



XL Reinsurance

# AXA XL Reinsurance Ltd

Consolidated  
Financial Statements  
for the Years Ended  
December 31, 2021  
and 2020

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## **Report of Independent Auditors**

To the Board of Directors of AXA XL Reinsurance Ltd

### ***Opinion***

We have audited the accompanying consolidated financial statements of AXA XL Reinsurance Ltd and its subsidiaries (the “Company”), which comprise the consolidated statement of financial position as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year ended December 31, 2021 and the period from December 10, 2020 to December 31, 2020, including the related notes (collectively referred to as the “consolidated financial statements”) which, as described in Note 2 to the consolidated financial statements, have been prepared on the basis of International Financial Reporting Standards as adopted by the European Union.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020 and the results of its operations and its cash flows for the year ended December 31, 2021 and the period from December 10, 2020 to December 31, 2020 in accordance with International Financial Reporting Standards as adopted by the European Union.

### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Basis of Accounting***

As discussed in Note 2 to the consolidated financial statements, the Company prepares its consolidated financial statements on the basis of International Financial Reporting Standards as adopted by the European Union, which differs from accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Responsibilities of Management for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern for at least, but not limited to, twelve months from the end of the reporting period, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.



### ***Auditors' Responsibility for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters, that we identified during the audit.

*PricewaterhouseCoopers LLP*

April 27, 2022

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(US Dollars in thousands)

Notes	December 31, 2021	December 31, 2020
6 Goodwill and other intangible assets	45,061	46,808
7 Deferred acquisition costs	708,989	772,606
<b>Intangible assets</b>	<b>754,051</b>	<b>819,415</b>
Investments in real estate properties	98,889	109,269
Financial investments	6,529,824	4,917,708
<b>8 Investments</b>	<b>6,628,713</b>	<b>5,026,976</b>
<b>9 Investments accounted for using the equity method</b>	<b>22,065</b>	<b>22,066</b>
<b>12 Reinsurers' share in insurance contracts liabilities</b>	<b>2,401,420</b>	<b>2,142,798</b>
Tangible assets	2,399	3,147
14 Deferred tax assets	7,582	1,328
<b>Other assets</b>	<b>9,980</b>	<b>4,474</b>
Receivables arising from assumed reinsurance operations	4,838,989	3,076,188
Receivables arising from outward reinsurance operations	167,569	243,182
Receivables – current tax	27,309	11,828
Other receivables	89,425	82,160
<b>10 Receivables</b>	<b>5,123,291</b>	<b>3,413,359</b>
<b>Cash and cash equivalents</b>	<b>689,154</b>	<b>826,852</b>
<b>TOTAL ASSETS</b>	<b>15,628,673</b>	<b>12,255,940</b>
Share capital and capital in excess of nominal value	3,260,891	1,902,177
Reserves and translation reserve	(140,280)	79,972
Net consolidated income (loss) – Company share	(144,370)	—
<b>Shareholder's equity – Company share</b>	<b>2,976,241</b>	<b>1,982,149</b>
<b>Minority interests</b>	<b>48,351</b>	<b>51,835</b>
<b>11 TOTAL SHAREHOLDER'S EQUITY</b>	<b>3,024,592</b>	<b>2,033,984</b>
<b>12 Liabilities arising from assumed reinsurance contracts</b>	<b>11,039,232</b>	<b>8,454,318</b>
<b>Provisions for risks and charges</b>	<b>3,490</b>	<b>3,234</b>
<b>14 Deferred tax liabilities</b>	<b>5,073</b>	<b>35,247</b>
Payables arising from assumed reinsurance operations	579,053	383,810
Payables arising from outward reinsurance operations	861,124	784,808
Payables – current tax	10,533	23,827
Other payables	105,577	536,711
<b>13 Payables</b>	<b>1,556,286</b>	<b>1,729,156</b>
<b>TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES</b>	<b>15,628,673</b>	<b>12,255,940</b>

# CONSOLIDATED STATEMENT OF INCOME

(US Dollars in thousands)

Notes	December 31, 2021	December 31, 2020 (a)
<b>15 Gross written premiums (b)</b>	<b>4,297,389</b>	—
<b>Change in unearned premiums net of unearned revenues and fees</b>	<b>95,435</b>	—
Net investment income (c)	190,859	—
Net realized gains and losses relating to investments at cost and at fair value through shareholder's equity (d)	(46,874)	—
Net realized gains and losses and change in fair value of investments at fair value through profit and loss (e)	32,892	—
Change in investments impairments (f)	(1,416)	—
<b>16 Net investment result excluding financing expenses</b>	<b>175,460</b>	—
Technical charges relating to assumed reinsurance activities	(3,163,382)	—
17 Net result from outward reinsurance	(163,019)	—
18 Acquisition costs	(1,231,806)	—
18 Administrative expenses	(150,411)	—
18 Other income and (expenses)	(2,019)	—
<b>Other operating income and expenses</b>	<b>(4,710,636)</b>	—
<b>Income (loss) from operating activities before tax</b>	<b>(142,352)</b>	—
18 Financing expenses	(24,254)	—
<b>Net income (loss) from operating activities before tax</b>	<b>(166,606)</b>	—
14 Income tax	20,372	—
<b>Net operating income (loss) and net consolidated income (loss) after tax</b>	<b>(146,235)</b>	—
Split between:		
<b>Net consolidated income (loss) - Company share</b>	<b>(144,370)</b>	—
Net consolidated income - Minority interests	(1,864)	—

(a) No comparative balances since the Company had no activity in 2020 and common control acquisitions were effective December 31, 2020 (see Note 4.1).

(b) Gross of reinsurance.

(c) Net of investment management costs.

(d) Includes impairment releases on investments sold.

(e) Includes realized and unrealized forex gains and losses relating to investments at cost and at fair value through shareholder's equity.

(f) Excludes impairment releases on investments sold.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>(US Dollars in thousands)</i>	December 31, 2021	December 31, 2020 (a)
Reserves relating to changes in fair value through shareholder's equity	(110,669)	—
Translation reserves	(106,243)	—
<b>Items that may be reclassified subsequently to Profit or Loss</b>	<b>(216,912)</b>	<b>—</b>
Employee benefits actuarial gains and losses	(153)	—
<b>Items that will not be reclassified subsequently to Profit or Loss</b>	<b>(153)</b>	<b>—</b>
<b>Net gains and losses recognized directly through shareholder's equity</b>	<b>(217,064)</b>	<b>—</b>
<b>Net consolidated income (loss)</b>	<b>(146,235)</b>	<b>—</b>
<i>Split between:</i>		
<b>Net consolidated income (loss) - Company share</b>	<b>(144,370)</b>	<b>—</b>
Net consolidated income - Minority interests	(1,864)	—
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>(363,299)</b>	<b>—</b>
<i>Split between:</i>		
Total comprehensive income (loss) - Company share	(364,622)	—
Total comprehensive income - Minority interests	1,323	—

Amounts are presented net of tax; related tax effects are further detailed in the Notes to the Consolidated Financial Statements.

(a) No comparative balances since the Company had no activity in 2020 and common control acquisitions were effective December 31, 2020 (see Note 4.1).

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital			
<i>(US Dollars in thousands, except for number of shares and nominal value)</i>	Number of shares	Nominal value	Share Capital	Capital in excess of nominal value
<b>Shareholder's equity opening January 1, 2021</b>	—	—	—	<b>1,902,177</b>
Capital contributions from parent	10,000,000,000	0.01	100,000	1,258,714
Others (including impact on change in scope) (a)	—	—	—	—
<b>Impact of transactions with shareholder</b>	<b>10,000,000,000</b>	<b>0.01</b>	<b>100,000</b>	<b>3,160,891</b>
Reserves relating to changes in fair value through shareholder's equity	—	—	—	—
Translation reserves	—	—	—	—
Employee benefits actuarial gains and losses	—	—	—	—
Net consolidated income (loss)	—	—	—	—
<b>Total Comprehensive Income (Loss)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Shareholder's equity closing December 31, 2021</b>	<b>10,000,000,000</b>	<b>0.01</b>	<b>100,000</b>	<b>3,160,891</b>

(a) Relates mainly to acquisitions of companies under common control (see Note 4.1).

Attributable to shareholder				
Other reserves			Shareholder's equity Company share	Minority interests
Reserves relating to the change in fair value of financial instruments available for sale	Translation reserves	Undistributed profits and other reserves		
<b>192,733</b>	<b>(179,714)</b>	<b>66,953</b>	<b>1,982,149</b>	<b>51,835</b>
—	—	—	1,358,714	—
—	—	—	—	(4,808)
<b>192,733</b>	<b>(179,714)</b>	<b>66,953</b>	<b>3,340,863</b>	<b>47,028</b>
(113,856)	—	—	(113,856)	3,187
—	(106,243)	—	(106,243)	—
—	—	(153)	(153)	—
—	—	(144,370)	(144,370)	(1,864)
<b>(113,856)</b>	<b>(106,243)</b>	<b>(144,523)</b>	<b>(364,622)</b>	<b>1,323</b>
<b>78,877</b>	<b>(285,957)</b>	<b>(77,570)</b>	<b>2,976,241</b>	<b>48,351</b>



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020**

(U.S dollars in thousands, except for number of shares and nominal value)	Share Capital			
	Number of shares	Nominal value	Share Capital	Capital in excess of nominal value
<b>Shareholder's equity opening January 1, 2020</b>	—	—	—	—
Capital contributions from parent	—	—	—	—
Others (including impact on change in scope) (a)	—	—	—	1,902,177
<b>Impact of transactions with shareholder</b>	—	—	—	<b>1,902,177</b>
Reserves relating to changes in fair value through shareholder's equity	—	—	—	—
Translation reserves	—	—	—	—
Employee benefits actuarial gains and losses	—	—	—	—
Net consolidated income	—	—	—	—
<b>Total Comprehensive Income</b>	—	—	—	—
<b>Shareholder's equity closing December 31, 2020</b>	—	—	—	<b>1,902,177</b>

(a) Relates mainly to acquisitions of companies under common control (see Note 4.1).

Attributable to shareholder				
Other reserves				
Reserves relating to the change in fair value of financial instruments available for sale	Translation reserves	Undistributed profits and other reserves	Shareholder's equity Company share	Minority interests
—	—	—	—	—
—	—	—	—	—
192,733	(179,714)	66,953	1,982,149	51,835
<b>192,733</b>	<b>(179,714)</b>	<b>66,953</b>	<b>1,982,149</b>	<b>51,835</b>
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
<b>192,733</b>	<b>(179,714)</b>	<b>66,953</b>	<b>1,982,149</b>	<b>51,835</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(US Dollars in thousands)</i>	December 31, 2021	December 31, 2020
<b>Net income (loss) from operating activities before tax</b>	<b>(166,606)</b>	<b>—</b>
Net amortization expense (a)	19,567	—
Net change in deferred acquisition costs and equivalent	57,826	—
Net increase/(write back) in impairment on investments, tangible and other intangible assets	1,416	—
Change in fair value of investments at fair value through profit or loss	(38,013)	—
Net change in liabilities arising from assumed reinsurance contracts	2,399,509	—
Net increase/(write back) in other provisions	515	—
<b>Adjustment of non cash balances included in the operating income before tax</b>	<b>2,440,821</b>	<b>—</b>
Net realized investment gains and losses	51,995	—
Financing debt expenses	24,254	—
<b>Adjustment for reclassification to investing or financing activities</b>	<b>76,249</b>	<b>—</b>
Dividends recorded in profit or loss during the period	(66,075)	—
Investment income & expense recorded in profit or loss during the period	(124,783)	—
<b>Adjustment of transactions from accrued to cash basis</b>	<b>(190,859)</b>	<b>—</b>
Dividends and interim dividends collected	59,189	—
Investment income	133,704	—
Investment expense (excluding interests on financing debt)	(16,341)	—
Change in operating receivables and payables	(1,643,797)	—
Net cash provided by other assets and liabilities	(87,036)	—
Tax expenses paid	(24,557)	—
Other operating cash impact and non cash adjustment	(36,067)	—
<b>Net cash impact of transactions with cash impact not included in the operating income before tax</b>	<b>(1,614,906)</b>	<b>—</b>
<b>NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES</b>	<b>544,699</b>	<b>—</b>
Sales of debt instruments	1,907,645	—
Sales of equity instruments and non-consolidated investment funds (c)	49,539	—
Sales of investment properties held directly or not	3,525	—
<b>Net cash related to sales and repayments of investments</b>	<b>1,960,708</b>	<b>—</b>
Purchases of debt instruments	(3,475,958)	—
Purchases of equity instruments and non-consolidated investment funds	(105,225)	—
<b>Net cash related to purchases and issuance of investments</b>	<b>(3,581,183)</b>	<b>—</b>
<b>NET CASH PROVIDED/(USED) BY INVESTING ACTIVITIES</b>	<b>(1,620,475)</b>	<b>—</b>
Issuance of equity instruments	975,000	—
<b>Net cash related to transactions with shareholder</b>	<b>975,000</b>	<b>—</b>
Cash provided by contribution of common control entities (b)	—	826,852
Interests on financing debt paid	(24,254)	—
<b>Net cash related to financing</b>	<b>(24,254)</b>	<b>826,852</b>
<b>NET CASH PROVIDED/(USED) BY FINANCING ACTIVITIES</b>	<b>950,746</b>	<b>826,852</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020**

<i>(US Dollars in thousands)</i>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
<b>CASH AND CASH EQUIVALENT AS OF JANUARY 1</b>	<b>826,852</b>	<b>—</b>
Net cash provided by operating activities	544,699	—
Net cash provided by investing activities	(1,620,475)	—
Net cash provided by financing activities	950,746	826,852
Net impact of foreign exchange fluctuations and reclassification on cash and cash equivalents	(12,669)	—
<b>CASH AND CASH EQUIVALENT AS OF DECEMBER 31</b>	<b>689,153</b>	<b>826,852</b>

(a) Includes premiums/discounts capitalization and relating amortization, amortization of investment and owner occupied properties (held directly).

(b) Consists of cash provided as part of acquisitions of entities under common control (see Note 4.1).

(c) Includes equity instruments held directly or by consolidated investments funds as well as non-consolidated investment funds.

## **Note 1 General Information**

AXA XL Reinsurance Ltd (the “Company” or “AXLRE”) is an exempted company incorporated and domiciled in Bermuda and registered as a Class 4 insurer under the Insurance Act 1978. Its registered office is O’Hara House, One Bermudiana Road, Hamilton HM11 Bermuda. The Company was incorporated in Bermuda on December 10, 2020 in accordance with Section 14 of the Companies Act 1981 under the original name, Redesign Reinsurance Ltd, and changed its name to AXA XL Reinsurance Ltd on January 7, 2021. Effective February 3, 2021, the Company was registered in Bermuda as a Class 4 insurer with Section 4 of the Insurance Act 1978.

The Company’s shares are wholly owned by AXA XL Reinsurance Holdings Limited and the ultimate parent is AXA SA, a French société anonyme that is the holding company of an international financial services group (“AXA”). A list of the main entities included in the scope of AXLRE’s consolidated financial statements is provided in Note 3.1.

The Company is a leading reinsurer writing casualty, property risk, property catastrophe, specialty, and other reinsurance lines on a global basis with business being written on both a proportional and non-proportional treaty basis, as well as facultative basis. The Company and its subsidiaries operate mainly in Bermuda, Europe, and Latin America.

## **/ Note 2 Significant Accounting Policies**

### **2.1 BASIS OF PREPARATION**

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#### **2.1.1 Statement of compliance**

The consolidated financial statements of AXLRE have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and interpretations of the IFRS Interpretations Committee that have been endorsed by the European Union before the balance sheet date, and which have a compulsory adoption date of January 1, 2021 or earlier. The Company does not use the "carve out" option allowing not to apply all hedge accounting principles required by IAS 39.

The consolidated financial statements for AXLRE and its subsidiaries for the year ended December 31, 2021 were authorized for issue by the directors on April 21, 2022. The directors have the power to amend and reissue the financial statements.

#### **2.1.2 Basis of accounting and going concern**

The financial statements have been prepared on a going concern basis, based on the expectation that the Company will continue in operational existence for twelve months from the date of the financial statements.

The consolidated financial statements are prepared under the historical cost convention and modified by the measurement of certain financial assets and liabilities at fair value as follows:

- derivative financial instruments;
- financial instruments at fair value through profit or loss; and
- available for sale financial assets.

#### **2.1.3 Functional and presentation currency**

The consolidated financial statements are presented in US Dollars, which is AXLRE's functional currency, and all values are rounded to the nearest thousand (\$'000 / US Dollars in thousands), except where otherwise indicated. Rounding differences may exist, including for percentages.

#### **2.1.4 Use of estimates and judgments**

The preparation of financial statements in accordance with IFRS requires the use of estimates and assumptions. It requires a degree of judgment in the application of the Company's accounting principles described below. The Company's most significant areas of estimation include:

- liabilities arising from assumed reinsurance contracts and reinsurers' share in insurance contracts liabilities;
- valuation and impairment of investments;
- income taxes; and
- reinsurance premium estimates

While management believes that all amounts included in the consolidated financial statements reflect the Company's best estimates and assumptions, actual results could differ materially from these estimates.

The principles set out in the Note 2 sections which follow specify the measurement methods used for these items. These methods, along with key assumptions where required, are discussed in greater depth in the Notes relating to the asset and liability items concerned where meaningful and useful.

As recommended by IAS 1, assets and liabilities are generally classified globally on the balance sheet in increasing order of liquidity, which is more relevant for financial institutions than a classification between current and non-current items. As for most insurance companies, expenses are classified by destination in the income statement.

## 2.2 IFRS STANDARDS AND AMENDMENTS

### 2.2.1 IFRS requirements adopted on January 1, 2021

#### 2.2.1.1 Amendments to IAS 39, IFRS 9, IFRS 7, IFRS 4 and IFRS 16 related to Phase 2 of the IBOR reform

Amendments to IAS 39, IFRS 9, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2 were issued in August 2020 and endorsed by the European Union in January 2021.

The amendments provide a practical expedient for the situations where changes are made to contractual cash flows of financial assets and liabilities or leases, as a result of the transition from an IBOR benchmark rate to alternative benchmark rates, in the context of the ongoing risk-free rate reform. This practical expedient enables entities not to derecognize or adjust the carrying amounts of those assets and liabilities that are subject to a change with recognition of a corresponding modification gain or loss in profit or loss. In addition, the amendments provide several exceptions to the hedge accounting requirements so that entities will be able to update the designation of the hedging relationship in response to the replacement of the original benchmark rate and to continue with the hedging relationships after transition to the alternative benchmark rate.

The application of the amendments had no material impact on AXLRE's consolidated financial statements.

#### 2.2.1.2 Amendment to IFRS 4 – deferral of IFRS 9

On June 25, 2020, the International Accounting Standards Board (IASB) issued an amendment to IFRS 4 Insurance contracts extending the temporary exemption in IFRS 4 from applying IFRS 9 until the effective date of the new insurance contracts standard, IFRS 17. The amendment, endorsed by the European Union on December 15, 2020, enables insurers eligible for this temporary exception to align the effective dates of IFRS 9 – Financial instruments and IFRS 17 – Insurance contracts. Applying this amendment, AXLRE defers the implementation of IFRS 9 by two years, i.e. to the annual period starting from January 1, 2023.

### 2.2.2 Standards and amendments published but not yet effective

#### 2.2.2.1 IFRS 17 – Insurance contracts

IFRS 17 – Insurance contracts, published on May 18, 2017 and amended on June 25, 2020, establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 – Insurance contracts. It was adopted by the European Union on November 19, 2021, with an exemption regarding the annual cohort requirement and will be applied for annual periods starting from January 1, 2023, with earlier application permitted. The new standard applies to insurance contracts issued and to all reinsurance contracts.

As mentioned above, the current standard on insurance contracts, IFRS 4, has been amended accordingly extending to 2023 the temporary exemption for qualifying insurers (see below) to apply IFRS 9.

The standard defines the level of aggregation to be used for measuring the insurance contract liabilities and the related profitability.

It prescribes a general measurement model based on the discounted current probability-weighted estimates of future cash flows, including an explicit risk adjustment for non-financial risk and a Contractual Service Margin (CSM) which represents the unearned profit for a group of insurance contracts and will be recognized as the entity provides services in the future. The CSM cannot be negative at inception; any net negative amount of the Fulfillment Cash Flows (FCF) at inception will be recorded in profit or loss immediately.

At the end of each subsequent reporting period the carrying amount of a group of insurance contracts is remeasured to be the sum of:

- the liability for remaining coverage, which comprises the FCF related to future services and the CSM of the group at that date; and
- the liability for incurred claims, which is measured as the FCF related to past services allocated to the group at that date.

The CSM is adjusted subsequently for changes in cash flows related to future services but the CSM cannot be negative, so changes in future cash flows that are greater than the remaining CSM are recognized in profit or loss. Interest is also accreted on the CSM at rates locked in at initial recognition of a contract (i.e. discount rate used at inception to determine the present value of the estimated cash flows).

In addition, a simplified Premium Allocation Approach (PAA) is permitted for the measurement of the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period is one year or

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less. With the PAA, the liability for remaining coverage corresponds to premiums received at initial recognition less acquisition costs. However, the general model remains applicable for the measurement of incurred claims.

In terms of presentation, the amounts recognized in the statements of financial performance have to be disaggregated into:

- an insurance service result, comprising insurance revenue and insurance service expenses (i.e. incurred claims and other incurred insurance service expense); and
- insurance finance income or expenses.

The standard has to be applied retrospectively unless impracticable, in which case two options are possible:

- either the modified retrospective approach: based on reasonable and supportable information available without undue cost and effort to the entity, certain modifications are applied to the extent full retrospective application is not possible, but still with the objective to achieve the closest outcome to retrospective application possible; or
- the fair value approach: the CSM is determined as the positive difference between the fair value determined in accordance with IFRS 13 and the fulfillment cash flows (any negative difference would be recognized in retained earnings at the transition date).

In addition, on December, 9, 2021, the IASB issued an amendment to IFRS 17 “Initial Application of IFRS 17 and IFRS 9—Comparative Information”. The amendment, which has not yet been endorsed by the European Union, improves requirements for the comparative information to be disclosed on initial application of both Standards. It permits entities that first apply IFRS 17 and IFRS 9 at the same time to present comparative information about a financial asset as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset before.

The implementation of IFRS 17 and assessment of its potential impact on AXLRE's consolidated financial statements is in progress. AXLRE is evaluating the impact of adopting IFRS 17 on its financial statements which includes:

- performing a PAA eligibility assessment on a group of reinsurance contracts with a coverage period of more than one year; and
- making initial accounting policy decisions under IFRS 17 to continue amortizing acquisition expenses under PAA approach, and to present insurance finance income and expenses in the income statement.

### 2.2.2.2 IFRS 9 – Financial instruments

IFRS 9 – Financial instruments, published on July 24, 2014, replaces IAS 39. The new standard incorporates new classification and measurement requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39 and new hedge accounting requirements that align hedge accounting more closely with Risk Management.

The implementation of IFRS 9 and the assessment of its potential impact on the Company's consolidated financial statements, in combination with IFRS 17, are in progress.

The published effective date of IFRS 9 was January 1, 2018. However, AXLRE satisfies the criteria set out in IFRS 4 for the temporary exemption from applying IFRS 9, which as mentioned above, has been extended to annual periods beginning on or after January 1, 2023, in order to enable qualifying insurers to adopt IFRS 9 and IFRS 17 simultaneously. The additional disclosures related to financial assets which are required during the deferral period are given in Note 8.10.

As specified by IFRS 4 for determining eligibility to defer the new standard, the carrying value of AXLRE's liabilities connected with insurance comprised over 90% of the total liabilities. The activities of AXLRE are predominantly connected with reinsurance.

Under the current requirements of IAS 39, most of AXLRE's investments are classified as available for sale, measured at fair value at each reporting date, reflecting its business model for managing and evaluating the investment portfolio. Adoption of IFRS 9 is not expected to result in any changes to the measurement of the Company's investments, which continues to be at fair value through shareholder's equity.

Financial assets within the scope of IFRS 17 such as premiums receivable and reinsurance and other recoveries on paid claims, which together form the majority of the carrying value of the Company's loans and receivables, and reinsurance recoveries on outstanding claims are outside the scope of IFRS 9 and are unaffected by the new requirements.

In addition to those balances, loans and receivables also include amounts due from brokers, agents and intermediaries and other financial assets which are within the scope of IFRS 9. Under IFRS 9, these assets will continue to be recognized at amortized cost less impairment, with the measurement of impairment reflecting expected as well as incurred credit losses. AXLRE expects recognition of an earlier and higher loss allowance under this approach compared to the current approach, resulting in a negative impact on equity. AXLRE is performing a detailed assessment to quantify this impact. IFRS 9 has been endorsed by the European Union.

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Additionally, an amendment issued on May 14, 2020 as part of the 2018 – 2020 Annual Improvements Cycle clarifies the fees an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability (the “10 percent” test for derecognition of financial liabilities).

The effective date of IFRS 17 and IFRS 9 being now definitively established as of January 1, 2023, the implementation process is currently focused on assessing the impacts as of the transition date (January 1, 2022) and then building the comparative 2022 information applying transitional requirements in both standards.

### 2.2.2.3 Other IFRS amendments and interpretations

The following amendments and interpretations published and endorsed by the European Union, but not yet effective are not expected to have a material impact on the Company’s consolidated financial statements:

Amendments and interpretations	Publication date	Effective for annual periods beginning on or after	Topic
IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous contract – cost of fulfilling a contract	May 14, 2020	January 1, 2022 *	The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.
IFRS 3 Business Combinations: Updating a reference to the conceptual Framework	May 14, 2020	January 1, 2022 *	The amendments update IFRS 3 by replacing a reference to an old version of the Board’s Conceptual Framework for Financial Reporting with a reference to the latest version, which was issued in March 2018. They also introduce an exception from the requirement in IFRS 3 to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 Provisions, Contingent Liabilities and Contingent Assets.
Annual Improvements 2018-2020 Cycle	May 14, 2020	January 1, 2022 *	Collection of amendments to IFRS in response to issues that are not part of a major project, including the amendment to IFRS 9 related to the fees included in the '10 percent' test for derecognition of financial liabilities (see IFRS 9 above).

\* With earlier application being permitted (subject to conditions in some cases) but not elected by the Company.

## 2.3 CONSOLIDATION

### 2.3.1 Scope and basis of consolidation

Companies over which AXLRE exercises control are subsidiaries. They are fully consolidated on a retrospective basis initially recorded on the date on which control is transferred to AXLRE. Under IFRS 10, AXLRE controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Only substantive rights (i.e. the holder must have the practicability to exercise them) and rights that are not protective are considered in the control evaluation.

Companies in which AXLRE exercises significant influence are accounted for under the equity method. Under IAS 28, significant influence is presumed when AXLRE directly or indirectly holds 20% or more of the voting rights. Significant influence can also be exercised through an agreement with other shareholders.

Under the equity method, AXLRE’s share of equity investments’ post-acquisition profit or loss is recognized in the income statement as Income (net of impairment) from investments accounted for using the equity method, and its share of post-acquisition movements in reserves is stated under “Other reserves”.



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Investment funds and real estate companies are either fully consolidated or accounted for under the equity method, depending on which conditions of IFRS 10 / IFRS 11 / IAS 28 listed above that they satisfy. Fees received by asset managers are also taken into account in the assessment of the exposure to variability of returns. For fully consolidated investment funds, minority interests are recognized at fair value and shown as liabilities in the balance sheet if the companies' instruments can be redeemed at any time by the holder at fair value. Investment funds accounted by equity method are shown under the balance sheet caption "Financial investments".

### 2.3.2 Business combinations of entities under common control

For business combinations of entities under common control, the acquired entities' results and balance sheets are incorporated retroactively to the earliest period of common control. Assets and liabilities of the acquired entity are stated at predecessor carrying values adjusted to achieve uniform accounting policies. Any difference between the consideration given and aggregate carrying value of assets and liabilities of the acquired entity at the date of transaction is included in equity.

### 2.3.3 Purchase and sale of minority interests in a controlled subsidiary

Purchase and sale transactions of minority interests in a controlled subsidiary that do not change the conclusion of control are recorded through shareholder's equity (including direct acquisition costs).

If control in a subsidiary is lost, any gain or loss is recognized in net income. Furthermore, if an investment in the entity is retained by the Company, it is re-measured to its fair value and any gain or loss is also recognized in net income.

### 2.3.4 Intra-group transactions

Intra-group transactions, including internal dividends, payables/receivables and gains/losses on intra-group transactions are eliminated:

- in full for controlled subsidiaries; and
- to the extent of AXLRE's interest for entities accounted for using the equity method.

The effect on net income of transactions between consolidated entities is always eliminated. However, in case of a loss, an impairment test is performed in order to assess whether an impairment has to be booked.

## 2.4 FOREIGN CURRENCY TRANSLATION

The results and financial position of all AXLRE entities that have a functional currency (i.e. the currency of the primary economic environment in which the entity operates) different from AXLRE's presentational currency are translated into US Dollars as follows:

- assets and liabilities are translated at the year-end exchange rate;
- revenues and expenses are translated at the monthly average exchange rates over the period;
- all resulting foreign exchange differences are recognized as a separate component of equity (translation differences).

At the local entity level, foreign currency transactions are revalued into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the revaluation at closing rates of monetary assets and liabilities denominated in foreign currencies, are recognized in the income statement - except where hedge accounting is applied as explained in Note 2.8.

All assets and liabilities arising from assumed reinsurance contracts are treated as monetary items. At each period end foreign currency monetary items are revalued using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Assets and liabilities of foreign operations whose functional currency is not the US Dollar are then translated into the Company's US reporting currency at prevailing balance sheet-date exchange rates, while revenue and expenses of such foreign operations are translated into the Company's US reporting currency at monthly average exchange rates during the year. The net effect of these translation adjustments, as well as any gains or losses on intercompany balances for which settlement is not planned or anticipated in the foreseeable future, net of applicable deferred income taxes, are included in shareholder's equity in the currency translation reserve.

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Goodwill arising on the acquisition of a foreign entity is recorded in the local currency of the acquired entity and is translated into US Dollars at the closing date.

Foreign exchange differences arising from the translation of a net investment in a foreign subsidiary, borrowings and other currency instruments qualifying for hedge accounting of such investment are recorded in shareholder's equity under translation differences and are recycled in the income statement as part of the realized gain or loss on disposal of the hedged net investment. As of December 31, 2020 and December 31, 2021, the Company did not enter into any derivative transactions that would qualify as a net investment hedge.

Foreign exchange differences arising from monetary financial investments designated as available for sale are recognized as income or expense for the period in respect of the portion corresponding to amortized cost. The residual translation differences relating to fair value changes are recorded in shareholder's equity in the currency translation reserve.

Regarding the cumulative amount of the exchange differences related to disposed business, the Company applies the step-by-step consolidation method (IFRIC16).

## 2.5 FAIR VALUE MEASUREMENT

The Company applies the IFRS 13 fair value hierarchy as described below for all assets and liabilities where another IFRS requires or permits fair value measurement or disclosures about fair value measurement in the Notes. The principles below address mostly assets given the nature of the activities of the Company.

### 2.5.1 Active market: quoted price

Fair values of assets and liabilities traded on active markets are determined using quoted market prices when available. An instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis between a willing seller and a willing buyer. For financial instruments traded in active markets, quotes received from external pricing services represent consensus prices, (i.e., using similar models and inputs resulting in a very limited dispersion).

The fair value amounts of assets and liabilities for which fair value is determined in whole directly by reference to an active market are disclosed as level 1 in the Notes to the financial statements.

### 2.5.2 Active versus inactive markets – financial instruments

Financial instruments are considered as being quoted in an active market when:

- quotes that represent consensus are regularly provided by external pricing services with limited dispersion; and
- prices are readily available.

Liquidity may be defined as the possibility to sell or dispose of the asset in the ordinary course of business within a certain limited time period at approximately the price at which the investment is valued. Liquidity for debt instruments is assessed using a multi-criteria approach including the number of quotes available, the place of issuance and the evolution of the widening of bid ask spreads.

A financial instrument is regarded as not quoted in an active market:

- if there is little observation of transaction prices as an inherent characteristic of the instrument;
- when there is a significant decline in the volume and level of trading activity;
- in case of significant illiquidity; or
- if observable prices cannot be considered as representing fair value because of dislocated market conditions.

Characteristics of inactive markets can therefore be very different in nature, inherent to the instrument or indicative of a change in the conditions prevailing in certain markets.

### 2.5.3 Assets and liabilities not quoted in an active market

The fair values of assets and liabilities that are not traded in an active market are estimated using:

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- external and independent pricing services; or
- valuation techniques.

Fair values of assets and liabilities that are not traded in active market mainly based on observable market data are disclosed as level 2 in the Notes to the financial statements.

Fair values mainly not based on observable market data are disclosed as level 3 in the Notes.

- No active market: use of external pricing services.

External pricing services may be fund asset managers in the case of non-consolidated investments in funds or brokers. Where possible, AXLRE collects quotes from external pricing providers as inputs to measure fair value. Prices received may form tight clusters or dispersed quotes which may then lead to the use of valuation techniques. The dispersion of quotes received may be an indication of the large range of assumptions used by external pricing providers given the limited number of transactions to be observed or reflect the existence of distress transactions. In addition, given current market conditions since the financial crisis and the persistency of complete inactivity of some markets since then, many financial institutions closed their desks dedicated to structured assets deals and are no longer in a position to deliver meaningful quotes.

- No active market: use of valuation techniques.

The objective of valuation techniques is to arrive at the price at which an orderly transaction would take place between market participants (a willing buyer and a willing seller) at the measurement date. Valuation techniques include:

- **market approach:** the consideration of recent prices and other relevant information generated by market transactions involving substantially similar assets or liabilities;
- **income approach:** use of discounted cash flow analysis, option pricing models, and other present value techniques to convert future amounts to a single current (i.e. discounted) amount;
- **cost approach:** the consideration of amounts that would currently be required to construct or replace the service capacity of an asset.

Valuation techniques are subjective in nature and significant judgment is involved in establishing fair values. They include recent arm's length transactions between knowledgeable willing parties on similar assets if available and representative of fair value and involve various assumptions regarding the underlying price, yield curve, correlations, volatility, default rates and other factors. Unlisted equity instruments are valued based on cross-checks using different methodologies such as discounted cash flows techniques, price earnings ratio multiples and adjusted net asset values, taking into account recent transactions on instruments which are substantially the same if concluded at arm's length between knowledgeable willing parties, if any. The use of valuation techniques and assumptions could produce different estimates of fair value. However, valuations are determined using generally accepted models (discounted cash flows, Black-Scholes models, etc.) based on quoted market prices for similar instruments or underlyings (index, credit spread, etc.) whenever such directly observable data are available and valuations are adjusted for liquidity and credit risk.

Valuation techniques may be used when there is little observation of transaction prices as an inherent characteristic of the market, when quotes made available by external pricing providers are too dispersed or when market conditions are so dislocated that observed data cannot be used or need significant adjustments. Internal mark-to-model valuations are therefore normal market practices for certain assets and liabilities which are inherently scarcely trade, or exceptional processes implemented due to specific market conditions.

- Use of valuation techniques in dislocated markets.

The dislocation of certain markets may be evidenced by various factors, such as: very large widening of bid ask spreads which may be helpful indicators in understanding whether market participants are willing to transact, wide dispersion in the prices of the small number of current transactions, varying prices over time or among market participants, existence of secondary markets, disappearance of primary markets, closing down of dedicated desks in financial institutions, distress and forced transactions motivated by strong needs of liquidity or other difficult financial conditions implying the necessity to dispose of assets immediately with insufficient time to market the assets to be sold, and large bulk sales to exit such markets at all costs that may involve side arrangements (such as sellers providing finance for a sale to a buyer).

In such cases, AXLRE uses valuation techniques including observable data whenever possible - adjusted if needed to develop the best estimate of fair value, including adequacy of risk premiums, or develops valuation models based on unobservable data representing estimates of assumptions that willing market participants would use when prices are not current, relevant or available without undue costs and efforts. In inactive markets, transactions may be inputs when measuring fair value, but would not likely be determinative, and unobservable data may be more appropriate than observable inputs.

## 2.6 INTANGIBLE ASSETS

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### 2.6.1 Goodwill and impairment of goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of AXLRE's share of the net assets of an acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill arising on acquisition of subsidiaries is shown as a separate intangible asset, while that on associates and joint ventures is included within the carrying value of those investments.

Goodwill is considered to have an indefinite useful life and is therefore not amortized, but instead subject to a test for impairment at least annually.

#### 2.6.1.1 Impairment testing

Goodwill is allocated to AXLRE's Reinsurance cash-generating unit ("CGU") according to the smallest identifiable unit to which cash flows are generated and at which goodwill is monitored for internal management purposes.

The impairment review process examines whether or not the carrying value of the goodwill attributable to the CGU exceeds its recoverable amount. Any excess of goodwill over the recoverable amount arising from the review process indicates impairment. Any impairment charges are presented as part of operational expenses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Impairment of goodwill is not reversible.

AXLRE performs an impairment test of goodwill by CGU, using valuation approaches that rely on parameters such as market indicators, market value of assets, market value of liabilities and future operating profits, derived on the basis of operational and economic assumptions in order to determine any significant adverse changes that might lead to the non-recoverability of the goodwill. Compliant with IAS 36, within the CGU, a comparison is made between net book value and the recoverable value (equal to the higher of fair value less costs to sell and value in use). Value-in-use consists of the net assets and the value placed on expected future earnings from existing and new business.

The value-in-use approach is built upon cash flow projections based on the business plans approved by AXLRE management and discounted using a risk adjusted rate. Cash flows beyond that period are extrapolated using a steady growth rate and a terminal value.

### 2.6.2 Deferred Acquisition Costs (DAC)

Acquisition costs, which vary with and are directly related to the acquisition of policies, consist primarily of commissions paid to brokers and cedants. These costs are deferred by recognizing a DAC asset which is amortized over the period during which the premiums are earned. DAC is also tested through the liability adequacy test (see Note 2.12.1).

### 2.6.3 Other intangible assets

All of the Company's definite-lived (amortizable) intangible assets such as distribution networks and internally-developed computer software are carried at net book value, and are amortized on a straight-line basis over the assets' estimated useful lives. The amortization periods approximate the period over which the Company expects to generate future net cash inflows from the use of each of the assets. All of these assets are subject to impairment testing in accordance with authoritative guidance for the impairment or disposal of long-lived assets when events or conditions indicate that the carrying value of an asset may not be fully recoverable from future cash flows. See Note 6 for further information.

## 2.7 INVESTMENTS

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Investments include investment in real estate properties and financial instruments including equity instruments, debt instruments and loans.

### 2.7.1 Investment in real estate properties

Investment in real estate properties, including investments in real estate funds, is recognized at cost. The properties components are amortized over their estimated useful lives, also considering their residual value if it may be reliably estimated.

In case of unrealized loss over 15%, an impairment is recognized for the difference between the net book value of the investment property and the fair value of the asset based on an independent valuation. Furthermore, if the accumulated amount of unrealized

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losses under 15% (without offsetting with unrealized gains) represents more than 10% of the accumulated net cost of real estate assets, additional impairment is booked on a line-by-line approach until the 10% threshold is reached.

In subsequent periods, if the appraisal value rises to at least 15% more than the net carrying value, previously recorded impairment is reversed to the extent of the difference between a) the net carrying value and b) the lower of the appraisal value and the amortized cost (before impairment).

## **2.7.2 Financial instruments recognition**

Financial instruments are recognised in the statement of financial position at such time as the Company becomes a party to the contractual provisions of the financial instrument. Purchases and sales of financial assets are recognised on the trade date, which is the date the Company commits to purchase or sell the asset. A financial asset is derecognised when the contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred, together with substantially all the risks and rewards of ownership. Financial liabilities are derecognised if the Company's obligations specified in the contract expire, are discharged or cancelled.

## **2.7.3 Financial instruments classification**

Depending on the intention and ability to hold the invested assets, financial instruments are classified into the following categories:

- assets held to maturity, accounted for at amortized cost;
- assets held for trading and assets designated at fair value with changes in fair value recognized through profit or loss;
- available for sale assets accounted for at fair value with changes in fair value recognized through shareholder's equity;
- loans and receivables (including some debt instruments not quoted in an active market) accounted for at amortized cost.

At inception, the option to designate financial investments and liabilities at fair value with changes in fair value recognized through profit or loss is mainly used by the Company in the following circumstances:

- financial investments when electing the fair value option allows the Company to solve accounting mismatch, and in particular:
  - assets included in hedging strategies set out by the Company for economic reasons but not eligible for hedge accounting as defined by IAS 39;
  - debt held by structured bond (primarily Collateralized Debt Obligations) funds controlled and consolidated by the Company;
- portfolios of managed financial investments whose profitability is valued on a fair value basis - mainly securities held by consolidated investment funds, managed according to the Company Risk Management policy ("Satellite Investment Portfolio", see definition below).

In practice, assets held through consolidated investment funds are classified either:

- as assets of the "Core Investment Portfolios" which include assets backing liabilities arising from insurance contracts, managed according to the Company's Assets and Liabilities Management (ALM) strategy; or
- as assets of the "Satellite Investment Portfolios", reflecting strategic asset allocation based on a dynamic asset management aimed at maximizing returns.

Underlying financial instruments held in the "Core Investment Portfolios" are classified as available for sale with changes in fair value through shareholder's equity unless involved in a qualifying hedge relationship or more broadly when electing the fair value option reduces accounting mismatch. As specified above, the financial instruments held in the "Satellite Investment Portfolios" are accounted for at fair value with changes in fair value recognized through profit or loss.

Assets held through non-consolidated investment funds consist of investments that are not consolidated because they are not controlled by the Company. These investment funds are classified either as:

- available for sale with changes in fair value recognized through shareholder's equity, where AXLR does not have significant influence;
- assets at fair value with changes in fair value recognized through profit or loss, where AXLR does have significant influence.

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Assets designated as available for sale, trading assets, investments designated at fair value through profit or loss and all derivatives are measured at fair value, i.e. the amount for which an asset could be exchanged, between knowledgeable, willing parties in an arm's length transaction. The Company applies the IFRS 13 fair value hierarchy (see Note 8.9).

Loans which are not designated under the fair value option are accounted at amortized cost using the effective interest rate method.

All investment transactions are recorded on a trade date basis. Realized gains and losses on sales of investments are determined on a first-in, first-out basis. Realized gains and losses on assets held to maturity, loans and receivables, and available for sale assets are recorded in the Consolidated Statement of Income within "Net realized gains and losses relating to investments at cost and at fair value through shareholder's equity". Realized gains and losses on assets held for trading and assets designated at fair value with changes in fair value recognized through profit or loss are recorded in the Consolidated Statement of Income within "Net realized gains and losses and change in fair value of investments at fair value through profit and loss". Changes in fair value of available for sale assets are reflected, net of deferred taxes, as "Reserves relating to changes in fair value through shareholder's equity" in the Consolidated Statement of Comprehensive Income.

### 2.7.4 Impairment of financial instruments

AXLRE assesses at each balance sheet date whether a financial asset or a group of financial investments at (amortized) cost or designated as available for sale is impaired. A financial asset or group of financial investments is impaired when there is objective evidence of impairment as a result of one or more events and this event has an impact on the estimated future cash flows of the asset(s) that can be reliably estimated.

For debt instruments classified as "held to maturity" or "available for sale", an impairment based respectively on future cash flows discounted using the initial effective interest rate or on fair value is recorded through the income statement if future cash flows may not be fully recoverable due to a credit event relating to the instrument issuer. A downgrade of an entity's credit rating is not, of itself, evidence of impairment. If the credit risk is eliminated or improves, the impairment may be released. The amount of the reversal is also recognized in the income statement.

For equity instruments classified as available for sale, a significant or prolonged decline in the fair value below its carrying value is considered as indication for potential impairment, such as equity instruments showing unrealized losses over a 6 month period or more (prior to the closing date), or unrealized losses in excess of 20% of the net carrying value at the closing date. If such evidence exists for an available for sale financial asset, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment on that financial asset already booked in the income statement – is removed from shareholder's equity and an impairment is recognized through the income statement. Equity instrument impairments recognized in the income statement cannot be reversed through the income statement until the asset is sold or derecognized.

Impairments of loans available for sale are based on the present value of expected future cash flows, discounted at the loan's effective interest rate (down to the loan's observable market price), or on the fair value of the collateral.

For financial investments accounted for at amortized cost, including loans and assets classified as "held to maturity" or assets designated as "loans and receivables", the impairment test is first performed at the asset level. A more global test is then performed on groups of assets with similar risk profile.

The methods for calculating the net book value of assets sold is First-In, First-Out (FIFO).

## 2.8 DERIVATIVE INSTRUMENTS

Derivatives are initially recognized at fair value at purchase date and are subsequently re-measured at their fair value. Unrealized gains and losses are recognized in the statement of income unless they relate to a qualifying hedge relationship as described below. The Company designates certain derivatives as either: (i) hedging of the fair value of recognized assets or liabilities or of a firm commitment (fair value hedge); or (ii) hedging of highly probable expected future transactions (cash flow hedge); or (iii) hedging of net investments in foreign operations.

The Company documents, at inception, the hedge relationship, as well as its risk management hedging objectives and strategy. The Company also documents the hedge effectiveness, both at inception and on an ongoing basis, indicating the actual or expected efficiency level of the derivatives used in hedging transactions in offsetting changes in the fair values or cash flows of hedged underlying items.

### 2.8.1 Fair value hedge

Changes in the fair value of derivatives designated and qualifying as fair value hedge are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability. Therefore, the gain or loss relating to any ineffective

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portion is directly recognized in the income statement. As of December 31, 2020 and December 31, 2021, the Company did not enter into any derivative transactions that would qualify as a fair value hedge.

### 2.8.2 Cash flow hedge

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedge is recognized in shareholder's equity. The gain or loss relating to any ineffective portion is recognized in the income statement. Cumulative gain or loss in shareholder's equity is recycled in the income statement when the hedged underlying item impacts the profit or loss for the period (for example when the hedged future transaction is recognized). When a hedging instrument reaches its maturity date or is sold, or when a hedge no longer qualifies for hedge accounting, the cumulative gains or losses in shareholder's equity are held until the initially hedged future transaction ultimately impacts the income statement. As of December 31, 2020 and December 31, 2021, the Company did not enter into any derivative transactions that would qualify as a cash flow hedge.

### 2.8.3 Net investment hedge

The accounting of net investments in foreign operations hedge is similar to the accounting of cash flow hedge. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in shareholder's equity; the gain or loss relating to the ineffective portion is recognized in the income statement. Cumulative gains and losses in shareholder's equity impact the income statement only on disposal of the foreign operations. As of December 31, 2020 and December 31, 2021, the Company did not enter into any derivative transactions that would qualify as a net investment hedge.

### 2.8.4 Derivatives not qualifying for hedge accounting

Changes in the fair value of all other derivative instruments that do not qualify for hedge accounting are recognized in the income statement. Given IAS 39 constraints, only in certain situations are derivatives eligible to hedge accounting provisions as described above. While many derivatives used by the Company are purchased with a view to hedge, often such instruments as utilized as an alternative to gain exposure to certain asset classes through "synthetic positions".

The Company holds financial investments that also include embedded derivatives. Such embedded derivatives are separately recorded and measured at fair value through profit or loss if the impact is deemed material. See Note 12.1 for further information.

## 2.9 NON-CURRENT ASSETS HELD FOR SALE

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Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable. The assets, particularly buildings, are measured at the lower of their carrying value and their fair value net of estimated selling costs and are shown separately in the consolidated statement of financial position.

## 2.10 CASH AND CASH EQUIVALENTS

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Cash comprises cash on hand and demand deposits while cash equivalents are short-term, liquid investments that are readily convertible to cash and which are subject to low volatility.

## 2.11 SHARE CAPITAL AND SHAREHOLDER'S EQUITY

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### 2.11.1 Share capital

Ordinary shares are classified in shareholder's equity when there is no obligation to transfer cash or other assets to the holders.

Additional costs (net of tax) directly attributable to the issue of equity instruments are shown in shareholder's equity as a deduction to the proceeds.



### 2.11.3 Minority interests

Minority interests in the Company's shareholder's equity represent equity in subsidiary entities which is not directly or indirectly attributable to the Company's controlling shareholder.

## 2.12 REINSURANCE

The Company assumes and cedes reinsurance in the normal course of business. Assumed reinsurance refers to the Company's acceptance of certain insurance risks that other companies have underwritten. Ceded reinsurance refers to the transfer of insurance risk, along with the related premiums, to other reinsurers who will share in the risks. In the normal course of business, the Company seeks to reduce the potential amount of loss arising from claims events by reinsuring certain levels of risk assumed in various areas of exposure with other insurers or reinsurers.

When these contracts meet the insurance contracts classification requirements, transactions relating to reinsurance are accounted for in the balance sheet and income statement in a similar way to direct business transactions in agreement with contractual clauses. Reinsurance premiums ceded are expensed (and any commissions recorded thereon are earned) on a monthly pro-rata basis over the period the reinsurance coverage is provided. Ceded unearned reinsurance premiums represent the portion of premiums ceded applicable to the unexpired term of policies in force. Reinstatement premiums ceded are recognized at the time a loss event occurs where coverage limits for the remaining life of the contract are reinstated under pre-defined contract terms and are fully earned when recognized. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Provisions are made for estimated unrecoverable ceded reinsurance.

If a ceded reinsurance asset is impaired, the Company reduces the carrying amount accordingly and recognizes that impairment loss in the income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance assets, that the Company may not receive all amounts due to it under the terms of the contract, and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

If the Company determines that reinsurance contracts do not meet the insurance contracts classification contract and/or principally transfers financial risk, the agreement is recorded using the deposit method of accounting. Deposits received are included in payables and deposits made are included within receivables. As amounts are paid or received, consistent with the underlying contracts, the deposit assets or liabilities are adjusted as appropriate.

Payables arising from assumed and outward reinsurance operations are measured at amortized cost.

Where a reinsurance contract has both prospective and retroactive elements and it is possible to bifurcate the contract, the component representing the prospective element is accounted for under our prospective contracts guidance (noted above) while the component representing the retroactive element is accounted for as below:

- Day one gain: When the liabilities transferred exceed the consideration paid the ceding company is not permitted to immediately recognize the gain related to the difference between the two amounts. Instead, the ceding company is required to defer that gain and amortize it over the estimated settlement period of the liabilities reinsured. The periodic amortization of the deferred gain is reflected in earnings as a component of claims expenses.
- Day one loss: When the consideration paid exceed the amount of ceded liabilities the ceding company should charge current income (day 1 loss) for the difference between the consideration paid and the liabilities reinsured implying that no deferment of losses is allowed.

### 2.12.1 Liability adequacy test

At each balance sheet date, liability adequacy tests are performed by grouping contracts together by class of business to ensure the adequacy of the contract liabilities net of related DAC. The Company uses current best estimates of all future contractual cash flows as well as claims handling and administration expenses, and takes into account investment yields relating to assets backing these contracts.

Any deficiency is charged to profit or loss initially by writing-off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests ('the unexpired risk provision'). Any DAC written-off as a result of this test is not subsequently reinstated.



## 2.13 OTHER LIABILITIES

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### 2.13.1 Income taxes

The current income tax expense (benefit) is recorded in the income statement on the basis of local tax regulations.

Deferred tax assets and liabilities emerge from temporary differences between the accounting and fiscal values of assets and liabilities, and when applicable from tax loss carry forwards. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available to offset the temporary differences taking into account the existence of tax groups and any legal or regulatory requirements on the limits (in terms of amounts or timing) relating to the carry forwards of unused tax credits. The recoverability of deferred tax assets recognized in previous periods is re-assessed at each closing. In particular, a deferred tax liability is recognized for any taxable temporary difference relating to the value of shares in a consolidated company held, unless the Company controls at what date the temporary difference will reverse and it is probable that the temporary difference will not reverse in the foreseeable future. If an AXLRE company decides to sell its stake in another consolidated entity, the difference between the carrying value and the tax value of these shares for the company that holds them leads to the recognition of deferred tax (including as part of a business combination when the Company as the buyer intends to sell or carry out internal restructuring of the shares following the acquisition). The same approach applies to dividend payments that have been voted or deemed likely, to the extent that a tax on dividends will be due.

The measurement of deferred tax liabilities and deferred tax assets reflects the expected tax impact, at the balance sheet date. This follows the manner in which the Company expects to recover or settle the carrying amount of its assets and liabilities. When income taxes are calculated at a different rate if dividends are paid, deferred taxes are measured at the tax rate applicable to undistributed profits. The income tax consequences of dividends are only accounted when a liability to pay the dividend is recognized.

## 2.14 PROVISIONS, CHARGES AND CONTINGENCIES

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### 2.14.1 Restructuring costs

Restructuring provisions, other than those that may be recognized on the balance sheet of an acquired company on the acquisition date, are recorded when the Company has a present obligation evidenced by a binding sale agreement or a detailed formal plan whose main features are announced to those affected or to their representatives.

### 2.14.2 Other provisions and contingencies

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when the provision can be reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at management's best estimate, at the balance sheet date, of the expenditure required to settle the obligation, discounted at the market risk-free rate of return for long term provisions.

## 2.15 REVENUE

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Revenue comprises insurance and reinsurance premiums earned on the rendering of insurance protection, net of reinsurance, together with profit commission, investment returns, agency fees and other income. AXLRE's share of the results of associates is reported separately.

### 2.15.1 Gross written premiums

Gross written premiums correspond to the amount of premiums written by reinsurance companies on business incepting during the year gross of reinsurance ceded. Premiums are recorded on the basis of declarations made by the ceding company and may include estimates of gross written premiums. Any subsequent differences arising on such estimates are recorded in the period they are determined. For multi-year reinsurance treaties which are payable in annual installments, generally, only the initial annual installment is included as premiums written at policy inception due to the ability of the reinsured to commute or cancel coverage during the term of the policy. The remaining annual installments are included as premiums written at each successive anniversary date within the multi-year term.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020**

Reinstatement premiums are recognized at the time a loss event occurs where coverage limits for the remaining life of the contract are reinstated under pre-defined contract terms and are fully earned when recognized.

**2.15.2 Deposit accounting**

Contracts entered into by the Company that are not deemed to transfer significant underwriting risk and/or timing risk are accounted for as deposits. As of December 31, 2021 and 2020, the Company did not enter into any contracts that were accounted for as deposits.

**2.15.3 Net investment result excluding financing expenses**

The net investment result includes:

- investment income from investments, net of amortization expense on real estate investments (amortization expense relating to owner occupied properties is included in “administrative expenses”); this item includes interest received calculated using the effective interest method for debt instruments and dividends received on equity instruments;
- investment management expenses (excludes financing debt expenses);
- realized investment gains and losses net of releases of impairment following sales;
- the change in unrealized gains and losses on invested assets measured at fair value through profit or loss; and
- the change in impairment of investments (excluding releases of impairment following sales).

**2.16 SUBSEQUENT EVENTS**

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Subsequent events relate to events that occur between the balance sheet date and the date when the financial statements are issued:

- such events lead to an adjustment of the consolidated financial statements if they provide evidence of conditions that existed at the balance sheet date;
- such events result in additional disclosures if indicative of conditions that arose after the balance sheet date, and if relevant and material.

See Note 22 for further details.

## Note 3 Scope Of Consolidation

### 3.1 CONSOLIDATED COMPANIES

#### 3.1.1 Main fully consolidated companies

Below is a list of the main fully consolidated companies of AXLRE, excluding consolidated investment funds and real estate entities. Each of the below are wholly owned by AXLRE.

AXLRE Entities	Jurisdiction
AXA XL Reinsurance Ltd	Bermuda
XL Re Europe SE	Ireland
Catlin Re Switzerland Ltd	Switzerland
Seaview Re Ltd	Bermuda

#### 3.1.2 Main investments in companies accounted for using the equity method

Companies accounted for using the equity method are discussed in Note 9 with the exception of equity-method investment funds. As of December 31, 2021, investment funds accounted for using the equity method amounted to \$nil invested assets (\$55.6 million at the end of 2020). See Note 2.7.3 for further details.

### 3.2 NON-CONSOLIDATED STRUCTURED ENTITIES

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when relevant activities are directed by means of contractual arrangements. Structured entities often have a narrow and well-defined objective or restricted activities.

The Company holds interests in investment funds including real estate companies. These funds are accounted for using the equity method (see Note 2.3.1). Other funds are not consolidated because they are not controlled or under significant influence. By nature, and notably because of the power of decision usually given to the asset managers (internal or external to AXLRE), most of these funds are structured entities.

As an investor, AXLRE's interests in non-consolidated funds are limited to the investments held which are fully recognized in the consolidated balance sheet. Depending on the nature of its investment, AXLRE receives interests or dividends and can realize capital gains or losses when sold. These investments are subject to impairment testing as any financial asset.

Information on these non-consolidated investment funds are provided in different sections of these financial statements:

- Note 8 Investments, with the breakdown of investments and detail on non-consolidated investment funds in Note 8.7.
- Note 16 Net Investment Result Excluding Financing Expenses.

## Note 4 Acquisitions

### 4.1 COMMON CONTROL ACQUISITIONS

Throughout 2020 and 2021, XL Group Ltd. through XL Bermuda Ltd (“XLB”) and XL Reinsurance America Inc. have designed a number of transactions to create a reinsurance specific reporting entity – AXA XL Reinsurance Ltd (the “Company”). The Company was incorporated in Bermuda on December 10, 2020 in accordance with Section 14 of the Companies Act 1981 under the original name, Redesign Reinsurance Ltd, and changed its name to AXA XL Reinsurance Ltd on January 7, 2021. Effective February 3, 2021, the Company was registered in Bermuda as a Class 4 insurer with Section 4 of the Insurance Act 1978.

#### 4.1.1 Accounting method

The below acquisition transactions are classified as common control transactions, as the combining entities are ultimately controlled by the same party (or parties) both before and after the combination. Common control combinations are outside the scope of IFRS 3 and as explained in Note 2.3.2, AXLRE has accordingly applied the predecessor value method to account for these business combinations retroactively from the date these entities came under common control.

#### 4.1.2 Acquisition of AXA XL Luxembourg SARL

On June 22, 2021, XL Bermuda Ltd (“XLB”) contributed all shares of AXA XL Luxembourg SARL (formerly known as Catlin Luxembourg SARL) to AXA XL Reinsurance (Holdings) Ltd, along with transferring and assigning a convertible loan of \$0.4 billion to the same company, with no consideration paid by AXA XL Reinsurance (Holdings) Ltd. Prior to the effective date XLB was the sole shareholder of AXA XL Luxembourg SARL with a carrying value of \$0.9 billion. This contribution in kind was approved by the XLB Board on February 17, 2021. The Company and XLB are ultimately controlled by the same parent company, AXA.

Immediately subsequent the initial contribution, AXA XL Reinsurance (Holdings) Ltd contributed all assets and receivables described above to the Company, which is a direct subsidiary of AXA XL Reinsurance (Holdings) Ltd.

As a result, AXA XL Luxembourg SARL is now a direct wholly-owned subsidiary of the Company and Catlin Re Switzerland Ltd (“CRCH”) and its subsidiaries are indirect subsidiaries of the Company.

Prior to the contribution of AXA XL Luxembourg SARL from XL Bermuda Ltd (XLB) to AXA XL Reinsurance (Holdings) Ltd, AXA XL Luxembourg SARL transferred its stake in XL Western Europe Sarl (“XLWE”) to XLB. The carrying value of XLWE on transfer to XLB was \$0.1 billion. The contribution included partial repayment of a convertible loan (\$107.6) million in addition to the transfer of all 505 shares with a total book value of \$40.8 million. In accordance with our accounting policy, and the elected predecessor value method for business combinations under common control, the assets and liabilities of XL Western Europe SARL are excluded from the carrying value of the assets and liabilities acquired by AXA XL Reinsurance through the contribution of AXA XL Luxembourg SARL.

In accordance with the accounting policy for retroactively reflecting common control transactions the carrying value of the assets and liabilities of AXA XL Luxembourg SARL have been reflected in the Company’s Statement of Financial position as at December 31, 2020.

The table below provides the details of these assets and liabilities acquired, net of reserves and translation reserves assumed of \$880.7 million. Reserves and translation reserves were comprised mainly of retained earnings and other comprehensive income relating to unrealized gains on investments. A total of \$880.7 million assumed share consideration equal to the share capital of AXA XL Luxembourg SARL, was contributed by XLB to AXLRE, via AXA XL Reinsurance (Holdings) Ltd, on acquisition.

#### *(US Dollars in thousands)*

Intangible assets	731,794
Investments	2,991,117
Reinsurers’ share in insurance contracts liabilities	446,944
Other assets	21,982
Receivables	2,587,611
Cash and cash equivalents	462,439
<b>Total carrying value of assets acquired</b>	<b>7,241,888</b>
Liabilities arising from insurance contracts	5,445,816
Provisions for risks and charges	774

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Deferred tax liabilities	41,350
Payables	1,028,665
<b>Total carrying value of liabilities assumed</b>	<b>6,516,604</b>
Carrying value of net assets acquired	725,284
Less: reserves and translation reserves assumed	(155,435)
Carrying value of net asset acquired net of reserves and translation reserves assumed	880,719
<b>Total consideration received in shares</b>	<b>880,719</b>

#### 4.1.3 Acquisition of XL Re Europe SE

On May 21, 2021, XLB contributed all shares of XL Re Europe SE to AXA XL Reinsurance (Holdings) Ltd with no consideration paid by AXA XL Reinsurance (Holdings) Ltd. Prior to the effective date XLB was the sole shareholder of XL Re Europe SE with a carrying value of \$1.0 billion. This contribution in kind was approved by the XLB Board on February 17, 2021. The Company and XLB are ultimately controlled by the same parent company, AXA.

Immediately subsequent the initial contribution, AXA XL Reinsurance (Holdings) Ltd contributed all assets and receivables described above to the Company, which is a direct subsidiary of AXA XL Reinsurance (Holdings) Ltd.

As a result, XL Re Europe SE is now a direct wholly-owned subsidiary of the Company.

In accordance with the accounting policy for retroactively reflecting common control transactions the carrying value of the assets and liabilities of XL Re Europe SE have been reflected in the Company's Statement of Financial position as at December 31, 2020.

The table below provides the details of these assets and liabilities acquired, net of reserves and translation reserves assumed of \$1,021.4 million. Reserves and translation reserves were comprised mainly of retained earnings and other comprehensive income relating to unrealized gains on investments. A total of \$1,021.4 million assumed share consideration equal to the share capital of XL Re Europe SE, was contributed by XLB to AXLRE, via AXA XL Reinsurance (Holdings) Ltd, on acquisition.

**(US Dollars in thousands)**

Intangible assets	87,621
Investments	2,057,924
Reinsurers' share in insurance contracts liabilities	1,695,854
Other assets	40,651
Receivables	821,353
Cash and cash equivalents	341,812
<b>Total carrying value of assets acquired</b>	<b>5,045,215</b>
Liabilities arising from insurance contracts	3,008,503
Provisions for risks and charges	2,460
Deferred tax liabilities	52,056
Payables	693,615
<b>Total carrying value of liabilities assumed</b>	<b>3,756,634</b>
Carrying value of net assets acquired	1,288,582
Less: reserves and translation reserves assumed	267,224
Carrying value of net asset acquired net of reserves and translation reserves assumed	1,021,357
<b>Total consideration received in shares</b>	<b>1,021,357</b>

# **Note 5 Financial and Reinsurance Risk Management**

## **5.1 RISK MANAGEMENT AND INTERNAL ORGANIZATION**

The Company faces strategic, financial and operational risks related to, among others: underwriting activities, financial reporting, changing macroeconomic conditions, investment, reserving, changes in laws or regulations, information systems, business interruption and fraud. An enterprise view of risk is required to identify and manage the consequences of these common risks and risk drivers on the Company's profitability, capital strength and liquidity. This is managed by the Risk Management ("RM") function, an integrated part of all business processes, who define and deploy the Risk Management Framework ("RMF").

The Company RMF consists of a set of risk policies and standards. These are reviewed and approved by the Board, at least annually. The RMF would be reviewed more regularly if the Company was subject to a major change in regulatory requirements, strategy or organizational structure.

The aim of the RMF is to:

- Support business objectives and strategy;
- Provide management information to facilitate the identification and understanding of material risks including related mitigants;
- Contribute to the Company's overall internal control framework by helping to manage the inherent complexity within the business;
- Maintain the desired credit rating which is applicable to the Company;
- Support regulatory risk management requirements.

The Board meets regularly and oversees the implementation and embedding of the RMF and monitoring of Company performance against risk appetite. The Board also has responsibility for capital monitoring. The Board ensures that material and emerging risks are identified and reported and that appropriate arrangements are in place to manage and mitigate those risks effectively. The Company's stress testing framework and outputs are reviewed by the Board and support understanding of the risk profile.

The AXA XL Division ("AXA XL") and the Company are required by AXA Group to comply with AXA Group policies and standards. The AXA Group Standards form part of the overall risk management framework including Compliance, Internal Audit, Internal Control and Risk Management. AXA Group Standards have specifically identified Divisional and Company standard owners. The Group Solvency II Policies have been implemented and adapted to AXA XL Division's specificities as described in the AXA XL Division's Solvency II Policies. These policies are also implemented at legal entity level with local addendums. The Solvency II Policies implement AXA's risk strategy throughout the AXA XL Division and the Company, facilitate control mechanisms and consider the nature, scope and time horizon of the business and the associated risks.

The Standards include Risk Management Second Opinions, the Internal Control Framework and the Risk Appetite Framework which are outlined below.

### **5.1.1 Risk management second opinions**

The AXA Standards require Risk Management to provide formal "Second Opinions" in certain key areas of risk to ensure that the viewpoint of Risk is formally documented within any related concerns and mitigation plans. The Company benefits from the "Second Opinions" at the AXA XL Division and will develop the same for the Company specifically. The "Second Opinions" are provided by Risk Management "Centers of Excellence" at the divisional level and cover the following areas:

- New products and loss-making portfolios;
- Reserves;
- New investments and changes to the Strategic Asset Allocation ("SAA");
- Strategic business plan;
- Ceded reinsurance (outwards) program; and
- Major projects.

### 5.1.2 Internal control framework

The AXA XL Internal Control team, within the Risk Management function, implements the AXA Internal Control Programme at AXA XL Division and monitors the overall system of controls, covering all AXA XL departments and processes, ensuring all controls are performed. The AXA Internal Control Programme provides a robust and effective Internal Control Framework by:

- Implementing a risk-based approach to focus on risks that really matter;
- Promoting management accountability for controls;
- Introducing a common set of tools and techniques to be consistently used across the Group;
- Improving coordination between the different control functions.

The implementation of the AXA XL framework was finalized at the end of 2021, with a total of 30 macro-processes for AXA XL that constitute the AXA XL value chain for the insurance and reinsurance business. For each macro-process, key risks are defined and for each key risk, control objectives are defined to cover them. For each control objective, controls are designed and operated locally to efficiently meet control objectives and mitigate the related key risk. Controls are tested over three years by the AXA XL Internal Control Function.

The AXA XL Internal Control team is also responsible for the Internal Financial Control framework, looking at key controls around financial reporting and Solvency II across the Division. This framework has been in place at AXA XL for many years and provides reasonable assurance to legal entities within the Division that financial reporting is reliable and compliant with applicable laws and regulations and provides comfort over the completeness, accuracy and appropriateness of data.

### 5.1.3 Risk appetite framework ("RAF")

The Company's RAF is a key dimension of the risk management strategy and mirrors AXA's RAF. The RAF distinguishes between 'Risk Appetite Statements' which apply to multiple risk types, and 'Risk Appetite Exposures' which apply to single risk types. In addition, there exists the potential for additional 'Risk Indicators' which are not explicitly specified in the scope of the RAF but are identified as required by the Company. The RAF is used to provide governance for setting new monitoring requirements, as well as reviewing and updating existing risk appetite statements, tolerances and limits, so that these are aligned with business and risk management strategies. The Company's RAF focuses on regulatory capital at risk, tolerances to risks from material individual events (e.g. natural catastrophes, realistic disaster scenarios that cross multiple lines of business, etc.), liquidity standards, tolerance to specific investment related risks and operational risk. The risk appetites and tolerances of the main legal entities of the Company were reviewed and Board approved during the 2021 business planning process. Those of the Company on a consolidated basis will be approved by the Board in April 2022.

### 5.1.4 Risk management strategy

The risk management strategy is overseen by the Board and supports the delivery of the overall business strategy. To support the Board, the RM function oversees detailed risk management activity and monitoring against the Board approved risk appetites.

The risk management strategy is to ensure that risk implications, as well as reward, are considered in both setting and implementing the Company's strategic and business objectives, and risks associated with the strategic direction of the business are appropriately monitored. The strategy is articulated in the risk policies and is achieved by incorporating risk processes, information and decisions in the day to day running of the business.

The Company's strategy involves taking on risk to generate return. Risks are selected and controlled or traded off through the risk strategy that focuses on:

- Retaining risk within an approved risk appetite that is consistent with our strategic objectives while maintaining appropriate levels of capital;
- A diversified portfolio of underwriting and financial markets risks;
- Managing excessive aggregation risk via a limit framework;
- Exercising consistency and transparency of risk management and control across the Company;
- Risk mitigation on key underwriting and financial market risks to protect capital from the impact of extreme events; and
- Risk reporting to the Board and other stakeholders (e.g. regulators).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020

The risk management strategy and risk appetite frameworks are supported by the following:

- Risk Governance - a clear and cost-effective organizational structure for risk management, including clear roles and responsibilities. The Company operates a 'Three Lines of Defense' governance structure, at a functional level as well as a management committee level.
- Risk Definition and Categorization - provides a common taxonomy and language for risk to allow for categorization of all risks in a way which facilitates links between the business and risk management processes.
- Risk Cycle and Processes - the approach taken to top down, bottom up and process led risk identification, quantification and management and control.
- Risk Management Information and Reporting, including Commercial Insurer Solvency Self-Assessment ("CISSA") Production - ensuring timely and accurate information is reviewed in line with the governance structure.
- Risk-Based Decision Making - the results of the CISSA and the insights gained in the CISSA process are considered for a range of business decisions.
- Skills, Resources and Risk Culture; Organizational Learning; Change Management Governance - all enable a mature risk culture throughout the Company.

### 5.1.5 Risk management and solvency self-assessment systems implementation

The CISSA process includes all the material risks, processes and procedures employed to identify, assess, monitor, manage, and report the short and long term risks the Company faces or may face and to determine capital necessary to ensure that the Company's overall solvency needs are met at all times.

The Regulatory Capital Requirement is derived using the Bermuda Solvency Capital Requirement ("BSCR") standard formula. The results are presented to the Board to provide richer insights on risk exposures, and to inform and drive risk and capital-based decision making.

The processes for the CISSA and production of the CISSA Report are tailored to fit into the Company's organizational structures in a proportionate manner with techniques to assess the overall solvency needs and taking into consideration the nature, scale and complexity of the risks inherent to the business.

The risk management cycle is set for key aspects of the risk management process that are deemed to be part of the CISSA process and that will support the production of the Company's CISSA Report. The CISSA process includes procedures that enable the Company to monitor its compliance with its risk appetites, risk limits, and regulatory capital requirements whilst considering potential future changes in the risk profile and considering stressed situations.

### 5.1.6 Relationship between the solvency self-assessment, solvency needs, and capital and risk management

The Company's RMF is designed to be comprehensive and to provide a sound basis for the set of risk appetites, and the capacity to identify, manage and report on key risks facing the Company on a timely basis. From this, we can see that the Company's risk profile can be managed in line with its Board approved limit and risk appetite framework.

The Company uses the BSCR to calculate the required CISSA capital to support its business plans based on of risks facing the business. The Company also utilizes the AXA XL Division internal model for various uses including setting a risk appetite around solvency and to inform portfolio shaping decisions and return metrics.

### 5.1.7 Internal financial control ("IFC")

The Internal Control function is committed to promote a robust Internal Control Framework, including Internal Financial Control, for the Audit Committee of key legal entities within the AXA XL Division, executive management, and external stakeholders to rely on for financial and regulatory reporting purposes.

The IFC's core strategic objectives include:

- Conducting an effective and efficient assessment of the design and operating effectiveness of internal controls over financial reporting;



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020**

- Identifying areas in which the inherent risk of financial misstatement is high so that management can address these risks before they manifest themselves in an actual misstatement;
- Providing executive management, the Company's Board and AXA Group reasonable assurance over AXLRE's financial reporting processes; and
- Adding value by helping management promote a robust control environment.

The Internal Control team performs a regular assessment of the control framework which includes risk identification, risk assessment and planning, documenting business processes, evaluation and validation of key risks, testing of controls and identification and management of issues. For the Internal Financial Control Framework, this cycle is annual and well established.

The team is also responsible for monitoring remediation plans until closure and for making regular reporting on controls results to AXA Group, the Reinsurance AXA XL Risk and Compliance Committee ("Re ARCC"), the Audit Committee of key legal entities, executive management and external auditors and regulators.

### **5.1.8 Compliance function**

The Compliance function is responsible for advising the Company's management and Board on compliance with applicable laws, regulations and administrative provisions adopted in accordance with the Insurance Act 1978 and other local laws and regulations, and on the impact of changes in the legal and regulatory environment applicable to the Company's operations. The function provides expertise, advice and support to various departments of the Company to assess situations and compliance matters, analyze compliance risk and contribute to design solutions to mitigate those risks to which the Company is exposed.

The Compliance function has a direct reporting line to the AXA XL General Counsel and to regional and global business Chief Executive Officers. The compliance function manages a wide range of compliance related matters including (i) regular reporting on significant compliance and regulatory matters to senior management and to regulators, (ii) financial crime matters (which include anti-corruption, anti-bribery, anti-money laundering programs as well as international sanctions/embargo compliance), (iii) data privacy, (iv) Employee Compliance & Ethics Guide and, (v) the monitoring of compliance and regulatory risks.

The Compliance function undertakes an annual Compliance Risk Assessment to identify the most significant compliance risks to which the business is exposed. Based on this assessment, an Annual Compliance Plan is developed at the end of each year for the following year.

The compliance activities within the Company are articulated around a number of AXA Group Standards and Policies which set the minimum requirements expected to be covered by the Company. The AXA XL Code of Conduct (the "Code") contains standards and policies on significant risks affecting the compliance activities as well as the high-level control and monitoring principles to which the Company must adhere. Both the standards and policies contained in the Code (e.g. compliance governance, anti-money laundering, sanctions, anti-bribery, etc.) are mandatory. In addition, the Compliance function has adapted the AXA XL Division requirements and developed local policies to align with the relevant laws and regulations in the jurisdiction in which the Company operates and conducts business. These local policies are reviewed on a regular basis with recommendations being made for adoption to the Board or the Executive Committee.

On a regular basis, the Compliance function reports directly to the Board, on significant compliance matters. These include major regulatory changes that have compliance implications, results of the Compliance Risk Assessment, the Annual Compliance Plan, outstanding Compliance Support and Development Program ("CSDP") remediation plans and any other significant issues that require escalation

### **5.1.9 Internal audit function**

The AXA XL Chief Audit Executive has a direct and unfettered reporting line to the XL Bermuda Ltd (the intermediate Parent entity of AXLRE) Audit Committee Chairman. The Chief Audit Executive for AXA XL functionally reports through to AXA Group's Head of Audit who reports to AXA Group's Audit Committee Chairman.

Internal Audit exists to help the Board and Executive Management protect the assets, reputation and sustainability of the organization by providing an independent and objective assurance activity designed to add value and improve the organization's operations. It helps the organization meet its objectives by bringing a systematic, disciplined approach to challenge Executive Management and evaluate the effectiveness of governance processes and risk and control management.

The internal audit function has an audit charter to document its mission, independence, scope, accountabilities, responsibilities, authorities and standards. The charter is approved by the Company's Board each year.

Internal Audit annually sets up an internal audit plan of work, based on an assessment of both the inherent risk and the adequacy of controls. Its performance is formally monitored and reported to the XL Bermuda Ltd Audit Committee.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020

Over the audit cycle, all applicable Common Audit Universe categories for each entity are expected to be audited. Any exceptions identified are notified to the XL Bermuda Ltd Audit Committee for ratification.

A report is issued at the conclusion of each audit assignment to the relevant senior management. The results of the audits and resolution status of internal audit issues are presented to the XL Bermuda Ltd Audit Committee and Executive Management on a regular basis.

### 5.2 MARKET RISK

Market risk represents the potential for loss due to adverse changes in the fair value of financial and other instruments. The Company is principally exposed to the following market risks:

Component	Definition
<b>Interest rate and spread risk</b>	Financial loss or volatility of profits due to the combined sensitivity of the economic value of the investment portfolio and reinsurance liability cash flows and to changes in the level or volatility of benchmark interest rates and credit spreads.
<b>Market risk concentrations</b>	Financial loss or volatility of profits due to the increased sensitivity of the market value of the investment portfolio to other risks specifically due to concentrations of investments such as in specific geographical region, industry or company.
<b>Foreign exchange risk</b>	Financial loss due to volatility in the value of the Company's assets and liabilities following changes in currency exchange rates.
<b>Equity price risk</b>	Financial loss or volatility of profits due to the sensitivity of the value of the investment portfolio to changes in the level or in the volatility of market prices of equities.

For further details of the Company's investment portfolio which is subject to the risks above, see Note 8.

The Company identifies and manages market risk through the following processes:

Process	Definition
<b>Business planning</b>	As part of the annual planning process, a review is undertaken of the nature of assets required to support the business plan and the expected liabilities.
<b>Investment risk appetite</b>	The Company Risk Appetite Framework sets maximum risk tolerances and is reviewed annually.
<b>Risk reporting and processes</b>	The risk reporting process assists in identifying if there are any changes to market risks already identified in the previous assessment.

The Strategic Asset Allocation ("SAA") process establishes a target allocation for the investment portfolio that is constructed to maximize enterprise value, subject to various considerations and constraints. It is subject to the risk tolerances recommended by Risk Management and is approved at least every 3 years by the Board.

#### ▪ **Authorities Framework / Risk Appetite Framework**

In conjunction with the SAA, the Company has a Risk Appetite Framework modeled off the AXA Group and AXA XL Divisional framework which limits exposure to various asset classes (with tighter limits for higher risk asset types), as well as duration and FX mismatches. The Company also benefits from AXA XL Division centralized investment risk monitoring through the Investment Authorities and Guidelines, which further monitors exposures by average credit quality, corporate industry sector, region (for municipal securities, emerging markets), BBB exposure, and leverage. These controls are implemented through detailed compliance monitoring and reporting.

The Risk Appetite Framework and associated market risk limits address the key market risk factors and are commensurate with the volume and complexity of activity undertaken by the Company. The framework is designed to capture investment risks and to consistently and objectively measure, assess, manage and report such risks on an ongoing basis.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020

### Service Level Agreement

A service level agreement is in place between XL Group Investments Ltd. and the Company. This includes guidance on type of investments and the weighted average credit ratings of the portfolio that can be made on behalf of the Company. Adherence to policies and limits are monitored on a regular basis and reported to the Board.

### 5.2.1 Foreign exchange risk

Foreign currency exposures represent all net assets and liabilities held in currencies other than US dollars that generate foreign exchange volatility. The Company's foreign currency exposure is dominated by the Euro, British Pound, and Swiss Franc. The majority of our exposure relates to subsidiaries of the Company which are denominated in the currencies below with our foreign currency exposure reported as translation reserves in the consolidated statement of changes in equity.

The Company seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. Asset liability management analysis is run regularly to adjust surplus and shortfall currencies, ensuring that the entity exposures are broadly matched.

The table below outlines the Company's year-end adjusted net asset exposure.

<i>(Foreign currency in USD thousands)</i>	December 31, 2021	December 31, 2020
British Pound	143,700	182,400
Euro	994,400	840,700
Swiss Franc	(35,300)	(31,600)

### 5.2.2 Stress testing and sensitivity analysis on the investment portfolio

An embedded Stress Testing framework is used to understand possible impacts of major risks, including market risks. The following stress and scenario tests are used to identify risk exposures:

- Interest rate and credit spread sensitivities: by re-valuing current portfolio holdings assuming various changes in the level and term structure of interest rates and the level of credit spreads;
- FX stress tests on assets and liabilities
- Ad hoc scenario stress testing as deemed appropriately by Risk Management
- The Company also assesses the potential impact of predefined stress tests in accordance with the BMA framework

As part of the Stress Testing process, we have developed scenarios based on the results and outcomes that manifested themselves in large historical market events. If solvency were to move below pre-defined thresholds, the Company would look to take action as per its Capital Management Policy.

The Company performs sensitivity analyses to estimate its exposure to movements in interest rates and equity markets. These analyses quantify the potential impact on the Company of positive and adverse changes in financial markets.

The sensitivities of the investment portfolio to changes in major economic assumptions were calculated as follows for year-end 2021:

- Upward / Downward shift of 50 basis points in reference interest rates** simulates an instantaneous shock to the initial conditions;
- Upward / Downward shift of 50 basis points in credit spreads** in similar fashion to interest rates;
- 10% higher value of equity markets** simulates a shock to the initial conditions for equities only. Listed equities and private equity values including the impact of equity hedges are shocked (i.e., changes to current market values of all these equities excluding hedge funds).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020**

<i>(US Dollars in thousands)</i>	December 31, 2021		December 31, 2020	
	Amount	As a Percentage	Amount	As a Percentage
<b>Investment Portfolio Sensitivities</b>				
Shareholder's Equity	3,024,592	100%	2,033,984	100%
Interest rates +50bps	(129,579)	(4.3)%	(94,590)	(4.7)%
Interest rates -50bps	132,425	4.4%	99,949	4.9%
Credit Spreads +50bps	(73,700)	(2.4)%	(48,930)	(2.4)%
Credit Spreads -50bps	76,483	2.5%	50,973	2.5%
Equity Markets +10%	6,505	0.2%	6,831	0.3%
Equity Markets -10%	(6,505)	(0.2)%	(6,831)	(0.3)%

Note: All sensitivities are presented net of tax.

### 5.3 CREDIT RISK

Credit risk is defined as the risk of loss resulting from migration and default. AXA XL is exposed to five sources of credit risk: (i) underwriting businesses with products with embedded credit risk exposures, (ii) Investments, (iii) Treasury, (iv) Unsecured Reinsurance Recoverables and (v) Broker Premium Receivables. Credit risk arising from country specific exposures is captured as part of the Divisional country risk framework.

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

Component	Description
<b>Reinsurance counterparty risk</b>	Risk of losses due to the default of a reinsurer or a deterioration of its credit worthiness.
<b>Investment counterparty risk</b>	Counterparty default risk is the risk of possible losses due to the unexpected default, or deterioration in the credit standing of investment counterparties.
<b>Premium counterparty risk</b>	Premium counterparty default risk is the risk of possible losses due to unexpected default, or deterioration in the credit standing of the premium debtors in relation to reinsurance contracts written.
<b>Underwriting counterparty risk</b>	Exposure to obligor credit risk default or deterioration of obligor that the Company is exposed to through certain credit sensitive underwriting activities which include, Trade Credit, Commercial and Construction Surety, and Professional Lines.
<b>Treasury risk</b>	Exposure to the risk of default or to the risk of credit deterioration of counterparty banks used by the company in its day-to-day Treasury operations (deposits, cash balance and foreign exchange transactions).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020

The Company identifies credit risk through the following processes:

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

### 5.3.1 Credit risk framework

The Company benefits from the Credit Risk Framework of the AXA XL Division, which is managed with three sets of limits:

1. The systemic credit clash scenario is an enterprise view of portfolio, risk to a systemic credit event that incorporates all relevant Division risk sources that could be impacted by a credit risk event.
2. The systemic financial institutions realistic disaster scenario (FI RDS) is an underwriting view of portfolio risk to a defined global financial crisis.  
These scenarios (Systemic Clash and FI RDS) reflect an "instantaneous" view of the ultimate risk. The scenarios conservatively assume that the entirety of the losses, which are expected to multiyear in nature, all occur on day one. The risk sources are diverse in terms of how they expected to manifest themselves thus creating a form of "time diversification". The scenarios are expressed in Probable Maximum Loss (PML) terms with methodologies aligned to tail events.
3. Obligor idiosyncratic concentration risk, is managed with alerts and limits set as a function of obligor credit quality. Alerts and limits are in USD net notional terms representing the amount at risk and assuming no recovery. Exposures are from the functional sources (Reinsurance Recoverables, Treasury, and Investments) and from the reinsurance underwriting businesses with embedded credit risk activities. Alerts and limits are in USD net notional terms representing the total amount at risk and assuming no recovery.

In addition obligor exposures are also required to align to the AXA Group Global Issuer Framework which can constrain AXA XL obligor deployment even if AXA XL credit risk framework capacity exists. Constraints from Group come in various forms:

- Names on Ban list due to default risk, reputational risk, or high level of deployment
- Names on Watch list where available capacity has already been allocated to other AXA entities
- Names with specific risk allocations to the credit sensitive businesses and to Treasury

Credit risk arising from credit sensitive underwriting activities is also managed via the underwriting limit framework. Credit risk in the investment portfolio is also managed through various frameworks applied at AXA XL and Company including Authorities & Guidelines, and Fixed Income Concentration. These address the credit quality of obligors and counterparties, diversification, and exposure versus limits by rating, term, and seniority.

Credit quality ratings are derived from AXA Group universe, AXA XL applies its legacy credit rating methodology.

For credit risk arising from country specific exposure the Company benefits from the Division Country Risk Framework.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020**
**5.3.2 Investment portfolio**

Credit risk is also managed through the credit research performed by external investment management service providers, AXA Group Risk Management, and the in-house portfolio management team.

At December 31, 2021 and 2020, the breakdown of the investment portfolio by credit rating category was as follows:

Investment Portfolio by Credit Rating Category	Percentage of Total	
	December 31, 2021	December 31, 2020
AAA	37.7 %	38.0 %
AA	9.5 %	9.5 %
A	36.1 %	30.7 %
BBB	14.9 %	18.8 %
BB and below / other	1.8 %	3.0 %
<b>TOTAL</b>	<b>100.0 %</b>	<b>100.0 %</b>

**5.3.3 Reinsurance recoverables**

The Company manages its credit risk in its external reinsurance relationships by transacting with reinsurers that it considers financially sound, and if necessary, collateral in the form of funds withheld, trust accounts and/or irrevocable letters of credit may be held.

The following table sets forth the ratings profile of the reinsurers that support the unpaid loss and loss expense recoverable and reinsurance balances receivable, net of collateral, at December 31, 2021 and 2020:

Reinsurer Financial Strength Rating	2021 Percentage of Total	2020 Percentage of Total
AAA	3.4 %	2.1 %
AA	88.5 %	85.7 %
A	7.3 %	10.7 %
BBB	0.4 %	1.3 %
BB and below	0.1 %	0.1 %
Captives	0.3 %	— %
<b>TOTAL</b>	<b>100 %</b>	<b>100 %</b>

**5.3.4 Sensitivity analysis**

There is an embedded stress testing framework that is used to understand possible impacts of major risks, including credit risks. Stress tests and scenario analysis are undertaken to monitor exposure to the defined scenarios that allows monitoring of exposure to credit risks. These scenarios help to understand potential losses to ensure that the Company is prepared to withstand projected losses from these events, including ensuring that there is adequate capital, and liquidity to manage through the event and maintain the Company as a going concern.

## 5.4 INSURANCE RISK

Insurance risk is defined using the following categories:

Component	Definition
<b>Underwriting risk</b>	Underwriting risk derives from reinsurance policies written for the current period and from unearned exposure from prior periods. The risk is that the corresponding premium will be insufficient to cover future claims and other costs or more generally that the underwriting profitability from this tranche of business will be less than expected; underwriting risk includes man-made catastrophe events and natural catastrophe events.
<b>Reserve risk</b>	Reserve risk relates to policy liabilities (corresponding to business written in prior periods where the exposure has already been earned at the opening balance sheet date) being insufficient to cover the cost of claims and associated expenses until the time horizon for the solvency assessment. Additional risks are that the timing or amount of actual claims pay outs do not align with the timing or amounts of the estimated claims pay outs and that there are changes in the valuation of the market value margin (risk margin) during the time horizon for solvency assessment.

Underwriting and loss experience is reviewed regularly for, among other things, loss trends, emerging exposures, changes in the regulatory or legal environment as well as the efficacy of policy terms and conditions. Underwriting risk is also identified through:

Process	Description
<b>Business planning</b>	Analysis is undertaken of the underwriting portfolio, exposures, loss experience and changes to the external environment (including market cycle, economic environment) to identify any changes to the insurance risk profile for the forthcoming period of the budget/business plan.
<b>Underwriting processes (including guidelines and escalation authorities)</b>	Each individual contract written is assessed, through the underwriting process (which is subject to granular underwriting guidelines and escalation authorities) for the nature and level of insurance risk that it brings to the business including consideration of the exposure by nature of the limit, the risks insured, the location of the risks and other underwriting criteria.
<b>Reserving and claims process</b>	On an ongoing basis, claims trends are monitored and analyzed for any indications of change to the underlying insurance risk.
<b>Risk assessment and process</b>	Through the risk assessment processes, the Company quantifies existing risks and identifies new risks.
<b>Development of Realistic Disaster Scenarios (RDS) and other scenarios</b>	Used to monitor exposure to the defined scenarios and monitor compliance with underwriting risk tolerances and limits.
<b>Independent underwriting reviews</b>	Conducted on a risk-based approach by the Underwriting Governance team.

### 5.4.1 Mitigation strategies

#### 5.4.1.1 Reinsurance purchase

The Company participates in the AXA XL managed outwards third party reinsurance risk transfer program to support the Company's underwriting strategy within risk appetite and to ensure efficient use of capital. AXA XL work with the AXA Group Reinsurance entity ("AXA Global Re") on the outwards reinsurance strategy placements. Business ceded varies by location and line of business based on a number of factors, including market conditions. The goals of the outwards reinsurance risk transfer program include reducing exposure on individual risks, protecting against catastrophic risks, maintaining acceptable capital ratios and enabling the writing of additional business. The overall goal of the program is to reduce volatility and enhance overall capital efficiency.

In addition the Company considers reinsurance arrangements with affiliates within the AXA XL Division. The two most significant arrangements involve Syndicate 2003 and XL Bermuda Ltd and amounts related to these contracts are detailed in Note 19.1.

The Company's reinsurance strategy is considered as part of the annual business planning process. The impact of that strategy is monitored quarterly by management.

#### 5.4.1.2 Actuarial function

To mitigate the risk of large changes of reserves from one period to the next which are due to internal (not external) factors such as human errors, the reserving process performed by the Actuarial function is highly structured, strictly defined and controlled, and includes several layers of oversight.

#### 5.4.1.3 Rating adequacy

Underwriters are supported by dedicated teams of claims personnel and pricing actuaries. Premiums are set and adjusted based in large part on the industry group in which the reinsured is placed, the corresponding industry sector rating, and the perceived risk of the reinsured relative to the others in that group. The rating methodology used for individual reinsureds seeks to set premiums in accordance with claims potential. Underwriting guidelines and policy forms differ by product offering as well as by legal jurisdiction. Pricing tools are specialized and generally operate by line of business.

#### 5.4.1.4 Underwriting authorities and guidelines

All underwriters are assigned individual underwriting authorities with the objective of preserving the capital base and controlling earnings volatility. Authorities within the business units are delegated through the underwriting management structure, and the annual review of underwriting limits is part of the business planning process. Authorities are also set in line with individual underwriter experience level, agreed risk appetites and risk tolerances for material individual events, RDS' that cross multiple lines of business, and from risks related to some or all the above that may occur concurrently.

The Company underwrites and prices most risks individually following a review of the exposure and in accordance with its underwriting guidelines. The Company seeks to serve our clients while controlling our exposure both on a portfolio basis and on individual reinsurance contracts through terms and conditions, policy limits and sub-limits, attachment points and ceded reinsurance (outwards) arrangements on certain types of risks.

#### 5.4.1.5 New product process

The Product Innovation Team within the Global Chief Underwriting Office tracks product innovation and ensures that new products go through the governance process and approvals are obtained by the appropriate committees and leadership. All new products are approved by the Company.

## 5.5 LIQUIDITY RISK

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Liquidity risk is defined as the inability to meet cash and collateral posting obligations when they come due. Liquidity risk arises from three principal areas: operating, financing, and investing cash flows. The RMF addresses how the Company manages liquidity both under a normal and a stressed environment.

The Company identifies liquidity risk through the following processes:



Process	Description
<b>Stress testing</b>	Stressing liquidity positions with simultaneous capital market and insurance shocks as well as stressed operating cashflows.
<b>Treasury</b>	Treasury has responsibility to identify and monitor concentration risk of cash at banks, along with funding requirements.
<b>Risk assessment and processes</b>	Through the risk assessment processes, the Company quantifies existing risks and identifies new risks.

### 5.5.1 Mitigation strategy

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

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

Liquidity risk is managed through:

- Asset-liability management (ALM) - Treasury conducts detailed ALM analysis to match the currency mix of its liabilities with appropriate assets. Investments manages the Duration Gap of assets and liabilities within a pre-defined range.
- Special funding clauses - The major source of liquidity risk within underwriting contracts is the provision of rating triggers, which are common practice. These triggers typically necessitate the cancellation of the policy and the return of the cedant's unearned premium in the event of being downgraded below a certain rating level, which has the potential to be a material liquidity event when aggregated. There are controls in place to ensure that there is appropriate authorization for the inclusion of a downgrade clause in a contract.

The AXA XL Treasury and Risk Management departments serve as the focal point for liquidity monitoring, drawing on the expertise of other internal functions, as well as managing cash held at bank accounts covering day-to-day cash requirements, typically referred to as operating cash. Operating cash balances, together with cash managed within the investment portfolio, comprise the primary sources of liquidity for the Company. The Company has several credit facilities received which are detailed in Note 20.1.

The state of our liquidity is routinely reported to the Board and monitored as part of the RAF.

### 5.5.2 Stress testing

There is an embedded stress testing framework that is used to understand possible impacts of major risks, including liquidity risks. A stressed liquidity analysis report is prepared on a quarterly basis by Treasury and Risk Management, which includes the Company's own view of the stressed sources and uses of liquidity over multiple time horizons (ranging from 1 week to 12 months). Entities must maintain positive excess liquidity post simultaneous stresses from cash flows, capital markets, and natural catastrophes over each horizon.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020

### 5.5.3 Maturity of liabilities

The table below shows the breakdown of projected payments related to reinsurance contracts. Actual maturities may differ significantly from the estimates set out below due to uncertainty of actual claims settlement patterns. These cash flows are based on assumptions regarding the settlement frequency for Property & Casualty businesses, which are consistent with past experience. They are gross of reinsurance. Given the strong use of estimates, it is likely that actual payments will differ.

(US Dollars in thousands)	December 31, 2021				December 31, 2020			
	12 months or less	More than 1 year up to 5 years	More than 5 years	Total	12 months or less	More than 1 year up to 5 years	More than 5 years	Total
Gross claims reserves relating to P&C reinsurance contracts	2,570,327	3,701,839	2,321,994	8,594,160	1,797,216	2,607,792	1,478,241	5,883,249

In addition to the above, there are other liabilities totaling \$4,009.9 million as of December 31, 2021 (\$4,338.7 million as of December 31, 2020). Of this amount \$2,393.4 million (\$2,509.7 million as of December 31, 2020) pertains to unearned premium reserves which are expected to earn within 12 months. The majority of the remaining balance of \$1,616.6 million (\$1,829.0 million as of December 31, 2020) is expected to have a maturity date of less than 12 months.

## 5.6 MATERIAL RISK CONCENTRATIONS

Material concentrations can occur within and across risk categories. Our RAF is intended to address both. The RAF and expected exposures are reviewed annually and tested through our stress testing framework.

The RAF has two key components, high level risk appetite statements and a set of risk exposure limits linked to specific risk types. Risk appetite statements, exposures and limits will be reviewed for approval by the Board in April 2022 to reflect the risk profile of the Company and the 2022 business plan.

There are three components to the high-level risk appetite statements:

- Value - At the AXA XL Division level, this considers exposure to the largest natural catastrophe event (at 1 in 200 years), default of single counterparty (not risk adjusted), largest claim or operational risk event (at 1 in 200 years). This appetite including relevant elements will be developed over time for the Company.
- Solvency - This considers the buffer that would be held in excess of regulatory capital. The factors considered in setting the solvency target included the ability of the Company to withstand the largest of a 1 in 20 years financial event or insurance event without the need to call on AXA XL Division for support.
- Liquidity - This considers ability to pay claims resulting from a stress event.

The risk exposure limits cover market, credit, reserve and underwriting and operational risks.

- Market risk** - indicators exist for exposures per asset class, duration gap and foreign exchange.
- Credit risk** - the Company benefits from indicators that exist at the AXA XL Division level for sovereign exposure, fixed income concentration, and global issuer exposure.
- Reserve risk** - a reserving risk appetite will be developed over time for the Company.
- Underwriting risk:**
  - Underwriting limits are set for Property, Liability, Marine, Aviation, D&O and Cyber lines. The limits are based on scenarios for accumulation of exposure on single insured.
  - Natural catastrophe - exposures are monitored for the top three largest perils for a 1 in 200-year event net of reinsurance and for a 1 in 10 -year worldwide aggregate loss net of reinsurance.
  - The Cyber per event appetite monitors cyber affirmative exposure per guarantee (first party and third party).
- Operational risk** - at the AXA XL Divisional level, this appetite is set to the amount of loss per individual risk expected to occur every 200 years (i.e., 99.5% VaR).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020**

Alert levels are set by the AXA XL Division generally at 80% of the risk appetite level and are monitored on a regular basis. Reporting against the risk appetites is undertaken through the Risk Dashboard that is produced for the Reinsurance AXA XL Risk and Compliance Committee (Re ARCC) on a quarterly basis. The frequency of update of the exposure positions is as follows:

- Over-arching risk appetite statements (single event, solvency, and liquidity) - quarterly
- Risk appetite exposures:
  - Market risk - quarterly
  - Credit risk - monthly for the AXA XL Division
  - Reserve risk - semi-annually for the AXA XL Division
  - Underwriting per risk - semi-annually
  - Natural catastrophe exposures - quarterly
  - Cyber per event - semi-annually
  - Operational risk - annually for the AXA XL Division

Loss exposure estimates for all event risks are derived from a combination of commercially available and internally developed models together with the judgement of management, as overseen by the Board. Actual incurred losses may vary materially from our estimates. Factors that can cause a deviation between estimated and actual incurred losses may include:

- Inaccurate assumptions of event frequency and severity;
- Inaccurate or incomplete data;
- Changing climate conditions that may add to the unpredictability of frequency and severity of natural catastrophes in certain parts of the world and create additional uncertainty as to future trends and exposures;
- Future possible increases in property values and the effects of inflation that may increase the severity of catastrophic events to levels above the modelled levels;
- Natural catastrophe models that incorporate and are critically dependent on meteorological, seismological and other earth science assumptions and related statistical relationships that may not be representative of prevailing conditions and risks, and may therefore misstate how particular events actually materialize, causing a material deviation between forecasted and actual damages associated with such events; and
- A change in the legislative, regulatory and judicial climate.

For the above and other reasons, the incidence, timing and severity of catastrophes and other event types are inherently unpredictable, and it is difficult to estimate the amount of loss any given occurrence will generate. Consequently, there is material uncertainty around our ability to measure exposures associated with individual events and combinations of events. This uncertainty can cause actual exposures and losses to deviate from those amounts estimated, which in turn can create a material adverse effect on our financial condition and results of operations and may result in substantial liquidation of investments, possibly at a loss, and outflows of cash as losses are paid.

## **/ Note 6 Goodwill And Other Intangible Assets**

### **6.1 GOODWILL AND OTHER INTANGIBLE ASSETS**

<i>(US Dollars in thousands)</i>	<b>2021</b>	<b>2020</b>
Goodwill	21,740	21,740
Other Intangible Assets	23,321	25,068
<b>Goodwill and Other Intangible Assets</b>	<b>45,061</b>	<b>46,808</b>

*Note: Goodwill related to entities accounted for using the equity method is not presented in this table (see Note 2.6.1).*

#### **6.1.1 Goodwill**

The recoverability of goodwill is assessed using the value in use approach, as described in Note 2.6.1.1. The fair value is then compared to the carrying amount to assess the goodwill recoverability. The results of the cash flow projections exceeded the carrying amounts of the CGU.

#### **6.1.2 Other Intangible Assets**

The Company's other intangible assets consist primarily of acquired distribution networks. These assets are deemed to have defined useful lives and are amortized on a straight-line basis. The amortization period of twenty years approximates the time over which the Company expects to generate future net cash inflows from the use of these assets. In accordance with IFRS, these assets are subject to impairment testing when events or conditions indicate that the carrying value of an asset may not be fully recoverable from future cash flows. If the carrying value of a definite-lived intangible asset is in excess of its fair value, the asset must be written down to its fair value through the recognition of an impairment charge to earnings. The Company tests definite-lived intangible assets whenever events or circumstances indicate that carrying values may not be recoverable. For further details regarding the Company's impairment process, see Note 2.6.3. During 2021 and 2020, no impairments were recorded.

## **Note 7** Deferred Acquisition Costs

### **7.1 ROLLFORWARD OF DEFERRED ACQUISITION COSTS**

Changes in Deferred Acquisition Costs:

<i>(US Dollars in thousands)</i>	2021	2020
<b>Deferred Acquisition Costs carrying value as of January 1</b>	<b>772,606</b>	—
Acquisition costs incurred in relation to assumed reinsurance contracts written	1,174,868	—
Acquisition costs expensed to the income statement	(1,231,806)	—
Increase in DAC for the period relating to new entities (a)	—	772,606
Currency translation and other changes	(6,679)	—
<b>Deferred Acquisition Costs carrying value as of December 31</b>	<b>708,989</b>	<b>772,606</b>

(a) Relates to acquisitions of companies under common control (see Note 4.1).

## Note 8 Investments

### 8.1 BREAKDOWN OF INVESTMENTS

Each investment item is presented net of the effect of related hedging derivatives (IAS 39 qualifying hedges or economic hedges) except derivatives related to macro-hedges which are shown separately. Detailed effects of derivatives are also provided in Note 16.3.

(US Dollars in thousands)	Investments as per Consolidated Statement of Financial Position					
	December 31, 2021			December 31, 2020		
	Fair value	Carrying value	% (value balance sheet)	Fair value	Carrying value	% (value balance sheet)
<b>Investment in real estate properties at amortized cost</b>	<b>106,008</b>	<b>98,889</b>	<b>1.5 %</b>	<b>110,628</b>	<b>109,269</b>	<b>2.2 %</b>
Debt instruments available for sale	6,108,181	6,108,181	92.1 %	4,467,937	4,467,937	88.9 %
Debt instruments designated as at fair value through profit or loss (a)	69,257	69,257	1.0 %	84,464	84,464	1.7 %
<b>Debt instruments</b>	<b>6,177,438</b>	<b>6,177,438</b>	<b>93.2 %</b>	<b>4,552,401</b>	<b>4,552,401</b>	<b>90.6 %</b>
Equity instruments available for sale	45,826	45,826	0.7 %	—	—	— %
<b>Equity instruments</b>	<b>45,826</b>	<b>45,826</b>	<b>0.7 %</b>	<b>—</b>	<b>—</b>	<b>— %</b>
Non-consolidated investment funds available for sale	306,561	306,561	4.6 %	309,685	309,685	6.2 %
Non-consolidated investment funds designated as at fair value through profit or loss (b)	—	—	— %	55,622	55,622	1.1 %
<b>Non-consolidated investment funds</b>	<b>306,561</b>	<b>306,561</b>	<b>4.6 %</b>	<b>365,307</b>	<b>365,307</b>	<b>7.3 %</b>
<b>Sub total Financial instruments (excluding Loans)</b>	<b>6,529,824</b>	<b>6,529,824</b>	<b>98.5 %</b>	<b>4,917,708</b>	<b>4,917,708</b>	<b>97.8 %</b>
<b>Total Financial instruments</b>	<b>6,529,824</b>	<b>6,529,824</b>	<b>98.5 %</b>	<b>4,917,708</b>	<b>4,917,708</b>	<b>97.8 %</b>
<b>INVESTMENTS</b>	<b>6,635,832</b>	<b>6,628,713</b>	<b>100.0 %</b>	<b>5,028,336</b>	<b>5,026,976</b>	<b>100.0 %</b>

(a) Includes assets measured at fair value notably under the fair value option.

(b) Assets measured at fair value under the fair value option.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020

### 8.2 INVESTMENT IN REAL ESTATE PROPERTIES

Investment in real estate properties includes buildings owned directly and through consolidated real estate entities.

Breakdown of the carrying value and fair value of investment in real estate properties at amortized cost, except derivatives related to macro-hedges which are shown separately in Note 16.3, is as follows:

(US Dollars in thousands)	December 31, 2021					December 31, 2020				
	Gross value	Amortization	Impairment	Carrying value	Fair value	Gross value	Amortization	Impairment	Carrying value	Fair value
Investment in real estate properties at amortized cost (a)	106,729	(7,840)	—	98,889	106,008	114,833	(5,565)	—	109,269	110,628
<b>Total for all activities including derivatives</b>	<b>106,729</b>	<b>(7,840)</b>	<b>—</b>	<b>98,889</b>	<b>106,008</b>	<b>114,833</b>	<b>(5,565)</b>	<b>—</b>	<b>109,269</b>	<b>110,628</b>

(a) Includes infrastructure investments.

Change in impairment and amortization of investment in real estate properties at amortized cost (all activities):

(US Dollars in thousands)	Impairment – Investment in real estate properties		Amortization – Investment in real estate properties	
	2021	2020	2021	2020
<b>Value as of January 1</b>	—	—	(5,565)	—
Increase for the period	—	—	(2,275)	—
Others (a)	—	—	—	(5,565)
<b>Value as of December 31</b>	<b>—</b>	<b>—</b>	<b>(7,840)</b>	<b>(5,565)</b>

(a) Relates to acquisitions of companies under common control (see Note 4.1) and effective changes in exchange rates.

### 8.3 UNREALIZED GAINS AND LOSSES ON FINANCIAL INVESTMENTS

Unrealized capital gains and losses on financial investments, when not already reflected in the income statement, were allocated as follows:

(US Dollars in thousands)	December 31, 2021					December 31, 2020				
	Amortized cost (a)	Fair value	Carrying value (b)	Unrealized gains	Unrealized losses	Amortized cost (a)	Fair value	Carrying value (b)	Unrealized gains	Unrealized losses
Debt instruments available for sale	6,017,955	6,108,181	6,108,181	131,030	(40,804)	4,249,764	4,467,937	4,467,937	223,879	(5,706)
Equity instruments available for sale	49,955	45,826	45,826	51	(4,180)	—	—	—	—	—
Non-consolidated investment funds available for sale	298,949	306,561	306,561	8,021	(409)	299,150	309,685	309,685	11,289	(754)

(a) Net of impairment – including premiums/discounts and related accumulated amortization.

(b) Net of impairment.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020**

## 8.4 DEBT INSTRUMENTS BY TYPE OF ISSUER

The table below sets out the debt instruments portfolio by issuer type, excluding macro-hedging derivatives, but including the effect of related hedging derivatives (IAS 39 qualifying hedges or economic hedges). Details of the effect of derivatives are also provided in Note 16.3. Additional information on the credit risk associated with debt instruments is provided in Note 5.3.

	December 31, 2021	December 31, 2020
<i>(US Dollars in thousands)</i>	Carrying value	Carrying value
Corporate debt instruments (a)	3,614,139	2,339,989
Government and government-like debt instruments (b)	1,210,258	1,059,700
Other debt instruments issued by government related	1,353,041	1,152,712
<b>TOTAL DEBT INSTRUMENTS</b>	<b>6,177,438</b>	<b>4,552,401</b>

(a) Includes debt instruments issued by companies in which a State holds interests.

## 8.5 CONTRACTUAL MATURITIES AND EXPOSURE TO INTEREST RATE RISK

The table below sets out the contractual maturities of debt instruments held by the Company. Effective maturities may differ from those presented, mainly because some assets include clauses allowing early redemption, with or without penalty or duration extension features. In some cases, the effect of derivatives modifies the maturity profile of assets presented below.

Debt instruments (at cost) are not quoted in an active market. Most of the debt instruments and loans held by the Company are fixed-rate instruments (i.e. exposed to fair value interest rate risk).

	December 31, 2021 Net carrying amount by maturity					
<i>(US Dollars in thousands)</i>	12 months or less	More than 1 year up to 5 years	More than 5 years	Carrying value excluding derivatives	Impact of Derivatives	Total Carrying value including derivatives
Debt instruments	367,513	2,039,511	3,770,414	6,177,438	—	6,177,438
<b>Total Financial investments exposed to interest rate risk</b>	<b>367,513</b>	<b>2,039,511</b>	<b>3,770,414</b>	<b>6,177,438</b>	<b>—</b>	<b>6,177,438</b>

	December 31, 2020 Net carrying amount by maturity					
<i>(US Dollars in thousands)</i>	12 months or less	More than 1 year up to 5 years	More than 5 years	Carrying value excluding derivatives	Impact of Derivatives	Total Carrying value including derivatives
Debt instruments	377,219	1,597,114	2,578,069	4,552,401	—	4,552,401
<b>Total Financial investments exposed to interest rate risk</b>	<b>377,219</b>	<b>1,597,114</b>	<b>2,578,069</b>	<b>4,552,401</b>	<b>—</b>	<b>4,552,401</b>

## 8.6 EXPOSURE TO PRICE RISK

The breakdown by industry of equity instruments owned across the Company is as follows:

<i>(US Dollars in thousands)</i>	Financial	Total value excluding derivatives	Impact of Derivatives	Total value including derivatives
Equity instruments as of December 31, 2021	45,826	45,826	—	45,826
Equity instruments as of December 31, 2020	—	—	—	—



## 8.7 NON-CONSOLIDATED INVESTMENT FUNDS

The detail of “non-consolidated” investment funds breakdown was as follows (see Note 2.7.3 and Note 3.2):

	December 31, 2021	December 31, 2020
<i>(US Dollars in thousands)</i>	Fair value	Fair value
Non-consolidated investment funds mainly holding equity securities	13,187	80,124
Non-consolidated investment funds mainly holding debt instruments	293,373	285,183
<b>TOTAL</b>	<b>306,561</b>	<b>365,307</b>

As part of the total nonconsolidated investment funds in the table above, the amortized cost of non-consolidated investment funds available for sale was as below:

- funds mainly holding equity securities: \$13.2 million in 2021 compared to \$24.9 million in 2020;
- funds mainly holding debt instruments: \$285.8 million in 2021 compared to \$274.3 million in 2020;

## 8.8 FINANCIAL INSTRUMENTS SUBJECT TO IMPAIRMENT

### 8.8.1 Breakdown of financial investments subject to impairment

Each investment item is presented net of the effect of related hedging derivatives (IAS 39 qualifying hedges or economic hedges).

	December 31, 2021				
<i>(US Dollars in thousands)</i>	Cost before impairment and revaluation to fair value (a)	Impairment	Cost after impairment but before revaluation to fair value (b)	Revaluation to fair value	Fair value
Debt instruments available for sale	6,017,961	(5)	6,017,955	90,225	6,108,181
<b>Debt instruments</b>	<b>6,017,961</b>	<b>(5)</b>	<b>6,017,955</b>	<b>90,225</b>	<b>6,108,181</b>
<b>Equity instruments available for sale</b>	<b>49,955</b>	<b>—</b>	<b>49,955</b>	<b>(4,129)</b>	<b>45,826</b>
<b>Non-consolidated investment funds available for sale</b>	<b>299,082</b>	<b>(133)</b>	<b>298,949</b>	<b>7,612</b>	<b>306,561</b>
<b>TOTAL</b>	<b>6,366,997</b>	<b>(138)</b>	<b>6,366,860</b>	<b>93,708</b>	<b>6,460,567</b>

(a) Asset value including impact of discounts/premiums and accrued interests, but before impairment and revaluation to fair value of assets available for sale.

(b) Asset value including impact of impairment, discounts/premiums and accrued interests, but before revaluation to fair value of assets available for sale.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020**

(US Dollars in thousands)	December 31, 2020				
	Cost before impairment and revaluation to fair value (a)	Impairment	Cost after impairment but before revaluation to fair value (b)	Revaluation to fair value	Fair value
Debt instruments available for sale	4,249,764	—	4,249,764	218,173	4,467,937
<b>Debt instruments</b>	<b>4,249,764</b>	<b>—</b>	<b>4,249,764</b>	<b>218,173</b>	<b>4,467,937</b>
Equity instruments available for sale	—	—	—	—	—
Non-consolidated investment funds available for sale	304,591	(5,442)	299,150	10,535	309,685
<b>TOTAL</b>	<b>4,554,356</b>	<b>(5,442)</b>	<b>4,548,914</b>	<b>228,708</b>	<b>4,777,622</b>

(a) Asset value including impact of discounts/premiums and accrued interests, but before impairment and revaluation to fair value of assets available for sale.

(b) Asset value including impact of impairment, discounts/premiums and accrued interests, but before revaluation to fair value of assets available for sale.

## 8.8.2 Change in impairment on financial investments

(US Dollars in thousands)	January 1, 2021	Increase for the period	Write back following sale or repayment	Other	December 31, 2021
Impairment – Debt instruments	—	5	—	—	5
Impairment – Non-consolidated investment funds	5,442	1,411	(6,720)	—	133
<b>TOTAL</b>	<b>5,442</b>	<b>1,416</b>	<b>(6,720)</b>	<b>—</b>	<b>138</b>

(US Dollars in thousands)	January 1, 2020	Increase for the period	Write back following sale or repayment	Other (a)	December 31, 2020
Impairment – Debt instruments	—	—	—	—	—
Impairment – Non-consolidated investment funds	—	—	—	5,442	5,442
<b>TOTAL</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>5,442</b>	<b>5,442</b>

(a) Relates to acquisitions of companies under common control (see Note 4.1) and effective changes in exchange rates.

## 8.9 FAIR VALUE OF INVESTMENTS

### 8.9.1 Investments recognized at fair value

The breakdown by valuation method of investments recognized at fair value including derivatives (also detailed in Note 16.3 and Note 16.4) is as follows:

(US Dollars in thousands)	December 31, 2021				
	Assets quoted in an active market excluding derivatives	Assets not quoted in an active market or no active market excluding derivatives			
	Fair value determined directly by reference to active market excluding derivatives (level 1)	Fair value mainly based on observable market data excluding derivatives (level 2)	Fair value mainly not based on observable market data excluding derivatives (level 3)	Total excluding derivatives	Total including derivatives
Debt instruments	—	6,108,181	—	6,108,181	6,108,181
Equity instruments	—	—	45,826	45,826	45,826
Non-consolidated investment funds	—	173,855	132,706	306,561	306,561
<b>Financial investments and loans available for sale</b>	<b>—</b>	<b>6,282,036</b>	<b>178,531</b>	<b>6,460,567</b>	<b>6,460,567</b>
Debt instruments	—	69,257	—	69,257	69,257
Non-consolidated investment funds	—	—	—	—	—
<b>Financial investments and loans designated as at fair value through profit or loss</b>	<b>—</b>	<b>69,257</b>	<b>—</b>	<b>69,257</b>	<b>69,257</b>
<b>TOTAL FINANCIAL INVESTMENTS AND LOANS ACCOUNTED FOR AT FAIR VALUE</b>	<b>—</b>	<b>6,351,293</b>	<b>178,531</b>	<b>6,529,824</b>	<b>6,529,824</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020**

	December 31, 2020				
	Assets quoted in an active market excluding derivatives	Assets not quoted in an active market or no active market excluding derivatives			
	Fair value determined directly by reference to active market excluding derivatives (level 1)	Fair value mainly based on observable market data excluding derivatives (level 2)	Fair value mainly not based on observable market data excluding derivatives (level 3)	Total excluding derivatives	Total including derivatives
<i>(US Dollars in thousands)</i>					
Debt instruments	—	4,467,937	—	4,467,937	4,467,937
Equity instruments	—	—	—	—	—
Non-consolidated investment funds	—	165,708	143,977	309,685	309,685
<b>Financial investments and loans available for sale</b>	<b>—</b>	<b>4,633,645</b>	<b>143,977</b>	<b>4,777,622</b>	<b>4,777,622</b>
Debt instruments	—	84,464	—	84,464	84,464
Non-consolidated investment funds	—	—	55,622	55,622	55,622
<b>Financial investments and loans designated as at fair value through profit or loss</b>	<b>—</b>	<b>84,464</b>	<b>55,622</b>	<b>140,086</b>	<b>140,086</b>
<b>TOTAL FINANCIAL INVESTMENTS AND LOANS ACCOUNTED FOR AT FAIR VALUE</b>	<b>—</b>	<b>4,718,109</b>	<b>199,599</b>	<b>4,917,708</b>	<b>4,917,708</b>

Methods applied to determine the fair value of investments measured at fair value in the consolidated financial statements are described in Note 2.5. The Company applies the IFRS 13 fair value hierarchy.

**ASSETS CLASSIFICATION**

Fair values determined in whole directly by reference to an active market relate to prices which are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency which represent actual and regularly occurring market transactions on an arm's length basis, i.e. the market is still active. Such assets are categorized in the level 1 of the IFRS 13 fair value hierarchy.

Level 2 and 3 assets are investments which are not quoted in an active market or for which there is no active market. Fair values for level 2 and 3 assets include:

- values provided by external parties which:
  - are readily available including last transaction prices but relate to assets for which the market is not always active, or
  - values provided at the request of the Company by pricing services and which are not readily publicly available;
- assets measured on the basis of valuation techniques including a varying degree of assumptions supported by market transactions and observable data.

The common characteristic of level 2 and 3 assets is that their markets are considered as less active. Their value is generally based on mark to market basis, except when there is no market or when the market is distressed, in which case a mark to model approach is used. Assets not quoted in an active market which are marked to market mainly using observable inputs are classified in level 2. Assets not quoted in an active market for which fair value determination is not mainly based on observable inputs are classified as level 3. For all assets not quoted in an active market/no active market and for which a mark to model approach is used, the classification between level 2 and level 3 depends on the proportion of assumptions used supported by market transactions and observable data (market observable inputs):

- assumed to be used by pricing services or;
- used by the Company in the limited cases of application of mark to model valuations.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020

### a) Fair values determined in whole directly by reference to an active market (level 1)

As of December 31, 2021, there were no transfers between level 1 and level 2.

### b) Fair values of assets not quoted in an active market – no active markets (level 2 and level 3)

#### OVERVIEW OF THE NATURE OF SUCH INVESTMENTS

Amounts presented in level 2 and 3 represent a variety of circumstances. A financial instrument is regarded as not quoted in an active market if there is little observation of transaction prices as an inherent characteristic of the instrument, when there is a significant decline in the volume and level of trading activity, in case of significant illiquidity or if observable prices cannot be considered as representing fair value because of dislocated market conditions. Characteristics of inactive markets can therefore be very different in nature, inherent to the instrument or be indicative of a change in the conditions prevailing in certain markets.

The identification of level 3 assets among assets not quoted in an active market involves a significant level of judgment. The following are considered as observable: inputs provided by external pricing services, observable information obtained from specialized data providers, rating agencies or external surveys. The extent to which such data are external to the Company and not assessed by internal valuation teams is one of the main criteria applied in assessing whether data are observable or not. Should those data be significantly adjusted, or would they be outdated because of the lack of newly available factors, such inputs would be deemed unobservable. Another area of judgment is the assessment of the significance of an input against the fair value measurement in its entirety. As a result, a different cut between observable and unobservable data and variances in the weighting of the significance of each input against the fair value measurement in its entirety could produce a different categorization.

Certain unquoted debt instruments, some instruments issued on private markets such as private equity instruments or private loans were always considered as not quoted in active markets as an inherent characteristic of these investments and were therefore included as assets not quoted in active markets/ no active markets in all periods presented. Valuations are based either on external pricing providers or internal models using techniques commonly used by market participants. Valuation teams make the maximum use of current transaction prices (if any) and observable data but some of the underlying sectors to which the investments relate may be so particular that significant adjustments are performed or unobservable data are used. Private equity funds of funds are measured on the basis of the latest net asset values of funds provided to the Company.

#### TRANSFER IN AND OUT OF THE LEVEL 3 CATEGORY AND OTHER MOVEMENTS

From January 1, 2021 to December 31, 2021, the amount of level 3 assets increased to \$178.5 million, representing 2.7% of the total assets at fair value compared to representing 4.1% of total assets at fair value in 2020.

Main movements related to level 3 assets to be noted were the following:

- \$81.5 million of new investments;
- \$45.5 million of change in unrealized gains and losses;
- \$(8.7) million of net asset transfers in and out of level 3 and foreign exchange fluctuation impact;
- \$(139.3) million of asset sales, redemptions and settlements mainly of debt instruments, equity securities and non-consolidated investment funds accounted as available for sale and of equity securities, non-consolidated investment funds, other assets held by controlled investment funds and debt instruments accounted as fair value through profit or loss.

A majority of assets classified in level 3 correspond to private investments, in particular private credit and private equity assets.

## 8.9.2 Fair value of investments recognized at amortized cost

	December 31, 2021				
	Assets quoted in an active market	Assets not quoted in an active market or no active market			
	Fair value determined directly by reference to active market (level 1)	Fair value mainly based on observable market data (level 2)	Fair value mainly not based on observable market data (level 3)	Total excluding derivatives	Total including derivatives
<i>(US Dollars in thousands)</i>					
Investment in real estate properties at amortized cost	—	—	106,008	106,008	106,008
<b>Financial investments and loans at amortized cost</b>	<b>—</b>	<b>—</b>	<b>106,008</b>	<b>106,008</b>	<b>106,008</b>
<b>TOTAL FAIR VALUE OF INVESTED ASSETS AT AMORTIZED COST</b>	<b>—</b>	<b>—</b>	<b>106,008</b>	<b>106,008</b>	<b>106,008</b>

	December 31, 2020				
	Assets quoted in an active market	Assets not quoted in an active market or no active market			
	Fair value determined directly by reference to active market (level 1)	Fair value mainly based on observable market data (level 2)	Fair value mainly not based on observable market data (level 3)	Total excluding derivatives	Total including derivatives
<i>(US Dollars in thousands)</i>					
Investment in real estate properties at amortized cost	—	—	110,628	110,628	110,628
<b>Financial investments and loans at amortized cost</b>	<b>—</b>	<b>—</b>	<b>110,628</b>	<b>110,628</b>	<b>110,628</b>
<b>TOTAL FAIR VALUE OF INVESTED ASSETS AT AMORTIZED COST</b>	<b>—</b>	<b>—</b>	<b>110,628</b>	<b>110,628</b>	<b>110,628</b>

The Company applies the IFRS 13 fair value hierarchy as described in Note 2.5. Specifics to the valuation of investments are further described in Note 8.9.1 and the same principles apply to the fair value of investments at amortized cost.

The fair values of debt instruments and loans at cost are determined with consideration of market inputs to the extent possible. For level 2 instruments, the fair value is mainly derived using valuation techniques based upon observable market interest rate curves. For level 3 instruments, the fair values of investments in real estate properties, debt instruments and loans at cost are determined by valuation techniques using limited observable market data.

## 8.10 DISCLOSURES ABOUT THE TEMPORARY EXEMPTION FROM IFRS 9

### 8.10.1 Solely Payments of Principal and Interest (SPPI) test

As mentioned in Note 2.2.2.2, in the context of IFRS 9 implementation, the Company has determined that it is eligible for the temporary exemption option, introduced by the amendment to IFRS 4 – Insurance Contracts, for annual reporting periods beginning on or after January 1, 2023. During this deferral period, additional disclosures related to SPPI criteria and to credit risk exposure are required.

To determine the appropriate classification of financial assets under IFRS 9, an entity would need to assess the contractual cash flows characteristics of any financial asset. The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding, i.e. cash flows that are consistent with a basic lending arrangement. In a basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest.

IFRS 9 defines the terms “principal” as being the fair value of the financial asset at initial recognition, and the “interest” as being compensation for (i) the time value of money, and (ii) the credit risk associated with the principal amount outstanding during a particular period of time.

Debt instruments accounted for at fair value through other comprehensive income under IAS 39 are eligible for the SPPI test whereas it is not applicable for debt instruments accounted for at fair value through profit and loss.

The tables below set out the result of the SPPI test for the assets not currently designated as at fair value with changes in fair value recognized through profit or loss.

Each investment item is presented gross of tax and excluding the effect of related hedging derivatives (IAS 39 qualifying hedges or economic hedges) and the potential impact resulting from the application of the future IFRS 17 standard on insurance contracts that will avoid accounting mismatches.

	December 31, 2021				December 31, 2020			
	Fail the SPPI test		Pass the SPPI test		Fail the SPPI test		Pass the SPPI test	
	Fair value	Change in unrealized gain or loss in 2021	Fair value	Change in unrealized gain or loss in 2021	Fair value	Change in unrealized gain or loss in 2020 (a)	Fair value	Change in unrealized gain or loss in 2020 (a)
<b>(US Dollars in thousands)</b>								
Debt instruments available for sale	—	(36)	6,108,181	(127,911)	14,839	36	4,453,098	218,136
Equity instruments available for sale	45,826	(4,129)	—	—	—	—	—	—
Non-consolidated investment funds available for sale	306,561	(2,923)	—	—	309,685	10,535	—	—
<b>TOTAL</b>	<b>352,387</b>	<b>(7,089)</b>	<b>6,108,181</b>	<b>(127,911)</b>	<b>324,524</b>	<b>10,571</b>	<b>4,453,098</b>	<b>218,136</b>

(a) Relates to acquisitions of companies under common control (see Note 4.1).

**8.10.2 Credit risk exposure**

The tables below set out the gross carrying amount and the fair value (excluding the impact of derivatives) information on credit risk exposure for financial assets that pass the SPPI test. For debt instruments, the credit risk information is available by rating grades.

<i>(US Dollars in thousands)</i>	December 31, 2021						
	Fair value of debt instruments that pass the SPPI test						
	AAA	AA	A	BBB	BB and below	Other	Total
Debt Instruments available for sale	2,311,228	574,424	2,211,192	903,288	108,033	16	6,108,181
<b>Total Fair value of debt instruments that pass the SPPI test</b>	<b>2,311,228</b>	<b>574,424</b>	<b>2,211,192</b>	<b>903,288</b>	<b>108,033</b>	<b>16</b>	<b>6,108,181</b>

<i>(US Dollars in thousands)</i>	December 31, 2020						
	Fair value of debt instruments that pass the SPPI test						
	AAA	AA	A	BBB	BB and below	Other	Total
Debt Instruments available for sale	1,695,064	418,598	1,373,549	828,122	137,749	16	4,453,098
<b>Total Fair value of debt instruments that pass the SPPI test</b>	<b>1,695,064</b>	<b>418,598</b>	<b>1,373,549</b>	<b>828,122</b>	<b>137,749</b>	<b>16</b>	<b>4,453,098</b>



## **/ Note 9 Investments Accounted For Using The Equity Method**

As of December 31, 2021 and 2020, the Company had an investment of \$22.1 million, representing a 26.9% strategic ownership interest in AXA XL Seguros and is accounted for using the equity method.

Non-consolidated investment funds under significant influence are accounted for as assets at fair value with changes in fair value recognized through profit or loss (see Note 2.7.3).

## Note 10 Receivables

(US Dollars in thousands)	December 31, 2021				December 31, 2020			
	Gross value	Impairment	Carrying value	Fair value	Gross value	Impairment	Carrying value	Fair value
Deposits and guarantees	6,900	—	6,900	6,900	992	—	992	992
Receivables from policyholders, brokers and general agents (a)	4,845,897	(13,809)	4,832,088	4,832,088	3,080,143	(4,947)	3,075,196	3,075,196
<b>Receivables arising from assumed reinsurance operations</b>	<b>4,852,797</b>	<b>(13,809)</b>	<b>4,838,989</b>	<b>4,838,989</b>	<b>3,081,135</b>	<b>(4,947)</b>	<b>3,076,188</b>	<b>3,076,188</b>
Receivables from reinsurers	169,197	(1,628)	167,569	167,569	245,556	(2,374)	243,182	243,182
<b>Receivables arising from outward reinsurance operations</b>	<b>169,197</b>	<b>(1,628)</b>	<b>167,569</b>	<b>167,569</b>	<b>245,556</b>	<b>(2,374)</b>	<b>243,182</b>	<b>243,182</b>
<b>Receivables – current tax</b>	<b>27,309</b>	<b>—</b>	<b>27,309</b>	<b>27,309</b>	<b>11,828</b>	<b>—</b>	<b>11,828</b>	<b>11,828</b>
<b>Other receivables</b>	<b>89,425</b>	<b>—</b>	<b>89,425</b>	<b>89,425</b>	<b>82,160</b>	<b>—</b>	<b>82,160</b>	<b>82,160</b>
<b>TOTAL RECEIVABLES</b>	<b>5,138,728</b>	<b>(15,437)</b>	<b>5,123,291</b>	<b>5,123,291</b>	<b>3,420,680</b>	<b>(7,321)</b>	<b>3,413,359</b>	<b>3,413,359</b>

(a) Includes \$1.6 billion of funds withheld assets in 2021 relating to a 100% quota share contract on assumed reinsurance business (see Note 12.1).

## **/ Note 11 Shareholder's Equity And Minority Interests**

### **11.1 IMPACT OF TRANSACTIONS WITH SHAREHOLDER**

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The Consolidated Statement of Changes in Equity is presented as a primary financial statement.

#### **11.1.1 Change in shareholder's equity Company share in 2021**

##### **SHARE CAPITAL AND CAPITAL IN EXCESS OF NOMINAL VALUE**

The authorized share capital of AXLRE is 10.0 billion shares, par value \$0.01 each, and the total issued and outstanding shares as at December 31, 2021 was 10.0 billion representing \$100.0 million of share capital.

During 2021, the following transactions had an impact on the Company's share capital and capital in excess of nominal value:

- a capital contribution of \$875.0 million from the Company's parent entity, AXA XL Reinsurance Holdings Limited;
- a capital increase of \$383.7 million from the settlement of a loan and subsequent contribution with a related party.

##### **DIVIDENDS PAID**

The Company did not pay any common share dividends to AXA XL Reinsurance Holdings Limited during 2021.

#### **11.1.2 Change in shareholder's equity Company share in 2020**

##### **SHARE CAPITAL AND CAPITAL IN EXCESS OF NOMINAL VALUE**

During 2020, the following transactions had an impact on the Company's share capital and capital in excess of nominal value:

- a capital increase of \$1.9 billion due to acquisitions of companies under common control (see Note 4.1).

##### **DIVIDENDS PAID**

The Company did not pay any common share dividends to AXA XL Reinsurance Holdings Limited during 2020.

### **11.2 COMPREHENSIVE INCOME FOR THE PERIOD**

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The Consolidated Statement of Comprehensive Income is presented as a primary financial statement. It primarily includes net income for the period, the reserves relating to the change in fair value of available for sale financial instruments, and the translation reserve.

#### **11.2.1 Comprehensive income for 2021**

##### **RESERVES RELATED TO CHANGES IN FAIR VALUE OF AVAILABLE FOR SALE FINANCIAL INSTRUMENTS INCLUDED IN SHAREHOLDER'S EQUITY**

The decrease of gross unrealized gains and losses on assets available for sale totaling \$(133.7) million, comprised mainly of \$(127.9) million due to capital losses on debt securities which was mainly driven by an increase in interest rates across major jurisdictions and to a lesser extent due to the widening of credit spreads.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020**

The following table shows the reconciliation between gross unrealized gains and losses on available for sale financial assets and the corresponding reserve recognized in shareholder's equity:

<i>(US Dollars in thousands)</i>	December 31, 2021	December 31, 2020
<b>Gross unrealized gains and losses (a)</b>	<b>95,032</b>	<b>228,687</b>
Deferred tax	(14,810)	(35,954)
<b>UNREALIZED GAINS AND LOSSES (NET OF TAX) - TOTAL</b>	<b>80,222</b>	<b>192,733</b>
<b>Minority interests' share in unrealized gains and losses</b>	<b>(3,187)</b>	<b>—</b>
Translation reserves	1,842	—
<b>UNREALIZED GAINS AND LOSSES - COMPANY SHARE</b>	<b>78,877</b>	<b>192,733</b>

(a) Unrealized gains and losses on total available for sale invested assets including loans.

The change in reserves related to changes in fair value of available for sale financial instruments included in shareholder's equity as of December 31, 2021, and December 31, 2020 is detailed as follows:

<i>(US Dollars in thousands)</i>	December 31, 2021	December 31, 2020
<b>Unrealized gains and losses (net of tax) 100%, opening</b>	<b>192,733</b>	<b>—</b>
Transfer in the income statement on the period (a)	22,558	—
Investments bought in the current accounting period and changes in fair value	(135,069)	—
Change in scope and other changes (b)	—	192,733
<b>Unrealized gains and losses (net of tax) 100%, closing</b>	<b>80,222</b>	<b>192,733</b>
<b>Minority interests' share in unrealized gains and losses</b>	<b>(3,187)</b>	<b>—</b>
<b>Translation reserves</b>	<b>1,842</b>	<b>—</b>
<b>UNREALIZED GAINS AND LOSSES - COMPANY SHARE</b>	<b>78,877</b>	<b>192,733</b>

(a) Transfer induced by disposal of financial assets, impairment write-back on sale, or transfer of expenses following impairment charge during the period, and debt instruments discount premium impacts.

(b) Relates to acquisitions of companies under common control (see Note 4.1).

### 11.2.2 Comprehensive income for 2020

#### RESERVE RELATED TO CHANGES IN FAIR VALUE OF AVAILABLE FOR SALE FINANCIAL INSTRUMENTS INCLUDED IN SHAREHOLDER'S EQUITY

The increase of gross unrealized gains and losses on assets available for sale totaling \$228.7 million is attributed to the acquisition of entities under common control (see Note 4.1).

### 11.3 CHANGE IN MINORITY INTERESTS

As of December 31, 2021 and December 31, 2020, the Company owned subsidiaries in which other AXA Group companies owned a minority interest. These subsidiaries are operating in the P&C insurance and reinsurance sector and are a constituent part of AXLRE.

#### 11.3.1 Change in minority interests for 2021

The \$3.5 million decrease in minority interests to \$48.4 million was largely driven by the net income for the year and movement in reserves attributable to the minority interest holder in line with its percentage holding.

## Note 12 Liabilities Arising From Reinsurance Contracts

### 12.1 BREAKDOWN OF LIABILITIES ARISING FROM REINSURANCE CONTRACTS (ASSUMED AND REINSURERS' SHARE)

Liabilities arising from reinsurance contracts were split by as follows:

(US Dollars in thousands)	December 31, 2021			December 31, 2020		
	Property & Casualty	Life	Total Insurance	Property & Casualty	Life	Total Insurance
Future policy benefit reserves	—	51,712	51,712	—	61,394	61,394
Unearned premiums reserves	2,393,360	—	2,393,360	2,509,675	—	2,509,675
Claims reserves	8,594,160	—	8,594,160	5,883,249	—	5,883,249
of which IBNR	4,751,472	—	4,751,472	3,203,115	—	3,203,115
<b>Liabilities arising from assumed reinsurance contracts</b>	<b>10,987,520</b>	<b>51,712</b>	<b>11,039,232</b>	<b>8,392,924</b>	<b>61,394</b>	<b>8,454,318</b>
Reinsurers' share in future policy benefit reserves	—	47,321	47,321	—	56,329	56,329
Reinsurers' share in unearned premiums reserves	406,223	—	406,223	273,875	—	273,875
Reinsurers' share in claims reserves	1,947,875	—	1,947,875	1,812,594	—	1,812,594
of which IBNR	982,708	—	982,708	970,622	—	970,622
<b>Reinsurers' share in insurance contracts liabilities</b>	<b>2,354,099</b>	<b>47,321</b>	<b>2,401,420</b>	<b>2,086,469</b>	<b>56,329</b>	<b>2,142,798</b>
<b>TOTAL LIABILITIES ARISING FROM ASSUMED REINSURANCE CONTRACTS, NET OF REINSURERS' SHARE</b>	<b>8,633,422</b>	<b>4,390</b>	<b>8,637,812</b>	<b>6,306,455</b>	<b>5,065</b>	<b>6,311,520</b>

During 2021, AXLRE assumed a 100% quota share contract of all reinsurance assumed business written by Syndicate 2003, an affiliate operating from the UK. Under this agreement, AXA XL Re assumed all existing reinsurance reserves from Syndicate 2003, as well as 100% of the in force reinsurance treaties. This contract therefore includes coverage on both a retroactive and a prospective basis.

Within the above table are amounts related to this transaction. Unearned premium reserves of \$0.1 billion and claims reserves of \$1.7 billion, of which IBNR is \$0.9 billion.

In addition to the above and in accordance with our accounting policy, since the retrospective premiums received by AXLRE were in excess of the estimated undiscounted ultimate losses payable, a deferred gain liability of \$17.4 million is reported within payables arising from assumed reinsurance operations (see Note 13.1).

Within Note 10, included in receivables from policy holders, brokers and general agents is an amount of \$1.6 billion related to the above contract, representing funds withheld assets. The retrocessional agreement includes a total return on these assets to ultimately be given to the Company. This will ensure that the economic benefits and risk associated with the assets supporting the retroceded liabilities are also transferred from Syndicate 2003 to the Company. As such, an embedded derivative exists.

This embedded derivative is bifurcated from the funds withheld balance and recorded at fair value with changes in fair value recognized in earnings through net realized and unrealized gains and losses on change in fair value of other investments. The derivative valuation includes net investment Income, realized gains/losses and unrealized gains/losses on the funds withheld assets. As at December 31, 2021, the value of the derivative is \$nil.

### 12.2 CHANGE IN CLAIMS RESERVES FOR PROPERTY AND CASUALTY REINSURANCE CONTRACTS

#### 12.2.1 Change in assumed reinsurance Property & Casualty claims reserves

The table below gives information on the change in claims reserves in Property & Casualty presented in Note 12.1:

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020**

	2021	2020
<i>(US Dollars in thousands)</i>	Property & Casualty	Property & Casualty
Claims reserves as of January 1	5,847,081	—
Claims handling cost reserves as of January 1	36,169	—
<b>Claims reserves as of January 1</b>	<b>5,883,249</b>	<b>—</b>
<b>Total claims expenses</b>	<b>3,111,751</b>	<b>—</b>
<b>Claim payments</b>	<b>(1,988,065)</b>	<b>—</b>
<b>Change in scope of consolidation (a)</b>	<b>—</b>	<b>5,883,249</b>
<b>Claims reserves assumed via Syndicate retrocession (b)</b>	<b>1,708,825</b>	<b>—</b>
<b>Impact of foreign currency fluctuation</b>	<b>(121,600)</b>	<b>—</b>
Claims reserves as of December 31	8,556,007	5,847,081
Claims handling cost reserves as of December 31	38,154	36,169
<b>Claims reserves as of December 31</b>	<b>8,594,160</b>	<b>5,883,249</b>

(a) Relates to acquisitions of companies under common control (see Note 4.1).

(b) Relates to a 100% quota share contract of all assumed reinsurance business written by Syndicate 2003 (see Note 12.1).

### 12.2.2 Change in reinsurers' share in Property & Casualty claims reserves

The table below gives information on the change in reinsurers' share in claims reserves in Property & Casualty presented in Note 12.1:

	2021	2020
<i>(US Dollars in thousands)</i>	Property & Casualty	Property & Casualty
<b>Reinsurers' share in claims reserves as of January 1</b>	<b>1,812,594</b>	<b>—</b>
Reinsurers' share in total claims expenses	552,141	—
Reinsurers' share in claims payments	(362,215)	—
Change in scope of consolidation (a)	—	1,812,594
Impact of foreign currency fluctuation	(54,646)	—
<b>Reinsurers' share in claims reserves as of December 31</b>	<b>1,947,875</b>	<b>1,812,594</b>

(a) Relates to acquisitions of companies under common control (see Note 4.1).

## 12.3 PROPERTY & CASUALTY LOSS RESERVE DEVELOPMENT TABLE

The loss reserve development table shows movements in incurred losses and paid losses in 2021. All contracts concerned are reinsurance contracts as defined by IFRS. Progression of incurred losses and paid losses are net of external reinsurance placements and indicate progression of claim development over subsequent calendar periods for each year of occurrence.

**12.3.1 P&C Incurred Losses And Allocated Loss Expenses, Net of Reinsurance**

P&C Incurred Losses And Allocated Loss Expenses, Net of Reinsurance	
<i>(US Dollars in thousands)</i>	For the year ended
Underwriting Year	2021
2021	1,055,149
<b>P&amp;C Incurred Losses And Allocated Loss Expenses, Net of Reinsurance</b>	<b>1,055,149</b>

**12.3.2 P&C Cumulative Paid Losses And Loss Expenses, Net of Reinsurance**

P&C Cumulative Paid Losses And Loss Expenses, Net of Reinsurance	
<i>(US Dollars in thousands)</i>	For the year ended
Underwriting Year	2021
2021	162,438
<b>P&amp;C Cumulative Paid Losses And Loss Expenses, Net of Reinsurance</b>	<b>162,438</b>

2021 Underwriting Year P&C Incurred Losses and Allocated Loss Expenses, Net of Reinsurance	1,055,149
2021 Underwriting Year P&C Cumulative Paid Losses & Allocated Loss Expenses, Net of Reinsurance	(162,438)
All outstanding liabilities including reserves acquired in common control acquisitions (a)	5,794,509
P&C Incurred Losses & Allocated Loss Expenses on reserves acquired in common control acquisitions, Net of Reinsurance	1,479,853
P&C Cumulative Paid Losses & Allocated Loss Expenses related to reserves acquired in common control acquisitions, Net of Reinsurance	(1,463,699)
<b>Liabilities for unpaid losses and loss expenses, net of reinsurance</b>	<b>6,703,374</b>

(a) Relates to acquisitions of companies under common control (see Note 4.1) and a 100% quota share contract of all assumed reinsurance business written by Syndicate 2003 (see Note 12.1).

### 12.3.3 Reconciliation between developed P&C reserves and total liabilities arising from assumed reinsurance contracts, net of reinsurers' share

The table below gives a reconciliation between developed P&C reserves and total liabilities arising from assumed reinsurance contracts, net of reinsurers' share as disclosed in Note 12.1:

<i>(US Dollars in thousands)</i>	December 31, 2021
<b>Subtotal from triangles above</b>	<b>6,703,374</b>
Unallocated loss expenses	124,551
Discounting of reserves	(179,032)
Provision for uncollectible reinsurance	193
Foreign Exchange and other	(2,799)
<b>Liabilities for P&amp;C unpaid losses and loss expenses, net of reinsurance</b>	<b>6,646,285</b>
<b>Future policy benefit reserves - Life</b>	<b>4,390</b>
<b>Liabilities for total unpaid losses and loss expenses, net of reinsurance</b>	<b>6,650,676</b>
Unearned premiums reserves	2,393,360
Reinsurers' share in unearned premiums reserves	(406,223)
<b>TOTAL LIABILITIES ARISING FROM ASSUMED REINSURANCE CONTRACTS, NET OF REINSURERS' SHARE</b>	<b>8,637,812</b>

## 12.4 LOSS RESERVE DISCOUNTING

Except for certain workers' compensation (including long term disability) liabilities and certain bodily injury liability claims, emanating from UK and French exposures, predominantly from the UK motor liability portfolio, the Company does not discount its unpaid losses and loss expenses.

The Company utilizes tabular reserving for workers' compensation (including long-term disability) unpaid losses that are considered fixed and determinable, and discounts such losses using an interest rate of 3.75% in 2021 and 2020. The interest rate approximates the implied return on the market-based assets supporting the expected cash flows of the Company's liabilities. The tabular reserving methodology results in applying uniform and consistent criteria for establishing expected future indemnity and medical payments (including an explicit factor for inflation) and the use of mortality tables to determine expected payment periods. Tabular unpaid losses and loss expenses, net of reinsurance, at December 31, 2021 and 2020 on an undiscounted basis were \$288.2 million and \$3.1 million, respectively. The aggregate discount for the time value of money deducted to derive the liability for unpaid losses and loss expenses were \$97.5 million and \$0.7 million at December 31, 2021 and 2020, respectively. The related discounted unpaid losses and loss expenses were \$190.7 million and \$2.3 million at December 31, 2021 and 2020, respectively. The interest accretion related to the unwind of the discounted reserves was \$0.1 million and \$0.2 million during the years ended December 31, 2021 and 2020, respectively. This interest accretion was recorded in the incurred loss line as adverse prior year development. The main reason for the significant increase in these numbers from 2020 to 2021 is the addition of the related Syndicate amounts following the loss portfolio transfer.

The Company records a specific reserve allowance for Periodical Payment Orders ("PPOs") related to bodily injury liability claims. This allowance includes the unpaid losses for claims already settled and notified as PPOs at December 31, 2021, as well as the unpaid losses for claims to be settled in the future. The future care element of the unpaid losses was discounted using an interest rate of 2.0% at both December 31, 2021 and 2020. Unpaid losses and loss expenses, net of reinsurance, at December 31, 2021 and 2020 on an undiscounted basis were \$189.1 million and \$115.0 million, respectively. The aggregate discount for the time value of money deducted to derive the liability for the unpaid losses and loss expenses were \$81.6 million and \$47.5 million at December 31, 2021 and 2020. After discounting the future care element, the unpaid losses and loss expenses were \$107.5 million and \$67.5 million at December 31, 2021 and 2020, respectively. The interest accretion related to the unwind of the discounted reserves was \$1.6 million and \$1.2 million during the calendar years ended December 31, 2021 and 2020. This interest accretion was recorded in the incurred loss line as adverse prior year development. The main reason for the significant increase in these numbers from 2020 to 2021 is the addition of the related Syndicate amounts following the loss portfolio transfer.



## **Note 13 Payables**

### **13.1 BREAKDOWN OF PAYABLES**

	Carrying value	Carrying value
(US Dollars in thousands)	December 31, 2021	December 31, 2020
Deposits and guarantees	17,496	—
Payables to policyholders, brokers and general agents	561,557	383,810
<b>Payables arising from assumed reinsurance operations</b>	<b>579,053</b>	<b>383,810</b>
Deposits and guarantees	1,919	2,193
Current accounts payable to other companies	859,204	782,615
<b>Payables arising from outward reinsurance operations</b>	<b>861,124</b>	<b>784,808</b>
<b>Payables – current tax</b>	<b>10,533</b>	<b>23,827</b>
<b>Other payables (a)</b>	<b>105,577</b>	<b>536,711</b>
<b>TOTAL PAYABLES</b>	<b>1,556,286</b>	<b>1,729,156</b>

(a) Other payables mostly consist of intercompany positions within the AXA XL Division. The significant reduction seen in 2021 relates mostly to the settlement of an intercompany loan during 2021 of approximately \$0.4 billion related to the acquisition of AXA XL Luxembourg SARL (see Note 4.1.2).

### **13.2 PAYABLES ARISING FROM ASSUMED AND OUTWARD REINSURANCE OPERATIONS**

As of December 31, 2021, payables arising from assumed reinsurance operations totaled \$579.1 million, an increase of \$195.2 million compared to December 31, 2020, mainly related to an increase in payables to clients and brokers resulting from Q3 natural catastrophe events, specifically Hurricane Ida and the European flooding.

As of December 31, 2021, payables arising from outward reinsurance operations totaled \$861.1 million, an increase of \$76.3 million compared to December 31, 2020, mainly related to an overall growth increase in quota share reinsurance across the portfolio relative to prior year. Specifically, the addition of a new Whole Account Quota Share and additional cessions on the Global Catastrophe portfolio.

## Note 14 Tax

### 14.1 TAX EXPENSE

#### 14.1.1 Breakdown of tax expense between current and deferred tax

The income tax charge/(benefit) was split as follows:

<i>(US Dollars in thousands)</i>	December 31, 2021 (a)
Current income tax	(5,194)
Deferred income tax	(15,178)
<b>TOTAL INCOME TAX</b>	<b>(20,372)</b>

(a) No comparative balances since the Company had no activity in 2020 and common control acquisitions were effective December 31, 2020 (see Note 4.1).

#### 14.1.2 Tax proof

The notional tax charge/(benefit) is calculated using the pre-tax accounting income (loss) in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. A reconciliation of the difference between the notional tax charge (benefit) and the effective tax charge (benefit) for the year ended December 31, 2021 is provided below.

<i>(US Dollars in thousands)</i>	December 31, 2021 (a)
Income/(loss) from operating activities, gross of tax expenses (excluding result from investments consolidated using equity method)	(166,606)
Notional tax rate	13.85 %
<b>Notional tax charge/(benefit)</b>	<b>(23,079)</b>
<b>Impact of permanent differences</b>	<b>(24,748)</b>
Adjustments on tax relating to prior years - Deferred Tax	2,448
UTP gross amount (Unrecognized Tax Position)	2,877
Derecognition/(recognition) of DTA on temporary differences	22,131
<b>Impact of adjustments, decrease in value and other items</b>	<b>27,456</b>
<b>EFFECTIVE TAX CHARGE</b>	<b>(20,372)</b>
<b>EFFECTIVE TAX RATE (%)</b>	<b>12.23 %</b>

(a) No comparative balances since the Company had no activity in 2020 and common control acquisitions were effective December 31, 2020 (see Note 4.1).

**Effective tax rate stood at 12.2% in 2021.** The rate is primarily driven by a combination of losses in taxable jurisdictions (primarily France and the UK), and profits in taxable jurisdictions where the Company has unrecognized carryforward losses (primarily Switzerland and Luxembourg):

- Impact of permanent differences of \$(24.7) million comprised primarily of non-taxable intercompany dividends;
- Derecognition/(recognition) of DTA on temporary differences of \$22.1 million related primarily to the derecognition of DTA in the US as future income projections do not support continued recognition.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020**

## 14.2 DEFERRED TAX

In the table below, the net deferred tax position corresponds to the difference between Deferred Tax Assets (DTA) and Deferred Tax Liabilities (DTL) carried on the Company's consolidated statement of financial position. Note that the breakdown of DTA/DTL disclosed in these tables corresponds to the deferred tax before the netting that occurs for balance sheet presentation purposes as required by IAS 12. Net deferred tax balances are broken down as follows:

	December 31, 2021			December 31, 2020
(US Dollars in thousands)	Deferred tax assets	Deferred tax liabilities	Net deferred tax position	Net deferred tax position
Deferred Acquisition Costs	804	46,535	(45,731)	(58,072)
Other intangible assets (including Goodwill)	—	2,753	(2,753)	(1,783)
Real estate	40	—	40	46
Financial assets	24,813	25,758	(945)	(21,051)
Technical reserves	49,837	39,714	10,123	5,809
Pensions and other employees benefits	522	4,460	(3,938)	494
Tax losses carried forward	48,156	—	48,156	41,101
Other	4,182	6,624	(2,442)	(464)
<b>TOTAL DEFERRED TAX BY NATURE</b>	<b>128,354</b>	<b>125,845</b>	<b>2,509</b>	<b>(33,920)</b>
<i>of which deferred tax through Profit and Loss</i>	<i>123,521</i>	<i>106,203</i>	<i>17,319</i>	<i>2,034</i>
<i>of which deferred tax through reserves relating to the change in fair value of financial instruments available for sale and financial liabilities measured at fair value through profit and loss that are attributable to changes in own credit risk</i>	<i>4,833</i>	<i>19,642</i>	<i>(14,810)</i>	<i>(35,954)</i>

As of December 31, 2021, the \$2.5 million net DTA related primarily to entities located in Ireland (\$4.8 million), France (\$2.3 million), and other jurisdictions (\$0.5 million), offset by net DTLs on entities located in Brazil (\$3.8 million) and Switzerland (\$1.3 million).

	December 31, 2021	December 31, 2020
(US Dollars in thousands)		
Deferred tax assets	7,582	1,328
Deferred tax liabilities	5,073	35,247
<b>Net deferred tax position</b>	<b>2,509</b>	<b>(33,920)</b>

The \$(36.4) million decrease in the net deferred tax liability position from \$(33.9) million in 2020 to \$2.5 million in 2021 relates primarily to the combination of a decrease in the DTLs due to the depreciation of the value of financial assets, plus increased DTAs for the recognition of current year losses, partially offset by the derecognition of US DTAs.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020**

**14.2.1 Recognized and unrecognized deferred tax assets (DTA) by expiration date**

The tables below provide the total recognized and unrecognized deferred tax assets, as well as the corresponding tax loss carryforward with the expiration date (i.e. the latest possible date available for use).

(US Dollars in thousands)	2021									
	DTA maturity date 1 year	DTA maturity date 2 years	DTA maturity date 3 years	DTA maturity date 4 years	DTA maturity date 5 years	DTA maturity date 6 years	DTA maturity date between 7 and 11 years	DTA maturity date > 11 years	No maturity date	Total
<b>Recognized DTA</b>										
Recognized DTA - Tax loss carryforwards	—	—	—	—	—	4,576	—	16	43,564	48,156
Recognized DTA - Other items not related to tax losses	—	—	—	—	—	—	—	—	80,198	80,198
<b>Total recognized DTA</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>4,576</b>	<b>—</b>	<b>16</b>	<b>123,762</b>	<b>128,354</b>
Corresponding carry forward losses	—	—	—	—	—	23,227	—	78	248,575	271,881
<b>Unrecognized DTA</b>										
Unrecognized DTA - Tax loss carryforwards	1,336	8,301	—	—	31,003	8,732	20,885	19,508	4,424	94,189
Unrecognized DTA - Other items not related to tax losses	—	—	—	—	—	—	—	—	13,844	13,844
<b>Total unrecognized DTA</b>	<b>1,336</b>	<b>8,301</b>	<b>—</b>	<b>—</b>	<b>31,003</b>	<b>8,732</b>	<b>20,885</b>	<b>19,508</b>	<b>18,268</b>	<b>108,033</b>
Corresponding carry forward losses	6,782	42,136	—	—	157,376	44,325	82,409	92,895	17,777	443,700
<b>2020</b>										
(US Dollars in thousands)	DTA maturity date 1 year	DTA maturity date 2 years	DTA maturity date 3 years	DTA maturity date 4 years	DTA maturity date 5 years	DTA maturity date 6 years	DTA maturity date between 7 and 11 years	DTA maturity date > 11 years	No maturity date	Total
<b>Recognized DTA</b>										
Recognized DTA - Tax loss carryforwards	—	—	—	—	—	—	36,674	—	4,428	41,101
Recognized DTA - Other items not related to tax losses	—	—	—	—	—	—	—	—	49,880	49,880
<b>Total recognized DTA</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>36,674</b>	<b>—</b>	<b>54,307</b>	<b>90,981</b>
Corresponding carry forward losses	—	—	—	—	—	—	174,637	—	11,802	186,439
<b>Unrecognized DTA</b>										
Unrecognized DTA - Tax loss carryforwards	6,493	3,911	6,199	8,399	—	—	33,987	—	6,512	65,500
Unrecognized DTA - Other items not related to tax losses	—	—	—	—	—	—	—	—	2,348	2,348
<b>Total unrecognized DTA</b>	<b>6,493</b>	<b>3,911</b>	<b>6,199</b>	<b>8,399</b>	<b>—</b>	<b>—</b>	<b>33,987</b>	<b>—</b>	<b>8,860</b>	<b>67,849</b>
Corresponding carry forward losses	45,493	27,401	43,432	58,844	—	—	192,043	—	28,766	395,977

### **14.3 UNCERTAIN TAX POSITIONS**

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Uncertain tax treatments are determined separately at the entity level. For those positions considered as not probable to be accepted by the tax authorities without adjustment, the assessment of the uncertainty is determined based on the most likely outcome.

For the year ended December 31, 2021, the Company had unrecognized tax benefits of \$2.7 million relating to the risk of permanent establishment existing in Italy.

The Company does not currently anticipate any significant change in the unrecognized tax benefits in 2022.

## **Note 15**    **Gross Written Premiums**

<i>(US Dollars in thousands)</i>	December 31, 2021 (a)
Specialty	395,823
Casualty	1,467,124
Property Catastrophe	302,697
Property Facultative	43,694
Property Treaty	1,019,557
Other (b)	1,054,052
<b>P&amp;C Reinsurance</b>	<b>4,282,947</b>
<b>Life operations</b>	<b>14,441</b>
<b>GROSS WRITTEN PREMIUMS</b>	<b>4,297,389</b>

(a) No comparative balances since the Company had no activity in 2020 and common control acquisitions were effective December 31, 2020 (see Note 4.1).

(b) Other includes: crop, credit and surety, accident and health, and multiline. Included within the balance is gross written premium of \$687.2 million from a large external Quota Share contract with a single cedant.

The Company, through its operating subsidiaries, is a leading provider of Property & Casualty reinsurance coverages to insurance companies on a worldwide basis. It provides casualty, property risk, property catastrophe, specialty, and other reinsurance lines being written on both a proportional and non-proportional treaty basis, as well as a facultative basis. The Company and its various subsidiaries operate mainly in Bermuda and Europe. The majority of the Company's business originates via a large number of international, national and regional brokers.

## Note 16 Net Investment Result Excluding Financing Expenses

Net investment result (excluding financing expenses) from the financial assets of insurance companies was as follows:

	December 31, 2021 (a)				
	Net investment income	Net realized gains and losses relating to investments at cost and at fair value through shareholder's equity	Net realized gains and losses and change in fair value of other investments at fair value through profit or loss	Change in investment impairments	Net investment result
<i>(US Dollars in thousands)</i>					
Investment in real estate properties at amortized cost	658	—	—	—	658
<b>Investment in real estate properties</b>	<b>658</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>658</b>
Debt instruments available for sale	117,023	(47,710)	—	(5)	69,307
Debt instruments designated as at fair value through profit or loss	895	—	(6,704)	—	(5,809)
<b>Debt instruments</b>	<b>117,918</b>	<b>(47,710)</b>	<b>(6,704)</b>	<b>(5)</b>	<b>63,498</b>
Equity instruments available for sale	66,003	—	—	—	66,003
<b>Equity instruments</b>	<b>66,003</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>66,003</b>
Non-consolidated investment funds available for sale	6,887	837	—	(1,411)	6,312
Non-consolidated investment funds designated as at fair value through profit or loss	72	—	43,875	—	43,947
<b>Non-consolidated investment funds</b>	<b>6,959</b>	<b>837</b>	<b>43,875</b>	<b>(1,411)</b>	<b>50,259</b>
<b>Derivative instruments</b>	<b>1</b>	<b>—</b>	<b>(1,223)</b>	<b>—</b>	<b>(1,222)</b>
<b>Investment management expenses</b>	<b>(16,519)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(16,519)</b>
<b>Other</b>	<b>15,839</b>	<b>—</b>	<b>(3,056)</b>	<b>—</b>	<b>12,783</b>
<b>NET INVESTMENT RESULT</b>	<b>190,859</b>	<b>(46,873)</b>	<b>32,892</b>	<b>(1,416)</b>	<b>175,461</b>

(a) No comparative balances since the Company had no activity in 2020 and common control acquisitions were effective December 31, 2020 (see Note 4.1)

**Net investment income** is presented net of impairment charges on directly-owned investment properties, and net of amortization of debt instruments premiums/discounts. All investment management fees are also included in the aggregate figure.

**Net realized gains and losses relating to investments at cost and at fair value through shareholder's equity** include write back of impairment following investment sales.

**Net realized gains and losses and change in fair value of investments designated as at fair value through profit or loss** consist mainly of:

- changes in the fair value of investments designated as at fair value through profit or loss held by funds of the "Satellite Investment Portfolios" as defined in Note 2.7.3;
- changes in fair value of underlying hedged items in fair value hedges (as designated by IAS 39) or "natural hedges" (i.e. underlying assets designated as at fair value through profit or loss part of an economic hedge not eligible for hedge accounting as defined by IAS 39).

**The changes in investment impairments for available for sale assets** include impairment charges on investments, and release of impairments only following revaluation of the recoverable amount. Write back of impairments following investment sales are included in the net realized capital gains or losses on investments in aggregate.

## Note 17 Net Result Of Reinsurance Ceded

Net result of reinsurance ceded was as follows:

<i>(US Dollars in thousands)</i>	December 31, 2021 (a)
Premiums ceded and unearned premiums ceded	(913,002)
Claims ceded (including change in claims reserves)	561,818
Commissions received from/(paid) to reinsurers	188,165
<b>NET RESULT OF REINSURANCE CEDED</b>	<b>(163,019)</b>

(a) No comparative balances since the Company had no activity in 2020 and common control acquisitions were effective December 31, 2020 (see Note 4.1)

The Company utilizes reinsurance and retrocession agreements principally to increase aggregate capacity and to reduce the risk of loss on business assumed. The Company's reinsurance and retrocession agreements provide for recovery of a portion of losses and loss expenses from reinsurers and reinsurance recoverables are recorded as assets. The Company is liable if the reinsurers are unable to satisfy their obligations under the agreements. The effect of reinsurance and retrocessional activity is shown in the table above.

Included in the above table are reinsurance amounts from AXA XL affiliates. The main retrocession being the 50% Quota Share arrangement between XL Re Europe and XL Bermuda Ltd. Respective amounts from this retrocession included above being, premium ceded and unearned premiums ceded of \$438.6 million, claims ceded (included change in claims reserves) of \$431.6 million and commissions received from reinsurers of \$124.4 million.



## **Note 18 Expenses By Type**

<i>(US Dollars in thousands)</i>	December 31, 2021 (a)
Acquisition costs - gross	1,174,868
Change in deferred acquisition costs	56,938
<b>Acquisition costs</b>	<b>1,231,806</b>

<i>(US Dollars in thousands)</i>	December 31, 2021 (a)
<b>Breakdown of expenses by destination</b>	
Acquisition costs	1,231,806
Administrative expenses (b)	150,411
Other (income) and expenses	2,019
<b>TOTAL EXPENSES EXCLUDING FINANCING EXPENSES</b>	<b>1,384,235</b>
<b>Gross earned expense ratio (c)</b>	<b>31.5 %</b>
Financing expenses	24,254
<b>TOTAL EXPENSES</b>	<b>1,408,489</b>

(a) No comparative balances since the Company had no activity in 2020 and common control acquisitions were effective December 31, 2020 (see Note 4.1).

(b) Administrative expenses include operational costs, technology, employee benefits, and other expenses.

(c) Total Expenses excluding financing expenses divided by Gross written premiums plus Change in unearned premiums net of unearned revenues and fees.

## Note 19 Related-Party Transactions

In 2021, the Company was party to the following transactions with related parties which may be deemed to have been material to the Company or the related party in question or unusual in their nature or conditions.

### 19.1 ASSUMED REINSURANCE CONTRACTS

In the normal course of business, the Company enters into assumed and outwards reinsurance contracts with certain of its AXA XL Affiliates. During the year ended December 31, 2021, these contracts resulted in reported net premiums written, reported net losses incurred and reported net acquisition costs incurred with these affiliates, or their subsidiaries, which are included within the Consolidated Statements of Income, as summarized below.

<i>(US Dollars in thousands)</i>	December 31, 2021 (a)
Reported net premiums written	1,033,701
Reported net losses incurred	(636,546)
Reported net acquisition costs incurred	(345,669)

(a) No comparative balances since the Company had no activity in 2020 and common control acquisitions were effective December 31, 2020 (see Note 4.1).

Included within the above values are amounts from three significant related party contracts with AXA XL Affiliates.

Seaview Re Ltd, a subsidiary of Catlin Reinsurance Switzerland, assumes a 30% Whole Account Quota Share from XL Reinsurance America Inc, which inceptioned in 2019 and has been renewed in 2020 and 2021. Amounts included above from this retrocession are respectively, reported net premiums written \$1.4 billion, reported net losses incurred of \$867.5 million, and reported net acquisition costs incurred of \$422.8 million.

During 2021, AXLRE assumed a 100% quota share contract from Syndicate 2003, an affiliate operating from the UK. This particular contract includes both prospective and retrospective elements. In accordance with our accounting policy since the retrospective premiums received by AXLRE were in excess of the estimated undiscounted ultimate losses payable, a deferred gain liability was recorded for the excess, such that we have not recorded any gain or loss at the inception of the contract. This deferred gain liability recorded is \$17.4 million and will be amortized over the estimated claim payment period of the related contract with the periodic amortization reflected in earnings as a component of net losses incurred. No amortization has occurred in 2021.

The prospective element included above represents, reported net premiums written of \$79.0 million, reported net losses incurred of \$nil, and reported net acquisition costs incurred of \$nil.

XL Re Europe participates in a Quota Share arrangement between itself and XL Bermuda Ltd, an AXA XL Affiliate by which XL Re Europe cedes 55% of its assumed reinsurance book to XL Bermuda Ltd. Respective amounts from this retrocession included above are ceded written premiums of \$464.4 million, claims ceded (included change in claims reserves) of \$431.6 million and commissions received from reinsurers of \$124.4 million.

As at December 31, 2021, and December 31, 2020 the following amounts with AXA XL Affiliates were recorded on the Consolidated Statement of Financial Position

<i>(US Dollars in thousands)</i>	December 31, 2021	December 31, 2020
P&C net deferred acquisition costs	208,588	189,902
P&C net premiums receivable	1,570,917	205,643
P&C net unearned premium reserves	618,955	534,241
P&C net unpaid loss and loss expense reserves	2,142,512	5,131
Intercompany Loans	(192,398)	(531,854)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020**

Included within the above values are amounts from three significant related party contracts with AXA XL Affiliates.

Seaview Re Ltd amounts included above from this retrocession are: deferred acquisition costs of \$220.6 million (2021) and \$214.6 million (2020); net premiums receivable of \$278.4 million (2021) and \$287.8 million (2020); net unearned premium reserves of \$712.2 million (2021) and \$692.1 million (2020); and net unpaid loss and loss expense reserves of \$1.9 billion (2021) and \$1.4 billion (2020).

Syndicate 2003 amounts included above from this retrocession in 2021 are: deferred acquisition costs of \$15.8 million, net premiums receivable \$1.6 billion, net unearned premium reserves of \$79.0 million, and net unpaid loss and loss expense reserves of \$1.7 billion.

XL Re Europe amounts included above from this retrocession are: payables arising from outward reinsurance operations of \$247.6 million (2021) and \$46.8 million (2020); ceded unearned premium reserves of \$208.4 million (2021) and \$188.6 million (2020); and ceded claims reserves of \$1.5 billion (2021) and \$1.3 billion (2020).

In addition to the above, operational intercompany amounts payable between the Company and other AXA XL Affiliates existed as at December 31, 2021, and December 31, 2020, these amounts were respectively \$192.4 million and \$531.9 million.

## **19.2 AXA**

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On September 12, 2018, the Company was acquired by, and became a wholly-owned subsidiary of AXA. In the normal course of business, the Company enters into property & casualty assumed and ceded contracts which include various subsidiaries and affiliates of AXA as other parties. Included within liabilities arising from assumed reinsurance contracts in the Consolidated Balance Sheets are amounts from AXA Group entities of \$(47.4) million and \$(48.3) million as of December 31, 2021, and 2020, respectively.

## Note 20 Contingent Assets And Liabilities And Unrecognized Contractual Commitments

### 20.1 BREAKDOWN OF COMMITMENTS RECEIVED

(US Dollars in thousands)	December 31, 2021	December 31, 2020
Credit facilities received (a)	204,519	202,435
Other commitments	75,000	75,000
<b>TOTAL</b>	<b>279,519</b>	<b>277,435</b>

Note: This table excludes collateral received from reinsurers in the form of funds, trust accounts and/or irrevocable letters of credit representing collateral on reported receivables and other assets (see "Reinsurance Trusts and other matters" below).

(a) Total commitments used were \$204.5 million as of December 31, 2021 (\$202.4 million as of December 31, 2020).

The Company has several credit facilities provided on both a committed syndicated and uncommitted bilateral bases from commercial banks as well as facilities entered into with its ultimate parent. The Company may utilize the full capacity of these credit facilities to issue letters of credit in support of non-admitted reinsurance operations in the US. Alternatively, under certain of the credit facilities, the Company instead may elect to utilize a stated portion of such facilities' capacity for revolving loans to support other operating or financing needs, which would reduce the amount available for the letters of credit.

#### Reinsurance Trusts and other matters

The Company's reinsurance assets result from reinsurance arrangements in the course of its operations. A credit exposure exists with respect to reinsurance assets as they may be uncollectible. The Company manages its credit risk in its reinsurance relationships by transacting with reinsurers that it considers financially sound, and if necessary, the Company may hold collateral in the form of funds, trust accounts and/or irrevocable letters of credit. This collateral can be drawn on for amounts that remain unpaid beyond specified time periods on an individual reinsurer basis. At December 31, 2021, the value of assets held in trust accounts was \$50.3 million (\$51.1 million in 2020) and the value of letters of credit was \$10.0 million (\$6.8 million in 2020).

### 20.2 BREAKDOWN OF COMMITMENTS GIVEN

(US Dollars in thousands)	December 31, 2021					December 31, 2020
	Expiring date					Total
	12 months or less	More than 1 year up to 3 years	More than 3 years up to 5 years	More than 5 years	Total	
Letters of credit	646,637	—	—	—	646,637	625,838
Other commitments (a)	—	—	—	41,751	41,751	45,392
<b>TOTAL</b>	<b>646,637</b>	<b>—</b>	<b>—</b>	<b>41,751</b>	<b>688,388</b>	<b>671,230</b>

(a) The Company has committed to invest in certain real estate, private equity and private credit limited partnerships, limited liability companies or similar structures. At December 31, 2021, the Company had unfunded commitments with these entities totaling \$41.8 million over a weighted average period of 5.1 years. At December 31, 2020, the Company had unfunded commitments with these entities totaling \$45.4 million over a weighted average period of 6.4 years.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020**

In addition to letters of credit, the Company has established reinsurance trusts in the US that provide cedants with statutory relief required under state insurance regulation in the US. It is anticipated that the commercial facilities may be renewed on expiry but such renewals are subject to the availability of credit from banks utilized by the Company and may be renewed with materially different terms and conditions. In the event that such credit support is insufficient, the Company could be required to provide alternative security to cedants. This could take the form of additional reinsurance trusts supported by the Company's investment portfolio or funds withheld using the Company's cash resources. The value of letters of credit required is driven by, among other things, loss development of existing reserves, the payment pattern of such reserves, the expansion of business written by the Company and the loss experience of such business.

## **20.3 OTHER AGREEMENTS**

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### **20.3.1 Tax matters**

With the exception of Seaview Re Ltd., which has made an election under Section 953(d) of the US Internal Revenue Code to be taxed as a US insurance company, neither the Company nor its non-US subsidiaries have paid US corporate income taxes on the basis that they are not engaged in a trade or business or otherwise subject to taxation in the United States. However, because definitive identification of activities that constitute being engaged in a trade or business in the United States is not provided by the Internal Revenue Code ("IRS Code"), regulations or court decisions, there can be no assurance that the Internal Revenue Service will not contend that the Company or its non-US subsidiaries are engaged in a trade or business or otherwise subject to taxation in the United States. If the Company or its non-US subsidiaries were considered to be engaged in a trade or business in the United States (and, if the Company or such subsidiaries were to qualify for the benefits under the income tax treaty between the United States and Bermuda and other countries in which the Company operates, such businesses would be considered to be attributable to a "permanent establishment" in the United States), the Company or such subsidiaries could be subject to US tax at regular tax rates on their respective taxable income that is effectively connected with their US trade or business plus an additional "branch profits" tax (at a rate as high as 30%) on such income remaining after the regular tax, in which case there could be a significant adverse effect on the Company's results of operations and financial position.

## Note 21 Litigation

The Company and its subsidiaries are subject to litigation and arbitration in the normal course of business. These lawsuits and arbitrations principally involve claims on policies of insurance and contracts of reinsurance and are typical for the Company and for the property and casualty insurance and reinsurance industry in general. Such claims proceedings are considered in connection with the Company's loss and loss expense reserves. Reserves in varying amounts may or may not be established in respect of particular claims proceedings based on many factors, including the legal merits thereof.

In addition to litigation relating to reinsurance claims, the Company and its subsidiaries may, from time to time, be subject to lawsuits and regulatory actions in the normal course of business that do not arise from or directly relate to claims on reinsurance policies. This category of business litigation may involve, among other things, allegations of underwriting errors or misconduct, employment claims, regulatory activity, or disputes arising from business ventures. The status of these legal actions is actively monitored by management. In addition, the Company and certain of its subsidiaries may, from time to time, also be involved in tax assessment negotiations and/or active litigation with tax authorities over contested assessments or other matters in a number of jurisdictions. These actions or assessments may arise in a variety of circumstances including matters in connection with restructuring and financing transactions, as well as in the ordinary course of business.

Legal actions are subject to inherent uncertainties, and future events could change management's assessment of the probability or estimated amount of potential losses from pending or threatened legal actions.

With respect to all significant litigation matters, we consider the likelihood of a negative outcome. If we determine the likelihood of a negative outcome is probable, and the amount of the loss can be reasonably estimated, we establish a reserve and record an estimated loss for the expected outcome of the litigation. However, it is often difficult to predict the outcome or estimate a possible loss or range of loss because litigation is subject to inherent uncertainties, particularly when plaintiffs allege substantial or indeterminate damages, the litigation is in its early stages, or when the litigation is highly complex or broad in scope.

Based on available information, it is the opinion of management that the ultimate resolution of pending or threatened legal actions other than claims proceedings, both individually and in the aggregate, will not result in losses having a material adverse effect on the Company's financial position or liquidity at December 31, 2021.

No material provisions have been established for non-claims-related litigation, nor have any such contingent liabilities been identified that require disclosure.

## Note 22 Subsequent Events

### 22.1 WAR IN UKRAINE

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On February 24, 2022, Russia invaded Ukraine, triggering a war and worldwide geopolitical tensions, leading the United States, Europe and some other countries to impose unprecedented financial and trade sanctions on the Russian economy, including asset freezes and restrictions on individuals and institutions, notably the Russian Central Bank. As a consequence, the Ruble has significantly weakened and the Russian economy is facing a major crisis with repercussions on the global economy.

Under a new law signed by Russian President Vladimir Putin in early March 2022, Russian insurers have been banned from entering into transactions with foreign insurers, reinsurers and brokers from a group of “unfriendly countries” that includes every EU state, Japan, Switzerland, the UK and the US. The ban also applies to the transfer of funds by Russian insurers under contracts that were agreed prior to the new rules coming into effect. The newly introduced law will currently be in effect until 31 December 2022. The amount of premium derived from Russian cedants is immaterial to the Company.

Although no material claims have been reported at this stage, the Company closely monitors exposures to the conflict, including (i) the operational impact on its business, (ii) the consequences from a potential deterioration in macroeconomic conditions, (iii) exposure through its Property, Casualty and Specialty policies and (iv) change in asset prices and financial conditions (including interest rates).

### 22.2 US RESTRUCTURING

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In April 2022, as part of a US restructuring initiative, Seaview Re Ltd entered into a commutation and release agreement with XL Re America, as XL Pool leader on behalf of itself and its Pool members. The impact of this transaction resulted in the settlement and commutation of all Insurance business obligations and liabilities assumed by Seaview Re Ltd, effective January 1, 2022. In addition, Seaview Re Ltd agreed to commute, and XL Re America to recapture all unearned premium reserves associated with the Insurance business and Reinsurance business, effective January 1, 2022. Seaview Re Ltd agreed to make a commutation payment of \$2,091.2 million to XL Re America as a part of the agreement. The commutation will result in a reduction in loss reserves of \$1,623.4 million and an elimination of all unearned premium reserves balances. The difference between the commutation payment and the carrying value of the net liabilities commuted will result in a commutation gain of \$20.1 million which will be recognized in 2022.

Also in regard to the US restructuring the Company agreed to assume via substitution and novation all US Reinsurance business originally assumed by an AXA XL affiliate via the US Quota Share Reinsurance Agreement effective July 1, 2000 and relevant amendments and an Adverse Development Reinsurance agreement dated January 1, 2004.

The net impact of these three reinsurance agreements was a reduction in claims reserves of \$1.1 billion, a reduction in unearned premiums reserves of \$0.7 billion and a subsequent reduction in investments of \$1.6 billion and deferred acquisition costs of \$0.2 billion.