



XL Insurance (UK) Holdings Limited
Annual Report and Financial Statements
Year ended
31 December 2019

Registered No: 04209169

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Directors and other information

Directors

Mark R. Cummings
Clynton J. Luttig
Christopher J. Read

Company secretary

Marie L. Rees

Registered office

20 Gracechurch Street
London
EC3V 0BG

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Strategic Report for the year ended 31 December 2019

The Directors present their strategic report on the Company for the year ended 31 December 2019.

Principal activities

The principal activity of XL Insurance (UK) Holdings Limited ("the Company") remains that of a holding company. The Company is also earning income as management fee from some of its subsidiaries.

Business review

During the year, the Company received £1,540.4 million as contributions to its equity capital (2018: £99 million) and increased its investment in its subsidiaries by £1,274.1million (2018: £99.3 million).

The Directors have made an impairment analysis on the Company's investment in its subsidiaries in general and on XL Insurance Company SE (XLICSE), in particular. The analysis revealed that the carrying value of the investment in its main subsidiary, XLICSE is supported by adequate underlying net assets. Accordingly, no impairment was recorded (2018: £89.1 million) in the income statement of the Company for the year. However, an amount of £1.4 million has been recorded as impairment on investment in other subsidiaries,

The results of the Company for the year as set out on page 8 show a loss on ordinary activities before taxation of £1.5 million (2018: loss £89.6 million). The shareholders' equity at the end of the year as disclosed on page 9 stands at £2,298.8 million (2018: £759.8 million).

The Company continued to act in its capacity as a holding company.

Key performance indicators ("KPIs")

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

Principal risks and uncertainties

Principal risks and uncertainties have been considered within financial risk management in the Directors' report.

Statements by the directors on their performance of their statutory duties in accordance with section 172(1) of the companies act 2006

The Board of Directors of XL Insurance (UK) Holdings Limited consider that both individually and collectively, they have acted in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the Company's relevant stakeholders and matters set out in s172(1)(a-f) of the Companies Act 2006 in the decisions taken during the year ended 31 December 2019). An overview of how the Directors have discharged their statutory duties, is shown below. The Directors comply with S172 as part of the Companies Act 2006 requirement and fulfil their duties partly through a governance framework that delegates day to day decision making to executive and senior management of the Company.

(i) Long-term view, purpose and strategy

Our annual strategic planning cycle is designed to consider the most appropriate actions the Company should take over the longer-term, which will contribute to the Company's success.

(ii) Our People

Our purpose and values are to put the customer first, act with integrity, have the courage to speak our mind and act to make things happen. The value of being "One AXA" means that being together and being different is what makes us better. The Company operates within the framework of AXA XL's service company model and is the recipient of services provided by one if its sister companies.

Strategic Report for the year ended 31 December 2019 (Continued)

Statements by the directors on their performance of their statutory duties in accordance with section 172(1) of the companies act 2006 (Continued)

(iii) Our impact on the community and the environment

In alignment with other entities in the AXA XL division, the Company has regard for the impact its operations have on the community and the environment. Striving to achieve a balance between economic, social and environmental activity is in the long-term interests of the Company, the AXA XL division and the communities in which they operate.

The AXA XL division supports a Global Day of Giving in which its people spend a day per year donating their time and skills in the communities in which they work and live. As member of the AXA XL division companies, the Company complies with the requirements of the Modern Slavery Act 2015. Together with other AXA XL division companies to which the Modern Slavery Act 2015 applies, the Company is also part of the publication of an annual Slavery and Human Trafficking Statement. As part of the AXA XL division, the Company monitors its carbon footprint on an annual basis. It is now developing a carbon reduction strategy, focused on reducing direct emissions and electricity usage, exploring "green alternatives" for power and travel, and educating and engaging its workforce on this issue. It is also pursuing several ongoing energy reduction and recycling initiatives, such as use of sensor-based lighting, and providing recycling bins throughout offices for colleagues to sort their recyclable waste accordingly. Maintaining a reputation for high standards of business conduct the Company's commitment to ethical conduct is set out in more detail in the AXA XL division's Code of Conduct and Code Supplement which the Board of Directors reviews on an annual basis. Policies with respect to anti-corruption and anti-bribery are contained in the Code of Conduct and Code Supplement. Failure to comply with these policies is taken very seriously and may result in disciplinary action, including but not limited to dismissal.

(iv) Engaging with our shareholder

The Company has identified one of its key strategic priorities as innovation and working with the AXA Group, being the Company's ultimate shareholder, and its network. Various initiatives were pursued throughout the year, including working with colleagues at AXA GI in the UK to demonstrate our combined offering as "One AXA" and to assess opportunities for mutual growth.

(v) Engagement with suppliers, customers and others in a business relationship with the Company

Pursuant to The Companies (Miscellaneous Reporting) Regulations 2018, the Company is required to report on its engagement with suppliers, customers and others. The Company considers that this reporting requirement is fulfilled by the reporting provided in the section 172 statement. As a holding company, the Company does not engage with suppliers and customers. Its key stakeholder is its shareholder.

This report was approved by the Board and signed on its behalf by:



Clynton J. Luttig
Director
17 September 2020

Directors' Report for the year ended 31 December 2019

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2019.

Future developments

The Company will continue to act as AXAXL division's main UK based holding company through which capital is flowing to the UK and Ireland located entities. The Company is also part of the ongoing AXA XL integration and restructuring projects.

Results and dividends

The results of the Company for the year as set out on page 8 show a loss on ordinary activities before taxation of £1.5 million (2018: loss £89.6 million). No dividends were declared during the year (2018: £nil).

Financial risk management

The Company is exposed to financial risk through its financial assets and financial liabilities. The most important components of financial risk are interest rate risk, currency risk, credit risk, and liquidity risk. These areas have been considered by the Company and the necessary controls have been put in place to mitigate these risks.

Interest rate risk

Interest rate risk is the risk that movements in interest rates payable or receivable would materially affect the Company's financial statements. The Company has a variable interest rate loan with an internal company. Charges incurred from variable rate loans are monitored by management at group level.

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Company is exposed to a credit risk from group companies unable to honour their liabilities with the Company. The Company strives to minimise this risk by ensuring that intercompany positions are reviewed regularly and balances are settled in a timely manner.

Liquidity risk

Liquidity risk is the risk that cash might not be available to pay obligations when due at a reasonable cost. The Company manages liquidity risk by regular cash flow forecasting with the assistance of group treasury.

Currency risk

The Company is exposed to currency risk in respect of its intercompany assets and liabilities denominated in foreign currency. The Company strives to minimise this risk at group level by ensuring that settlements are made in a timely manner.

Directors and their interests

Company directors who hold office at the date of this report are listed on page 1. Set out below are the directors who were appointed during the financial year and up to the date of this report together with those who resigned since 1 January 2019:

| | | |
|---------------------|-----------|-----------------|
| Christopher J. Read | Appointed | 18 May 2020 |
| Mark R. Cummings | Appointed | 5 December 2019 |
| Paul R. Bradbrook | Resigned | 18 May 2020 |
| Juliet Phillips | Resigned | 9 December 2019 |

None of the Directors, according to the register of Directors' interests, has any interest in the shares of the Company.

Significant event

From December 2019 a Pandemic caused by COVID-19 virus has been spreading globally at an accelerated rate, resulting in various global economic impacts. Although the ultimate impact of the COVID-19 Pandemic spreading remains highly uncertain there have been no material impact on the Company as at 31 December 2019. The effects of the COVID-19 Pandemic could have a material adverse effect on the AXA XL division's and the Group's results, which cannot be estimated at this time. The Company is monitoring potential impacts on its business including i) capital and solvency ii) liquidity iii) parental support and iv) the consequence from a macroeconomic condition and slowdown in the flow of people, goods and services. However, the Company has evaluated that these impacts will not affect its ability to remain a going concern.

Directors' Report for the year ended 31 December 2019 (continued)

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Statement of disclosure of information to auditors

Each of the persons who is a Director at the date of this report confirms that:

- so far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December, 2019 of which the auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and accordingly they will be reappointed for the next financial year.

This report was approved by the Board and signed on its behalf by:



Clynton J. Luttig
Director
17 September 2020

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XL INSURANCE (UK) HOLDINGS LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, XL Insurance (UK) Holdings Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2019; the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XL INSURANCE (UK) HOLDINGS LIMITED
(Continued)

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of the Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Andrew Moore (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
18 September 2020

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019

| | Note | 2019 £'000 | 2018 £'000 |
|---|------|----------------|-----------------|
| Impairment on investment in subsidiaries | 7 | (1,458) | (89,362) |
| Impairment on other investment | 7 | — | (25) |
| Loss on sale of other investments | 7 | (171) | — |
| Administrative expenses | | (49) | (12) |
| Other operating income | 3 | 166 | 58 |
| Operating loss | 4 | <u>(1,512)</u> | <u>(89,341)</u> |
| Loss on ordinary activities before interest and taxation | | <u>(1,512)</u> | <u>(89,341)</u> |
| Interest payable and similar charges | 5 | (11) | (289) |
| Loss on ordinary activities before taxation | | <u>(1,523)</u> | <u>(89,630)</u> |
| Tax credit on loss on ordinary activities | 6 | 12 | 46 |
| Loss for the financial year | | <u>(1,511)</u> | <u>(89,584)</u> |
| Total comprehensive loss | | <u>(1,511)</u> | <u>(89,584)</u> |

The notes on pages 11 to 17 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

| | | Called up share capital | Capital contribution reserve | Profit and loss account | Total shareholders' funds |
|-------------------------------|-------------|--|---|--|--|
| | Note | £'000 | £'000 | £'000 | £'000 |
| As at 1 January 2019 | | 121,372 | 935,148 | (296,672) | 759,848 |
| Total comprehensive loss | | — | — | (1,511) | (1,511) |
| Capital contribution received | 11 | — | 1,540,423 | — | 1,540,423 |
| As at 31 December 2019 | | 121,372 | 2,475,571 | (298,183) | 2,298,760 |

| | | Called up share capital | Capital contribution reserve | Profit and loss account | Total shareholders' funds |
|-------------------------------|--|--|---|--|--|
| | | £'000 | £'000 | £'000 | £'000 |
| As at 1 January 2018 | | 121,372 | 836,098 | (207,088) | 750,382 |
| Total comprehensive loss | | — | — | (89,584) | (89,584) |
| Capital contribution received | | — | 99,050 | — | 99,050 |
| As at 31 December 2018 | | 121,372 | 935,148 | (296,672) | 759,848 |

The notes on pages 11 to 17 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

| | Note | 2019 £'000 | 2018 £'000 |
|---|-------------|-----------------------------|-----------------------------|
| Fixed assets | | | |
| Investments - shares in group undertakings | 7 | 2,060,063 | 787,476 |
| Investment - other (Blue Marble) | 8 | — | 354 |
| | | <u>2,060,063</u> | <u>787,830</u> |
| Current assets | | | |
| Debtors | 9 | 242 | 111 |
| Cash at bank and in hand | | 269,294 | — |
| | | <u>269,536</u> | <u>111</u> |
| Creditors: amounts falling due within one year | 10 | (26,263) | (28,093) |
| Net current assets/(liabilities) | | <u>243,273</u> | <u>(27,982)</u> |
| Provision for other liabilities | 7 | (4,576) | — |
| Net assets | | <u>2,298,760</u> | <u>759,848</u> |
| Capital and reserves | | | |
| Called up share capital | 11 | 121,372 | 121,372 |
| Capital contribution reserve | | 2,475,571 | 935,148 |
| Profit and loss account | | (298,183) | (296,672) |
| Total shareholders' funds | | <u>2,298,760</u> | <u>759,848</u> |

These financial statements on pages 8 to 17 were approved by the Board of Directors and signed on its behalf by:



Clynton J. Luttig
 Director
 17 September 2020

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

1. Accounting policies

Basis of presentation

The Company is a private company limited by shares and incorporated in England and Wales. The Company's financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom and section 396 of the Companies Act 2006.

The Company's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the Group for the year ended 31 December 2019.

The financial statements are therefore prepared on a going concern basis. The principal accounting policies which have been applied consistently throughout the year are set out below.

Exemption from preparing group consolidated financial statements

The Company availed itself of the exemption under Section 401 of the Companies Act 2006 from preparing group financial statements on the grounds that it is a wholly-owned subsidiary of its ultimate parent company AXA SA (registered in France) which prepares group consolidated statements. The consolidated financial statements of AXA SA, within which the Company and all its underlying subsidiaries are included, can be obtained from the address given in Note 12. These financial statements present information about the Company as an individual undertaking.

Exemption from preparing cash flow statement

The Company has availed itself of the exemption under FRS 102 on the grounds that it is a wholly-owned subsidiary whose ultimate parent company is AXA SA (registered in France) which prepares group consolidated financial statements which are publicly available and include a group consolidated cash flow statement. Accordingly, no cash flow statement is presented.

Exemption from disclosing related party transactions

As the Company is a wholly-owned subsidiary whose ultimate parent company is AXA SA (registered in France), the Company has taken advantage of the exemptions contained in Financial Reporting Standard 102 ("FRS 102") from disclosing related party transactions with entities which form part of the AXA SA group (FRS 102 section 33.1A) and key management personnel compensation (FRS 102 section 1.12 (e)).

Operating expenses

These are accounted for as incurred on an accruals basis.

Foreign currency

The functional currency of the Company is UK Pounds sterling.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account for the period.

Interest Payable and Interest Receivable

Interest payable and receivable is recognised on an accruals basis.

Investments in group undertakings

Investments in group undertakings are stated at cost less impairment. The cost includes transaction costs that are directly attributable to the acquisition of the investment. Impairment reviews are carried out if events or changes in circumstances indicate that the carrying amount of the fixed asset investment may not be recoverable.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

1. Accounting Policies (continued)

Taxation

Taxation expense for the period shows the current tax recognized in the reporting period. Tax is recognized in the profit and loss account. Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Capital Contribution

The Capital Contribution Reserve is held in respect of amounts provided by the parent company, XL Gracechurch Limited, as capital to the Company. Contributions are made without the requirement for consideration by the Company, without condition, and not in return for any right, shares or change over the assets or surplus of the Company. The amounts can be utilised for the Company's corporate purposes at the sole discretion of the Directors.

Provisions and Contingencies

(i) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

(ii) Contingencies

Contingent liabilities are not recognised, except those acquired in a business combination. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

2. Employees and Directors

The Company has no direct employees (2018: nil). The directors' emoluments during the year were £nil (2018: £nil).

3. Other operating income

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Income from the provision of management services | 30 | 30 |
| Foreign exchange gain | 136 | 28 |
| | <u>166</u> | <u>58</u> |

4. Operating loss

Operating loss is stated after charging:

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Services provided by the Company's auditors – Fees payable for the audit | (5) | (12) |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

5. Interest payable and similar charges

| | 2019 | 2018 |
|------------------|--------------|--------------|
| | £'000 | £'000 |
| Interest payable | 11 | 289 |

These charges relate to loan interest payable to XL Bermuda Ltd, details of which are disclosed in Note 10.

6. Income tax

(a) Tax gain included in Statement of Comprehensive Income

| | 2019 | 2018 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Current tax | | |
| UK corporation tax on loss for the year | (12) | (46) |
| Tax credit on loss on ordinary activities | <u>(12)</u> | <u>(46)</u> |

(b) Reconciliation of tax charge

Tax assessed for the year is the same (2018: same) as the standard rate of corporation tax in the UK for the year ended 31 December 2019 of 19% (2018: 19%). The differences are explained below:

| | 2019 | 2018 |
|---|----------------|-----------------|
| | £'000 | £'000 |
| Loss on ordinary activities before taxation | <u>(1,523)</u> | <u>(89,630)</u> |
| Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%) | (289) | (17,030) |
| Effects of: | | |
| Write down of investment not deductible | 277 | 16,984 |
| Tax credit for the year | <u>(12)</u> | <u>(46)</u> |

(c) Tax rate changes

The standard rate of UK corporation tax is 19% (2018: 19%). In the 2020 Spring Budget it was announced that the previously enacted rate reduction to 17%, which was scheduled to be effective from 1 April 2020, will no longer go ahead and will remain at 19%.

(d) Deferred tax

The Company had no deferred tax provision as at 31 December 2019 (2018: GBP nil)

A potential deferred tax asset of GBP 914,262 based on a tax rate of 19% (2018: GBP 914,262 (based on tax rate of 19%)) in respect of certain unutilised tax losses has not been recognised as there is insufficient evidence that it will be recoverable. This asset would be recovered should sufficient taxable profits be generated in future which would be eligible for relief against the unutilised tax losses.

There are unused tax losses of GBP 4,811,903 (2018: GBP 4,811,903)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

7. Investments in group undertakings

| | 2019 | 2018 |
|----------------------|------------------|----------------|
| | £'000 | £'000 |
| At 1 January | 787,476 | 777,526 |
| Capital contribution | 1,274,045 | 99,312 |
| Impairment | (1,458) | (89,362) |
| At 31 December | <u>2,060,063</u> | <u>787,476</u> |

Details of Investments in group undertakings during 2019

| Sl. No. | Investment made to subsidiaries | Date of transaction | Purpose | Form of Contribution | Amount £'000 |
|--------------------------------------|---------------------------------|---------------------|---|---|-------------------------|
| 1 | XL Catlin Servcies SE | 12 Jun 2019 | Additional capital injection | Cash | 15,865 |
| 2 | XL Catlin Servcies SE | 26 Sep 2019 | Additional capital injection | Cash | 54,437 |
| 3 | AXA Matrix Risk Consultants SA | 30 Sep 2019 | AXA XL division restructure-acquisition | Cash | 6,578 |
| 4 | XL Insurance Company SE | 28 Jun 2019 | Additional capital injection | Cash | 53,813 |
| 5 | XL Insurance Company SE | 29 Mar 2019 | Additional capital injection | Investment assets transfer | 25,807 |
| 6 | AXA Art Europe Ltd | 31 Dec 2019 | AXA XL division restructure-acquisition | Cash | 2,009 |
| 7 | XL Insurance Company SE | 30 Sep 2019 | AXA XL division restructure-acquisition | Investment assets transfer | 1,101,452 |
| 8 | SLT (Secure Legal Title) | 22 Nov 2019 | Business acquisition | Cash £ 9m + Contingent consideration £ 4.9m | 13,915 |
| 9 | XL Insurance Argentina S.A | 21 Jun 2019 | Additional capital injection | Cash | 169 |
| Total Investment made in 2019 | | | | | <u><u>1,274,045</u></u> |

During 2019 the Company increased its investment in its wholly owned subsidiary XL Insurance Company SE by £1,181.1 million (2018: £99.0 million) mainly to fund the large Cross-border merger between XLICSE and AXA Corporate Solutions.

On 25 November 2019, the Company acquired Secure Legal Title Limited, a London based managing general agent engaged in legal indemnity and title insurance business. The cost capitalised was £13.6 million (\$17 million) which comprised of a cash consideration of £9.0 million paid and a contingent consideration of £4.9 million (\$6 million) payable. A corresponding liability was recognised under provision for liabilities.

The Directors have made an impairment analysis on the Company's investment in its subsidiaries in general and on XL Insurance Company SE (XLICSE), in particular. The analysis revealed that the carrying value of the investment in its main subsidiary, XLICSE is supported by adequate underlying net assets. Accordingly, no impairment was recorded (2018: £89.1 million) in the income statement of the Company for the year.

The Company has written off £1.3 million, the difference between the acquisition price and the value in use of AXA Matrix Risk Consultants SA.

A capital contribution of £0.2 million (2018: £0.3 million) was also made by the Company to its 90% owned subsidiary, XL Insurance Argentina S.A Compania de Seguros, during the year. The full amount of £0.2 million (2018: £0.3 million) was impaired and has been written down to zero in the financial statements, since the subsidiary ceased operations and the contribution was mad to meet the administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

7. Investments in group undertakings (continued)

Details of the Company's subsidiaries:

| | Country of registration of Incorporation | Shares Held Class | % Held |
|--|---|------------------------------|---------------|
| XL Insurance Company SE | Ireland | Ordinary | 100% |
| XL Catlin Services SE | Ireland | Ordinary | 100% |
| XL Insurance Argentina S.A Compañia de Seguros | Argentina | Ordinary | 90% |
| Secure Legal Title (SLT) Limited | England and Wales | Ordinary | 100% |
| AXA Matrix Risk Consultants SA | France | Ordinary | 100% |
| AXA Art Europe Ltd | France | Ordinary | 100% |
| AXA Chile | Chille | Ordinary | 100% |
| AXA CS Services UK | England and Wales | Ordinary | 100% |

8. Investments – Other

On 9 October 2015 the Company subscribed to the equity, as one of 8 founder shareholders, of a new company: Blue Marble Micro Limited, incorporated under UK law for the purpose of developing and promoting the delivery of new insurance products and services to low income individuals in emerging markets. During 2018, an additional capital contribution of £0.03 million (\$0.04 million) was made to this company (2017: £0.09 million (\$0.13 million)). In order to align the Company's 12.5% share in the NAV of this company to the book value in the books of the Company, an impairment of £0.03 million has been recorded in the income statement of the Company in 2018. On 1 October 2019, this investment is sold back to the issuing company and presently no investments-other is outstanding in the books of the Company.

9. Debtors

| | 2019 £'000 | 2018 £'000 |
|---|-----------------------|-----------------------|
| Amounts owed by group undertakings | 184 | — |
| Corporation tax - group relief receivable from group entities | 58 | 111 |
| | <u>242</u> | <u>111</u> |

The corporation tax group relief receivable represents losses which have been surrendered to other group companies as group relief.

10. Creditors: Amounts falling due within one year

| | 2019 £'000 | 2018 £'000 |
|------------------------------------|-----------------------|-----------------------|
| Amounts owed to group undertakings | 26,246 | 26,531 |
| Accruals and deferred income | 17 | 24 |
| Bank loans and overdrafts | — | 1,538 |
| | <u>26,263</u> | <u>28,093</u> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

10. Creditors: Amounts falling due within one year (continued)

| | 2019 | 2018 |
|---|---------------|---------------|
| | £'000 | £'000 |
| Amounts owed to group undertakings | | |
| - Principal of £38,235 million | 26,246 | 26,246 |
| - Interest accrual | — | 285 |
| Total loans from XL Bermuda Ltd | <u>26,246</u> | <u>26,531</u> |
| Total amount owed to group undertakings | <u>26,246</u> | <u>26,531</u> |

The details of the loan from XL Bermuda Ltd are as follows:

£38.2 million was advanced on 17 August 2001, accrues interest at LIBOR + 1% per annum and is due for repayment on demand, or at any earlier point when the Company has sufficient funds. This loan was reduced in 2001 by £9.0 million and in 2012 by £3.0 million.

11. Share Capital and Capital Contributions

(i) Share Capital

| | 2019 | 2018 |
|---|----------------|----------------|
| | £'000 | £'000 |
| Called up, allotted and fully paid share capital | | |
| Attributable to equity interests | | |
| 70,000,000 (2018: 70,000,000 Ordinary £1 shares) | 70,000 | 70,000 |
| Attributable to non-equity interests | | |
| 51,372,003 (2018: 51,372,003) Preference £1 shares | <u>51,372</u> | <u>51,372</u> |
| | <u>121,372</u> | <u>121,372</u> |

(ii) Capital Contributions

| Sl. No. | Capital Contribution received from | Date of transaction | Purpose | Form of Contribution | Amount £'000 |
|---|---|----------------------------|---|-----------------------------|-------------------------|
| 1 | XL Gracechurch | 20 Dec 2019 | AXA XL division restructure-acquisition of AXA Art in 2020 | Cash | 282,829 |
| 2 | XL Gracechurch | 28 Jun 2019 | Additional capital injection for further investment in XLICSE | Cash | 53,813 |
| 3 | XL Gracechurch | 6 Nov 2019 | AXA XL division restructure-acquisition of AXA Matrix | Cash | 6,220 |
| 4 | XL Gracechurch | 12 Jun 2019 | Additional capital injection for further investment in XLCSE | Cash | 15,865 |
| 5 | XL Gracechurch | 26 Sep 2019 | Additional capital injection for further investment in XLCSE | Cash | 54,437 |
| 6 | XL Gracechurch | 29 Mar 2019 | AXA XL division restructure-acquisition | Investment assets transfer | 25,807 |
| 7 | XL Gracechurch | 30 Sep 2019 | AXA XL division restructure-acquisition of AXA CS | Investment assets transfer | 1,101,452 |
| Total capital contributions received in 2019 | | | | | <u><u>1,540,423</u></u> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

12. Parent undertakings and controlling party

The Company's immediate parent is XL Gracechurch Limited, a company registered in the United Kingdom.

The Company's ultimate parent undertaking and controlling party is AXA SA, a company incorporated in France. XL Group Ltd is the parent company of the smallest and largest group for which group financial statements are prepared and of which the Company is a member. Copies of the audited financial statements of both parent undertakings may be obtained from the Company Secretary, 20 Gracechurch Street, London, EC3V 0BG.

13 POST BALANCE SHEET EVENT

COVID-19 outbreak:

From December 2019 a Pandemic caused by COVID-19 virus has been spreading globally at an accelerated rate, resulting in various global economic impacts. Although the ultimate impact of the COVID-19 Pandemic spreading remains highly uncertain there have been no material impact on the Company as at 31 December 2019. The effects of the COVID-19 Pandemic could have a material adverse effect on the AXA XL division's and the Group's results, which cannot be estimated at this time. The Company is monitoring potential impacts on its business including i) capital and solvency ii) liquidity iii) parental support and iv) the consequence from a macroeconomic condition and slowdown in the flow of people, goods and services. However, the Company has evaluated that these impacts will not affect its ability to remain a going concern.

This has been treated as a non-adjusting event as it was declared a pandemic after December 31, 2019, as such it has not been taken account of in the recognition and measurement of the Company's assets and liabilities at December 31, 2019.