XL Life Ltd

AN AXA GROUP COMPANY

Financial Condition Report

31 December 2018

forming part of the annual regulatory reporting package
submitted to the Bermuda Monetary Authority ("BMA") by 30 April 2019

Declaration Statement

To the best of our knowledge and belief, the financial condition report fairly represents the financial condition of XL Life Ltd in all material respects.

Mark Twite

President

April 30, 2019

Chris Brough

Assistant General Counsel

April 30, 2019

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Summary

XL Life Ltd (the “Company”) was incorporated in Bermuda on November 10, 1997 as Reeve Court Insurance Limited and changed its name in 2001 to XL Life Ltd. The Company is a wholly-owned subsidiary of XL Bermuda Ltd (the “parent company”).

The Company’s operations have been in run-off since 2009 when XL Group announced the run-off of its life reinsurance business.

A. Business and Performance

This section provides particulars regarding organisational structure, insurance business activities and financial performance.

A.1. Name of insurer

XL Life Ltd (the "Company").

A.2. Supervisors

	Insurance Supervisor	**Group Supervisor**
Name:	Bermuda Monetary Authority, BMA House, 43 Victoria Street, Hamilton HM 12 Bermuda	Autorité de contrôle prudentiel et de résolution 4 Place de Budapest CS 92459 75436 Paris Cedex 09
Jurisdiction:	Bermuda	France
Email Address:	insuranceinfo@bma.bm	Bibli@acpr.banque-france.fr
Phone Number:	441-295-5278	+ (33) 01 49 95 40 00

Note: The Bermuda Monetary Authority withdrew as Group Supervisor effective on 11 December, 2018.

A.3. Approved auditor

Organisation:	PricewaterhouseCoopers Ltd, Washington House, 4th Floor, 16 Church Street, Hamilton, HM11, Bermuda
Name:	Damian Cooper
Jurisdiction:	Bermuda
Email Address:	damian.cooper@pwc.com
Phone Number:	441-299-7685

A.4. Ownership details

Owner	Ownership
XL Bermuda Ltd	100.00 %

A.5. Group structure

See Appendix 01 – AXA XL Structure Chart 2018 Q4

A.6. Insurance business written by business segment and by geographical region

Business written by business segment and by geographical location of policyholder during the reporting period and comparative period;

Geographical location	**Gross premium written 2018 USD '000s**	**Gross premium written 2017 USD '000s**
United States of America	33,032	42,823
Australia and New Zealand	0	0
United Kingdom	332	352
Total	**33,364**	**43,175**

Line of Business	**Gross premium written 2018 USD '000s**	**Net premium written 2018 USD '000s**	**Gross premium written 2017 USD '000s**	**Net premium written 2017 USD '000s**
Mortality	33,364	9,823	43,175	10,594
Total	**33,364**	**9,823**	**43,175**	**10,594**

The above numbers agree to the Condensed Consolidated Statement of Income which is measured on a US GAAP basis.

A.7. Performance of investments and material income and expenses for the reporting period

Performance of Investments and Material Income and Expenses for the Reporting Period

The Company invests in high quality fixed interest securities. The table below shows the market values and gross redemption yields at year ends 2017 and 2018, split by type of investment. Movement between years includes an element of reclassification.

2018		
	Market Value (USD 000's)	Average YTM (%)
US Government (Federal)	19,695	2.71
US Government (Agency - mortgage backed)	114,867	3.55
US Government (Agency - other)		
Non US Government	789	3.18
States, Municipalities and Political Subdivision	2,266	4.30
Corporate Securities	185,666	3.85
Asset-backed securities		
Total	323,282	

2017		
	Market Value (USD 000's)	Average YTM (%)
US Government (Federal)	40,122	1.95
US Government (Agency - mortgage backed)	18,997	3.07
US Government (Agency - other)	94,466	2.83
Non US Government	3,972	3.85
States, Municipalities and Political Subdivision	2,488	3.62
Corporate Securities	214,000	3.13
Asset-backed securities	1	0
Total	374,046	

The above numbers agree with the Condensed Consolidated Balance Sheet.

The Company's major source of income was premiums on its term assurance business. The major expenses relate to claims on its term assurance business.

USD 000's	**2018**	**2017**
Income		
Premiums	**9,823**	**10,594**
Expenses		
Claims	12,723	12,455
Commission	2,366	2,925
Operating Expenses	595	565
Total Expenses	**15,684**	**15,945**

The above numbers agree with the Condensed Consolidated Income Statement.

A.8. Other material information

On September 12, 2018, XL Group Ltd completed its previously announced merger with Camelot Holdings Ltd. ("Merger Sub"), a wholly owned subsidiary of AXA SA ("AXA"). Pursuant to the Agreement and Plan of Merger, dated as of March 5, 2018, by and among XL Group Ltd, Merger Sub and AXA (the "Merger Agreement"), and the statutory merger agreement required in accordance with Section 105 of the Bermuda Companies Act 1981, as amended (the "Companies Act"), by and among XL Group Ltd, Merger Sub and AXA, dated as of September 12, 2018, Merger Sub merged with and into XL Group Ltd in accordance with the Companies Act (the "Merger"), with XL Group Ltd continuing as the surviving corporation and as a wholly-owned subsidiary of AXA.

Following the Merger, the Bermuda Monetary Authority withdrew as the Group Supervisor of XL Group Ltd and its consolidated subsidiaries, including the Company.

From September 12, 2018 through December 31, 2018 (and continuing into 2019), following the completion of the Merger, XL Group Ltd and its consolidated subsidiaries, including the Company, has been undertaking activities in connection with the integration of XL Group Ltd and its consolidated subsidiaries, including the Company, into the AXA Group, which activities have included changes to senior executives of the AXA XL Division of the AXA Group. ("AXA XL")

For the year ended December 31, 2018, there is no other material information regarding business and performance required to be disclosed for purposes of this Financial Condition Report.

B. Governance Structure

This section provides particulars of corporate governance, risk management and solvency self-assessment frameworks.

B.1. Board and Senior Executive

B.1.1. Structure of the Board and senior executive, roles, responsibilities and segregation of responsibilities

Board of Directors

The Board of Directors of the Company (the "Board") oversees the effective management of the Company's business and affairs and is responsible for the maintenance of an effective corporate governance framework. The Board is elected annually and currently consists of the following three executive directors each of whom is a senior executive of the Company or other XL Group Ltd companies ("XL, "AXA XL").

Directors
Simon Argent
Mary Hayward
Mark Twite

Senior Executive

The Company's senior executives assist the Board with its oversight responsibilities by its reporting to the Board on the Company's business activities. The senior executives also make recommendations to the Board regarding, and are responsible for, the execution of the Company's strategic plans and objectives. The senior executives are responsible for the respective functions which they head and for ensuring the necessary resources, systems and controls required for the effective execution of the roles and responsibilities of those functions.

Senior executive	
Mark Twite	President
Mary Hayward	Senior Vice President
Christopher Brough	Assistant General Counsel, Corporate and Alternative Capital
Leila Madeiros	Compliance Officer and Money Laundering Reporting Officer

B.1.2.Executive/Employee Compensation

Director Compensation

The directors are not separately compensated for their Board roles.

Executive/Employee Compensation

XL Life Ltd adheres to the AXA XL remuneration policy.

The Company has a Remuneration Policy in place, the purpose of which is to outline how the Company ensures that the setting of remuneration is appropriate and transparent, and promotes sound and effective risk management within approved risk tolerance limits.

The balance of fixed and variable compensation is consistent with competitive market practice in the insurance industry, while permitting the Company to operate fully flexible variable compensation policies. Variable pay for colleagues in independent control functions is not aligned with the performance of the businesses they oversee, and is designed to avoid conflicts of interest while appropriately balancing risk and reward.

An overview of the arrangements that are in place are as follows:

- Fixed Remuneration - The Company considers multiple factors - including an individual's role and responsibilities, performance, experience, expertise and peer market compensation information in setting target levels of base compensation.

- Variable Remuneration - Individual bonus awards are determined based on performance reviews of individual and overall performance and are fully discretionary, allowing for full flexibility to award no variable remuneration if warranted. Staff have a bonus target amount expressed as a percentage of base pay.

- Long-Term Incentive Plan - Long-term incentive awards are reserved for those who perform at a high level, recognize the recipient's anticipated future contributions, and take relative and absolute performance, individual potential and unique skills into consideration. Grants of long-term incentives are based on sustained individual performance and criticality of skills. For the Company's most senior leaders, shares awarded under the long-term incentive program are subject to holding and minimum ownership requirements.

The Company's remuneration program is designed to ensure strong alignment between executive pay and Company and individual performance by including both short-term and long-term incentives that motivate executives to achieve our near-term goals and longer-term strategic objectives. The design of these programs is guided by the following principles:

- Consider multiple factors in setting target levels of compensation, including an executive's role and responsibilities, performance, experience, expertise and competitor compensation information
- Allocate total compensation among annual base salary, annual cash incentive and long-term incentive awards so that it is heavily weighted towards performance-based pay
- Enable the attraction and retention of high caliber executive talent who will develop and successfully implement our business strategy
- Include qualitative components and strong governance practices that mitigate risk and drive appropriate behaviors

B.1.3. Pension or early retirement schemes for members, board and senior employees

The Company's remuneration program does not include any supplementary pension or early retirement schemes for its non-Executive Directors or its senior executives.

B.1.4. Shareholder controllers, persons who exercise significant influence, the board or senior executive material transactions

On September 12, 2018, XL Group Ltd (the "XL Group") completed its previously announced merger with Camelot Holdings Ltd. ("Merger Sub"), a wholly owned subsidiary of AXA SA ("AXA"). Pursuant to the Agreement and Plan of Merger, dated as of March 5, 2018, by and among XL Group, Merger Sub and AXA (the "Merger Agreement"), and the statutory merger agreement required in accordance with Section 105 of the Bermuda Companies Act 1981, as amended (the "Companies Act"), by and among XL Group, Merger Sub and AXA, dated as of September 12, 2018, Merger Sub merged with and into XL Group in accordance with the Companies Act (the "Merger"), with XL Group continuing as the surviving corporation and as a wholly-owned subsidiary of AXA.

Pursuant to the Merger Agreement, at the effective time of the Merger (the "Effective Time"), each issued and outstanding common share, par value $0.01 per common share, of XL Group (each, an "XL Group Share") (other than any XL Group Shares that are owned (i) by XL Group as treasury shares, (ii) by wholly owned subsidiaries of XL Group or (iii) by AXA, Merger Sub or by wholly owned subsidiaries of AXA (with certain exceptions)), including each outstanding restricted XL Group Share (unless otherwise agreed between AXA and the holder of the award), were automatically cancelled and converted into the right to receive $57.60 in cash, without interest and subject to any applicable tax withholdings (the "Merger Consideration"), funded with cash on hand from AXA.

At the Effective Time, unless otherwise agreed between AXA and the holder of an equity award, each outstanding performance unit was deemed to have achieved the target level of performance and each outstanding restricted share unit, restricted cash unit and performance unit award, each in respect of XL Group Shares, vested in full and was cancelled and converted into the right to receive the Merger Consideration, without interest. At the Effective Time, unless otherwise agreed between AXA and the holder of an equity award, each outstanding option to purchase a XL Group Share (an "XL Group Stock Option"), whether vested or unvested, was cancelled and converted into the right to receive a lump-sum amount in cash, without interest, equal to the excess, if any, of (i) the Merger Consideration, over (ii) the per-share exercise price of such XL Group Stock Option. Payments with respect to the foregoing equity awards will be made by XL Group, as the surviving corporation of the Merger, in accordance with the Merger Agreement.

Other than the Merger and dividends paid to the Company's shareholder during 2018, the Company is not aware of any other material transactions required to be disclosed for purposes of this financial condition report.

B.2. Fitness and Propriety Requirements

B.2.1. Fit and proper process in assessing the board and senior executive

Board of Directors: Fit and Proper Assessment

AXA XL recognises that the legal entities within AXA XL that engage in (re)insurance business, such as the Company, benefit from the fit and proper processes that are in place at the XL Group level. However, these entities also have a responsibility to ensure that they have adequate risk management processes in place and are therefore expected to implement fit and proper processes that meet the standards set out in this Fit and Proper Policy in a proportionate manner and in accordance with applicable law or regulation.

The process for assessing the skills and characteristics for new board candidates, and for the Board as a whole on an annual basis, will include consideration of the following criteria:

- Personal qualities and characteristics, including business judgement, integrity, high standards of ethical conduct and distinction in their chosen fields of endeavour;
- Diversity of viewpoints, skills, experience and other demographics in the context of the needs of the Board; and
- Such other attributes and external factors deemed appropriate.

Executive: Fit and Proper Assessment

The fit and proper assessment, of a person shall include:

- an assessment of that person's professional and formal qualification, knowledge and relevant experience within the insurance sector, other financial sectors or other business and shall take into account the respective duties allocated to that person and, where relevant, the insurance, financial, accounting, actuarial and management skills of the person
- an assessment of that person's honesty and financial soundness based on evidence regarding their character, personal behaviour and business conduct including any criminal, financial and supervisory aspects relevant for the purposes of the assessment.

Additionally, the Company maintains a standard recruitment process to assist in the assessment of whether candidates for executive positions are fit and proper. The recruitment process includes (i) ensuring that job specifications adequately reflect the position being recruited and appropriately identifies the necessary skills and qualifications required for the position, (ii) contacting local recruitment agencies/executive search firms and establishing broad and informal panels of agencies for particular areas of expertise to ensure that the most appropriate matching can take place, and (iii) undertaking, on an outsourced basis, a series of checks in relation to the candidate after the offer has been communicated to them and the satisfactory completion of detailed relevant background checks.

B.2.2. Board and senior executives' professional qualifications, skills, and expertise

Board of Directors

Simon Argent: Mr Argent is Senior Vice President, Head of Credit Risk Management for AXA XL. He joined XL in 2004 and has more than 30 years of (re)insurance industry experience. Before joining XL, Simon spent 12 years in senior risk management, underwriting and account executive positions with Kingsway Financial Services and General Reinsurance. Prior to this he held underwriting positions with Progressive Casualty Insurance and Safeco Insurance. Mr. Argent is a Chartered Financial Analyst, holds an MBA from the Schulich School of Business in Toronto and professional designations from the Insurance Institutes of Canada and America.

Mark Twite: Mr. Twite is currently AXA XL's Head of Reinsurance Finance and is President of XL Life Ltd. Mr Twite has more than 25 years of experience working in the (Re)Insurance industry. Immediately prior to his current role Mark was CFO, Bermuda Reinsurance and has held progressively senior Finance roles during more than 10 years with XL. Prior to joining XL, Mark was the Financial Controller of Liberty Syndicates (the Lloyd's of London operation of the Liberty Mutual Group). Mark is a fellow of the Institute of Chartered Accountants in England and Wales and qualified from Deloitte & Touche in 1998 while working in their London Insurance practice. Mark holds a B.S. in Economics from the London school of Economics (LSE).

Mary Hayward: Ms. Hayward is Chief Investment Officer for AXA XL and is Senior Vice President for XL Life Ltd. Ms Hayward is responsible for investment strategy implementation and the day to day management, surveillance and performance of the internal and external investment managers managing the fixed income asset holdings of XL. Prior to joining XL in 2001 she was a Portfolio Manager overseeing GBP Fixed Income assets at Shell Trust (Bermuda) Ltd ; from 1997 to 2001, a Private Banking Portfolio Manager overseeing High Net Worth Clients at the Bank of Bermuda Ltd from 1990 to 1996 and Associated Bank, NA from 1983-1989. Ms. Hayward holds a Bachelor of Business Administration (Finance) from the University of Wisconsin and is a Chartered Financial Analyst.

Senior Executive

For Mark Twite and Mary Hayward see above.

Christopher Brough: Mr. Brough is the Assistant General Counsel, Corporate and Alternative Capital, in Bermuda. Prior to joining XL, he was legal counsel for the Catlin Group's Bermuda operations. Prior to joining the Catlin Group in 2014, Mr. Brough spent eight years in the corporate practice at Appleby (Bermuda) Limited specializing in corporate finance, funds, investments and Bermuda law corporate governance. He holds a B.A. in psychology from Vanderbilt University, a Graduate Diploma in Law from Northumbria University and is a member of the Bermuda Bar.

Leila Madeiros: Ms. Madeiros is Head of Compliance and Regulatory Affairs-Bermuda, and Compliance Officer and Money Laundering Officer for XL Life Ltd. She joined AXA XL in April, 2018. She has more than 30 years of experience in the (re)insurance industry. Prior to joining AXA XL, Ms. Madeiros was the Senior Vice President, Deputy Director and Corporate Secretary of the Association of Bermuda Insurers and Reinsurers (ABIR). She also served on the staff of the Bermuda Monetary Authority (BMA) as the Deputy Director of Policy, Research and Communications directing the formulation and dissemination of appropriate policies, strategies and information for the BMA. Madeiros also served in various capacities as a Bermuda insurance regulator with the Registrar of Companies Department (prior to 2002, the agency charged with insurance supervision). Ms. Madeiros developed her insurance expertise working at Heddington Insurance Limited in Hamilton and London before becoming an insurance regulator.

B.3. Risk Management and Solvency Self-Assessment

B.3.1. Risk management process and procedures to effectively identify, measure, manage and report on risk exposures

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 our profitability, capital strength and liquidity which is managed by the Risk Management (RM) function who implement the Risk Management Framework ("RMF").

The Company RMF which is 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 organisational 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; and
- 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.

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 more detailed risk management activity and the Board approved risk appetites.

The risk management strategy is to ensure that risk is considered alongside reward in setting the Company's strategic and business objectives. The strategy is articulated in the RMF and risk policies and is achieved by incorporating risk processes, information and decisions in the day to day running of the business.

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

- Retaining risk within an approved risk appetite that is consistent with our strategic objectives, with appropriate levels of capital held by the Company;
- 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).

Risk Appetite Framework (RAF)

The RAF is a key dimension to the risk management strategy and 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 RAF guides the Company’s strategies relating to, among other things, capital preservation, earnings volatility, capital at risk, operational loss, liquidity standards, claims paying rating and capital structure. The framework also addresses tolerance to risks from material individual events (e.g. natural or man-made catastrophes such as terrorism), our investment portfolio and realistic disaster scenarios (“RDS”) that cross multiple lines of business (and risks related to some or all of the above that may occur concurrently).

The Board approved risk appetites and risk tolerances were reviewed during the 2018 business planning process and it was determined that all existing statements and tolerances were appropriate to allow the Company to execute the 2018 business plan. In light of the AXA acquisition in September 2018 it was decided that the legacy XL Group Risk Appetite Framework would remain in place through year-end 2018 until such time that a Divisional framework could be implemented.

"Risk Appetites," as referred to above, are broad statements used to guide our risk and reward preferences over time, all consistent with, among other factors, business prudence, market opportunities, the underwriting pricing cycle and investment climate.

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

- **Risk Governance** sets out a clear and cost effective organisational structure for risk management, including clear roles and responsibilities.

- **Risk Policies** document the Company's approach to the management of each category of risk to which the Company is exposed.

- **Risk Definition and Categorisation** provides a common taxonomy and language for risk to allow for categorisation of all risks in a way which facilitates links between the business and risk management processes.

- **Risk Cycle and Processes** are the approach taken to top down, bottom up and process led risk identification, quantification and management and control.

- **Risk Management Information and Reporting, including CISSA Production** ensuring timely and accurate information is reviewed in line with the governance structure.

- **Skills, Resources and Risk Culture. Organisational Learning. Change Management Governance** - All enable a mature risk culture throughout the Company.

Risk Reporting

A risk dashboard is presented on a regular basis to the Board. The dashboard measures the status against risk appetite statements and the associated monitoring triggers and limits using the latest output from the business and the Bermuda Solvency Capital Requirement ("BSCR"). The dashboard includes information related to the monitoring against all of the Company's material risk categories. Highlights from the dashboard including performance against appetite and limits are reported to the Board.

B.3.2. Risk management and solvency self-assessment systems implementation

The Company's CISSA process includes all of 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 the own funds 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 organisational 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, economic capital and also regulatory capital requirements whilst taking into account potential future changes in the risk profile and considering stressed situations.

B.3.3. 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 is consistent with its Board approved limit and risk appetite framework.

The Company uses the Bermuda Solvency Capital Requirement ("BSCR") to calculate the required CISSA capital to support its business plans on the basis of risks facing the business.

B.3.4. Solvency self-assessment approval process

An overview of the minimum roles and responsibilities required for the CISSA process and the CISSA Report are set out below.

BOARD

With respect to the responsibilities relating to ERM, the Board:

- Oversees ERM activities, including the risk management framework employed by management. With respect to the overall risk management framework, the Company's Board (i) reviews the methodology for establishing our overall risk capacity; (ii) reviews the policies for the establishment of risk limit frameworks, and adherence to such limits; and (iii) reviews and approves Company risk limits.

- Oversees our compliance with any significant enterprise risk limits, authorities and policies. The Board evaluates what actions to take with respect to such limits, authorities and policies, and approves any exceptions thereto from time to time as necessary.

- Reviews our overall risk profile and monitors key risks to the Company.

- Monitors our risk management performance and obtains reasonable assurance from management that our risk management policies are effective and are being adhered to.

The review of our overall risk appetites and the evaluation of the risk impact of any material strategic decision being contemplated, including consideration of whether such strategic decision is within the risk profile established by us, is conducted by the Board. "Risk Appetites," as referred to above, are broad statements used to guide our risk and reward preferences over time, all consistent with, among other factors, business prudence, market opportunities, the underwriting pricing cycle and investment climate. Risk appetites are regularly monitored and can change over time in light of the above.

The Board shall, as appropriate, be briefed on the outcomes of key elements of the CISSA process and shall:

- Review and challenge outputs of CISSA process.

- Review and challenge the overall annual CISSA report.

CISSA PROCESS OWNERS

- The CISSA is made up of a number of different processes and each of these processes has an owner. These process owners are responsible for providing the information to support the undertaking of the CISSA.

- Key CISSA process owners are detailed below:

CISSA Process	Owner
Risk Budget (and related stress tests)	Risk Management function
Standard Formula Calculations	Head of Life Reinsurance Operations
Own Funds Calculations	Head of Life Reinsurance Finance
Technical Provisions Calculations (where appropriate)	Head of Life Reinsurance Operations
Annual Risk Assessment (Risk Register)	Risk Management function
Business Planning	Head of Life Reinsurance Finance
Emerging Risks Process	Risk Management function

B.4. Internal Controls

B.4.1. Internal Control System

The Framework for Internal Controls (FIC) function is committed to promoting a robust internal financial control framework for the Audit Committee, executive management and external stakeholders to rely on for financial and regulatory reporting purposes.

FIC's core strategic objectives include:

- Conducting an effective and efficient assessment of the design and operating effectiveness of internal controls over financial reporting;
- 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 the Audit Committee and executive management with the information they need to make the assertions and certifications required; and
- Adding value by helping management promote a robust control environment.

The FIC function performs an annual assessment of the control framework which includes: risk identification, risk assessment and planning, documenting business processes, evaluation and validation of key risks and controls, and issue management.

B.4.2. Compliance function

The Compliance function is responsible for advising the entity'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, analyse compliance risk and contribute to design solutions to mitigate those risks to which the Company is exposed.

The Head of Compliance reports to the AXA XL's Chief Compliance Officer of North America who reports to AXA XL's General Counsel.

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, (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 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 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 Company's Board.

On a regular basis, the compliance function reports directly to the Audit Committee, 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.

Subsequent to December 31, 2018, in 2019, the Company began implementation of the AXA Group Standards and AXA Compliance & Ethics Code.

B.5. Internal Audit function

The objectives of the Internal Audit function are to provide assurance that AXA XL's network of risk management, internal control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Internal accounting and operating controls are adequate and operating effectively.
- Financial, managerial, operating and technology systems information is appropriate, accurate, reliable, and timely.
- Compliance with Company policies, standards, procedures, code of conduct and applicable country laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in the AXA XL's control processes.
- Significant legislative or regulatory issues are recognized and addressed properly.
- Achievement of the Company's strategic objectives.

B.5.1. Internal Audit independence

To provide for the independence of the Internal Audit Department, the AXA XL Chief Audit Executive reports to the AXA XL Audit Committee and to AXA's Global Head of Audit.

Activities performed by Internal Audit do not relieve management of their assigned responsibilities. Internal Audit has no authority over, or responsibility for, activities audited. Internal Audit will avoid activities that are not audit functions and that may be perceived to impair audit objectivity.

The Internal Audit Department complies with the International Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors ("IIA"). The Standards apply to individual internal auditors and internal audit activities.

All internal auditors are accountable for conforming to the Standards related to individual objectivity, proficiency and due professional care.

The IIA has also established a Code of Ethics which covers basic principles of the internal auditing practice.

Internal Audit has a responsibility to conduct itself so that its good faith and integrity are not open to question.

B.5.2. Internal Audit work plan and process

To most effectively execute the Internal Audit Department's mission, the audit plan is risk-based and is focused on the key business risks relevant to the Company.

The Annual Risk Assessment process is coordinated with PricewaterhouseCoopers (external auditors) and Framework of Internal Controls to review the corporate-wide integrated audit universe of business functions, risks, processes and controls, as well as with other assurance functions within the Integrated

Internal Control Framework, including Compliance - monitoring and testing of key compliance risks; and first line Underwriting and Claims assurance activities (e.g. Independent Underwriting Review (IUR), Claims Quality Assurance (QA), Delegated Underwriting Governance (DUG), and Claims Delegated Authority Governance (CDAG)).

Risk assessment includes discussions with management and all designated functions and processes within the audit universe are risk assessed based on changing business conditions, the evolving operating environment and associated risks, among other risk criteria. Each auditable entity receives an overall risk rating as well as ratings for each of the four components of COSO's ERM Framework (Strategic, Operations, Reporting and Compliance), and used to produce a risk based annual audit plan. During each year, the audit universe is subject to ongoing risk assessment to identify significant changes to the universe and risk ratings, which can result in changes to the annual audit plan. The Company's annual audit plan, along with any key changes to it, are reported to the Company's Audit Committee for approval.

All audits are performed and documented in accordance with the IIA Standards.

The internal audit engagement process is set out below:

- Engagement Planning: The objectives of this phase are to refine the scope of the internal audit activities for the engagement; identify which business processes, systems and controls will be evaluated; determine which techniques will be used; manage expectations; and coordinate with other assurance providers and external auditors.

- Risk and Control Evaluation: The objective of this phase to understand the business process, the key controls and the primary risks associated with the business process.

- Fieldwork and Testing: The auditor will determine whether the controls supporting the audit objectives are adequately designed and effective through the gathering of audit evidence.

- Reporting: This phase provides a well-supported opinion on the controls in place, provide value added recommendations and identify opportunities to improve the internal control environment.

- Follow-up and Closure: The objective of this phase is to monitor the outstanding audit recommendations and agreed-upon audit issue resolutions to ensure their timely implementation.

B.6. Actuarial function

The Actuarial Function (the "Actuarial Function") assists the Board with its oversight responsibilities.

B.6.1. Regulatory Compliance

The Actuarial Function operates in accordance with applicable Bermuda regulation.

B.6.2. Roles and Structure

The Actuarial Function is provided at the AXA XL level from the AXA XL Actuarial Department that is headed by the Global Chief Actuary. The Group Actuarial Department is split into two functions: Actuarial Reserving/ Financial Reporting (AFR) which is headed by the Approved Group Actuary and is responsible for loss reserving and reporting and Actuarial Risk Analytics who is responsible for pricing.

The responsibilities of the Actuarial Function are shared by a number of key individuals who are supported by their respective teams. These teams are of sufficient size, and consist of suitably qualified and experienced people that meet the Group's minimum fitness and proper employment criteria. The teams are structured with varying lines of defenses to facilitate effective peer review and independent challenge. Certain responsibilities of the Actuarial Function for the Company are outsourced to Willis Towers Watson. Additionally, technical actuarial calculations are outsourced to GreyCastle Services Ltd.

B.6.3. Reports of the Actuarial Function to the Board and Regulators

On an annual basis, the Actuarial Function Holder submits an Actuarial Opinion to the Board in respect of the Best Estimate technical provisions.

B.6.4. Actuarial Function Responsibilities

The Actuarial Function is involved in many of the key processes across the business and provides technical expertise and assurance over the methods used. The key processes in respect of XL Life Ltd are listed below.

Responsibilities outsourced to Willis Towers Watson:

- Estimating the gross and net technical provisions;
- Ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions and explaining any material effect of change of data, methodologies or assumptions between valuation dates on the amount of technical provisions;
- Assessing the sufficiency and quality of the data used in the calculation of technical provisions and where relevant providing recommendations on internal procedures to improve data quality;
- Informing the Board on the reliability and adequacy of the calculation of technical provisions; overseeing the calculation of technical provisions; and
- Comparing best estimates against experience, i.e. performing analysis comparing the estimated policyholder obligations against actual policyholder obligations paid.

Additional responsibilities relating to risk management:

- Assisting in the execution of the risk management framework and ensuring effective governance framework around the review and validation of loss reserves (including technical provisions), policyholder obligations and potential exposures.
- Setting and maintaining actuarial standards to be applied across the business, ensuring that the actuarial methods and techniques are compliant with all the appropriate Group and local regulatory requirements.

Additional responsibilities relating to capital modelling:

- The Actuarial Function has an additional responsibility in contributing to the effective implementation of the risk management system, in particular with respect to offering insights related to the risk modelling underlying the calculation of the capital requirements.

B.7. Outsourcing

B.7.1. Outsourcing policy and key functions that have been outsourced

The Company's approach to outsourcing is the same as that which applies to all AXA XL material outsourcing arrangements. There are specific materiality thresholds for critical or important activities such as the following:

• Arrangements with an individual vendor covering business services to a certain annual value;

• Specific delegated underwriting arrangements notified to GOSC by the delegated underwriting governance ("DUG") group based upon agreed criteria and the Risk Based Approach ("RBA") Guidelines

• Specific Investment Management arrangements as identified by XL Investments Ltd, which is a subsidiary of the Company; and

• Other ad hoc outsourcing arrangements that GOSC may consider as being material to AXA XL for financial, operational or reputational reasons.

This applies to all material outsourcing to third parties carried out by AXA XL and its subsidiaries and is designed to establish a framework for the oversight and management of outsourcing risk at Group level, as well as the oversight of specific outsourcing arrangements. The Outsourcing Process for all Material Outsourcing Arrangements consists of the steps below:

Due Diligence - A thorough review of the service provider is to be performed using the services of IT, Legal and Compliance, Finance, Business Continuity Management, Risk Management and external experts when appropriate

Contracting and Negotiations - All material outsourcing agreements must be undertaken using a written, legally binding agreement approved by Legal and Compliance in accordance with agreed minimum standards;

Regulatory Notification - Ensure any prior notification required to relevant regulatory supervisory body is made;

Performance Monitoring - Ensure procedures to monitor the service provider's performance and risk are put in place; and

Exit Phase - Ensure all necessary exit strategies and business continuity plans are in place, relevant information exchanges is returned or destroyed, service provider access is ceased; and in the case of early termination, if any claims or penalties against the service provider arise.

In 2018, the most significant activities outsourced to external service providers, and the main locations of such providers, relate primarily to: (i) Accounting and actuarial processing (UK); ii) Actuarial reserving (UK).

B.7.2. Material intra-Group outsourcing

Services and resources are provided to entities within the Group by other Group companies, primarily through service companies. Formal service level authority agreements exist for services provided by these companies to other entities within the Group.

Outside of the intra-group service provision framework outlined above, additional agreements may be in place for further specific functions provided by an AXA XL company and another entity within the Group. For example, XL Group Investments Ltd ("XLGIL") provides investment management services to other entities within the AXA XL. These can be summarised as follows:

- Advising on investment strategy;
- Appointing investment managers;
- Providing investment reporting; and
- Setting benchmarks.

In 2018, the main activities which XL Life Ltd outsourced internally relate primarily to: (i) investment services as outlined above (US); ii) accounting transactional services (India); iii) Human Resources (Bermuda).

B.8. Other material information

For the year ended December 31, 2018, there is no other material information regarding Governance Structure required to be disclosed for purposes of this Financial Condition Report.

Effective September 12, 2018, XL Group Ltd completed its previously announced merger with Camelot Holdings Ltd. , a wholly owned subsidiary of AXA SA.

Completion of the transaction introduces new risks relating to integration of the two companies. Some of these are expected, others depend on the plan for integration (for example, commonality of systems will influence the complexity of system integration or data migration).

A steering committee of senior colleagues representing both companies has been established to provide governance and oversee integration, which involves a number of workstreams to ensure both integration and ongoing operational activities are effectively managed and maintained.

The XL Group's ability in managing integration activities was strongly demonstrated in the Catlin integration, many of the controls applied in that exercise will be available for application in this one. Together with the experience AXA bring, we expect that integration risks will be substantially mitigated.

C. Risk Profile

C.1. Material risks the insurer is exposed to during the period

C.1.1. Underwriting risk

Insurance Risk

In December 2015 the Company entered into an agreement to reinsure a block of US term life treaties with a subsidiary of Reinsurance Group of America ("RGA"). The transaction includes the majority of US term life reinsurance policy reserves and ceded approximately 80% of the Company's life reinsurance premiums, thereby removing the vast majority of risk associated with the remaining run-off life exposures. XL Life Ltd retains the risk of the business that is not retroceded. The retained risks are mortality and lapse.

C.1.2. 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
Interest rate and spread risk	Financial loss or volatility of profits due to the combined sensitivity of the economic value of the investment portfolio and (re)insurance liability cash flows and debt securities issued to changes in the level or volatility of benchmark interest rates and spreads.
Market risk concentrations	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.
Foreign exchange risk	Financial loss due to volatility in the value of the Company's assets following changes in currency exchange rates.
Equity price risk	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.

The Company identifies market risk through the following processes:

Process	Definition
Business planning	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.
Investment decisions and asset allocations	The Group Investment Portfolio Guidelines, Authorities and Monitoring Framework, which applies to the Company, sets ranges for tactical deviation from the benchmark and is reviewed annually.
Risk assessment and processes	The risk assessment process assists in identifying if there are any changes to market risks already identified in the previous assessment.

Market risk is also explored through underwriting and the Emerging Risk process which has Company representation. The Emerging Risk Task Force, comprised of senior leadership from across the organisation, actively monitors a wide array of emerging risks to provide the Company's underwriters, as well as clients, with pertinent information regarding new and existing trends. This involves the ongoing review of strategic and risk management processes, identifying potential opportunities in the market and providing thought leadership around emerging risk issues to optimise underwriting and strategic decisions.

C.1.3. Credit risk

Credit risk is defined as the risk of loss due to an unexpected default, or deterioration in the credit standing of the counterparties and debtors or uncertainty of an obligator's continued ability to make timely payments in accordance with the contractual terms of the instrument.

The Company is exposed to reinsurance credit risk through the retrocession to RGA. Please see sections C2 and C3 for more details.

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

Component	Description
Reinsurance counterparty Risk	Risk of losses due to the default of a reinsurer or a deterioration of its credit worthiness.
Investment counterparty Risk	Counterparty default risk is the risk of possible losses due to the unexpected default, or deterioration in the credit standing of investment counterparties.

The Company identifies credit risk through the following processes:

Process	Description
Business planning	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.
Underwriting	Each individual contract written is assessed by an 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.
ERM Risk assessment and processes	Through the risk assessment processes, the Company quantifies existing risks and also identifies new risks.
Emerging risks	The Group 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.

C.1.4. Liquidity risk

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
Stress testing	Stressing known and forecasted liquidity positions, downgrade triggers, collateral demands and cash flows.
Treasury	Treasury has responsibility to identify and monitor concentration risk of cash at banks, along with funding requirements.
ERM Risk assessment and processes	Through the risk assessment processes, the Company quantifies existing risks and also identifies new risks.

C.1.5. Operational risk

The Company defines operational risk as the risk of loss, resulting from inadequate or failed internal controls and / or processes, or from people and systems, or from external events. In line with business objectives, the Company does not take on operational risk with a view to achieving enhanced return. Rather, it accepts operational risk as a consequence of writing (re)insurance business and having operations to support the writing of that business.

Operational risk is identified through the following processes:

Process	Description
Annual risk assessment	A risk register is maintained of the material risks faced by the Company. On an annual basis an assessment is performed on the risks on the risk register.
Consultation regarding new regulations	When the regulatory authorities announce potential changes to the regulatory environment (such as new rules and regulations) the Legal and Compliance team is responsible for reviewing the proposed changes and for highlighting any increase in regulatory risk that might arise. When new financial reporting regulations are announced, the CFO is responsible for reviewing the proposed changes and for highlighting any increase in regulatory risk that might arise.
Business planning	Any changes to the operational risk environment that arise as a result of the business planning (such as entry into new territories) must be identified and accounted for during the planning process.
Ongoing operations	Function heads and Risk Owners are responsible for identifying any new (or changed) risks during the normal course of business, and notifying the Policy Owners so any required changes to the risk register can be implemented.
Emerging risks	The Company benefits from an emerging risks identification process which captures emerging risks. This assessment identifies key external factor changes that may give rise to operational risk issues.
Internal loss data	The Company collects data relating to operational risk losses and near misses on a quarterly basis. The data collected is used, among other things, to track incidents, identify key risk indicators and to validate and challenge operational risk quantification.
External loss data	The Company purchases historical loss data from an external provider. Large events from this database are used to identify new emerging risks.

C.1.6. Other material risks

The Company also considers the following risks as part of its Risk Management Framework:

- Strategic risk - The risk of the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.

- Group risk - Risk arising as a result of belonging to the AXA Group including areas such as capital support, reinsurance arrangements and reputational issues affecting the Group that could indirectly affect the business.

- Asset Liability Matching ("ALM") risk - arises directly from a mismatch between assets and liabilities due to changes in rates and spreads, equity and other non-fixed income markets/asset classes and credit risks, liquidity, foreign exchange and also from events affecting both asset and liability values.

Controls in relation to these risks are documented in the applicable risk policies where relevant.

C.2. Risk mitigation in the organisation

Strategic Asset Allocation

The Strategic Asset Allocation (SAA) process establishes a benchmark that is constructed to maximise enterprise value, subject to various considerations and constraints. It is subject to the risk tolerances recommended by management and is approved at least annually by the Company's Board.

- **Authorities Framework**

  As part of the implementation of the Company's SAA Benchmark, a comprehensive framework of investment decision authorities is employed. The objective of the Authorities Framework is to ensure that the risk profile of the investment portfolio is consistent with the Company's risk tolerance as reflected in the SAA Benchmark. The Authorities Framework controls active or tactical deviations from the SAA Benchmark. As the magnitude of these deviations increases or the resulting impact on the risk profile of the investment portfolio reaches certain predetermined thresholds, additional levels of authority and approval are required.

The Statement of Investment Policy, Authorities and Guidelines and Group Investment Portfolio Guidelines, Authorities and Monitoring Framework comprise a market risk authority and guidelines structure that addresses all the key market risk factors and is commensurate with the volume and complexity of activity undertaken by AXA XL.

- **Service Level Agreements**

  Service level agreements are in place between XLGIL and the Company. These include guidance on type of investments and the average weighted credit ratings of the portfolio that can be made on behalf of the Company. Adherence to policies and guidelines is monitored and signed off on a regular basis and subject to monitoring and reporting to the Company's Board as described below.

- **Currency risk mitigation**

The remaining insurance liabilities are wholly USD denominated and the vast majority of the Company's investment portfolio is also in USD denominated assets. Therefore, foreign exchange (FX) risk exposure is immaterial.

- **Credit risk**

Credit risk is managed through:

- **Credit risk framework -** Credit risk arising from credit sensitive underwriting activities is managed via the underwriting limit framework. Credit risk is managed within the investment portfolio through the Authorities Framework and established investment credit policies, which address the quality of obligors and counterparties, industry limits, and diversification requirements. Exposure to market credit spreads primarily relates to market price and cash flow variability associated with changes in credit spreads.

- **Underwriting authorities and limits -** See C1 Underwriting Risk.

- **Investment portfolio -** Credit risk is managed in the investment portfolio, including fixed income, alternative and short-term investments, through the credit research performed by both investment management service providers and the in house portfolio management team.

- **Reinsurance Security Department -** 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, trust accounts and/or irrevocable letters of credit may be held. The following table outlines the Company's top external reinsurance credit exposures as at 31 December 2018.

Reinsurer name	Rating	2018 Total unsecured recoverables ($000)	2017 Total unsecured recoverables ($000)
RGA Reinsurance Company	AA	12,160	15,550

Above numbers are taken from the Company's US GAAP accounts.

Liquidity risk

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, shareholders 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 a 12 month horizon.

Liquidity risk is managed through:

- **Investment portfolio liquidity -** The annual SAA process determines the structure of the benchmark that maximises the value of the Company subject to risk tolerance and other constraints. The key output of the SAA process is an investment portfolio benchmark, which takes into account management's risk tolerance, liability cash flows, business plan, peer analysis and regulatory considerations.

- **Asset-Liability Management (ALM) -** Treasury conducts detailed ALM analysis to match the average duration of its liabilities with appropriate assets.

Operational risk

The Company's risk register details the controls in place that mitigate specific risks. The nature of the controls and the strength of control exercised are based upon the:

- Potential severity of the risk;
- Frequency of the risk occurring;
- Cost of implementing controls relative to the significance of the risk; and
- Appetite and tolerance for the risk.

Purchase of insurance

It is recognised that while the Company may buy insurance with the aim of reducing the monetary impact of certain operational risk events (e.g. physical damage), non-monetary impacts may remain (including impact on the Company's reputation). This is considered in the risk assessment process and risk register.

The risks are monitored and managed through the risk framework and the operational loss event reporting process.

Based on the above factors considered in scenario and stress testing, all operational risks are deemed to be well managed and within risk appetite, as reported via the Risk Dashboard to the Board.

C.3. Material risk concentrations

Material concentrations can occur within risk categories and across risk categories. Our limit framework is intended to address both. The limit framework and expected exposures are reviewed during the annual risk budgeting process and tested through our stress testing framework and also through use of the internal model.

We impose limits for mortality risk, lapse risk and pandemic risk at a 1% exceedance probability. If we were to deploy the full limit, for any given event type, there would be a 1% probability that an event would occur during the next year that would result in a net underwriting loss in excess of the limit. We also impose limits for mortality risk at a 1% tail value at risk ("TVaR") probability. This statistic indicates the average amount of net loss expected to be incurred if a loss above the 1% exceedance probability level has occurred.

C.4. Investment in assets in accordance with the prudent person principles of the Code of Conduct

In line with business objectives, market risk is accepted by XL Life Ltd and managed with the objective of optimising total return on investments subject to agreed risk constraints and other considerations. Our investments are managed and monitored by XL Group Investments Ltd (“XLGIL”) and governed through an investment agreement and guidelines. The ERM department oversees adherence to these guidelines.

XLGIL are guided by the “prudent person” principle as specified in paragraph 5.1.2 of the BMA Insurance Code of Conduct, in that the Company only invests in assets and instruments where the risks of which can properly be identified, measured, monitored, managed and controlled. Exposures to counterparty concentrations are managed through defined limits and ratings.

C.5. Stress testing and sensitivity analysis to assess material risks

Underwriting risk

Mortality risk is the main insurance risk for the Company. Risk tolerances are established for insurance risks and are captured through risk reporting to the Board and monitored as part of the RAF.

On a quarterly basis exposures to a mortality, lapse and other number of key insurance risks are measured and monitored and reported to the Board.

At the 1:100 VaR and TVaR level of confidence, should the loss implied by the occurrence of any of the largest underwriting exposures (includes mortality, lapse risk and pandemic) occur, the Company’s Bermuda based solvency ratio (BSCR) would remain above 200%.

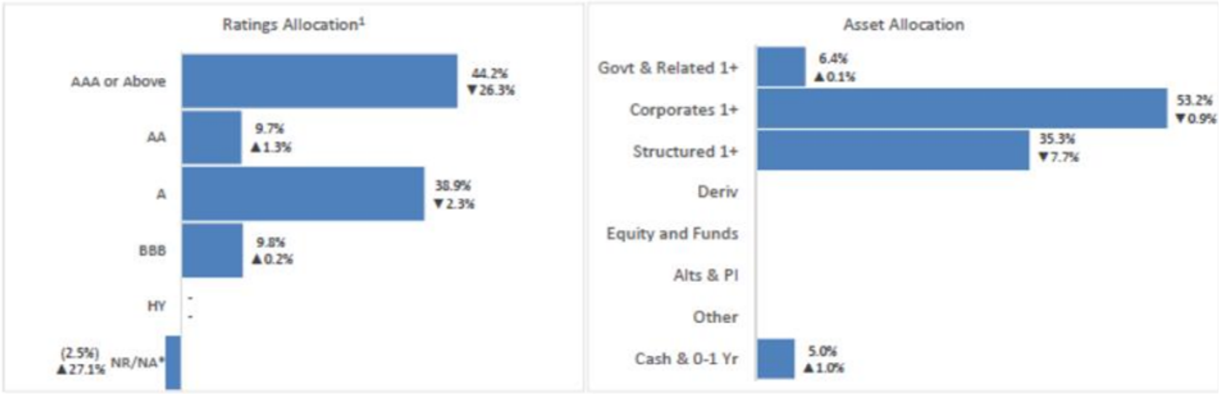
Market risk

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 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;
- Historical stress tests identified by ERM and the Group Investments covering economic, financial and political events and the potential impact to the investment portfolio.
- RDS aggregations; and
- Ad hoc review of enterprise risk scenarios.

The Company's investment portfolio mostly contains high rated government and corporate assets as seen in the figure below. This is reported to the Board.

The Company's portfolio and asset allocation at 31st December 2018 was as follows:



*N/R = Not Rated. No coverage by the three rating agencies
*N/A = Not Applicable. Includes Derivatives, Alts, Privates, Equity, Mutual/Bond Funds, etc

As part of our Stress Testing process, we examine large historical market events. Should losses be incurred in a magnitude implied by these simulated historical events at December 31, 2018, the Company's Bermuda based solvency ratio (BSCR) would remain in excess of 200%.

Furthermore, should a loss implied by the investment VaR (1:100 level of confidence) or 100 basis point increase materialize, the Company's Bermuda based solvency ratio (BSCR) would remain above 200%.

Credit risk

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. Based on the factors considered in scenario and stress testing, all credit risks are deemed to be well managed.

In the event that credit risk materialises with the RGA retrocession the exposure would be mitigated as the funds withheld are sufficient to cover the projected claims. Furthermore RGA has a parent company guarantee in place with its AA rated parent giving recourse to additional balances in excess of the funds withheld even in the event of the counterparty defaulting.

Should a loss implied by the credit VaR applied to the Company's investment portfolio (1:100 level of confidence) materialize, the Company's Bermuda based solvency ratio (BSCR) would remain above 200%.

Liquidity risk

Given its run-off status liquidity risk is a key risk for the Company. However, the investment portfolio is structured with the aim to ensure that adequate income is generated to meet ongoing liquidity needs. Also the Company has access to two significant AXA Group facilities in order to meet any short term liquidity needs - these facilities are the AXA Group cash pool for short term needs in normal conditions, and a Divisional revolving credit facility which can be utilized once XL Group permission has been granted. Quarterly liquidity stress test analysis is conducted by the Treasury team and Risk Management.

Operational risk

Operational risk is assessed and monitored through the risk assessment process. Should a loss implied by these stressed scenarios materialize, the Company's Bermuda based solvency ratio (BSCR) would remain above 200%.

C.6. Other material information

Effective September 12, 2018, XL Group Ltd completed its previously announced merger with Camelot Holdings Ltd. , a wholly owned subsidiary of AXA SA.

Completion of the transaction introduces new risks relating to integration of the two companies. Some of these are expected, others depend on the plan for integration (for example, commonality of systems will influence the complexity of system integration or data migration).

A steering committee of senior colleagues representing both companies has been established to provide governance and oversee integration, which involves a number of workstreams to ensure both integration and ongoing operational activities are effectively managed and maintained.

The XL Group's ability in managing integration activities was strongly demonstrated in the Catlin integration, many of the controls applied in that exercise will be available for application in this one. Together with the experience AXA bring, we expect that integration risks will be substantially mitigated.

D. Solvency Valuation

This section provides particulars of the valuation bases, methods and assumptions on the inputs used to determine solvency.

D.1. Valuation bases, assumptions and methods used to derive the value of each asset class

Cash and cash equivalents include money-market funds and fixed interest deposits placed with a maturity of under 90 days when purchased. This also includes restricted cash. Cash and cash equivalents are included in the EBS at fair value in line with US GAAP with both changes in fair value and realized gains/losses netted off Statutory Economic Capital and Surplus.

Quoted Investments are recorded at fair value in line with US GAAP with both changes in fair value and realized gains/losses netted off Statutory Economic Capital and Surplus.

Residential Mortgage Backed Securities, commercial Mortgage Backed Securities, Asset Backed Securities and Bond Mutual Funds are included under bonds and debentures and separately shown on Schedule II of the BSCR.

The majority of our investments are bonds, the valuation of which is classified as Level 2 (quoted prices for similar assets) as they are not considered to be traded in an active market. With an active market financial instruments should be traded multiple times per day. This cannot be asserted for our bonds as they do not necessarily trade every day. A small amount of investments are measured at Level 3 (mark to model).

The fair values for investments are generally sourced from third parties. The fair values of fixed income securities are based upon quoted market values where available, "evaluated bid" prices provided by third party pricing services ("pricing services") where quoted market values are not available, or by reference to broker or underwriter bid indications where pricing services do not provide coverage for a particular security.

To the extent the Company believes current trading conditions represent distressed transactions, the Company may elect to utilize internally generated models. The pricing services use market approaches to valuations using primarily Level 2 inputs in the vast majority of valuations, or some form of discounted cash flow analysis, to obtain investment values for a small percentage of fixed income securities for which they provide a price. Pricing services indicate that they will only produce an estimate of fair value if there is objectively verifiable information available to produce a valuation.

Standard inputs to the valuations provided by the pricing services listed in approximate order of priority for use when available include: reported trades, benchmark yields, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data. The pricing services may prioritize inputs differently on any given day for any security, and not all inputs listed are available for use in the evaluation process on any given day for each security evaluation; however, the pricing services also monitor market indicators, customer feedback through a price challenge process and industry and economic events. Information of this nature is a trigger to acquire further corroborating market data. When these inputs are not available, they identify “buckets” of similar securities (allocated by asset class types, sectors, sub-sectors, contractual cash flows/structure, and credit rating characteristics) and apply some form of matrix or other modelled pricing to determine an appropriate security value which represents their best estimate as to what a buyer in the marketplace would pay for a security in a current sale.

While the Company receives values for the majority of the investment securities it holds from pricing services, it is ultimately management’s responsibility to determine whether the values received and recorded in the financial statements are representative of appropriate fair value measurements. It is common industry practice to utilize pricing services as a source for determining the fair values of investments where the pricing services are able to obtain sufficient market corroborating information to allow them to produce a valuation at a reporting date. In addition, in the majority of cases, although a value may be obtained from a particular pricing service for a security or class of similar securities, these values are corroborated against values provided by other pricing services.

Broker/dealer quotations are used to value fixed maturities where prices are unavailable from pricing services due to factors specific to the security such as limited liquidity, lack of current transactions, or trades only taking place in privately negotiated transactions. These are considered Level 3 valuations, as significant inputs utilized by brokers may be difficult to corroborate with observable market data, or sufficient information regarding the specific inputs utilized by the broker was not available to support a Level 2 classification. .

Short-term investments include investments due to mature within one year from the date of purchase and are valued using the same external factors and in the same manner as fixed income securities. Equity securities include investments in open end mutual funds and shares of publicly traded alternative funds. The fair value of equity securities is based upon quoted market values (Level 1), or monthly net asset value statements provided by the investment managers upon which subscriptions and redemptions can be executed (Level 2).

Investments in and Advances to Affiliates.

Advances to affiliates are recorded at fair value in line with US GAAP. Amounts receivable or payable on account of policies of insurance or reinsurance with affiliates are not included in this line. Such amounts are included in accounts and premiums receivables line and reinsurance payable respectively. Funds held by ceding reinsurers which are affiliates and funds held under reinsurance contracts with affiliates are also not included.

Investment Income Due and Accrued is recorded at fair value in line with US GAAP. Balances due in more than one year have not been discounted as this is not considered to be material.

Accounts and premium receivable are recorded at fair value in line with US GAAP.

Sundry Assets Any asset not accounted for in lines 1 to 12 and 14 is included here if it has a readily realizable value. Any other assets, prepaid and deferred expenses, goodwill and similar intangible assets shall be non- admitted assets.

All assets categorized under sundry assets are recorded at fair value in line with US GAAP.

D.2. Valuation bases, assumptions and methods used to derive the value of technical provisions

D.2.1 Valuation Bases, Assumptions and Methods to Derive the Value of Technical Provisions

Insurance technical provisions are valued using best estimate cashflows, adjusted to reflect the time value of money using a risk free discount rate term structure with an appropriate illiquidity adjustment. This adjustment has been set using the "standard approach" as provided by the BMA.

A risk margin is also added which reflects the uncertainty in the underlying cashflows, and this is calculated using a cost of capital approach and a risk free discount rate term structure.

At December 31, 2018, the total net Technical Provisions amounted to $31.8 million comprising the following (reported in USD thousand units):

Mortality

USD '000s	2018	2017
Claims provision	29,785	47,229
Premium provision		
Risk margin	2,034	2,106
Total technical provisions	31,819	49,335

The above numbers are sourced from Form 4EBS in the BSCR.

D.2.2 Uncertainty/limitations Associated with the Value of the Technical Provisions

There is inherent uncertainty in the estimates as actuarial indications are subject to uncertainty from various sources, including but not limited to differences between the estimated future decrement rates (i.e. mortality and lapse rates) and those ultimately experienced.

D.3. Description of recoverables from reinsurance contracts

Recoverables from reinsurance contracts are based on principles similar to the those used in the calculation of the gross reserves. They include allowance for the reinsurance premiums paid by the Company and the value of the funds withheld assets that are booked on the Company's balance sheet.

D.4. Valuation bases, assumptions and methods used to derive the value of other liabilities

Other liabilities are valued on a fair value basis, other than Funds Held Under Reinsurance Contracts which is held at the contractual value.

D.5. Other material information

No other material information to report.

E. Capital Management

This section provides particulars regarding an assessment of capital needs and regulatory capital requirements

E.1. Eligible Capital

E.1.1. Capital management policy and process for capital needs, how capital is managed and material changes during the period

The Company has an overarching Capital Management process to ensure an appropriate level and form of capital. Thereby, the Company's capital position is benchmarked against its projected risk exposures to ensure that it is adequate to support planned business operations as well as certain stressed loss events. The form of the capital is designed to provide a balance between security, flexibility and liquidity.

In addition, the Company ensures that it meets the appropriate levels/standards as defined under the Insurance Act using the economic balance sheet framework to derive the Company's statutory economic capital and surplus, its enhanced capital requirement and its target capital levels as defined therein. There are appropriate levels of oversight from the Board, Risk and Compliance, Finance and Group Treasury to ensure appropriate capital levels are managed and maintained.

E.1.2. Eligible capital categorised by tiers in accordance with the Eligible Capital Rules

ii. Eligible Capital

Eligible Capital

USD '000s	**2018**	**2017**
Tier 1	66,773	65,211
Tier 2	32,591	35,992
Tier 3		0
Total	99,364	101,203

Above numbers are sourced from the Bermuda Solvency Capital Requirement for class D and E insurers.

A trust is in place to provide collateral to a particular client in relation to US term life treaties. This results in some capital being classified as tier 2 in accordance with the BMA eligible capital rules, and this is reflected in the table above.

E.1.3. Eligible capital categorised by tiers in accordance with the Eligible Capital Rules used to meet the Enhanced Capital Requirement (ECR) and the Minimum Margin of Solvency (MSM) requirements of the Insurance Act

2018

Eligible Capital

	Limits	**MSM**	**ECR**	**MSM**	**ECR**
Tier 1	min	80%	50%	66,773	66,773
Tier 2	max	25%	50%	16,693	32,591
Tier 3			18%		
Total				83,466	99,364

2017

Eligible Capital

	Limits	**MSM**	**ECR**	**MSM**	**ECR**
Tier 1	min	80%	50%	65,211	65,211
Tier 2	max	25%	50%	16,303	35,992
Tier 3			18%	0	0
Total				81,514	101,203

Above numbers are in USD '000s and are sourced from the Schedule of Eligible Capital in the BSCR.

E.1.4. Confirmation of eligible capital that is subject to transitional arrangements

None.

E.1.5. Identification of any factors affecting encumbrances affecting the availability and transferability of capital to meet the ECR

The Capital to meet the ECR is available and transferable

E.1.6. Identification of ancillary capital instruments that have been approved by the Authority

None.

E.1.7. Identification of differences in shareholders' equity as stated in the financial statements versus the available statutory capital and surplus

The difference between shareholder's equity as stated in the financial statements versus available statutory economic capital and surplus is due to the calculation of reserves on each basis. The primary contribution to the different in reserve values is the use of a market rate of interest for the derivation of the valuation interest rate in the statutory economic balance sheet, rather than an amortised valuation interest rate on the US GAAP basis used for the financial statements.

	USD '000s
US GAAP Consolidated Financial Statements Total Shareholders Equity	134,079
Less: adjustments for prepayments	-551
Less: Adjustments for Technical provision and Risk Margin under EBS rules	-15,624
Total statutory economic capital and surplus	117,904

E.2. Regulatory Capital Requirements

E.2.1. ECR and MSM at the end of the reporting period

2018

USD '000s	Amount	Statutory Economic Capital &	Ratio
Minimum margin of solvency	6,683	117,904	1764%
Enhanced capital requirement	7,501	117,904	1572%

2017

USD '000s	Amount	Statutory Economic Capital	Ratio
Minimum margin of solvency	7,250	119,730	1652%
Enhanced capital requirement	11,123	119,730	1076%

Above numbers are sourced from the Bermuda Solvency Capital Requirement - Class D and E insurers.

E.2.2. Identification of any non-compliance with the MSM and the ECR

None.

E.2.3. A description of the amount and circumstances surrounding the non-compliance, the remedial measures and their effectiveness

Not applicable.

E.2.4. Where the non-compliance is not resolved, a description of the amount of the non-compliance

Not applicable.

E.3. Approved Internal Capital Model

E.3.1. Description of the purpose and scope of the business and risk areas where the internal model is used

Not applicable.

E.3.2. Where a partial internal model is used, a description of the integration with the BSCR Model

Not applicable.

E.3.3. Description of methods used in the internal model to calculate the ECR

Not applicable.

E.3.4. Description of aggregation methodologies and diversification effects

Not applicable.

E.3.5. Description of the main differences in the methods and assumptions used for the risk areas in the internal model versus the BSCR Model

Not applicable.

E.4. Description of the nature and suitability of the data used in the internal model

i. Description of the purpose and scope of the business and risk areas where the internal model is used

Not applicable.

ii. Where a partial internal model is used, description of how it is integrated with the BSCR Model

Not applicable.

iii. Description of methods used in the internal model to calculate the ECR

Not applicable.

iv. Description of aggregation methodologies and diversification effects

Not applicable.

v. Description of the main differences in the methods and assumptions used for the risk areas in the internal model versus the BSCR Model

Not applicable.

Description of the nature and suitability of the data used in the internal model

Not applicable.

E.5. Other material information

Not applicable.

F. Subsequent Events

F.1. Description of the significant event;

For the year ended December 31, 2018, there is no other material information regarding Governance Structure required to be disclosed for purposes of this Financial Condition Report.

Effective September 12, 2018, XL Group Ltd completed its previously announced merger with Camelot Holdings Ltd. , a wholly owned subsidiary of AXA SA. Completion of the transaction introduces new risks relating to integration of the two companies. Some of these are expected, others depend on the plan for integration (for example, commonality of systems will influence the complexity of system integration or data migration).

A steering committee of senior colleagues representing both companies has been established to provide governance and oversee integration, which involves a number of workstreams to ensure both integration and ongoing operational activities are effectively managed and maintained. The XL Group's ability in managing integration activities was strongly demonstrated in the Catlin integration, many of the controls applied in that exercise will be available for application in this one. Together with the experience AXA bring, we expect that integration risks will be substantially mitigated.

F.2. Approximate date(s) or proposed timing of the significant event

F.3. Confirmation of how the significant event has impacted or will impact, any information provided in the most recent financial condition report filed with the Authority

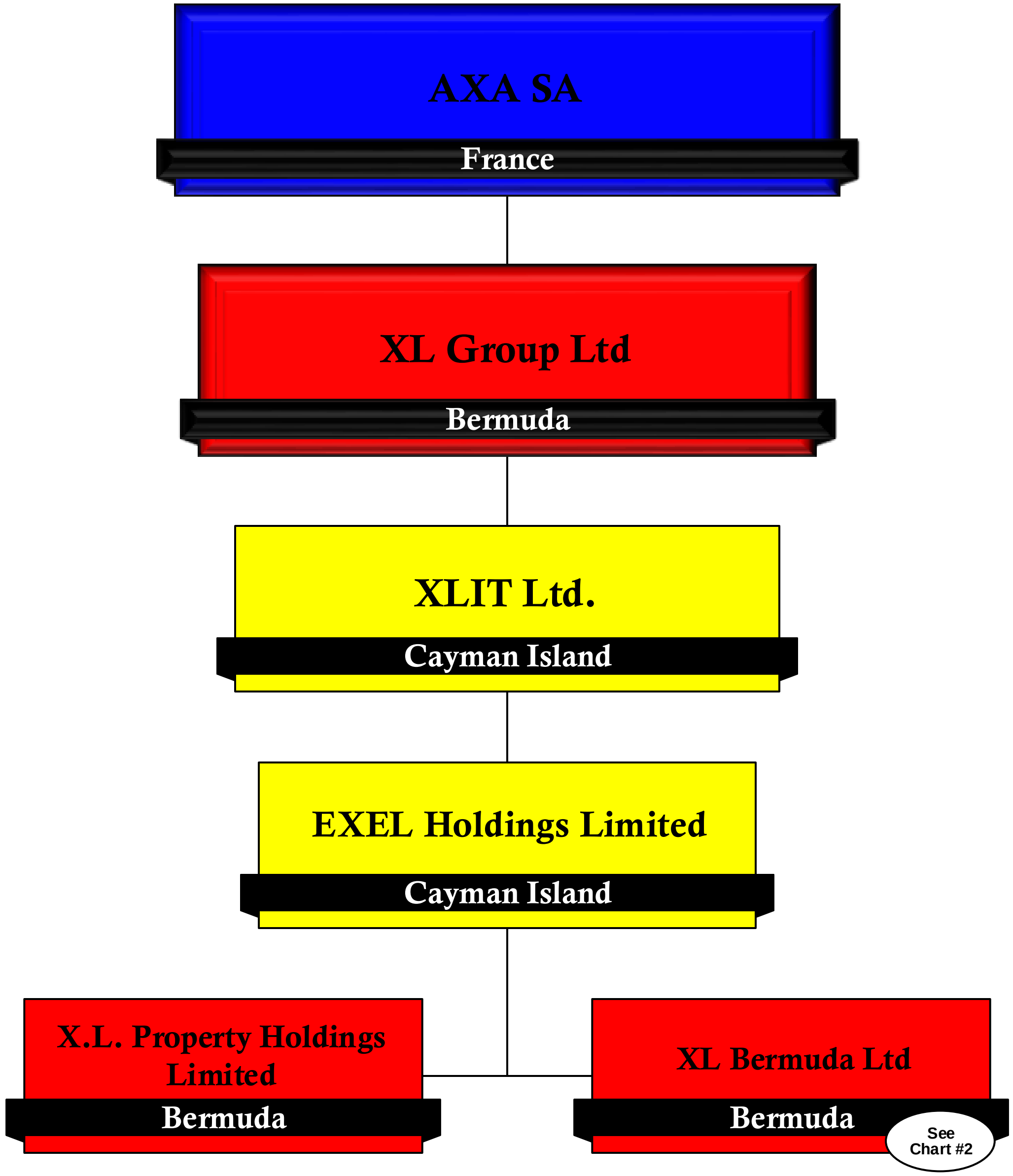
F.4. Other material information

Not applicable.

Appendix 1 - AXA XL Structure Chart

4th Qtr. 2018

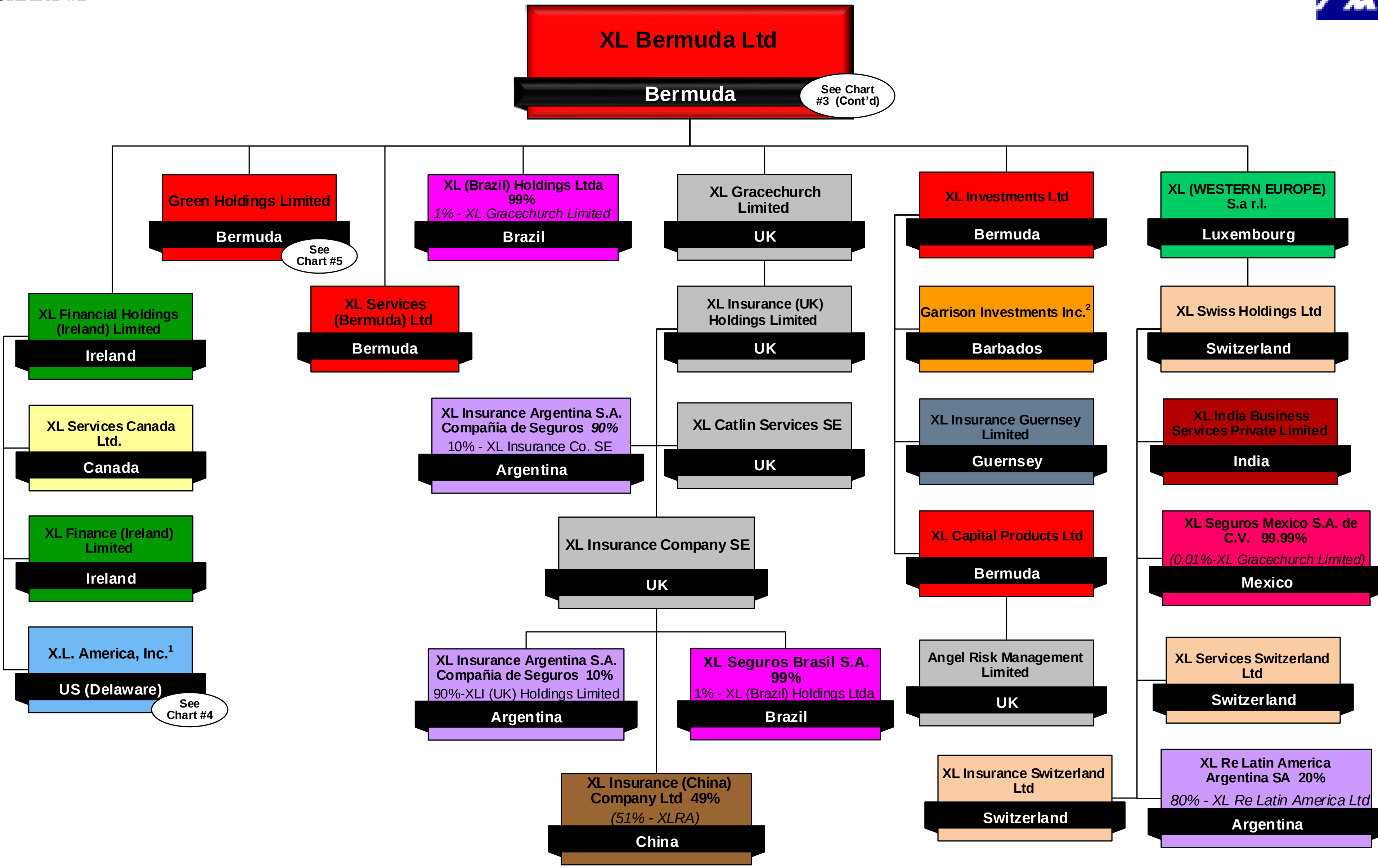
CHART #1



Revised: 2/7/2019

4th Qtr. 2018

CHART #2

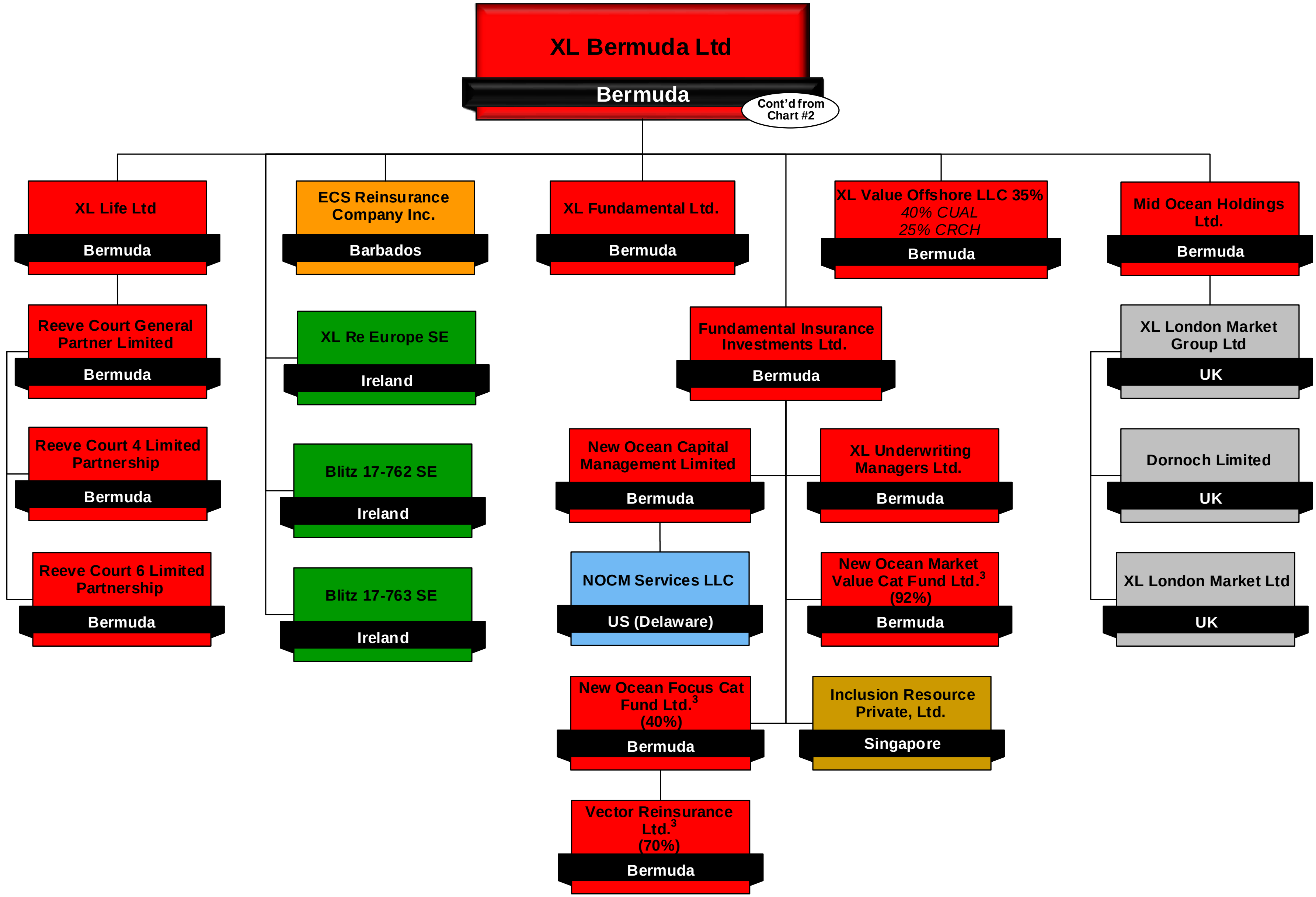


1. X.L. America, Inc. - General Partner
2. Garrison Investments Inc. - Limited Partner

Revised: 2/7/2019

4th Qtr. 2018

CHART #3

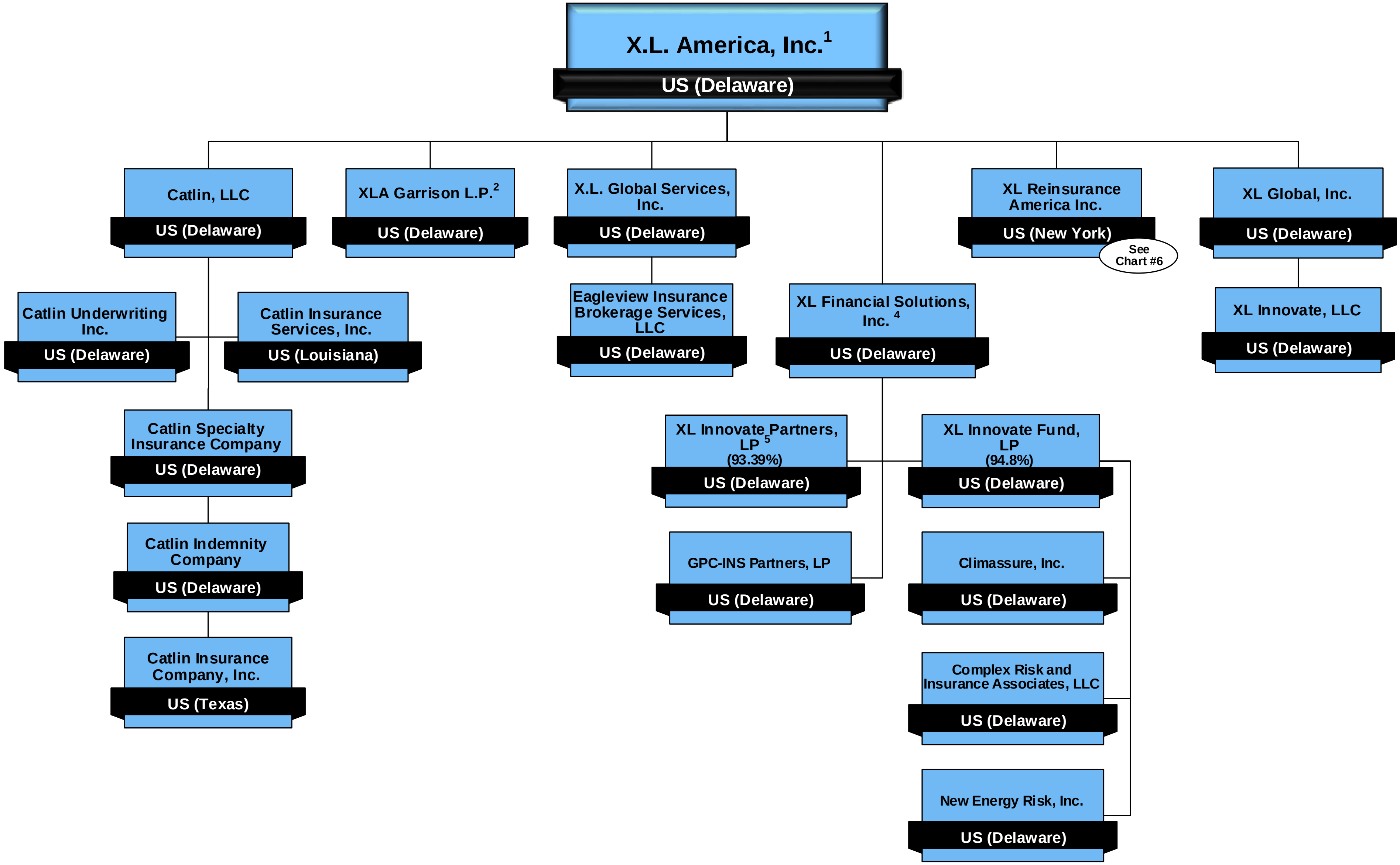


3. Preferred Share Ownership

Revised: 2/7/2019

4th Qtr. 2018

CHART #4

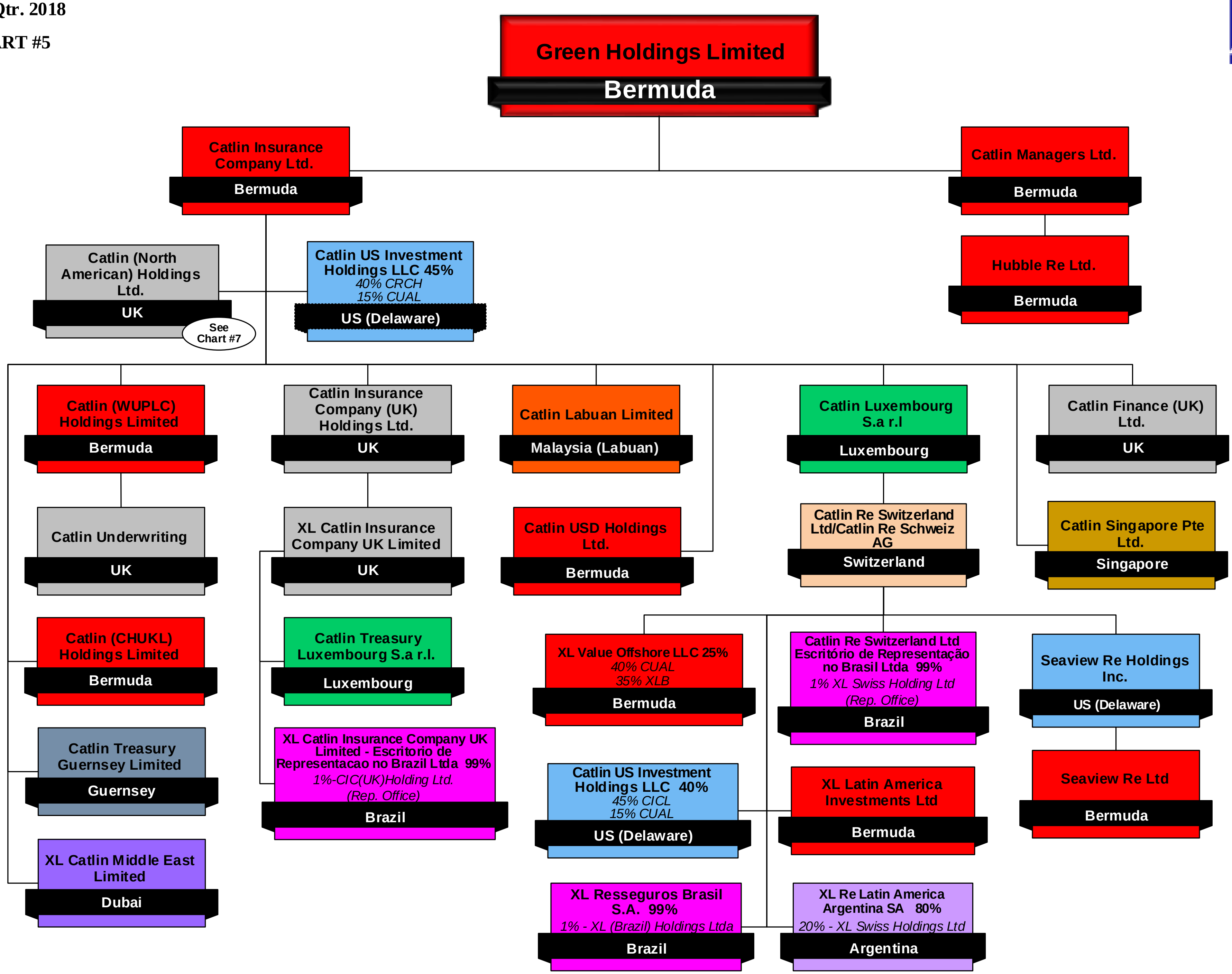


1. General Partner of XLA Garrison L.P.
2. Limited Partner of XLA Garrison L.P.
4. General Partner of XL Innovate Partners, LP and Limited Partner of XL Innovate Fund, LP
5. General Partner of XL Innovate Fund, LP
6. XL Financial Solutions, Inc. is the Sole Limited Partner of GPC-INS Partners, LP

Revised: 2/7/2019

4th Qtr. 2018

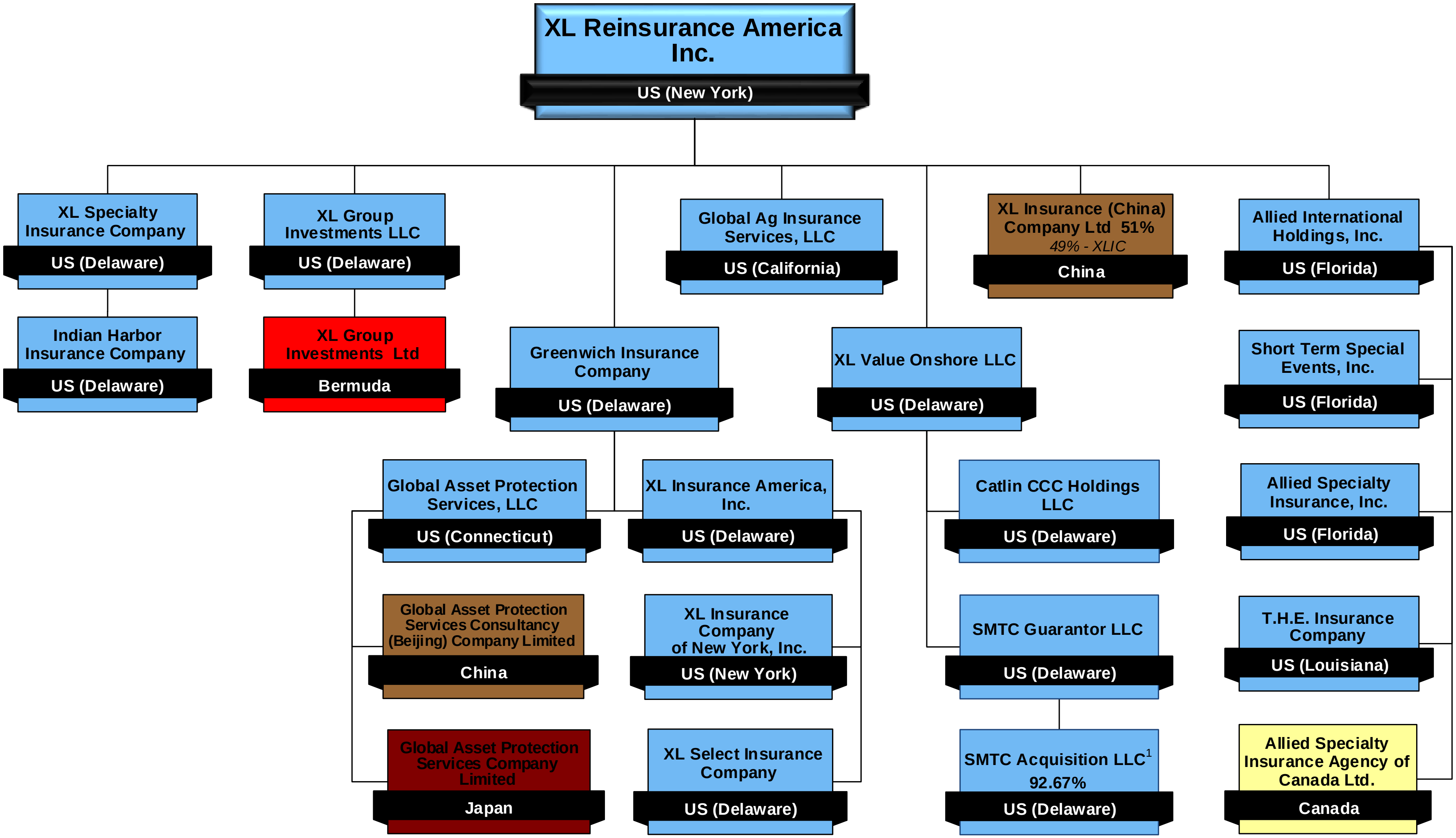
CHART #5



Revised: 2/7/2019

4th Qtr. 2018

CHART #6

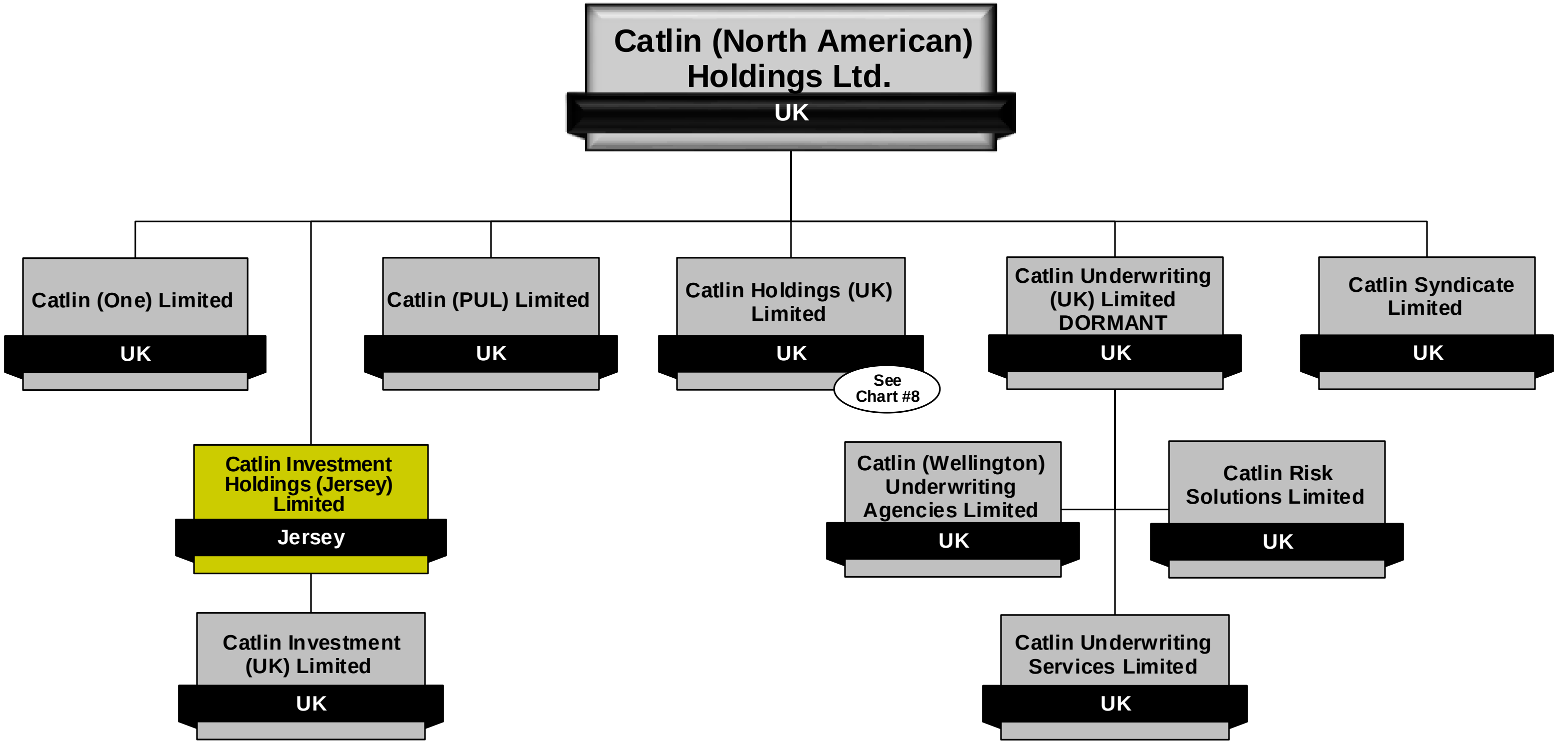


1. SMTC Guarantor LLC owns 92.67% of SMTC Acquisition LLC
(the remaining 7.33% is NOT owned by XL Catlin)

Revised: 2/7/2019

4th Qtr. 2018

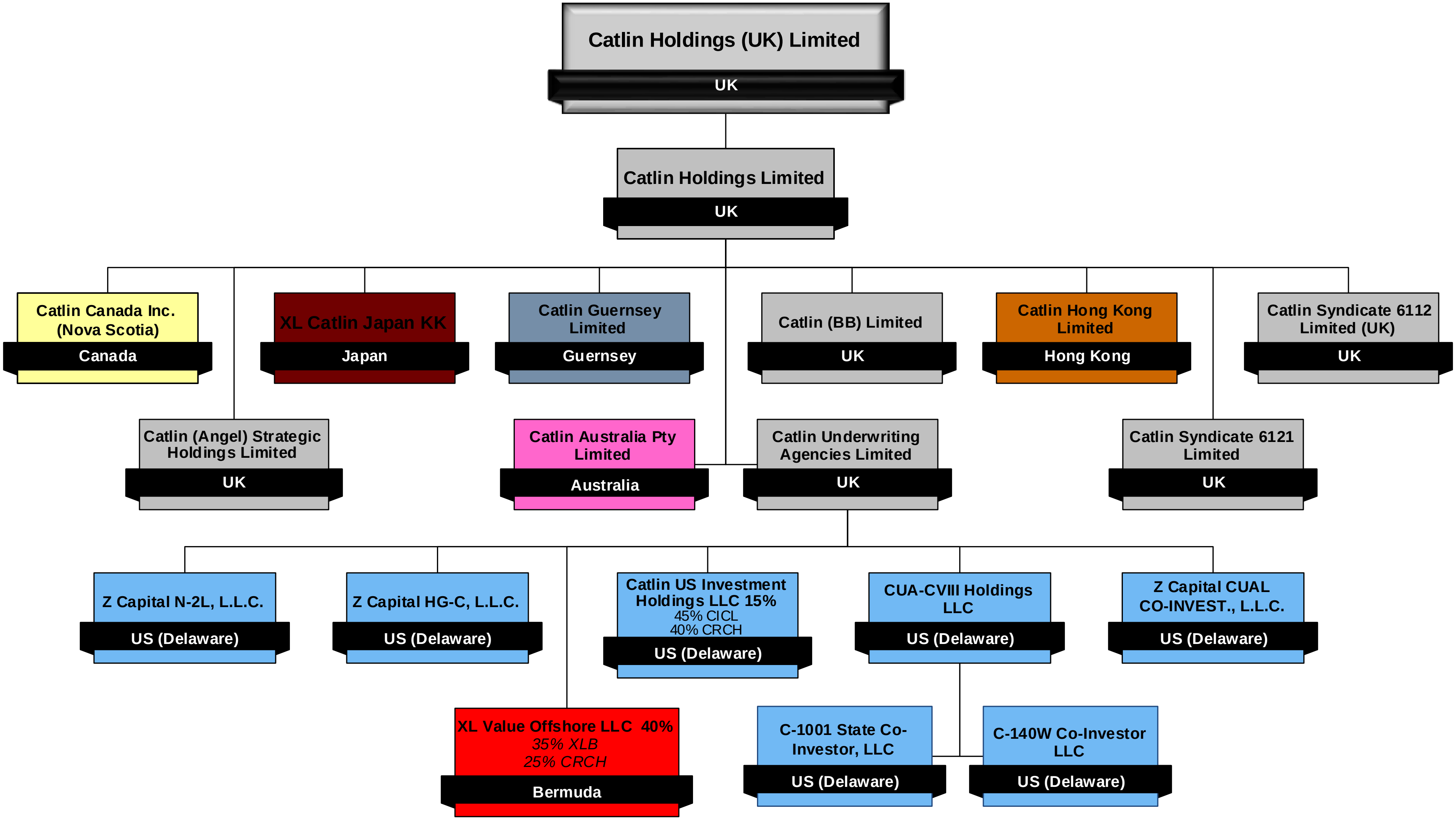
CHART #7



Revised: 2/7/2019

4th Qtr. 2018

CHART #8



Revised: 2/7/2019