

AXIS Specialty Europe SE

Solvency and Financial Condition Report

Year Ended 31 December 2019

AXIS SPECIALTY EUROPE SE
YEAR ENDED 31 DECEMBER 2019
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As used in this report, references to "we", "us", "our" or "Company" refers to AXIS Specialty Europe SE. The Solvency and Financial Condition report is presented in thousands of US Dollars (USD'000) unless otherwise stated. Amounts in tables may not reconcile due to rounding differences.

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SUMMARY

On 4 November 2015, Ireland transposed the Solvency II Directive (Directive 2009/138/EC) as amended by the Omnibus II Directive (2014/51/EC) (together "the Solvency II Directive") into Irish Law effective 1 January 2016. This transposition took the form of secondary Irish legislation in the form of a Statutory Instrument, the European Union (Insurance and Reinsurance) Regulations 2015, which together with the Solvency II Directive are collectively referred to as "Solvency II" in this report.

This Solvency and Financial Condition Report ("SFCR") for AXIS Specialty Europe SE is for year ended 31 December 2019.

The SFCR is produced as part of our compliance with the reporting requirements under Solvency II. It covers the business and performance of the Company, its system of governance, risk profile, valuation for solvency purposes and capital management.

Business and Performance

The Company operates from its Head Office at Mount Herbert Court, 34 Upper Mount Street, Dublin 2. The Company has underwriting branches in the United Kingdom, Belgium and Netherlands.

The Company is a part of the AXIS Capital Holdings Limited ("AXIS Capital") group. AXIS Capital is a Bermuda-based holding company. At 31 December 2019, it had common shareholders' equity of USD 4.8 billion, total capital of USD 7.4 billion and total assets of USD 25.6 billion.

The principal activity of the Company is the transaction of insurance business and facultative reinsurance business in respect of the risks of third parties, primarily in the marine, energy, property, credit, liability and accident and health classes of business.

On 1 January 2019 AXIS Speciality Holdings Ireland Limited ("ASHIL") transferred the entirety of the shares of Aviabel S.A. to the Company by way of capital contribution. The Company then incorporated the activities of Aviabel S.A., by way of a merger by absorption under the European Communities (Cross-Border Mergers) Regulations 2008 (S.I. No. 157 of 2008), and a portfolio transfer on the same date. The Company established branches in Belgium and the Netherlands, where Aviabel S.A. had underwriting offices. As part of the merger, the net assets of Aviabel S.A. were absorbed into the Company.

In 2019, the Company reported a profit of USD 6.4 million compared to a USD 10.1 million loss in 2018. Gross premium written in 2019 increased by USD 58.4 million to USD 534.4 million, representing an increase of 12.3% primarily driven by inclusion of Aviabel S.A. business, renewable energy and professional lines.

The focus for the Company in 2019 was on remediation, retention and actions taken to improve profitability.

The net combined ratio, which relates net losses and other expenses incurred to net premium earned, is the primary indicator of underwriting and therefore Company performance. During 2019 the Company's net combined ratio was 111.4% (2018: 116.1%), impacted by adverse prior year development on professional lines and the run-off of exited business.

The Company's investment portfolio generated returns from investments of USD 22.6 million in 2019 (2018: USD 0.7 million). This translated to a total return on average cash and investment (pre-tax) of 4.8% in 2019 (2018: 0.2%). The decline in sovereign interest rates and the rally in equity markets had a positive impact on the investment portfolio in 2019.

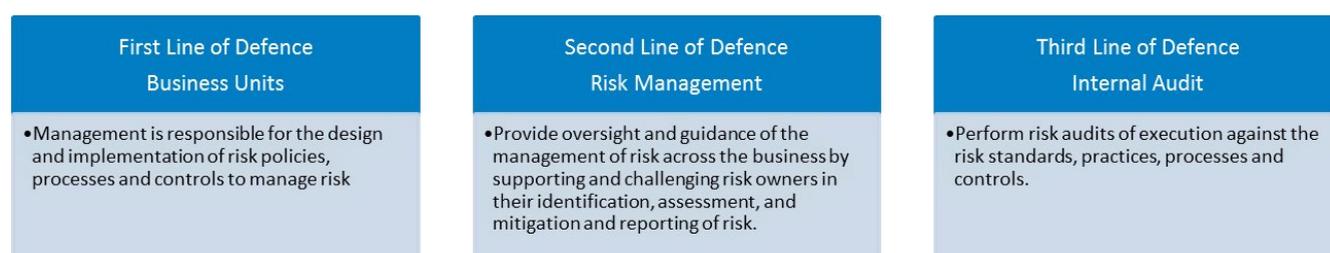
Refer to Section A for further detail relating to business and performance.

System of Governance

The Company adheres to the principle that good corporate governance is founded on a solid framework which delivers security and protection for policyholders and value for shareholders through the diligent oversight of policies, processes and decision making. The Board of Directors are ultimately responsible for the good governance, performance and strategy of the Company.

The Company ensures that all persons, who effectively run the Company or have other key functions, are fit to provide sound and prudent management through their professional qualifications, knowledge and experience and are proper by being of good repute and integrity.

Risk governance is executed through our three lines of defence model, as described below:



Refer to [Section B](#) for further detail on the Company's system of governance.

Risk Profile

The Company's risk landscape comprises insurance, market, credit, liquidity, operational and other risks that arise as a result of doing business. Across these risk categories, emerging threats and opportunities are identified and evaluated through a framework that includes the assessment of potential surprise factors that could affect known loss potentials.

Insurance risk is comprised of underwriting risk and reserving risk. Underwriting risk is managed through rigorous protocols, including peer review and underwriting guidelines, which provide a framework for consistent pricing and risk analysis while ensuring alignment to risk appetite. The Company seeks to mitigate reserving risk by, among other things, diligently monitoring claims and maintaining a structured process and control framework for determining carried reserves.

The management of market and credit risk comprises the identification, assessment and controlling of the risks inherent in the financial and credit markets and includes monitoring of compliance with the Company's risk management standards, including various risk tolerance limits. The Company seeks to mitigate investment risk by, among other things, closely managing its investment managers through investment policies and guidelines which place limits on asset class and individual security exposures.

The Company aims to ensure it maintains adequate liquidity to meet its liquidity needs under both normal and stressed conditions. The Company manages liquidity through risk limits which define the minimum percentage of the Company's cash and investments to mature within a defined timeframe.

The Company manages operational risk through sound corporate and risk governance, including the application of effective systems and controls. The Risk Management Function is responsible for coordinating and overseeing the Group-wide framework for operational risk management.

Recent Development

The ongoing Coronavirus (COVID-19) crisis, and related operating and investment market impacts, is an emerging and evolving risk to which the Company is exposed from an asset and liability perspective.

The Company is monitoring the situation closely, including stress and scenario testing on existing underwriting exposure and taking into consideration the possible severity and duration of the outbreak. It is assessing the impact on premium, product, rate and future plans. A range of economic impacts and external pressures across individual product lines are being considered.

The Company has implemented business continuity plans to ensure that it will continue to operate effectively, ensuring the safety and well-being of our employees, the continued support of and engagement with our clients and alignment with Government Guidelines and Regulatory requirements. We are actively engaged with key service providers to ensure continuity of services.

Business continuity plans have been activated successfully, with employees working remotely to service our clients and fulfil our regulatory obligations. The robust nature of our remote working tools, and the positive engagement of all stakeholders has allowed us to continue to trade effectively in all relevant markets. At the date of approval of the financial statements, the Company has observed no material adverse operational impact.

Covid-19 is impacting global economies and markets, and has had an adverse impact on the Company's investment portfolio, which could impact on the Company's performance in the current year. The impact will depend on future developments, which are highly uncertain.

We have robust governance structures and monitoring processes in place, which support the on-going monitoring of the company's solvency position based on the latest available market information including our interpretation of our exposures and likely impacts on our business and on our reinsurance counterparties.

The solvency cover at 31 December 2019 was 184% (2018: 177%) of the Standard Formulae Solvency Capital Requirement, materially in excess of our Target Solvency range. As part of our ORSA process, we undertake stress tests across key risks and across combined risk areas to test the adequacy of Own Funds, on an ongoing basis. We are reviewing these scenarios in light of the emerging impact of this event. The full impact on capital and business plans is currently unknown, but is being constantly assessed. The Company has a Capital Management Committee and will consider all options including parental support to ensure the availability of additional capital should market developments lead to a reduction of coverage below the Target Solvency Range, in line with the Capital Management Plan.

Refer to [Section C](#) for further detail on the Company's risk profile.

Valuation for Solvency Purposes

The Company's financial statements including the balance sheet have been prepared under the historical cost convention, as modified by the inclusion of certain investments at fair value and in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and FRS 103 "Insurance Contracts" ("FRS 103") issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland, and comply with the Companies Act 2014 and the

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European Union (Insurance Undertakings: Financial Statements) Regulations, 2015. As used in this report, references to "GAAP" refer to the accounting standards and regulations under which the financial statements have been prepared.

The Solvency II balance sheet recognises assets and liabilities in conformity with the international accounting standards adopted by the Commission in accordance with Regulation (EC) No 1606/2002 (IFRS as adopted by the EU) unless otherwise stated within Solvency II.

The valuation of assets and liabilities for GAAP is the same as Solvency II except for:

- differences in the valuation of technical provisions and associated reinsurance recoverables,
- the financial statements include property, plant and equipment at cost, which are valued at fair value under Solvency II; and
- deferred tax valued on the expected tax impact once the valuation adjustments from GAAP to Solvency II unwind.
- leases are accounted under Solvency II using IFRS 16 whereas in Irish GAAP this is unchanged.
- from 1 January 2019, leases are accounted under Solvency II using IFRS 16 following guidance coming out from EIOPA that IFRS 16 is the appropriate measurement basis for leases.

Refer to [Section D](#) for further detail on valuation for Solvency purposes.

Capital Management

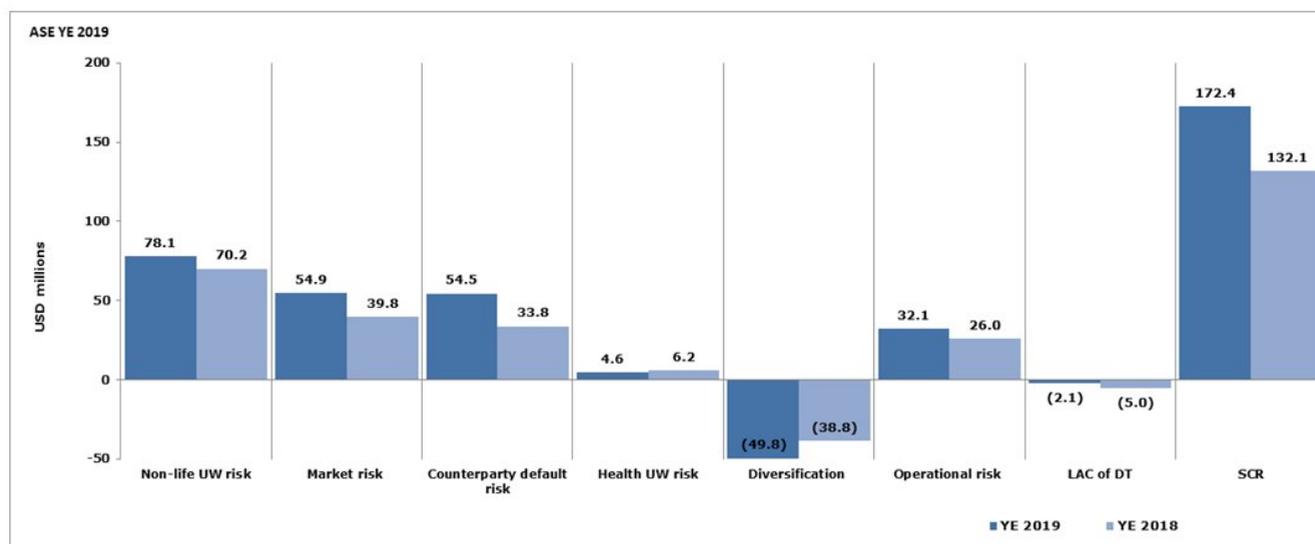
The Company's Capital Management objective is to ensure that the Company maintains an appropriate level of capital, in terms of both quantity and quality, at all times, in line with its risk appetite and capital requirements, and that it fulfils its obligations to monitor, manage and report its capital position, both required and available, internally and externally as required, in accordance with relevant regulatory requirements.

For Solvency II, own funds are divided into levels of quality, known as tiers, depending on their loss absorbency. Tier 1 unrestricted, which is not subject to a limit, is of the highest quality, Tier 3 the lowest. 98% of the Company's own funds are classified as Tier 1.

	2019	2018
	USD'000	USD'000
Eligible Own Funds (EOFs)	316,425	233,225

The Company applies the Standard Formula approach in calculating the Solvency II Capital Requirement ("SCR").

The SCR at 31 December 2019 was USD 172.4 million with a coverage ratio of 183.6%.



LAC of DT (Loss absorbing capacity of Deferred Tax)

The Minimum Capital Requirement ("MCR") at 31 December 2019 was USD 43.1 million with a coverage ratio of 717.2%.

The final SCR and MCR amounts remain subject to supervisory assessment. The Company was compliant with Solvency II capital requirements throughout the year.

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In December 2019 the company paid a dividend of USD 35.0 million to its parent company, AXIS Specialty Holdings Ireland Limited.

Refer to [Section E](#) for further detail on Capital Management.

A. BUSINESS AND PERFORMANCE

A. 1 Business

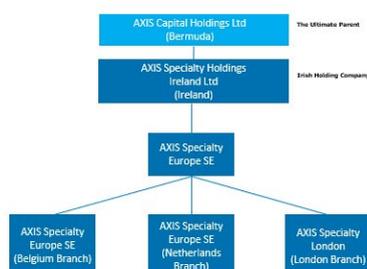
Company Profile

AXIS Specialty Europe SE was incorporated in Ireland on 18 February 2002 as a limited liability company. On 10 September 2012, the Company re-registered as a Societas Europaea ("SE") having received Irish High Court approval.

The Company is 100% owned by AXIS Specialty Holdings Ireland Limited ("ASHIL"), an Irish registered company which is 100% owned by AXIS Capital, a company incorporated in Bermuda. The Bermuda Monetary Authority acts as the group supervisor of AXIS Capital.

At 31 December 2019, AXIS Capital had common shareholders' equity of USD 4.8 billion, total capital of USD 7.4 billion and total assets of USD 25.6 billion.

Simplified Group Structure



Refer to Appendix I for the AXIS Capital group structure including the Company and its related undertakings.

The Company has an underwriting branch in the United Kingdom. The United Kingdom branch trades as "AXIS Specialty London" located at 52 Lime Street, London EC3M 7A, United Kingdom

On 1 January 2019 AXIS Specialty Holdings Ireland Limited ("ASHIL") transferred the entirety of the shares of Aviabel S.A to the Company by way of capital contribution. The Company then incorporated the activities of Aviabel S.A., by way of a merger by absorption under the European Communities (Cross-Border Mergers) Regulations 2008 (S.I. No. 157 of 2008), and a portfolio transfer on the same date. The Company established branches in Belgium and the Netherlands, where Aviabel S.A. had underwriting offices.

As of 31 January 2020, the UK has left the EU, and has now entered a transitional period which will last until 31 December 2020 at least. During this time, the UK remains a de-facto non-voting member of the EU, and the Company retains its current access to the UK market. Negotiations are ongoing between the EU and UK on their future trade agreements. The full effects of Brexit will depend on these agreements, and whether the UK retains access to EU markets on a more permanent basis. The Brexit vote had an immediate adverse effect on global financial markets, including foreign currency markets, and could continue to contribute to instability in global financial markets, both during and after the Brexit process.

The long-term effect of Brexit on the value of the Company investment portfolio at this time is uncertain and such volatility and uncertainty will likely continue as negotiations progress to determine the future terms of the UK's relationship with the EU. In addition, Brexit could lead to legal and regulatory uncertainty and potentially divergent national laws and regulations as the UK determines which EU laws to replace or replicate and the EU determines access rights and limitations.

The Company will be significantly impacted by Brexit as it has its Head Office in the EU (Ireland), and an underwriting branch in the UK. Depending on the future trade agreements agreed between the EU and UK, it is likely that the Company will be required to reorganize its operations, regulatory structure and capital in a manner that could be less efficient and more expensive, as Brexit may disrupt AXIS Specialty London's ability to "passport" within the EU, which is the system by which insurance entities currently provide insurance across EU member states while only being subject to prudential regulation by their "home state" regulators. Brexit may also disrupt the ability of the Irish entity to access UK business. The Company has implemented a project to ensure that AXIS Specialty London maintains compliance with evolving local regulatory requirements.

As part of this preparation, the Company has applied to the Prudential Regulation Authority ("PRA") to be regulated as a third country branch, maintaining third country branch capital requirements in the UK. The Company is also putting in place contingency plans for underwriting and claims handling solutions in the event a trade agreement is not reached between the EU and the UK prior to the end of the transitional period (a "cliff-edge Brexit"), and is monitoring developments in this area. The UK Parliament has guaranteed a Temporary Permissions Regime ("TPR") that will take effect in the event of a cliff-edge Brexit, meaning that the Company will be able to continue to operate in the UK based on a deemed permission. This TPR will last until either the Company's third

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country branch has been approved by the PRA or until 31 December 2023 (i.e. three years from the end of the transition period), whichever occurs first. During the TPR, AXIS Specialty London would be treated as being a third country branch, and subject to the same regulatory and capital requirements as one. The PRA has indicated that reliefs will be granted with respect to certain solvency requirements, however these have not yet been confirmed.

The Company is listed on the National Association of Insurance Commissioners quarterly listing of Alien Insurers in the United States. The Company is currently eligible to write surplus lines business in 50 US States, the District of Columbia and Puerto Rico.

Shared Services within the AXIS Group

The AXIS Group ("Group") operates a global business providing a range of specialty (re)insurance products and services. Business segments and legal entities within the Group rely on the breadth of support functions offered by the Group. The Group is structured such that the business segments have access to many of their own vital support functions, such as Finance, Actuarial, Human Resources ("HR") and Information Technology ("IT"), and these are overlaid with further functions and support at Group level, such as Corporate Finance, Treasury & Investments, Corporate Risk and Ceded Reinsurance. Certain functions have centralised support, such as HR and IT, with a dedicated representative within the business segment. This also applies to the legal entities where many of the business and support function leaders have a shared responsibility, with some of those having obligations at both business segment and legal entity level.

Supervision and External Audit

The Company is regulated by the Central Bank of Ireland ("CBI"), New Wapping Street, North Wall Quay, Dublin 1, D01 F7X3.

AXIS Specialty London is regulated by the Central Bank of Ireland and regulated by the Prudential Regulation Authority and Financial Conduct Authority in respect of the conduct of the United Kingdom business.

The Belgium and Netherlands branches are regulated by the Central Bank of Ireland, and by the National Bank of Belgium and Dutch National Bank in respect of Belgian and Dutch business respectively.

The Company's external auditor is Deloitte Ireland LLP, Chartered Accountants and Statutory Audit Firm, whose address is 29 Earlsfort Terrace, Dublin 2, Ireland.

Performance

On a GAAP basis, the profit for the year ended 31 December 2019 was USD 6.4 million (2018 : loss of USD 10.1 million).

	2019	2018
	USD'000	USD'000
Gross premiums written	534,366	475,978
Technical result	(8,692)	(11,549)
Net investment income	22,790	700
Foreign exchange losses	(4,998)	(5,052)
Profit / (Loss) on ordinary activities before taxation	<u>9,100</u>	<u>(15,901)</u>
Taxation on (loss) / profit on ordinary activities	(2,684)	5,820
Profit / (Loss) on ordinary activities after taxation	<u><u>6,416</u></u>	<u><u>(10,081)</u></u>

The Company writes business world-wide primarily across marine, energy, property, credit, liability and accident and health classes of business. Accident and health business includes income protection and miscellaneous financial loss lines of business.

The net combined ratio, which relates net losses and other expenses incurred to net premium earned, is the primary indicator of underwriting and therefore Company performance. During 2019 the Company's net combined ratio was 111.4% (2018: 116.1%). In 2019 there was adverse prior year development of 9.1% (2018: 11.4%), the increase mainly driven by Professional Lines on professional lines and the run-off of exited business.

In 2020, the trading environment will remain competitive and the Company plans to continue to focus on diversification and pursuit of opportunities to expand those lines of business which provide the best return on capital, while remaining committed to taking the underwriting actions necessary to achieve a stable return. A prudent underwriting approach together with protection from its reinsurance program enables the Company to continue to maintain its current financial strength.

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A.2 Performance from Underwriting

	2019	2018
	USD'000	USD'000
Gross premiums written	534,366	475,978
Net premiums written	79,825	74,647
Gross premiums earned	495,688	452,945
Net premiums earned	76,441	73,020
Other technical income (net)	204	216
Net losses and loss expenses	(61,942)	(58,830)
Net operating expenses	(23,396)	(25,955)
Technical result	<u>(8,692)</u>	<u>(11,549)</u>

Gross premium written in 2019 increased to USD 534.4 million, representing an increase of 12.3% driven primarily driven by the addition of Belgium and Netherlands branches' GWP (through the Aviabel S.A. merger) of \$43.2 million. Including Belgium and Netherlands branches, International Lines are up \$133.5 million however, A&H is down \$55.1 million..

Premiums

The following table provides premium written and net premium earned by line of business:

	Gross premiums written 2019 USD'000	Gross premiums written 2018 USD'000	Net premiums earned 2019 USD'000	Net premiums earned 2018 USD'000
Direct business and accepted proportional reinsurance				
Income protection	6,472	9,027	1,391	2,703
Marine, aviation and transport	151,258	79,665	22,857	11,915
Fire and other damage to property	171,992	113,644	19,731	17,733
General liability	179,959	175,943	26,101	23,658
Credit and suretyship	24,530	45,048	4,042	4,713
Miscellaneous financial loss	155	52,651	2,320	12,298
Accepted non-proportional reinsurance				
Health	—	—	—	—
Total	<u>534,366</u>	<u>475,978</u>	<u>76,441</u>	<u>73,020</u>

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Analysis of gross premiums written by geographic location of insured

	2019	2018
	USD'000	USD'000
Europe	329,771	348,210
North America	117,725	79,791
Asia	51,253	21,385
Africa	7,511	4,819
Oceania	17,253	13,295
Central & South America	10,854	8,478
	534,366	475,978

Refer to [Appendix II S.05.02.01](#) for further detail on the top five countries by gross premiums written.

The Company purchases both proportional and non-proportional reinsurance from both third parties and related group companies to reduce the risk of exposure to underwriting losses and assist in the management of capital. Ceded premiums written increased from USD 401.3 million in prior year to USD 454.5 million in 2019 in line with the increase in gross written premium.

Other technical income (net)

In consideration for the Company's appointment of certain intermediaries as reinsurance intermediary/broker for the placement and servicing of treaty reinsurance purchased or renewed by the Company on or after 1 April 2009, and in consideration of the Company's performance of various administrative services to assist the reinsurance intermediary/broker, the intermediaries agree to share the received brokerage revenue derived from the business written on behalf of the Company.

During 2019, the Company received USD 0.8 million (2018: USD 0.9 million) for the performance of those administrative services. Other technical income recognised in 2019 net of reinsurance was USD 0.2 million (2018: USD 0.2 million).

Net losses and loss expenses

	Net losses and loss expenses 2019 USD'000	Net loss ratio 2019 %	Net losses and loss expenses 2018 USD'000	Net loss ratio 2018 %
Direct business and accepted proportional reinsurance				
Income protection	359	25.8%	1,880	69.6%
Marine, aviation and transport	15,491	67.8%	3,858	32.4%
Fire and other damage to property	16,111	81.7%	14,793	83.4%
General liability	26,410	101.2%	29,620	125.2%
Credit and suretyship	(586)	(14.5)%	(1,881)	(39.9)%
Assistance	—	—%	—	—%
Miscellaneous financial loss	4,156	179.2%	10,560	85.9%
Accepted non-proportional reinsurance				
Health	—	—%	—	—%
Total	61,942	81.0%	58,830	80.6%

The net loss ratio has increased from 80.6% in 2018 to 81.0% in 2019. The increase reflects the strengthening of prior year reserves driven by Professional lines with two large claims and adverse current accident year net loss ratio driven by Property and Professional lines.

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Net operating expenses

Net operating expenses include net acquisition costs and net general and administrative costs incurred during the year.

	Net operating expenses 2019 USD'000	Net operating expenses 2018 USD'000
Direct business and accepted proportional reinsurance		
Income protection	748	989
Marine, aviation and transport	10,174	4,110
Fire and other damage to property	7,259	8,996
General liability	5,340	7,060
Credit and suretyship	(610)	751
Miscellaneous financial loss	485	4,049
Accepted non-proportional reinsurance		
Health	—	—
Total	23,396	25,955
	2019	2018
Net operating expense ratio	30.6%	35.3%

The Company's net expense ratio was down on prior year. The driver of the variance is mainly due to an increase in the net general and administrative expense ratio due to direct costs variances, reallocation of IT costs and recharges, offset by favourable variances on office cost. The difference between Irish GAAP and Solvency II is related to the reallocation of operating expenses, claims and investments.

A. 3 Performance from investment activities

	Dividends 2019 USD'000	Interest 2019 USD'000	Realised gains/(losses) 2019 USD'000	Unrealised gains/(losses) 2019 USD'000	Total 2019 USD'000
Government Bonds	—	2,855	1,104	1,085	5,044
Corporate Bonds	—	5,076	(439)	5,878	10,515
Equity instruments	550	—	498	4,491	5,539
Collateralised securities	—	867	(57)	939	1,749
Cash and deposits	—	653	1	—	654
Other investments	—	—	—	13	13
FX Forward	—	—	(17)	—	(17)
	550	9,451	1,090	12,406	23,497
	Dividends 2018 USD'000	Interest 2018 USD'000	Realised gains/(losses) 2018 USD'000	Unrealised gains/(losses) 2018 USD'000	Total 2018 USD'000
Government Bonds	—	2,368	(2,199)	916	1,085
Corporate Bonds	—	4,517	(1,537)	(1,768)	1,212
Equity instruments	808	—	393	(4,905)	(3,704)
Collateralised securities	—	993	(886)	(224)	(117)
Cash and deposits	328	120	—	—	448
Other investments	—	—	—	2,500	2,500
FX Forward	—	—	—	—	—
	1,136	7,998	(4,229)	(3,481)	1,424

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The Company's investment portfolio comprises debt, equity, cash and cash equivalents, hedge funds and derivatives (used only for hedging foreign currency exposure). The portfolio includes investments in securitisations of USD 0.6 million (2018: USD 0.1 million).

Investment Performance

The Company's investment portfolio generated returns from investments of USD 23.5 million (before investment expenses and charges) in 2019 (2018: USD 1.4 million). This translated to a total return on average cash and investment (pre-tax) of 4.8% in 2019 (2018: 0.2%). The decline in sovereign interest rates and the rally in equity markets had a positive impact on the investment portfolio in 2019.

	2019	2018
	USD'000	USD'000
Investment expenses and charges	882	723

Investment expenses and charges relate to costs associated with the management of the investment portfolio including custodian fees and third party investment manager fees. It is not practicable to allocate investment management costs between the different investment classes.

A.4 Performance of other activities

In the normal course of its operations, the Company has entered into a "Central Services Agreement" within the AXIS group and performs services on behalf of other AXIS companies. There have been no other significant activities undertaken by the Company.

Lease arrangements

The Company leases office space in a number of locations. Charges relating to lease obligations of USD 2.9 million (2018: USD 5.2 million) are included in net general and administrative expenses.

The Company leases three floors in the Scalpel, 52 Lime Street, which was effective September 2018 and expires May 2036, with no option to terminate during the lease term. There is also an existing lease in Amsterdam for the Company's Netherlands branch which is a 5 year lease, expiring June 2020. In September 2019 a new lease was entered into in Brussels for the Company's Belgium branch. This lease is for 9 years with no lease break option. 71 Fenchurch lease expired June 2019. The Company negotiated an early termination of its lease for Plantation Place Level 1, the lease terminated in September 2019.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	USD '000
Lease commitments payable:	
Within 1 year	272
Within 2 to 5 years	18,150
After 5 years	53,843
	72,265

The Company is not party to any finance leases as at 31 December 2019.

A.5 Any other information

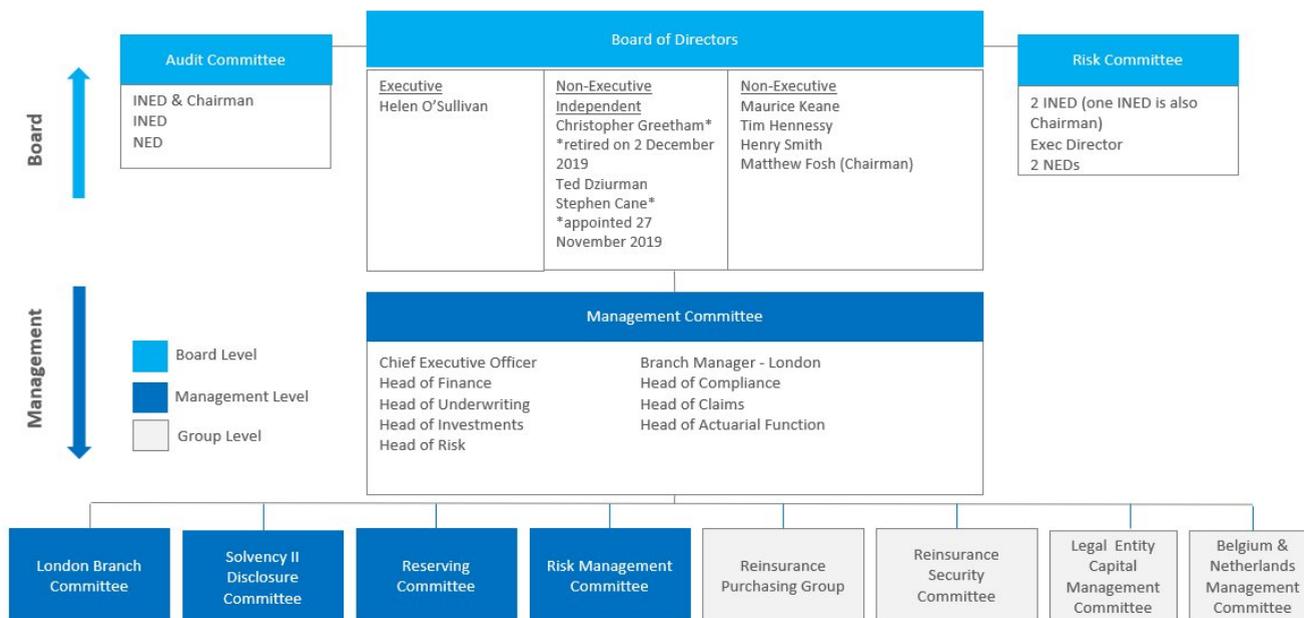
All material information regarding business and performance is disclosed in section A.1 - A.4.

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B. SYSTEM OF GOVERNANCE

B.1 General governance arrangements

AXIS Specialty Europe SE adheres to the principle that good corporate governance is founded on a solid framework which delivers security and protection for policyholders and value for shareholders; through long term diligence in oversight of policy, process and decisions. There were no changes in the system of governance over the reporting period.



Board of Directors

The Company has established a Board of Directors comprising a minimum of five directors including at least two non-executive directors.

The Board of Directors is responsible for the following:

- monitoring and oversight of the business activities of the Company,
- setting the strategy of the Company, and overseeing its execution,
- corporate, regulatory and compliance governance,
- compliance with all legal and regulatory requirements,
- effective, prudent and ethical oversight of the Company,
- oversight of Board of Directors Committees,
- ensuring key control functions including, risk, internal audit and compliance are properly managed, are independent of business units and have adequate resources and authority to operate effectively,
- appointment, monitoring and removal of persons performing Controlled Functions or Pre-approval Controlled functions on behalf of the Company,
- defining and documenting the responsibilities of Directors, Board of Directors Committees and senior management to ensure that no single person has unfettered control of the business,
- succession planning for the Board of Directors and senior management; and
- monitoring the performance of outsourced providers.

The Board shall meet as often as is appropriate to fulfil its responsibilities effectively and prudently, reflective of the nature, scale and complexity of the Company's activities. The Board will meet at least four times a year.

The Board is responsible for ensuring that the system of governance is internally reviewed on a regular basis and should determine the appropriate scope and frequency of the reviews, taking into account the nature, scale and complexity of the business. The Board is also responsible for determining who within the Company should conduct the review and should ensure that they are suitably independent.

The Board of Directors has established Committees as required by law or regulation and as it deems appropriate given the nature, scale and complexity of the Company. The roles and responsibilities of the Committees are further described in this section.

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The ExCo has established a number of functional internal Committees to support the management and governance of the Company's activities. It is also supported by various AXIS Group committees including the Risk Management Committee, the Reinsurance Purchasing Group, the Reinsurance Security Committee and the Legal Entity Capital Committee.

London Branch Management Committee

The London Branch has a functional committee whose responsibilities include:

- effective, prudent and ethical oversight of the London Branch, including managing the business activities and back office function of the London Branch,
- implementing and monitoring the annual business plan of the London Branch as approved by the Board of Directors,
- approve the London Branch Underwriting guidelines; and
- managing the interaction and relationship with other management and AXIS Group committees.

The London Branch Management Committee includes London Branch executives holding senior control function positions. The management committee may co-opt other positions onto the committee.

Brussels & Amsterdam Branch Management Committee

Similar to the London Branch Management Committee, the Company has also established a committee to oversee the Brussels and Amsterdam branches. This is another functional committee, whose responsibilities include:

- effective, prudent and ethical oversight of the Brussels & Amsterdam Branches, including managing the business activities and back office function of the Branches,
- implementing and monitoring the annual business plan of the Brussels & Amsterdam Branches as approved by the Board of Directors,
- approve the Brussels & Amsterdam Branches Underwriting guidelines; and
- managing the interaction and relationship with other management and AXIS Group committees.

The Brussels & Amsterdam Branches Management Committee includes Branch executives holding senior control function positions. The management committee may co-opt other positions onto the committee.

Reserving Committee

The purpose of the Reserving Committee is to determine Management's Best Estimate ("MBE") of the Reserves for Loss and Loss Expenses to be recorded in the financial statements.

Core responsibilities of the Reserving Committee include:

- determining MBE for Reserves for Loss and Loss Expenses to be recorded in the company financial statements in line with reserving policy as approved by the Company's Board of Directors,
- review of the MBE recommendations of the Company's Head of Actuarial Function and the sensitivities identified by the Segment Reserve Committees,
- critically evaluate the group and business segment analysis performed by the internal and external actuaries,
- review the sensitivities and make final decisions for the reserve estimates,
- discuss the process and methods used by the internal and external actuaries, including how the reserve calculations changed quarter over quarter; and
- review the catastrophic loss events and market share analysis to determine an appropriate reserve for events.
- Approval of the Solvency II technical provisions

The Reserving Committee includes the Chief Executive Officer, Head of Finance, Head of Actuarial Function, Chief Risk Officer and Segment Chief Actuaries.

Risk Management Committee

The Risk Management Committee is a functional Committee whose main purpose is to oversee the the integrity and effectiveness of the Company's enterprise risk management framework, and to ensure that the Company's risk assumption and risk mitigation activities are consistent with that framework.

The Risk Management Committee comprises the Chief Risk Officer, Chief Executive Officer, Head of Underwriting, Head of Finance and Head of Actuarial Function.

Solvency II Disclosure Committee

The purpose of the Solvency II Disclosure Committee is to provide a forum that ensures that Solvency II Reporting and Disclosures are accurate, complete and present fairly in all material respects the financial condition and results of operations of the Company and are made in a timely manner in accordance with applicable laws, rules and regulations. The Committee reviews annual Solvency II reporting and recommends board approval. On a quarterly basis, the Board of Directors has delegated authority to the Solvency II Disclosure Committee to approve the quarterly reporting.

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The Solvency II Disclosure Committee comprises the Head of Finance, Chief Executive Officer, Head of Investments, Chief Risk Officer, Head of Compliance and Head of Actuarial Function.

Key Functions

Under Solvency II, the following are considered key functions:

- Risk-management function,
- Compliance function,
- Internal audit function; and
- Actuarial function.

The Company ensures that key functions have the necessary authority, resources and operational independence to carry out their tasks and fulfil their obligations. All key functions present regular updates to the Board of Directors on a quarterly basis. The roles and responsibilities of each function are further described later in this section.

Conflicts of interest

Conflicts of interests, and the appearance of conflicts, are prohibited under the AXIS Code of Business Conduct. Each employee, officer and director of the Company is required to conduct business with integrity and to comply with all applicable laws.

B.1.2 Remuneration

An AXIS Europe Remuneration Policy has been established to cover AXIS Specialty Europe SE and its sister company, AXIS Re SE.

The remuneration policy and practices incorporate the following principles and shall:

- be in line with AXIS Specialty Europe SE's business and risk management strategy plan, its risk profile, objectives, risk management practices, its long-term interests and performance as a whole,
- ensure that conflicts of interest are avoided,
- promote sound and effective risk management and shall not encourage risk taking that exceeds AXIS Europe's risk appetite and risk tolerance limits,
- incorporate non-financial performance metrics as part of the annual performance management process,
- reward employees who demonstrate a significant contribution to the success of the business,
- remain competitive to attract, retain and motivate high performing staff with appropriate experience, qualifications and talent; and
- be non-discriminatory.

AXIS Europe's remuneration structure includes both fixed and variable components.

Fixed:

- The fixed component of the remuneration structure shall be of a sufficiently high proportion of total remuneration to the effect that employees are not dependent on the variable remuneration component.

Variable:

- variable remuneration payments shall be flexible and discretionary,
- the variable component of remuneration shall be determined by a combination of individual performance and the performance of the AXIS Capital Group,
- employee's performance shall be evaluated based on achievement of both financial goals related to business targets and non-financial goals,
- metrics used to measure AXIS performance in determining the variable component of the remuneration shall allow for a downwards adjustment for exposure to current and future risks; and
- a portion of the variable remuneration applicable to employees at senior leader level and above shall be deferred over a period of not less than three years.

The variable component of remuneration of employees engaged in risk, compliance, internal audit and actuarial functions is not directly linked to the performance of the individual operational units they monitor and/or test.

Other Remuneration

Termination or severance payments shall be related to performance achieved over the employees entire period of activity and shall be designed not to reward failure.

Employees subject to this policy are prohibited from hedging the economic risk of owning AXIS Capital stock or pledging AXIS Capital stock for loans or other obligations in accordance with the AXIS Insider Trading Policy.

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B.1.3 Material transactions with shareholders and the Board of Directors

On 1 April 2017, AXIS Specialty Holdings Ireland Limited ("ASHIL"), the Company's sole shareholder, acquired a 100% ownership interest in Compagnie Belge d'Assurances Aviation NV/SA ("Aviabel S.A."), a Belgian domiciled Specialty Aviation insurer. On 1 January 2019 ASHIL, transferred the entirety of the shares of Aviabel S.A. to the Company by way of capital contribution. The Company then incorporated the activities of Aviabel S.A., by way of a merger by absorption under the European Communities (Cross-Border Mergers) Regulations 2008 (S.I. No. 157 of 2008), and a portfolio transfer on the same date. The Company established branches in Belgium and the Netherlands, where Aviabel S.A. had underwriting offices, as part of its growth strategy.

There have been no other material transactions during the reporting period with the company's sole shareholder ASHIL outside the normal course of business.

There were no contracts or arrangements of any significance in relation to the business of the Company in which the Directors had a material interest, as defined by the Companies Act 2014, at any time during the reporting period.

Director emoluments include all payments made by the company to the Board of Directors. Fees paid by the Company to non-executive Directors are included in 'Aggregate emoluments in respect of qualifying services'.

	2019	2018
	USD'000	USD'000
Aggregate emoluments in respect of qualifying services	339	1,029
Aggregate emoluments receivable under long-term incentive schemes	93	334
Company contributions in respect of qualifying services to Pension Scheme Fund, a defined contribution retirement benefit scheme	22	81
Compensation paid or payable, in respect of loss of office or other termination payments to Directors of the company in the financial year	—	—
	<u>454</u>	<u>1,444</u>

B.2 Fit and proper requirements

The Company has a Fitness and Probity ("F&P") policy which complies with Part 3 of the Central Bank Act, 2010 covering control functions ("CF") and PCFs. The policy also covers the CBI's SI No 437 of 2011 on 1 September 2011, SI No 615 of 2011 on 30 November 2011, SI No 394 of 2014 and SI No 485 of 2015.

F&P imposes a requirement on persons performing a CF or a PCF on behalf of the Company to comply with certain standards of competence, capability, honesty, integrity and financial prudence ("F&P Standards"). The policy sets out the approach to assessing the fitness & probity of existing staff and new hires.

In order to meet the F&P requirements, the Company applies the below criteria for CFs and PCFs and must satisfy itself on reasonable grounds that the person complies with the F&P Standards:

- an assessment of whether an individual's Conduct is deemed Competent and Capable,
- an assessment of whether an individual's Conduct is deemed Honest, Ethical and Acting with Integrity; and
- an assessment of an individual's Financial Soundness.

CFs and PCFs are requested annually to attest to continuing compliance with F&P Standards.

B.3 Risk management system including the Own Risk and Solvency Assessment ("ORSA")

B.3.1 Overview of the Risk Management Framework

AXIS has an established Group-Wide Enterprise Risk Management ("ERM") framework which provides a structured and consistent approach to ensuring that risks are appropriately identified, measured, monitored and controlled with clear ownership and appropriate levels of oversight. This framework is implemented consistently and proportionately across the AXIS Group and its legal entities, including the Company.

The mission of ERM at AXIS is to promptly identify, measure, report and monitor risks that affect the achievement of our strategic, operational and financial objectives. The key objectives of the risk management framework are to:

- Protect our capital base and earnings by monitoring our risks against our stated risk appetite and limits;
- Promote a sound risk management culture through disciplined and informed risk taking;
- Enhance value creation and contribute to an optimal risk-return profile by providing the basis for efficient capital deployment;
- Support our Group-wide decision-making process by providing reliable and timely risk information;

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- Achieve our global legal and regulatory risk obligations;
- Support our external credit rating agency assessments; and
- Safeguard AXIS' reputation.

The ERM framework is an evolving framework which develops in response to changes in the Company's internal and external environment in order to remain relevant to the business and enhance value creation. The implementation and oversight of the framework is the responsibility of the Risk Function, which is led by the Chief Risk Officer.

The key elements of the ERM Framework are described in further detail below and include Risk Governance, Risk Strategy/Appetite Statement, the Risk Management Cycle and Risk Controls.

Risk Governance

At the heart of the ERM framework is a governance process with responsibilities for taking, managing, monitoring and reporting risks. Roles and responsibilities for risk management are articulated throughout the Company, from the Board and the Chief Executive Officer to the business and functional areas, thus embedding risk management throughout the business. Risk governance is executed through a three lines of defence model, with the business units ("first line") responsible for the identification, assessment, management, mitigation and monitoring of risks on a day-to-day basis; the Risk Function ("second line") providing oversight and guidance on risk management across the business by supporting and challenging Risk Owners in their identification, assessment, management and mitigation of risk; and Internal Audit ("third line") providing independent assurance on the effectiveness of governance, risk management and internal controls.

The Risk Committee of the Board ("Board Risk Committee" or "Risk Committee") assists the Board of Directors in overseeing the integrity and effectiveness of the ERM framework, and ensuring that risk assumption and risk mitigation activities are consistent with that framework. The Board Risk Committee approves and monitors the risk strategy, including the Company's solvency standards and key risk limits, and receives regular reports from the Company Chief Risk Officer ("CRO") and Risk Function who provide assurance over the effectiveness of first line risk management.

The Executive Management Committee ("ExCo") is responsible for the implementation of the Company's ERM framework, with all identified material risks on the Company's risk register assigned ownership to an ExCo member. This ensures that ownership of risks is at the highest level of the Company and that Risk Owners have the appropriate authority and resources to take management action where appropriate. The ExCo is supported by the Risk Management Committee ("RMC"), as well as various committees and working groups at Group and Company level (for example the Emerging Risk Working Group).

Risk Strategy/Appetite Statement

The Company's risk strategy is developed by the Risk Function and is expressed through the Risk Appetite Statement ("RAS") which articulates where and how much risk the Company is willing to take. The risk appetite framework includes limits by individual risk type which are defined based on the capital available and management's preference for risk in line with the Company's business strategy. The risk strategy also determines the framework within which risks are managed, setting out the Company's approach to enterprise risk management.

The risk strategy and RAS are reviewed on an annual basis as part of the business planning process and are approved by the Board Risk Committee.

Risk Management Cycle

The Risk Function implements the ERM framework through a cyclical process of identifying, assessing, managing, monitoring and reporting of all material risks to which the Company is or could be exposed.

Ongoing risk identification activities are in place to identify new and/or changing risks to the achievement of the Company's strategy and business objectives. A process is also in place for scanning the external environment to identify risks that present an emerging threat to the business environment, industry or Company. These are classified as emerging risks and are regularly discussed and reviewed by the Emerging Risk Working Group and at the Company's Board Risk Committee.

Risk assessment and measurement activities are carried out on a regular basis in order to understand the severity of each risk through quantitative and/or qualitative measures and inform the Company's own view of risk and assessment against risk appetite. Risk mitigation strategies and control activities are in place for each risk based on impact and materiality and are typically aimed at reducing or avoiding our exposure, in line with the Company's risk appetite.

Changes in the internal and external environment are monitored on an on-going basis, ensuring that changes that may substantially affect the Company's exposure to risks are identified, assessed and appropriately managed. The Risk Function engages in extensive risk reporting and communication in order to enable the Board in their risk oversight responsibility and support the Company's decision-making process by providing reliable and timely risk information.

Risk controls

Each Risk Owner is responsible for designing and implementing an adequate and efficient internal control environment to manage their respective risks. The control environment consists of processes, policies, guidelines, standards of practice / procedures, collectively referred to as 'risk controls' deployed by the Risk Owner to manage risk. The effectiveness of internal controls is evaluated on a regular basis by first line control owners, the Risk Function and Internal Audit who provide overall assurance over the effectiveness of internal controls. All internal controls are documented and signed-off quarterly within AXIS' Governance, Risk & Control (GRC) platform which facilitates control self-assessment and enforces individual ownership and accountability for risk controls.

B.3.2 Own Risk and Solvency Assessment

The Company currently sets its capital requirements based on the Solvency II Standard Formula SCR calculation, but ensures the ongoing appropriateness of this approach through a comparison with the outcome of its Own Risk and Solvency Assessment (ORSA). The ORSA is the overarching framework of processes employed by Management to establish an "own view" of the Company's current and forward-looking risks and associated capital requirements.

At the centre of the ORSA is the Company's ERM framework and Risk Management Cycle described above which provide a continuous assessment of all material risks the Company is exposed to, with quarterly reporting to the Board on material changes to the risk profile and associated capital requirements. An important aspect of establishing an own view of solvency needs is the Company's Internal Model SCR calculation which reflects the Company's own view of risk capital required to protect its balance sheet in a 1 in 200 stressed scenario.

A core component of the ORSA is the forward-looking assessment performed in conjunction with the business planning process, whereby the impact of short and medium term business plans on the risk profile and capital needs of the Company is assessed. As part of this, the outputs from the Company's Internal Model and Solvency II Standard Formula are reviewed to analyse changes in risk composition, prospective risk exposures relative to the RAS and overall risk capital requirements. The ORSA also includes various forms of stress tests and scenario analysis whereby the resilience of the Company's solvency ratios to adverse stress scenarios over the planning horizon is assessed.

The ORSA results are formally documented into an annual ORSA report which includes a summary of the ORSA activity during the previous year and the outcome of the forward-looking assessment. The Board of Directors is responsible for overseeing the Company's ORSA, with the Board Risk Committee serving as the focal point for that oversight. The Board Risk Committee has a material input into the ORSA through reviewing and challenging the quarterly and annual (forward-looking) results and approving the annual ORSA report, as well as reviewing the selection and calibration of stress and scenario tests. The outcome of the ORSA informs the Company's RAS, including the ongoing appropriateness of its target solvency standards and capital contingency plans, and influences the Company's business strategy by being closely linked to the business planning process.

B.4 Internal control system

Internal control is defined as the processes, policies, guidelines, and standards of practice in place to mitigate and manage risk to acceptable levels.

The AXIS internal control framework is based on the framework developed by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 1992, and updated in 2013.

The AXIS internal controls are documented and maintained in 'MyGRC', the AXIS risk and control repository, and individual control owners certify each quarter to the adequate design and continued operating effectiveness of their respective controls.

The internal control framework includes the following five interrelated components:

- **Control Environment:** The primary responsibility of the Board of Directors is to provide effective governance over the Company's affairs for the benefit of its shareholders, and to help broaden the perspective of executive management. The Board has established the Audit Committee to facilitate and assist in the execution of its responsibilities. In terms of internal control oversight, it is the responsibility of the Audit Committee to review and periodically discuss with the Board the adequacy and effectiveness of the Company's internal control structure. There are several oversight committees such as the RMC which help set the management tone in terms of the control environment. AXIS operates with a three lines of defence model.
- **Risk Assessment:** The Internal Controls policy lists the risks ('Risk universe') to which the Company is exposed which the Risk Committee of the Board and Risk Management Committee annually evaluate. For each risk in the universe, there is a separate risk policy which affirms AXIS's group-wide approach, appetite and risk mitigation/control philosophy for managing each risk.
- **Control Activities:** Each risk policy identifies an individual Risk Owner, normally a member of the AXIS Group Executive Committee, having appropriate experience and knowledge of the risk. The Risk Owner is responsible for designing and implementing an adequate and efficient control environment to manage their respective risks. Activities include, but are not limited to, reconciliation's, documented roles and responsibilities, clear authority limits, peer reviews, appropriate segregation of duties and metrics reporting.

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- **Information and Communication:** In terms of communication, AXIS has clear reporting and communication lines in place. Role profiles make clear each individual's role, their reporting lines and functional terms of reference set out responsibilities by function. Clear organizational and structure charts are also maintained. There is an escalation policy in place to ensure matters are reported upwards as required by employees. The AXIS Whistle-blower Policy also provides various lines of communication for reporting violations and concerns.

Monitoring: The effectiveness of the internal control framework is independently validated via regular internal audit reviews which are conducted on a rotational basis with findings reported to the Audit Committee. There are also Management Initiated Audits ("MIAs") done on claims and underwriting transactions which are reported to the Management Audit Committee. There are various monitoring activities performed by the second line of defence Group Risk and Legal/Compliance.

The internal control framework is regularly reviewed and updated and annually assessed by the external auditors. The Internal Audit department also validate that the COSO 2013 framework is present and functioning as part of its annual internal audit plan.

Internal Compliance Function

The Company has a Compliance Function which is part of the Group Legal Department, predominantly staffed by lawyers and compliance experts.

The Board has appointed a Compliance Officer of the Company. The Compliance Officer is primarily responsible for ensuring the activities of the Company are conducted in compliance with the Regulations, and reporting to the Board and to the CBI and other Regulatory Authorities as applicable.

The Compliance Officer oversees the Compliance Function and ensures it is appropriately resourced and meets all material service level requirements. The Compliance Function has access to specialist external expertise to assist on particular matters or jurisdictions.

Principal responsibilities of the Compliance Officer include:

- obtaining the approval of the CEO and the Board for a Policy statement on compliance with the insurance acts and regulations, with guidelines issued by the CBI and with other applicable legislation,
- monitoring the implementation of compliance and reporting periodically, through the Compliance Function to the CEO and the Audit Committee,
- reviewing products, procedures and systems on a planned basis from the viewpoint of effective compliance and taking the necessary steps to ensure compliance; and
- reviewing staff training processes to ensure appropriate compliance capabilities.

In addition, the duties of the Compliance Function include assessing the adequacy of the measures adopted by the Company to prevent non-compliance.

In line with Article 279 of the Delegated Regulation and Article 46 of the Solvency II Directive, the Compliance Function maintains a Compliance Manual and Policy to track applicable law, regulation and corporate requirements.

The Compliance Officer reports functionally to the Audit Committee.

In line with Article 270 of the Delegated Regulation, the board reviews the Company Compliance Policy at least annually and ensures that recommendations for improvements are adequately incorporated and approve proposals for Policy amendment.

B.5 Internal audit function

Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations, protect the assets and reputation of the Company. It assists the Company in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management and internal control.

The internal audit activity is established by the Audit Committee of the Board of Directors. The internal audit activity's responsibilities are defined by the Audit Committee as part of their oversight role.

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to AXIS' relevant policies and procedures and the internal audit activity's methodology.

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of AXIS records, physical properties, and personnel pertinent to carrying out any

engagement. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Audit Committee and full Board.

The internal audit activity will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

Internal audits are performed across the Company's audit universe, which encompasses all areas of the business and the Company, within a three-year cycle. Areas of higher risk will be audited more frequently. Audits selected for a forthcoming annual plan will be submitted for approval to the Audit Committee. Over the course of each year, auditors meet with key personnel to monitor performance, changes in the business, and emerging risks within the Company. Resulting midterm changes to the audit plan will be recommended and submitted to the Audit Committee for approval. The internal audit methodology is set out in the 'AXIS Internal Audit Methodology' document. The methodology is reviewed to ensure that it is up-to date after any changes to the business or updates to the IIA Standards

The scope of each audit is determined using a risk based approach. At the conclusion of each audit, an audit report containing any issues requiring corrective action by management is published. Management is responsible for implementing these agreed upon action plans. Internal Audit is responsible for monitoring implementation of these action plans and verifying satisfactory performance. The Audit Committee is briefed quarterly on the status of internal audits in progress, completed audits, open corrective action plans, and any other important matters concerning the Company. Evidence supporting Internal Audit's conclusions is maintained in the "MyGRC" Governance, Risk and Compliance management tool.

B.6 Actuarial function

The main purpose of the Actuarial function is to effectively support the Company reserving framework and governance, including principles, policies, standards of practice, processes and controls and reporting.

The Actuarial function has the following duties and responsibilities:

- calculation and recommendation of the technical provisions,
- ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of the technical provisions,
- peer reviewing and signing off on work product and recommendations that relate to governance and control function responsibilities. This includes the peer reviewing of pricing and planning loss ratios as necessary,
- ensuring the sufficiency and quality of the data used in the calculation of technical provisions,
- informing the Board of Directors of the reliability and adequacy of the calculation of technical provisions,
- ensuring the sufficiency of processes and controls supporting the AXIS reserving framework and maintaining comprehensive documentation for all aspects of this framework,
- expressing an opinion on the overall underwriting policy and the adequacy of reinsurance arrangements,
- contributing to the effective implementation of the risk management system, in particular with respect to the risk modelling underlying the calculation of the capital requirements,
- establishing and maintaining a reserving platform, infrastructure and reporting capabilities to support US GAAP, local statutory and management needs; and
- ensuring that the reserving framework is applied effectively in the Company.

The Head of Actuarial function provides a written report to the Board presenting the tasks undertaken by the Actuarial function and their results, as well as any deficiencies identified and recommendations on how such deficiencies should be remedied. A full Actuarial report is provided at least annually, with updates addressing specific aspects of the work of the Actuarial function provided on a more regular basis.

B.7 Outsourcing

Outsourcing is an arrangement of any kind between the Company and a service provider by which that service provider performs a process, a service or an activity that would otherwise be undertaken by the Company itself. Where appropriate, the Company uses service providers when it is more efficient and more cost effective than utilising its own resources.

AXIS Specialty Europe SE is subject to the AXIS European Group Outsourcing Policy which is derived from Directive 2009/138/EC (the "Solvency II Directive"), Commission Delegated Regulation (EU) 2015/35 (the "Delegated Regulation"), the EIOPA Guidelines on System of Governance and the Central Bank of Ireland Guidelines on Preparing for Solvency II – System of Governance.

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The Company determines whether an outsourced function or activity is 'critical or important', giving primary consideration to the protection of policyholders. Where policyholders are sufficiently removed from an outsourced function so as not to be affected should a breakdown in the process occur, the function or activity is not classified as one of critical importance.

The Board of Directors is ultimately responsible for ensuring that there is adequate oversight and governance in relation to outsourcing. The outsourcing of a 'critical or important' activity must be approved by a PCF holder ("Business Leader") prior to the commencement of an outsourcing arrangement. Business leaders are responsible for carrying out appropriate due diligence on service providers in accordance with the outsourcing policy.

The AXIS Group Vendor Management Office ("VMO") has established an enterprise wide standard methodology to assess performance and risk of outsourced services (excluding underwriting and claims which are monitored by the relevant business leader). Outsourcing arrangements are managed effectively through Service Level Agreements ("SLAs") which are reported to and monitored by the VMO reporting relevant issues to the business leader. The VMO ensures that all relevant aspects of a service providers risk management, financial resources and internal control systems are adequate and robust, in addition to ensuring that the outsourcing activities do not impact AXIS governance or operational risk.

The table below outlines outsourced 'critical or important' activities and the jurisdiction of where the service provider is located:

Function	Description of Service Provided	Jurisdiction
Internal		
Cross function	The Company benefits from the support services offered by the AXIS group. Group shared services provide access to necessary skills and resources enabling the Company to operate effectively to meet regulatory and business requirements. Shared services include Underwriting management, Reinsurance, Claims, Exposure management, Risk management, Actuarial, Compliance & legal, Internal Audit, Finance, Human Resources, Investment management, Operations & IT.	Multi-jurisdictional
External		
Finance	Finance Outsourcing includes provision of accounting and reconciliation services	Multi-jurisdictional
Internal Audit	Internal audit support	Multi-jurisdictional
Investments	Investment services outsourcing includes investment management of assets, custodian and trustee services, accounting and risk solutions.	Multi-jurisdictional
IT	IT services outsourcing includes provision of data storage and IT application development and maintenance	Multi-jurisdictional
Underwriting	Underwriting outsourcing includes authority to write business and issue policies	Multi-jurisdictional
Claims	Claims outsourcing include claims business process, compliance and modelling support, claims handling and advice.	Multi-jurisdictional

B.8 Assessment of governance

The Board of Directors is responsible for ensuring sound governance, that the operational effectiveness of the risk management and control environment is maintained and that effective risk management policies are adhered to within the risk management framework. Risk assessment and evaluation takes place as an integral part of the annual planning and budgeting process, the results of which are reviewed by senior management and the Board of Directors. There is also an ongoing program of operational reviews and audits and annual self - assessment of financial controls. The results of these reviews are reported to the Audit Committee, whose purpose is to assist the Board of Directors in the oversight of the effectiveness, adequacy and performance of the Company's internal controls.

B.9 Any other information

All material information regarding system of governance is disclosed in sections B.1 - B.8.

C. RISK PROFILE

The Company's risk profile comprises insurance, credit, market, operational, liquidity, strategic and other risks that arise as a result of doing business. Ongoing risk identification activities are in place to identify new, emerging and changing risks to the achievement of the Company's strategy and business objectives. Risk assessment activities are carried out on a regular basis in order to understand the severity of each risk through quantitative and/or qualitative measures and inform the Company's own view of risk. The following sections provide definitions of the above risk categories as well as the Company's related risk management practices.

C.1 Insurance Risk

The insurance risk category encompasses the underwriting risks in all lines of business including the marine, energy, property, credit, liability and accident and health classes of insurance and facultative reinsurance business. Insurance risk is the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities transferred to the Company through the underwriting process. The two main components are underwriting risk and reserve risk. Underwriting risk represents the risk that premiums will not be sufficient to cover future incurred losses. Reserving risk represents the risk that loss reserves established to cover losses already incurred are insufficient.

C.1.1 Underwriting risk

Underwriting risk is managed through the Company's underwriting risk governance framework. A key component of this is the peer review process which allows for a collaborative review of risk and pricing by management, and ensures underwriting is within established protocols and guidelines. Underwriting guidelines are in place to provide a framework for consistent pricing and risk analysis. Limits are set on underwriting capacity, and cascade authority to individuals based on their specific roles and expertise.

A key component of the Company's mitigation of underwriting risk is the purchase of reinsurance. AXIS has a centralized Risk Funding team which coordinates external treaty reinsurance purchasing across the group and is overseen by the Reinsurance Purchasing Group, in conjunction with the Reinsurance Security Committee. The Company also benefits from internal quota share and stop loss agreements with AXIS Specialty Limited ("ASL").

Accumulation risk

Accumulation risk represents the risk of additional, unexpected losses due to having unknown / unintended risk concentrations where aggregation of risk exposure is not understood or managed appropriately. The majority of the Company's accumulation risk exposure arises from natural catastrophes (e.g. earthquakes, storms and floods) and man-made catastrophes (such risks as train collisions, airplane crashes, terrorism or cyber-attacks).

Natural catastrophes represent a challenge for risk management due to their accumulation potential and volatility as well as the uncertainty around the potential impacts of climate change. Natural catastrophe risk is mitigated through diversification (i.e. offering a variety of products across different geographic regions), the purchase of significant reinsurance protections and the Company's exposure management framework and governance. In managing natural catastrophe risk, the internal risk tolerance framework for the Company aims to limit the impact to the Company's Solvency II SCR coverage ratio from an aggregation of natural peril catastrophe events. The Board approved risk limit for natural catastrophes sets out the maximum acceptable losses for the Company calibrated to a 1% annual probability (1 in 100 year event). There have been no breaches of the Company's natural catastrophe risk limit during the year.

Similar to the management of natural peril catastrophe exposures, an analytical approach is taken for the management of man-made catastrophes. For these risks, bespoke models developed internally by the risk and actuarial teams are used. These are supplemented with underwriting judgment, expertise and external vendor models (where available).

Through the effective monitoring and reporting of accumulation risk, the Company is able to effectively intervene and mitigate the risk on a timely basis. Mitigation actions might include abstaining from additional underwriting commitments (or non-renewing existing commitments upon expiry) or purchasing additional treaty or facultative reinsurance for peak exposures.

Stress and scenario testing is performed to enhance the understanding of the Company's exposure to Accumulation risk and measure the potential impact of stress scenarios to the Company's solvency ratios. Stress testing performed covers natural catastrophe peril exposures and Realistic Disaster Scenario (RDS) stresses measuring the loss impact to the business on man-made catastrophe scenarios covering accumulations and clashes across all classes of business. Results are reported to the Risk Management Committee and Board Risk Committee.

Special Purpose Vehicles

In June 2017, AXIS sponsored a catastrophe bond, Northshore Re II Limited, Series 2017-1 which provides the Group with multi-year risk occurrence cover capacity of USD 350 million for US named storms and US & Canada earthquake events. The risk period is from June 30, 2017 to June 30, 2020.

In July 2018, AXIS sponsored a catastrophe bond, Northshore Re II Limited, Series 2018-1 which provides the Group with multi-year annual aggregate cover capacity of USD 200 million for US named storms (incl. Puerto Rico & US Virgin Islands), US and Canada earthquake, and European windstorm events. The risk period is from July 7, 2018 to June 30, 2022.

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In June 2019, AXIS sponsored a new catastrophe bond, Northshore Re II Limited, Series 2019-1 which provides the Group with multi-year annual aggregate cover capacity of USD 165 million for US named storms (incl. Puerto Rico & US Virgin Islands), US and Canada earthquake and European windstorm events. The risk period is from June 27, 2019 to June 30, 2023.

The catastrophe bonds operate on index triggers and losses are calculated through usage of pay-out factors. The vehicles are fully funded at the inception of the risk period, ensuring full collateralization of the covers throughout the risk period.

On January 1, 2019, AXIS launched a fully collateralized sidecar vehicle, Alturas Re Ltd. From January 1, 2020, the sidecar provides the Group with USD 183.2 million capacity for the insurance and reinsurance risk portfolios through its separate tranches. The Series 2020-1 tranche provides USD 54 million of collateralized reinsurance support for AXIS Insurance's property portfolio from January 1, 2020 to December 31, 2020.

C.1.2 Reserving risk

The estimation of reserves is subject to uncertainty due to the fact that the settlement of claims that have arisen before the balance sheet date is dependent on future events and developments. New information, events or circumstances, unknown at the original estimation date, may lead to future developments in the Company's ultimate losses being significantly greater (or less) than the reserves currently provided. There are many factors that would cause reserves to increase or decrease, which include, but are not limited to, changes in claim severity, changes in the expected level of reported claims, judicial action changing the scope and / or liability of coverage, changes in the legislative, regulatory, social and economic environment, unexpected changes in loss inflation and the emergence of new systemic risks.

The AXIS reserve framework is designed to ensure that the process of establishing reserves is supported by appropriate governance structure and reserving risk management practices including robust governance, processes and controls over the reserving cycle and internal and external independent assessment of the adequacy of loss reserves. Reserves are calculated in accordance with actuarial practice based on substantiated assumptions, methods and assessments and selected through a quarterly reserving process which involves the collaboration of underwriting, claims, actuarial, legal, risk funding and finance departments.

Sensitivity analysis of the reserves for unpaid losses and loss expenses

Expected loss ratios are a key assumption in the estimate of ultimate losses for business at an early stage of development. All else remaining equal, a higher expected loss ratio would result in a higher ultimate loss estimate, and vice versa. Assumed loss development patterns are another significant assumption in estimating the loss reserves. The uncertainty in the timing of the emergence of claims (i.e. the length of the development pattern) is generally greater for a company with a limited operating history which, therefore, must rely on industry benchmarks to a certain extent when establishing loss reserve estimates.

The following tables show the effect on the estimate of gross and net loss reserves of reasonably likely changes in the two key assumptions used to estimate our gross and net loss reserves at 31 December 2019 and 31 December 2018. When projecting the estimated effect on reserves of changes in expected loss ratios, we have increased and decreased our aviation, credit and political risk, marine and property and other class expected loss ratios by +5% and -5% respectively, and our liability and professional lines class loss ratios by +10% and -10% respectively. When projecting the estimated effect on reserves of changes in the loss development patterns, we have increased (i.e., moved to a slower pattern) and decreased (i.e., moved to a faster pattern) our aviation, credit and political risk, marine and property and other class assumed loss development by three months in each direction, and our liability and professional lines class assumed loss development by six months in each direction.

31 December 2019	Estimated Effect on Gross Reserves	Estimated Effect on Net Reserves
Reserve Sensitivity Scenario	USD'000	USD'000
Higher expected loss ratios with no change in loss development factors	76,637	15,327
Higher expected loss ratios with lower loss development factors (i.e., faster pattern)	27,015	5,403
Higher expected loss ratios with higher loss development factors (i.e., slower pattern)	133,441	26,688
No change in expected loss ratios with lower development factors (i.e., faster pattern)	(46,353)	(9,271)
No change in expected loss ratios with higher development factors (i.e., slower pattern)	52,616	10,523
Lower expected loss ratios with no change in loss development factors	(76,637)	(15,327)
Lower expected loss ratios with lower loss development factors (i.e., faster pattern)	(119,721)	(23,944)
Lower expected loss ratios with higher loss development factors (i.e., slower pattern)	(28,210)	(5,642)

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31 December 2018	Estimated Effect on Gross Reserves	Estimated Effect on Net Reserves
Reserve Sensitivity Scenario	USD'000	USD'000
Higher expected loss ratios with no change in loss development factors	59,270	11,853
Higher expected loss ratios with lower loss development factors (i.e., faster pattern)	21,571	4,314
Higher expected loss ratios with higher loss development factors (i.e., slower pattern)	98,493	19,697
No change in expected loss ratios with lower development factors (i.e., faster pattern)	(34,727)	(6,945)
No change in expected loss ratios with higher development factors (i.e., slower pattern)	36,126	7,224
Lower expected loss ratios with no change in loss development factors	(59,270)	(11,853)
Lower expected loss ratios with lower loss development factors (i.e., faster pattern)	(91,026)	(18,203)
Lower expected loss ratios with higher loss development factors (i.e., slower pattern)	(26,241)	(5,248)

C.1.3 SCR Coverage Scenario Testing - Insurance Risk

SII SCR coverage scenario testing is performed on an annual basis to assess the sensitivity of the SCR and the SCR coverage ratio to various scenarios. A summary of the stress testing for insurance risk as at 31 December 2019 is provided in section C.8. The resulting SCR and SCR coverage impact was in line with expectations and none of the scenarios tested resulted in a breach of the Company's target SCR solvency ratio range (130% - 150%).

C.2 Credit Risk

Credit risk represents the risk of incurring financial loss due to the diminished creditworthiness (eroding credit rating and, ultimately, default) of the Company's third party counterparties. The key areas of exposure to credit risk for the Company are in relation to its investment portfolio, reinsurance program, amounts due from policyholders and intermediaries, and credit risk assumed through insurance contracts such as the Credit Insurance business.

Investment portfolio

The Company is exposed to potential losses arising from the diminished creditworthiness of issuers of bonds as well as third party counterparties such as custodians. Exposure to such credit risk is limited through diversification, issuer exposure limitation and, with respect to custodians, through contractual and other legal remedies.

The fixed term maturity portfolio represents approximately USD 404.8 million or 19.3% of the Company's total assets (2018: USD 273.5 million or 16.2% of its total assets). Excluding U.S. Treasury and Agency securities, the Company limits its concentration of credit risk to any single corporate issuer to 1.4% or less of the investment grade fixed maturities portfolio for securities rated A- or above and 0.7% or less of the investment grade fixed maturities portfolio for securities rated below A-. No more than 1.5% of total cash and invested assets can be invested in any single corporate issuer.

The credit ratings of fixed term maturities are shown below at 31 December 2019 and 31 December 2018. The methodology for assigning credit ratings to fixed term maturities is in line with the methodology used for the Barclays U.S Aggregate Bond Index. This methodology uses the middle of Standard & Poor's (S&P), Moody's and Fitch ratings. When ratings from only two of these agencies are available, the lower rating is used.

Rating	2019 USD '000	2018 USD '000
AAA	182,978	132,052
AA	30,132	17,350
A	85,101	55,802
BBB	81,313	46,326
Below BBB	25,315	21,955
	404,839	273,485

The Company also has credit risk relating to cash and cash equivalents. Cash and cash equivalents comprise cash at bank and investment in money market funds. In order to mitigate concentration and operational risks related to cash and cash equivalents,

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the maximum amount of cash that can be deposited with a single counterparty is limited and the Company invests in acceptable counterparties based on current rating, outlook and other relevant factors.

The table below provides a breakdown of the Company's cash and cash equivalents by credit rating at 31 December 2019 and 31 December 2018:

		2019	2018
		USD '000	USD '000
Rating	Rating Agency		
AAA	S&P	36,883	43,082
P-1	Moody's	24,638	36,258
P-2	Moody's	952	—
		62,473	79,340

Reinsurance recoverable assets

As a result of its reinsurance purchasing activities, the Company is exposed to the credit risk of a reinsurer failing to meet its obligations under the reinsurance contracts. To help mitigate this, all reinsurance purchasing is subject to financial security requirements specified by the Reinsurance Security Committee (RSC). The RSC maintains a list of approved reinsurers, reviews credit risk assessments for potential new reinsurers, regularly monitors approved reinsurers with consideration for events which may have a material impact on their creditworthiness, recommends counterparty limits for different types of ceded business and monitors concentrations of credit risk.

The table below provides a breakdown of the Company's reinsurance recoverable balances by credit rating at 31 December 2019 and 31 December 2018:

		2019	2018
		USD '000	USD '000
Rating			
A++		12,873	14,372
A+		1,015,406	835,361
A		73,198	81,096
A-		12,672	14,480
Not rated		17,476	11,661
		1,131,625	956,970

The A+ balance includes USD 692.8 million (2018: USD 595.5 million) recoverable from ASL, a related party.

Premium receivables

The largest credit risk exposure to receivables is from brokers and other intermediaries. The risk arises where they collect premiums from customers or pay claims to customers on behalf of the Company. There are policies and standards in place to manage and monitor credit risk from intermediaries with a focus on day-to-day monitoring of the largest positions and overdue debt collection.

Underwriting portfolio

The Company provides credit insurance primarily for lenders (financial institutions) seeking to mitigate the risk of non-payment from their borrowers. The Company's credit insurance exposures are concentrated primarily within developed economies. The underlying risk associated with the Company's credit related business is governed through the underwriting risk management framework described in C.1.1.

SCR Coverage Scenario Testing - Credit Risk

SII SCR Coverage scenario testing is performed on an annual basis to assess the sensitivity of the SCR and the SCR coverage ratio to various scenarios. A summary of the stress testing for credit risk as at 31 December 2019 is provided in section C.8. The resulting SCR and SCR coverage impact were in line with expectations, and none of the scenarios tested resulted in a breach of the Company's target SCR Solvency Ratio range (130% - 150%).

C.3 Market Risk

Market risk is the risk that the Company's financial instruments may be negatively impacted by movements in financial market prices or rates such as equity prices, interest rates, credit spreads and foreign exchange rates. Fluctuations in market rates primarily affect the Company's investment portfolio.

Through asset and liability management, the Company aims to ensure that certain market risks influence both the economic value of investments and underwriting liabilities in a similar manner, thus minimizing the effect of market fluctuations. For example, important features of liabilities are reflected, such as maturity patterns and currency structures, on the asset side of the balance sheet by acquiring investments with similar characteristics.

Asset-liability management is supplemented with various internal policies and limits. The management of asset classes is centralised to control aggregation of risk, and provide a consistent approach to constructing portfolios as well as the selection process of external asset managers. As part of the annual Strategic Asset Allocation process, whereby target allocation ranges for the various asset classes are set for the forthcoming period, different asset strategies are simulated and stressed in order to assess an appropriate portfolio (given return objectives and risk constraints). Limits are set on the concentration of investments by single issuers and certain asset classes and on the level of illiquid investments. Further, the Company's investment guidelines do not permit the use of leverage in any of the fixed maturity portfolios.

Investment portfolios are stress tested using historical and hypothetical scenarios to analyse the impact of unusual market conditions and to ensure potential investment losses remain within risk appetite.

The Balance Sheet includes a substantial amount of assets whose fair values are subject to market risks. The following sections provide information on the primary market risk exposures at 31 December 2019. The Company does not currently anticipate significant changes in primary market risk exposures or in how these exposures are managed in future reporting periods based upon what is known or expected to be in effect in future reporting periods.

Equity price risk

The portfolio of equity securities has exposure to equity price risk. This risk is defined as the potential loss in fair value resulting from adverse changes in stock prices. The global equity portfolio is managed to a benchmark composite index, which consists of a blend of the S&P500 and MSCI World Indices. Changes in the underlying indices have a corresponding impact on the overall portfolio. The fair value of equity securities at 31 December 2019 was USD 27.5 million (2018: USD 22.5 million). At 31 December 2019, the impact of a 20% increase or decrease in the overall market prices of the equity exposures would be USD 5.5 million (2018: USD 4.5 million) increase or decrease, on a pre-tax basis.

The fair value of hedge funds at 31 December 2019 was USD 9.4 million (2018: USD 16.0 million). Investments in hedge funds have significant exposure to equity strategies with net long positions. At 31 December 2019, the impact of an instantaneous 15% increase or decrease in the fair value of the investment in hedge funds would be USD 1.4 million (2018: USD 2.4 million) increase or decrease, on a pre-tax basis.

Interest rate and credit spread risk

Interest rate risk includes fluctuations in interest rates and credit spreads that have a direct impact on the fair value of fixed term maturities. As interest rates rise and credit spreads widen, the fair value of fixed term maturities falls, and the converse is also true. Sensitivity to interest rate changes and credit spread changes is monitored by revaluing fixed maturities using a variety of different interest rates (inclusive of credit spreads). Duration and convexity is used at the security level to estimate the change in fair value that would result from a change in each security's yield. Duration measures the price sensitivity of an asset to changes in yield rates. Convexity measures how the duration of the security changes with interest rates. The duration and convexity analysis takes into account changes in prepayment expectations for MBS and ABS securities. The analysis is performed at the security level and aggregated up to the asset category levels.

The following table presents the estimated pre-tax impact on the fair value of fixed maturities at 31 December 2019 due to an instantaneous increase or decrease in the U.S. yield curve of 100 basis points and an additional 100 basis point credit spread widening or narrowing for corporate debt, non-agency residential and commercial MBS, ABS and municipal bond securities.

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	Potential Change in Fair Value				
	Fair Value	Increase in	Decrease in	Widening of	Narrowing
		by 100 basis	Interest rate	Interest rate	Credit
USD '000	points	by 100 basis	by 100 basis	Spreads by	Spreads by
	USD '000	points	points	100 basis	100 basis
	USD '000	USD '000	USD '000	points	points
	USD '000	USD '000	USD '000	USD '000	USD '000
As at 31 December 2019					
U.S. government and agency	132,798	(3,886)	3,886	—	—
Non U.S. government	16,610	(487)	487	—	—
Agency MBS	34,511	(1,103)	1,103	—	—
<i>Securities exposed to credit spreads:</i>					
Corporates	210,311	(5,737)	5,737	(5,849)	5,849
Non Agency CMBS	3,807	(250)	250	(253)	253
Non Agency RMBS	3,859	(117)	117	(171)	171
Asset Backed Securities	772	—	—	—	—
US. state and municipals	2,171	(147)	147	(148)	148
	404,839	(11,727)	11,727	(6,421)	6,421

	Potential Change in Fair Value				
	Fair Value	Increase in	Decrease in	Widening of	Narrowing
		by 100 basis	Interest rate	Interest rate	Credit
USD '000	points	by 100 basis	by 100 basis	Spreads by	Spreads by
	USD '000	USD '000	USD '000	100 basis	100 basis
	USD '000	USD '000	USD '000	points	points
	USD '000	USD '000	USD '000	USD '000	USD '000
As at 31 December 2018					
U.S. government and agency	105,661	(1,927)	1,927	—	—
Non U.S. government	1,630	(74)	74	—	—
Agency MBS	20,170	(702)	702	—	—
<i>Securities exposed to credit spreads:</i>					
Corporates	140,664	(3,412)	3,412	(3,649)	3,649
Non Agency CMBS	5,217	(380)	380	(385)	385
Non Agency RMBS	12	—	—	—	—
U.S. state and municipals	131	(2)	2	(2)	2
	273,485	(6,497)	6,497	(4,036)	4,036

Foreign exchange risk

Foreign exchange or currency risk represents the risk that the fair value of future cash flows, assets and liabilities will fluctuate because of changes in foreign exchange rates. Foreign exchange risk is managed by seeking to match the estimated insurance liabilities payable in foreign currencies with assets, including cash and investments that are also denominated in such currencies.

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The table below provides a breakdown of the Company's exposure to foreign currencies at 31 December 2019 and 31 December 2018:

As at 31 December 2019	EUR	GBP	AUD	JPY	Other	
	USD'000	USD'000	USD'000	USD'000	USD'000	Total
Invested assets	70,292	18,463	—	7,174	8,618	104,547
Other net assets/(liabilities)	(78,968)	(81,134)	—	(1,390)	(5,743)	(167,235)
Total Foreign Currency Exposure	(8,676)	(62,671)	0	5,784	2,875	(62,688)
Impact of net foreign currency exposure on income before tax given a hypothetical 10% rate movement	(868)	(6,267)	0	578	288	(6,269)
As at 31 December 2018	EUR	GBP	AUD	JPY	Other	
	USD'000	USD'000	USD'000	USD'000	USD'000	Total
Invested assets	12,424	6,920	—	1,368	8,893	29,605
Other net assets/(liabilities)	(9,157)	(68,875)	—	(877)	(7,857)	(86,767)
Total Foreign Currency Exposure	3,267	(61,955)	0	491	1,036	(57,162)
Impact of net foreign currency exposure on income before tax given a hypothetical 10% rate movement	327	(6,196)	0	49	104	(5,716)

SCR Coverage Scenario Testing - Market Risk

SII SCR coverage scenario testing is performed on an annual basis to assess the sensitivity of the SCR and the SCR coverage ratio to various scenarios. A summary of the stress testing for market risk as at 31 December 2019 is provided in section C.8. The resulting SCR and SCR coverage impact was in line with expectations and none of the scenarios tested resulted in a breach of the Company's target SCR solvency ratio range (130% - 150%).

C.4 Prudent person principle and investments

The Company is required to invest in assets in accordance with the 'prudent person principle'. As part of its prudent person approach, when the Company invests its assets it considers the following:

- a) takes into account the type of business carried on by the undertaking, in particular the nature, the amount and the duration of the expected claims payments, in such a way as to secure sufficiency, liquidity, security, quality, profitability and matching of the undertaking's investments,
- b) diversification and adequate spread of assets so as to enable appropriate response to changing economic circumstances, in particular developments in the financial markets and real estate markets or large impact catastrophic events,
- c) keeps to a prudent level of investments in assets that are not traded on a regulated financial market,
- d) proper diversification of the assets so as to avoid excessive reliance on any particular asset, issuer or group of undertakings and accumulations of risk in the portfolio as a whole,
- e) not invest in assets issued by the same issuer, or by issuers belonging to the same group, in such a way as to expose the undertaking to excessive risk concentration; and
- f) assess the impact of irregular market circumstances on its assets and diversify those assets to ensure that the impact is reduced.

The Company may invest in derivative instruments to the extent that they help to reduce investment risks or facilitate efficient portfolio management. However, the Company shall value those investments on a prudent basis, taking into account the underlying assets and must include a valuation of the relevant institution's assets. The Company will also avoid excessive risk exposure to a single counterparty and to other derivative operations.

The requirements specified in paragraph (d) and (e) above do not apply to investment in government bonds.

C.5 Liquidity Risk

Liquidity risk is the risk that the Company may not have sufficient financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. As an insurer, the core business generates liquidity primarily through premium and investment income. Exposure to liquidity risk stems mainly from the need to cover potential extreme loss events.

The Company aims to ensure it maintains adequate liquidity to meet its liquidity needs under both normal and stressed conditions. To manage liquidity risk, a range of policies and measures are in place including maintaining cash and cash equivalents and high

quality, liquid investment portfolios to meet expected outflows, as well as those that could result from a range of potential stress events. Forecasts are also prepared regularly to predict required liquidity levels over both the short- and medium-term. There are set internal limits on the minimum percentage of the investment portfolio to mature within a defined timeframe. The Company further undertakes stress testing to ensure that it would be able to withstand extreme loss events and still remain liquid.

Expected profit in future premium

The expected profit included in future premiums is calculated as the difference between the technical provisions without a risk margin and a calculation of the technical provisions without a risk margin under the assumption that the premiums relating to existing insurance and reinsurance contracts that are expected to be received in the future are not received for any reason other than the insured event having occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy. At 31 December 2019, the expected profit in future premiums is USD 0.7 million.

C.6 Operational Risk

Operational risk represents the risk of financial or non-financial loss as a result of inadequate processes, system failures, human error or external events. The Company manages operational risk through sound corporate and risk governance, including the application of effective systems and controls. The Group Risk Function is responsible for coordinating and overseeing a Group-wide framework for operational risk management, which includes:

- clearly defined ownership of all operational risks in the risk register, with a regular risk and control assessment process for assessing the residual operational risk for each risk;
- an internal control framework consistent with the principles of the COSO framework, including the maintenance of appropriate process and control documentation;
- clearly defined ownership for processes and controls, with a quarterly self-assessment (certification) process that those processes and controls are designed and operating effectively;
- an operational loss-event database which helps better monitor and analyse potential operational risk, identify any trends, and, where necessary, put in place improvement actions to avoid occurrence or recurrence of operational loss events.
- key risk indicators and other metrics to help monitor the Company's operational risk profile; and
- appropriate governance and monitoring with respect to any operational risk associated with major new or change initiatives within the Company.

Specific processes and systems are in place to focus on high priority operational matters such as managing business continuity, information and cyber security and third-party vendor risk:

- Major failures and disasters which could cause a severe disruption to working environments, facilities and personnel, represent a significant operational risk to the Company. The Business Continuity Management framework strives to protect critical business functions from these effects to enable them to carry out their core tasks in time and at the quality required. Each year, Business Continuity Planning procedures are reviewed through cyclical planned tests.
- The Company may be the target of attempted cyber and other security threats and continuously monitors and develops information technology networks and infrastructure to prevent, detect, address and mitigate the risk of threats to our data and systems as well as having a dedicated cyber security team.
- The use of third party vendors exposes the Company to a number of increased operational risks, including the risk of security breaches, fraud, non-compliance with laws and regulations or internal guidelines and inadequate service. Material third party vendor risk is managed, by, among other things, performing a thorough risk assessment on potential large vendors, reviewing a vendor's financial stability, ability to provide ongoing service and business continuity planning.

C.7 Other material risks

Recent Development

The ongoing Coronavirus (COVID-19) crisis, and related operating and investment market impacts, is an emerging and evolving risk to which the Company is exposed from an asset and liability perspective.

The Company is monitoring the situation closely, including stress and scenario testing on existing underwriting exposure and taking into consideration the possible severity and duration of the outbreak. It is assessing the impact on premium, product, rate and future plans. A range of economic impacts and external pressures across individual product lines are being considered.

The Company has implemented business continuity plans to ensure that it will continue to operate effectively, ensuring the safety and well-being of our employees, the continued support of and engagement with our clients and alignment with Government Guidelines and Regulatory requirements. We are actively engaged with key service providers to ensure continuity of services.

Business continuity plans have been activated successfully, with employees working remotely to service our clients and fulfil our regulatory obligations. The robust nature of our remote working tools, and the positive engagement of all stakeholders has allowed us to continue to trade effectively in all relevant markets. At the date of approval of the financial statements, the Company has observed no material adverse operational impact.

Covid-19 is impacting global economies and markets, and has had an adverse impact on the Company's investment portfolio, which could impact on the Company's performance in the current year. The impact will depend on future developments, which are highly uncertain.

We have robust governance structures and monitoring processes in place, which support the on-going monitoring of the company's solvency position based on the latest available market information including our interpretation of our exposures and likely impacts on our business and on our reinsurance counterparties.

The solvency cover at 31 December 2019 was 184% (2018: 177%) of the Standard Formulae Solvency Capital Requirement, materially in excess of our Target Solvency range. As part of our ORSA process, we undertake stress tests across key risks and across combined risk areas to test the adequacy of Own Funds, on an ongoing basis. We are reviewing these scenarios in light of the emerging impact of this event. The full impact on capital and business plans is currently unknown, but is being constantly assessed. The Company has a Capital Management Committee and will consider all options including parental support to ensure the availability of additional capital should market developments lead to a reduction of coverage below the Target Solvency Range, in line with the Capital Management Plan.

The eventual exit of the U.K. from the European Union ("Brexit")

On June 23, 2016, the U.K. voted to exit the E.U. ("Brexit") and in March 2017, the U.K. government gave official notice of its intention to leave the E.U., commencing the period of up to two years during which the U.K. and the E.U. would negotiate the terms of the U.K.'s withdrawal from the E.U. The effects of Brexit will depend on any agreements the U.K. makes to retain access to E.U. markets either during a transitional period or more permanently. The Brexit vote had an immediate adverse effect on global financial markets, including foreign currency markets, and could continue to contribute to instability in global financial markets, both during and after the Brexit process.

The long-term effect of Brexit on the value of the Company investment portfolio at this time is uncertain and such volatility and uncertainty will likely continue as negotiations progress to determine the future terms of the U.K.'s relationship with the E.U. In addition, Brexit could lead to legal and regulatory uncertainty and potentially divergent national laws and regulations as the U.K. determines which E.U. laws to replace or replicate and the E.U. determines access rights and limitations.

The Company will be significantly impacted by Brexit as it has its Head Office in the E.U. (Ireland), and an underwriting branch in the U.K. Depending on the final terms of Brexit, it is likely that the Company will be required to reorganize its operations, legal entity structure and capitalization in the U.K. and the E.U. in a manner that could be less efficient and more expensive, as Brexit may disrupt AXIS Specialty London's ability to "passport" within the E.U., which is the system by which insurance entities currently provide insurance across E.U. member states while only being subject to regulation by their "home state" regulators. Brexit may also disrupt the ability of the Irish entity to access U.K. business. The Company has implemented a project to ensure that AXIS Specialty London maintains compliance with evolving local regulatory requirements.

As part of this preparation, the Company has applied to the Prudential Regulation Authority ("PRA") to be regulated as a third country branch, maintaining third country branch capital requirements in the UK. The Company is also putting in place contingency plans for underwriting and claims handling solutions in the event a deal is not reached between the E.U. and the U.K. (a "no-deal Brexit"), and is monitoring developments in this area. The U.K. Parliament has guaranteed a Temporary Permissions Regime ("TPR") that will take effect in the event of a no-deal Brexit, meaning that the Company will be able to continue to operate in the UK based on a deemed permission. This TPR will last until either the Company's third country branch has been approved by the PRA or until 31 December 2020, whichever occurs first. During the TPR, AXIS Specialty London would be treated as being a third country branch, and subject to the same regulatory and capital requirements as one. The PRA has indicated that reliefs will be granted with respect to certain solvency requirements, however these have not yet been confirmed.

Strategic risk

Strategic risk is the risk of an unexpected negative change in the company value arising from the adverse effect of management decisions regarding business strategies and their implementation. This includes the risk that business strategy is not adapted to changes in the internal and external environment.

To ensure proper implementation of strategic goals in the current business plan, management monitors market and competitive conditions, regulatory conditions, etc. to decide whether to make strategic adjustments.

Group contagion risk

Group contagion risk is the risk of financial or non-financial loss in the Company due to linkages or interdependencies with other parts of the AXIS Group. Group contagion risk is primarily managed through AXIS' Group wide Risk Management Framework which ensures that each entity operates within its defined solvency standards and risk limits, thus limiting their exposure to the above risks.

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Reputational risk

Reputational risk is the risk of a loss resulting from damage to the Company's public image. The Company is potentially exposed to reputational risk stemming from an act or omission by the Company or an employee, or from an event from within the broader AXIS Group. Any damage to the Company's reputation may result in a loss of trust among its clients and stakeholders.

Every risk type has potential consequences on the Company's reputation, and therefore, effectively managing each type of risk helps reduce threats to reputation. The Company's risk assessment process covering all risks in the risk register considers reputational impacts to the Company. Additionally, the Company endeavours to preserve its reputation by adhering to applicable laws and regulations, and by following the core values and principles in the AXIS Code of Conduct, which includes integrity and good business practices. Mitigation of legal or regulatory breach is undertaken by the skilled and qualified compliance team, by ongoing monitoring of the regulatory landscape, through business conduct standards and policies, implementation of background and compliance checks and staff training. Effectiveness of the processes and governance to mitigate legal and compliance risk is monitored through the Company risk register. The AXIS Group centrally manages certain aspects of reputation risk, for example, communications, through dedicated functions with appropriate expertise.

Emerging Risks

AXIS has in place a process for scanning the external environment to identify risks that present an emerging threat to the business environment, industry or Company. These are classified as emerging risks and are regularly discussed and reviewed by the Emerging Risk Working Group and at the Company's Board.

C.8 Any other information

SII SCR Coverage scenario testing

SII SCR Coverage scenario testing is performed on an annual basis to assess the sensitivity of the SCR and the SCR coverage ratio to various scenarios stressing the Company's material risks. A summary of the scenario testing results has been provided by risk category below and in each relevant risk category section above. The resulting SCR impact and SCR coverage reduction were in line with expectations, and none of the scenarios tested resulted in a breach of the Company's target SCR Solvency Ratio range (130% - 150%). No future management actions are assumed in any of the scenarios.

Scenario	Scenario Description	Risk Category	Risk Category SCR Impact	Overall SCR Impact	SCR Coverage
Baseline	Based on 2019 Annual SCR				184%
Increase in net premium volume by \$10m	Increase next year plan net earned premium by \$10m	Underwriting Risk	\$3.3m	\$2.9m	180%
Increase in net claims provision by \$20m	Increase net claims provision by \$20m, and the corresponding ceded claims provision accordingly	Underwriting Risk Counterparty Default Risk	\$4.8m \$4.2m	\$15.2m	159%
Increase man-made fire net exposure by \$20m	Increase the top 200m radius fire / terror scenario such that the net exposure increases by \$20m	Underwriting Risk	\$4.3m	\$3.6m	180%
Increase yield curve by 100bp	Increase the yield curve across all periods by 100bp	Market Risk Underwriting Risk Counterparty Default Risk	\$0.08m -\$0.9m -\$0.8m	-\$0.5m	179%
Equity valuations decrease by 40%	Reduce equity investment values by 40%	Market Risk	-\$6.5m	-\$0.6m	175%
Increase overdue >3 months receivable by \$20m	Increasing overdue >3 months receivable by \$20m	Counterparty Default Risk	\$16.2m	\$12.8m	170%
Reduce rating of largest reinsurance counterparty by 1 credit quality step	Reduce the Credit Quality Step of AXIS Specialty Limited by 1, from CQS 2 to 3	Counterparty Default Risk	\$28m	\$23.4m	159%

In the event of a breach, the Company has a number of ways by which it can manage its solvency coverage and ensure that it returns within target. This includes changing gross exposures or external reinsurance arrangements, changing the internal reinsurance arrangements or other traditional forms of capital management (e.g. capital injections, cease dividend payments etc.).

All material information regarding the Company's risk profile is disclosed in sections C.1 - C.7.

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D. VALUATION FOR SOLVENCY PURPOSES

The Company's financial statements including the balance sheet have been prepared under the historical cost convention, as modified by the inclusion of certain investments at fair value and in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and FRS 103 "Insurance Contracts" ("FRS 103") issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland, and comply with the Companies Act 2014 and the European Union (Insurance Undertakings: Financial Statements) Regulations, 2015.

The Solvency II balance sheet recognises assets and liabilities in conformity with the international accounting standards adopted by the Commission in accordance with Regulation (EC) No 1606/2002 (IFRS as adopted by the EU) unless otherwise stated within Solvency II.

D.1 Assets

	Solvency II	GAAP	Difference	
	2019	2019	2019	
	USD'000	USD'000	USD'000	Adjustment Type
Deferred acquisition costs	—	1,072	(1,072)	Valuation
Net deferred tax asset	7,354	2,969	4,385	Valuation
Property, plant & equipment held for own use	62,024	39,245	22,779	Valuation
Government Bonds	154,408	152,922	1,486	Reclassification
Corporate Bonds	209,846	210,311	(465)	Reclassification
Collateralised securities	43,239	42,979	260	Reclassification
Collective Investments Undertakings	52,791	74,986	(22,195)	Reclassification
Other investments	32,698	9,422	23,276	Reclassification
Other loans and mortgages	1,379	—	1,379	Reclassification
Investments	494,361	490,620	3,741	
Insurance and intermediaries receivables	64,441	226,764	(162,323)	Valuation
Reinsurance receivables	29,871	29,871	—	
Derivatives	595	566	29	Reclassification
Cash and cash equivalents	24,968	25,416	(448)	Reclassification
Any other assets, not elsewhere shown	9,438	12,071	(2,633)	Reclassification
	693,052	828,594	(135,542)	

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	Solvency II	GAAP	Difference	
	2018	2018	2018	
	USD'000	USD'000	USD'000	Adjustment Type
Deferred acquisition costs	—	644	(644)	Valuation
Net deferred tax asset	6,973	5,445	1,528	Valuation
Property, plant & equipment held for own use	5,559	23,242	(17,683)	Valuation
Government Bonds	128,223	115,969	12,254	Reclassification
Corporate Bonds	141,522	140,663	859	Reclassification
Collateralised securities	25,481	25,399	82	Reclassification
Collective Investments Undertakings	55,998	65,355	(9,357)	Reclassification
Other investments	25,716	16,030	9,686	Reclassification
Other loans and mortgages	2,225	—	2,225	Reclassification
Investments	379,165	363,416	15,749	
Insurance and intermediaries receivables	22,050	180,945	(158,895)	Valuation
Reinsurance receivables	13,456	13,456	—	
Derivatives	166	—	166	
Cash and cash equivalents	22,659	36,469	(13,810)	Reclassification
Any other assets, not elsewhere shown	13,051	14,991	(1,940)	Reclassification
	463,079	638,608	(175,529)	

Reclassification for solvency purposes are differences in classifications of balances between GAAP and Solvency II balance sheet line items. Valuation adjustments are valuation differences between GAAP and Solvency II.

D.1.1 Deferred acquisition costs

Acquisition costs vary with and are directly related to the acquisition of reinsurance contracts and consist primarily of fees and commissions paid to brokers and premium taxes.

Under SII, cash flow projections used in the calculation of Solvency II Technical Provisions include acquisition costs associated with reinsurance contracts. Deferred acquisition costs are valued at nil in order to avoid double counting as acquisition costs are considered in the Solvency II Technical Provision calculations.

Under GAAP, acquisition costs are deferred over the period during which the Company is exposed to the underlying risk which is generally one to two years with the exception of multi year contracts.

D.1.2 Deferred tax

Certain GAAP assets and liabilities are restated in accordance with SII valuation rules. The restated assets and liabilities are analyzed for permanent differences arising between SII restated accounts and tax accounts. All material differences are considered and deferred tax is provided on any temporary differences arising. Current tax legislation and rates are applied to calculate the deferred tax. Deferred tax assets and liabilities are presented gross on the face of the SII Balance Sheet.

Under GAAP, deferred taxation is calculated on the differences between the Company's taxable profits and the results as stated in the financial statements. These differences arise as a result of timing differences on unrealised gains and losses on investments and capital allowances. Deferred tax assets and liabilities are offset when taxes are levied by the same taxation authority and when there is a legally enforceable right to offset them.

Under GAAP, deferred taxation is calculated on the differences between the Company's taxable profits and the results as stated in the financial statements. These differences arise as a result of timing differences on restricted stock units and capital allowances.

D.1.3 Property, plant and equipment

Property, plant and equipment includes the office premises in Dublin, software & computer equipment, fixtures & fittings, leaseholds improvements.

Under Solvency II, the IAS 16 revaluation model is applied when valuing property, plant and equipment. In accordance with IAS 16, the office premises are revalued every three to five years unless there are material changes to the fair value. Plant and equipment are valued at USD 62 million on the SII economic balance sheet.

IFRS 16 brings in new accounting for leases which means most operating leases are now treated like finance leases with a right of use asset recognised along with a lease liability. While GAAP has not brought in this change, the guidance coming out from EIOPA is that IFRS 16 is the appropriate measurement basis for leases under Solvency II. The right of lease asset is included in the Property, plant & equipment classification.

Under GAAP, property, plant and equipment is measured at cost less depreciation. The Company provides depreciation at cost less estimated residual value in equal annual instalments over the estimated useful lives of the assets.

D.1.4 Investments

The Company's investments comprise debt, equity and other investments.

Under Solvency II, investments are measured in accordance with IAS 39 at fair value through profit & loss. Fair value measurement is consistent with GAAP except for the recognition of accrued interest. Under Solvency II, accrued interest is included in the valuation of debt and cash instruments. Under GAAP, accrued interest is recognised separately in 'Any other assets'.

Fair Value Measurement

Under GAAP, investments are measured in accordance with FRS 102 section 11 and section 12. The Company determines the classification of its investments at initial recognition and re-evaluates this at each reporting date. The Company classifies its investments on a portfolio by portfolio basis and has designated all investment portfolios as at fair value through profit and loss. These portfolios are managed and their performance evaluated on a fair value basis. Short-term investments comprise debt securities that, at purchase, have a maturity greater than three months but less than one year. Due to the short-term nature of these investments amortized cost is used to approximate fair value. All purchases and sales of investments are recorded on the trade date, which is the date that the Company commits to purchase or sell the assets. The fair values of listed investments are based on closing bid prices. For investments not traded on an active market, the Company establishes fair value based on quoted market prices of similar instruments or on other valuation techniques.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value are recognised immediately in the profit and loss account. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Fair value is defined as the price to sell an asset or transfer a liability (i.e. the "exit price") in an orderly transaction between market participants. The fair value hierarchy used gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The hierarchy is broken down into three levels as follows:

- Level A - The best evidence of fair value is a quoted price for an identical asset in an active market. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the current bid price.
- Level B - When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (e.g. because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted.
- Level C - If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, an entity estimates the fair value by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Classification

Under GAAP, classification of investments is in accordance with FRS 102 and the European Union (Insurance Undertakings: Financial Statements) Regulations, 2015. Under Solvency II, certain investments have been reclassified where necessary in order to conform to Solvency II asset categories.

D.1.5 Insurance and intermediaries receivables

Under Solvency II, premium and commission receivable balances past due are recognised at fair value. Balances past due greater than one year are discounted using the risk free interest rate curve. Under Solvency II, technical provisions are calculated on a cash-flow basis. Premiums and commission receivable balances not yet due are included in technical provision best estimate calculations and eliminated from the GAAP Insurance and intermediaries receivable balance. A balance is deemed not yet due at the balance sheet date, if the receivable is not aged (overdue) and will become due for payment by the client sometime after the balance sheet date.

Under GAAP, premium and commission receivable balances arising under insurance contracts are recognised when due and measured at cost. A provision for impairment is established when there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been impacted.

D.1.6 Reinsurance receivables

Under GAAP, ceded premium advances and losses paid recoverable are recognised at cost with a provision for impairment if identified.

Under Solvency II, similar to Insurance and intermediaries receivables, balances deemed not yet due are included in best estimate calculation in technical provisions and removed from the GAAP reinsurance receivable balance.

D.1.7 Cash and Cash Equivalents

Cash and cash equivalents are carried at face value and include fixed income securities that, at purchase have a maturity 3 months or less.

Under Solvency II, certain cash deposits have been reclassified to investments where necessary in order to conform to Solvency II asset categories. As noted in 'Investments' under Solvency II, accrued interest is included in the valuation of cash and cash equivalents. Under GAAP, accrued interest is recognised separately in 'Any Other Assets'.

D.1.8 Any other assets

Any other assets includes amounts such as amounts due from group companies, prepaid expenses, accrued interest and other taxes receivable in the GAAP balance sheet. The amounts are measured at a value for which they could be exchanged between knowledgeable and willing parties in an arm's length transaction. As noted above, under Solvency II, accrued interest is included in the valuation of debt and cash instruments. Under GAAP, accrued interest is recognised in 'Any Other Assets'.

D.2 Technical provisions

The valuation methodology for technical provisions in accordance with Solvency II differs significantly from the valuation in the financial statements.

	Solvency II			GAAP
	Best Estimate	Risk Margin	Total	Total
	2019	2019	2019	2019
	USD'000	USD'000	USD'000	USD'000
Net technical provisions				
Direct business and accepted proportional reinsurance				
Income Protection	1,485	241	1,726	2,288
Marine, aviation and transport	49,440	6,227	55,667	56,300
Fire and other damage to property	31,303	3,519	34,822	39,028
General liability	119,964	14,246	134,210	119,138
Credit and suretyship	7,896	520	8,416	22,286
Assistance	—	—	—	—
Miscellaneous financial loss	211	22	233	159
Accepted non-proportional reinsurance				
Health	—	—	—	—
Property	—	—	—	—
Total Non-Life obligation	210,299	24,775	235,074	239,199

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	Solvency II		GAAP	
	Best Estimate	Risk Margin	Total	Total
Net technical provisions	2018	2018	2018	2018
	USD'000	USD'000	USD'000	USD'000
Direct business and accepted proportional reinsurance				
Income Protection	2,955	448	3,403	3,501
Marine, aviation and transport	16,706	2,295	19,001	27,448
Fire and other damage to property	23,540	3,223	26,763	29,915
General liability	98,779	12,803	111,582	105,400
Credit and suretyship	5,512	597	6,109	24,160
Assistance	—	—	—	—
Miscellaneous financial loss	6,735	762	7,497	7,542
Accepted non-proportional reinsurance				
Health	—	—	—	—
Property	—	—	—	—
Total Non-Life obligation	154,227	20,128	174,355	197,966

D.2.1 GAAP technical provisions

Claims reserves

Claims Reserves represent an estimate of the unpaid portion of the ultimate liability for losses and loss expenses for reinsureds events that have occurred at or before the balance sheet date. The balance reflects both claims that have been reported ('case reserves') and claims that have been incurred but not yet reported ("IBNR"). These amounts are reduced for estimated amounts of salvage and subrogation recoveries.

Reserves for losses and loss expenses are reviewed on a quarterly basis. Case reserves are primarily established based on amounts reported from insureds, reassureds and/or brokers. Management estimates IBNR after reviewing detailed actuarial analyses and applying informed judgement regarding qualitative factors that may not be fully captured in the actuarial estimates. A variety of actuarial methods are utilised in this process, including the Expected Loss Ratio, Bornhuetter-Ferguson and Chain Ladder methods. The Company estimate is highly dependent on management's critical judgement as to which method(s) are most appropriate for a particular accident year and class of business. The Company's historical claims data is often supplemented with industry benchmarks when applying these methodologies.

Initial Expected Loss Ratio ("IELR") Method: This indication of ultimate claim cost is based on applying an expected loss ratio for the accident period to an exposure measure, normally the earned or written premium. The expected loss ratio is normally calibrated based on the historical loss ratios of the class of business, adjusted for changes in the underwriting environment such as premium rates and terms and conditions as well as qualitative information such as shifts in the mix of business. Where the history is not considered fully credible, an external benchmark may also be given some weight.

Development Factor ("DF") Method (also termed Chain Ladder Method): The indication of ultimate claim cost is based on grossing up the cumulative reported (or paid) claims according to a factor representing the expected percentage of claims assumed to have been reported (or paid) given the delay period that has elapsed since the start of the accident period ('percentage developed'). This 'development profile' is normally calibrated by considering the percentage of the ultimate claims cost that has emerged in older, more mature, accident periods at each delay period. Where the history is not considered fully credible, an external benchmark may also be given some weight.

Bornhuetter-Ferguson ("BF") Method: The BF method is a weighted average of the IELR and DFM methods. It gives more weight to the IELR method in the earlier stages of a year's development before progressively weighting more towards experience indications (i.e., DFM) as the year matures.

Any adjustments to previous reserves for losses and loss expenses estimates are recognised in the period they are determined. While management believes that reserves for losses and loss expenses are adequate, this estimate requires significant judgement and new information, events or circumstances may result in ultimate losses that are materially greater or less than provided for in the balance sheet.

The current reserving process is based on historic statistics which may or may not be borne out in future. There is uncertainty around claims inflation which may be higher or lower in future than seen in the historic data. Some classes of business assume a certain number of claims to be reported in future which may turn out to be different in reality. The stability of the claims process can also affect reserving estimates. Should the claims process speed up through automation or slow down due to processing delays, even taking these into account, there will be particularly uncertainty in the reserving estimates.

Unearned premium reserves

Insurance premiums written are recorded in accordance with the terms of the underlying policies. Insurance premiums are earned over the period during which the Company is exposed to the underlying risk which is generally one to two years with the exception of multi year contracts. Insurance unearned premiums represent the portion of insurance premiums written which is applicable to the unexpired risks under contracts in force.

D.2.2 Solvency II technical provisions

Technical provisions on a Solvency II basis combine the data and results from the GAAP based reserving process with additional information and calculations.

The calculation of the Solvency II technical provisions is split into three parts:

- i. **Provisions relating to earned business ('Claims Provision')**: The best estimate amount of earned, unpaid claims (i.e., reported outstanding claims and earned IBNR from the standard reserving process) and associated runoff expenses. Under Solvency II it is also necessary to ensure that the technical provisions include an allowance for 'Events not in Data' ("ENIDs"). The best estimate of ultimate claims under the traditional GAAP basis generally only reflects actual historic losses and development patterns. The Technical Provisions for Solvency II require that allowance is also made for events or circumstances that are not reasonably foreseeable (i.e., have low probabilities) and are at levels not contained in the historical data (i.e., have potentially large severities). This additional reserve amount is referred to as 'Events not in Data'.
- ii. **Provisions relating to unearned business ('Premium Provision')**: Unearned business comprises unearned business already incepted, as well as business that is not yet incepted but has been already bound before the valuation date. As with the earned provision, the claim amount is also loaded for ENIDs that could impact unearned business, includes associated runoff expenses and is offset by future premiums to be received.
- iii. **Risk Margin**: A Risk Margin is then applied to reflect the premium that would be required by a third party assuming the business at the valuation date.

Both the earned and unearned provisions take account of the expected reinsurance recoveries to be received in respect of this business, reduced for reinsurance bad debt.

All elements of the provisions take account of the assumed cash flow pattern on a best estimate basis (i.e., excluding margins for prudence) and are discounted at the EIOPA provided discount rates. It is intended that the Best Estimate captures a probability-weighted average of all future outcomes, including the possibility of claim events that have not been seen in the Company's history.

D.2.3 Differences between Solvency II and GAAP valuation bases

The main changes from the methodology used to derive the technical provisions on a GAAP basis are as follows:

- i. Standard Solvency II classes of business are used for reporting in addition to the standard reserving classes and also at the original currency level, with all minor currencies being grouped into an 'Other' category.
- ii. The reserves held for future claims are calculated on a best-estimate basis with an explicit risk margin added onto this best estimate. This is different from the GAAP basis where booked reserves may include some implicit margin for uncertainty.
- iii. The technical provisions also contain an allowance for ENIDs representing low frequency/high severity events.
- iv. Future premium income and claims outgoing are all discounted for the time value of money using the relevant risk free interest rate term structure.
- v. Bound unaccepted business is included in the analysis, with the expected claims offset by the future premium income for this business.
- vi. Unearned claims are estimated rather than 100% unearned premium reserve being held.
- vii. The expected cost of future claims is offset by the future premium income.
- viii. All calculations are based on a cash flow basis. This means that any transactions that have taken place but where the cash has not yet been paid or received will be included as a future cash flow.
- ix. Additional allowance for expenses is made on the basis that the provision includes the expected expense amount needed to service all existing policies throughout their lifetime.

D.2.4 Level of uncertainty

The level of the technical provisions on both a GAAP and on a Solvency II basis is heavily dependent on the reliability and accuracy of the underlying reserving process. In particular, future claims development is inherently uncertain and subject to future events that cannot be known accurately at the present time. The best estimate of ultimate claims, while considered to have been derived

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using a reasonable methodology and set of assumptions, may still differ, potentially significantly, from the eventual cost of ultimate claims.

D.2.5 Recoverables from reinsurance contracts

The Company purchases reinsurance to reduce the risk of exposure to loss. Four types of reinsurance cover are purchased; facultative, excess of loss, quota share and stop loss. Facultative covers are typically individual risk purchases. Excess of loss covers provide a contractually set amount of cover after an excess point has been reached. This excess point can be based on the size of an industry loss or a fixed monetary amount. Generally these covers are purchased on a package policy basis, and they may provide cover for a number of lines of business within one contract. Quota share covers provide a proportional amount of coverage from the first dollar of loss and stop loss cover protects the Company's net ultimate loss ratio.

All of these reinsurance covers provide for recovery of a portion of losses and loss reserves from reinsurers. Under its reinsurance security policy, the Company predominantly cedes business with reinsurers rated A- or better by Standard & Poors and/or AM Best Company. The Company remains liable to the extent that reinsurers do not meet their obligations under these agreements either due to solvency issues, contractual disputes or some other reason. Included within the Company's GAAP reinsurance recoverable as at 31 December 2019 were amounts of USD 692.8 million (2018: USD 595.5 million) recoverable from a group company.

D.2.6 Any other information

The Company has not applied the matching adjustment, volatility adjustment, transitional risk-free interest term structure of the transitional deduction in calculating Solvency II technical provisions.

D.3 Other Liabilities

	Solvency II 2019 USD'000	GAAP 2019 USD'000	Difference 2019 USD'000	Adjustment Type 2019 USD'000
Insurance & intermediaries payables	5,841	21,051	(15,210)	Valuation
Reinsurance payables	77,900	194,054	(116,154)	Valuation
Any other liabilities, not elsewhere shown	56,883	15,159	41,724	
	140,624	230,264	(89,640)	
	Solvency II 2018 USD'000	GAAP 2018 USD'000	Difference 2018 USD'000	Adjustment Type 2018 USD'000
Insurance & intermediaries payables	0	10,800	(10,800)	Valuation
Reinsurance payables	48,025	163,862	(115,837)	Valuation
Any other liabilities, not elsewhere shown	7,386	7,386	—	
	55,411	182,048	(126,637)	

D.3.1 Insurance & intermediaries payable

Under Solvency II, similar to insurance and intermediaries receivable, balances not yet due for payment are recognised in technical provisions and removed from insurance and intermediaries payable. A balance is deemed not yet due at the balance sheet date, if payment will become due after the balance sheet date. Under GAAP, amounts payable to policyholders, insurers and other business linked to insurance such as commissions due to intermediaries but not yet paid are recognised at cost.

D.3.2 Reinsurance payables

Similar to 'Insurance and intermediaries payable', under Solvency II, balances not yet due for payment are removed and recognised in technical provisions.

Under GAAP, premium payables are recognised at cost. A provision for impairment is established when there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been impacted.

D.3.3 Any Other Liabilities

Under Solvency II, any other liabilities are recognised at fair value. Cost is considered to approximate fair value on the basis that duration is less than one year and no discounting is required.

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IFRS 16 brings in new accounting for leases which means most operating leases are now treated like finance leases with a right of use asset recognised along with a lease liability. While GAAP has not brought in this change, the guidance coming out from EIOPA is that IFRS 16 is the appropriate measurement basis for leases under Solvency II. The lease liability is included in Other Liabilities.

Under GAAP, 'Amounts payable to group companies', 'Net payable for investments purchased', 'Other taxes payable' and 'Accrued expenses' are recognised at cost and payable in less than one year.

D.4 Any other information

All material information regarding valuation is disclosed in sections D.1 - D.3.

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CAPITAL MANAGEMENT

E. CAPITAL MANAGEMENT

Capital management is a business process that links risk and return preferences with strategy setting and business planning. It requires cross functional collaboration, and involves a significant commitment from business segments, corporate functions, risk management and the Board of Directors.

The Company's Capital Management objective is to ensure that the Company maintains an appropriate level of capital, in terms of both quantity and quality, at all times, in line with its risk appetite and capital requirements, and that it fulfils its obligations to monitor, manage and report its capital position, both required and available, internally and externally as required, in accordance with relevant regulatory requirements.

Business strategy, capital and risk are closely integrated within decision making, and embedded through the ORSA process which assess that the prospective risk profile is in line with the Company's risk appetite framework. The SCR projections performed as part of the ORSA process provide input into the Company's capital management strategy.

E.1 Own Funds

Eligible Own funds

For Solvency II, own funds are divided into levels of quality, known as tiers, depending on their loss absorbency. Tier 1 unrestricted, which is not subject to a limit, is of the highest quality, Tier 3 the lowest. 98% of the Company's own funds are classified as Tier 1.

	2019	2019	2019	2019
	USD'000	USD'000	USD'000	USD'000
	Total	Tier 1	Tier 2	Tier 3
Ordinary share capital	10,110	10,110	—	—
Reconciliation reserve	298,961	298,961	—	—
Net deferred tax asset	7,354	—	—	7,354
Eligible own funds	316,425	309,071	—	7,354
	2018	2018	2018	2018
	USD'000	USD'000	USD'000	USD'000
	Total	Tier 1	Tier 2	Tier 3
Ordinary share capital	10,110	10,110	—	—
Reconciliation reserve	216,142	216,142	—	—
Net deferred tax asset	6,973	—	—	6,973
Eligible own funds	233,225	226,252	—	6,973

The reconciliation reserve includes the following:

- shareholders' equity on a GAAP basis as per the financial statements,
- revaluation reserve (adjustments from GAAP to Solvency II economic valuation basis); and
- deduction for restricted own fund items.

A reconciliation of shareholders' equity to eligible own funds is as follows:

	2019	2018
	USD'000	USD'000
Shareholders' equity	350,106	258,669
Revaluation reserve	(33,681)	(25,443)
Less restricted own fund items		
Restricted asset	—	—
Eligible own funds	316,425	233,225

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Eligible own funds increased in the year driven by the increase in shareholders' equity on a GAAP basis following the capital contribution of Aviabel S.A. from ASHIL (\$120 million), a YTD profit of \$6.4 million and payment of \$35 million to ASHIL .

E.2 Solvency capital requirement and Minimum capital requirement

The 2019 and 2018 results presented are based on the 2019 and 2018 Annual Solvency II returns submitted to the CBI respectively.

The SCR has been calculated using the standard formula.

Solvency Capital Requirement	2019	2018
	USD'000	USD'000
Market risk	54,897	39,783
Counterparty default risk	54,491	33,764
Health underwriting risk	4,572	6,167
Non-life underwriting risk	78,136	70,154
Diversification	(49,767)	(38,760)
Basic solvency capital requirement	142,328	111,108
Operational risk	32,149	25,967
Loss-absorbing capacity of deferred taxes	(2,097)	(5,021)
Solvency capital requirement	172,380	132,054
Eligible own funds	316,425	233,225
Ratio of eligible own funds to SCR	183.6%	176.6%

The movement in the SCR in 2019 is driven by an increase in Counterparty default, Market , Non-Life Underwriting and Operational Risk charges.

Use of simplifications and undertaking specific parameters

Simplified calculation of the risk mitigating effect for reinsurance arrangements

The Company has applied a simplified calculation of the risk-mitigating effect for reinsurance, which computes the risk mitigating effect on underwriting risk of the reinsurance arrangements for all counterparties as the difference between the following capital requirements:

- the hypothetical capital requirement for underwriting risk of the Company if none of the reinsurance arrangements exist;
- the capital requirements for underwriting risk of the Company.

The risk mitigating effect on underwriting risk of a particular reinsurance arrangement is then calculated based on its share of the total best estimate amount recoverable from all counterparties. Applying the simplification approach has no material impact on the SCR.

Undertaking specific parameters

The Company does not use any undertaking specific parameters in the calculation of the SCR.

MCR

The MCR is calculated in accordance with Solvency II requirements using a factor-based formula calibrated using a Value-at-Risk measure with an 85% confidence level over a one-year period. The Company is required to maintain the higher of the minimum required capital (imposed by the regulations) of EUR 3.7 million or the MCR at all times during the year.

AXIS SPECIALTY EUROPE SE
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CAPITAL MANAGEMENT

	2019	2019	2019
	Total	Tier 1	Tier 2
	USD'000	USD'000	USD'000
Eligible own funds to meet the MCR	309,071	309,071	—
MCR	43,095		
Ratio of eligible own funds to MCR	717.2%		
	2018	2018	2018
	Total	Tier 1	Tier 2
	USD'000	USD'000	USD'000
Eligible own funds to meet the MCR	226,252	226,252	—
MCR	33,013		
Ratio of eligible own funds to MCR	685.3%		

The inputs used to calculate the MCR of the Company are as follows:

	Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
	2019	2019
	USD'000	USD'000
Direct business and accepted proportional reinsurance		
Income protection	1,485	1,384
Marine, aviation and transport	49,440	30,031
Fire and other damage to property	31,303	21,493
General liability	119,964	24,537
Credit and suretyship	7,896	2,494
Assistance	—	—
Miscellaneous financial loss	211	—
Accepted non-proportional reinsurance		
Health	—	—

E.3 Use of duration based equity risk sub module in the calculation of SCR

Duration based equity risk sub module was not used in the calculation of the SCR.

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

No internal or partial internal model was used for the calculation of the SCR.

E.5 Non Compliance with SCR and MCR

The Company has maintained capital sufficient to meet its SCR and MCR over the reporting period.

The final SCR and MCR amounts remain subject to supervisory assessment.

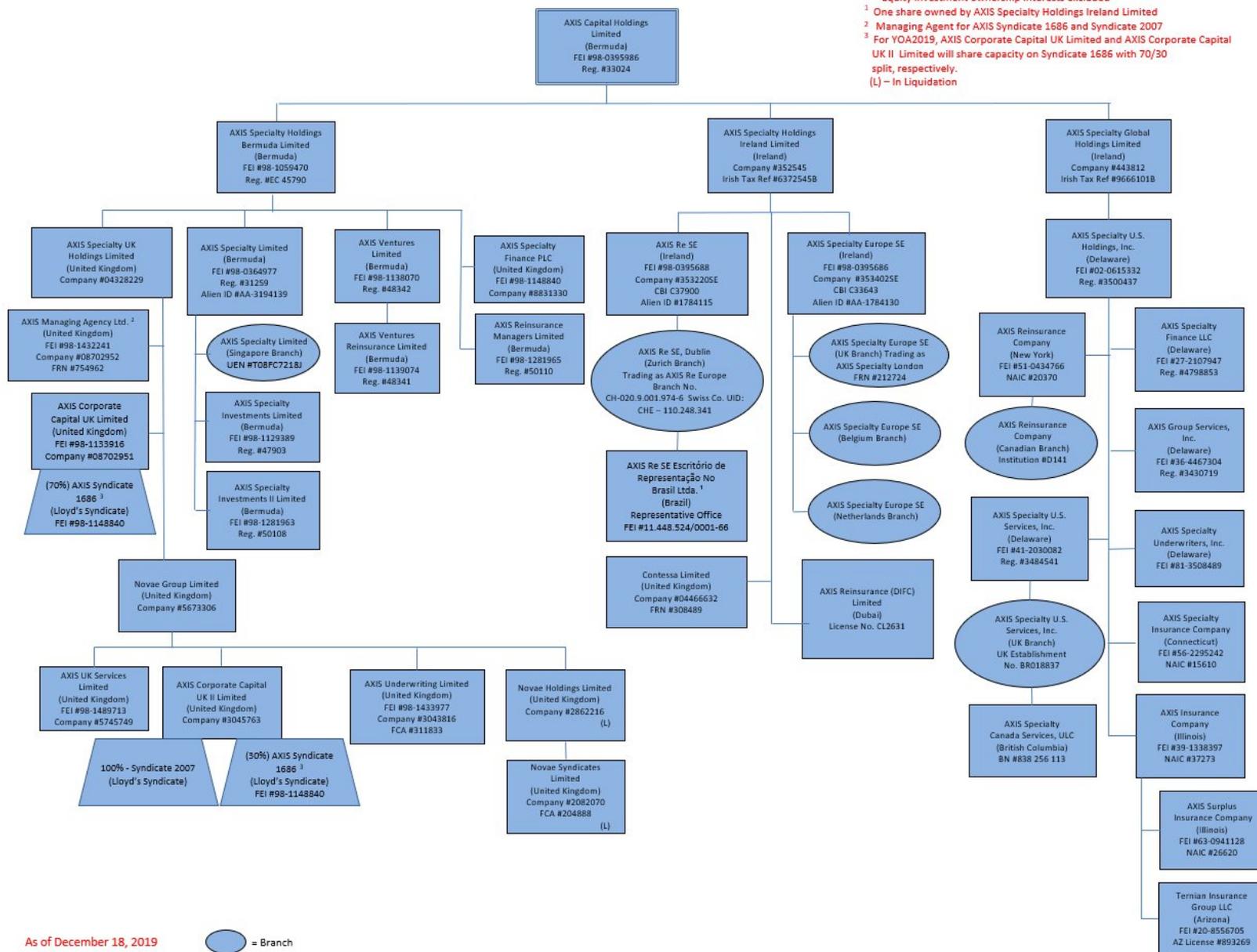
E.6 Any other information

All material information regarding capital management has been disclosed in Sections E.1 - E.5 above.

**AXIS SPECIALTY EUROPE SE
YEAR ENDED 31 DECEMBER 2019**

APPENDIX I - GROUP STRUCTURE

AXIS CAPITAL HOLDINGS LIMITED



- All Subsidiaries are wholly owned unless otherwise noted
- Equity investment ownership interests excluded
- ¹ One share owned by AXIS Specialty Holdings Ireland Limited
- ² Managing Agent for AXIS Syndicate 1686 and Syndicate 2007
- ³ For YOA2019, AXIS Corporate Capital UK Limited and AXIS Corporate Capital UK II Limited will share capacity on Syndicate 1686 with 70/30 split, respectively.
- (L) – In Liquidation

As of December 18, 2019

= Branch

AXIS SPECIALTY EUROPE SE
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S.02.01.02 Balance Sheet (USD '000s)

		USD'000s
		Solvency II value
Assets		C0010
Goodwill	R0010	—
Deferred acquisition costs	R0020	—
Intangible assets	R0030	—
Deferred tax assets	R0040	89,763
Pension benefit surplus	R0050	—
Property, plant & equipment held for own use	R0060	62,024
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	493,577
Property (other than for own use)	R0080	—
Holdings in related undertakings, including participations	R0090	—
Equities	R0100	—
Equities - listed	R0110	—
Equities - unlisted	R0120	—
Bonds	R0130	407,493
Government Bonds	R0140	154,408
Corporate Bonds	R0150	209,846
Structured notes	R0160	—
Collateralised securities	R0170	43,239
Collective Investments Undertakings	R0180	52,791
Derivatives	R0190	595
Deposits other than cash equivalents	R0200	—
Other investments	R0210	32,698
Assets held for index-linked and unit-linked contracts	R0220	—
Loans and mortgages	R0230	1,379
Loans on policies	R0240	—
Loans and mortgages to individuals	R0250	—
Other loans and mortgages	R0260	1,379
Reinsurance recoverables from:	R0270	861,350
Non-life and health similar to non-life	R0280	861,350
Non-life excluding health	R0290	855,930
Health similar to non-life	R0300	5,420
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	—
Health similar to life	R0320	—
Life excluding health and index-linked and unit-linked	R0330	—
Life index-linked and unit-linked	R0340	—
Deposits to cedants	R0350	—
Insurance and intermediaries receivables	R0360	64,441
Reinsurance receivables	R0370	29,871
Receivables (trade, not insurance)	R0380	—
Own shares (held directly)	R0390	—
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	—
Cash and cash equivalents	R0410	24,968
Any other assets, not elsewhere shown	R0420	9,438
Total assets	R0500	1,636,811

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APPENDIX II

Liabilities		
Technical provisions – non-life	R0510	1,096,423
Technical provisions – non-life (excluding health)	R0520	1,089,278
Technical Provisions calculated as a whole	R0530	—
Best Estimate	R0540	1,064,745
Risk margin	R0550	24,533
Technical provisions - health (similar to non-life)	R0560	7,145
Technical Provisions calculated as a whole	R0570	—
Best Estimate	R0580	6,905
Risk margin	R0590	241
Technical provisions - life (excluding index-linked and unit-linked)	R0600	—
Technical provisions - health (similar to life)	R0610	—
Technical Provisions calculated as a whole	R0620	—
Best Estimate	R0630	—
Risk margin	R0640	—
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	—
Technical Provisions calculated as a whole	R0660	—
Best Estimate	R0670	—
Risk margin	R0680	—
Technical provisions – index-linked and unit-linked	R0690	—
Technical Provisions calculated as a whole	R0700	—
Best Estimate	R0710	—
Risk margin	R0720	—
Other technical provisions	R0730	—
Contingent liabilities	R0740	—
Provisions other than technical provisions	R0750	—
Pension benefit obligations	R0760	—
Deposits from reinsurers	R0770	559
Deferred tax liabilities	R0780	82,409
Derivatives	R0790	—
Debts owed to credit institutions	R0800	371
Insurance & intermediaries payables	R0820	5,841
Reinsurance payables	R0830	77,900
Payables (trade, not insurance)	R0840	—
Subordinated Liabilities	R0850	—
Subordinated liabilities not in Basic Own Funds	R0860	—
Subordinated liabilities in Basic Own Funds	R0870	—
Any other liabilities, not elsewhere shown	R0880	56,883
Total liabilities	R0900	1,320,386
Excess of assets over liabilities	R1000	316,425

AXIS SPECIALTY EUROPE SE
YEAR ENDED 31 DECEMBER 2019
APPENDIX II

S.05.01.01 - Premiums, claims and expenses by line of business (USD '000s)

		Direct business and accepted proportional reinsurance						Accepted non-proportional reinsurance	
		Income protection insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Miscellaneous financial loss	Health	Total
		C0020	C0060	C0070	C0080	C0090	C0120	C0130	C0200
Premiums written								—	
Gross - Direct Business	R0110	6,472	151,258	171,992	179,959	24,530	155		534,366
Gross - Proportional reinsurance accepted	R0120	—	—	—	—	—	—		—
Gross - Non-proportional reinsurance accepted	R0130								—
Reinsurers' share	R0140	5,088	121,228	150,500	155,359	22,036	331		454,541
Net	R0200	1,384	30,031	21,493	24,600	2,494	(176)		79,825
Premiums earned									—
Gross - Direct Business	R0210	6,489	120,991	149,484	179,776	28,809	10,139		495,688
Gross - Proportional reinsurance accepted	R0220	—	—	—	—	—	—		—
Gross - Non-proportional reinsurance accepted	R0230								—
Reinsurers' share	R0240	5,099	98,134	129,753	153,675	24,767	7,819		419,247
Net	R0300	1,391	22,857	19,731	26,101	4,042	2,320		76,441
Claims incurred									—
Gross - Direct Business	R0310	1,579	62,629	89,913	178,327	(2,543)	16,507		346,411
Gross - Proportional reinsurance accepted	R0320	(163)	—	—	—				(163)
Gross - Non-proportional reinsurance accepted	R0330								—
Reinsurers' share	R0340	1,060	47,331	74,227	151,897	(1,955)	12,377		284,938
Net	R0400	355	15,298	15,685	26,430	(588)	4,131		61,311
Changes in other technical provisions									—
Gross - Direct Business	R0410								—
Gross - Proportional reinsurance accepted	R0420								—
Gross - Non- proportional reinsurance accepted	R0430								—
Reinsurers' share	R0440								—
Net	R0500								—
Expenses incurred	R0550	786	10,536	7,951	5,562	(438)	513		24,909
Administrative expenses									
Gross - Direct Business	R0610	316	9,078	7,397	8,914	1,399	505		27,609

AXIS SPECIALTY EUROPE SE
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APPENDIX II

Gross - Proportional reinsurance accepted	R0620	—	—	—	—	—	—	—
Gross - Non-proportional reinsurance accepted	R0630							—
Reinsurers' share	R0640	237	6,808	5,548	6,686	1,049	379	20,707
Net	R0700	79	2,269	1,849	2,229	350	126	6,902
Investment management expenses								—
Gross - Direct Business	R0710	33	168	267	242	170	2	881
Gross - Proportional reinsurance accepted	R0720	—	—	—	—	—	—	—
Gross - Non-proportional reinsurance accepted	R0730							—
Reinsurers' share	R0740	—	—	—	—	—	—	—
Net	R0800	33	168	267	242	170	2	882
Claims management expenses								—
Gross - Direct Business	R0810	14	774	1,704	704	7	102	3,306
Gross - Proportional reinsurance accepted	R0820	1	—	—	—	—	—	1
Gross - Non-proportional reinsurance accepted	R0830							—
Reinsurers' share	R0840	12	581	1,278	724	5	76	2,676
Net	R0900	4	194	426	(20)	2	25	631
Acquisition expenses								—
Gross - Direct Business	R0910	2,949	24,420	30,182	32,815	3,559	2,179	96,102
Gross - Proportional reinsurance accepted	R0920	(4)	—	—	—	—	—	(4)
Gross - Non-proportional reinsurance accepted	R0930							—
Reinsurers' share	R0940	2,449	19,227	28,132	33,643	5,317	2,027	90,795
Net	R1000	496	5,193	2,050	(828)	(1,758)	151	5,303
Overhead expenses								—
Gross - Direct Business	R1010	693	10,849	13,439	15,760	3,192	830	44,764
Gross - Proportional reinsurance accepted	R1020	1	—	—	—	—	—	1
Gross - Non-proportional reinsurance accepted	R1030							—
Reinsurers' share	R1040	521	8,137	10,079	11,820	2,394	622	33,574
Net	R1100	174	2,712	3,360	3,940	798	207	11,191
Other expenses	R1200							—
Total expenses	R1300							24,909

AXIS SPECIALTY EUROPE SE
YEAR ENDED 31 DECEMBER 2019
APPENDIX II

S.05.02.01 - Premiums, claims and expenses by country (USD'000s)

		Home country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
		C0150	C0160	C0170	C0180	C0190	C0200	C0210
			UNITED KINGDOM	UNITED STATES	GERMANY	ITALY	SWEDEN	
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
Premiums written								
Gross - Direct Business	R0110	27,905	157,680	101,392	20,491	9,744	1,273	318,485
Gross - Proportional reinsurance accepted	R0120	—						—
Gross - Non-proportional reinsurance accepted	R0130	—						—
Reinsurers' share	R0140	24,198	133,441	86,673	19,720	8,377	957	273,366
Net	R0200	3,708	24,239	14,719	772	1,367	316	45,121
Premiums earned								
Gross - Direct Business	R0210	28,133	173,423	82,318	18,377	9,542	2,153	313,946
Gross - Proportional reinsurance accepted	R0220	—						—
Gross - Non-proportional reinsurance accepted	R0230	—						—
Reinsurers' share	R0240	24,316	145,996	70,091	18,004	8,180	1,746	268,333
Net	R0300	3,817	27,428	12,227	373	1,363	407	45,615
Claims incurred								
Gross - Direct Business	R0310	20,747	129,836	55,515	9,327	3,822	1,930	221,177
Gross - Proportional reinsurance accepted	R0320	—						—
Gross - Non-proportional reinsurance accepted	R0330	—						—
Reinsurers' share	R0340	16,994	105,799	43,387	10,113	3,348	1,488	181,129
Net	R0400	3,753	24,037	12,128	(786)	474	442	40,048
Changes in other technical provisions								
Gross - Direct Business	R0410	—						—
Gross - Proportional reinsurance accepted	R0420	—						—
Gross - Non-proportional reinsurance accepted	R0430	—						—
Reinsurers' share	R0440	—						—
Net	R0500	—						—
Expenses incurred	R0550	1,610	8,826	4,044	561	465	118	15,624
Other expenses	R1200							
Total expenses	R1300							15,624

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APPENDIX II

S.17.01.01 Non-life Technical Provisions (USD'000s)

		Direct business and accepted proportional reinsurance							Accepted non-proportional reinsurance	Total Non-Life obligation
		Income Protection Insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	
		C0030	C0070	C0080	C0090	C0100	C0120	C0130	C0140	C0180
Technical provisions calculated as a whole	R0010									
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050									
Technical provisions calculated as a sum of BE and RM										
Best estimate										
Premium provisions										
Gross - Total	R0060	(1,179)	3,887	20,717	74,336	2,077		208		100,047
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	(864)	1,014	15,728	60,913	(1,929)		159		75,021
Net Best Estimate of Premium Provisions	R0150	(315)	2,873	4,989	13,424	4,006		49		25,026
Claims provisions										
Gross - Total	R0160	8,084	148,283	157,425	639,811	17,354		646		971,603
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	6,283	101,716	131,111	533,271	13,464		484	—	786,329
Net Best Estimate of Claims Provisions	R0250	1,800	46,567	26,314	106,540	3,891		162	—	185,274
Total Best estimate - gross	R0260	6,905	152,170	178,141	714,147	19,432		854	—	1,071,650
Total Best estimate - net	R0270	1,485	49,440	31,303	119,964	7,896	—	211	—	210,300
Risk margin	R0280	241	6,227	3,519	14,246	520	—	22	—	24,774
Amount of the transitional on Technical Provisions										
TP as a whole	R0290									
Best estimate	R0300									
Risk margin	R0310									
Technical provisions - total										
Technical provisions - total	R0320	7,145	158,397	181,660	728,393	19,952		876	—	1,096,423

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		Direct business and accepted proportional reinsurance							Accepted non-proportional reinsurance	Total Non-Life obligation
		Income Protection Insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	
		C0030	C0070	C0080	C0090	C0100	C0120	C0130	C0140	C0180
Recoverable from reinsurance contract/ SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	5,420	102,730	146,838	594,184	11,535		643	—	861,350
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	R0340	1,726	55,667	34,822	134,210	8,417		233	—	235,073
Line of Business: further segmentation (Homogeneous Risk Groups)										
Premium provisions - Total number of homogeneous risk groups	R0350	—	—	—	—	—		—	—	
Claims provisions - Total number of homogeneous risk groups	R0360	—	—	—	—	—		—	—	
Cash-flows of the Best estimate of Premium Provisions (Gross)										
Cash out-flows										
Future benefits and claims	R0370	3,417	48,538	68,044	91,984	53,325		2		265,310
Future expenses and other cash-out flows	R0380	491	17,643	11,738	12,597	11,695		(48)		54,116
Cash in-flows										
Future premiums	R0390	5,087	62,294	59,066	30,244	62,943,279.52		(254)		219,380
Other cash-in flows (incl. Recoverable from salvages and subrogations)	R0400	—								
Cash-flows of the Best estimate of Claims Provisions (Gross)										
Cash out-flows										
Future benefits and claims	R0410	7,985	144,752	154,584	616,369	16,501		633	—	940,823
Future expenses and other cash-out flows	R0420	99	3,531	2,841	23,442	854		13	—	30,780

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APPENDIX II

S.19.01.21 Non-life insurance claims (USD'000s)

Accident year/ Underwriting year	Z0010	Accident Year																		
Gross Claims Paid (non-cumulative)																				
(absolute amount)		Development Year																		
	Year	0	1	2	3	4	5	6	7	8	9	10 & +			In Current year	Sum of years (cumulative)				
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110			C0170	C0180				
Prior	R0100	—	—	—	—	—	—	—	—	—	—	205		R0100	205	205				
N-9	R0160	55,751	46,408	26,206	22,282	9,521	522	7,188	215	14,504	789			R0160	789	183,386				
N-8	R0170	35,060	42,636	54,772	15,711	9,008	6,037	4,212	7,209	6,758				R0170	6,758	181,402				
N-7	R0180	13,084	48,124	38,886	20,263	16,740	5,075	8,203	3,517					R0180	3,517	153,892				
N-6	R0190	28,860	57,491	39,445	16,481	10,651	18,271	19,315						R0190	19,315	190,514				
N-5	R0200	39,622	88,975	37,924	7,782	15,465	12,374							R0200	12,374	202,142				
N-4	R0210	70,025	82,338	70,760	43,494	16,889								R0210	16,889	283,507				
N-3	R0220	56,739	88,015	65,083	24,398									R0220	24,398	234,235				
N-2	R0230	38,344	100,728	47,259										R0230	47,259	186,331				
N-1	R0240	42,028	107,688											R0240	107,688	149,715				
N	R0250	46,927												R0250	46,927	46,927				
													Total	R0260	286,120	1,812,257				

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Gross undiscounted Best Estimate Claims Provisions															
(absolute amount)															
		Development Year													
	Year	0	1	2	3	4	5	6	7	8	9	10		Year end (discounted data)	
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300		C0360	
Prior	R0100	—	—	—	—	—	—	—	—	—	—	27,515	R0100	26,998	
N-9	R0160	—	—	—	—	—	—	37,440	40,183	25,837	25,046		R0160	24,427	
N-8	R0170	—	—	—	—	—	42,919	12,889	10,816	7,859			R0170	7,696	
N-7	R0180	—	—	—	—	83,155	65,325	55,961	53,135				R0180	50,886	
N-6	R0190	—	—	—	92,069	67,491	58,438	36,884					R0190	35,253	
N-5	R0200	—	—	120,727	67,530	55,412	43,279						R0200	42,013	
N-4	R0210	—	203,834	112,794	75,219	69,873							R0210	67,755	
N-3	R0220	236,720	146,985	87,010	105,100								R0220	101,753	
N-2	R0230	269,322	194,463	174,566									R0230	170,365	
N-1	R0240	227,880	180,463										R0240	176,181	
N	R0250	274,882											R0250	268,276	
													Total	R0260	971,603

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APPENDIX II

S.23.01.01 Own Funds (USD'000s)

		Total	Tier 1 - Unrestricted	Tier 1 - Restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	10,110	10,110		—	—
Share premium account related to ordinary share capital	R0030	—	—		—	
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040	—	—		—	
Subordinated mutual member accounts	R0050	—		—	—	—
Surplus funds	R0070	—	—			
Preference shares	R0090	—		—	—	—
Share premium account related to preference shares	R0110	—		—	—	—
Reconciliation reserve	R0130	298,961	298,961		—	—
Subordinated liabilities	R0140	—		—	—	—
An amount equal to the value of net deferred tax assets	R0160	7,354				7,354
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	—	—	—	—	—
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	—				
Deductions						
Deductions for participations in financial and credit institutions	R0230	—	—	—	—	
Total basic own funds after deductions	R0290	316,425	309,071	—	—	7,354
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	—			—	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310	—			—	
Unpaid and uncalled preference shares callable on demand	R0320	—			—	—
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	—			—	—
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	—			—	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	—			—	—
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	—			—	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	—			—	—
Other ancillary own funds	R0390	—			—	—

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Total ancillary own funds	R0400	—			—	—
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	316,425	309,071	—	—	7,354
Total available own funds to meet the MCR	R0510	309,071	309,071	—	—	
Total eligible own funds to meet the SCR	R0540	316,425	309,071	—	—	7,354
Total eligible own funds to meet the MCR	R0550	309,071	309,071	—	—	
SCR	R0580	172,380				
MCR	R0600	43,095				
Ratio of Eligible own funds to SCR	R0620	183.56%				
Ratio of Eligible own funds to MCR	R0640	717.19%				
Reconciliation reserve						
Excess of assets over liabilities	R0700	316,425				
Own shares (held directly and indirectly)	R0710	—				
Foreseeable dividends, distributions and charges	R0720	—				
Other basic own fund items	R0730	17,464				
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	—				
Reconciliation reserve	R0760	298,961				
Expected profits						
Expected profits included in future premiums (EPIFP) - Life business	R0770	—				
Expected profits included in future premiums (EPIFP) - Non-life business	R0780	656				
Total Expected profits included in future premiums (EPIFP)	R0790	656				

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S.25.01.21 Solvency Capital Requirement for undertakings on Standard Formula (USD'000s)

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	R0010	54,897		—
Counterparty default risk	R0020	54,491		
Life underwriting risk	R0030	—	—	—
Health underwriting risk	R0040	4,572	—	—
Non-life underwriting risk	R0050	78,136	—	—
Diversification	R0060	(49,767)		
Intangible asset risk	R0070	—		
Basic Solvency Capital Requirement	R0100	142,328		
Calculation of Solvency Capital Requirement				
Adjustment due to RFF/MAP nSCR aggregation	R0120			
Operational risk	R0130	32,149		
Loss-absorbing capacity of technical provisions	R0140	—		
Loss-absorbing capacity of deferred taxes	R0150	(2,097)		
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160			
Solvency Capital Requirement excluding capital add-on	R0200	172,380		
Capital add-on already set	R0210			
Solvency capital requirement	R0220	172,380		
Other information on SCR				
Capital requirement for duration-based equity risk sub-module	R0400			
Total amount of Notional Solvency Capital Requirements for remaining part	R0410			
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420			
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430			
Diversification effects due to RFF nSCR aggregation for article 304	R0440			

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S.28.01.01 Minimum Capital Requirement - Only life or non-life insurance or reinsurance activity (USD'000s)

Linear formula component for non-life insurance and reinsurance obligations

		C0010	
MCR_{NL} Result	R0010	31,453	
		Non-life activities	
		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense	R0020	—	—
Income protection	R0030	1,485	1,384
Workers' compensation	R0040	—	—
Motor vehicle liability	R0050	—	—
Other motor insurance	R0060	—	—
Marine, aviation and transport	R0070	49,440	30,031
Fire and other damage to property	R0080	31,303	21,493
General liability insurance	R0090	119,964	24,537
Credit and suretyship	R0100	7,896	2,494
Legal expenses	R0110	—	—
Assistance	R0120	—	—
Miscellaneous financial loss	R0130	211	—
Non-proportional health	R0140	—	—
Non-proportional casualty	R0150	—	—
Non-proportional marine, aviation and transport reinsurance	R0160	—	—
Non-proportional property reinsurance	R0170	—	—

Linear formula for life insurance and reinsurance obligations

		C0040	
MCR_L Result	R0200	—	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0090	C0100
Obligations with profit participation - guaranteed benefits	R0210	—	
Obligations with profit participation - future discretionary benefits	R0220	—	
Index-linked and unit-linked insurance obligations	R0230	—	
Other life (re)insurance and health (re)insurance obligations	R0240	—	
Total capital at risk for all life (re)insurance obligations	R0250		—
Overall MCR calculation			
		C0070	
Linear MCR	R0300	31,453	
SCR	R0310	172,380	
MCR cap	R0320	77,571	
MCR floor	R0330	43,095	
Combined MCR	R0340	43,095	
Absolute floor of the MCR	R0350	4,155	
		C0070	
Minimum Capital Requirement	R0400	43,095	