XL Insurance Company SE

AN AXA GROUP COMPANY

Solvency and Financial Condition Report

Year Ended

31 December 2020

Contents

Summary

Unless otherwise stated, all amounts in this report are presented in thousands of Euros (€'000), with the Euro being the Company's reporting currency in the Financial Statements. This includes the Quantitative Reporting Templates (QRT) included in Section E.

Effective January 18, 2019, the Company changed domicile from the United Kingdom to Ireland, and as such is now regulated by the Central Bank of Ireland (CBI).

Effective December 31, 2019, the Company completed two European cross-border mergers, with entities also ultimately owned by AXA SA. These companies are AXA Corporate Solutions Assurance (ACS), which was a French domiciled commercial insurance company and AXA ART Verischerung AG (AXA ART), which was a German domiciled insurance company focusing on fine art and specie insurance. The impact is that none of the balances attributable to ACS or AXA ART were integrated into the income statement figures for 2019 comparatives within this report. The balance sheets did transfer and thus were consolidated with the Company's legacy figures at December 31, 2019 where Irish GAAP Balance Sheet, Solvency II Balance Sheet, Own Funds and Solvency and Capital Requirement figures are presented.

Business and performance

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

The Company is a member of the AXA XL division within the AXA Group. The Company provides the main insurance company platform to operate under the AXA XL brand from branches within Europe and Asia Pacific. AXA XL, through its operating carriers, is a global insurance and reinsurance group of companies and other enterprises situated around the world.

AXA XL's operating entities underwrite both insurance and reinsurance business. During 2020 the operating entities were structured within its Global Property and Casualty (P&C), Global Speciality and Reinsurance business segments. The P&C segment is structured into two further segments International and North America. AXA XL underwrites across all the platforms available to best service both brokers and clients. This has changed to a more regional model in 2021.

Further details of the Company's business and performance are provided in Section A below. Also refer to AXA's Annual Report for the year ended 31 December 2019 for additional information on the AXA Group's performance. A link to the 2020 earnings presentation is here.

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

Gross premiums written have increased from €2,940m in 2019 to €5,368m in 2020. The premium growth is largely associated to the merger of ACS and AXA ART along with positive rate growth.

Overall the final results are a profit before taxation of €4m (2019: loss of €69m).The profit is reflective of the investment return outweighing other charges from foreign exchange and a loss on the technical account of €76m (2019: €149m). The loss on technical account is attributable to two key items: 1) COVID-19 associated losses; 2) Large loss activity (excluding CAT) on the current accident year, particularly within International Property, offset slightly due to favourable prior year development (PYD) as result of releasing a margin above best estimate associated with prior year reserves.

As a result of the impact of the aforementioned loss activity the combined ratio for the year was 104.5% compared to 123.1% in 2019.

The total investment return was a gain of €119m (2019: €78m). Net realised losses on investments were €35m in 2020 compared to a gain of €53m in 2019. The current year loss is driven by the strategic decision to withdraw from the equities market resulting in the sale of equities in volatile market conditions. The increase in overall investment return stems from the returns associated to the merged entities investments being included for the first time.

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

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 (ICF) and the Company operates a 'Three Lines of Defence' model where (1) the Business, (2) Risk Management and Compliance and (3) Independent Audit work together to ensure that risk management is effective.

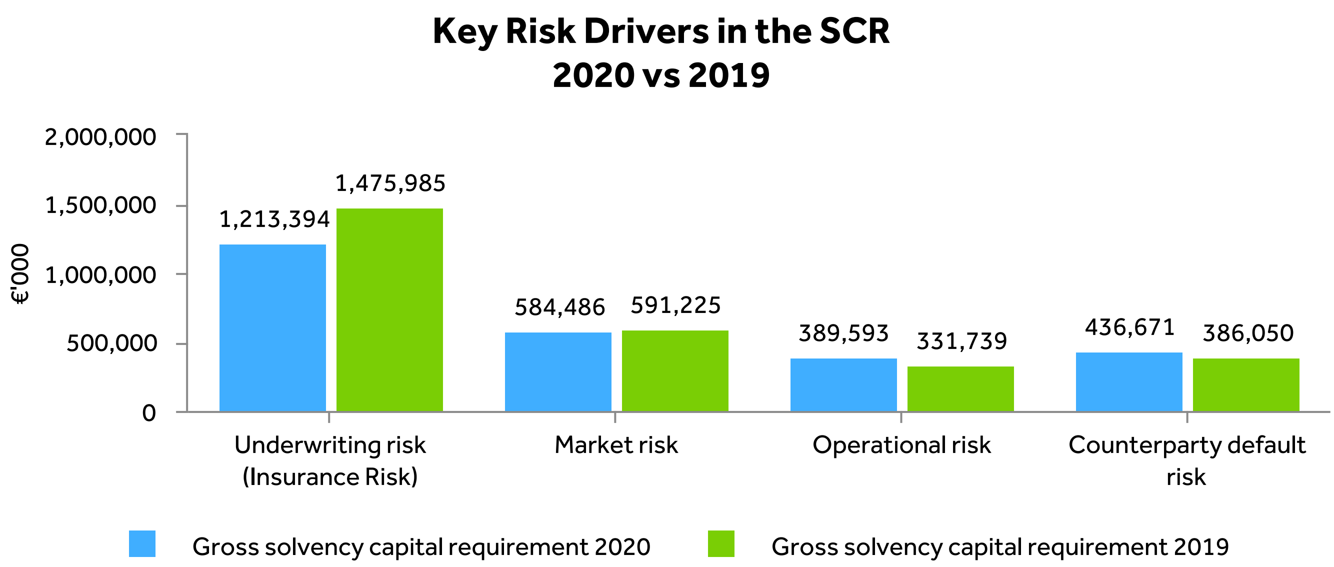
The Risk Management Framework (RMF) determines risk appetites and risk limits, establishes risk policies, identifies and manages the risks to the Company's objectives and monitors the capital requirements. All of this is captured by the Risk Management Framework and Own Risk and Solvency Assessment (ORSA) activities that are carried out throughout the year with oversight by the Board. The Company is supported by a number of Group-wide processes in the achievement of its risk management objectives.

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

Material changes were made to the Company's system of governance during the reporting period. A new Operating Model (OM) was announced during the course of 2020 which led to the restructuring of some key roles within the Company.

Risk profile

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



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

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

Underwriting risk is mitigated through the purchase of reinsurance, controls over the Actuarial function, rating adequacy, underwriting authorities and guidelines, and the new product process. The decrease in Underwriting risk is predominantly driven by a retroactive reinsurance contract signed with another AXA Group Company which came into force at 31 December 2020, this was partially offset by an increase in the underlying net claims reserves due to the aforementioned loss events in 2020.

Market risk for the Company is driven primarily by spread and interest rate risk from the bonds held against claims liabilities, and interest rate risk from both investments held and claims liabilities. There are also risk charges from the equities and investments in properties and property funds as well as currency risk driven by the asset and liability currency mix.

Counterparty default risk is driven primarily by cash, reinsurance recoverable balances and derivatives with third parties and the risk that they default on those balances (type 1) and receivables within and outside of the agreed credit terms (type 2). It is consistent with prior year due to effective treasury management (cash) throughout the year, and a decrease in the overdue receivables however this is offset by an increase in external and internal reinsurance due to loss reserve increases.

Operational risk at December 31, 2020 is driven by the gross claims reserves, as the standard formula mandates a 3% shock to reserves. All other risk categories are less significant to the Company.

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

Valuation for solvency purposes

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

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

Capital management

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

The Company calculates its SCR using the Standard Formula.

	2020	**2019**
	€'000	**€'000**
Total eligible own funds to meet the SCR	2,881,693	3,034,964
SCR	2,037,615	2,060,556
Ratio of Eligible own funds to SCR	141.4%	147.3%

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 regulators and policyholders.

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**	**Tier 2**	**Tier 3**	***Total***
	€'000	**€'000**	**€'000**	**€'000**
Ordinary share capital	314,969	—	—	314,969
Share premium	274,187	—	—	274,187
Reconciliation reserve	1,681,282	—	—	1,681,282
Subordinated liabilities	—	49,038	—	49,038
Ancillary Own Fund item	—	500,000	—	500,000
Deferred tax asset	—	—	62,217	62,217
Total basic own funds after deductions	**2,270,438**	**549,038**	**62,217**	**2,881,693**

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. No restriction applies to eligible own funds covering the SCR. As Tier 2 own fund items are subject to restrictions when covering the MCR, the amount of Tier 2 items eligible to cover the MCR is less than 100% of the total amount of Tier 2 items included in the table above. This is reflected in the table below:

	2020	2019
	€'000	€'000
SCR	2,037,615	2,060,556
MCR	516,865	646,474
Total eligible own funds to meet the SCR	2,881,693	3,034,964
Total eligible own funds to meet the MCR	2,319,477	2,509,515
	%	%
Ratio of Eligible own funds to SCR	**141.4 %**	**147.3 %**
Ratio of Eligible own funds to MCR	**448.8 %**	**388.2 %**

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

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

Deferred Tax

Under Solvency II, the Company calculates the deferred tax assets as the temporary differences between the valuation of an asset/liability on the Solvency II balance sheet and its tax base.

The total amount of deferred tax liabilities after offsetting with deferred tax asset recognised in the Solvency II balance sheet is €29m, this relates to temporary differences between the tax base and the respective value in the Solvency II balance sheet.

Solvency II applies an equivalent recognition test as is applied under IFRS and Irish GAAP. A deferred tax asset can only be recognized to the extent it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized. The criteria for holding a deferred tax asset is similar under Irish GAAP and Solvency II and a review under both basis of accounting has been performed.

The Solvency Capital Requirement has been adjusted by €77m for the loss-absorbing capacity of deferred taxes.

The deferred tax liabilities used are €55m of Germany (DTL mainly coming from loss reserve adjustments and valuation allowance), €3m of Netherlands and €7m of UK (DTL for Netherlands and UK is based on the weighted average calculation).

A total of €19m loss carry back for the countries where we had taxable profit in 2020 (€13m France, €2m Netherlands and €4m UK).

Probable future taxable profits had not been used to demonstrate likely utilisation.

Significant Business or other events

COVID-19 outbreak

• Market Environment

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

China first put in place unprecedented lockdowns to contain the spread of the pandemic, and similar measures were imposed by most large economies from Mid-March. Worldwide, governments imposed confinements, quarantines, travel restrictions, social distancing measures and more generally the closure of activities deemed non-essential to try and alleviate the severe strain experienced by local, national and supra-national medical institutions. This led to massive disruptions to the global economic output, notably manufacturing, trade and supply chains, which resulted in both lower economic activity and lower estimates of future economic growth. From May 2020 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 contraction of the disease 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. At the end of 2020, most of these restrictions were still in place and economic outlook remains uncertain despite vaccines being rolled out to the population of many countries from the end of 2020.

• Activity and Earnings

The COVID-19 pandemic negatively impacted the Company's underlying earnings by €143m, mainly through Property claims, with significant impacts in Business Interruption and Event Cancellation and to a lesser extent in Liability, Travel and Credit Insurance. The claims were partly offset by estimated reinsurance recoveries.

The Company's turnover was also affected by the crisis, primarily as a 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, partly muted by minimum premium clauses.

Additionally, financial markets have experienced a significant drop in the first quarter, then partly recovered in the second half of the year, as a potential normalisation of the situation came in sight with the development of vaccines. The consequence for the Company was a decrease in the income compared to plan due to lower dividends, distributions of funds and reinvestment yields.

The decrease in operating earnings associated with the claims reserves weighed on the Solvency II ratio by 12 points. However, the Solvency II ratio remained resilient at 141.4%, confirming management's view that the COVID-19 crisis is an earnings event and not a capital event.

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

A. Business and Performance

A.1. Business

A.1.1 Name and legal form of the undertaking

The registered office is:

AXA XL
8 St. Stephen's Green
Dublin 2
D02 VK30
Ireland

A.1.2 Supervisory authorities

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

Group Supervisor

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

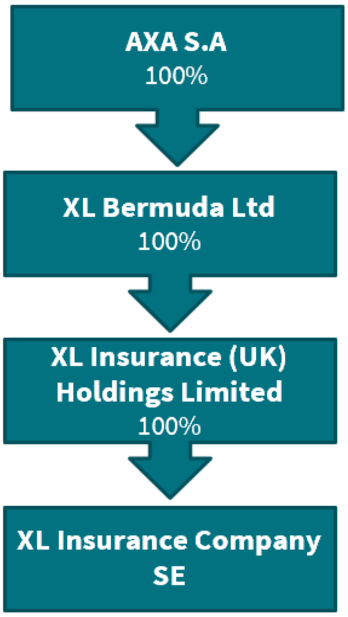
A.1.3 External auditor

PricewaterhouseCoopers
Chartered Accountants and Statutory Audit firm
One Spencer Dock
North Wall Quay
Dublin 1
Ireland

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

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

The Company position within the legal structure of the Group can be seen from the simplified structure chart below:



A.1.5 Related undertakings

At December 31, 2020, the Company has investments in the following related entities:

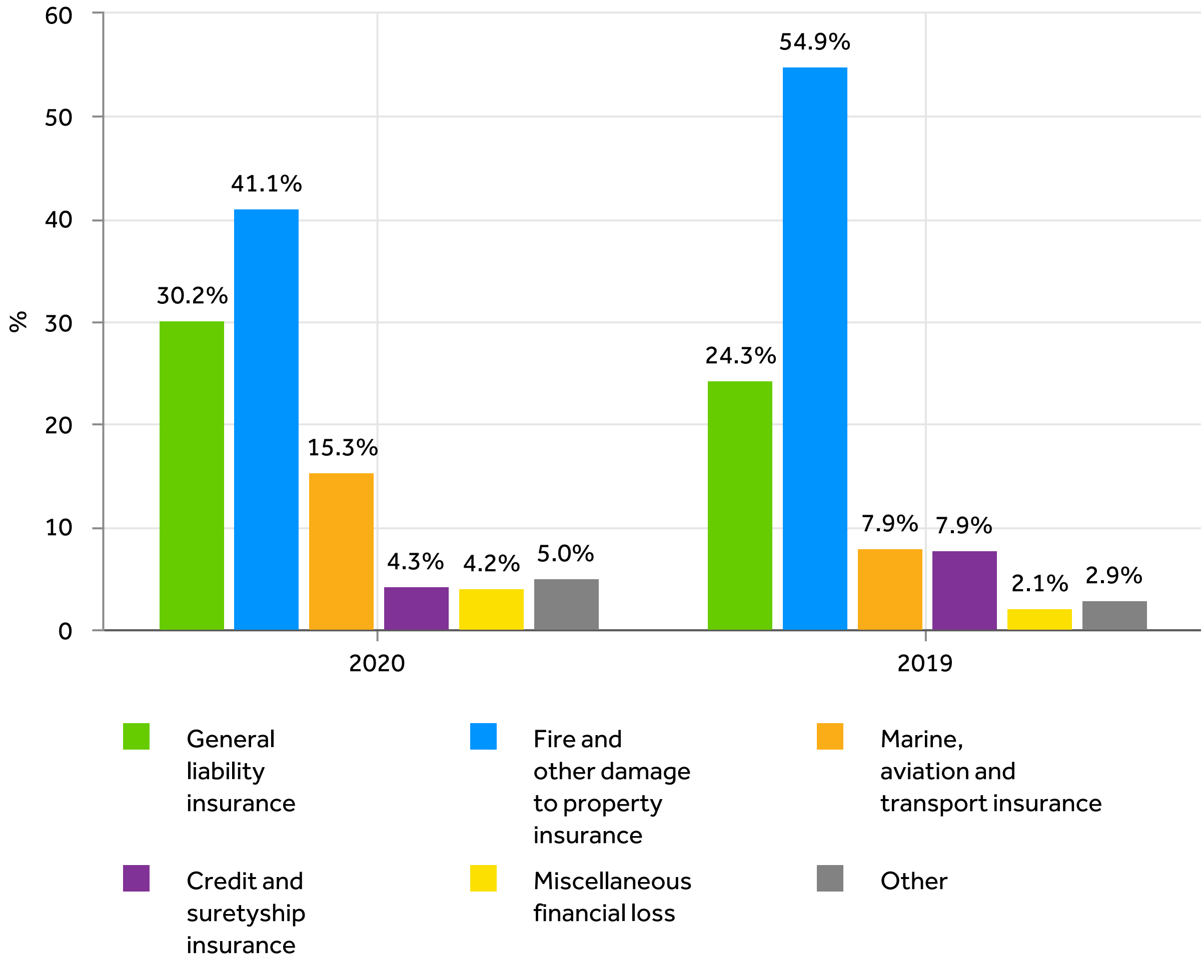
	Principal trading activity	Country of incorporation	Class of shares held	Percentage of nominal value and voting rights held
XL Insurance (China) Company Limited	Insurance Co.	China	Ordinary	49%
AXA Corporate Solutions Seguros SA	Insurance Co.	Brazil	Ordinary	73%
AXA Corporate Solutions Brasil e America Latina Resseguros SA	Insurance Co.	Brazil	Ordinary	50%

A.1.6 Material lines of business and geographical areas

The Company issues policies globally through its network of branches (or through the use of fronting partners) in the major locations of its (re)insurance clients and their respective (re)insurance risks. Its branches are in the Europe and Asia Pacific regions. This allows the Company to service brokers and clients efficiently providing both local service and global expertise, ensuring that it is able to deliver solutions to the often complex risks of multinational companies. As the Company's clients expand into new and emerging markets, the Company seeks to ensure that it can support that international expansion with the capability to provide local (re)insurance solutions and local service.

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

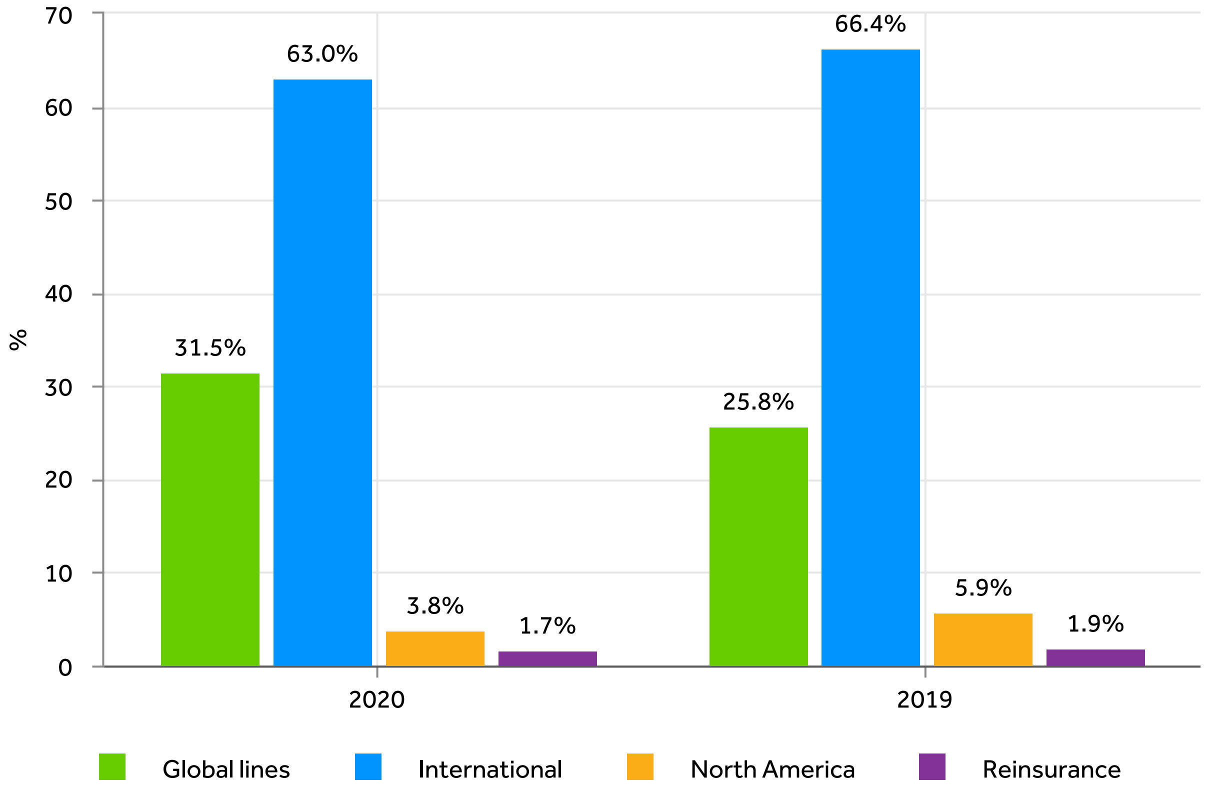
Gross Premium Written by Solvency II Business Mix



The change in mix within the lines of business year on year reflect the inclusion of ACS and ART in 2020 with key variances noted in:

- General liability insurance (increase of 5.9%)
- Fire and other damage to property insurance (increase of 13.8%):
- Other: This reflects an increase in Motor lines of business.

Gross Premium Written by Business Mix



AXA XL manages its business units on a geographical and product basis with consideration towards legal entities. The term International is used to refer to non-North American geographies. These groupings are mapped into Solvency II lines of business for regulatory reporting purposes.

The International Group consists of the following:

- International Property, which includes Construction, constitutes 25% (2019: 24%) of the Company's gross written premium and is slightly larger in size than International Casualty within the International Group. It is focused on the delivery of global insurance solutions to large sophisticated corporate clients.

- International Casualty constitutes a further 20% of gross written premium (2019 23%) in the Company's portfolio. The Company specialises in the provision of insurance solutions for large global corporate clients utilising its global network. In addition to General Liability products, this category includes Environmental Pollution and Structured Risk Solutions.

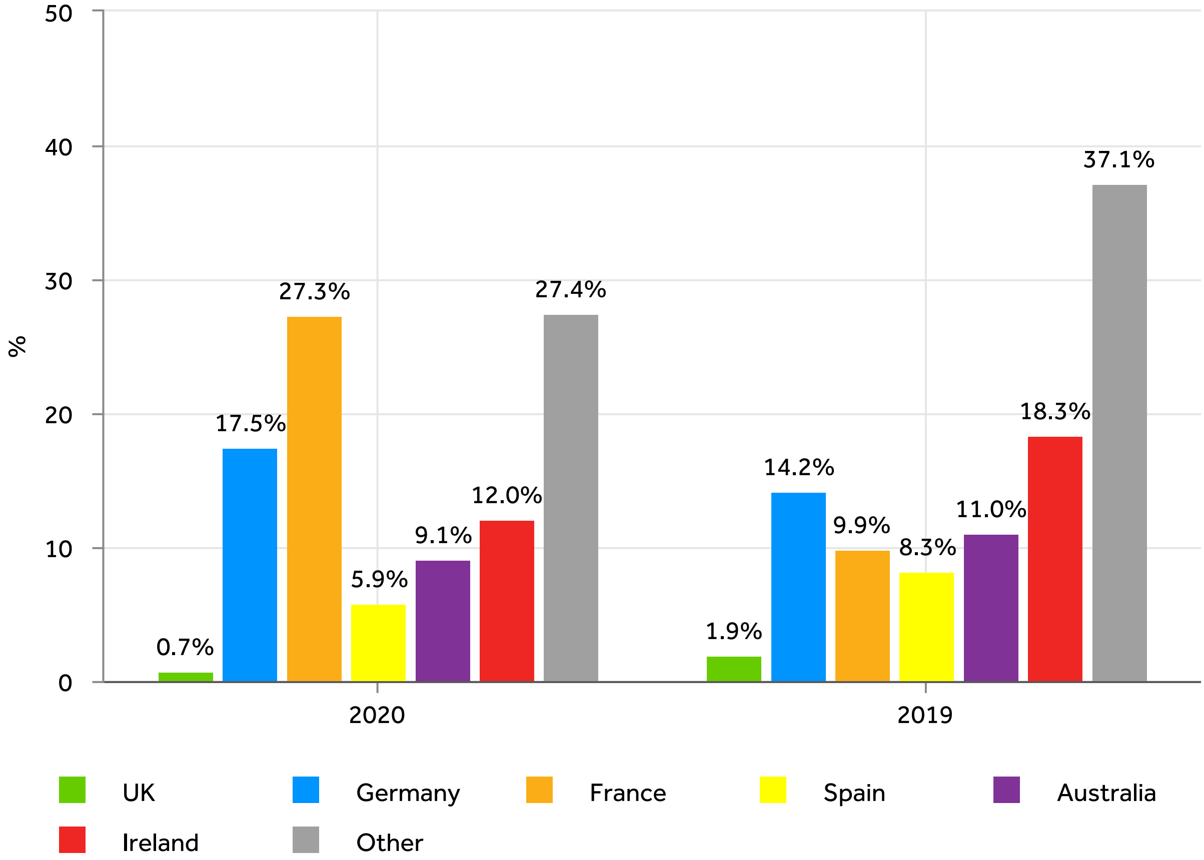
- International Professional Financial Lines constitutes 10% of gross written premium (2019: 14%) in the Company's portfolio and includes Management Liability, Professional Liability, Crime and Cyber.

Global Lines constitutes 31.5% (2019: 25.8%) of the Company's gross written premium and includes Marine, Energy, Political Risk, Equine, Aerospace, Fine Art and Specie and Crisis Management.

North America constitutes 3.8% (2019: 5.9%) of the Company's gross written premium and includes a number of portfolios including Excess Casualty, North America Casualty and North America Property.

Reinsurance contributes 1.7% (2019: 1.9%) of the Company's gross written premium and represents business written from the India branch which commenced operations in 2017.

Gross Premium Written by Main Solvency II Geographic Areas



The main movements in geographic areas include:

- Significant increases in France and Germany due to the merger of ACS and AXA ART. These geographic areas account for the majority of the merged entities business.

A.1.7 Significant events in the last reporting year

The Company entered into a retroactive reinsurance contract with a related entity where by the Company reinsured 90% of certain legacy ACS claims reserves for accident years 2009 - 2018. This excluded the Australia, Singapore and Hong Kong (APAC) branches and particular line of business. The reinsurance contract was bound on 31 December 2020 and has been recognised in the calculation of the Company's technical provisions at December 31, 2020.

A.2. Underwriting performance

A.2.1 Underwriting performance: Current year

Since the Company prepares its financial statements in accordance with Irish GAAP, the underwriting performance information provided in this section is on an Irish GAAP basis unless otherwise stated.

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

2020

	Income protection insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Motor	Other Motor	Miscellaneous financial loss	Total
Gross Premiums Written	63,030	822,642	2,206,116	1,618,831	228,473	150,164	55,555	223,400	5,368,212
Net Premiums Earned	55,327	301,973	652,799	483,380	12,791	108,542	46,828	30,203	1,691,843

2019

	Income protection insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Motor	Health	Miscellaneous financial loss	Total
Gross Premiums Written	72,761	223,810	1,791,913	563,822	250,233	3,599	59	34,748	2,940,946
Net Premiums Earned	15,950	57,068	431,061	115,244	17,159	(67)	56	8,399	644,870

The business is not managed on a Solvency II basis, however the only significant difference from Irish GAAP is in the net loss ratio which is driven by the Solvency II adjustments to arrive at the economic balance sheet position.

	2020 €'000	2019 €'000
Gross Premiums Written	5,368,212	2,940,946
Net Premiums Earned	1,691,843	644,870
Net Loss Ratio	77.7%	85%
Combined Ratio	104.5%	123.1%

Gross premiums written have increased from €2,940m in 2019 to €5,368m in 2020. The growth relates primarily due to the inclusion of legacy ACS and AXA ART in 2020 income statement and strong rate increases.

Overall the final results are a profit before taxation of €4m (2019: loss of €69m).The profit is reflective of the investment return outweighing other charges from foreign exchange and a loss on the technical account of €76m (2019: 149m). The loss on technical account is attributable to two key items: 1) COVID-19 associated losses; 2) Large loss activity (excluding CAT) on the current accident year, particularly within International Property, offset slightly due to favourable prior year development (PYD) as result of releasing a margin associated with prior year reserves.

The tables below provide the 2020 and 2019 Gross Premiums Written and Net Premiums Earned performance by geographical area:

2020	IRELAND	FRANCE	GERMANY	AUSTRALIA	SPAIN	ITALY	OTHER	TOTAL
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Premiums written								
Gross Premiums Written	646,579	1,466,210	938,095	489,728	316,305	258,739	1,252,557	5,368,212
Premiums earned								
Net Premiums Earned	105,468	539,642	339,149	118,396	69,217	88,369	431,603	1,691,843

2019	IRELAND	GERMANY	FRANCE	ITALY	AUSTRALIA	NETHERLANDS	OTHER	TOTAL
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Premiums written								
Gross Premiums Written	538,311	418,079	290,317	147,349	323,905	166,325	1,056,660	2,940,946
Premiums earned								
Net Premiums Earned	58,582	120,780	73,273	40,937	56,198	48,304	246,796	644,870

The main movements in geographic areas include:

- Significant increases in France and Germany due to the merger of ACS and AXA ART. These geographic areas account for the majority of the merged entities business.

A.3. Investment performance

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

The Company holds investment grade fixed and variable income portfolios denominated in a variety of currencies, which 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 EUR.

The Company uses a fair value hierarchy for its fixed income and equity portfolios that prioritizes inputs to its valuation techniques which are used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets, 58% of the total portfolio accounted for at fair value, and then quoted prices in markets that are not active or inputs that are observable either directly or indirectly (42% of the total portfolio accounted for at fair value). The cost less impairment accounting method is used for the Affiliates holdings.

The total investment return was a gain of €119m(2019: gain of €78m). Realised losses on investments were €35m in 2020 compared to a gain of €15m in 2019, driven by the strategic decision to withdraw from the equities market resulting in the sale of equities in volatile market conditions. The increase in overall investment return stems from the returns associated to the merged entities investments being included for the first time.

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
Investment Fund		
Equities Fund	13,462	30,110
Bonds		
Government Bonds	58,904	37,020
Corporate Bonds	77,695	36,190
Collateralised securities	—	—
Cash and cash equivalents	981	(19,014)
Derivatives	(14,856)	
Investment management expenses	(16,897)	(6,782)
	119,289	77,524

Below are components of the net investment return:

	2020	2019
	€'000	€'000
Income from financial investments	126,803	15,978
Net (losses) gains on the realisation of investments	(35,039)	15,407
Unrealised gains on investments	44,422	52,921
Investment management expenses	(16,897)	(6,782)
	119,289	77,524

A.3.2 Gains and losses recognized directly in equity

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

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

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

A.3.3 Investments in securitisation

The Company invested in asset backed securities with a market value of €158m at December 31, 2020 (2019: €131m)

	2020	2019
	€'000	€'000
Agency mortgage-backed securities	8,693	404
Collateralised loan obligations	148,849	127,870
Covered Bonds *	—	—
Other asset-backed securities	—	2,273
Total Fixed Income investments in securitisations	**157,542**	**130,547**

A.4. Performance of other activities

Other income and expenses are set out below:

	2020	2019
	€'000	€'000
(Loss)/gain on foreign exchange	(34,605)	6,789
Impairment of Group undertakings	(5,348)	(105)
Other income/(charges)	565	(4,542)
	(39,388)	2,142

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

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

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

Total operating lease charges paid during the year:

	2020	2019
	€'000	€'000
Land and buildings	572	1,646
Other leases	—	4
	572	1,650

A.5. Any other information

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

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

B. System of Governance

B.1. General information on the system of governance

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

The Company's governance framework begins with the Board and the Board Committees (for further information see below). Due to the new OM, material changes were made to the Company's System of Governance during the reporting period.

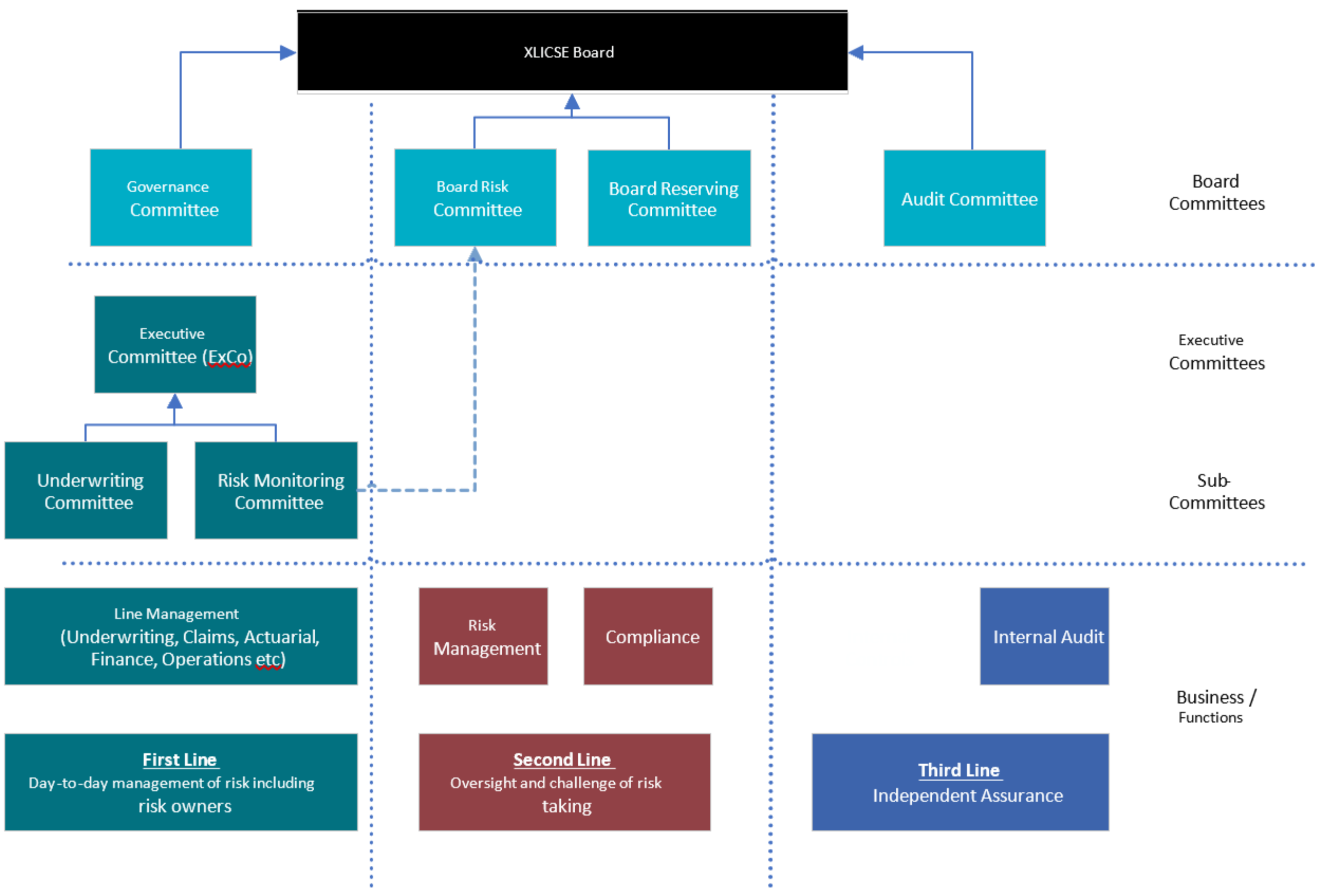
The Board is composed of a mixture of Executive and Non-Executive Directors.

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

Xavier Veyry	Executive Director and Chief Executive Officer
Bryan Joseph	Independent Non-Executive Director, Chair of the Board, the Governance Committee and the Reserving Committee
Paul Wilson	Independent Non-Executive Director, Chair of the Board Risk Committee
Julie O'Neill	Independent Non-Executive Director and Chair of the Audit Committee
Doina Palici-Chehab	Non-Executive Director
Helen Browne	Non-Executive Director
Paul Bradbrook	Non-Executive Director
Paul-Henri Rastoul	Executive Director, General Secretary and Director of Strategy and Company Secretary

Board meetings are held six times a year 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 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 is 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 members of the executive management team and Non-Executive Directors.

In addition, the Board has four Board Committees, the Governance Committee, Board Risk Committee, Board Reserving Committee and Audit Committee. Supplementing the governance structure are four formal management committees: the Executive Committee (ExCo), Risk Monitoring Committee (RMC), Investment Committee (IC) and Underwriting Committee (UC). The RMC, IC and UC report to the ExCo, and the RMC also reports to the Board Risk Committee.

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 Defense' approach to ensure effective and robust day to day governance is in place. The Operational line, or the 'first line of defense', 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 defense', which is made up of oversight functions - specifically Risk Management including Internal Control, Internal Financial Control & Compliance. These functions have responsibility for overseeing and challenging day to day management, control and reporting of risks. The Risk oversight functions are independent of management and individuals with responsibility for taking on risk exposures. The Internal Audit Function provides the 'third line of defense' 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 Audit Committee is responsible for oversight and review of external and internal audit processes and consists of independent non-executive directors. In the case of the external audit process, this involves reviewing the terms of engagement of the external auditors, their proposed audit scope and approach and their performance in the preparation of the statutory financial statements and any external reporting requirements. Updates on the internal control framework are reported to the Audit Committee. In the case of the internal audit function, the role involves agreeing and monitoring the nature and scope of work to be carried out. This is aimed at providing assurance to management that the internal control systems are appropriate for the prudent management of the business and are operating as planned.

Board Risk Committee

The Board Risk Committee consists of non-executive directors and is attended by some 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 to oversee and challenge the Risk Management and Compliance functions.

Board Reserving Committee

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

Governance Committee

The Governance Committee examines matters of governance, board composition and remuneration on behalf of the Board. The Governance Committee is a nominations committee with some limited additional responsibilities for remuneration, more particularly set out in its Terms of Reference.

Executive Committee

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

Risk Monitoring Committee

The RMC oversees the RMF of the Company, including those risks emanating from jurisdictions outside of Ireland. The Board has approved the risk policies which forms the RMF and has charged day to day monitoring of it to the RMC.

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 respective 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 respective 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 finance function reports directly to the Board. The risk management function reports to the Board Risk Committee, Board Reserving Committee and the Board Audit Committee; the compliance function reports into the Board Risk Committee; the claims and actuarial functions report to the Board Reserving Committee whilst internal audit reports to the Audit Committee.

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

Remuneration policy and practices

Remuneration Principles

The Company ensures that its remuneration policies and practices are in line with its business strategy, risk profile, objectives, risk management practices and long-term interests and ensures measures are in place to avoid conflicts of interest.

The AXA XL Division of the AXA Group maintains a Remuneration Policy, the purpose of which is to outline how the division ensures that the setting of remuneration is appropriate and transparent and promotes sound and effective risk management within approved risk tolerance limits.

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

- Competitiveness and market consistency of the remuneration practices;
- Fairness, based on individual and collective performance in order to ensure remuneration is reflecting employee's individual quantitative and qualitative achievements and impact;
- Internal equity based on remuneration policies and procedures designed to ensure that employees are paid equitably based on criteria such as role, experience, education, skills, contribution or impact only; and do not discriminate on the basis of gender or other factors;

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

AXA XL ensures an appropriate balance between fixed and variable components of remuneration where the fixed component represents a sufficiently high proportion of the total remuneration to avoid employees being overly dependent on the variable components. AXA XL adheres to a clear distinction between the criteria used for setting fixed and variable remuneration.

In this context, the overall remuneration structure is based on the following components which are designed to provide balance and avoid excessive risk taking for short term financial gain:

- 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

The Company actively monitors all related party transactions. The material transactions with shareholders, persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory body include the intra-Group reinsurance arrangements, and payments in respect of services provided to the Company.

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 programme 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 (subject to any country local legal restrictions):

- Electoral roll and address search

- Credit review

- Employment history and references
- Academic qualifications
- Identity check
- Prior directorships search
- Compliance database check
- Professional membership and qualifications

B.2.3 Code of conduct

The Company operates a 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.

B.2.4 Fit & Proper Reassessment

The CBI fitness and probity standards apply to all Directors and a number of other key roles within the Company, including those relating to the control functions. Each Director and Key Function holder is required to provide an annual confirmation that the information recorded in the probity questionnaire at the time of recruitment or appointment remains valid, or provide an update for reassessment by Compliance/HR.

The confirmation includes an acknowledgement of the CBI's fitness and probity standards, discloses any material developments in relation to his/her compliance with the standards of which the Company should be aware and confirms agreement to notify the Company without delay if the individual no longer complies with the standards.

The holders of specific roles which are designated as Pre-approved Controlled Functions (PCF) require the advance approval of the CBI. All employees are subject to a performance appraisal process, which evaluates, on an ongoing basis, employees' continued fitness for their roles and responsibilities and identifies any necessary training and development needs.

B.2.5 Key Function Holders

The Key Functions relating to corporate governance and risk management identified by the Company are shown in the table below. Each Key Function holder is either a standing ex-officio attendee of, or has a right of access to, the Company's Board outside of their own management reporting line. This gives the individual the operational independence to carry out their tasks and advise and inform the Board of any issues or concerns.

Key Function Holders		
CBI Definition	**Company Role Title**	**Individual in Role**
The Risk Management Function	Chief Risk Officer, Asia & Europe	Eric Brown
The Compliance Function	Head of Compliance & Regulatory Affairs Europe	Paul Kierans
The Internal Audit Function	Head of Internal Audit	Joe Foy
The Actuarial Function	Head of Actuarial Function	Gary Dunne

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.

For information on risk management by individual risk type, please see section C 'Risk Profile'.

The RMF is governed by the Risk Monitoring Committee (RMC) and the annual plan for the Risk Management function is recommended for approval to the Board. The risk plan would be reviewed more regularly than annually if the Company was subject to a major change in regulatory requirements, strategy or organisational structure. The aim of the RMF is to:

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

The RMC meets quarterly and oversees the implementation and embedding of the RMF and monitoring of Company performance against risk appetite. The RMC has responsibility for 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 Chief Risk Officer (CRO), and established a 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 held by the Company;
- A diversified portfolio of underwriting, financial markets and counterparty 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)), liquidity standards, tolerance to specific investment related risks and operational risk.