



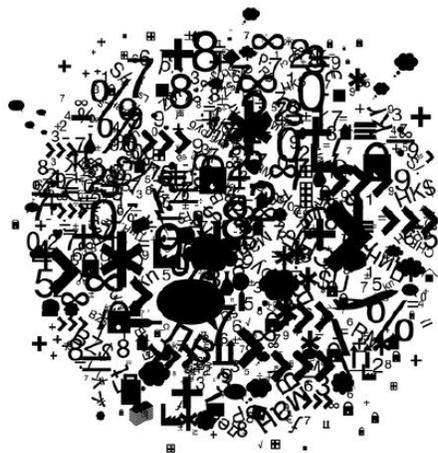
XL Insurance Company SE, London, Zurich Branch

AN XL GROUP LTD COMPANY

Financial Condition Report

Year Ended

31 December 2017



MAKE YOUR WORLD GO

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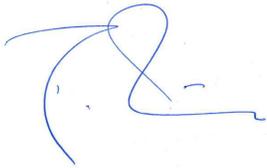
Branch Manager's Statement

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

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

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

This report was discussed and reviewed by various stakeholders and signed off on 27 April 2018.



Michael Rüschi

Branch Manager

XL Insurance Company SE, London, Zurich branch

27 April 2018



Paul Bradbrook

Director

XL Insurance Company SE, London

27 April 2018

Management summary

General remarks

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

- XL Insurance Company SE, London, Zurich Branch's ("XLICSE ZH" or "the Branch") audited financial statements for the year ended 31 December 2017 disclosed in [appendix 2](#), and
- the Solvency and Financial Condition Report ("SFCR") published by the home-office, XL Insurance Company SE ("XLICSE", "XL Insurance Company SE", "XLICSE UK", or "the Company") which will be published on 4 May 2018.

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

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

XL Group Ltd, the ultimate parent company, domiciled in Bermuda will publish its Group Financial Condition Report in line with Bermuda Monetary Authority requirements by 31 May 2018 and will be available to download from the XL Group website (www.xlgroup.com).

XL Group Ltd and its (re)insurance subsidiaries operate under the XL Catlin brand.

Business activities

XL Insurance Company SE, London, Zurich Branch, domiciled in Zurich, Switzerland, operates as a multi-line property, casualty and specialty insurance company and as main insurance carrier of XL Group Ltd ("XL", "XL Group" or the "Group") in Switzerland.

The principal activity of XLICSE ZH is the transaction of general insurance business. The business conducted is primarily commercial insurance, providing property, casualty, financial lines and specialty products to industrial, commercial and professional firms. The Branch assumes a series of Group-internal reinsurance contracts from XL Insurance Switzerland Ltd ("XLIS").

Business performance

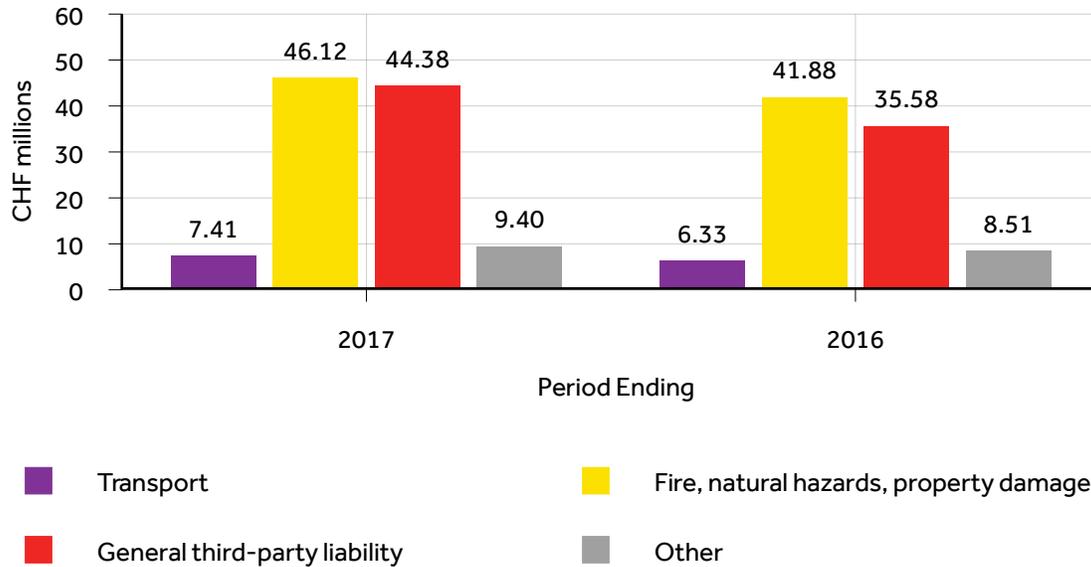
in CHF '000	Gross premium written	Net premium earned	Losses incurred	Acquisition costs and administrative expenses	Combined Ratio
Total 2017	108,216	28,732	(22,566)	(13,588)	126%
Total 2016	98,491	27,378	(30,809)	(24,549)	203%

The Branch generated CHF 108,216k of gross premium written in 2017 compared to CHF 98,491k in prior year. The increase is mainly due to growth initiatives and greater footprint in the Swiss commercial insurance market. Even though GwP increased net premium earned amounted to CHF 28,732k compared to CHF 27,378k in prior year. Net premium earned

remained mostly stable due to higher cession ratios for external facultative and treaty protection. Losses in 2017 amount to CHF 22,566k, compared to CHF 30,809k in prior year. Even though the Branch was not impacted by single large losses as compared to prior year, the result before tax is negative. This is mainly driven by a higher attritional loss experience on the external business and higher assumed losses from Group internal reinsurance agreements ("IGR").

Acquisition costs and administrative expenses are materially lower compared to 2016. Prior year's administrative expenses were mainly driven by a one-off impact related to the amortization and impairment of an intangible asset. As a result, administrative expenses have materially decreased in 2017. Acquisition costs slightly increased compared to prior year, mainly driven by a different business mix.

Direct gross premium written by FINMA line of business



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

A. Business activities

A.1 Strategy, objectives and business segments

XLICSE ZH, domiciled in Zurich, Switzerland, operates as a multi-line property, casualty and specialty insurance company and is the main Swiss insurance platform. The Branch assumes a series of Group-internal reinsurance contracts from XLIS.

The Branch belongs to the international network of XLICSE, headquartered in London, UK. 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, Switzerland, Australia, Hong Kong, Labuan (Malaysia), Singapore and India. This allows the Company to service brokers and clients efficiently providing both local service and global expertise, ensuring that it is able to deliver solutions to the often complex risks of multinational companies. As the Company's clients expand into new and emerging markets, the Company seeks to ensure that it can support that international expansion with the capability to provide local (re)insurance solutions and local service.

The Branch underwrites property, casualty, financial lines and specialty classes of insurance as well as surety and political risk insurance mainly in Continental Europe, but also in the Middle East and Latin America. The Branch offers its clients excess of loss, pro-rata and facultative insurance business both direct and through insurance brokers. It writes its main business in casualty and property, followed by the long-term business of construction. The Branch prudently manages insurance obligations through controlled risk taking, clear accountability and strong underwriting discipline.

The 2017 renewals were successful even with the continued soft market conditions and pricing pressure. Clients consider the Branch to be a stronger trading partner following the Catlin acquisition by XL in 2015. The continued focus on client management signals a clear superior alternative to the market leaders in Switzerland.

A.2 Group information and group related transactions

The Company's ultimate parent undertaking is XL Group Ltd, a company incorporated in Bermuda and listed on the New York Stock Exchange ("NYSE") under the stock ticker "XL". XL Group is supervised by:

Bermuda Monetary Authority ("BMA")
BMA House
43 Victoria Street
Hamilton, P.O. Box 2447
Bermuda

XLICSE is supervised by the UK regulators Prudential Regulatory Authority ('PRA') and the Financial Conduct Authority ('FCA').

The Company is incorporated in the United Kingdom ("UK") as a company limited by shares. The registered office is:

XL Catlin
20 Gracechurch Street
London
EC3V 0BG
United Kingdom

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



Related party transactions

The Branch actively monitors all related party transactions. The material transactions with the shareholder, persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory body include the Intra-Group reinsurance arrangements.

A.3 Shareholder

XLICSE ZH is a Branch of XLICSE UK which owns all capital rights.

A.4 Major branches

XLICSE ZH belongs to the international Branch network of XLICSE UK.

A.5 External auditor

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

PricewaterhouseCoopers Ltd
Birchstrasse 160
Postfach
8050 Zurich
Switzerland

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

A.6 Significant unusual events

In September 2017 the XL Group announced its intention to redomicile XLICSE from the UK to Dublin, Ireland, in response to the UK's decision to leave the EU. This is subject to certain regulatory approvals but the Company expect this to be completed during Q3 2018. With much undecided around Brexit, the communication of this move will create certainty for the Company's clients and brokers. Relocating XLICSE to Ireland will allow for continuity of service through its' branch network in Europe, which enables it to write business in domestic markets and is the main infrastructure for the Company's Global Programs business.

XL Group Ltd ("XL") has entered into a definitive agreement and plan of merger (the "Merger Agreement") with AXA SA ("AXA") dated March 5, 2018, under which AXA would acquire 100% of XL's common shares in exchange for cash proceeds of \$57.60 per common share, or approximately \$15.3 billion in the aggregate (the "AXA Transaction"). The Merger Agreement provides that, subject to the satisfaction or waiver of certain conditions set forth therein, XL will merge with an existing AXA subsidiary in accordance with the Companies Act 1981 of Bermuda (the "Merger"), with XL surviving the Merger as a wholly owned subsidiary of AXA. All preferred shares issued by subsidiaries of XL will remain issued and outstanding upon completion of the Merger.

The Merger is expected to close during the second half of 2018, subject to approval by the XL shareholders and other customary closing conditions, including the receipt of required regulatory approvals. The Merger Agreement, among other stipulations, permits: (i) XL to pay out regular quarterly cash dividends not to exceed \$0.22 per XL common share per quarter, (ii) subsidiaries of XL to pay period cash dividends on preferred shares not to exceed amounts contemplated by the applicable bye-laws or resolutions approving such preferred shares, and (iii) subsidiaries of XL to pay dividends to XL or any subsidiary of XL.

B. Business performance

B.1 Underwriting result

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

CHF '000	2017	2016	Change	Change in %
Gross premium written	108,216	98,491	9,725	10 %
Net earned premium	28,732	27,378	1,354	5 %
Acquisition costs and administrative expenses for own account	(13,588)	(24,549)	10,961	(45)%
Expenses for claims incurred for own account	(22,566)	(30,809)	8,243	(27)%
Operating result	(8,456)	(28,152)	19,696	(70)%
Ratios				
Acquisition and administrative expense ratio	47%	90%	(43)%	
Loss ratio	79%	113%	(34)%	
Combined ratio	126%	203%	(77)%	

The Branch generated CHF 108,216k of gross premium written in 2017 compared to CHF 98,491k in prior year. The increase is mainly due to growth initiatives and greater footprint in the Swiss commercial insurance market. Even though GwP increased net premium earned amounted to CHF 28,732k compared to CHF 27,378k in prior year. Net premium earned remained mostly stable due to higher cession ratios for external facultative and treaty protection. Losses in 2017 amount to CHF 22,566k, compared to CHF 30,809k in prior year. Even though the Branch was not impacted by single large losses as compared to prior year, the result before tax is negative. This is mainly driven by a higher attritional loss experience on the external business and higher assumed losses from IGR's following unfavorable loss development in the ceding company.

Acquisition costs and administrative expenses are materially lower compared to 2016. Prior year's administrative expenses were mainly driven by a one-off impact related to the amortization and impairment of an intangible asset. As a result, administrative expenses have materially decreased in 2017. Acquisition costs slightly increased compared to prior year, mainly driven by a different business mix.

B.1.1 Underwriting result direct business

The table below provides the **2017** key performance indicators by FINMA line of business (direct):

Direct Swiss business in CHF '000

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

The table below provides the **2016** key performance indicators by FINMA line of business (direct):

Direct Swiss business in CHF '000

Line of business	Gross premium written	Net premium earned	Net administrative expenses and acquisition costs	Net losses	Net result
Transport	6,330	2,790	(1,170)	(12,140)	(10,520)
Fire, natural hazards, property damage	41,880	12,150	(10,510)	(11,180)	(9,540)
General third-party liability	35,580	6,810	(5,860)	(16,250)	(15,300)
Other lines of business	8,510	3,330	(3,400)	(2,000)	(2,070)
Total 2016	92,300	25,080	(20,940)	(41,570)	(37,430)

B.1.2 Underwriting result indirect business

The indirect business is the business the Branch assumes from various IGR treaties with XLIS. The net result is primarily driven by some adverse reserve movements on the subject business underlying an adverse development cover. The IGR's in place may result in favorable and unfavorable movements that add some volatility to the net result of the Branch.

The table below provides the **2017** key performance indicators by FINMA line of business (indirect):

Indirect business in CHF '000

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

The table below provides the **2016** key performance indicators by FINMA line of business (indirect):

Indirect business in CHF '000

Line of business	Gross premium written	Net premium earned	Net administrative expenses and acquisition costs	Net losses	Net result
Marine, aviation, transport	(310)	(20)	(310)	920	590
Property	3,260	1,060	(1,760)	5,550	4,850
Casualty	3,270	1,780	(1,260)	3,900	4,420
Miscellaneous	(30)	(500)	(280)	410	(370)
Total 2016	6,190	2,320	(3,610)	10,780	9,490

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

B.2 Investment income and expenses

Investment Income				2017
CHF '000	Income	Realized gains	Unrealized gains	Total
Fixed income securities	2,742	92	46	2,880
Total	2,742	92	46	2,880

Investment Income				2016
CHF '000	Income	Realized gains	Unrealized gains	Total
Fixed-interest securities	1,891	111	—	2,002
Total	1,891	111	—	2,002

The investment income as disclosed in the annual report in [appendix 2](#) amounts to an income of CHF 2,880 compared to CHF 2,002 in 2016. The increase is mainly driven by higher income generated by fixed-income securities following higher investment volume from CHF 120,297k in 2016 to CHF 222,422k in 2017. This growth is related to increased tied asset requirements as a result of the Branch writing more business and being still in build-up phase. The investment portfolio of the Branch has an average rating of AA, being highly secure and liquid. XLICSE ZH holds fixed income portfolios, which broadly correspond to the respective liabilities of the Branch. All assets are pledged for tied-asset purposes to fulfill Swiss regulatory requirements.

Investment Expenses				2017
CHF '000	Expenses	Realized losses	Unrealized losses	Total
Fixed-interest securities	(454)	(203)	(3,256)	(3,913)
Total	(454)	(203)	(3,256)	(3,913)

				2016
CHF '000	Expenses	Realized losses	Unrealized losses	Total
Fixed-interest securities	(476)	(9)	(1,659)	(2,144)
Total	(476)	(9)	(1,659)	(2,144)

The investment expense as disclosed in the annual report in [appendix 2](#) amounts to CHF 3,913k compared to CHF 2,144k in 2016. The increase is driven by unrealized losses of EUR and CHF denominated fixed-income securities. To adhere to regulatory requirements regarding Asset-Liability-Management ("ALM") securities are held mainly in these two currencies. In addition the United States Federal Reserve ("FED") announced several interest rate increases in 2017 which have put pressure on the market value of investments already held by XLICSE ZH resulting in higher unrealized losses.

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

B.3 Other income and expenses

Other Income	2017	2016	Change	Change in %
CHF '000				
Other Income	1,677	884	794	90%
Total	1,677	884	794	90%

Other income amounts to CHF 1,677k in 2017 compared to CHF 884k in 2016. The increase mainly relates to higher administrative and cooperation fee income received.

Other Expenses	2017	2016	Change	Change in %
CHF '000				
Amortization of intangible asset	—	(4,496)	4,496	(100)%
Impairment on intangible asset	—	(7,604)	7,604	(100)%
Other Interest	(91)	—	(91)	100 %
FX losses	(2,749)	(162)	(2,587)	1,597 %
Total	(2,840)	(12,262)	9,422	(77)%

Other expenses amount to CHF 2,840k in 2017 compared to CHF 12,262k in 2016. The reduction was predominantly related to prior year's management decision to write-off an intangible asset. 2017 is not impacted by any such impairment and the Branch no longer carries any intangible assets. Current year other expenses are mainly related to realized FX losses.

Glossary

ALM	Asset-Liability Management
AXA	AXA SA
BMA	Bermuda Monetary Authority
CHF	Swiss Francs
FCA	Financial Conduct Authority
FCR	Financial Condition Report
FED	United States Federal Reserve
FINMA	Swiss Financial Market Supervisory Authority
FX	Foreign Exchange
IGR	Intra-group reinsurance
NYSE	New York Stock Exchange
PRA	Prudential Regulatory Authority
PwC	PricewaterhouseCoopers Ltd
SFCR	Solvency and Financial Condition Report
UK	United Kingdom
XLB	XL Bermuda Ltd
XL C	XL Catlin
XLICSE	XL Insurance Company SE
XLICSE UK	XL Insurance Company SE, London
XLICSE ZH	XL Insurance Company SE, London, Zurich Branch
XLIS	XL Insurance Switzerland Ltd

Appendices

Appendix 1 Quantitative template "Performance solo insurance"

CHF millions	Total		Direct Swiss business								Indirect business							
	2016	2017	Transport		Fire, natural hazards, property damage		General third-party liability		Other branches		Marine, aviation, transport		Property		Casualty		Miscellaneous	
			2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Gross premiums	98.49	108.22	6.33	7.41	41.88	46.12	35.58	44.38	8.51	9.40	(0.31)	(0.07)	3.26	0.78	3.27	0.77	(0.03)	(0.57)
Reinsurers' share of gross premiums	(69.05)	(79.75)	(3.46)	(5.01)	(29.22)	(33.58)	(27.77)	(34.39)	(4.88)	(6.23)	0.18	0.04	(1.95)	(0.47)	(1.96)	(0.46)	0.01	0.34
Premiums for own account	29.44	28.46	2.87	2.41	12.66	12.54	7.82	9.99	3.63	3.17	(0.12)	(0.03)	1.30	0.31	1.31	0.31	(0.02)	(0.23)
Change in unearned premium reserves	(8.45)	(1.63)	(0.25)	(0.19)	(3.32)	(0.28)	(3.64)	(1.74)	(1.05)	(0.41)	0.26	—	(0.62)	0.39	1.17	0.56	(0.99)	0.04
Reinsurers' share of change in UPR	6.38	1.90	0.17	0.19	2.80	0.03	2.64	1.90	0.74	0.37	(0.15)	—	0.37	(0.23)	(0.70)	(0.34)	0.52	(0.02)
Premiums earned for own account	27.38	28.73	2.79	2.40	12.15	12.29	6.81	10.15	3.33	3.12	(0.02)	(0.03)	1.06	0.46	1.78	0.53	(0.50)	(0.20)
Other income from insurance business	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total income from underwriting business	27.38	28.73	2.79	2.40	12.15	12.29	6.81	10.15	3.33	3.12	(0.02)	(0.03)	1.06	0.46	1.78	0.53	(0.50)	(0.20)
Payments for insurance claims (gross)	(17.23)	(53.96)	(0.48)	(31.50)	(5.39)	(10.29)	(3.17)	(6.36)	(5.75)	(0.93)	(0.40)	(0.58)	(1.22)	(2.61)	(0.58)	(1.65)	(0.24)	(0.03)
Reinsurers' share of payments for insurance claims	9.79	35.07	0.30	20.22	4.48	7.00	(0.28)	4.49	3.87	0.44	0.24	0.35	0.73	1.57	0.35	0.99	0.10	0.01
Change in technical provisions	(57.76)	(32.86)	(38.85)	21.68	(28.18)	(17.04)	(21.48)	(20.99)	0.61	(6.62)	2.55	(0.88)	15.07	(2.30)	11.46	(6.82)	1.06	0.11
Reinsurers' share of change in technical provisions	34.40	29.19	26.89	(11.49)	17.91	13.76	8.69	16.40	(0.73)	4.51	(1.47)	0.52	(9.04)	1.38	(7.34)	4.14	(0.51)	(0.04)
Expenses for insurance claims for own account	(30.81)	(22.57)	(12.14)	(1.08)	(11.18)	(6.57)	(16.25)	(6.47)	(2.00)	(2.60)	0.92	(0.59)	5.55	(1.97)	3.90	(3.34)	0.41	0.06
Acquisition and administration expenses	(41.43)	(31.81)	(2.66)	(1.99)	(14.29)	(12.13)	(15.14)	(13.94)	(4.49)	(2.92)	(0.25)	(0.03)	(2.41)	(0.50)	(1.92)	(0.45)	(0.28)	0.14
Reinsurers' share of acquisition and admin. expenses	16.88	18.22	1.49	1.29	3.78	6.76	9.28	8.94	1.09	1.04	(0.06)	0.01	0.65	0.14	0.66	0.15	—	(0.11)
Acquisition and admin. expenses for own account	(24.55)	(13.59)	(1.17)	(0.70)	(10.51)	(5.37)	(5.86)	(4.99)	(3.40)	(1.88)	(0.31)	(0.02)	(1.76)	(0.36)	(1.26)	(0.29)	(0.28)	0.03
Total expenses from underwriting business	(55.36)	(36.15)	(13.31)	(1.78)	(21.69)	(11.93)	(22.11)	(11.47)	(5.40)	(4.48)	0.61	(0.61)	3.79	(2.33)	2.64	(3.63)	0.13	0.08
Investment income	2.00	2.88																
Investment expenses	(2.14)	(3.91)																
Net investment income	(0.14)	(1.03)																
Other financial income	—	—																
Other financial expenses	(0.03)	—																
Operating result	(28.15)	(8.46)																
Interest expenses for interest-bearing liabilities	—	—																
Other income	0.88	1.68																
Other expenses	(12.26)	(2.84)																
Extraordinary income/expenses	—	—																
Profit / loss before taxes	(39.53)	(9.62)																
Direct taxes	(0.46)	(0.10)																
Profit / (loss)	(39.99)	(9.72)																

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



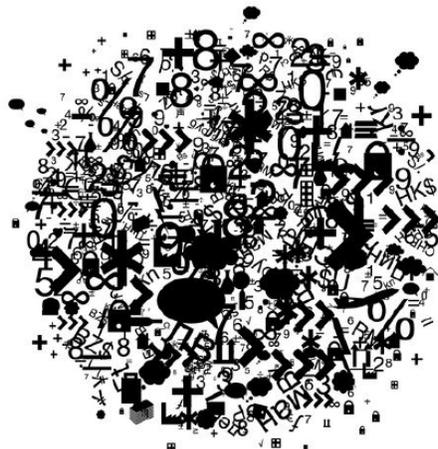
XL Insurance Company SE, London, Zurich Branch

AN XL GROUP LTD COMPANY

Financial Statements

Year Ended

31 December 2017



MAKE YOUR WORLD GO



Report of the independent auditor to the General Manager of XL Insurance Company SE, London, Zurich Branch

Zurich

Report on the audit of the financial statements

As a federally-supervised audit firm, we have audited the accompanying financial statements of XL Insurance Company SE, London, Zurich Branch which comprise the balance sheet as at December 31, 2017, and the income statement and notes for the year then ended, in line with Article 28 para. 2 of the Insurance Supervision Act (ISA) and with reference to the FINMA guidelines “Preparation and audit of the financial statements of branch offices of foreign insurance companies (WNL)”.

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

General Manager’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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



Opinion

In our opinion, the financial statements of XL Insurance Company SE, London, Zurich Branch as of and for the year ended December 31, 2017 are prepared, in all material respects, in accordance with the financial reporting provisions of the Swiss Code of Obligations, the requirements of supervision law (in particular FINMASA, ISA, ISO and ISO-FINMA) and with the WNL.

Basis of Accounting

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

PricewaterhouseCoopers AG

Philip Kirkpatrick

Audit expert
Auditor in charge

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Enclosures:

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

Balance Sheet



	Notes	31 Dec. 2017 CHF	31 Dec. 2016 CHF
Assets			
Fixed-interest securities		222'422'421	120'297'015
Total investments		222'422'421	120'297'015
Cash and cash equivalents		8'096'139	35'207'502
Reinsurer's share in insurance technical provisions	2)	122'624'538	92'571'379
Receivables from insurance business	1)	68'844'713	98'632'476
Other receivables		0	32'687
Accrued income and prepaid expenses		2'334'901	1'084'785
Total other assets		201'900'291	227'528'829
Total assets		424'322'712	347'825'844
Liabilities			
Technical reserves	2)	190'749'541	150'915'542
Payables from insurance business	3)	108'401'813	112'637'367
Other liabilities	4)	86'321'757	72'712'148
Accrued expenses and deferred income		831'590	1'151'151
Total liabilities		386'304'700	337'416'208
Branch capital	5)	38'018'011	10'409'636
Total liabilities and branch capital		424'322'712	347'825'844

Profit and loss account



	Notes	2017 CHF	2016 CHF
Gross written premium		108'215'834	98'491'117
Premium ceded to reinsurer		-79'752'585	-69'051'479
Premium written for own account		28'463'249	29'439'638
Change in provision for unearned premiums		-1'629'138	-8'445'395
Share of reinsurer in change in provision for unearned premiums		1'897'958	6'383'961
Earned premium for own account	6)	28'732'069	27'378'204
Total income out of insurance business		28'732'069	27'378'204
Claims paid		-53'962'366	-17'233'225
Share of reinsurer in claims paid		35'067'553	9'785'946
Change in reserves for losses and loss expenses		-32'861'481	-57'761'375
Share of reinsurer in change in reserves for losses and loss expenses		29'189'852	34'399'469
Expenses for claims incurred for own account	7)	-22'566'442	-30'809'186
Acquisition costs and administrative expenses		-31'809'161	-41'429'408
Share of reinsurer in acquisition costs and administrative expenses		18'220'932	16'880'240
Acquisition costs and administrative expenses for own account	8)	-13'588'229	-24'549'168
Total expenses from insurance business		-36'154'671	-55'358'354
Investment income	9)	2'879'214	2'002'671
Investment expenses	10)	-3'912'541	-2'143'911
Investment result		-1'033'327	-141'240
Other financial expense		0	-30'765
Operating result		-8'455'929	-28'152'155
Other income		1'677'418	883'770
Other expenses	11)	-2'840'720	-12'262'357
Result before tax		-9'619'230	-39'530'742
Direct taxes		-100'495	-458'436
Result		-9'719'725	-39'989'178

Notes to the financial statements



Basis of preparation and summary of significant accounting policies

The financial statements as of 2017 of XL Insurance Company SE, London, Zurich Branch ("XLICSE ZH" or the "Company") have been prepared in accordance to the requirements by the 32nd title of the Swiss Code of Obligations and with additional requirements defined by FINMA (art. 5-6a AVO-FINMA, valid as of 15 December, 2015). The financial statements of XLICSE ZH have been prepared in all respects according to the principles described in the Swiss Code of Obligations. The valuation principles applied for each line item are further specified in the respective sections below.

Investments

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

Receivables and payables

Receivables and payables are recorded with their nominal value.

Technical provisions

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

FX Rates

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

1) Receivables from insurance business	31 Dec. 2017	31 Dec. 2016
	CHF	CHF
Receivables from policyholders	15'710'845	14'563'733
Receivables from agents and brokers	12'636'975	8'147'330
Receivables from external re/insurance companies	4'749'898	17'463'895
Receivables from internal re/insurance companies	35'746'995	58'457'518
Total	68'844'713	98'632'476

2) Technical reserves	31 Dec. 2017	31 Dec. 2016	
	CHF	CHF	
Reserve for gross unearned premiums	Direct	46'192'075	43'577'104
	Assumed	3'085'567	4'071'399
Reserve for ceded unearned premiums		-31'726'423	-29'841'299
Net reserve for unearned premiums		17'551'218	17'807'205
Reserve for gross claims outstanding	Direct	134'505'689	112'610'626
	Assumed	6'966'211	-9'343'588
Reserve for ceded claims outstanding		-90'898'115	-62'730'081
Net reserve for claims outstanding		50'573'784	40'536'958
Total	68'125'002	58'344'163	

3) Payables from insurance business	31 Dec. 2017	31 Dec. 2016
	CHF	CHF
Payables to external re/insurance companies	0	1'135'187
Payables to internal re/insurance companies	108'401'813	111'502'180
Total	108'401'813	112'637'367

4) Other liabilities	31 Dec. 2017	31 Dec. 2016
	CHF	CHF
Other liabilities to internal parties	75'028'552	69'698'217
Other liabilities to external parties	814'342	1'122'868
Unrealized foreign exchange gains	10'478'862	1'891'063
Total	86'321'757	72'712'148

5) Branch capital	31 Dec. 2017	31 Dec. 2016
	CHF	CHF
Retained earnings	10'409'636	37'059'464
Transfers to headoffice in current year	0	0
Transfers from headoffice in current year	37'328'100	13'339'350
Profit / (loss) of the year	-9'719'725	-39'989'178
31. Dec 2017	38'018'011	10'409'636

As the Company is a branch of XL Insurance Company SE, London, UK, the amount reflected in the branch capital is the capital provided by the home office of XL Insurance Company SE, London.

6) Earned premiums for own account		2017	2016
		CHF	CHF
Gross written premium	Direct	107'306'261	92'301'553
	Assumed	909'574	6'189'564
Premium ceded to reinsurer		-79'752'585	-69'051'479
Net written premiums		28'463'249	29'439'638
Change in unearned premium reserve	Direct	-2'614'971	-8'261'586
	Assumed	985'833	-183'809
Ceded change in unearned premium reserve		1'897'958	6'383'961
Net change in unearned premium reserve		268'820	-2'061'434
Total		28'732'069	27'378'204

7) Expenses for claims incurred for own account		2017	2016
		CHF	CHF
Gross claims paid	Direct	-49'084'122	-14'785'938
	Assumed	-4'878'244	-2'447'287
Ceded claims paid		35'067'553	9'785'946
Net paid losses and loss expenses		-18'894'813	-7'447'279
Change in gross reserves for losses and loss expenses	Direct	-22'975'760	-87'910'762
	Assumed	-9'885'721	30'149'387
Change in ceded reserves for losses and loss expenses		29'189'852	34'399'469
Net change in reserves for losses and loss expenses		-3'671'629	-23'361'906
Total		-22'566'442	-30'809'186

8) Acquisition costs and administrative expenses for own account		2017	2016
		CHF	CHF
Gross acquisition costs	Direct	-12'578'078	-9'706'004
	Assumed	-295'611	-2'011'608
Reinsurer's share of acquisition costs		18'220'932	16'880'240
Net acquisition costs		5'347'243	5'162'628
Administrative expenses		-18'821'222	-29'612'365
Audit fees		-114'250	-99'430
Total		-13'588'229	-24'549'168

The average number of full time equivalents employed by the Company for 2017 and 2016 is less than 10.

9) Investment income	Income	Realized gains	Unrealized gains	2017
	CHF	CHF	CHF	Total
	CHF	CHF	CHF	CHF
Fixed-interest securities	2'741'676	91'964	45'574	2'879'214
Total	2'741'676	91'964	45'574	2'879'214

Fixed-interest securities	Income	Realized gains	Unrealized gains	2016
	CHF	CHF	CHF	Total
	CHF	CHF	CHF	CHF
Fixed-interest securities	1'891'055	111'374	241	2'002'671
Total	1'891'055	111'374	241	2'002'671

10) Investment expenses	Expenses	Realized losses	Unrealized losses	2017
	CHF	CHF	CHF	Total
	CHF	CHF	CHF	CHF
Fixed-interest securities	-454'179	-202'792	-3'255'569	-3'912'541
Total	-454'179	-202'792	-3'255'569	-3'912'541

Fixed-interest securities	Expenses	Realized losses	Unrealized losses	2016
	CHF	CHF	CHF	Total
	CHF	CHF	CHF	CHF
Fixed-interest securities	-475'659	-9'188	-1'659'064	-2'143'911
Total	-475'659	-9'188	-1'659'064	-2'143'911

11) Other expenses	2017	2016
	CHF	CHF
Amortization of intangible asset	0	-4'496'015
Impairment on intangible asset	0	-7'603'985
Other Interest	-91'372	0
FX losses	-2'749'348	-162'357
Total	-2'840'720	-12'262'357

In 2016 Other expenses mainly consisted of expenses related to the amortization and impairment of an intangible asset as Management decided to write-off the remaining book value at year-end 2016.

Subsequent Events

XL Group Ltd (“XL”) has entered into a definitive agreement and plan of merger (the “Merger Agreement”) with AXA SA (“AXA”) dated March 5, 2018, under which AXA would acquire 100% of XL’s common shares in exchange for cash proceeds of \$57.60 per common share, or approximately \$15.3 billion in the aggregate (the “AXA Transaction”). The Merger Agreement provides that, subject to the satisfaction or waiver of certain conditions set forth therein, XL will merge with an existing AXA subsidiary in accordance with the Companies Act 1981 of Bermuda (the “Merger”), with XL surviving the Merger as a wholly owned subsidiary of AXA. All preferred shares issued by subsidiaries of XL will remain issued and outstanding upon completion of the Merger.

The Merger is expected to close during the second half of 2018, subject to approval by the XL shareholders and other customary closing conditions, including the receipt of required regulatory approvals. The Merger Agreement, among other stipulations, permits: (i) XL to pay out regular quarterly cash dividends not to exceed \$0.22 per XL common share per quarter, (ii) subsidiaries of XL to pay period cash dividends on preferred shares not to exceed amounts contemplated by the applicable bye-laws or resolutions approving such preferred shares, and (iii) subsidiaries of XL to pay dividends to XL or any subsidiary of XL.