XL Catlin Insurance Company UK Limited

An AXA S.A. Company

Solvency and Financial Condition Report

Year Ended

31 December 2020

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Directors' Statement

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

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

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

By order of the Board

S McGovern

Chief Executive Officer

8 April 2021

M Cummings

Director

8 April 2021

Independent Auditors' Report to the Directors

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

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

Opinion

We have audited the following documents prepared by the Company as at 31 December 2020:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2020, ('**the Narrative Disclosures subject to audit**'); and

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

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

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

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

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

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

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2020 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Basis for opinion

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

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Review of the management's assessment of going concern including the short term and long term strategic outlook as approved by the Board;

- Review of the capital injection provided during the year;

- Assessment of the ability and willingness of the parent company to provide support to the Company;

- Assessment of the recoverability of reinsurance debtors and the reinsurers' share of technical provisions; and

- Review of the liquidity management plan and assessment of the liquidity stress test.

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 of at least twelve months from the date on which the Solvency and Financial Condition Report is authorised for issue.

In auditing 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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

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

Emphasis of Matter - Basis of Accounting

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. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information.

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

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

Responsibilities of Directors for the Solvency and Financial Condition Report

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

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

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

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company and the industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the Solvency and Financial Condition Report. We also considered those laws and regulations that have a direct impact on the Solvency and Financial Condition Report such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the Solvency and Financial Condition Report (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase or reduce expenditure or to manipulate own funds. We also considered management bias in accounting estimates and judgemental areas of the Company such as the valuation of the technical provision for claims outstanding and estimated premium income. Audit procedures performed included:

- Discussions with management and internal audit, including considerations of known or suspected instances of non-compliance with laws and regulations and fraud;

- Reading key correspondence with regulators, for example the Prudential Regulation Authority and the Financial Conduct Authority, in relation to compliance with relevant regulations;

- Reviewing relevant meeting minutes;

- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing;

- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations;

- Performing risk-based targeted substantive testing over premium estimates;

- Procedures over key areas of judgement applied in the valuation of investments;

- For those classes of business considered higher risk, developing independent point estimates for the valuation of the technical provisions for claims outstanding; and

- Testing methodologies and assumptions applied by management in the valuation of the technical provision for claims outstanding for other classes of business.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the Solvency and Financial Condition Report. Also, 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.

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

Use of this report

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

Report on Other Legal and Regulatory Requirements

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

PricewaterhouseCoopers LLP

Chartered Accountants

London

8 April 2021

Summary

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

XLCICL UK and AXA XL

The Company is domiciled in the United Kingdom and a member of AXA XL (the Division), which is a part of the AXA SA group of companies. XLCICL UK writes its business through offices in the UK and through AXA XL offices internationally. AXA XL, through its subsidiaries 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 and disciplined growth through its commercial Speciality, Property & Casualty and Reinsurance business lines. By using effective distribution channels the Division will contribute to AXA's Ambition 2023 plan, and strengthen underwriting performance and grow 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 by 20 May 2021, 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 (or the Division) underwrite both insurance and reinsurance business within its Property, 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 provide a viable alternative to Lloyd's of London. 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 contributes to AXA Group's Ambition 2023. The Company is an important part of AXA's business model to underwrite UK based commercial risks and parter with our clients.

Further details of the Ambition 2023 plan 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, Europe, Middle East, Africa and the Asia-Pacific region.

Gross Written Premiums have increased to £944m in the year (2019: £501m), with growth achieved through significant rate increases across all lines of business and in particular for Aerospace, London Wholesale and Energy. Gross Written Premiums also increased as a result of aligning platforms and products in the UK, as London Wholesale accounts previously underwritten on AXA XL's Syndicate operation were moved to the Company, along with other UK risks previously written on a European Insurance carrier of AXA XL, and the integration of legacy AXA commercial insurance carriers. The impact of the above has rebalanced and further diversified the Company's portfolio.

The company reported a £56m loss on ordinary activities before taxation for the year (2019: loss £13m). Current results were impacted by Aerospace losses, US Hurricanes and wind-storms, and US Riots, adverse prior year development for International Financial Lines and Covid-19 losses, particularly to event cancellation and business interruption exposures. An investment gain of £14m in the year (2019: gain of £6m) is driven by strong portfolio returns as interest rates declined and spreads tightened over the year.

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 2020 for additional information on AXA S.A.'s performance. A link to AXA's 2020 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.

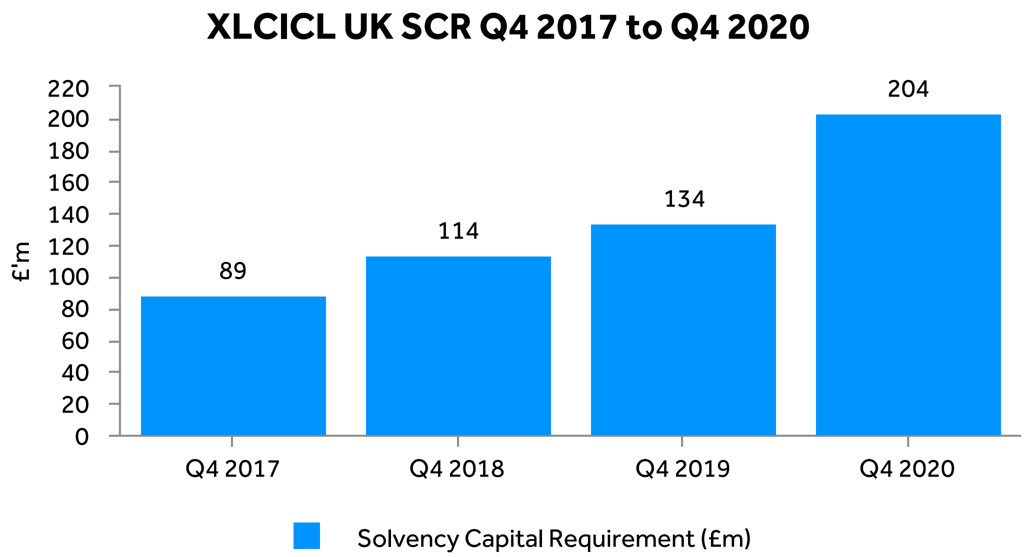
The risk management framework determines risk appetites and risk limits, establishes risk policies, identifies and manages the risks to the Company's objectives and monitors the capital requirements. This risk management framework establishes the Own Risk and Solvency Assessment (ORSA) activities that 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.

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

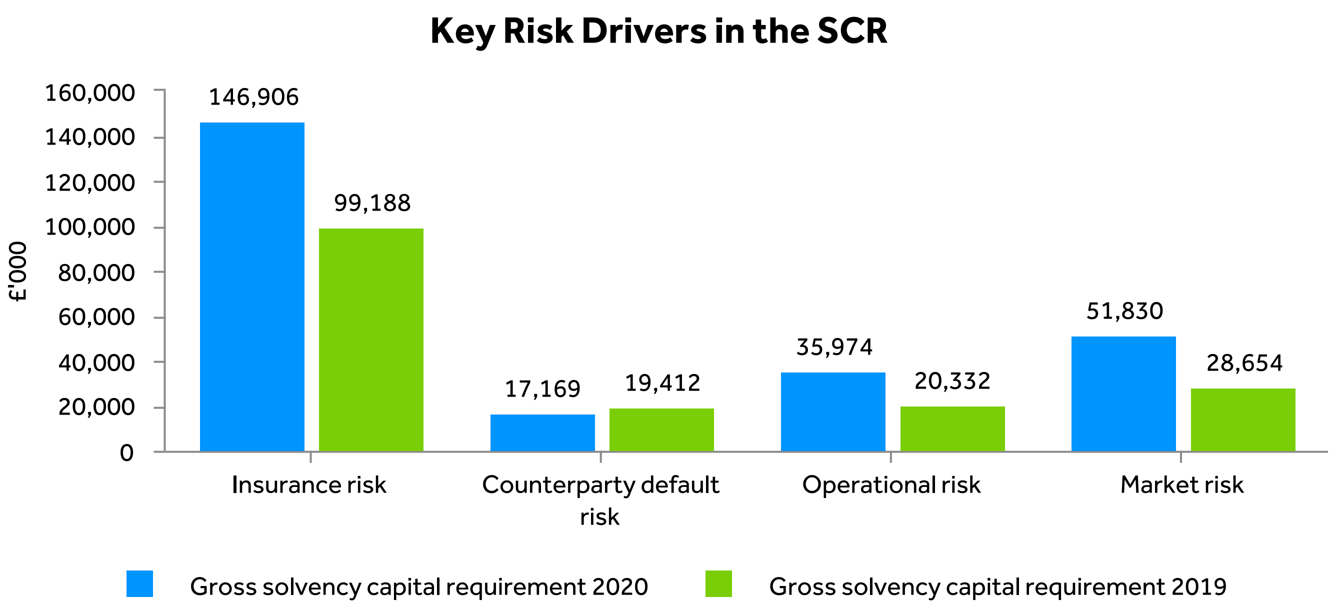
Further details of the Company's Systems of Governance are provided in Section B below.

Risk profile

The risk profile of the Company has continued to increase since Q4 2017. A summary of the rising SCR amounts since 2017 are shown in the chart below:



The main Solvency Capital Requirement (SCR) modules for 2020 and 2019 are shown below (excluding diversification):



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

- Business planning;

- Underwriting processes (including guidelines and escalation authorities);
- Reserving and claims processes;
- Risk assessment processes;
- The use of Realistic Disaster Scenarios and other scenarios; and
- Independent underwriting peer reviews.

Underwriting risk is 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 XLCICL UK is owed from reinsurance providers and premium debtors. The decrease is due to a reduction in premium 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 XLCICL UK operates in, and the resultant mix of currencies in claims reserves, and spread risk from the bonds held against those reserves. XLCICL UK also incurs interest rate risk from both investments held and claims liabilities.

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

Valuation for solvency purposes

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

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

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

Capital management

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

The Company calculates its SCR using the Standard Formula.

	2020	**2019**
	£'000	**£'000**
Total eligible own funds to meet the SCR	286,841	209,574
SCR	203,652	133,984
	%	**%**
Ratio of Eligible own funds to SCR	140.8 %	156.4 %

The increase in eligible own funds is driven mainly due to a capital injection made during the year of £50m and a share issue of £77.5m. The increase in SCR is a result of planned increases in premium volumes to be written by the Company in 2020 compared to 2019, and the impact of losses incurred in 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.

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

	2020	2019
	£'000	**£'000**
SCR	203,652	133,984
MCR	55,281	33,603
Total eligible own funds to meet the SCR	286,841	209,574
Total eligible own funds to meet the MCR	286,841	209,574
	%	**%**
Ratio of Eligible own funds to SCR	**140.8 %**	**156.4 %**
Ratio of Eligible own funds to MCR	**518.9 %**	**623.7 %**

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

Significant Business or other events

COVID -2019 outbreak:

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.

The COVID-19 pandemic negatively impacted XLCICL UK's underlying earnings, mainly through Property & Casualty claims, with significant impacts in Event Cancellation and Business Interruption and to a lesser extent in Liability, Travel and Credit Insurance. The increase in the reserves on Business interruption includes the impact of the FCA test case judgement. Property & Casualty claims were partly offset by estimated reinsurance recoveries and the decrease in frequency in certain classes resulting from the lockdowns and the various restrictions enacted to reduce the pace of the spread of the virus.

Turnover was also strongly affected by the crisis, primarily as a significant part of the premiums paid by its clients within the Property & Casualty Commercial lines are based on their own level of activity (e.g. through projects, cargo load, flights number, turnover etc.) that was significantly reduced by the confinement measures. Additionally, the turnover was impacted by opening restrictions affecting XLCICL UK's distribution channels.

In response, XLCICL UK implemented specific cost countermeasures, including travel and corporate events reductions, while maintaining its commitment to the modernization of IT systems and customer processes. Additionally, financial markets have experienced a significant drop in the first quarter of 2020, and 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.

In this highly uncertain context, AXA as a group and XLCICL UK continue to closely monitor the pandemic and 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, (iv) the reinsurance recoveries, and (v) the change in asset prices and financial conditions.

A. Business and Performance

A.1. Business

A.1.1 Name and legal form of the undertaking

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

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

Group Supervisor

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

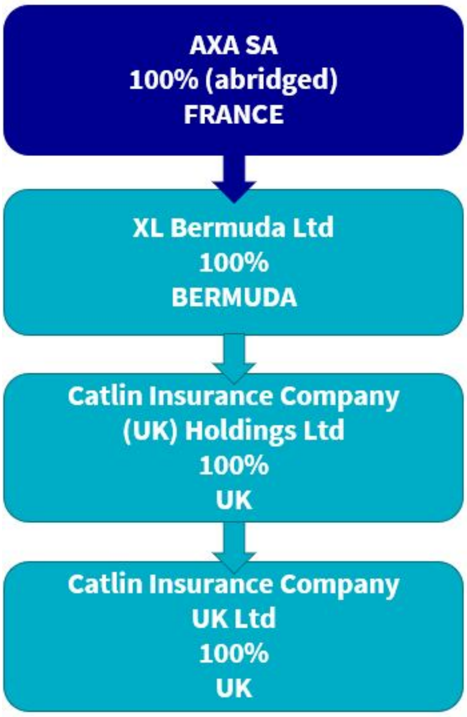
A.1.3 External auditor

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

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

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

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



A.1.5 Related undertakings

The Company is the parent entity of the following as at December 31, 2020:

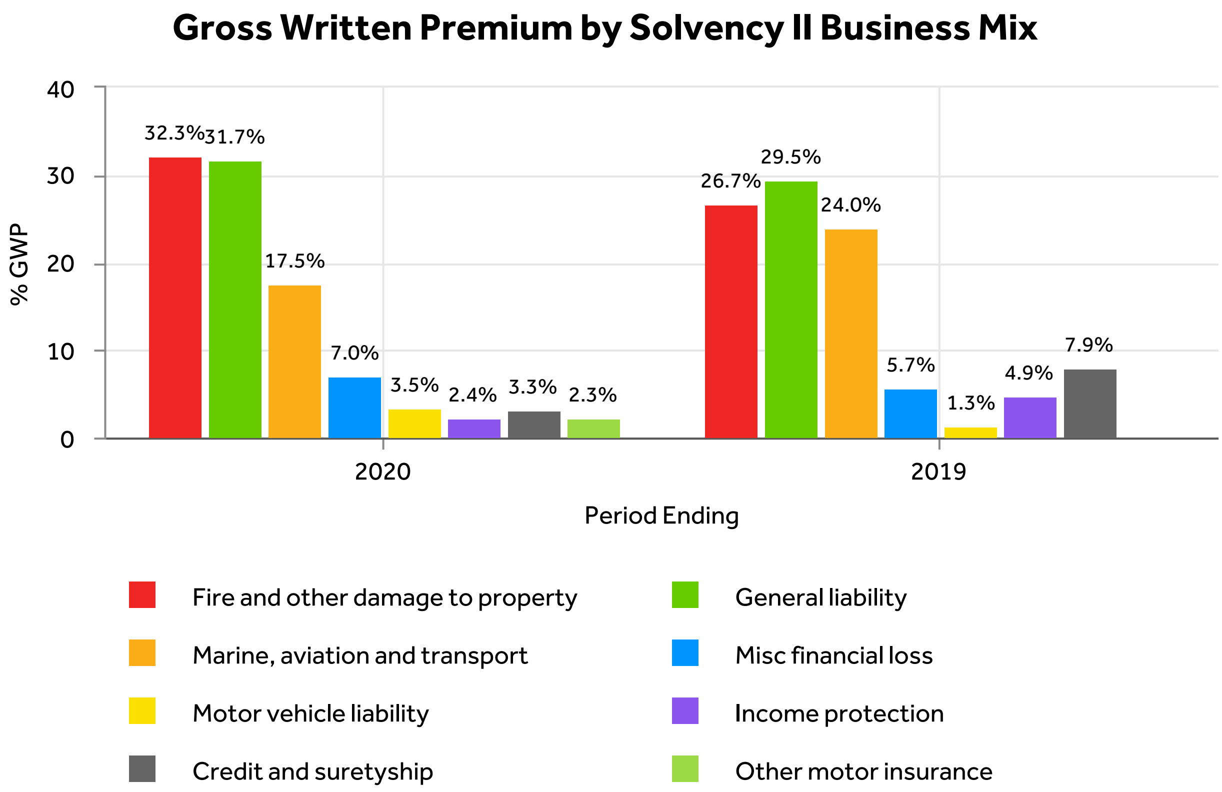
Name	Principal trading activity	Country of incorporation	Class of shares held	Share ownership and voting rights
XL Catlin Insurance Company UK Ltd - Escritorio de Representacao no Brazil Ltda *	Representative office	Brazil	Ordinary	99.99%

* XLCICL UK is in the process of closing the representative office listed above and this is expected to be completed in 2021. The remaining 0.01% share ownership is held by another AXA XL company, Catlin Insurance Company (UK) Holdings Ltd.

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

	2020	2019	Variance
Global Specialty	54%	65%	(11)%
International P&C	43%	28%	15%
North America P&C	3%	7%	(4)%
	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.

In June 2020, AXA XL launched a new target operating model, with 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 XLCICL UK. Reporting under the new operating model will

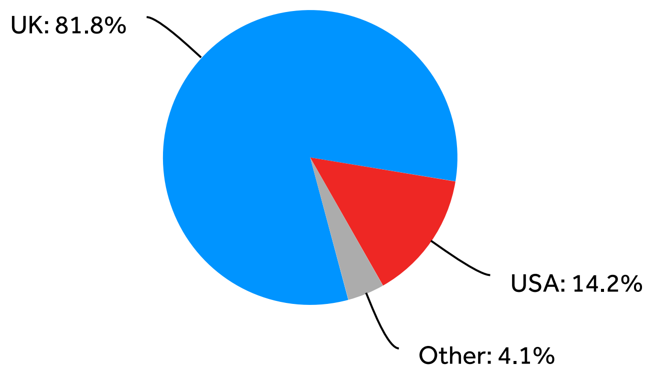
Underwriting business units are now grouped as follows:

- UK Speciality: Includes Fine Art, Specie, Accident & Health, Crisis Management, Equine & Livestock, Private Clients and Political Risk, Credit & Bond,
- UK Wholesale: Property and Casualty
- UK Retail: Property, Casualty, Construction, Motor and Parametric
- Aerospace, Energy and Marine
- Other: Financial Lines and Non-UK Business

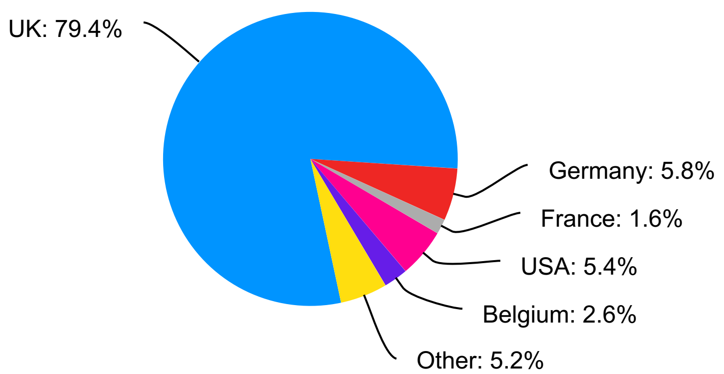
Global Specialty constitutes 55% of the Company's portfolio and includes UK Specialty and Wholesale business.

International P&C comprises Retail, Aerospace, Energy & Marine and Financial Lines portfolios, and makes up 42% of the total.

2020 Gross Written Premium by Main Solvency II Geographic Areas



2019 Gross Written Premium by Main Solvency II Geographic Areas



A.1.7 Significant events in the last reporting year

Apart from the disclosures in the summary section above, there are no other significant events in the last reporting year to highlight.

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 2020 and 2019 key performance indicators on a UK GAAP basis:

	2020	2019
	£'000	£'000
Gross Written Premium	943,566	500,744
Net earned premium	199,600	85,282
Loss ratio	99.5 %	88.7 %
Combined ratio	137.6 %	126.3 %

Gross Written Premiums have increased to £944m in 2020 (2019: £501m). Growth was achieved as a result of aligning platforms and products in the UK as London Wholesale accounts previously underwritten on AXA XL's Syndicate operation were moved to the Company, along with other UK risks previously written on a European carrier. There was also significant rate increases across most lines of business and in particular for Aerospace, London Wholesale and Energy lines.

The tables below provide the 2020 and 2019 Gross Written Premiums and Net Earned Premiums on a Solvency II Line of Business basis:The tables below provide the 2020 and 2019 gross written premiums and net earned premiums on a Solvency II Line of Business basis:

2020

	Motor vehicle liability insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Miscellaneous financial loss	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross Written Premiums	27,641	144,648	297,848	299,520	30,896	65,953	77,060	943,566
Net Earned Premiums	4,848	24,229	44,647	81,107	10,177	9,697	24,895	199,600

2019

	Motor vehicle liability insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross Written Premiums	2,327	104,091	131,778	147,548	39,806	75,194	500,744
Net Earned Premiums	1,426	24,174	23,236	10,493	10,322	15,631	85,282

The tables below provides the 2020 and 2019 Gross Written Premiums and Net Earned Premiums performance by geographical areas. Note: The company has written policies in Europe as part of the Brexit transitional phase:

2020

	UK	GERMANY	FRANCE	USA	OTHER	TOTAL
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Gross Written Premiums	771,598	11,560	12,411	133,575	14,422	943,566
Net Earned Premiums	164,162	2,301	2,745	25,755	4,637	199,600

2019

	UK	GERMANY	FRANCE	BELGIUM	USA	OTHER	TOTAL
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Gross Written Premiums	397,463	28,846	8,243	13,263	26,976	25,953	500,744
Net Earned Premiums	68,077	5,574	1,526	2,526	2,402	5,177	85,282

A.3. Investment performance

The net investment return for the year was a gain of 4.2% (2019: 1.9% gain), an increase on the prior year due to strong portfolio returns as interest rates declined and spreads tightened over the year.

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 2020	Net investment return 2019
	£'000	**£'000**
Bonds		
Government Bonds	7,141	3,041
Corporate Bonds	7,729	3,123
Collateralised securities	16	90
Collective Investments Undertakings	5	2
Cash	18	74
Investment management expenses	(753)	(699)
	14,156	5,631

Note: The split by asset class in the table above does not include the liquidation of a subsidiary in 2019 (for £111k).

Below are components of the net investment return:

	2020	2019
	£000	£000
Income from financial investments	1,645	4,828
Gain / (loss) on realisation of investments	(2,623)	268
Investment management expenses	(753)	(699)
Net unrealised gains on investments	15,887	1,234
Liquidation of subsidiary	0	(111)
Total investment return	14,156	5,520

An investment gain of £14m in the year (2019: gain £6m) is driven by unrealised gain in investment values as interest rates declined and spreads tightened over the year.

A.3.2 Gains and losses recognized directly in equity

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

A.3.3 Investments in securitisation

The Company invested in other asset backed securities with a market value of £0.3m at 31 December 2020 (2019: £28.6m) comprising consumer asset backed securities.

A.4. Performance of other activities

	2020	**2019**
	£'000	**£'000**
Gain on foreign exchange	4,645	2,777
Other income	766	1,145
	5,411	3,922

The Company has no material finance or operating leases.

A.5. Any other information

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

B. System of Governance

B.1. General information on the system of governance

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

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

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

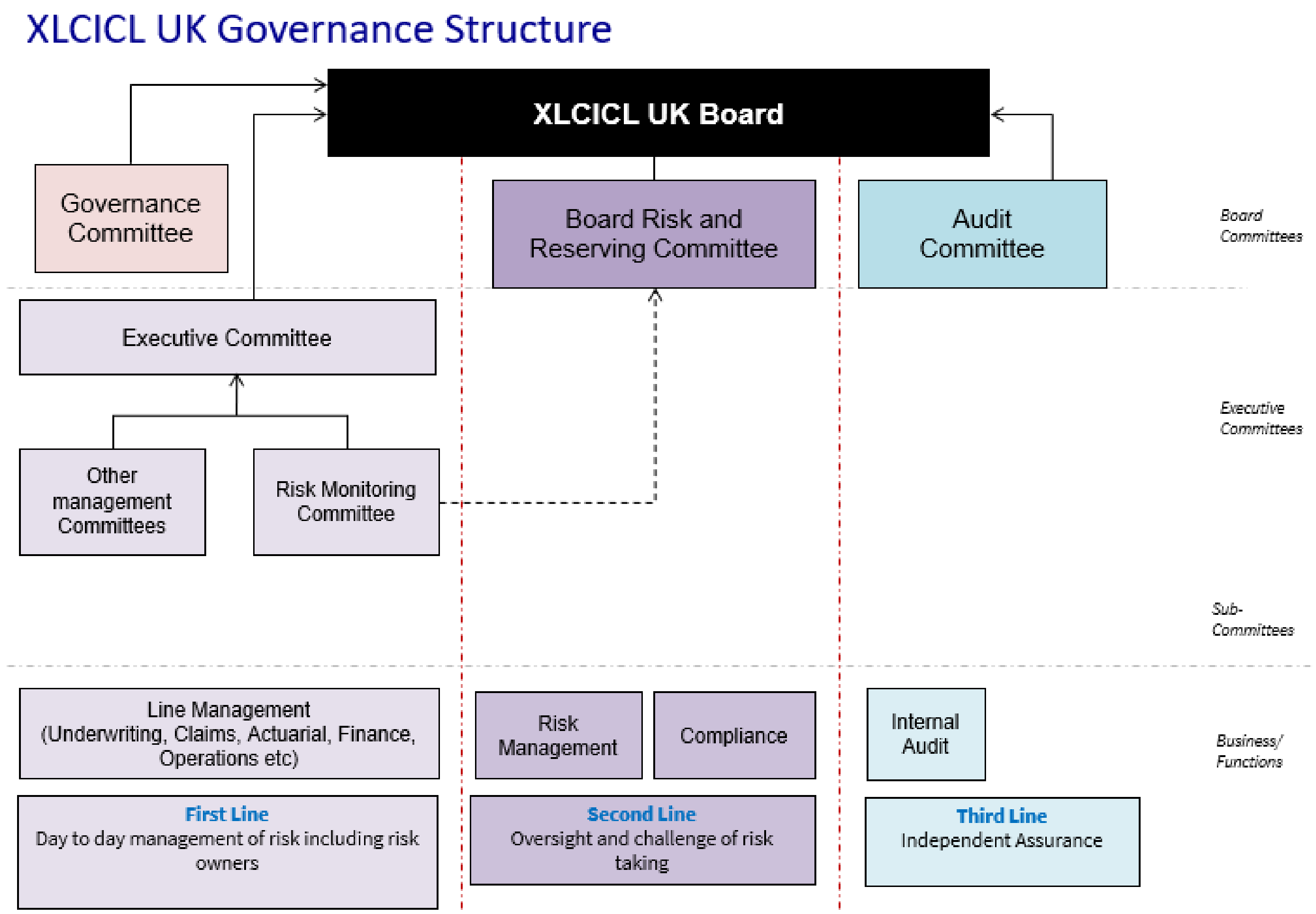
The names of the persons who are directors of the Company as at the date of this report are:

	Executive Directors	**Non-Executive Director**
S McGovern	Chief Executive Officer	
M Cummings	Chief Financial Officer	
L Prato	Chief Underwriting Officer	
C Ighodaro		Non-Executive Chair of the Board
P Wilson		Non-Executive Chair of the Board Risk and Reserving Committee and Senior Independent Director
B Joseph		Non-Executive Chair of the Audit Committee
B Poupart-Lafarge		Non-Executive Director
J Weatherstone		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 and reserving.

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 three Board committees, the Governance Committee, the Board Risk & Reserving Committee (BRRC), and the Audit Committee (AC). Supplementing the governance structure are three main management committees: the Executive Committee (ExCo), the Risk Monitoring Committee (RMC) and the Underwriting Committee (UC). Both the RMC and UC committees report to the ExCo. There are various sub-committiees that report to these committees.

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 & 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.

Audit Committee

The purpose of the Audit Committee (AC) is to assist the Board of Directors' of the Company's oversight of the:

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

1.2 Financial reporting process and the integrity of the publicly reported results and disclosures made in the financial statements.

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

Board Risk & Reserving Committee

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

Governance Committee

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

Executive Committee

The Executive Committee (ExCo) is responsible for the development and implementation of the strategy for the Company. This includes assessment of the performance of the business to ensure risks associated with the strategy and its implementation are understood and managed with action taken to mitigate those risks and challenges in line with the risk appetite of the Company.

Underwriting Committee

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

Risk Monitoring Committee

The Risk Monitoring Committee (RMC) oversees the risk management framework of the Company which has been approved by the Board.

Key Functions

The Company's risk management, compliance, internal audit and actuarial functions are the key functions in its system of governance (Key Functions). Holders of Key Functions are authorised to operate free from influences which may compromise their ability to undertake their duties in an objective, fair and independent manner.

Each of these Key Function holders:

- Operates under the ultimate responsibility of, and reports to the Board or Board Committee as appropriate;
- Cooperates with the other functions, where appropriate, in carrying out their roles;

- Is able to communicate, at their own initiative, with any staff member and have the necessary authority, resources and expertise and have unrestricted access to all relevant information necessary to carry out their responsibilities; and

- Promptly reports any major problem in their area of responsibility to the Board.

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

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

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

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

Remuneration policy and practices

Remuneration Principles

The 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 Solvency II regulations and any other applicable regulatory requirements.

The balance of fixed and variable compensation is consistent with competitive market practice in the insurance industry. Variable pay for colleagues in independent control functions is not aligned with the performance of the businesses they oversee and is designed to avoid conflicts of interest while appropriately balancing risk and reward.

An overview of the arrangements that are in place are as follows:

- Fixed Remuneration - The 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, individual performance is assessed through a robust performance management process. Staff have a bonus target amount expressed as a percentage of base pay. Individual bonus 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.

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.

During the year XLCICL UK's immediate parent company provided unencumbered capital contributions of £50m (2019: £53m). This injection of capital was made part way through the year to provide sufficient own funds to meet the expected increases in the SCR, largely due to underwriting risk, which were anticipated in 2020.

A share issue in December 2020 raised £77.5m from the immediate parent company to ensure that the management buffer above the SCR was maintained following current and prior year loss deterioration, including the impact of Covid-19 losses.

B.2. Fit and proper requirements

B.2.1 Qualifications of the Board and Key Function holders

The Board regularly considers the qualifications necessary for its members. In this regard, the Board believes that its members should be persons with superior business judgement and integrity, who have knowledge or experience in the areas of insurance, reinsurance, financial services or other aspects of the business, operations or activities, and who have distinguished themselves in their chosen fields of endeavour. In addition, the Board believes its members should have the talent and vision to provide oversight and direction in the areas of strategy, operating performance, corporate governance and risk management in order to protect the interests of the shareholder and the policyholder whilst maintaining the highest standards of ethical business conduct. The Company supports these objectives through an ongoing program of Board training. The Board believes that each of its Directors contributes a strong background and set of skills to enable the Board to meet its responsibilities and that Key Function and Senior Management 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
- Electoral roll and address search
- Credit review
- Employment history and references
- Academic qualifications
- Identity check
- Prior directorships search
- Professional membership and qualifications
- Adverse media search
- 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 explains the standards expected of all employees and underpins the Company's values and behaviours. The Code applies to all employees, officers and directors, including the independent directors on the Company's Board. 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.

During 2020 the Company rolled out Financial Conduct Authority Conduct Rules training to all permanent UK based 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 and more frequently if required. 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 RMC meets regularly and oversees the implementation and embedding of the RMF and monitoring of Company performance against risk appetite. The RMC has responsibility for overseeing the preparation of the ORSA and makes recommendations and escalates any issues to the Executive and the Board, related to risk and capital management. The RMC ensures that material and emerging risks are identified and reported and that appropriate arrangements are in place to manage and mitigate those risks effectively. The Company's stress testing framework and outputs are reviewed by the RMC and support understanding of the risk profile.

Risk Management Strategy

The risk management strategy is overseen by the Board and supports the delivery of the overall business strategy. To support the Board, the Company has an appointed 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;
- 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. In addition, there exists the potential for additional 'Risk Indicators' which are not explicitly specified in the scope of the RAF but are identified as required by the Company. 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 2021 business planning process and it was determined that all statements and tolerances were appropriate to allow the Company to execute the 2021 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.

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.

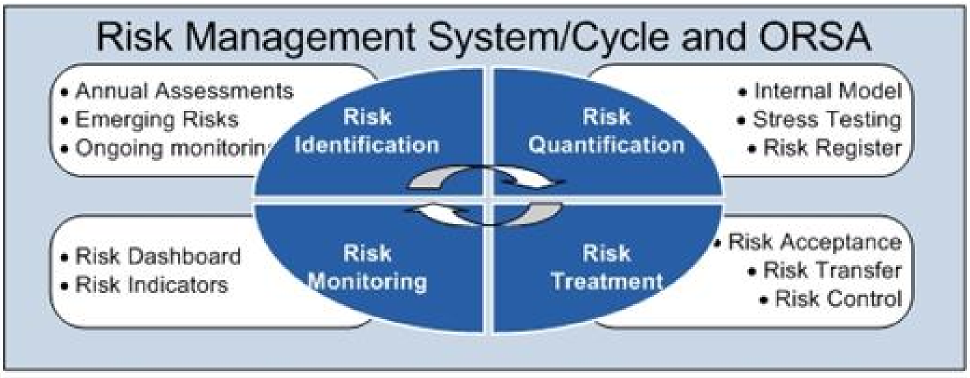
Risk Reporting

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 2021.

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.

B.4. Internal control system

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

AXA XL Internal Control team, in Risk Management, is in charge of implementing AXA Internal Control Programme 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.

AXA Internal Control Programme was introduced year end 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.

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. Through 2021 increased focus on legal entities is to be established.

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

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. AXA XL is finishing 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. Then in Business as Usual, the controls will be tested over 3 years.

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.

The Head of Compliance and Regulatory Affairs - UK is the Compliance Officer for the Company 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 (GS) 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 of the Company 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 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 the Audit Committee Chairman.

The Head of Internal Audit functionally reports through to the Global Head of Audit who reports to the AXA 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 Common Audit Universe categories 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

The Actuarial Function for XLCICL is a subset of the overall Actuarial Function for AXA XL.

Group Actuarial Function

In total, the Actuarial Function of AXA XL consists of over 300 actuarial staff. The team is 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 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 XLCICL, this the Chief Actuary under the Senior Insurance Managers Regime set out in the PRA Rulebook.

    ii. The Heads of Business Group Reserves Actuaries who are aligned to the organisation of AXA XL, namely the four Business Groups: Global Lines, International P&C, North America P&C, and Reinsurance, each with a number of businesses or underwriting units.

    iii. 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 signoff requirements

c. Through multiple management levels (Business Group, 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 external independent valuation.

XLCICL Actuarial Function

The XLCICL Actuarial Function is headed by the designated 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 XLCICL 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 adequacy at least annually. To achieve his duties, the Chief Actuary also has a dual role as head of Reserving for Global Lines business as well as being supported by the following key individuals:

a. Heads of Reserving for non-Global Lines products impacting XLCICL, the most material being the International Property & Casualty Business.

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 XLCICL Actuarial Function mentioned above are also supported by the reserving and pricing actuaries who have responsibilities for classes of business impacting the XLCICL entity. The XLCICL 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 XLCICL 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 XLCICL Board of Directors, its committees and its Executive Management through the Actuarial Function responsibilities, the direct governance in the XLCICL Business Plan, its contribution to other functions including, but not limited to Enterprise Risk Management ("ERM"), 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 XLCICL Actuarial Function is in compliance with its regulatory requirements. The Actuarial Function is defined according to the SII requirements.

The XLCICL Chief Actuary has the following additional responsibilities:

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

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

c. Provide and present the opinions required by the Solvency II Directive 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 XLCICL Reserves Committee and as member of the XLCICL Underwriting Committee, XLCICL Risk Committee, and XLCICL Executive Committee.

e. Oversee and govern the Actuarial Function assessment of the XLCICL Business Plan through the existing governance process of the AXA XL Business Plan complemented by the supplemental XLCICL governance process.

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

B6.3 Tasks of the Actuarial Function

The XLCICL Actuarial Function is due to execute the following tasks, as a minimum:

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 including feedback into the model

    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 adequacy of reinsurance. 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 XLCICL Actuarial Function to fulfil the requirements outlined in the Solvency II directive.

c. Produce, at least annually, an Actuarial Function report (or a collection of reports) to document all the tasks undertaken, along with clear conclusions and recommendations. These reports are made available to the XLCICL Board Risk and Reserves Committee.

d. 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 on the Solvency II Technical Provisions for XLCICL is formalised through both the AF Technical Provision Steering Committee - chaired by the XLCICL Actuarial Function - and the Solvency II Reporting Committee chaired by UK Finance.

The XLCICL Actuarial Function actively contributes to the XLCICL Corporate Governance Structure:

a. The quarterly XLCICL Reserves Committee is chaired by the XLCICL Actuarial Function. XLCICL Senior Executives are members of the Committee. At these meetings, the GAAP reserves are reviewed and challenged by the XLCICL management. The valuation for UK GAAP and other regulatory purposes with regards to the GAAP reserves are approved.

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

c. The XLCICL Actuarial Function reports on a monthly basis to the XLCICL Executive Committee. This is the committee for consultation and considerations to take into account in the valuation process and to challenge results, including the consideration of post-close events.

d. The XLCICL 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. This committee exists for each of the Insurance and Reinsurance Segments.

e. The XLCICL Actuarial Function presents the Solvency II Technical Provisions to the Solvency II Reporting Committee sign-off meeting on a quarterly basis.

f. The XLCICL Actuarial Function reports at least on a quarterly basis to the XLCICL Board Risk and Reserves Committee. This is the committee in which the Board challenges Reserving results, with attendance of relevant Board members and Non-Executive Directors plus Head of XLCICL Claims, Head of XLCICL Underwriting, Head of XLCICL Finance and the Chief Actuary.

The XLCICL 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 XLCICL Actuarial Function operates with an appropriate degree of independence as regard to XLCICL 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 XLCICL Corporate Governance structure as outlined in section B6.4.

As per the structure outlined in section B6.1, the XLCICL 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 adequacy, or the contribution to the Risk Management system. This is a result of:

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

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

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

Specifically, regarding the Technical Provisions, the XLCICL 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 Solvency II Technical Provisions Steering Committee which reviews and challenges both assumptions and results. The Steering Committee is chaired by the Chief Actuary of UK entities who is ultimately accountable for the adequacy and sufficiency of the Solvency II Technical Provisions for XLCICL. 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.

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 XLCICL Chief Actuary who is responsible for conflict resolution.

b. XLCICL Management:

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

    ii. Conflict culminates with the BRRC

c. Board of Directors:

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

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

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 2020, the Company had outsourced arrangements in place to cover delegated underwriting, 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.

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.

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

Risk Appetite Statements

For the 2020 underwriting year there will be 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 (at 1 in 200), credit counterparty (not risk adjusted) or operational risk event (at 1 in 200).
- 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 indicators. These address P&C Underwriting Limits (excluding assumed reinsurance), Operational Risk, Investment Risk and Intergroup Reinsurance Counterparty Risk.

C.1. Underwriting 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.

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.

XLCICL UK also has an intra-Group reinsurance arrangement of a 60% Whole Account Quota Share to XL Bermuda (XLB) for 2019 and future years of account. This arrangement has been in place for 2020 and has been renewed for 2021.

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% (2019: 100%) of the reinsurance recoveries due. The balance on this account is £389m (2019: £453m). This gives a surplus over the security required per the intra-group reinsurance contract of £105m (Surplus in 2019: £95m).

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.

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 in 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.

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.

Market risk is also explored through underwriting and the Emerging Risk process which has Company representation. The Emerging Risk Task Force, comprised of senior leadership from across the organisation, actively monitors a wide array of emerging risks to provide the Company's underwriters, as well as clients, with pertinent information regarding new and existing trends. This involves the ongoing review of strategic and risk management processes, identifying potential opportunities in the market and providing thought leadership around emerging risk issues to optimise underwriting and strategic decisions.

Risk mitigation

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

Strategic Asset Allocation

The Strategic Asset Allocation (SAA) process at AXA XL Division level establishes a benchmark that is constructed to maximise enterprise value, subject to various considerations and constraints. It is subject to the risk tolerances recommended by management and is approved at least every 3 years by the Company's Board.

- **Authorities Framework / Risk Appetite Framework**

  As part of the implementation of AXA XL's SAA Benchmark, a comprehensive framework of Investment Authorities are employed at AXA XL Division level. The objective of the Authorities Framework is to ensure that the risk profile of the investment portfolio is consistent with AXA XL's risk tolerance and liabilities in conjunction with the Divisional Risk Appetite Framework. The Company has a corresponding set of Risk Appetite Framework limits which is aligned with AXA XL Division and local constraints.

  The Investment Risk Management Policy and Company Risk Appetite Framework market risk limits address the key market risk factors and are commensurate with the volume and complexity of activity undertaken by the Company.

- **Service level agreements**

  Service level agreements are in place between XL Group Investments Limited (XLGIL) and the Company. These include guidance on type of investments and the average weighted credit ratings of the portfolio that can be made on behalf of the Company. Adherence to policies and limits are monitored and signed off on a regular basis and subject to monitoring and reporting to the Company's Board as described below.

Currency risk mitigation

The Company's currency exposure is dominated by Sterling, US Dollar and the Euro. The Company seeks to mitigate currency risks 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's exposures are broadly matched. The table below outlines the Company's year end exposure by currency:

XL Currency (as at 31 December)

Exposure by currency	% Market Value 2020	% Market Value 2019
GBP	144%	84%
USD	(35)%	10%
EUR	(4)%	15%
BRL	(1)%	(4)%
Other (circa 20 currencies)	(4)%	(5)%
Total	**100%**	**100%**

Source: Solvency II Finance. Net Assets/Liabilities by Currency as at 31 Dec.

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, hedge funds, 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 XLGIL 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. Details of which are in section C: Risk Profile.

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.

Test type	Reason performed
Market Risk scenarios	To evaluate the exposure to certain market risk events

C.3. Credit risk

Risk definition

Credit risk is defined as the risk of loss due to an unexpected default, or deterioration in the credit standing of counterparties and debtors, or uncertainty of an obligator's continued ability to make timely payments in accordance with the contractual terms of the instrument.

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

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

Risk identification

The Company identifies credit risk through the following processes:

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

Risk mitigation

Credit risk is managed through:

- **Credit risk framework** - Credit risk arising from credit sensitive underwriting activities is managed via the underwriting limit framework. Credit risk 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 in subject to monitoring as part of the RAF. Details of which are in section C: Risk Profile.

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 $1bn 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.

Risk identification

The Company identifies liquidity risk through the following processes:

Process	Description
Stress testing	Stressing multiple scenarios for known and forecasted liquidity positions, downgrade triggers, collateral demands and cash flows by legal entity to cover an 1 in 200 yr investments capital market shock and a 1 in 200 yr Insurance Event (loss) over multiple time horizons (ranging from 1 week to 12 months).
Treasury	Treasury has responsibility to identify and monitor concentration risk of cash at banks, along with funding requirements.
Risk assessment and processes	Through the risk assessment processes, the Company quantifies existing risks and also identifies new risks.

Risk mitigation

One of the principal objectives of liquidity risk management is to ensure that there is readily available access to funds with which to settle large or multiple unforeseen claims. It is generally expected that positive cash flow from operations (underwriting activities and investment income) will be sufficient to cover cash outflows under most future loss scenarios.

Cash requirements include all possible claims on cash from policyholders, capital providers, and operations. Some of these cash outflows are scheduled while others are known with much less certainty. The goal is to ensure sufficient liquidity in the asset portfolio, together with secured external cash sources, to provide for timely payment of potential cash demands under both normal business conditions and under extreme conditions resulting from unforeseen events over a 12 month horizon.

Liquidity risk is managed through:

- **Investment Portfolio Liquidity** - It is required that the legal entity hold sufficient unencumbered liquidity resources to be able to withstand a major natural catastrophe and capital markets shock along with stressed operating cashflows without the need for additional assets. This test is performed quarterly and focuses on four distinct time horizons: one week, one month, three months and one year.

- **Asset-Liability Management** - See section C.6 for further details of the ALM framework..

- **Special funding clauses** - The major source of liquidity risk within underwriting contracts is the provision of rating triggers, which are common practice in certain markets. These triggers typically necessitate the cancellation of the policy and the return of the cedant's unearned premium in the event of being downgraded below a certain rating level, which has the potential to be a material liquidity event when aggregated. There are controls in place to ensure that there is appropriate authorisation for the inclusion of a downgrade clause in a contract.

Risk monitoring

The Treasury department serves as the focal point for liquidity monitoring, drawing on the expertise of other internal functions, as well as managing cash held at bank accounts covering day-to-day cash requirements, typically referred to as operating cash. Operating cash balances, together with cash managed within the investments portfolio, comprise the primary sources of liquidity for the Company.

Risk Appetite

Liquidity risk in 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 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 at 31 December 2020 was £73.8m (2019: £56.1m).

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 Group wide emerging risks identification process which captures emerging risks. This assessment identifies key external factor changes that may give rise to operational risk issues.
Internal loss data	The Company collects data relating to operational risk losses and near misses on a quarterly basis. The data collected is used, among other things, to track incidents, identify key risk indicators and to validate and challenge operational risk quantification.
External loss data	The Company purchases historical loss data from an external provider. Large events from this database are used to identify new emerging risks. In addition the data is used in the parameterisation of the ICM.

Risk mitigation and monitoring

The Company's risk register 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. Details of which are in section C: Risk Profile.

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 mismatch risk

Risk definition

Asset liability mismatch risk arises directly from a mismatch between assets and liabilities due to changes in market and credit risks, liquidity and FX and also arises from events affecting both asset and liability values.

In particular, two market risks influence both assets and liabilities and are hence key drivers of risk:

Component	Definition
Interest rate and spread risk and asset composition risk	Mismatches between asset composition and maturities and the profile of liability cash flows creates economic risks from changes in benchmark interest rates, spreads and asset values. This is due to changes in the nominal mark-to-market (MTM) value of assets not exactly offsetting changes in the nominal economic value (net-present value) of liability cash flows.
Inflation risk	Differences in the inflation sensitivity of investments, liability and debt cash flows creates a risk to unexpected changes in different types of inflation (Consumer Price Index, wage, etc.). This is due to changes in the real Mark-to-Market value of assets not offsetting changes in the real economic value (net-present value) of liability cash flows.

FX risk is also a key consideration under asset liability mismatch risk which was outlined in Section C2 Market Risk. FX risk arises from mismatches in the currency denomination of assets relative to that of financial liabilities.

Risk identification

The following outlines the processes used to identify asset liability mismatch risk:

Process	Description
Business planning	As part of the annual strategic planning process, a review is undertaken of the nature (quality, duration, currency and liquidity) of assets required to support the business plan and the expected liabilities.
Investment decisions and asset allocation	The Investment Portfolio Authorities & Guidelines framework at AXA XL Division level and Investment Guidelines at Legal Entity level sets maximum thresholds and alert levels and is reviewed annually in conjunction with the SAA process as outlined in C2 Market Risk.
Risk assessment and processes	The risk assessment processes assists in identifying if there are any changes to asset liability mismatch risks from those that had been identified in the previous risk assessment.

Risk treatment

The Company controls asset liability mismatch risk through:

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

  The Company will conduct detailed ALM analyses to match the average duration and currency of its liabilities with appropriate assets. The SAA process which it follows determines the target allocation that maximises the value of the Company subject to risk tolerance and other constraints. The SAA takes into account management's risk tolerance, liability cash flows, business plan, liquidity considerations, capital market forecasts and regulatory considerations. The ALM/SAA process is centralized at the AXA XL Division level and then target allocations are propagated down to the legal entity level further taking into account local considerations. This is typically performed annually and is mandatory to be completed at least once in every three years.

- **Investment authorities and guidelines**

  Board approved market risk authority and guidelines are in place that addresses all the key market risk factors and is commensurate with the volume and complexity of activity undertaken by the Company.

- **Reserving process controls**

  Among the key drivers of the Company's reserve risks are inflation, correlation across lines of business, legislative and regulatory changes, loss trend movements, timing and reporting changes at underlying ceding companies, and the excess nature of exposures in certain lines including non-proportional reinsurance

Stress testing framework

The Company uses scenario testing as one method to assess asset liability mismatch risk exposures. Investments undertakes a number of stress tests covering historical events and hypothetical scenarios to understand the impact of such scenarios to the investment portfolio.

Strategic risk

A strategic risk is the risk that 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.

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 Chief Risk Officer (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 an 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 test and undertaking the PRA General Insurance Stress Test which is planned to be run in 2021 also. Plans to develop additional climate stress tests were delayed in 2020 owing to the impact of Covid, but are being considered as part of ongoing climate analysis.

- Running underwriter workshops to increase awareness of climate issues but also to identify climate risks and opportunities within individual books of business and the mitigants in place as part of a wider initiative around emerging risks.

During 2021 as the AXA XL Division climate strategy evolves we shall be looking to enhance the current the Company climate strategy.

C.7. Any other information

The Company continues to monitor the operational and business impacts of Covid-19. See Summary section for more details.

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	Revaluation	Solvency II Value	2019
		£'000	£'000	£'000	£'000
Assets					
Deferred Acquisition Costs (DAC)	1	108,134	(108,134)	—	—
Investments (excl participations)	2	489,214	38,333	527,547	295,914
Participations	3	4	—	4	4
Reinsurance recoverables	4	1,254,758	(348,743)	906,015	479,024
Deposits to cedants		68	—	68	86
Insurance and intermediaries receivables	5	260,540	(245,798)	14,742	45,260
Reinsurance receivables	6	147,350	(63,188)	84,162	79,839
Receivables (trade, not insurance)	7	39,697	—	39,697	2
Cash and cash equivalents	8	72,323	91,898	164,221	117,338
Any other assets, not elsewhere shown		4,834	(4,830)	4	2,848
Total assets		**2,376,922**	**(640,462)**	**1,736,460**	**1,020,315**
Liabilities					
Technical provisions (best estimates) - Non Life & health similar to non life	9	1,656,805	(457,663)	1,199,142	677,721
Technical provisions (risk margin) - Non Life & health similar to non life	9	—	26,426	26,426	16,961
Debts owed to credit institutions	11	1,583	125,401	126,984	50,385
Insurance & intermediaries payables	12	4,990	—	4,990	1
Reinsurance payables	13	234,073	(220,825)	13,248	7,730
Payables (trade, not insurance)	14	78,829	—	78,829	57,929
Any other liabilities, not elsewhere shown	15	77,960	(77,960)	—	14
Total liabilities		**2,054,240**	**(604,622)**	**1,449,619**	**810,741**
Excess of assets over liabilities		**322,682**	**(35,840)**	**286,841**	**209,574**

D.1. Assets

This section describes the bases, methods and main assumptions used in the valuation for solvency purposes of each material class of assets. The material quantitative differences between the value of assets in the 31 December 2020 balance sheets presented in Section D above are explained. The numbering of the balance sheet line items refers to the comments below. Based on the differences in this section a reconciliation is prepared to reflect the difference between the UK GAAP equity and Solvency II equity.

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

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

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

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

IV. Undertakings have to make maximum use of relevant observable inputs and market inputs and rely as little as possible on undertaking-specific inputs, minimising the use of unobservable inputs; 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. The reasons for the differences between Solvency II and UK GAAP for investments are set out below:

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

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

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

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

5. Insurance and intermediaries receivables under UK GAAP are measured at cost less provision for impairment and are not discounted. The valuation differs to Solvency II due to the fact that all of the not-yet-due insurance and intermediaries receivables are transferred to technical provisions under Solvency II (See Section D2 for details). As this is simply a balance sheet 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.

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

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

D.2. Technical provisions

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

		2020	2019
		Solvency II Value	**Solvency II Value**
		£'000	**£'000**
Technical provisions (best estimates) - Non life & health similar to non life	9	1,199,142	677,720
Technical provisions (risk margin) - Non life & health similar to non life	9	26,426	16,961
Gross Technical Provisions		1,225,568	694,681
Reinsurance recoverables	4	906,015	479,024
Net Technical Provisions		**319,553**	**215,657**

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

Technical provisions are valued based on best estimate cash flows, adjusted to reflect the time value of money using risk-free discount rate term structures. In addition, there is a risk margin to reflect the uncertainty inherent in the underlying cash flows which is calculated using the cost of capital approach, SCR inputs from the Standard Formula, and risk-free discount rate term structures. The discount rate term structures are prescribed by the PRA for each reporting period, prior to the end of the Brexit transition period on 31 December 2020 these were provided by EIOPA.

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

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

Please note that the following adjustment is not applicable:

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

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

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

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

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

At 31 December 2020 and with comparatives for 2019, the total net Technical Provisions amounted to £319.6m comprising the following (reported in GBP thousand units):

	2020	2019
	£'000	**£'000**
Claims Provision	323,222	151,371
Premium Provision	(30,095)	47,325
Risk Margin	26,426	16,961
Total Technical Provisions	**319,553**	**215,657**

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

2020

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	112,078	9,436	121,514	38.0 %
Marine, Aviation and Transport Insurance	43,452	4,615	48,067	15.0 %
Motor Vehicle Liability Insurance	30,597	2,034	32,631	10.2 %
Fire and Other Property Damage Insurance	82,856	6,757	89,613	28.0 %
Credit & Suretyship Insurance	8,555	1,297	9,852	3.1 %
Miscellaneous Financial Loss	5,288	1,008	6,296	2.0 %
Other	10,300	1,279	11,579	3.7 %
Total	**293,126**	**26,426**	**319,553**	**100.0 %**

2019

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	73,834	6,157	79,991	37.2 %
Marine, Aviation and Transport Insurance	43,947	3,740	47,687	22.1 %
Motor Vehicle Liability Insurance	26,732	2,016	28,748	13.3 %
Fire and Other Property Damage Insurance	22,109	2,114	24,223	11.2 %
Credit & Suretyship Insurance	8,651	907	9,558	4.4 %
Miscellaneous Financial Loss	8,768	751	9,519	4.4 %
Other	14,655	1,276	15,931	7.4 %
Total	**198,696**	**16,961**	**215,657**	**100.0 %**

General Liability Insurance, Motor Vehicle liability insurance, Marine Aviation and Transport insurance, and Fire and Other Property Damage insurance represent 91,2% of the Company's net Technical Provisions. The main methods and assumptions are applied consistently across all lines of business. Although it is worth noting that the underlying values are specific to each line of business. For example, there is a higher discounting credit on the General liability insurance business relative to the other lines of business due to longer settlement durations.

D2.2 Description of Recoverables from Reinsurance Contracts

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

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

Principle of Correspondence

Under the principle of correspondence, the technical provisions allow for the renewal cost of future 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.

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

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

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 or types of losses not sufficiently represented in the historical data or that are not yet quantifiable.

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.

COVID-19 The global coronavirus pandemic will strain (re)insurers' balance sheets as well as their processes and systems. Depending on the length of the outbreak there could be high levels of uncertainty in premium volumes and in loss estimates throughout 2020, and possibly beyond. This is on top of an already complex landscape, including the changes from the acquisition of XL Group by AXA and the ongoing Brexit negotiations, any of which may introduce further complications and changes in the reserving process (e.g. potential changes in claims handling philosophy), and therefore create additional uncertainty.

UK's withdrawal from the EU Brexit is expected to result in increased uncertainty in the Eurozone and thus increased volatility of claim settlements for several years. This will stem from potential quantitative easing in the EU, but is likely to have knock on impacts in other areas of the market (e.g. wages may ultimately also be affected). It is possible that the additional financial impacts could be significantly in excess of the projected claims amounts, investment income, and expenses.

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 note the following:

a. Casualty Lines: The Casualty portfolio is particularly sensitive to the underlying inflation assumptions assumed within the reserving parameters.

b. Sexual Harassment claims: the company is exposed to potential uncertainty from sexual abuse claims, this is at a very early stage and will be investigated further.

Large losses or an accumulation of losses XLCICL 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.

Catastrophe losses XLCICL' exposure to catastrophe losses provides a relatively low level of uncertainty. The entity had no impact from the major events of recent years, notably the HIM events of 2017. The majority of Catastrophe activity has been in respect of older Accident Years. Much of the historical Catastrophe experience arises from Wholesale Property (62%) whose premium volumes have significantly reduced in recent years, thus naturally reducing the exposure to such losses. However, it should be noted that as business has moved platforms in 2020 in response to Brexit, XLCICL will become more exposed to Catastrophe Risks going forward.

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:

a. 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.

b. 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.

c. 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 Given the low inflationary environment in the past decade the projected reserves are subject to inflationary risk should there be in increase to the underlying inflation.

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 XLCICL's 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.

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 2020 and comparatives for 2019.

				2020	2019
Other liabilities	**Reference**	**UK GAAP Value**	**Adjustment**	**Solvency II Value**	**Solvency II Value**
		£'000	**£'000**	**£'000**	**£'000**
Debts owed to credit institutions	11	1,583	125,402	126,984	50,385
Insurance & intermediaries payables	12	4,990	—	4,990	1
Reinsurance payables	13	234,073	(220,825)	13,248	7,730
Payables (trade, not insurance)	14	78,829	—	78,829	57,929
Any other liabilities, not elsewhere shown	15	77,960	(77,960)	—	14
Total other liabilities		**397,435**	**(173,384)**	**224,051**	**116,059**

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

11 Debts owed to credit institutions represent the reclassification of overdrafts from cash and cash equivalents when moving from UK GAAP to Solvency II. They are measured at fair value under both UK GAAP and Solvency II. The Company uses a group cash pooling account to manage currency risk, and this drives the total balance. The Increase from 2019 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.

The Company has considered its deferred tax position and concludes that no deferred tax provision will be made as at 31 December 2020 (2019: nil).

D.4. Alternative methods for valuation

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

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

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

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

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

D.5. Any other information

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

E. Capital Management

E.1. Own Funds

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

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

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

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

E.1.2 Eligible Own Funds

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

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

	2020	2019
Difference between equity shown in the financial statements and net assets	**£000's**	**£000's**
Shareholder's equity per financial statements	322,681	250,724
Adjustments for technical provision and risk margin under solvency II	(5,667)	(1,496)
Adjustments for DAC	(108,134)	(85,069)
Other adjustments	77,960	45,415
Net assets per Solvency II	**286,841**	**209,574**

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

Tiering of Basic Own Funds

At 31 December 2020 the Company's Basic Own Funds were assigned to the Solvency II tiers as shown in the following table:

2020	**Tier 1 - unrestricted**	**Total**
	£'000	**£'000**
Ordinary share capital	810	810
Share premium account related to ordinary share capital	244,009	244,009
Reconciliation reserve	42,022	42,022
Total basic own funds after deductions	**286,841**	**286,841**

2019	**Tier 1 - unrestricted**	**Total**
	£'000	**£'000**
Ordinary share capital	809	809
Share premium account related to ordinary share capital	166,510	166,510
Reconciliation reserve	42,255	42,255
Total basic own funds after deductions	**209,574**	**209,574**

The Company's ordinary share capital, share premium account related to ordinary share capital and reconciliation reserve are all available as Tier 1 unrestricted own funds as per Article 69 (a) (i) of the Delegated Regulation. The ordinary share capital and share premium account related thereto are not subordinated and have no restricted duration. There is no intention to increase the share capital or share premium in the foreseeable future. There are no foreseeable dividends or own shares held. The reconciliation reserve of £42.0m (2019: £42.3m) comprises net assets from the Solvency II balance sheet of £287m (2019: £210m) less ordinary share capital of £0.8m (2019: £0.8m) and share premium of £244m (2019: £167m).

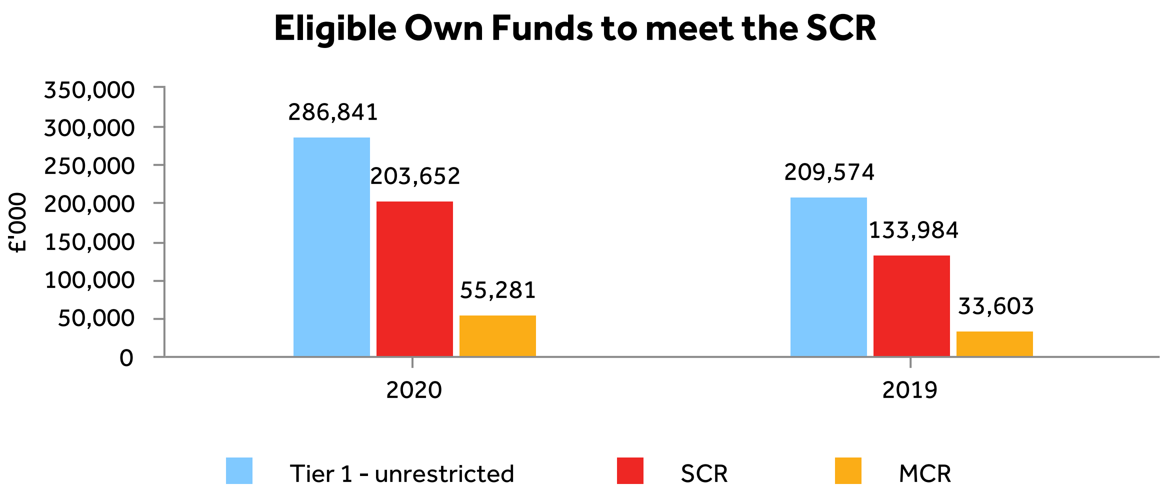
Eligible Own Funds to cover the SCR and MCR

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

Eligible Own Funds to meet the Standard Formula SCR and MCR at 31 December 2020 and 2019 is detailed below:

2020	**Tier 1 - unrestricted**	**Total**
	£'000	**£'000**
Total eligible own funds to meet the SCR	286,841	286,841
Total eligible own funds to meet the MCR	286,841	286,841

2019	**Tier 1 - unrestricted**	**Total**
	£'000	**£'000**
Total eligible own funds to meet the SCR	209,574	209,574
Total eligible own funds to meet the MCR	209,574	209,574



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 2020 and 2019: :

	2020	**2019**
	£'000	**£'000**
SCR	203,652	133,984
MCR	55,281	33,603
Total eligible own funds to meet the SCR	286,841	209,574
Total eligible own funds to meet the MCR	286,841	209,574
	%	**%**
Ratio of Eligible own funds to SCR	140.8 %	156.4 %
Ratio of Eligible own funds to MCR	518.9 %	623.7 %

E.2. Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 SCR and MCR results

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

The SCR and MCR under the Standard Formula at 31 December 2020 and 2019 are set out below:

	2020	2019
	£'000	**£'000**
SCR	203,652	133,984
MCR	55,281	33,603

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

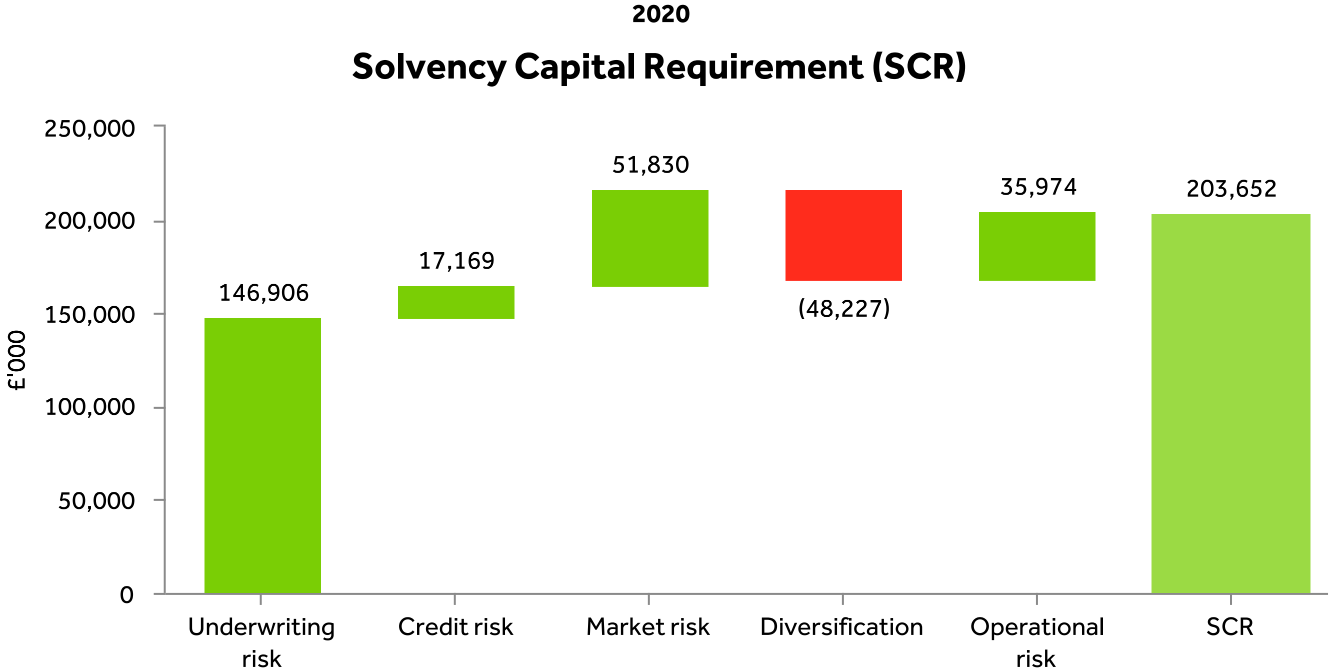
Overall MCR calculation	**MCR**	**MCR**
	2020	**2019**
	£'000	**£'000**
Linear MCR	55,281	33,603
SCR	203,652	133,984
MCR cap	91,644	60,293
MCR floor	50,913	33,496
Combined MCR	55,281	33,603
Absolute floor of the MCR	3,338	3,187
Minimum Capital Requirement	**55,281**	**33,603**

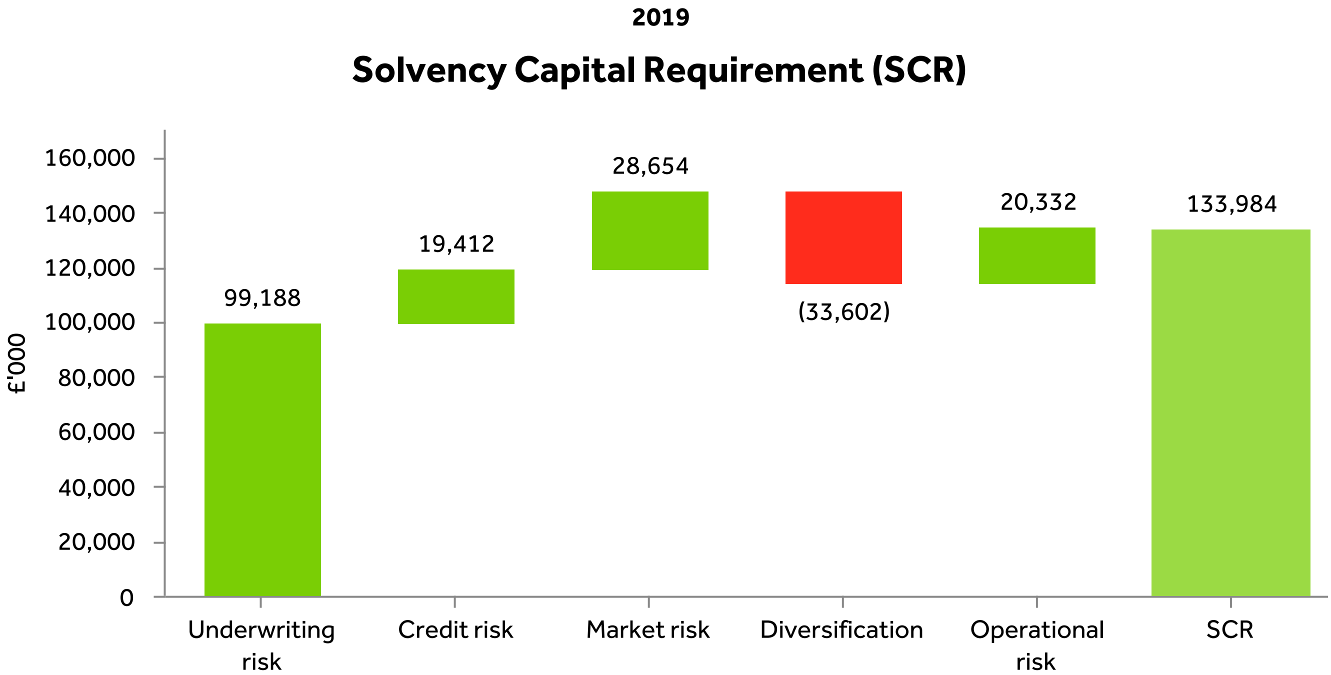
The non-life linear MCR is based on factors applied to net written premiums amounts in the previous 12 months and the net best estimate technical provisions both split by Solvency II Class of business. The charge for premium and technical provision elements are then summed to create a total charge.

SII LoB Components for MCR calculation	Net (of reinsurance) best estimate provisions		Net (of reinsurance) written premiums in the last 12 months	
	2020	**2019**	**2020**	**2019**
Income protection insurance and proportional reinsurance	8,529	8,647	10,648	5,805
Motor vehicle liability insurance and proportional reinsurance	30,597	26,732	7,323	—
Other motor insurance and proportional reinsurance	1,668	—	6,690	—
Marine, aviation and transport insurance and proportional reinsurance	43,452	43,947	20,661	30,964
Fire and other damage to property insurance and proportional reinsurance	82,856	22,109	72,289	25,510
General liability insurance and proportional reinsurance	112,078	73,834	76,839	24,289
Credit and suretyship insurance and proportional reinsurance	8,555	8,651	11,519	10,938
Miscellaneous financial loss insurance and proportional reinsurance	5,288	8,769	13,142	2,331
Non-proportional health reinsurance	55	405	—	339
Non-proportional casualty reinsurance	—	—	948	113
Non-proportional marine, aviation and transport reinsurance	—	5,022	7,325	691
Non-proportional property reinsurance	970	1,010	1,547	21

E.2.2 SCR by risk module

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





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:

- £108m (2019: £67m) of premium and reserve risk driven by earned premiums, forecast premiums and claims provisions of non-life business lines. This has increased from 2019 due to an increase in premium written and increased loss activity during the year.

- £59m (2019: £45m) of catastrophe risk driven by the Company's exposure to both man-made catastrophe and natural catastrophe risks. This has increased from 2019 due to an increase in premium be written in the year.

Non-life underwriting risk (incl. Health)	2020 £'000	2019 £'000
Non-life premium and reserve risk	107,637	67,364
Non-life lapse risk	12,698	79
Non-life catastrophe risk	58,553	45,166
Diversification within non - life underwriting risk module	(43,512)	(22,614)
Total health underwriting risk	11,530	9,193
Non Life Underwriting Risk (incl. Health) Total	**146,906**	**99,188**

Counterparty default risk (credit risk)

The Company is exposed to £17m (2019: £19m) 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 £2m is a result of a decrease in premium debtors on the Solvency II balance sheet. This is a result of improved debt collection drive especially focussing on debt over 90 days and incur a higher counterparty risk charge.

Market risk

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

- £23m (2019: £10m) of spread risk mainly driven by the Company's investments in bonds and securitised assets.
- £15m (2019: £11m) 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 increased investments in more longer maturity and lower rated investments.
- £36m (2019: £20m) of currency risk mainly driven by the exposure of the Company's assets and liabilities denominated in foreign currencies. The increase is a result of the currency mix, mainly driven by the increased exposure to US Dollars.

Market risk	2020 £'000	2019 £'000
Interest rate risk	14,660	10,520
Equity risk	1	1
Spread risk	22,724	9,983
Concentration Risk	330	—
Currency risk	35,845	20,113
Market Risk Diversification	(21,731)	(11,963)
Total Market Risk	**51,829**	**28,654**

Operational risk

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

Operational risk	2020 £'000	2019 £'000
Non-life gross technical provisions (excluding risk margin)	1,199,142	677,721
Capital requirement for operational risk based on technical provisions	**35,974**	**20,332**

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

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

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

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

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

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

E.6. Any other information

There is no other material information regarding capital management.

Public Quantitative Reporting Templates

S02.01.01 Basic information

Undertaking name	R0010	XL Catlin Insurance Company UK Ltd
Undertaking identification code	R0020	LEI/2138003CMF813DZA4E20
Type of code of undertaking	R0030	LEI
Type of undertaking	R0040	3 – Non–Life undertakings
Country of authorisation	R0050	GB
Language of reporting	R0070	English
Reporting submission date	R0080	8/4/2021
Financial year end	R0081	31/12/2020
Reporting reference date	R0090	31/12/2020
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	
	2020	2019
Assets	**£'000**	**£'000**
Intangible assets	—	—
Deferred tax assets	—	—
Pension benefit surplus	—	—
Property, plant & equipment held for own use	—	—
Investments (other than assets held for index-linked and unit-linked contracts)	527,551	295,917
Property (other than for own use)	—	—
Holdings in related undertakings, including participations	4	4
Equities	—	—
Equities - listed	—	—
Equities - unlisted	—	—
Bonds	494,043	294,563
Government Bonds	174,945	129,477
Corporate Bonds	315,406	161,045
Structured notes	—	—
Collateralised securities	3,693	4,041
Collective Investments Undertakings	33,503	1,350
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:	906,015	479,024
Non-life and health similar to non-life	906,015	479,024
Non-life excluding health	890,553	472,209
Health similar to non-life	15,462	6,815
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	68	86
Insurance and intermediaries receivables	14,742	45,260
Reinsurance receivables	84,162	79,838
Receivables (trade, not insurance)	39,697	2
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	164,221	117,339
Any other assets, not elsewhere shown	4	2,848
Total assets	**1,736,461**	**1,020,315**

	2020 £'000	2019 £'000
Liabilities		
Technical provisions – non-life	1,225,568	694,681
Technical provisions – non-life (excluding health)	1,200,815	678,065
TP calculated as a whole	—	—
Best Estimate	1,175,095	661,853
Risk margin	25,720	16,212
Technical provisions - health (similar to non-life)	24,753	16,616
TP calculated as a whole	—	—
Best Estimate	24,047	15,868
Risk margin	707	749
Technical provisions - life (excluding index-linked and unit-linked)	—	—
Technical provisions - health (similar to life)	—	—
TP calculated as a whole	—	—
Best Estimate	—	—
Risk margin	—	—
Technical provisions – life (excluding health and index-linked and unit-linked)	—	—
TP calculated as a whole	—	—
Best Estimate	—	—
Risk margin	—	—
Technical provisions – index-linked and unit-linked	—	—
TP calculated as a whole	—	—
Best Estimate	—	—
Risk margin	—	—
Contingent liabilities	—	—
Provisions other than technical provisions	—	—
Pension benefit obligations	—	—
Deposits from reinsurers	—	—
Deferred tax liabilities	—	—
Derivatives	—	—
Debts owed to credit institutions	126,984	50,385
Financial liabilities other than debts owed to credit institutions	—	—
Insurance & intermediaries payables	4,990	1
Reinsurance payables	13,248	7,730
Payables (trade, not insurance)	78,829	57,928
Subordinated liabilities	—	—
Subordinated liabilities not in BOF	—	—
Subordinated liabilities in BOF	—	—
Any other liabilities, not elsewhere shown	—	16
Total liabilities	**1,449,619**	**810,741**
Excess of assets over liabilities	**286,842**	**209,574**

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 insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	**Total**
Premiums written													
Gross - Direct Business	22,027	25,217	18,444	104,146	245,236	288,942	29,457	58,683					792,152
Gross - Proportional reinsurance accepted	956	2,423	3,555	40,501	52,611	10,578	1,439	7,270					119,333
Gross - Non-proportional reinsurance accepted									37	5,300	20,093	6,647	32,077
Reinsurers' share	14,396	20,844	13,546	115,653	232,666	205,402	19,978	50,029	22	4,127	13,795	4,730	695,188
Net	8,587	6,796	8,453	28,994	65,181	94,118	10,918	15,924	15	1,173	6,298	1,917	248,374
Premiums earned													
Gross - Direct Business	21,947	17,988	12,592	79,450	193,626	241,859	27,496	41,821					636,779
Gross - Proportional reinsurance accepted	902	2,081	2,746	39,810	41,996	9,785	957	3,010					101,287
Gross - Non-proportional reinsurance accepted									37	5,456	20,122	5,036	30,651
Reinsurers' share	14,383	15,221	9,549	95,031	190,974	170,537	18,276	35,134	19	4,041	12,364	3,587	569,116
Net	8,466	4,848	5,789	24,229	44,648	81,107	10,177	9,697	18	1,415	7,758	1,449	199,601
Claims incurred													
Gross - Direct Business	24,021	13,428	10,788	65,675	226,407	222,460	19,768	60,905					643,452
Gross - Proportional reinsurance accepted	475	1,640	2,134	30,577	17,395	8,006	693	368					61,288
Gross - Non-proportional reinsurance accepted									20	2,634	12,954	1,674	17,282
Reinsurers' share	16,480	11,769	9,145	87,463	178,039	181,166	16,726	44,550	8	2,052	9,041	1,030	557,469
Net	8,016	3,299	3,777	8,789	65,763	49,300	3,735	16,723	12	582	3,913	644	164,553
Expenses incurred	4,429	2,411	2,909	14,067	24,439	43,934	5,020	5,817	9	718	2,802	676	107,231
Other expenses													—
Total expenses													**107,231**

S.05.02.01 Premiums, claims and expenses by country

	Home Country	Top 5 countries (by amount of gross written premiums) - non-life obligations				Total Top 5 and home country
	GB	DENMARK	GERMANY	FRANCE	UNITED STATES	
	£'000	£'000	£'000	£'000	£'000	£'000
Premiums written						
Gross - Direct Business	708,183	—	6,328	—	70,960	785,471
Gross - Proportional reinsurance accepted	35,656	51	5,228	12,388	60,160	113,483
Gross - Non-proportional reinsurance accepted	27,759	—	3	23	2,455	30,240
Reinsurers' share	568,487	37	8,517	9,144	98,413	684,598
Net	203,111	14	3,042	3,267	35,162	244,596
Premiums earned						
Gross - Direct Business	574,794	—	4,304	28	47,158	626,284
Gross - Proportional reinsurance accepted	30,264	43	4,437	10,515	51,062	96,321
Gross - Non-proportional reinsurance accepted	27,176	—	122	30	971	28,299
Reinsurers' share	468,072	32	6,562	7,828	73,435	555,929
Net	164,162	11	2,301	2,745	25,756	194,975
Claims incurred						
Gross - Direct Business	608,824	37	5,339	565	15,130	629,895
Gross - Proportional reinsurance accepted	46,870	3	27	—	10,563	57,463
Gross - Non-proportional reinsurance accepted	17,155	—	1	10	98	17,264
Reinsurers' share	519,548	31	4,147	444	11,765	535,935
Net	153,301	9	1,220	131	14,026	168,687
Expenses incurred	99,937	6	798	85	2,263	103,089
Other expenses						
Total expenses						103,089

S.17.01.02 Non-life Technical Provisions

	Direct business and accepted proportional reinsurance							
	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
	£'000							
Technical provisions calculated as a sum of BE and RM								
Best estimate								
Premium provisions								
Gross	(2,773)	(869)	(772)	(21,970)	(8,132)	(12,721)	(16,530)	(6,271)
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	(2,114)	335	334	(12,341)	(10,234)	(6,443)	(8,735)	(2,875)
Net Best Estimate of Premium Provisions	(659)	(1,204)	(1,106)	(9,629)	2,102	(6,278)	(7,795)	(3,396)
Claims provisions								
Gross	26,709	116,769	13,466	198,421	300,337	486,740	57,548	54,860
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	17,521	84,968	10,692	145,339	219,584	368,384	41,199	46,177
Net Best Estimate of Claims Provisions	9,188	31,801	2,774	53,082	80,753	118,356	16,349	8,683
Total Best estimate - gross	23,936	115,900	12,694	176,451	292,205	474,019	41,018	48,589
Total Best estimate - net	8,529	30,597	1,668	43,453	82,855	112,078	8,554	5,287
Risk margin	703	2,034	232	4,615	6,757	9,436	1,297	1,008
Technical provisions - total	24,639	117,934	12,926	181,066	298,962	483,455	42,315	49,597
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	15,407	85,303	11,026	132,998	209,350	361,941	32,464	43,302
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	**9,232**	**32,631**	**1,900**	**48,068**	**89,612**	**121,514**	**9,851**	**6,295**

	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	(7)	(1,172)	(3,985)	(252)	(75,453)
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	(5)	(711)	(2,369)	(199)	(45,358)
Net Best Estimate of Premium Provisions	(2)	(461)	(1,616)	(53)	(30,095)
Claims provisions					
Gross	117	744	15,675	3,207	1,274,595
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	61	800	14,464	2,184	951,373
Net Best Estimate of Claims Provisions	56	(56)	1,211	1,023	323,222
Total Best estimate - gross	110	(428)	11,690	2,955	1,199,142
Total Best estimate - net	54	(517)	(405)	970	293,127
Risk margin	4	19	229	92	26,426
Technical provisions - total	114	(409)	11,919	3,047	1,225,568
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	56	89	12,095	1,985	906,015
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	**58**	**(498)**	**(176)**	**1,062**	**319,553**

S.19.01.21 Non-life Insurance Claims Information

Total Non-Life Business

Accident year /
Underwriting year

Gross Claims Paid (non-cumulative)

(absolute amount)

	Development year												
Year	**—**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10 & +**	**In Current year**	**Sum of years (cumulative)**
Prior											3,128	3,128	3,128
N-9	13,335	87,758	59,889	29,705	13,315	10,098	8,102	7,464	4,007	608		608	234,281
N-8	17,387	97,390	68,606	30,940	22,254	18,284	10,649	5,410	1,012			1,012	271,932
N-7	20,968	99,718	76,582	23,221	15,246	11,393	13,827	5,084				5,084	266,039
N-6	14,481	97,698	71,249	30,402	24,173	12,855	13,613					13,613	264,471
N-5	26,090	109,410	73,266	38,252	9,222	27,663						27,663	283,903
N-4	19,273	68,578	57,715	24,897	7,211							7,211	177,674
N-3	7,778	73,621	94,668	6,057								6,057	182,124
N-2	13,146	55,518	43,591									43,591	112,255
N-1	6,597	60,360										60,360	66,957
N	25,130											25,130	25,130
											Total	193,457	1,887,894

Gross undiscounted Best Estimate Claims Provisions

(absolute amount)

	Development year											Year end (discounted data)
Year	**—**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10 & +**	
Prior											54,713	53,992
N-9							43,000	25,869	7,116	462		608
N-8						32,110	16,802	22,900	24,894			25,221
N-7					66,072	47,085	38,599	42,376				42,293
N-6				101,889	53,982	45,595	29,293					28,685
N-5			146,500	116,673	92,151	53,252						53,196
N-4		153,111	116,015	106,491	76,873							76,894
N-3	56,120	173,182	87,210	106,893								105,869
N-2	54,752	147,180	175,070									174,174
N-1	120,752	365,146										364,214
N	349,613											349,449
											Total	**1,274,595**

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)	810	810			
Share premium account related to ordinary share capital	244,009	244,009			
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	42,022	42,022			
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	**286,841**	286,841		—	—
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	286,841	286,841	—	—	—
Total available own funds to meet the MCR	286,841	286,841	—	—	
Total eligible own funds to meet the SCR	**286,841**	286,841	—	—	—
Total eligible own funds to meet the MCR	**286,841**	286,841	—	—	

SCR	**203,652**
MCR	**55,281**
Ratio of Eligible own funds to SCR	**140.9 %**
Ratio of Eligible own funds to MCR	**518.9 %**

	£'000
Reconciliation reserve	
Excess of assets over liabilities	286,841
Own shares (held directly and indirectly)	
Foreseeable dividends, distributions and charges	
Other basic own fund items	244,819
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
Reconciliation reserve	42,022

Expected profits	
Expected profits included in future premiums (EPIFP) - Life business	
Expected profits included in future premiums (EPIFP) - Non-life business	73,846
Total Expected profits included in future premiums (EPIFP)	73,846

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

	Gross solvency capital requirement	USP	Simplifications
	£'000	£'000	£'000
Market risk	51,830		—
Counterparty default risk	17,169		
Life underwriting risk		—	—
Health underwriting risk	11,530	—	
Non-life underwriting risk	135,376	—	—
Diversification	(48,227)		
Intangible asset risk			
Basic Solvency Capital Requirement	167,678		

Calculation of Solvency Capital Requirement	
Operational risk	35,974
Loss-absorbing capacity of technical provisions	
Loss-absorbing capacity of deferred taxes	—
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
Solvency capital requirement excluding capital add-on	203,652
Capital add-on already set	
Solvency capital requirement	**203,652**

Other information on SCR	
Capital requirement for duration-based equity risk sub-module	
Total amount of Notional Solvency Capital Requirement for remaining part	203,652
Total amount of Notional Solvency Capital Requirements for ring fenced funds	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	
Diversification effects due to RFF nSCR aggregation for article 304	

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

Linear formula component for non-life insurance and reinsurance obligations

	£'000
MCRNL Result	55,281

	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	8,529	10,648
Motor vehicle liability insurance and proportional reinsurance	30,597	7,323
Other motor insurance and proportional reinsurance	1,668	6,690
Marine, aviation and transport insurance and proportional reinsurance	43,452	20,661
Fire and other damage to property insurance and proportional reinsurance	82,856	72,289
General liability insurance and proportional reinsurance	112,078	76,839
Credit and suretyship insurance and proportional reinsurance	8,555	11,519
Miscellaneous financial loss insurance and proportional reinsurance	5,288	13,142
Non-proportional health reinsurance	55	—
Non-proportional casualty reinsurance	—	948
Non-proportional marine, aviation and transport reinsurance	—	7,325
Non-proportional property reinsurance	970	1,547

Overall MCR calculation

	£'000
Linear MCR	55,281
SCR	203,652
MCR cap	91,644
MCR floor	50,913
Combined MCR	55,281
Absolute floor of the MCR	3,338
Minimum Capital Requirement	**55,281**

Glossary

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