control team is also responsible for the Internal Financial Control framework, with controls in place across the Division on the financial reporting controls. This framework is in place at AXA XL for many years and provides reasonable assurance to legal entities within the Division that financial reporting is reliable and compliant with applicable laws and regulations and provides comfort over the completeness, accuracy and appropriateness of data.

Both the Internal Control Framework and the Internal Financial Control framework are primarily designed to operate across AXA XL Division, with output reported to legal entities. Additionally for the Internal Control Framework, legal entities have implemented bespoke controls where deemed necessarily to mitigate risks within their entity.

The Internal Audit Function represents the 'third line of defence', provides independent assessment of the effectiveness of the Company's system of internal control and reports to the Audit Committee.

A summary risk dashboard is presented to the UK RMC and more detail is presented to subcommittees where it can be reviewed in more detail.

B.4.1 Internal Controls

The Internal Control function is committed to promote a robust Internal Control Framework, including Internal Financial Control, for the Audit Committee, executive management and external stakeholders to rely on for financial and regulatory reporting purposes.

The Internal Control's core strategic objectives include:

- Conducting an effective and efficient assessment of the design and operating effectiveness of internal controls, including 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 executive management, the Company's Board and AXA Group reasonable assurance over AXA XL's processes – in particular on financial reporting; and
- Adding value by helping management promote a robust control environment.

The Internal Control team performs a regular assessment of the control framework which includes: risk identification, risk assessment and planning, documenting business processes, evaluation and validation of key risks, testing of controls, identification and management of issues. For the Internal Financial Control Framework, this cycle is annual and well established.

The team is also responsible for monitoring remediation plans until closure and for making regular reporting on controls results to AXA Group, to AXA XL Audit, Risk and Compliance committee, to the Audit Committee of key legal entities, to executive management and to external auditors and regulators.

The Internal Control Framework looks at 30 macro-processes that constitute AXA XL value chain for insurance and reinsurance business. For each macro-process key risks are defined and for each key risk, control objectives are defined to cover them. For each control objective, controls are designed and operated locally to efficiently meet control objective and mitigate the related key risk. Controls are tested over a 3 year rotational basis according to a test plan formalized and validated by AXA XL Chief Risk Officer.

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, analyse compliance risk and contribute to design solutions to mitigate those risks to which AXA XL is exposed.

During 2023 the Company implemented the Financial Conduct Authority's Consumer Duty rules which set higher standards of consumer protection across financial services and require firms to put their customers' needs first.

The Head of Compliance, UK & Lloyd's is the Compliance Officer and is supported by the wider UK Compliance team.

AXA XL's compliance, financial crime and monitoring functions 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 AXA Group Standards and Policies which set the minimum requirements expected to be covered by AXA XL. The AXA Group Standards and Policies 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. Compliance with both the standards and policies contained in the AXA Group Standards (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

Internal Audit exists to help the Board and Executive Management protect the assets, reputation and sustainability of the organisation by providing an independent and objective assurance activity designed to add value and improve the organisation's operations. It helps the organisation meet its objectives by bringing a systematic, disciplined approach to challenge Executive Management and evaluate the effectiveness of governance, and risk and control management.

The internal audit function has an audit charter to document its mission, independence, scope, accountabilities, responsibilities, authorities and standards. The charter is approved by the Company's Audit Committee each year.

The Head of Internal Audit for the Company has a direct and unfettered reporting line directly to his/her respective Audit Committee Chairman.

Internal Audit functionally reports through to the Global Head of Audit who reports to the Group Audit Committee Chairman.

Internal Audit annually sets up an internal audit plan of work, based on an assessment of both the inherent risk and the adequacy of controls. Its performance is formally monitored and reported to the Audit Committee.

Over the audit cycle, all applicable audit universe components for each entity are expected to be audited. Any exceptions identified are notified to the Audit Committee for ratification.

A report is issued at the conclusion of each audit assignment to the relevant senior management. The results of the audits and resolution status of internal audit issues are presented to the Audit Committee and Executive Management on a regular basis.

B.6. Actuarial Function

B6.1 Structure of the Actuarial Function

AXICL UK's Actuarial Function is a subset of the overall AXA XL Actuarial Function.

Divisional Actuarial Function

AXA XL's Actuarial function is broadly divided into three groups with different reporting lines:

a. The Pricing actuaries work within each of the relevant business areas to provide support to the Underwriting teams and the Executive Management of each business area, with a focus on risk pricing and ongoing business performance.

b. The Capital Modelling actuaries support the internal capital model calculations and monitoring of key capital metrics in respect of each component of risk contributing to the capital assessment.

c. Actuarial Financial Reporting which has responsibility for Reserves and is composed of the following:

    i. The Heads of Actuarial Function for the different legal entities of AXA XL. For AXICL UK, this is the UK & Lloyd's Chief Actuary under the Senior Insurance Managers Regime as set out in the PRA Rulebook.

    ii. Actuaries Responsible for Insurance or Reinsurance Segment, as well as Divisional reporting and Group reporting, along with an analytics team and subject matter experts including technical provisions and reserves risk.

The Heads of Actuarial Function for the different legal entities of AXA XL reach across the entire Actuarial Function to satisfy their regulatory requirements. Similarly, they reach across the reserves actuaries who are aligned to the business structure of AXA XL. It is this matrix approach to our reporting requirements that provides enhanced governance:

a. From a separate centralised corporate function for the Reserves but still aligned to the business and its underwriting function

b. Through our separate internal legal entity peer review and sign-off requirements

c. Through multiple management levels (Product, Segment and AXA XL) and Boards of Directors and their committees (legal entities and AXA XL)

This is complemented by internal and external audit process and both internal (Risk Management) and external independent valuation.

AXICL UK Actuarial Function

The AXICL UK Actuarial Function is headed by the designated UK & Lloyd's Chief Actuary, subject to the PRA's Senior Insurance Managers Regime brought into force by the PRA Rulebook: Solvency II Firms: Senior Insurance Managers Regime – (No2) Instrument 2015.

The Chief Actuary is accountable for AXICL UK to meet all the actuarial requirements pertaining to the Solvency II Directive. This includes the delivery of opinions on the adequacy and sufficiency of the Solvency II Technical Provisions, on the Underwriting Policy and on the Reinsurance arrangements at least annually. To achieve his duties, the UK & Lloyd's Chief Actuary is supported by the following key individuals:

a. Regional Heads of Reserving for Lines of Business impacting AXICL UK.

b. Head of Pricing – Responsible for management of Pricing MI to the Underwriting Committee and oversight of pricing tools.

c. Head of Risk Capital – Contributes significant analysis to the Reinsurance Adequacy Review on which the Actuarial Function's Opinion on Reinsurance Adequacy is based.

The key individuals of the AXICL UK Actuarial Function mentioned above are also supported by the reserving and pricing actuaries who have responsibilities for classes of business impacting the AXICL UK entity. The AXICL UK Actuarial Function continuously monitors the adequacy of capability and capacity of these supporting resources.

B6.2 Objectives of the Actuarial Function

The overall vision and objective of the Actuarial Function is to support the management of AXICL UK in achieving its business plan adequately, while ensuring continuous compliance to all regulatory requirements. This translates into the following core objectives:

a. Develop and maintain a strategic relationship with AXICL UK Board of Directors, its committees and its Executive Management through the Actuarial Function responsibilities, the direct governance in the AXICL UK Business Plan, its contribution to other functions including, but not limited to Risk Management, Underwriting and Finance.

b. To establish and maintain a sound governance framework surrounding the production of actuarial outputs for the legal entity.

c. Develop and maintain appropriate monitoring programmes and related Management Information to ensure that AXICL UK Actuarial Function is in compliance with its regulatory requirements. The Actuarial Function is defined according to the SII requirements.

The UK & Lloyd's Chief Actuary has the following additional responsibilities:

a. Be the single point of contact for the Regulator, internal and external Audit, and external peer reviewers in respect of the AXICL UK Actuarial Function.

b. Maintain appropriate operating capability and capacity from the direct and indirect resources of the Actuarial Function of AXA XL.

c. Provide and present the opinions required by the PRA rules and the Delegated Regulation to the Board of Directors and its committees with sufficient information to permit adequate challenge of key assumptions, expert judgments, and results.

d. Serve as chair of the AXICL UK Reserves & Claims Committee and as member of the AXICL UK Underwriting Committee, AXICL UK Risk Committee, AXICL UK Regulatory Reporting & Approvals Committee and AXICL UK Executive Committee.

e. Oversee and govern the Actuarial Function assessment of the AXICL UK Business Plan through the existing governance process of the AXA XL Business Plan.

f. Monitor the continuous compliance of the AXICL UK Actuarial Function to the actuarial regulatory requirements.

B6.3 Tasks of the Actuarial Function

The AXICL UK Actuarial Function performs the following tasks :

a. Coordinate the calculation of the Technical Provisions, ensuring the following items are formally covered at least annually:

    i. Appropriateness of methodology and assumptions by accurately describing methods, judgements, and approximations

    ii. Comparison of actual experience against expected results with analysis of drivers of deviance

    iii. Validation, by covering all material aspects of the Technical Provision calculation. This includes as a minimum:

        1. The appropriateness, completeness, and accuracy of the data

        2. The appropriateness of grouping of policies into homogenous risk groups

        3. Any remedies applied to address limitations of the data

        4. The appropriateness of any approximations applied in the calculation of the technical provisions

        5. The adequacy of the assumptions used

        6. The adequacy of the methods applied

        7. The appropriateness of the level of the technical provisions with respect to all of the obligations towards policyholder.

b. Express, at least annually, opinions on the adequacy/sufficiency of Technical Provisions, the Underwriting Policy and the Reinsurance arrangements. These opinions are based on detailed reviews of existing information produced by other functions (e.g. business plan), as well as based on additional analyses produced by the AXICL UK Actuarial Function to fulfil the requirements outlined in the Solvency II Directive.

c. Contribute to the Risk Management System through:

    i. The review of the ORSA, in particular for the Solvency II Technical Provisions, Solvency II Balance Sheet and consideration of the business plan and Reinsurance arrangements,

    ii. The calibration of Realistic Disaster Scenarios, with review of the proposed outputs.

    iii. Review the appropriateness of internal reinsurances at each renewal.

The Actuarial Function is required to produce a written report (or set of component reports) to be submitted to the administrative, management or supervisory body at least annually – this report (or set of component reports) being the Actuarial Function Report ("AFR").

B6.4 Governance of the Actuarial Function

Governance of AXICL UK's Solvency II Technical Provisions is formalised through both the Solvency II Technical Provision Steering Committee - chaired by the AXICL UK Actuarial Function - and the Solvency II Reporting Committee chaired by UK Finance.

The AXICL UK Actuarial Function actively contributes to the AXICL UK Corporate Governance Structure:

a. The AXICL UK Actuarial Function contributes to the Management Review Committee for Reserves ("MRCR") which is responsible for the approval of the reserves for UK GAAP purposes at an Insurance Segment level, reviewing post-close events and current year catastrophe activity while considering the limitations and uncertainties of the GAAP reserves.

b. The quarterly AXICL UK Reserves & Claims Committee is chaired by the AXICL UK Actuarial Function. AXICL UK Senior Executives are members of the Committee. At these meetings, the UK GAAP reserves are reviewed and challenged by the Committee before being approved.

c. The AXICL UK Actuarial Function reports monthly to the AXICL UK Executive Committee. Reserves & Claims Committee papers are reviewed before going to the Board Claims & Reserves Committee.

d. The AXICL UK Actuarial Function reports at least on a quarterly basis to the AXICL UK Board Claims and Reserves Committee. This is the committee in which the Board challenges reserving results, with attendance of relevant Board members and Non-Executive Directors as well as Chief Claims Officer, Chief Underwriting Officer, Chief Finance Officer, Chief Risk Officer and the Chief Actuary.

e. The AXICL UK Actuarial Function presents the Solvency II Technical Provisions to the Regulatory Returns and Approval Committee ahead of each regulatory submission.

f. The AXICL UK Actuarial Function is a member of the AXICL UK Underwriting Committee, AXICL UK Risk Committee and AXICL UK Executive Committee. This provides the opportunity to the AXICL UK Actuarial Function to contribute to key business issues and decisions.

The AXICL UK Actuarial Function conducts internal review with line of business actuaries reporting on valuation of underlying GAAP Reserves and recommending GAAP Reserves to be booked for relevant lines of business. This takes place through individual review, as well as Roundtable Forums involving discussions and presentations across the teams. The process incorporates extensive internal review and challenge, including from Business Group Actuaries, Legal Entity Actuaries, Head of Actuarial Function Reporting, and Segment Reporting.

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.

B6.5 Independence and Potential Conflicts of Interest

The AXICL UK Actuarial Function operates with an appropriate degree of independence as regard to AXICL UK management, and the work of the Actuarial Function is kept free from the external influence of the Board. This is supported by the structure of the Actuarial Function as described in section B6.1 and the active contribution of the Actuarial Function into the AXICL UK Corporate Governance structure as outlined in section B6.4.

As per the structure outlined in section B6.1, the AXICL UK Actuarial Function has not identified any conflicts of interest which would cause material issues with the calculation of Technical Provisions, the production of opinions on the Underwriting Policy and Reinsurance arrangements, or the contribution to the Risk Management system. This is a result of:

a. A clear independence of the AXICL UK Actuarial Function of the revenue-generating functions of AXICL UK. Specifically, the AXICL UK Actuarial Function is independent from the Underwriting function and outward Reinsurance team.

b. A clear independence of the AXICL UK Actuarial Function from the AXICL UK Risk Function , with no reporting lines between both.

c. An adequate degree of separation in place between those who perform work for AXICL UK Actuarial Function and those who review and supervise it.

Specifically, regarding the Technical Provisions, the AXICL UK Actuarial Function operates sufficient separation between the calculations of the Technical Provisions and its coordination and review. The governance in place is supported by the AFR TP Steering Committee which reviews and challenges both assumptions and results. The UK & Lloyd's Chief Actuary is a member of the Steering Committee and is ultimately accountable for the adequacy and sufficiency of the Solvency II Technical Provisions for AXICL UK. This degree of independence is supplemented by periodic external reviews and regular external audit which also contribute to the overall quality assurance on Technical Provisions.

There is an adequate degree of separation between the Reserving and the Pricing functions.

Should a conflict of interest arise, the conflict resolution is aligned with the sign-off applied under the following structure:

a. Actuarial: conflicts within the Actuarial Function are escalated to the AXICL UK Chief Actuary who is responsible for conflict resolution.

b. AXICL UK Management:

    i. Within the different management teams, the conflicts are escalated to the higher management team.

    ii. Conflict culminates with the BCRC

c. Board of Directors:

    i. The final decision on booked reserves rests with the Board of Directors of AXICL UK.

    ii. The Boards of Directors of AXICL UK has ultimate responsibility for the reserves and SII Technical Provisions of AXICL UK

B.7. Outsourcing

Outsourcing refers to an arrangement between the Company and a service provider (intragroup or third party) by which the service provider performs a process, a service or an activity that would otherwise be undertaken by the Company.

Outsourcing can increase operational risk exposure through reduced control over people, processes and systems. In order to mitigate this, the Company has established an Outsourcing Policy which sets out the principles for management of the risks arising from its outsourced arrangements and for monitoring the performance of the service providers. The Company has established a governance framework to support the application of the Outsourcing Policy and to ensure compliance with regulatory and Solvency II requirements. This framework incorporates an Outsourcing Committee chaired by an Executive Committee member with representation from the key business functions. The role of the Committee is to ensure adequate controls are implemented, review key performance indicators and assess potential Outsourcing risk.

As at year end 2023, the Company had outsourced arrangements in place to cover delegated claims handling and intragroup arrangements with AXA XL companies to cover the provision of employees and services, investment management and IT infrastructure. Where AXA XL companies decide to further outsource services (chain outsourcing), they must also ensure that they comply with the requirements of the Company's Outsourcing Policy. Per guidance issued by the PRA under supervisory statement 2/21, delegated underwriting is not considered outsourcing and is governed via a separate underwriting governance framework.

The provision of employees and services to the underwriting legal entity is primarily through the AXA XL service company, XL Catlin Services SE (XLCSSE), which is headquartered and regulated in Ireland.

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 the risks over which its governance processes operate. To this end, the Company has an agreed approach to the definition and categorisation of risks. For underwriting risk, reserve risk, investment risk and operational risk, risk management undertakes 2nd opinion activity which helps to identify risks.

Risk Universe

The risk universe is based on the AXA Risk Grid as follows:

- Financial risks, including market, credit, and liquidity;
- Insurance risk;
- Operational risk;
- Other risks, including emerging risks, reputational risks, and strategic & regulatory risks;
- Intangible risk (intangible assets).

As outlined in section B.3.2 the Standard Formula is used to calculate the regulatory capital requirement and the Internal Capital Model (ICM) is used as a risk management tool until the Company's Internal Model 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 in the Standard Formula, and from the risk identification processes, are as follows:

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

Risk Appetite Statements

There are three components to the high-level risk appetite statements the Board have agreed to adopt in order to align with the AXA XL framework:

- Solvency - This considers the buffer that would be held in excess of regulatory capital.
- Single Event Limit - This considers exposure to largest of natural catastrophe event and man-made events, credit counterparty or operational risk event for tail events.
- Liquidity - This considers ability to pay claims in the event of a stress event.

In addition to the risk appetite statements, the Board have agreed to adopt a series of limits for risk appetite exposure at a risk type level. These address P&C Net Underwriting Limits, Operational Risk including internal control, Investment Risk, Intergroup Reinsurance Counterparty Risk and Climate Risk.

C.1. Insurance risk

Risk definition

Underwriting risk (Insurance risk) is defined using the following categories:

Component	Definition
Underwriting risk	Underwriting risk derives from insurance and reinsurance policies written for the current period and also from unearned exposure from prior periods. The risk is that the corresponding premium will be insufficient to cover future claims and other costs or more generally that the underwriting profitability from this tranche of business will be less than expected; Underwriting risk includes man-made catastrophe events and natural catastrophe events.
Reserve risk	Reserve risk relates to policy liabilities (corresponding to business written in prior periods where the exposure has already been earned at the opening balance sheet date) being insufficient to cover the cost of claims and associated expenses until the time horizon for the solvency assessment. Additional risks are that the timing or amount of actual claims payments do not align with the timing or amounts of the estimated claims pay outs and that there are changes in the valuation of the market value margin (risk margin) during the time horizon for solvency assessment

Risk identification

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

- **Business planning -** Analysis is undertaken of the underwriting portfolio, exposures, loss experience and changes to the external environment (including market cycle, economic environment) to identify any changes to the insurance risk profile for the forthcoming period of the budget / business plan;
- **Underwriting processes (including guidelines and escalation authorities) -** Each individual contract written is assessed, by the underwriting process (which is subject to granular underwriting guidelines and escalation authorities) for the nature and level of insurance risk that it brings to the business including consideration of the exposure by nature of the limit, the risks insured, the location of the risks and other underwriting criteria;
- **Reserving and claims process -** On an ongoing basis, claims trends are monitored and analysed for any indications of change in the nature of the underlying insurance risk;
- **Risk Management risk assessment process** - Through the internal model, the Company quantifies existing risks and also identifies new risks;
- **Realistic Disaster Scenarios (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.
- **Reserve second opinions** - conducted twice a year by the Actuarial Risk function.
- **Underwriting second opinions** - conducted annual basis covering new products, profitability business planning and ad hoc issue

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. AXA XL work with the AXA Group Reinsurance entity (AXA Global Re) on the outwards reinsurance strategy placements. 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 programme 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 CRO provides a 2nd Opinion on the proposed reinsurance to identify any concerns risk management might have around the programme to assist the Board in their consideration of the programme.

AXICL UK also has an intra-Group reinsurance arrangement of a 60% Whole Account Quota Share to XL Bermuda Ltd (XLB) starting from 2019 and covering future years of account. This arrangement has been in place for 2023 and has been renewed for 2024.

As part security for the Company's intra-group quota share contracts, the reinsurer is required to maintain a segregated account which is subject to a first legal charge for the benefit of the Company, for 50% of the reinsurance recoveries due.

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

Actuarial Function

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

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, the corresponding industry sector rating, and the perceived risk of the insured relative to the others 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. Pricing tools are specialised and generally operate by line of business.

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, RDS that cross multiple lines of business, and from risks related to some or all of the above that may occur concurrently.

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

New product process

All new products are subject to the Product Approval Process (PAP) and are approved by the Company at Underwriting Committee and ExCo.

Risk monitoring

On a quarterly basis catastrophe exposures are measured, monitored and reported to the RMC and Board. This monitoring is both on an exposure (aggregate for CAT risk type) and per-risk basis. RDS are also produced at least twice a year and monitored and reported to RMC and Board. In addition, Large Losses are regularly monitored at Board and Executive level. Line size compliance and other exposure metrics are also monitored.

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.

Risk Appetite

Underwriting risk is subject to monitoring as part of the RAF. Details of which are in section C: Risk Profile.

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 test 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's 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.

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 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.

There were no material changes in market risk exposure during the reporting period, though we note that interest rate and credit spread sensitivities have fallen principally due to higher interest rates and the resulting lower asset (and liability) values.

Additional Market risk components include;

- Real Estate
- Hedge Funds
- Dynamic Hedging Basis Risk
- Private Equity
- Inflation
- Dynamic Hedging Transaction Cost

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	Investment Plan details the planned purchases and sales of securities and their respective quantities for the year in conjunction with the Strategic Asset Allocation (SAA) benchmark and the Risk Appetite Framework limits.
Risk assessment and processes	The risk assessment process assists in identifying if there are any changes to market risks already identified in the previous assessment.
Emerging risks	The Division operates an emerging risks identification process. This assessment identifies key external factor changes that may give rise to Market risk issues. This process is supplemented by a UK Emerging Risk process which ensures oversight at a local level.
Risk second opinions	Second opinions are performed on the annual investment plan as well as the Strategic Asset Allocation.

Market risk is also explored through underwriting and the Emerging Risk process. 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. We also have a local emerging risk working group in the UK.

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 for AXA XL establishes a target allocation that is constructed to maximize enterprise value, subject to various considerations and constraints. It is subject to the risk tolerances recommended by management and is approved at least every 3 years by the XLB Board. It is also subject of a Risk second opinion review at the time of approval.

- **Authorities Framework / Risk Appetite Framework**

  In conjunction with the SAA, the Company has a Risk Appetite Framework modelled off the AXA Group framework which limits exposure to various asset classes (with tighter limits for higher risk asset types), as well as duration and FX mismatches. There is also centralized investment risk monitoring through the Investment Authorities and Guidelines, which further monitors exposures by average credit quality, corporate industry sector, region (for municipal securities and emerging markets), BBB exposure, and leverage. These controls are implemented through detailed compliance monitoring and reporting.

  The Investment Risk Management Policy and market risk limits under the RAF address the key market risk factors and are commensurate with the volume and complexity of activity undertaken by the Company. The framework is designed to capture investment risks and to consistently and objectively measure, assess, manage and report such risks on an ongoing basis.

- **Service level agreements**

  A service level agreement is in place between XL Group Investments Ltd ("XLGIL"), an indirect, wholly owned subsidiary of XLB. This includes guidance on type of investments and the weighted average credit ratings of the portfolio that can be made on behalf of the Company. Adherence to policies and limits are monitored on a regular basis and reported to the AXICL UK Board.

Currency risk mitigation

The Company's currency exposure is dominated by the US Dollar, South African Rand, Japanese Yen, Euro and Swedish Krona. The Company seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. Asset liability management analysis is run regularly to adjust surplus and shortfall currencies, ensuring that the entity exposures are broadly matched. The table below outlines the Company's year-end exposure by currency:

Foreign currency exposures represent all net assets and liabilities held in currencies other than British Pound that generate foreign exchange volatility.

Currency	December 31 2023 in '000's	December 31 2022 in '000's
USD	38,571	47,582
JPY	4,296	4,012
SEK	3,665	2,461
MXN	2,119	1,551
BRL	1,925	1,519

Risk monitoring

Market Risk definition includes articulation of Risk Appetites per the Risk Appetite Framework, alerts and limits are specified by risk category and sub-category. For example, for the Risk Appetite 'Exposure per asset class' the sub categories include Fixed Income, Real Estate, etc.

Day-to-day management of the investment portfolio is conducted in accordance with detailed investment guidelines and risk tolerances that are closely monitored by AXA XL Investments. This hybrid implementation approach provides access to external asset managers with specialized 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 AXA IM is supplemented by robust compliance monitoring with defined escalation and notification procedures. This framework is designed to identify investment risks on an absolute basis and relative to liabilities and to consistently and objectively measure, assess, manage and report such risks on an ongoing basis. The Risk Appetite Framework is cascaded down to the Company and approved by the Board. Any breaches in limits of the Risk Appetite Framework are highlighted in the risk dashboard presented to the RMC and escalated to the Board.

Portfolio ratings and asset class allocations are managed by the Division's global Investment team and reporting is on an International Financial Reporting Standards (IFRS) basis.

Risk appetite

Market risk in subject to monitoring as part of the RAF.

Stress testing framework

An embedded stress testing and scenario analysis framework is used to understand possible impacts of major risks, including market risks. The following stress 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;
- Non-fixed income sensitivities focusing on Public and Private equity, Real Estate and Hedge Funds;
- 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 examines a range of extreme events as identified above which intend to stress its capital position.

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.

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 counterparties and debtors, or uncertainty of an obligator's continued ability to make timely payments in accordance with the contractual terms of the instrument.

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

Component	Description
Reinsurance counterparty Risk	Risk of losses due to the default of a reinsurer or a deterioration of its credit worthiness
Investment counterparty Risk	Counterparty default risk is the risk of possible losses due to the unexpected default, or deterioration in the credit standing of investment counterparties
Premium counterparty Risk	Premium counterparty default risk is the risk of possible losses due to unexpected default, or deterioration in the credit standing of the premium debtors in relation to insurance contracts written
Underwriting counterparty Risk	Exposure to credit risk through certain credit sensitive underwriting activities which include, but are not limited to, Surety, Worker's Compensation, Environmental and Political Risk and Trade Credit

Risk identification

The Company identifies credit risk through the following processes:

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

Risk mitigation

Credit risk is managed through:

- **Credit risk framework** - Credit risk aligns with the Division credit risk framework and Group superseding restrictions. Credit Risk arising from country specific exposure is managed as part of the Division Country Risk Framework. Credit risk in the investment portfolio is managed through various frameworks applied the Division and Entity level including Authorities & Guidelines, Fixed Income Concentration, Sovereign Risk Appetite, and Country of Risk. These address the credit quality of obligors and counterparties, diversification, exposure vs limits by rating, term and seniority, and quantitatively evaluate credit risk following a robust Credit VaR methodology. FRM Internal Credit Ratings (ICR) have been developed by taking into account the Group Credit Team (GCT) Internal Rating to decrease the dependency toward the 3 main Rating Agencies. Exposure to credit spreads primarily relates to market value and cash flow variability associated with changes to credit spreads. Credit spreads in the investment portfolio are regularly reviewed in terms of the inherent potential for downgrade of individual obligors as well as the wider impact on the overall credit risk of the portfolio.

- **Intra-group credit arrangements:** The Company derives significant reductions in risk resulting from intra-Group reinsurance arrangements including a whole account quota share to XL Bermuda Ltd (XLB).

- **Underwriting authorities and limits** - See C1 Underwriting Risk.

- **Investment portfolio** - Credit risk is also managed through the credit research performed by external investment management service providers, Group Risk Management, and the in-house portfolio management team.

- **Reinsurance Security Department** - The Company manages its credit risk in its external reinsurance relationships by transacting with reinsurers that it considers financially sound, and if necessary, collateral in the form of funds, trust accounts and/or irrevocable letters of credit may be held.

- **Premium payment and brokers -** The Company underwrites a significant amount of its (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 appetite

Credit risk is subject to monitoring as part of the RAF.

Risk monitoring

Risk Management 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, and 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.

AXA S.A. Credit Facility.

The Company may benefit in part from a multi-currency facility, which AXA S.A. entered into July 2019, with the main insurance and reinsurance carriers of AXA XL. The credit agreement allows for letters of credit to be issued in a variety of currencies.

No letters of credit have been issued to the Company.

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.

The Company measures and monitors liquidity risk as follows:

a. An internal stressed liquidity calculation is performed quarterly across all major legal entities of the Company and over multiple time horizons, including a simultaneous shock on capital market assumptions, operating cashflows and natural catastrophes

b. The Company's liquidity ratio, as defined by the Bermuda Monetary Authority, is calculated quarterly with forward-looking projections, as needed

c. A minimum Government Bond Encumbrance Ratio is monitored to ensure that there is sufficient free funding to meet short-term obligations

d. AXA XL Treasury monitors concentration risk of cash at banks, along with upcoming funding requirements.

The Company continued to have sufficient liquidity during 2023, even with the rising interest rate environment.

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 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 multiple time horizons. Liquidity risk is managed through:

- **Asset-Liability Management (ALM)** - Treasury conducts detailed ALM analysis to match the currency mix of its liabilities with appropriate assets. Investments manage the duration gap of assets and liabilities within a pre-defined range.

- **Special Funding Clauses** - The major source of liquidity risk within underwriting contracts is the provision of rating triggers, which are common market 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 authorization for the inclusion of a downgrade clause in a contract.

The AXA XL Treasury and Risk Management departments serve 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 investment portfolio, comprise the primary sources of liquidity for the Company. The Company also has access to several credit facilities.

The state of the company's liquidity is routinely reported to the XLB Board and monitored as part of the RAF.

Risk Appetite

Liquidity risk in subject to monitoring as part of the RAF.

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 a view of the stressed sources and uses of liquidity over multiple time horizons (ranging from 1 week to 12 months).

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 gross of reinsurance at 31 December 2023 was £171.0m (2022: £167.7m).

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. Operational risks are defined consistent with the Basel II risk categorisation. 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.

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 Division 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 takes into account 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

Operational risk in subject to monitoring as part of the RAF.

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 a 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 Matching Risk

Risk definition

Asset liability matching risk - arises directly from a mismatch between assets and liabilities due to changes in rates and spreads, equity and other non-fixed income markets/asset classes and credit risks, liquidity, foreign exchange and from events affecting both asset and liability values.

In particular, the following 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	Inflation risk stems from the general increase of prices. Inflation may decrease the value of fixed income assets while it may increase the value of liabilities, subject to knock on impacts to interest rates. Inflation also explicitly impacts the values of directly linked assets (TIPS, etc.) and liabilities.
Foreign exchange ("FX") risk	FX risk arises from mismatches in the currency denomination of assets relative to that of financial liabilities.

Risk treatment

The Company controls asset liability mismatch risk through:

- **Asset-Liability Management (ALM) analysis**

  The Company will conduct detailed ALM analyses to match the average duration and currency of its liabilities with appropriate assets. The SAA process which it follows determines the target allocation that maximizes the value of the Company subject to risk tolerance and other constraints. The SAA considers management's risk tolerance, liability cash flows, business plan, liquidity considerations, capital market forecasts and regulatory considerations. The ALM/SAA process is first done at the AXA XL division level keeping division and legal entity constraints under consideration. The target allocations are then propagated down to the legal entities based on additional considerations of each entity. This is mandatory to be completed at least once in every three years.

- **Investment authorities and guidelines**

  Board approved Risk Appetite Framework limits are in place that address all the key market risk factors and are 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 stress testing as one method to assess asset liability mismatch risk exposures.

Strategic risk

A strategic risk is the risk that has a negative impact (current or prospective) on earnings or capital, material at the Divisional 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; and
- 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 RMF in place in order to assess, anticipate and mitigate these risks.

A strategic risk register is maintained and is reviewed on a quarterly basis by the management and Board. Action plans are maintained against the most significant Strategic Risks.

Reputational Risk

Reputation risk is the risk that an event will negatively influence the stakeholders' perceptions of the company. AXA XL maintains a Reputational Risk Framework which encompasses a set of planned actions and policies established, while reputation problems are still latent, to reduce the probability and/or the expected costs of latent reputation problems becoming actual.

Emerging Risks

Emerging risks are risks which may develop or which already exist that are difficult to quantify and may have a high loss potential. To assess the impact of emerging risks at AXA XL, the Emerging Risks Committee as well as Emerging Risks Task Force are tasked with identifying, analysing, prioritising, quantifying, monitoring and reporting on emerging risks that could have an impact on our existing and future product offerings and business operations. The Emerging Risks Committee and Task Force work together to undertake both strategic and risk management processes, assisting in identifying potential opportunities in the market and providing thought leadership around emerging risk issues to optimise underwriting and strategic decisions. The views and findings of the emerging risks team feed into the capital model.

Climate Change

The Company is exposed to all forms of climate and climate change risk, namely:

Physical risks: These are the first-order risks which arise from weather-related events, such as floods and storms. They comprise impacts directly resulting from such events, such as damage to property, and also those that may arise indirectly through subsequent events, such as disruption of global supply chains or resource scarcity. The Company has exposure to natural catastrophes which therefore might be impacted and is supported by an AXA XL Division Science team who consider the impact of climate change on the natural catastrophe models;

Transition risks: These financial risks which could arise from the transition to a lower-carbon economy. This can include both loss-causing impacts and the future stability of some of our product portfolios e.g. in carbon-intensive sectors such as motor. This risk impacts the Company in, for example, the energy sector where we are seeing the impact of COP 21 and a move towards insuring renewable energy initiatives as well as areas such as the fine art book where vintage car business could be impacted. There are also transition risks related to divesting from certain carbon-intensive industries and investing in green assets; and

Liability and litigation risks: These are risks that could arise from parties who have suffered loss or damage from climate change, and then seek to recover losses from others who they believe may have been responsible. Where such claims are successful, those parties against whom the claims are made may seek to pass on some or all of the cost to insurance firms under third-party liability contracts such as professional indemnity or directors' and officers' insurance. Where liability is not ruled or settled, the company is still exposed to the costs of duty to defend, should clients seek to recover costs here. The Company has exposure to this through exposure across a range of industries which could be targeted in climate change litigation.

The Company, as part of AXA and AXA XL Division benefits from being part of widely supported climate change initiatives. There is a UK and Lloyd's Climate Working Group chaired by the CRO, who also sits on the AXA XL Division working group. The Division working group is charged with developing the roadmap for AXA XL Division and advising the AXA XL Division Leadership Team.

The Company has adopted AXA's Corporate Social Responsibility Policy. As a result, business written has been adjusted to account for an underwriting approach that restricts coverage for Coal, Oil sands related assets and arctic drilling, while on the investment side we divested investments relating to controversial weapons and any 10+ yr dated banned sectors following the adoption of this policy.

As part of its consideration of climate, the Company has undertaken the following:

- Developed and implemented qualitative risk appetite statements around climate. The intention is to supplement these statements as quantitative measures are developed. However, at this point existing risk appetite statements around "Single Events" would be deemed to capture exposure to climate change (either in the form of natural catastrophes or man-made liabilities).

- Implemented stress testing in respect of climate. This has included developing its own natural catastrophe stress tests.

C.7. Any other information

There is no other material information regarding the Risk Profile of the Company.

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 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.

	Reference	UK GAAP Value	Reclassification	Revaluation	Solvency II Value	2022
		£'000	£'000	£'000	£'000	£'000
Assets						
Deferred Acquisition Costs (DAC)	1	163,405	—	(163,405)	—	—
Deferred tax asset	2	15,084	—	(15,084)	—	19,543
Investments (excl participations)	3	684,682	9,245	—	693,927	547,409
Reinsurance recoverables	4	1,875,158	(258,980)	(394,976)	1,221,202	1,080,011
Insurance and intermediaries receivables	5	373,218	(344,303)	—	28,915	51,354
Reinsurance receivables	6	205,661	(77,556)	—	128,105	187,082
Receivables (trade, not insurance)	7	42,662	—	—	42,662	51,790
Cash and cash equivalents	8	12,485	139,343	—	151,828	160,750
Any other assets, not elsewhere shown		6,983	(6,983)	—	—	—
Total assets		**3,379,338**	**(539,234)**	**(573,465)**	**2,266,639**	**2,097,939**
Liabilities						
Technical provisions (best estimates) - Non Life & health similar to non life	9	2,446,981	(421,859)	(512,138)	1,512,984	1,407,225
Technical provisions (risk margin) - Non Life & health similar to non life	9	—	—	35,307	35,307	43,168
Deferred tax liabilities	10	—	—	1,169	1,169	—
Debts owed to credit institutions	11	—	141,605	—	141,605	112,339
Insurance & intermediaries payables	12	10,598	—	—	10,598	18,659
Reinsurance payables	13	339,832	(258,980)	—	80,852	94,821
Payables (trade, not insurance)	14	65,891	—	—	65,891	69,404
Any other liabilities, not elsewhere shown	15	147,267	—	(146,560)	707	1,243
Total liabilities		**3,010,569**	**(539,234)**	**(622,222)**	**1,849,113**	**1,746,859**
Excess of assets over liabilities		**368,769**	**—**	**48,757**	**417,526**	**351,080**

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 values of assets in the 31 December 2023 UK GAAP and Solvency II balance sheets presented in Section D above are explained. The numbering of the balance sheet line items refers to the comments below. A reconciliation is prepared to reflect the differences between the UK GAAP equity and Solvency II equity components.

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; and

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

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

1. Deferred acquisition costs (DAC) are costs relating to the acquisition of new business for insurance contracts. Under UK GAAP these costs are deferred to the extent that they are expected to be recovered out of future margins in revenues on these contracts. Recognition of DAC is not permitted under Solvency II;

2. 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 deferred tax asset valuation has changed given the differences between the tax base of the Solvency II balance sheet compared to the tax base of the UK GAAP Balance Sheet.

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

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

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

   All investment instruments are measured at fair value for Solvency II and UK GAAP purposes. Fair value is obtained from quoted market prices, or if quoted market prices are not available, then by using relevant valuation techniques.

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

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

6. Reinsurance receivables under UK GAAP are measured at cost less provision for impairment and are not discounted. The Solvency II adjustment 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. The remaining balance is made of recoverables in respect of claims paid.

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

8. Cash and cash equivalents are measured at fair value under both UK GAAP and Solvency II. Money Market Funds under UK GAAP are reclassified as investments and not cash under Solvency II. Also some of the overdrawn balances have moved to Debt owed to credit institutions. Please see note 11 for a further description of the balances moved to Debt owed to credit institutions.

   There are no changes in the valuation basis from prior year.

D.2. Technical provisions

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

		2023 Solvency II Value £'000	2022 Solvency II Value £'000
Technical provisions (best estimates) - Non life & health similar to non life	9	1,512,984	1,407,226
Technical provisions (risk margin) - Non life & health similar to non life	9	35,307	43,168
Gross Technical Provisions		1,548,291	1,450,394
Reinsurance recoverables	4	1,221,202	1,080,011
Net Technical Provisions		**327,089**	**370,383**

D.2.1 Valuation Bases, Assumptions and Methods to Derive the Value of Technical Provisions

Solvency II Technical Provisions consist of the best estimate liabilities ('BEL') and the risk margin ('RM'). A best estimate assumption is defined as one where there is the same probability that the actual experience develops more or less favourably than the assumption. The BEL corresponds to the probability-weighted average of all future cash flows over the lifetime of the in-force and bound-but-not-incepted (re)insurance contracts, adjusted to reflect the time value of money. The BEL is calculated separately on a gross and ceded basis. The RM reflects the uncertainty inherent in the underlying cash flows and is calculated using the prescribed cost of capital approach, with SCR inputs from the Standard Formula and the risk-free yield curves prescribed by the PRA. AXICL UK's SII TPs materially relate to Non-Life (excl. Health) business with a small component of Non-Life (Health); there is no Life business on this entity.

For the claims provision, the difference between the SII and UK GAAP technical provisions can be explained by the following factors:

a. Unwinding of discounting permissible under UK GAAP (i.e. Periodic Payment Orders);

b. Incorporation of expected reinsurance counterparty defaults (bad debt);

c. Incorporation or the identification of events not in data (ENID) due to local specificities as appropriate;

d. Other adjustments related to the consideration of investment and operating expenses, etc.; and

e. Discounting credit.

Please note that no adjustment for margins is required because neither the UK GAAP or SII includes a margin for prudence in the BEL.

The best estimate for the premium provision differs from the gross unearned premium reserve on a UK GAAP basis in the following respects:

a. Gross and ceded premiums on already obliged but yet to incept business;

b. Applying expected future gross loss ratios;

c. Reinsurance recoveries (less bad debt);

d. Allowance for future reinsurance cost associated with already obliged policies;

e. Incorporation or the identification of events not in data (ENID), which within the premium provisions are captured through the threat loads embedded in the business plan loss ratios;

f. Future premiums (payables and receivables);

g. Other adjustments related to the consideration of investment and operating expenses, etc.;

h. Adjustments for lapses as appropriate;

i. 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 PRA prescribed risk-free interest rate term structure:

a. matching adjustments (Rules 6 and 7 of the Technical Provisions Part of the PRA Rulebook for Solvency II Firms);

b. volatility adjustments (Rule 8 of the Technical Provisions Part of the PRA Rulebook for Solvency II Firm);

c. transitional risk-free interest rate term structure (Rule 10 Transitional Measures Part of the PRA Rulebook for Solvency II Firms); and

d. transitional deductions (Rule 11 Transitional Measures Part of the PRA Rulebook for Solvency II Firms).

At 31 December 2023 and with comparatives for 2022, the total net Technical Provisions amounted to £327.1m comprising the following (reported in GBP thousand units):

	2023	2022
	£'000	£'000
Claims Provision	405,561	398,957
Premium Provision	(113,779)	(71,742)
Risk Margin	35,307	43,168
Total Technical Provisions	**327,089**	**370,383**

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

2023

Solvency II Lines of Business (in GBP 000's)	Best Estimate	Risk Margin	Total Technical Provisions	Percentage of Total
	£'000	£'000	£'000	%
General Liability Insurance	188,595	18,392	206,987	63.3 %
Marine, Aviation and Transport Insurance	35,937	4,506	40,443	12.4 %
Motor Vehicle Liability Insurance	9,381	916	10,297	3.1 %
Fire and Other Property Damage Insurance	71,935	9,160	81,095	24.8 %
Income protection insurance	6,908	715	7,623	2.3 %
Other	(20,974)	1,618	(19,356)	(5.9)%
Total	**291,782**	**35,307**	**327,089**	**100.0 %**

2022

Solvency II Lines of Business (in GBP 000's)	Best Estimate	Risk Margin	Total Technical Provisions	Percentage of Total
	£'000	£'000	£'000	%
General Liability Insurance	106,672	14,211	120,883	32.6 %
Marine, Aviation and Transport Insurance	67,254	8,609	75,863	20.5 %
Motor Vehicle Liability Insurance	21,029	2,035	23,064	6.2 %
Fire and Other Property Damage Insurance	92,803	11,488	104,291	28.2 %
Income protection insurance	8,133	1,052	9,185	2.5 %
Miscellaneous Financial Loss	30,689	3,660	34,349	9.3 %
Non-proportional marine, aviation and transport reinsurance	1,462	151	1,613	0.4 %
Other	(828)	1,962	1,134	0.3 %
Total	**327,214**	**43,168**	**370,382**	**100.0 %**

General Liability Insurance, Marine Aviation and Transport insurance, and Fire and Other Property Damage insurance contribute to ~100% of the Company's net Technical Provisions. The negative £19.4m of Technical Provisions classified as 'Other' is driven by high net future premium for SII LOB Credit and Suretyship. The increase in General Liability reserves partially reflects an update to our class of business mapping to align with the rest of the AXA Group, with Financial Lines now being grouped under General Liability rather than Miscellaneous Financial Loss, and partially reflects strengthening on Casualty lines during 2023. This mapping update enables a simplified representation of SII LoBs in 2023 SFCR.

The non-proportional SII LoBs reflect liabilities relating to the Reinsurance segment, which was put into run-off on AXICL UK in 2016. This includes reserves relating to Periodic Payment Orders (PPOs) and we note for this business that the GAAP discount is unwound prior to application of the risk-free yield curves applicable under Solvency II.

The main methods are applied consistently across all lines of business although it is worth noting that the underlying assumptions are specific to each line of business. For example, there is a higher discounting credit on the General Liability insurance business relative to the other lines of business due to longer settlement durations.

There have been no significant changes to our processes during the year although underlying assumptions will naturally have evolved. For example, the future loss ratios will have changed since last year but continue to be derived from the business planning exercise; similarly the allowance for inflation within the Solvency II expenses is higher than it was a year ago but continues to be based on expected levels of future wage inflation over and above the inflation embedded in the reserves.

The Risk Margin is calculated on a discounted cost of capital basis, utilising outputs from the Solvency Capital Requirement calculation to ensure consistency with both the Solvency II TPs and the SCR. His Majesty's Treasury reduced the cost of capital to be applied to the calculation of Risk Margin from 6% to 4% for year ending 31 December 2023 as per SI 2023/1346. This leads to a reduction in the Risk Margin of approximately £14m.

A bridge from GAAP to SII is shown below:

	Total	Marine, aviation and transport	Fire and other damage	General liability	Other
	£000's	£000's	£000's	£000's	£000's
Net GAAP Reserves	**397,037**	46,890	91,236	227,163	31,748
Reclassify future premium	**(226,526)**	(30,254)	(62,648)	(80,613)	(53,011)
Solvency II premium provision	**104,194**	15,170	33,778	37,169	18,077
Discount non-life provision	**(58,561)**	(5,613)	(8,100)	(37,405)	(7,442)
Additional Solvency II expenses	**62,873**	7,934	15,510	34,396	5,033
Other Solvency II adjustments	**12,764**	1,811	2,160	7,886	907
Risk Margin	**35,307**	4,506	9,160	18,392	3,249
Net Solvency II Technical Provision and Risk Margin	**327,089**	**40,444**	**81,096**	**206,988**	**(1,439)**

D.2.2 Description of Recoverables from Reinsurance Contracts

The difference between the SII and UK GAAP technical provisions can be explained by the following factors::

a. Unwinding of discounting permissible under UK GAAP (i.e. Periodic Payment Orders);

b. Incorporation of expected reinsurance counterparty defaults (bad debt);

c. Incorporation or the identification of events not in data (ENID) due to local specificities as appropriate;

d. Other adjustments related to the consideration of investment and operating expenses, etc.; and

e. Discounting credit

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. These recoveries are on a mean of all outcomes basis and are therefore higher than those recognised in the business planning exercise (which is closer to a median view, with nil recoveries assumed on short-tail excess of loss contracts).

Principle of Correspondence

Under the principle of correspondence, the technical provisions allow for the renewal cost of future Losses Occurring During 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. Where reinsurance contracts are subject to a minimum premium, at least this amount is recognised within the SII TPs.

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.

D.2.3 Uncertainty/limitations associated with the value of the technical provisions

There is inherent uncertainty in the exact event / claims occurrences, timings, amounts of payments and estimates of loss reserves. This is because ultimate liability for claims is subject to the outcome of results yet to occur, for example the frequency of claims, the attitude of claimants towards the settlement of their claims, changes in the standards of liability and the size of court awards, and general economic conditions. This uncertainty stems from several factors including lack of historical data, uncertainty with regard to claim costs, coverage interpretations and the judicial, statutory and regulatory provisions under which the claims may be ultimately resolved. Further, our projections make no provisions for extraordinary future emergence of new classes of losses beyond those included in the (statistically derived) Events Not in Data loading.

The Actuarial Function is of the opinion that the techniques and assumptions used are reasonable given the information currently available. Where the Actuarial Function believe these should be enhanced this has been commented on in the relevant sections of the report. However, it should be recognised that actual experiences may deviate, perhaps materially, from the assumptions and estimates/projections contained in this report.

Macroeconomic outlook Uncertainties created by the current macroeconomic environment continue to drive uncertainty for the industry. The continuing conflicts in Ukraine and the Middle East create a tense geopolitical climate and increase the risk of future inflation shocks. High economic inflation adds significant uncertainty, especially in energy and supply-chain sensitive sectors.

Russia-Ukraine conflict The ongoing conflict and ensuing sanctions, present uncertainty in estimation of losses mainly in Aviation for AXICL UK due to the duration of the war, the nature of the insurance/reinsurance events to be considered, the size of the reported exposure and the destruction rate taken into account for the best estimate. Impacts to AXICL UK are currently assumed to be immaterial on the basis that trapped planes in Russia will fall within the War policies. Were the 'All Risks' cover to trigger, under the Operator's policies, this may significantly change the exposure to AXICL UK.

Long-tailed classes of business Uncertainty remains surrounding the ultimate outcome for the long-tailed classes of business. The early years are not necessarily fully developed and the estimated experience on these years is helping inform our estimates for the more recent years. We continue to monitor the experience on these classes of business but would note that this increases the volatility of our estimates particularly for recent years of account. In particular the Casualty portfolio is particularly sensitive to the underlying economic and social inflation assumptions assumed within the reserving parameters.

Emerging Risks The company is exposed to potential uncertainty from a variety of emerging risks, which are closely monitored by AXA XL as well across the broader AXA Group. Exposures, potential litigation, and losses pertaining to these systemic risks are monitored closely and no material loss experience has impacted AXICL UK to date. The emergence, or lack thereof, of losses relating to these risks, and other emerging risks, over time adds significant uncertainty to our reserve indications.

Large losses or an accumulation of losses AXICL UK 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. Recent adverse activity on US claims has continued in 2023 and it is becoming apparent that plaintiff attorneys in the US are making a concerted effort to target potential defendants with the largest insurance coverage, whether or not the case against these companies has merit. We have strengthened reserves to allow for the uncertainty and continue to monitor developments closely.

Catastrophe losses Prior to 2020, the AXICL UK exposure to catastrophe losses provided a relatively low level of uncertainty, with minimal impact from major events including the Hurricanes Harvey, Irma and Maria (HIM) events of 2017. Since 2020, business transfers between AXA XL platforms has resulted in increased catastrophe exposure and related uncertainty.

Volume of business 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:

1. 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.

2. A change in the mix of business underwritten could impact the reinsurance coverage required. If the mix of business were to materially differ it could be that the current plan for reinsurance coverage would no longer be appropriate.

3. 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 ratio stated in the income statement.

Inflation The recent increase in inflation following COVID-19 and the outbreak of war in Europe comes on the back of a low inflationary environment since the Great Recession. Traditional actuarial methods implicitly assume future inflation will be similar to historical inflation and therefore since 2022 an explicit inflationary loading has been included within the best estimate. This reduces but does not eliminate the inflationary uncertainty and ongoing monitoring of both claims and social inflation will be required.

Exchange rates Future exchange rate movements have not been estimated as doing so could materially distort estimates and the projections would not be on a consistent basis.

Underwriting Strategy A change in the AXICL UK underwriting strategy could materially change the results in the financial projections. This could materially impact the loss ratios and hence the combined ratio stated in the income statements.

Reinsurance Coverage A change in the reinsurance coverage purchase 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. The Reinsurance market has hardened rapidly since late 2022, following several cat-impacted years, a reduction in dedicated reinsurance capital, and notably the impact of inflation.

Climate change We recognise that government and societal responses to climate change risks are still developing and the future impact cannot be predicted. Future valuations of assets and liabilities may therefore differ as the market responds to these changing impacts or assesses the impact of current requirements differently.

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 2023 and comparatives for 2022.

					2023	2022
Other liabilities	**Reference**	**UK GAAP Value**	**Reclassification**	**Revaluation**	**Solvency II Value**	**Solvency II Value**
		£'000	**£'000**	**£'000**	**£'000**	**£'000**
Deferred tax liabilities	10	—	—	1,169	1,169	—
Debts owed to credit institutions	11	—	141,605	—	141,605	112,339
Insurance & intermediaries payables	12	10,598	—	—	10,598	18,659
Reinsurance payables	13	339,832	(258,980)	—	80,852	94,821
Payables (trade, not insurance)	14	65,891	—	—	65,891	69,404
Any other liabilities, not elsewhere shown	15	147,267	—	(146,560)	707	1,243
Total other liabilities		**563,588**	**(117,375)**	**(145,391)**	**300,822**	**296,466**

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:

10 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 liabilities valuation has changed given the differences between the tax base of the Solvency II balance sheet compared to the tax base of the UK GAAP Balance Sheet.

11 Debts owed to credit institutions represent the reclassification of overdrafts from cash and cash equivalents when moving from UK GAAP to Solvency II. They are measured at fair value under both UK GAAP and Solvency II. The Company uses a group cash pooling account to manage currency risk, and this drives the total balance. The increase from 2022 is a result of cash movements made to manage currency risk.

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

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

14 Payables (trade, not insurance) are held at amortized cost under both UK GAAP and Solvency II. This is deemed a reasonable proxy for fair value given the short term nature of these liabilities.

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

There are no changes in the valuation basis from prior year.

D.4. Alternative methods for valuation

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

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

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 its own funds. Under Solvency II, capital is referred to as "Own Funds". Basic Own Funds are calculated from the excess of assets over liabilities in the Solvency II balance sheet. 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 Company allocates capital efficiently to achieve sustainable returns and facilitate growth, and strives to maintain capital levels that are consistent with the Company's risk appetite, corporate strategy and statutory requirements. The Own Funds should be of sufficient quality to meet the eligibility requirements in Article 82 of the Delegated Regulation.

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 B.1 General Information on the System of Governance, and responsibility ultimately rests with the Board. As part of Own Funds management, the Company prepares ongoing solvency projections and reviews the structure of its Own Funds and future requirements. The business plan, which forms the base for the Own Risk and Solvency Assessment (ORSA), contains a five year projection of funding requirements and this helps focus actions for future funding.

E.1.2 Eligible Own Funds

The starting point to determine Eligible Own Funds is to prepare the Company balance sheet on a Solvency II basis. The Solvency II balance sheet is prepared using the Delegated Regulations for the recognition and valuation 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.

Tiering of Basic Own Funds

At 31 December 2023 the Company's Basic Own Funds were assigned to the Solvency II tiers as shown in the following table:

2023	**Tier 1 - unrestricted**	**Tier 3**	**Total**
	£'000	**£'000**	**£'000**
Ordinary share capital	811	—	811
Share premium account related to ordinary share capital	352,508	—	352,508
Net Deferred Tax Asset	—	—	—
Reconciliation reserve	64,208	—	64,208
Total basic own funds after deductions	**417,527**	**—**	**417,527**

2022	Tier 1 - unrestricted	Tier 3	Total
	£'000	£'000	£'000
Ordinary share capital	811	—	811
Share premium account related to ordinary share capital	352,508	—	352,508
Net Deferred Tax Asset	—	19,543	19,543
Reconciliation reserve	(21,783)	—	(21,783)
Total basic own funds after deductions	**331,536**	**19,543**	**351,079**

The Company's ordinary share capital, share premium account related to ordinary share capital and reconciliation reserve are all available as Tier 1 unrestricted own funds as per Article 69 (a)(i) and (vi) of the Delegated Regulation. The ordinary share capital and share premium account have no restricted duration. There is no intention to increase the share capital or share premium in the foreseeable future.

No distributions were made during the year (2022: £Nil). Any surplus capital above the approved buffer needs to be approved by the Board before any distribution to the parent company XLB can be made. There are no own shares held. The reconciliation reserve of £64.2m (2022: £-21.8m) comprises net assets from the Solvency II balance sheet of £418m (2022: £351m) less ordinary share capital of £0.8m (2022: £0.8m), share premium of £353m (2022: £353m) and Tier 3 deferred tax asset of £Nil (2022: £20m). During the year there was a change in cost of capital rate which reduced from 6% to 4% for the risk margin calculation.

The reconciliation reserve's volatility is materially dependent on the performance of the entity as well as any significant changes to the balance sheet.

Deferred Tax

AXICL UK has a deferred tax liability of £1.2m (2022 deferred tax asset: £19.5m). The company did not have any deferred tax liability on a UK GAAP basis. An additional net deferred tax liability is held on the Solvency II balance sheet which has arisen from the movement of own funds from UK GAAP basis to SII Own funds. This reflects assumed tax payable on the present value of the assumed projected future cashflows on the Solvency II basis, adjusted appropriately for the Solvency II balance sheet risk margin and non-recognition of UK GAAP deferred acquisition costs. The tax rate used in the calculation of deferred tax is 25%.

	£m
UK GAAP Own Funds	368.8
UK GAAP to SII Movement	65.0
DTA per UK GAAP	15.1
DT movement	(16.3)
SII DTL	**(1.2)**

The recognition of £25.2m (2022: £Nil) of loss absorbing capacity of deferred tax has been based on the extent to which losses can be offset against future profits and any recognition of deferred tax liability on the SII balance sheet. Future profits are based on the budgeted forecasts. In prior years the company did not consider recognising any LACDT due to changing profile and growth of the business being written.

AXICL UK has made deduction from its SCR for the loss-absorbing capacity of deferred taxes under the standard formula.

As part of the annual regulatory SCR process both risk and finance functions undertake an exercise to support the deferred tax asset taken in the regulatory return, calculated using the SF.

The approach to this work includes:

• The selected loss amount in extreme scenarios impacting the insurance risk profile of the Company and therefore linked to the SF Insurance risk charge.

• The future planned profit for the next five years following the loss is consistent with the AXA XL divisional strategic planning process.

There is no unrecognised DTA or DTL in both UK GAAP or SII.

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 2023 and 2022 is detailed below:

2023	**Tier 1 - unrestricted**	**Tier 3**	**Total**
	£'000	**£'000**	**£'000**
Total eligible own funds to meet the SCR	417,527	—	417,527
Total eligible own funds to meet the MCR	417,527	—	417,527

2022	**Tier 1 - unrestricted**	**Tier 3**	**Total**
	£'000	**£'000**	**£'000**
Total eligible own funds to meet the SCR	331,536	19,543	351,079
Total eligible own funds to meet the MCR	331,536	—	331,536

The SCR 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 2023 and 2022:

	2023	**2022**
	£'000	**£'000**
SCR	246,150	252,415
MCR	61,537	63,104
Total eligible own funds to meet the SCR	417,527	351,079
Total eligible own funds to meet the MCR	417,527	331,536
	%	**%**
Ratio of Eligible own funds to SCR	169.6 %	139.1 %
Ratio of Eligible own funds to MCR	678.5 %	525.4 %

Reconciliation to financial statements

The difference between the Solvency II basic own funds and the financial statements equity is as follows:

	2023	2022
	£'000	£'000
Solvency II own funds	417,527	351,078
Financial statements equity	368,769	331,269
Difference	**48,758**	**19,809**

Reasons for the above difference		
Technical provision adjustments	58,601	62,708
Deferred Tax	(16,253)	(6,603)
Deferred acquisition cost	(16,845)	(35,817)
Risk Margin	(35,307)	(43,168)
Discounting	58,561	42,690
	48,758	**19,809**

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 PRA's rules and the Delegated Regulation.

The SCR and MCR under the Standard Formula at 31 December 2023 and 2022 are set out below:

	2023	2022
	£'000	£'000
SCR	246,150	252,415
MCR	61,537	63,104

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, Underwriting Capital Management, Investments and other relevant stakeholders. The results are subject to various levels of review, including by Senior Management.

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

Overall MCR calculation	**MCR**	**MCR**
	2023	**2022**
	£'000	**£'000**
Linear MCR	59,779	62,093
SCR	246,150	252,415
MCR cap	110,767	113,587
MCR floor	61,537	63,104
Combined MCR	61,537	63,104
Absolute floor of the MCR	3,495	3,445
Minimum Capital Requirement	**61,537**	**63,104**

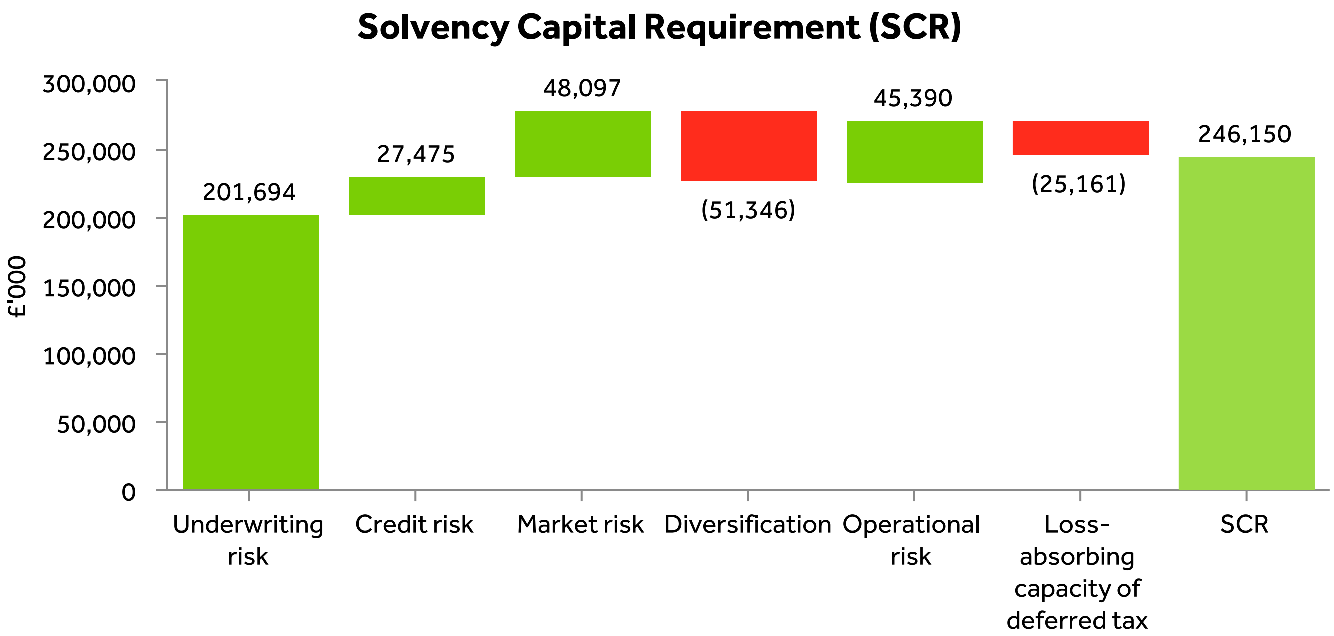
The non-life linear MCR is based on factors applied to net written premiums amounts in the previous 12 months and the net best estimate technical provisions both split by Solvency II line of business. The charge for premium and technical provision elements are then summed to create a total charge.

SII LoB Components for MCR calculation	Net (of reinsurance) best estimate provisions		Net (of reinsurance) written premiums in the last 12 months	
	2023	**2022**	**2023**	**2022**
Income protection insurance and proportional reinsurance	6,908	8,133	10,262	9,230
Motor vehicle liability insurance and proportional reinsurance	9,381	21,029	10,405	10,191
Other motor insurance and proportional reinsurance	3,234	620	8,368	3,698
Marine, aviation and transport insurance and proportional reinsurance	35,937	67,254	53,666	25,412
Fire and other damage to property insurance and proportional reinsurance	71,935	92,803	97,399	66,821
General liability insurance and proportional reinsurance	188,595	106,672	67,132	105,500
Credit and suretyship insurance and proportional reinsurance	—	—	10,024	4,542
Miscellaneous financial loss insurance and proportional reinsurance	658	30,689	409	8,812
Non-proportional health reinsurance	—	—	—	—
Non-proportional casualty reinsurance	2,112	2,012	12	132
Non-proportional marine, aviation and transport reinsurance	325	1,462	6	37
Non-proportional property reinsurance	505	952	—	—

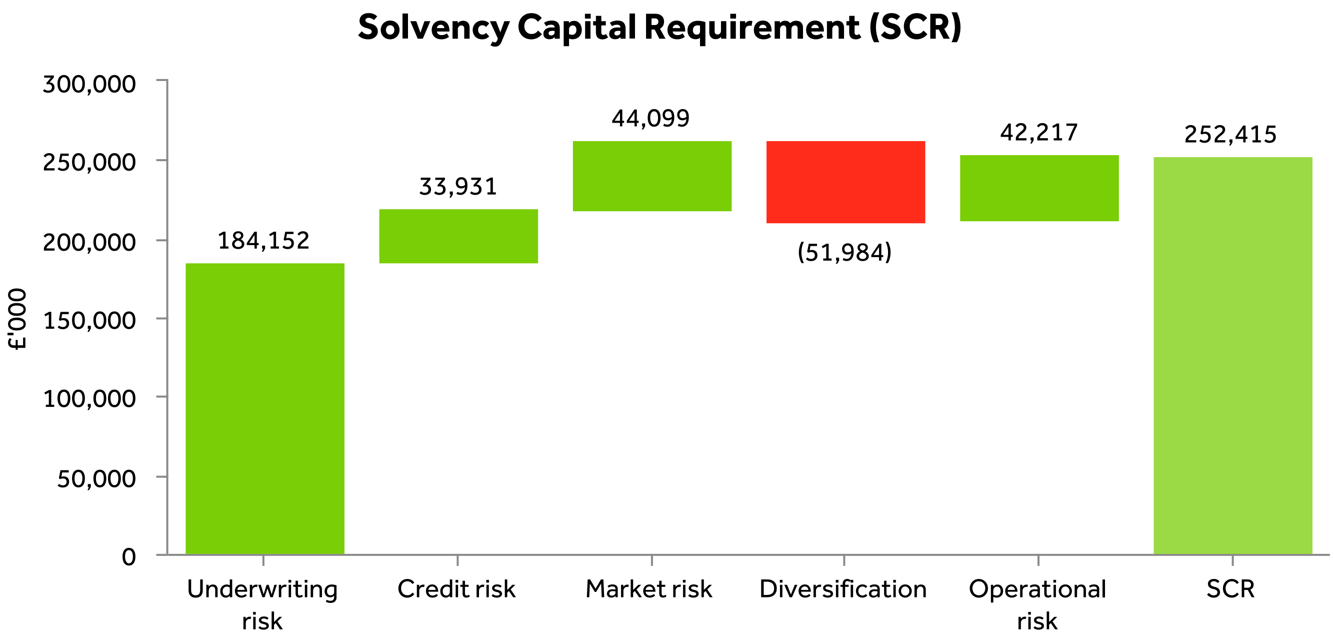
E.2.2 SCR by risk module

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

2023



2022



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

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

Non-life underwriting risk (incl. Health)

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

- £136m (2022: £133m) of premium and reserve risk driven by earned premiums, forecast premiums and claims provisions of non-life business lines. This has increased from 2022 due to increases in both premium volumes and loss reserves during the year.

- £97m (2022: £79m) of catastrophe risk driven by the Company's exposure to both man-made catastrophe and natural catastrophe risks. This has increased from 2022 due to an increase in earned premium expected in the next 12 months especially for liability business and reduced cessions especially in casualty business.

	2023	2022
Non-life underwriting risk (incl. Health)	**£'000**	**£'000**
Non-life premium and reserve risk	135,920	133,086
Non-life lapse risk	48,971	29,855
Non-life catastrophe risk	97,329	78,983
Diversification within non - life underwriting risk module	(89,971)	(68,438)
Total health underwriting risk	9,445	10,666
Non Life Underwriting Risk (incl. Health) Total	**201,694**	**184,152**

Counterparty default risk (credit risk)

The Company is exposed to £27m (2022: £34m) of counterparty risk in the form of cash deposits and recoveries from reinsurers (Type 1) and from receivables from intermediaries, policyholders and other debtors (Type 2). The decrease of £7m is a result of a decrease in recoveries from reinsurers and decrease in overdue debtors greater than 90 days.

Market risk

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

- £30m (2022: £25m) of spread risk mainly driven by the Company's investments in bonds and securitised assets.
- £28m (2022: £20m) of interest rate risk driven by the changes in assets and liabilities of the Company due to changes in discount rates. The Increase is due to increase in investment assets.
- £15m (2022: £21m) 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 the currency mix, mainly driven by the decreased exposure to US Dollars and South African Rand.

	2023	2022
Market risk	**£'000**	**£'000**
Interest rate risk	27,804	20,469
Spread risk	29,747	24,577
Concentration Risk	758	214
Currency risk	14,970	21,119
Market Risk Diversification	(25,182)	(22,280)
Total Market Risk	**48,097**	**44,099**

Operational risk

The capital requirement for operational risk is calculated as 3% on technical provisions.

	2023	2022
Operational risk	**£'000**	**£'000**
Non-life gross technical provisions (excluding risk margin)	1,512,984	1,407,226
Capital requirement for operational risk based on technical provisions	**45,390**	**42,217**

Loss absorbing capacity of deferred tax

The recognition of £25.2m (2022: £Nil) of loss absorbing capacity of deferred tax has been based on the extent to which losses can be offset against future profits and any recognition of deferred tax liability on the SII balance sheet. Future profits are based on the budgeted forecasts. Included in the LACDT calculations are: £1.2m from DTL on the Solvency II balance sheet, £17.7m from the forecasted 5 year profits and £6.3m of losses carried-back.

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 as this does not apply to UK insurers.

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

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

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

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

E.6. Any other information

There is no other material information regarding capital management.

Public Quantitative Reporting Templates

S02.01.01 Basic information

Undertaking name	R0010	AXA XL Insurance Company UK Limited
Undertaking identification code	R0020	LEI/2138003CMF813DZA4E20
Type of code of undertaking	R0030	LEI
Type of undertaking	R0040	3 – Non–Life undertakings
Country of authorisation	R0050	GB
Language of reporting	R0070	English
Reporting submission date	R0080	4/4/2024
Financial year end	R0081	31/12/2023
Reporting reference date	R0090	31/12/2023
Currency used for reporting	R0110	GBP
Accounting standards	R0120	UK GAAP
Method of Calculation of the SCR	R0130	1 – Standard formula
Use of undertaking specific parameters	R0140	2 - Don't use undertaking specific parameters
Ring-fenced funds	R0150	2 - Not reporting activity by RFF
Matching adjustment	R0170	2 - No use of matching adjustment
Volatility adjustment	R0180	2 - No use of volatility adjustment
Transitional measure on the risk-free interest rate	R0190	2 - No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	R0200	2 - No use of transitional measure on technical provisions

S.02.01.02 Balance Sheet

	Solvency II value
	2023
Assets	**£'000**
Intangible assets	—
Deferred tax assets	—
Pension benefit surplus	—
Property, plant & equipment held for own use	—
Investments (other than assets held for index-linked and unit-linked contracts)	693,927
Property (other than for own use)	—
Holdings in related undertakings, including participations	—
Equities	—
Equities - listed	—
Equities - unlisted	—
Bonds	691,665
Government Bonds	225,058
Corporate Bonds	419,523
Structured notes	—
Collateralised securities	47,083
Collective Investments Undertakings	2,263
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:	1,221,202
Non-life and health similar to non-life	1,221,202
Non-life excluding health	1,210,080
Health similar to non-life	11,122
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	—
Insurance and intermediaries receivables	28,915
Reinsurance receivables	128,105
Receivables (trade, not insurance)	42,662
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	151,828
Any other assets, not elsewhere shown	—
Total assets	**2,266,640**

	2023 £'000
Liabilities	
Technical provisions – non-life	1,548,291
Technical provisions – non-life (excluding health)	1,529,546
TP calculated as a whole	—
Best Estimate	1,494,954
Risk margin	34,592
Technical provisions - health (similar to non-life)	18,745
TP calculated as a whole	—
Best Estimate	18,030
Risk margin	715
Technical provisions - life (excluding index-linked and unit-linked)	—
Technical provisions - health (similar to life)	—
TP calculated as a whole	—
Best Estimate	—
Risk margin	—
Technical provisions – life (excluding health and index-linked and unit-linked)	—
TP calculated as a whole	—
Best Estimate	—
Risk margin	—
Technical provisions – index-linked and unit-linked	—
TP calculated as a whole	—
Best Estimate	—
Risk margin	—
Contingent liabilities	—
Provisions other than technical provisions	—
Pension benefit obligations	—
Deposits from reinsurers	—
Deferred tax liabilities	1,169
Derivatives	—
Debts owed to credit institutions	141,605
Financial liabilities other than debts owed to credit institutions	—
Insurance & intermediaries payables	10,598
Reinsurance payables	80,852
Payables (trade, not insurance)	65,891
Subordinated liabilities	—
Subordinated liabilities not in BOF	—
Subordinated liabilities in BOF	—
Any other liabilities, not elsewhere shown	707
Total liabilities	**1,849,113**
Excess of assets over liabilities	**417,527**

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

	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)								Line of business for: accepted non-proportional reinsurance				
	Income protection insurance	Motor vehicle liability insurance	Other motor insuranc e	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Miscellane ous financial loss	Health	Casualty	Marine, aviation, transport	Property	**Total**
Premiums written													
Gross - Direct Business	14,473	27,589	34,722	46,097	318,157	392,964	67,576	28					901,606
Gross - Proportional reinsurance accepted	5,888	105	481	96,582	113,352	24,368	794	—					241,570
Gross - Non-proportional reinsurance accepted									—	—	—	4	4
Reinsurers' share	13,019	17,211	22,036	110,738	329,904	324,438	54,928	21	—	—	—	4	872,299
Net	7,342	10,483	13,167	31,941	101,605	92,894	13,442	7	—	—	—	—	270,881
Premiums earned													
Gross - Direct Business	15,000	22,482	34,537	64,092	291,431	373,794	16,472	173					817,981
Gross - Proportional reinsurance accepted	7,806	118	353	75,427	101,451	20,254	713	—					206,122
Gross - Non-proportional reinsurance accepted									—	—	1	23	24
Reinsurers' share	14,433	14,023	21,768	109,920	303,499	307,446	13,950	93	—	—	—	19	785,151
Net	8,373	8,577	13,122	29,599	89,383	86,602	3,235	80	—	—	1	4	238,976
Claims incurred													
Gross - Direct Business	11,757	2,281	17,851	48,925	149,719	184,412	4,119	448					419,512
Gross - Proportional reinsurance accepted	1,634	346	876	32,636	44,107	11,260	1,811						92,670
Gross - Non-proportional reinsurance accepted											2	5	7
Reinsurers' share	8,717	2,547	13,962	65,441	160,874	180,692	5,610	221	—	—	2	2	438,068
Net	4,674	80	4,765	16,120	32,952	14,980	320	227	—	—	—	3	74,121
Expenses incurred	4,173	2,566	7,145	19,867	54,504	54,258	1,396	134	—	—	—	1	144,044
Other expenses													—
Total expenses													**144,044**

S.17.01.02 Non-life Technical Provisions

	Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Miscellaneous financial loss
	Direct business and accepted proportional reinsurance							
	£'000							
Technical provisions calculated as a sum of BE and RM								
Best estimate								
Premium provisions								
Gross	(2,100)	(2,742)	(1,376)	(14,531)	(36,451)	(49,853)	(43,997)	—
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	(1,153)	(458)	(235)	(976)	(11,255)	(8,420)	(14,772)	—
Net Best Estimate of Premium Provisions	(947)	(2,284)	(1,141)	(13,555)	(25,196)	(41,433)	(29,225)	—
Claims provisions								
Gross	20,130	31,661	12,914	207,209	407,337	966,662	7,248	993
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	12,275	19,996	8,539	157,717	310,206	736,634	5,834	334
Net Best Estimate of Claims Provisions	7,855	11,665	4,375	49,492	97,131	230,028	1,414	659
Total Best estimate - gross	18,030	28,919	11,538	192,678	370,886	916,809	(36,749)	993
Total Best estimate - net	6,908	9,381	3,234	35,937	71,935	188,595	(27,811)	659
Risk margin	715	916	357	4,506	9,160	18,392	1,014	45
Technical provisions - total	18,745	29,835	11,895	197,184	380,046	935,201	(35,735)	1,038
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	11,122	19,538	8,304	156,741	298,951	728,214	(8,938)	334
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	**7,623**	**10,297**	**3,591**	**40,443**	**81,095**	**206,987**	**(26,797)**	**704**

	Accepted non-proportional reinsurance				Total Non-Life obligation
	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
Best estimate					
Premium provisions					
Gross	—	—	—	—	(151,049)
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	—	—	—	—	(37,270)
Net Best Estimate of Premium Provisions	—	—	—	—	(113,779)
Claims provisions					
Gross	—	7,428	623	1,827	1,664,033
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	—	5,315	298	1,323	1,258,472
Net Best Estimate of Claims Provisions	—	2,113	325	504	405,561
Total Best estimate - gross	—	7,428	623	1,827	1,512,984
Total Best estimate - net	—	2,113	325	504	291,782
Risk margin	—	145	22	35	35,307
Technical provisions - total	—	7,573	645	1,862	1,548,291
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	—	5,315	298	1,323	1,221,202
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	**—**	**2,258**	**347**	**539**	**327,089**

S.19.01.21 Non-life Insurance Claims Information

Total Non-Life Business

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											5,894	5,894	5,894
N-9	14,276	98,841	72,289	30,807	24,451	12,685	13,574	14,426	5,803	2,232		2,232	289,384
N-8	25,689	111,532	74,721	39,124	9,281	27,640	21,707	(14)	6,497			6,497	316,177
N-7	19,223	69,075	57,994	25,070	7,381	14,844	16,199	20,549				20,549	230,335
N-6	7,940	76,357	98,235	7,253	8,242	8,078	17,043					17,043	223,148
N-5	13,827	58,118	45,291	35,333	38,736	37,191						37,191	228,496
N-4	6,748	62,237	67,014	46,257	30,539							30,539	212,795
N-3	26,057	113,548	72,924	53,635								53,635	266,164
N-2	57,872	102,383	78,369									78,369	238,624
N-1	67,230	110,551										110,551	177,781
N	22,683											22,683	22,683
											Total	385,183	2,211,481

Gross undiscounted Best Estimate Claims Provisions

(absolute amount)

	Development year											
Year	**—**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10 & +**	**Year end (discounted data)**
Prior											80,334	70,334
N-9			150,961	102,089	54,199	45,210	27,828	12,200	25,445	27,845		25,144
N-8		208,174	147,863	120,230	95,548	54,392	67,092	46,543	38,442			34,636
N-7	79,623	156,472	118,905	109,499	79,245	61,412	49,081	22,049				19,794
N-6	58,257	179,375	89,069	109,444	50,034	43,859	36,001					31,740
N-5	56,307	152,758	182,404	119,966	132,285	93,719						83,378
N-4	124,108	374,816	224,072	273,784	244,399							217,220
N-3	361,945	586,979	387,359	295,574								262,087
N-2	240,731	427,494	333,748									295,931
N-1	252,079	471,604										419,274
N	231,788											204,495
											Total	**1,664,033**

S.23.01.01 Own funds

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
	£'000	£'000	£'000	£'000	£'000
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35					
Ordinary share capital (gross of own shares)	811	811			
Share premium account related to ordinary share capital	352,508	352,508			
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	64,208	64,208			
Subordinated liabilities					
An amount equal to the value of net deferred tax assets	—				—
Other own fund items approved by the supervisory authority as basic own funds not specified above	—				
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
Deductions					
Deductions for participations in financial and credit institutions	—				
Total basic own funds after deductions	**417,527**	417,527		—	—
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	417,527	417,527	—	—	—
Total available own funds to meet the MCR	417,527	417,527	—	—	
Total eligible own funds to meet the SCR	**417,527**	417,527	—	—	—
Total eligible own funds to meet the MCR	**417,527**	417,527	—	—	
SCR	**246,150**				
MCR	**61,537**				
Ratio of Eligible own funds to SCR	**169.6 %**				
Ratio of Eligible own funds to MCR	**678.5 %**				

	£'000
Reconciliation reserve	
Excess of assets over liabilities	417,527
Own shares (held directly and indirectly)	
Foreseeable dividends, distributions and charges	
Other basic own fund items	353,319
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
Reconciliation reserve	64,208
Expected profits	
Expected profits included in future premiums (EPIFP) - Life business	
Expected profits included in future premiums (EPIFP) - Non-life business	171,049
Total Expected profits included in future premiums (EPIFP)	171,049

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

	Gross solvency capital requirement £'000	Simplifications £'000
Market risk	48,097	—
Counterparty default risk	27,475	—
Life underwriting risk	—	—
Health underwriting risk	9,445	—
Non-life underwriting risk	192,249	—
Diversification	(51,345)	—
Intangible asset risk	—	—
Basic Solvency Capital Requirement	225,921	

Calculation of Solvency Capital Requirement	
Operational risk	45,390
Loss-absorbing capacity of technical provisions	—
Loss-absorbing capacity of deferred taxes	(25,161)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	—
Solvency capital requirement excluding capital add-on	246,150
Capital add-on already set	—
Solvency capital requirement	**246,150**
Other information on SCR	
Capital requirement for duration-based equity risk sub-module	—
Total amount of Notional Solvency Capital Requirement for remaining part	—
Total amount of Notional Solvency Capital Requirements for ring fenced funds	—
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	—
Diversification effects due to RFF nSCR aggregation for article 304	—
Approach to tax rate	
Approach based on average tax rate	No
Calculation of loss absorbing capacity of deferred taxes	
LAC DT	(25,161)
LAC DT justified by reversion of deferred tax liabilities	(1,169)
LAC DT justified by reference to probable future taxable economic profit	(17,673)
LAC DT justified by carry back, current year	(6,319)
LAC DT justified by carry back, future years	
Maximum LAC DT	(25,161)

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	59,779

	Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
	£'000	£'000
Income protection insurance and proportional reinsurance	6,908	10,262
Motor vehicle liability insurance and proportional reinsurance	9,381	10,405
Other motor insurance and proportional reinsurance	3,234	8,368
Marine, aviation and transport insurance and proportional reinsurance	35,937	53,666
Fire and other damage to property insurance and proportional reinsurance	71,935	97,399
General liability insurance and proportional reinsurance	188,595	67,132
Credit and suretyship insurance and proportional reinsurance	—	10,024
Miscellaneous financial loss insurance and proportional reinsurance	658	409
Non-proportional health reinsurance	—	—
Non-proportional casualty reinsurance	2,112	12
Non-proportional marine, aviation and transport reinsurance	325	6
Non-proportional property reinsurance	505	—

Overall MCR calculation

	£'000
Linear MCR	59,779
SCR	246,150
MCR cap	110,767
MCR floor	61,537
Combined MCR	61,537
Absolute floor of the MCR	3,495
Minimum Capital Requirement	**61,537**

Glossary

AC	Audit Committee
ALM	Asset-Liability Management
AXA SA	AXA Société Anonyme
AXICL UK	AXA XL Insurance Company UK Limited
BCRC	Board Claims and Reserves Committee
BRCC	Board Risk and Compliance Committee
BE/BEL	Best Estimate/Best Estimate Liabilities
BOF	Basic Own Funds
CAT	Catastrophe
CRO	Chief Risk Officer
DAC	Deferred Acquisition Costs
DTA	Deferred Tax Asset
DTL	Deferred Tax Liability
ENiD	Events not in Data
ExCo	Executive Committee
FIC	Framework for Internal Control
GAAP	Generally Accepted Accounting Principles
ICM	Internal Capital Model
MCR	Minimum Capital Requirement
ORSA	Own Risk and Solvency Report
PRA	Prudential Regulatory Authority
QRT	Quantitative Reporting Template
RAF	Risk Appetite Framework
RDS	Realistic Disaster Scenario
RI	Reinsurance
RMC	Risk Monitoring Committee
RMF	Risk Management Framework
RM	Risk Margin
SAA	Strategic Asset Allocation
SCR	Solvency Capital Requirement
SF	Standard Formula
SII	Solvency II
SFCR	Solvency and Financial Condition Report
S&S	Stress & Scenario
UC	Underwriting Committee
UK&I	United Kingdom and Ireland
UEPR	Unearned Premium Reserve
XLCSSE	XL Catlin Services SE