Catlin Re Switzerland Ltd

An AXA S.A. Company

Financial Condition Report

Year Ended

December 31, 2020

Contents

Directors' statement

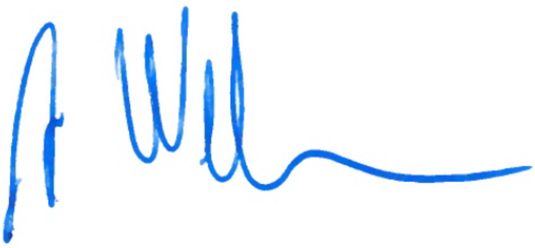
The Board of Directors acknowledge their responsibility for ensuring that this Financial Condition Report has been properly prepared in all material respects in accordance with FINMA regulations. The Board is satisfied that:

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

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

This report was discussed and reviewed at the Board Meeting held in Zurich on April 23, 2021 and signed off on April 30, 2021.

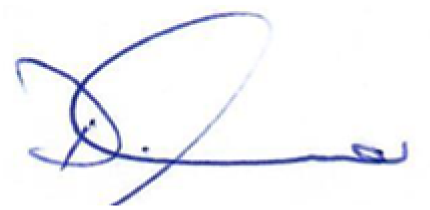
By order of the Board



Andreas Weber

Chairman of the Board

April 30, 2021



Daniel Maurer

Director

April 30, 2021

Management summary

General remarks

This report should be read in conjunction with Catlin Re's ("CRCH", or "the Company") audited financial statements for the year ended December 31, 2020 disclosed in appendix 4.

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

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

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

Any references to AXA Group refer to AXA SA together with its direct and indirect subsidiaries.

Business activities

The Company is part of the AXA XL Division within AXA and became a member of the AXA Group during 2018. AXA XL is the property, casualty, and specialty division of AXA comprising global insurance and reinsurance companies that provide property, casualty and specialty products to industrial, commercial and professional firms, insurance companies and other enterprises on a worldwide basis.

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

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

Seaview Re Ltd ("Seaview Re") was established during 2019 and is a licensed Class 3a insurer regulated by the Bermuda Monetary Authority ("BMA") and a subsidiary of the US domiciled Seaview Re Holdings Inc ("Seaview Holdings"), which in turn is a fully owned subsidiary of Catlin Re.

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

Business performance

Towards the end of 2020 the Company benefited from favourable market conditions due to an acceleration of market hardening. However that growth was partly offset by the impact of COVID-19 in terms of exposure adjustments as well as ongoing disciplined underwriting policies. The Company remains focused on underwriting profitability over volumes.

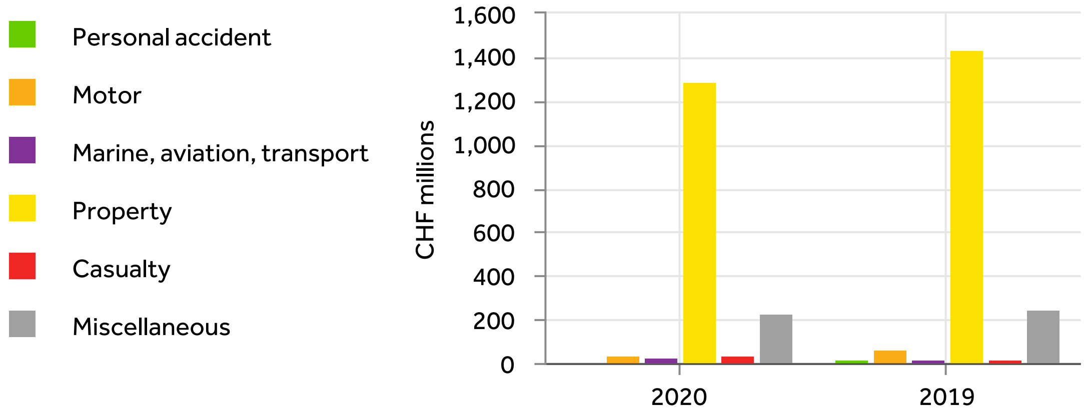
The 2020 loss ratio of 75% is mainly driven by the current accident year losses mostly due to COVID-19.

The Company generated CHF 1,635m of gross premium written in 2020 and a combined ratio of 111%.

CHF millions

2020	Gross premium written	Net premium earned	Acquisition cost ratio	Loss ratio	Combined ratio
Personal accident	11	16	43 %	89 %	131 %
Motor	37	24	19 %	52 %	71 %
Marine, aviation, transport	26	14	37 %	99 %	136 %
Property	1,290	1,229	35 %	74 %	110 %
Casualty	40	21	38 %	43 %	82 %
Miscellaneous	230	208	43 %	82 %	125 %
Total 2020	**1,635**	**1,512**	**36 %**	**75 %**	**111 %**

Gross premium written by FINMA line of business



Further details of the Company's performance are provided in section B and the Annual Financial Statements in appendix 4. Also refer to AXA's Annual Report for the year ended December 31, 2020 for additional information on AXA Group's performance.

Corporate governance and risk management

The Board of Directors ("Board", "BoD") and management are committed to ensure effective corporate governance with the objective to provide proper oversight over the Company. The Board regularly reviews its comprehensive corporate governance framework, policies and practices to ensure that it meets the expectations of its shareholder and evolves in compliance with the Swiss legal and regulatory requirements and AXA XL's best practice in corporate governance. The Board has the ultimate responsibility for setting the strategy regarding the business and is accountable for the performance of the Company towards the shareholder.

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

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

The risk management framework ("RMF") determines risk appetites and risk limits, establishes risk policies, identifies and manages the risks to the Company's objectives and monitors its resources and capital requirements. All these processes and monitoring activities are carried out throughout the year with oversight by the Board. The Company is supported by a number of Division-wide processes in the achievement of its risk management objectives.

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

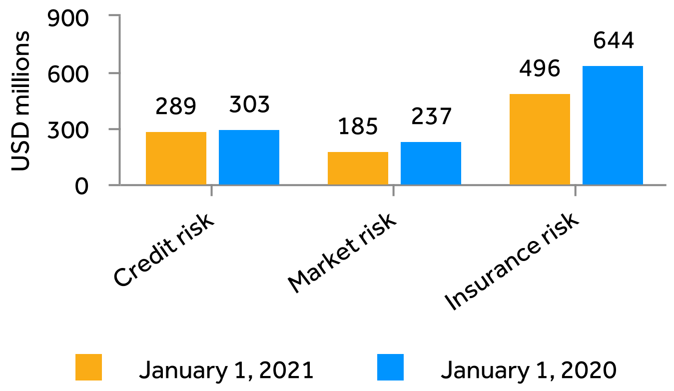
Risk profile

CRCH is materially exposed to insurance, market and credit risk. The Company uses the Swiss Solvency Test ("SST") basis at the 1% Tail Value at Risk ("TVaR") to calculate the capital requirements.

There have been material changes in the risk profile of CRCH during 2020. CRCH wrote Intra-Group reinsurance contracts for the US pool of companies from 2011-2017. During 2020 these contracts were novated to XL Bermuda Ltd. This has led to significant decline in reserves and corresponding investments in CRCH toward the end of 2020. On a CRCH standalone basis, reserve risk and market risk have reduced materially as a result of the novation. Seaview Re started writing a 30% Whole Account Quota Share from XL Reinsurance America Inc (Pool) ("XLRA") in 2019 which was renewed in 2020 and 2021. As a result, on a consolidated basis, we expect CRCH's underwriting risk profile to remain largely stable with reserve risk increasing over time again.

Underwriting risk and to a certain extent reserve risk are mitigated by a Whole Account Stop Loss ("WASL") with XL Bermuda Ltd, that has been renewed yearly since 2017. For 2020 and 2021, the cover protects combined CRCH and Seaview Re Ltd with any losses exceeding 72% loss ratio up to 92% loss ratio (2020: 87%). The 2017-2019 agreements protected CRCH standalone. Accident years 2017 and 2020 have attached and as such possible further adverse developments are covered by the WASL.

The key risks before diversification as per the SST for CRCH as at January 1, 2021, and the previous year are shown below:



Each separate category of risk is described in detail in section D including operational risks to which CRCH is exposed to.

Valuation

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

Capital management

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

USD millions	January 1, 2020	January 1, 2021	Change	Change in %
Risk bearing capital ("RBC")	1,260	1,102	(158)	(13)%
Target capital ("TC")	1,052	936	(116)	(11)%
Market value margin ("MVM")	184	175	(9)	(5)%
SST ratio	**124 %**	**122 %**	**(2)pts**	**(2)%**

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

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

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

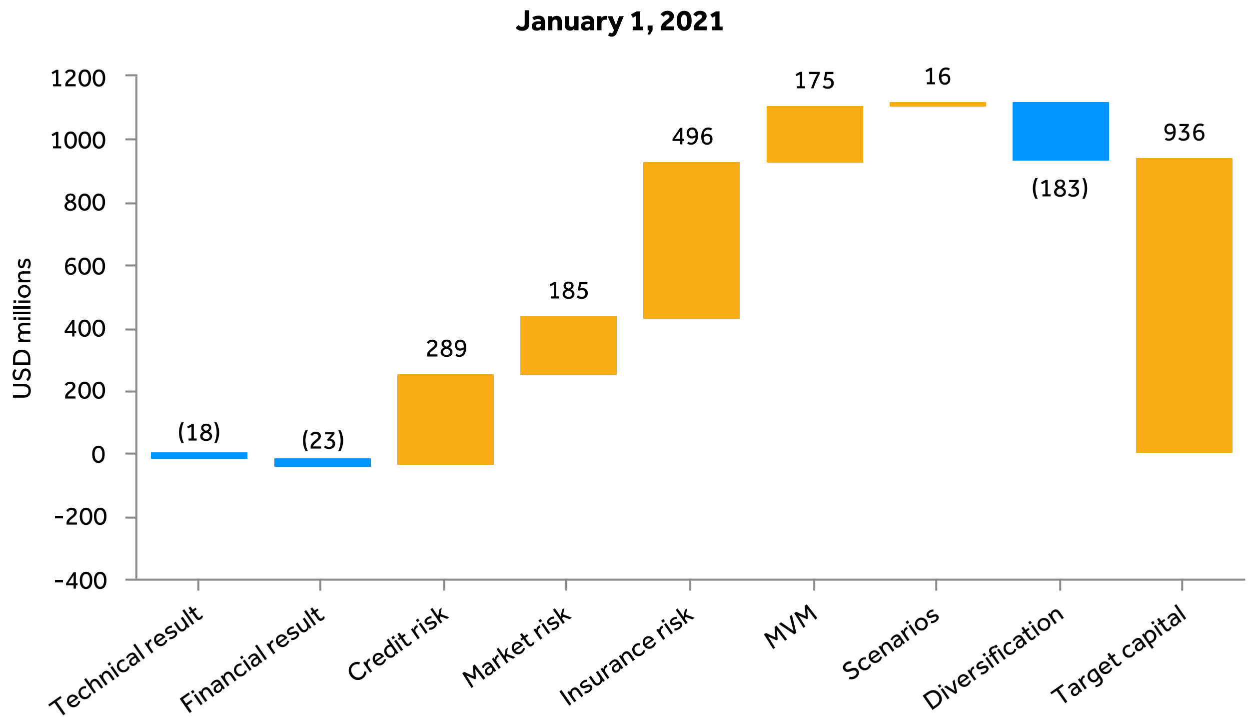
During 2020, to support BMA capital requirements, USD 150m was contributed from XL Bermuda Ltd to Seaview Re whereby Catlin Re retains 100% ownership of Seaview Re via Seaview Holdings.

Solvency

Section G provides information on the models used for the SST calculations with further breakdowns of the target capital as at January 1, 2021. Seaview Re is included within the 2021 and 2020 on a consolidated basis.

During 2020 CRCH developed a new internal model that was submitted to FINMA for approval. In January 2021, FINMA granted the use of this model for the 2021 SST with a temporary 6% loading on insurance risk. During 2021 CRCH expects to submit an update to the reserve risk module for approval. All 2021 results presented in this report are derived from the new model whereas the 2020 results are from the legacy model used for the 2020 SST submission to FINMA in April 2020.

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



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

Market risk is calculated using the FINMA standard model whereas insurance risk and the MVM ("Market value margin") are obtained from the internal model.

CRCH results are presented on a consolidated basis, as such risks associated with Seaview Re have been included within each risk category.

Overall, the target capital for the SST 2021 has decreased by USD 116m compared to last year. There have been a number of offsetting movements, the key drivers of which are highlighted below:

- Expected insurance result has decreased due to less discount benefit as yield curves have decreased;
- Market risk has decreased as a result of the novation of US Intra-Group contracts;
- Insurance risk has decreased from last year due to a number of offsetting factors:
    - Decrease in reserve risk as a result of the novation of US Intra Group contracts;
    - Decrease due to triggering the attachment and recovery in the 2020 WASL from the Q4 2020 reserves;
    - Decrease due to protection of the 2021 accident year WASL agreement with XLB; partially offset by
    - Increase due to less discount benefit as yield curves have decreased.

Significant events post year end:

Catlin Re entered into an internal equity transfer agreement whereby Catlin Re is purchasing 100% of the shares in XL Reinsurance (China) Company Limited. The ownership will become legally effective only after China Banking and Insurance Regulatory Commission ("CBIRC") approval which is expected by June 2021.

A. Business activities

A.1 Strategy, objectives and business segments

The Company is part of the AXA XL Division within AXA and became a member of the AXA Group during 2018. AXA XL is the property, casualty, and specialty division of AXA comprising global insurance and reinsurance companies that provide property, casualty and specialty products to industrial, commercial and professional firms, insurance companies and other enterprises on a worldwide basis.

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

The Company underwrites property, casualty and specialty classes of reinsurance in Continental Europe, Latin America, North America and Australia as well as trade credit, surety and political risk reinsurance on a global basis. The offerings include short-tail multi-peril property reinsurance as well as casualty, trade credit, surety, political risk, crop, accident & health, marine, engineering and other lines of reinsurance, mostly in the form of treaty reinsurance. Reinsurance coverage is distributed through reinsurance brokers and directly with cedants. The Company prudently manages reinsurance obligations through controlled risk taking, clear accountability and strong underwriting discipline. Market sentiment indicates the Company is successfully established amongst the 2nd tier reinsurers, which jointly with AXA's strong balance sheet positively impacts negotiation leverage and overall opportunities. Through its Bermuda Branch, the Company underwrites US property and casualty business. The needs of the Central and South American, Brazilian and the Caribbean reinsurance markets are served through a local office in Colombia as well as a binder agreement with an AXA XL office in Miami. Brazil business is written both through Catlin Re on an admitted basis as well as through the partially owned Brazil domiciled subsidiary. The Pacific region is served through a binder agreement with the AXA XL Sydney office.

The focus of renewal 2021 was to further increase the quality of the existing book by ensuring adequate terms and conditions along with growing the business with rate adequacy levels at or above target. With this encompassing approach the Company ranked amongst the most conservative market players and feels encouraged by achievements, the improved quality of the portfolio and the growth in the most attractive markets. The markets have shown a clear hardening across most lines. Yet not all programs have registered a turn-around the Company felt is required; in some instances our stance has led to a deliberate loss of the across-the-board participations. Equally, the Company has only accepted new business opportunities meeting expectations, which in International Casualty were fewer than planned. Shortfall was registered in credit and surety due to a regulatory change for Israeli banks, which has reduced demand for reinsurance. The Company's initiative on introducing the Communicable Exclusion Clauses has been working in most cases.

A.2 Group information and group related transactions

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

Catlin Luxembourg S.à r.l.
6B, rue Gabriel Lippmann
L-5365 Munsbach, Luxembourg

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

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.

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

Group Supervisor

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

Material related party transactions

The Company, together with Seaview Re Ltd, benefits from a purchased WASL agreement with XL Bermudat Ltd ("XLB"). The Company also makes regular payments to AXA Group companies in respect of services provided to the Company. The Company regularly purchases or sells financial investments from and to other Group companies. During 2020, the historic loss reserves of the US Intra-Groups, which have been in run-off since 2017, were novated to XLB. Other than the previously mentioned, there were no material transactions during 2020 with the Company's direct or indirect shareholders, with persons who exercise a significant influence on the Company or with members of the Board which are deemed material. The Company actively monitors all related party transactions.

A.3 Related undertakings

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

in CHF millions as of December 31, 2020	**Domicile**	**Net Book value**	**Equity/Voting Shares**
Seaview Re Holdings Inc	Delaware, USA	666.70	100 %
AXA XL Resseguros S.A.	Sao Paulo, Brasil	34.23	50 %
XL Re Latin America Argentina SA	Buenos Aires, Argentina	—	80 %
XL Value Offshore LLC	Hamilton, Bermuda	55.94	25 %
Total investments in affiliated companies		**756.87**	

To simplify the AXA XL divisional legal entity structure, effective December 1, 2020 XL Resseguros Brasil S.A.("XL Re Brasil") was merged into AXA Corporate Solutions Brasil e Amèrica Latina Resseguros S.A. ("AXA Latam") with AXA Latam being the surviving entity. Prior to the merger AXA Latam was fully owned by XL Insurance Company SE, Dublin, ("XLICSE") and XL Re Brasil was fully owned by CRCH and therefore the merged entity now has combined ownership. Subsequent to the merger, AXA Latam was renamed to AXA XL Resseguros S.A. ("AXA XL Brasil Re") with an effective date of February 25, 2021.

Also refer to Seaview Re's Annual Report for the year ended December 31, 2020 for additional information on the Company's subsidiary (via Seaview Holdings) performance.

A.4 Major branches

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

A.5 External auditor

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

PricewaterhouseCoopers AG
Birchstrasse 160
Postfach
8050 Zurich
Switzerland

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

A.6 Significant unusual events

COVID-19 outbreak

• Market Environment

2020 saw the global outbreak of the COVID-19 pandemic, which first appeared in China late 2019 before spreading to other countries and becoming a worldwide pandemic by March 2020.

China first put in place unprecedented lockdowns to contain the spread of the pandemic, and similar measures were imposed by most large economies from Mid-March. Worldwide, governments-imposed confinements, quarantines, travel restrictions, social distancing measures and more generally the closure of activities deemed non-essential to try and alleviate the severe strain experienced by local, national and supra-national medical institutions. This led to massive disruptions to the global economic output, notably manufacturing, trade and supply chains, which resulted in both lower economic activity and lower estimates of future economic growth. From May onwards, as the virus contagion started to show signs of abatement, governments started to ease the restrictions to alleviate the negative impacts on the economy.

However, the pace of the contamination accelerated during the third quarter, with the number of daily new cases reaching very high levels, mostly in Europe and in the United States. This situation has proven to be long-lasting, leading governments to strengthen again the sanitary measures after the relative easing during the summer. Although these measures were less stringent than in March, they weighed further on the economic environment. At the end of 2020, most of these restrictions were still in place and outlooks remain uncertain despite vaccines being rolled out to the population of many countries from the end of 2020.

• Activity and Earnings

The COVID-19 pandemic negatively impacted the Company's 2020 net income, mainly through losses on Credit & Surety lines due to uncertainty on recession sensitive lines as well as Property lines.

The Company's turnover was also affected by the crisis, primarily on a large Proportional Treaty whereby the cedant had a decrease in underlying business.

Additionally, financial markets have experienced a significant drop in the first semester, then partly recovered in the second half of the year, as a potential normalization of the situation came in sight with the development of vaccines. The consequence for the Company was minimal as the exposure to equities and volatile investments was not significant.

In this highly uncertain context, the Company continues to closely monitor its exposures, including (i) the operational impact on its business, (ii) the consequence of the deterioration in macroeconomic conditions, (iii) the impacts on insurance coverages, including on-going litigation in some locations, (iv) the reinsurance recoveries, and (v) the change in asset prices and financial conditions.

B. Business performance

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

The table below provides the main 2020 and 2019 key performance indicators; the quantitative template with more granular information can be found in appendix 1.

B.1 Underwriting result

CHF millions	2019	2020	Change	Change in %
Gross premium written	1,809	1,635	(174)	(10)%
Net earned premium	1,550	1,512	(38)	(2)%
Net acquisition costs	(566)	(549)	17	(3)%
Net claims incurred	(1,035)	(1,135)	(100)	10 %
Net reinsurance result	(51)	(172)	(121)	(237)%
Ratios				
Acquisition cost ratio	37 %	36 %		1 %
Loss ratio	67 %	75 %		(8)%
Combined ratio	**104 %**	**111 %**		**7 %**

2020 benefited from favorable market conditions due to an acceleration of market hardening towards the end of the year. The growth was partly offset by the impact of COVID-19 in terms of exposure adjustments as well as ongoing disciplined underwriting policies. The Company's focus is on underwriting profitability over volumes.

In 2020, compared to the previous year, net earned premium decreased by CHF 38m to CHF 1,512m. This was driven by strategic initiatives to decline unprofitable business in some business lines as well as lower earnings on a large quota share due to a decrease in underlying cedant business.

Acquisition costs decreased mainly in relation with net earned premium, and the acquisition cost ratio remained mainly consistent at 37% in 2019 versus 36% in 2020.

Net claims incurred are CHF 1,135m, compared to CHF 1,035m in the previous year. The 2020 loss ratio of 75% is mainly driven by the current accident year losses mostly due to COVID-19.

The table below provides the 2020 key performance indicators by FINMA line of business:

CHF millions					2020
Line of business	**Gross premium written**	**Net premium earned**	**Acquisition cost ratio**	**Loss ratio**	**Combined ratio**
Personal accident	11	16	43 %	89 %	131 %
Motor	37	24	19 %	52 %	71 %
Marine, aviation, transport	26	14	37 %	99 %	136 %
Property	1,290	1,229	35 %	74 %	110 %
Casualty	40	21	38 %	43 %	82 %
Miscellaneous	230	208	43 %	82 %	125 %
Total 2020	**1,635**	**1,512**	**36 %**	**75 %**	**111 %**

The table below provides the 2019 key performance indicators by FINMA line of business:

CHF millions					2019
Line of business	**Gross premium written**	**Net premium earned**	**Acquisition cost ratio**	**Loss ratio**	**Combined ratio**
Personal accident	16	9	53 %	107 %	160 %
Motor	62	56	24 %	86 %	110 %
Marine, aviation, transport	21	13	37 %	16 %	53 %
Property	1,440	1,249	36 %	59 %	95 %
Casualty	22	17	28 %	686 %	714 %
Miscellaneous	250	206	42 %	59 %	101 %
Total 2019	**1,809**	**1,550**	**37 %**	**67 %**	**104 %**

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

B.2 Investment income and expenses

CHF millions	2019	2020	Change	Change in %
Investments				
Investment income	166	121	(45)	(27)%
Investment expenses	(33)	(69)	(36)	109 %
Net investment result	**133**	**52**	(81)	82 %

The net investment result as disclosed in the annual report in appendix 4 amounts to a gain of CHF 52m compared to CHF 133m in 2019, driven by a reduced investment base and lower book-yield return on investments which lead to decreased investment income as well as an impairment recognised in the valuation of a merged subsidiary.

The Company did not record any gains or losses directly in shareholder's equity.

B.2.1 Investment income and expenses by asset class

Investment income CHF millions	Income	Unrealised gains	Realised gains	2020 Total
Investments in affiliated companies	18	—	—	**18**
Fixed income securities	47	2	54	**103**
Equity securities	—	—	—	**—**
Other investments	—	—	—	**—**
Private equity investments	—	—	—	**—**
Short term investments	—	—	—	**—**
Cash and cash equivalents	—	—	—	**—**
Total Investment income	**65**	**2**	**54**	**121**

Investment expenses CHF millions	Expenses	Unrealised losses	Realised losses	2020 Total
Investments in affiliated companies		(46)	—	**(46)**
Fixed income securities		(7)	(6)	**(13)**
Equity securities		(5)	—	**(5)**
Other investments		—	—	**—**
Private equity investments		—	—	**—**
Short term investments		—	—	**—**
Cash and cash equivalents		—	—	**—**
Investment management fees	(5)	—	—	**(5)**
Total investment expenses	**(5)**	**(58)**	**(6)**	**(69)**
Total net investment contribution	**60**	**(56)**	**48**	**52**

Investment income CHF millions	Income	Unrealised gains	Realised gains	2019 Total
Investments in affiliated companies	—	—	6	**6**
Fixed income securities	78	53	21	**152**
Equity securities	—	—	—	**—**
Other investments	—	—	7	**7**
Private equity investments	—	—	5	**5**
Short term investments	—	—	1	**1**
Cash and cash equivalents	—	—	—	**—**
Total Investment income	**79**	**21**	**74**	**166**

Investment expenses				**2019**
CHF millions	**Expenses**	**Unrealised losses**	**Realised losses**	**Total**
Fixed income securities		(4)	(20)	**(24)**
Equity securities		—	—	**—**
Other investments		—	—	**—**
Private equity investments		—	—	**—**
Short term investments		—	—	**—**
Cash and cash equivalents		—	—	**—**
Investment management fees	(8)	—	—	**(8)**
Total investment expenses	**(8)**	**(4)**	**(20)**	**(33)**
Total net investment contribution	**70**	**16**	**53**	**133**

The net investment contribution amounts to CHF 52m, compared to CHF133m in the previous year. Investment income has decreased by CHF 45m from CHF 166m to CHF 121m year on year driven by a reduced investment base and lower book-yield return on investments which lead to decreased investment income, partially offset by dividend income from affiliates.

Investment expenses have increased from CHF 33m to CHF 69m year on year which is mainly driven by an impairment recognised in the valuation of a merged subsidiary.

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

B.3 Other income and expenses

CHF millions	**2019**	**2020**	**Change**	**Change in %**
Interest income	15	18	3	20 %
Interest expense	(1)	(1)	—	— %
Foreign exchange	(3)	(11)	(8)	267 %
Total other income and expenses	**11**	**6**	**(5)**	**(45)%**

Interest income of CHF 18m is mainly comprised of interest earned on funds withheld.

The foreign exchange loss of CHF 11m (2019: CHF 3m loss) arises from foreign currency transactions incurred in each of the Company's business units and the revaluation of monetary assets and liabilities denominated in foreign currencies into the functional currencies at the period end rates. Revaluation gains and losses are deemed realised and recorded in the income statement. Each business unit with a different functional currency from the Company's Statutory reporting currency is translated to Swiss Francs; resulting unrealised gains are deferred and recorded under the balance sheet line item provision for currency fluctuation. Unrealised losses from translation are either offset against the provision for currency fluctuation or recorded in the income statement. In 2020, unrealised translation losses in the amount of CHF 10m have been recorded against the provision for currency fluctuation (2019: CHF 18m).

C. Corporate governance and risk management

C.1 Corporate governance

C.1.1 Board of Directors composition

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

Wanda Eriksen-Grundbacher (Swiss/U.S.)	Independent Non-Executive	Risk and Audit Committee Chair
Beat Lüthi (Swiss)	Independent Non-Executive	
Daniel Maurer (Swiss)	Non-Executive	Risk and Audit Committee Member
Doina Palici-Chehab (French/German)	Non-Executive	Risk and Audit Committee Member
Andreas Weber (Swiss)	Non-Executive Chair	

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

Rhicert J.P. Webb (British)	Resigned	June 22, 2020	Non-Executive
Doina Palici-Chehab (French/German)	Appointed	October 5, 2020	Non-Executive

Board meetings are held at least quarterly. Detailed Board reports are prepared and circulated in advance of meetings, addressing all major areas of the Company's operations, encompassing underwriting performance, financial results, reserving, risk management, legal and compliance and internal audit. The Risk and Audit Committee convenes at least four times a year.

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

Qualifications of the Board and key function holders

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

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

C.1.2 Executive Committee composition

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

Peter Schmidt (Swiss)	Chief Executive Officer and Chief Underwriting Officer
Benno Schaffhauser (Swiss)	Chief Financial Officer
Paul Simons (Bermudian)	Principal representative of Bermuda Branch

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

C.1.3 General information corporate governance

Corporate governance provides the framework through which:

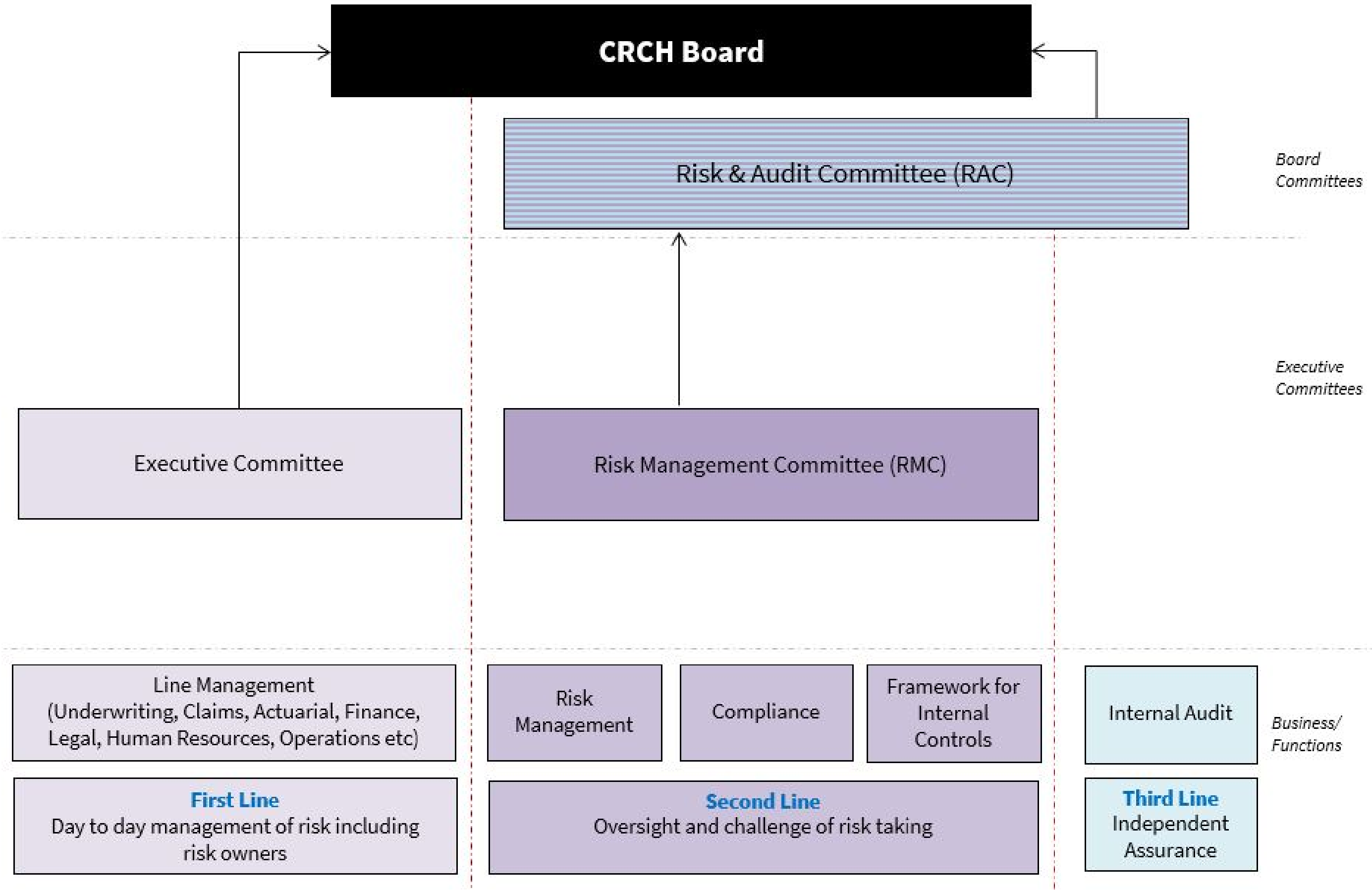
- Objectives and strategy of the Company are set, and the means of attaining those objectives and monitoring performance are determined;
- Roles and responsibilities of the Board and senior management are described;
- At an operational level, policies are set, risk management is developed and carried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

The Board has ultimate responsibility for directing the strategy of the business; setting the Company's risk appetites; and the implementation and maintenance of an effective corporate governance framework for the Company. The Company's framework is designed to demonstrate the Board's and management's commitment to effective governance; and to meet the requirements of the FINMA circular2017/2 'Corporate Governance - Insurers' that applies to the Company and is in place since January 1, 2017.

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

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

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



The Board seeks to ensure that the operations 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 risk that breaches risk appetite to the Board.

The Company operates a 'Three Lines of Defense' approach to ensure effective and robust day to day governance is in place.

1. **First line - 'Day to day' management of risk.**

   Risk-taking activity and direct management of risk within the appetite and policies approved by the Board. This line of defense is involved in risk management decisions and therefore is not deemed to be providing independent oversight.

2. **Second line - Oversight / challenge.**

   Providing risk oversight (including various forms of monitoring activity) and providing guidance on suitable approaches to risk management process and policy. This line of defense is intended to be independent of risk taking activity.

3. **Third line - Independent Assurance.**

   Providing independent assurance as to the effectiveness of the operation of the First and Second lines of defense and the key controls within the Company.

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

Executive Committee

The Executive Committee is responsible for ensuring there is a governance framework in place to support the delivery of the Company's strategic plan by the business and considers recommendations by the RMC and Outsourcing Committee.

Risk Management Committee

The Risk Management Committee ("RMC") is an oversight committee delegated by the Executive Committee. The RMC is comprised of members of the 2nd line of defense of the Company with attendance from the business (first line of defense) and is charged with developing and monitoring risk policies, risk appetites, risk limits (and compliance with such limits), risk aggregations, and identifying key emerging risks.

Risk and Audit Committee

In accordance with the regulations set forth in the Swiss Insurance Supervision Ordinance and the FINMA guidelines set forth in Circular RS-2017/2, the Company has established a Risk and Audit Committee. The purpose of the RAC is outlined in the Risk and Audit Committee Terms of Reference.

The RAC is an oversight committee delegated by the Board. The RAC consists of three members, chaired by an Independent Non-Executive Director (INED) and assists the BoD in ensuring the adequacy, effectiveness and integrity of the risk management framework including risk strategy, risk appetite, stress testing, oversight arrangements, material transactions and risk culture. Further important oversight areas dealt with by the RAC include oversight of financial reporting, the internal control system, internal audit, and external audit.

C.1.4 Key functions

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

Each of these key function holders:

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

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

The Company has in place written policies in relation to its key functions. Further information on these functions is contained within sections C.2 (Risk Management), C.2.3 (Compliance) and C.3.2 (Internal Audit). The implementation of key functions within the Company is explained below.

Risk Management

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

Compliance

The Compliance function is responsible for promoting a robust compliance culture in the Company, advising on all regulatory compliance matters affecting the Company and the identification and assessment of compliance risk. The Compliance Officer reports to the Board and has direct access to the Chairman of the Board. The Compliance Officer also reports to the RMC and RAC on a regular basis. Further information about the Compliance function is set out in section C.2.3.

Internal Audit

The Head of Internal Audit ("HoIA") leads the Company's Internal Audit function, supported by AXA XL's Internal Audit Department. The HoIA is responsible for evaluating the adequacy and effectiveness of the Company's internal control system and other elements of the system of governance. Key responsibilities are set out in the Internal Audit policy. The Head of Internal Audit reports directly to the RAC. Further information about the Internal Audit function is set out in section C.3.2.

Other critical and important functions

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

C.2 Risk Management

C.2.1 Risk management framework

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

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

The aim of the RMF is to:

- Support business objectives and strategy;
- Provide management information to facilitate the identification and understanding of material risks including related mitigants;
- Contribute to the Company's overall internal control framework by helping to manage the inherent complexity within the business
- Support the Company's Risk Management standing; and
- Support regulatory risk management requirements.

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

Risk 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 Risk Manager, supported by the AXA XL RM team and the RMC to oversee more detailed risk management activity and the Board approved risk appetites.

The risk management strategy is to ensure that risk 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 held by the Company;
- A diversified portfolio of underwriting and financial markets risks;
- Managing excessive aggregation risk via a limit framework;
- Exercising consistency and transparency of risk management and control across the entity;
- Risk mitigation on key underwriting and financial market risks to protect capital from the impact of extreme events; and
- Risk reporting to the RMC, RAC, ExCo, Board and other stakeholders (e.g. regulators).

Risk Appetite

The Company's Risk Audit Framework ("RAF") is a key dimension to the risk management strategy and is used to provide governance for setting new monitoring requirements as well as reviewing and updating existing risk appetite statements, tolerances and limits so that these are aligned with business and risk management strategies. The Company's RAF focuses on regulatory capital at risk, tolerances to risks from material individual events (e.g. natural catastrophes, realistic disaster scenarios ("RDS") that cross multiple lines of business etc.), liquidity standards, tolerance to specific investment related risks and operational losses. The Board approved risk appetites and risk tolerances were reviewed during 2020 and it was determined that all statements and tolerances were appropriate to allow the Company to execute the 2021 business plan.

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

- **Risk Governance** - a clear organisational structure for risk management, including clear roles and responsibilities.The Company operates a 'Three lines of defense' governance structure, at a functional level as well as an executive committee level.
- **Risk Policies & Standards** - AXA and the Company recognise the importance and value of a consistent approach to governance, supported by an effective RMF. This is particularly relevant 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 and the Company.
- **Risk definition and categorisation** provides a common taxonomy and language for risk to allow for categorisation of all risks in a way which facilitates links between the business, risk management processes and the Internal Capital Model.
- **Risk cycle and processes -** the approach taken is top-down, bottom-up, and process led - risk identification, quantification, management and control. The 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 process -** 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 Management Information and Reporting

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

C.2.2 Own risk and solvency assessment

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

The regulatory capital requirement is on the SST basis. The SST results are presented to the RMC and the RAC to provide richer insights on risk exposures, and to inform and drive risk and capital based decision making. This process is linked closely with capital management activities and the level of capital in excess of Regulatory (SST) and Economic (ORSA) capital in line with the Company’s capital buffer policies.

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

The risk management cycle is set for key aspects of the risk management process that are 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 activities 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 and included in the Board approved ORSA report. The production of the full ORSA report is performed annually but regular management information 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.

C.2.3 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 local laws and regulations, and on the impact of changes in the legal and regulatory environment applicable to AXA XL’s operations. It provides expertise, advice and support to various departments of the Company to assess situations and compliance matters, analyse compliance risks and contribute to design solutions to mitigate those risks to which the Company is exposed.

Compliance 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, and (v) the monitoring of compliance and regulatory risks.

Compliance undertakes an annual 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 which is provided to the Board.

The compliance activities are articulated around a number of Group Standards and Policies which set the minimum requirements expected to be covered by AXA XL (e.g. Compliance, Anti-Money Laundering, Sanctions, Anti-Bribery). Group requirements are adapted and local policies are developed to align with the relevant laws and regulations in the jurisdiction in which the Company operates and conducts business.

On a quarterly basis compliance reports directly to the RAC on significant compliance matters and attends Board meetings when compliance matters are addressed. These include major regulatory changes that have compliance implications, the result of the Compliance Risk Assessment, the Annual Compliance Plan, remediation plans and any other significant issues that require escalation.

C.2.4 Material changes in risk management

There were no material changes to the risk management function in 2020.

C.3 Internal control system

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

The AXA XL Internal Control team, part of Risk Management, is in charge of implementing the AXA Internal Control Programme at AXA XL Division and of monitoring the overall system of controls, ensuring all controls are performed. A roll-out of controls is performed in all AXA XL key legal entities including the Company.

The AXA Internal Control Programme was introduced in 2018 at AXA XL in order to implement a robust and effective Internal Control Framework 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.

The 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.

C.3.1 Internal Financial Controls

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

The Internal Control's core strategic objectives include:

- Conducting an effective and efficient assessment of the design and operating effectiveness of internal controls over financial reporting;

- Identifying areas in which the inherent risk of financial misstatement is material 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 an annual 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.

The Internal Control Framework looks at 30 macro processes that constitute the AXA value chain for the division. 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 objectives and mitigate the related key risk. AXA XL is finalising the implementation of the Internal Control Framework in 2021 with the description of all controls in the 30 macro-processes and first testing of these controls. Once implemented, the controls will be tested over a 3 year period.

C.3.2 Internal Audit function

Internal Audit helps the Board and Executive Management to 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 Company 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 RAC each year.

The Head of Internal Audit for the Company has a direct and unfettered reporting line directly to the respective RAC Chairperson.

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

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 RAC.

Over the audit cycle, all applicable Common Audit Universe categories for each entity are expected to be audited. Any exceptions identified are notified to the RAC 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 RAC and Executive Management on a regular basis.