



XL Bermuda Ltd

An AXA Group Company

Financial Condition Report ("FCR")

December 31, 2020

forming part of the annual regulatory reporting package
submitted to the Bermuda Monetary Authority ("BMA") by April 30, 2021

Declaration Statement

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



Patrick Tannock

AXA XL Partner, Chief Executive Officer (XL Bermuda), Insurance

April 29 2021



Simon Argent

Chief Risk Officer - Bermuda

April 29 2021

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A. Business and Performance

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

A.1. Name of Insurer

XL Bermuda 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 "BMA" 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:	+1-441-299-7685

A.4. Ownership Details

Owner Name	Ownership Percentage
EXEL Holdings Limited	100.00%

A.5. Group Structure

See [Appendix 01 - AXA XL Structure Chart 2020 Q4](#) effective as of December 31st, 2020

A.6. Insurance Business Written by Business Segment and by Geographical Region

The following tables summarize the Company's gross premiums written and net premiums written by line of business for the years ended December 31, 2020 and 2019:

(U.S. dollars in thousands)	<u>2020 GROSS PREMIUMS WRITTEN</u>		<u>2019 GROSS PREMIUMS WRITTEN</u>	
	<i>Total</i>		<i>Total</i>	
P&C Operations:				
Professional	\$	3,423,997	\$	3,063,997
Casualty		5,093,701		4,511,657
Property catastrophe		946,588		935,642
Property		4,919,399		4,782,123
Specialty		4,024,144		3,109,276
Other (Note 1)		2,824,935		1,720,008
Total P&C Operations	\$	21,232,764	\$	18,122,703
Life Operations (Note 2)		209,676		210,160
Total		21,442,440		18,332,863

(U.S. dollars in thousands)	<u>2020 NET PREMIUMS WRITTEN</u>		<u>2019 NET PREMIUMS WRITTEN</u>	
	<i>Total</i>		<i>Total</i>	
P&C Operations:				
Professional	\$	1,879,058	\$	1,888,371
Casualty		3,193,773		2,874,512
Property catastrophe		335,565		515,914
Property		2,780,476		3,337,113
Specialty		2,275,851		2,345,638
Other (Note 1)		3,154,556		1,852,761
Total P&C Operations	\$	13,619,279	\$	12,814,309
Life Operations (Note 2)		10,334		11,162
Total		13,629,613		12,825,471

Notes:

1. Other within the Insurance segment includes: surety, structured indemnity and certain other discontinued lines. Other within the Reinsurance segment includes: whole account contracts, credit and surety, accident and health and other lines. In addition, other has been represented for 2020 to include service fees to be consistent with the Company's presentation of premiums.

2. Life includes the Company's run-off Life operations.

The following table shows an analysis of the Company's net premiums written by geographical location of the subsidiary where the premium is written for the years ended December 31, 2020 and 2019:

(U.S. dollars in thousands)	2020	2019
P&C Operations:		
Bermuda	\$ 1,694,392	4,555,337
United States	4,882,824	2,935,617
Europe	5,711,434	4,512,783
Other	1,330,629	810,572
Total P&C Operations	\$ 13,619,279	\$ 12,814,309
Corporate and Other:		
Bermuda	9,139	10,737
Europe	1,195	425
Total Corporate and Other	\$ 10,334	\$ 11,162
Total	\$ 13,629,613	\$ 12,825,471

A.7. Performance of Investments and Material Income and Expenses for the Reporting Period

A.7.1. Performance of Investments for the Reporting Period

The following table shows the fair market value of the fixed maturity portfolio (both quoted and unquoted) and the performance (i.e. returns calculated using mark to market valuation methodology) of those investments for the years ended December 31, 2020 and 2019:

(U.S. dollars in thousands)	Market Value 2020	Performance Year ended Dec 31 2020 %	Market Value 2019	Performance Year ended Dec 31 2019 %
(1) U.S. Government				
(a) U.S. Government Federal	3,993,620	0.82 %	3,576,801	1.78 %
(b) U.S. Government Agency - mortgage-backed securities	6,257,470	1.3 %	6,609,931	2.54 %
(c) U.S. Government Agency - other	56,184	0.46 %	44,519	1.85 %
(2) Non-U.S. Government	8,462,262	0.73 %	6,208,682	1.49 %
(3) States, Municipalities, and Political Subdivision	1,587,592	2.8 %	681,799	1.98 %
(4) Corporate Securities			-	-
(a) U.S. Government-backed Corporate			-	-
(b) Non-U.S. Government-backed Corporate			175,575	-
(c) FDIC Guaranteed Corporate			-	-
(d) Other Corporate	20,529,610	0.95 %	18,686,928	2.1 %
(5) Asset-backed Securities	847,276	1.85 %	1,954,901	1.52 %
(6) Mortgage-backed Securities			-	-
(a) Residential Subprime	36,664	6.22 %	9,863	2.94 %
(b) Residential Non-subprime	14,570	1.36 %	17,466	5.01 %
(c) Commercial	271,780	2.13 %	309,964	2.57 %
(7) Mutual Funds			718,428	-
(8) Bank Loans	220,691	2.97 %	297,081	4.58 %
(9) Catastrophe Bonds and Insurance-Linked Securities				
TOTAL PORTFOLIO	\$ 42,277,719		\$ 39,340,669	

A.7.2. Material Income and Expenses for the Reporting Period

The Company's main revenue is premiums and its major expenses arise from claims losses. For the years ended December 31, 2020 and 2019, the Company realized a P&C combined ratio of 124.3% and 107.0% which includes natural catastrophe ("Nat Cats") pre-tax losses net of reinsurance and reinstatement premiums of \$1,436.4 million and \$1,144.8 million or 11.0 and 9.8 loss ratio points, respectively. In addition the Covid-19 crisis adversely impacted incurred losses (\$-1,985.4 million), mainly in Property & Business Interruption, Event Cancellation and certain Long-Tail Lines.

The Company also realized favorable net prior year development ("PYD") on losses of \$222.7 million and unfavorable development of \$121.6 million during the years ended December 31, 2020 and 2019, respectively. The combined ratio, excluding the impact of the Nat Cats and PYD, was 111.7% and 98.3% for the years ended December 31, 2020 and 2019 respectively.

Certain reclassifications have been made to prior year consolidated financial statement amounts to conform to the current year presentation on an IFRS accounting basis. Until December 31, 2018, XLB prepared its consolidated financial statements in accordance with rules prescribed or permitted by accounting principles generally accepted in the United States of America ("US GAAP").

(U.S. dollars in thousands)	2020	2019
Pre-Tax Expense Type		
Net losses and loss expenses incurred - P&C operations	11,890,702	8,406,679
Claims and policy benefits - run-off Life operations	43,416	63,820
Acquisition costs	3,253,298	2,859,173
Operating expenses	2,234,598	2,049,314
Amortization of Intangible Assets	—	—
Other	67,123	82,363
TOTAL	\$ 17,489,137	\$ 13,461,349

A.8. Other Material Information

Since AXA SA's ("AXA") acquisition of XL Group Ltd (and together with its subsidiaries, the "XL Group") on September 12, 2018, the Company has been an indirect, wholly-owned subsidiary of AXA and is a member of the AXA XL Division of the AXA Group.

For the years ended December 31, 2020 and 2019, the Company has calculated its Enhanced Capital Requirement "ECR" using the BSCR standard formula. The results of XL Group are now reported to AXA, which prepares its financial statements using International Financial Reporting Standards ("IFRS").

Effective October 31, 2020, AXA Matrix Risk Consultants SA, merged with and into XL Catlin Services, SE ("XLCSSSE"), also an indirect, wholly owned subsidiary of the Company, with XLCSSSE as the surviving entity in the merger.

Effective December 1, 2020, XL Resseguros Brasil S.A., an indirect, wholly-owned subsidiary of the Company, merged with and into AXA Corporate Solutions Brasil e America Latina Resseguros SA, also an indirect, wholly-owned subsidiary of the Company, with AXA Corporate Solutions Brasil e America Latina Resseguros SA as the surviving entity in the merger.

Effective December 1, 2020, XL Seguros Brasil S.A., an indirect, wholly owned subsidiary of the Company, merged with and into AXA Corporate Solutions Seguros SA, also an indirect, wholly-owned subsidiary of the Company, with AXA Corporate Solutions Seguros SA as the surviving entity in the merger.

Please refer to Section A.5. Group structure which shows the revised structure.

Covid-19 outbreak

• Market Environment

2020 saw the global outbreak of the Covid-19 pandemic, which first appeared in China late 2019 before spreading to other countries and becoming a worldwide pandemic by March 2020.

China first put in place unprecedented lockdowns to contain the spread of the pandemic, and similar measures were imposed by most large economies from mid-March. Worldwide, governments-imposed

confinements, quarantines, travel restrictions, social distancing measures and more generally the closure of activities deemed non-essential to try and alleviate the severe strain experienced by local, national and supra-national medical institutions. This led to massive disruptions to the global economic output, notably manufacturing, trade and supply chains, which resulted in both lower economic activity and lower estimates of future economic growth. From May onwards, as the virus contagion started to show signs of abatement, governments started to ease the restrictions to alleviate the negative impacts on the economy.

However, the pace of the contamination accelerated during the third quarter, with the number of daily new cases reaching very high levels, mostly in Europe and in the United States. This situation has proven to be long-lasting, leading governments to strengthen again the sanitary measures after the relative easing during the summer. Although these measures were less stringent than in March, they weighed further on the economic environment. At the end of 2020, most of these restrictions were still in place and outlooks remain uncertain despite vaccines being rolled out to the population of many countries from the end of 2020.

• Activity and Earnings

The Covid-19 pandemic negatively impacted the Company's 2020 earnings due to reported losses of \$1,985.4, mainly through Property & Casualty claims, with significant impacts in Business Interruption and Event Cancellation and to a lesser extent in Liability.

The Company's premium volume was also affected by the crisis, primarily due to the fact that a significant part of the premiums paid by its clients within Property & Casualty Commercial lines are based on their own level of activity (e.g. through projects, cargo load, flights number, turnover etc.) that was significantly reduced by the confinement measures.

In response, the Company implemented specific cost countermeasures, including travel and corporate event reductions, while maintaining its commitment to the modernization of IT systems and customer processes. These cost countermeasures fully mitigated the impact of the decrease in activity on the underlying earnings.

Additionally, financial markets have experienced a significant drop in the first semester, then partly recovered in the second half of the year, as a potential normalization of the situation came in sight with the development of vaccines. The consequence for the Company was a decrease in the fair-value of assets, partly offset through hedging strategies, as well as a decrease in the financial income due to lower dividends, distribution of funds and reinvestment yields.

In this highly uncertain context, the Company continues to closely monitor its exposures, including (i) the operational impact on its business, (ii) the consequence of the deterioration in macroeconomic conditions, (iii) the impacts on insurance coverages, including on-going litigation in some locations, (iv) the reinsurance recoveries, and (v) the change in asset prices and financial conditions.

• Change in Shareholder's Equity in 2020

In November, AXA SA initiated recapitalization efforts of XL Bermuda in response to the financial impacts of Covid-19 with a view to bring its year-end solvency above the internal risk appetite. These efforts included two transactions:

- \$1bn cash infusion (executed on November 19, 2020) from the Company's parent entity, EXEL Holdings Limited.
- \$1bn capital commitment (executed on December 30, 2020) where AXA subscribed for, and purchased, and the Company issued to AXA, 1,000 Series A non-voting Redeemable Preference Shares, par value \$0.10 per share from the Company.

The \$1bn cash infusion was a direct capital contribution from AXA SA. It forms part of XL Bermuda's Tier 1 Capital.

The \$1bn capital commitment is effectively an Ancillary Own Funds instrument: XLB issued new preference shares to AXA SA which were funded at the statutory minimum of \$1m. Subject to XLB's ECR coverage ratio falling below 120% over the next 5 years, AXA SA is mandated to fund the other \$999 million. This capital commitment is eligible to form part of XLB's solvency capital as a Tier 3 Capital subject to a 15% cap (\$1m is eligible to be treated as Tier 2 Capital). Once called and fully funded this instrument will be eligible to form part of XLB's Tier 2 Capital.

Other Material Activities

For the year ended December 31, 2020, 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

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 as at December 31, 2020, consisted of the following five directors, each of whom, with the exception of William Pollett, is a senior executive of the Company, the AXA XL Division or another member of the AXA Group.

Directors
Scott Gunter
Doina Palici-Chehab
Antimo Perretta
Charles Cooper
William Pollett

* With the exception of Scott Gunter, all directors were on the Board from January 1, 2020 through December 31, 2020. Mr. Gunter was appointed as a director effective February 21, 2020 to fill the vacancy resulting from the resignation of Gregory Hendrick, who resigned effective February 20, 2020 in connection with his resignation as Chief Executive Officer of AXA XL.

Executive Committee

The Board has established a committee of senior executives of the Company representing key functions (e.g., insurance, reinsurance, legal, compliance and regulatory affairs, risk management, finance, and human resources) (the "Executive Committee"). The Executive Committee assists the Board with its oversight responsibilities by its reporting to the Board on the Company's business activities. The Executive Committee also makes recommendations to the Board regarding, and are responsible for, the execution of the Company's strategic plans and objectives. The Executive Committee is 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.

Executive Committee Members
Patrick Tannock - AXA XL Partner, Chief Executive Officer (XL Bermuda), Insurance
Paul Simons – Chief Executive Officer, Reinsurance
Collin Dill – Head of Finance, Bermuda Insurance**
Claudette Hodgson - Head of Finance, Bermuda Reinsurance
Simon Argent - Chief Risk Officer, Bermuda and Head of Financial Risk Management
Leila Madeiros – Head of Compliance and Regulatory Affairs - Bermuda
Carla Whitehurst - Secretary of XL Bermuda Ltd and Head of Legal, Insurance and Reinsurance, Bermuda
Mandy White - Head of Human Resources, Bermuda
Mark Twite - Senior Vice President

** Collin Dill was appointed as the Chief Financial Officer, Insurance, of the Company effective October 23, 2020 as the successor to Karen Gonsalves, who resigned effective July 9, 2020.

B.1.2 Executive/Employee Compensation

Director Compensation

With the exception of William Pollett, Directors of the company are not separately compensated for their Board roles.

Executive Compensation

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 fixed component is comprised of base salary and any other fixed allowances. Fixed remuneration primarily reflects the relevant organizational responsibility, professional experience, technical and leadership skills required of the role, criticality or scarcity of skills as well as the individual's capability to sustainably perform the duties of the role.
- **Short Term Incentives** - Individual bonus awards are determined based on an assessment of both business and individual performance. Business performance is linked to key performance indicators established at the beginning of the year. Individual performance is assessed through a robust performance management process. Staff have a bonus target amount expressed as a percentage of base pay. Individual bonuses are not guaranteed and pay-outs are capped at 200% of individual target, which prevents employees from taking excessive risks to obtain an excessive pay-out.
- **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 the criticality of the job within the organization, the criticality of the individual in the current job and potential for the future, and the sustainability of the individual contribution.

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

The Company received capital contributions from EXEL Holdings Limited, the Company's direct and sole shareholder, of cash. No additional shares were issued to EXEL in connection with those capital contributions.

On December 30, 2020, AXA subscribed for, and purchased, and the Company issued to AXA, 1,000 Series A non-voting Redeemable Preference Shares, par value \$0.10 per share from the Company.

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

AXA XL recognizes 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 AXA XL Division 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.

Board of Directors: Fit and Proper Assessment

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 endeavors.
- diversity of viewpoints, skills, experience, background, orientations 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 behavior 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:

As of December 31, 2020 the following persons were appointed as the Directors of the Company:

Directors*

Scott Gunter

Doina Palici-Chehab

Antimo Perretta

Charles Cooper

William Pollett

- **C. Scott Gunter:** Mr. Scott Gunter is Chief Executive Officer at AXA XL, the property and casualty (P&C) and specialty risk division of AXA. He sits on AXA's Management Committee, reporting to Thomas Buberl, CEO of AXA. Mr. Gunter has over 30 years of insurance industry experience. He joined Chubb in 1986 as an underwriting trainee and progressively advanced through this company holding senior positions including Senior Vice President and Chief Underwriting Officer of Chubb Commercial Insurance. In 2017, Mr. Gunter was appointed Senior Vice President, Chubb Group and Division President, Chubb Commercial Insurance North America. Mr. Gunter has an Honors Bachelor of Administration degree from Wilfrid Laurier University (Ontario, Canada) and an executive management certificate from Queen's University.
- **Doina Palici-Chehab:** Mrs. Doina Palici-Chehab is a graduate of the University of Bucharest (Romania) (Magister Artium) and of the Deutsche Versicherungsakademie of Munich (Germany) (Degree in insurance management (Versicherungsbetriebswirt (DVA))). From 1980 to 1983, she was a teacher for foreign languages in Romania. From 1983 to 1990, she was Subject Matter Expert in AGF (now Allianz) in Cologne (Germany). In 1990, she joined the AXA Group as Reinsurance Director of AXA Germany (Germany). In 2000, she became head of Group Reinsurance of AXA Global P&C in Paris (France). From 2010 to March 2013, she was Chief Executive Officer of AXA Business Services in Bangalore (India). From April 2013 to December 2016, she was Chief Executive Officer of AXA Insurance Singapore (Singapore) and from July 2016 to December 2016, Chief Executive Officer of AXA Life Insurance Singapore. From January 1, 2017 to June 30, 2017, Mrs. Palici-Chehab was Chief Executive Officer of AXA Insurance Pte Ltd (Singapore) (new entity further to the merger of the two entities in Singapore). From July 1, 2017 to March 2018, she served as interim Chief Executive Officer of AXA Asia. From April 1, 2018 to December 31, 2019, she was the Executive Chairman of AXA Corporate Solutions and AXA ART; and she assumed the role of Chief Integration Officer following the acquisition of the XL Group. As from April 1, 2018, she has been Executive Chairman of AXA Matrix Risks Consultants. Since 1 January 2020, Mrs. Doina Palici-Chehab serves on the Board of AXA Konzern (Germany). Since February 2020, she assumes the role of Senior Advisor. Since April 2012, Mrs. Doina Palici-Chehab has been the employee shareholder representative to the AXA Board of Directors.
- **Antimo Perretta:** Mr. Antimo Perretta is a federally certified insurance specialist, expert in pensions, and graduate of the Executive MBA program of University of Zurich. He has more than thirty years of experience in the insurance industry. He joined AXA Winterthur in 2007 as Head of Group Life and was, from 2008 to 2013, Head of Distribution. From 2014 to December 2017, Mr. Antimo Perretta was Chief Executive Officer of AXA Winterthur (Switzerland). As of December 1, 2017, Mr. Antimo Perretta is appointed Chief Executive Officer Europe (excluding France) and joined the Management Committee of AXA Group. Mr. Antimo Perretta is represented in several Boards of Directors within the AXA Group. As Chairman of AXA Belgium, AXA Germany, AXA Italy, AXA Spain and AXA Switzerland; as Director of AXA UK/Ireland and XL Bermuda Ltd.
- **Charles Cooper:** Mr. Charles Cooper is Chief Executive of AXA XL's Global Reinsurance operations and is a member of XL Group Ltd.'s Leadership Team. Prior to January 1, 2017, he was Chief Executive of Bermuda Reinsurance for XL Catlin. Mr. Cooper has more than 20 years of experience in the industry. He began his career with AIG and Zurich North America in New York, writing International Primary Casualty business. He transitioned to reinsurance when he joined XL Reinsurance America, Inc. in Stamford, Connecticut, in 2000 as an Assistant Vice President and

Corporate Planning Analyst. In 2005, he transferred to the Bermuda office where he was Senior Vice President & Underwriter for XL Re Ltd with responsibility for Property catastrophe and specialty accounts business. In 2010, Mr. Cooper assumed the role of President and Chief Underwriting officer of XL Re Ltd.

- William Pollett: In addition to serving as an independent Director of AXA XL, Mr. William Pollett currently serves as a non-executive director of White Rock Bermuda, a segregated accounts company wholly-owned by AON, as a non-executive director of Sutter Re Ltd, a Special Purpose Insurer sponsored by the California Earthquake Authority, as a non-executive director of Pearl Island Ltd, a local marketing company, and as the Treasurer of Council Partners Endowment Trust, a registered charity. He served as the Interim Chief Financial Officer of Oceanview Insurance Ltd, a newly formed Life Reinsurance Company in Bermuda, from December 2018 to September 2019. Until August 2015 Mr. Pollett was Chief Executive Officer of Blue Capital. Under his leadership, the company raised nearly one billion dollars of capital in various private and public investment vehicles, investing primarily in catastrophe reinsurance products, including leading the initial public offering in 2012 of Blue Capital Global Reinsurance Holdings Ltd on the London Stock Exchange and Blue Capital Reinsurance Holdings Ltd in 2013 on the New York Stock Exchange. Mr. Pollett concurrently acted as Chief Executive Officer and a Director of BCRH, President, Chief Executive Officer of Blue Water Re, a licensed reinsurance company, and Blue Capital Management Ltd., a registered investment advisor, as well as Chief Corporate Development and Strategy Officer and Treasurer of Montpelier Reinsurance Holdings Ltd. (NYSE: MRH). William resigned from all positions at Blue Capital and Montpelier following its acquisition by Endurance Specialty Holdings Ltd. Mr. Pollett was Chief Financial Officer of SELLAS, a Bermuda domiciled life sciences company, from September 2016 to March 2018. Prior to joining Montpelier in 2006, William was with the ACE Group (now Chubb) for five years, initially as Chief Financial Officer of ACE Tempest Re and then as Senior Vice President of ACE Limited. Prior to the ACE Group, Mr. Pollett worked for the OIL Group of Companies for seven years, latterly as Treasurer and, prior to that, was an auditor with Coopers & Lybrand in London and Bermuda for five years. He holds a Bachelor of Commerce (Honours) degree from Edinburgh University, and is a Chartered Accountant, a Chartered Financial Analyst and a Member of the Institute of Directors.

* With the exception of Scott Gunter, all directors were on the Board from January 1, 2020 through December 31, 2020. Mr. Gunter was appointed as a director effective February 21, 2020 to fill the vacancy resulting from the resignation of Gregory Hendrick, who resigned effective February 20, 2020 in connection with his resignation as Chief Executive Officer of AXA XL.

Senior Executives:

- Patrick Tannock: Mr. Patrick Tannock is an AXA XL Partner, Chief Executive Officer of the Company and a part of AXA XL's Managing Director team with over 30 years of experience in the international insurance and reinsurance industry. Prior to his current position he served as EVP of ACE Bermuda, as well as CUO and Director of the CODA and also held executive brokerage positions with Marsh & McLennan prior to this. Mr. Tannock holds a Bachelor of Science in Business Administration with a double major in Insurance and Finance from the University of Hartford.
- Paul Simons: Mr. Paul Simons has 30 years of experience in the reinsurance industry and is currently Chief Executive Officer, Reinsurance of XL Bermuda Ltd, and Head of Property, Global Markets, AXA XL. He is responsible for the day to day running of the Bermuda reinsurance operation, and for the property underwriting of Global Markets. Paul joined the reinsurance industry in 1993 with Mid Ocean Re and has held progressively senior underwriting roles within XL, XL Catlin, and AXA XL. His product focus has been US property underwriting with specific emphasis on catastrophe business. Responsibilities include all underwriting related functions, including strategy, budgeting catastrophe management, retro buying, client/brokers relationships and marketing. He has also been active in many local education initiatives, including serving as immediate Past President and Chairman of the Board of Trustees of the Bermuda Foundation for Insurance Studies. Mr. Simons holds a Bachelor of Science degree in Management from Howard University in Washington DC.
- Colin Dill: Mr. Collin Dill is the Head of Finance, Bermuda Insurance. Prior to that he held the position as the Head of Finance Controllershship for AXA's Canada operations. He joined XL in 2003 and has over 17 years' experience in the Insurance industry. Collin initially joined the XL Corporate Finance team and has held progressively senior roles within the Company. Prior to immigrating to Canada, Collin held the position as VP Financial Controller of XL Insurance Bermuda Ltd for seven years. Collin holds a Bachelor of Commerce degree from Mt. Allison University in New Brunswick, Canada and is a qualified accountant (CPA CA).**
- Simon Argent: Mr. Simon Argent is Chief Risk Officer - Bermuda and Head of Financial Risk Management. Prior to that he held the position of Senior Vice President, Head of Credit Risk Management for XL Catlin. He joined XL in 2004 and has 30+ years of insurance/reinsurance industry experience. Before joining XL, Mr. Argent 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 and holds an MBA from the Schulich School of Business in Toronto along with professional designations from the Insurance Institutes of Canada and America.

- **Leila Madeiros:** Ms. Leila Madeiros is Head of Compliance and Regulatory Affairs-Bermuda. 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. Ms. 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.
- **Carla Whitehurst:** Mrs Carla Whitehurst is an attorney licensed to practice law in Bermuda, Maryland, and Jamaica. She has over 19 years of experience as in-house counsel at (re)insurance companies in Bermuda. She currently is SVP, Head of Legal, Insurance and Reinsurance at AXA XL Bermuda offices, having been with the company since 2015. Prior to that she was at Markel Bermuda Ltd for 10 years as VP Senior Legal Counsel, and before that she worked at Oil Insurance Limited and also at Commercial Risk Reinsurance. Her broad experience ranges from insurance and reinsurance law, claims supervision, corporate board administration, to general company law. She has also been active in a number of local Bermuda initiatives for the youth, including serving on the Board of Trustees of the Bermuda Foundation for Insurance Studies and providing reading Mentorship for YouthNet as well as The Reading Clinic. Ms Whitehurst holds a Bachelor of Science degree in Chemistry from Howard University in Washington DC, and a Juris Doctorate degree from the University of Maryland School of Law, Maryland.
- **Claudette Hodgson:** Ms. Claudette Hodgson is currently Head of Finance, Bermuda Reinsurance and has 15 years of experience working in the (Re) Insurance industry. Prior to joining AXA XL, she was Financial Controller for Catlin Insurance Company Ltd. Prior to joining Catlin Insurance Company Ltd, Claudette worked at ACE Bermuda. Ms. Hodgson is a Certified Public Accountant and qualified from PricewaterhouseCoopers in 2003. She holds a Bachelor of Commerce from Dalhousie University and is a member of the Institute of Chartered Accountants Bermuda.
- **Mandy White:** Ms. White is Human Resources Business Partner, Bermuda. Prior to assuming her role at AXA XL she held the position of Senior Vice President, Human Resources for Tokio Millennium Re Ltd. Ms. White has over 20 years of Human Resource Experience. She holds a Senior Professional Human Resources (SPHR) designation from the HR Certification Institute and a M.A. Human Resources Development and Business Management from Webster University.
- **Mark Twite:** Mr. Twite was appointed the Chief Financial Officer of XL Reinsurance during 2020. Prior to this appointment Mr. Twite undertook a number of roles within the AXA XL Group. In December 2015 Mr. Twite was appointed Chief Financial Officer of Catlin Insurance Company Ltd while continuing to hold his previous roles. In November 2014 Mr. Twite was appointed President of XL Life Ltd while continuing to hold his Chief Financial officer roles within XL Re Ltd and XL Re America Inc. In June 2013 Mr. Twite was appointed Chief Financial Officer of XL Re America Inc., while continuing to undertake the role of Chief Financial Officer of XL Re Ltd. From 2009 to June 2013 Mr. Twite was responsible for the financial operations of both XL Re Latin America and XL Re Ltd holding a Financial Officer role for both entities. Prior to 2009, he was the Financial Controller of XL Re Ltd. Prior to joining XL; Mr. Twite was the Financial Controller of Liberty Syndicates (the Lloyd's of London operation of the Liberty Mutual Group). Mr. Twite 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. Mr. Twite holds a B.S. in Economics from the London school of Economics (LSE). He has 27 years of experience working in the (Re)Insurance industry, including over 15 years with AXA XL.

** Collin Dill was appointed as the Chief Financial Officer, Insurance, of the Company effective October 23, 2020 as the successor to Karen Gonsalves, who resigned effective July 9, 2020.

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 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 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, 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.

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 "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
- Reinsurance program
- Major projects

Internal Control Framework

The AXA XL Internal Control team, within the Risk Management function, implements the AXA Internal Control Program 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 Program 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 framework is done through four waves of macro-processes, with a total of 30 macro-processes for AXA XL that constitute the AXA XL value chain for 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.

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.

Risk Appetite Framework ("RAF")

The Company's RAF is a key dimension of the risk management strategy and mirrors the AXA Group 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 and realistic disaster scenarios that cross multiple lines of business etc.), liquidity standards, tolerance to specific investment related risks and operational risk. The Board approved risk appetites and risk tolerances were reviewed during the 2021 business planning process and it was determined that all statements and tolerances were appropriate to allow the Company to execute the 2021 business plan.

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 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 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 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).

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.

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 all the Company's material risk categories.

The Risk Management and Appetite Framework remains appropriate for 2021.

B.3.2. Risk Management and Solvency Self-Assessment Systems Implementation

The 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 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, economic capital and regulatory capital requirements whilst considering 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, 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 on the basis of risks facing the business. The Company also maintains its own internal model which is used to determine its contribution to the AXA Group consolidated solvency position and to inform portfolio shaping decisions and return metrics.

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 RM, the Board:

- Oversees RM 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 the Company's risk limits.
- Oversees the 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 the overall risk profile and monitors key risks to the Company.
- Monitors the risk management performance and obtains reasonable assurance from management that our risk management policies are effective and are being adhered to.

The review of the 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, 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 considering 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 the CISSA process
- Review and challenge the overall annual CISSA report

CISSA PROCESS OWNERS

The CISSA is made up of several 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
Strategic Planning	Head of Finance, Bermuda
BSCR Calculation and BSCR Projections	Head of Finance, Bermuda
Stress Scenarios	Head of Finance, Bermuda and Risk Management Function
EOF Calculation and EOF Projections	Head of Finance, Bermuda
STEC Calculation and STEC Projections	Risk Management Function
Risk Appetite Setting and Monitoring	Risk Management Function
Sensitivities and Scenario Analysis	Head of Finance, Bermuda and Risk Management Function
Liquidity Risk Reporting	Treasury and Risk Management Function
Own Funds Tiering	Head of Finance, Bermuda
Capital Allocation	Head of Finance, Bermuda
Emerging Risks	Risk Management Function
Strategic Risks	Chief Executive Officer
Reputation Risks	Risk Management Function
Regulatory Risks	Legal and Compliance Department

B.4. Internal Controls

The Company operates a 'Three Lines of Defense' approach to ensure effective and robust day to day governance is in place. The Operational line, or the 'first line of defense', starts with the employees, who are tasked with identifying and managing risk on a day to day basis as part of their roles. They are supported by the 'second line of defense', which is made up of oversight functions - specifically Risk Management including Internal Control, Internal Financial Control & Compliance. These functions have responsibility for overseeing and challenging day to day management, control and reporting of risks. The Risk oversight functions are independent of management and individuals with responsibility for taking on risk exposures. The Internal Audit Function provides the 'third line of defense' which provides independent assessment of the effectiveness of the Company's system of internal control and reports to the Audit Committee.

The company is also part of AXA XL division's Internal Control Programme which addresses internal controls across 30 macro-processes covering all AXA XL departments and processes, as well as having an Internal Financial Control Framework looking at key controls around financial reporting.

B.4.1. Internal Control System

The 'Three Lines of Defense' approach which ensures effective and robust day to day governance is in place as described in Section B.4. above.

The AXA XL Internal Control team, in Risk Management, is in charge of implementing the AXA Internal Control Programme at AXA XL Division and of monitoring the overall system of controls, ensuring all controls are performed by somebody. A roll-out of controls is performed in all AXA XL key legal entities.

The AXA Internal Control Programme was introduced at the end of 2018 at AXA XL in order to implement 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.

AXA XL Internal Control team is also responsible for the Internal Financial Control framework, with controls in place across the Division on the financial reporting controls. 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.

Both the Internal Control Framework and the Internal Financial Control framework are primarily designed to operate across the AXA XL Division, with output reported to legal entities. Through 2021 an increased focus on legal entities is to be established.

The Internal Audit Function represents the 'third line of defense', which provides an independent assessment of the effectiveness of the Company's system of internal control and reports to the Audit Committee.

B.4.2. Internal Control Function

The Internal Control function is committed to promoting a robust Internal Control Framework, including Internal Financial Control, for the Audit Committee, executive management and external stakeholders to rely on for financial and regulatory reporting purposes.

The Internal Control's core strategic objectives include:

- Conducting an effective and efficient assessment of the design and operating effectiveness of internal controls, including 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 executive management, the Company's Board and AXA Group reasonable assurance over AXA XL's processes – in particular on financial reporting; 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, 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, to the AXA XL Risk and Compliance Committee, to the Audit Committee of key legal entities, to executive management and to external auditors and regulators.

The Internal Control Framework looks at 30 macro-processes that constitute the AXA XL value chain for 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 the control objective and mitigate the related key risk. AXA XL is finishing the implementation of the Internal Control Framework in 2021 with the description of all controls in the 30 macro-processes, as well as testing the controls. Then in "business as usual", the controls will be tested over 3 years.

B.4.3. 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, analyze compliance risk and contribute to design solutions to mitigate those risks to which the Company is exposed.

The Head of Compliance has dual reporting lines to the Chief Compliance Officer & Head of Government & Regulatory Affairs, Americas and secondly, the Managing Director, Chief Executive Officer Insurance.

The compliance function has a direct reporting line to the AXA XL General Counsel and to regional 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 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.

B.5 Internal Audit Function

The AXA XL Chief Audit Executive has a direct and unfettered reporting line to the Chairman of the Company's Audit Committee. The Chief Audit Executive for AXA XL functionally reports through to the AXA Group Head of Audit who reports to the AXA Group 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 risk management, control and governance processes.

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 Audit Committee 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 Audit Committee.

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 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 Audit Committee and executive management on a regular basis.

B.6. Actuarial Function

The Company's Actuarial Function is provided at the AXA XL level. AXA XL's 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

AXA XL's Loss Reserve Specialist and the Actuarial Function, which advises the Board, are established internally, as opposed to being outsourced to third-party service providers, and is embedded in the AXA XL's corporate governance framework. AXA XL is committed to maintaining an effective Actuarial Function to ensure that the business is conducted in an appropriate and reasonable manner within the Company.

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 Company's minimum fitness and proper employment criteria. The teams are structured with varying lines of defense to facilitate effective peer review and independent challenge.

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

The Actuarial Function provides expert actuarial advice to the Board through formal reports and presentations.

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 are:

- Calculating 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.
- Informing the Board on the reliability and adequacy of the calculation of technical provisions; overseeing the calculation of technical provisions.
- 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, which includes:
 - i. Regular contact by reserving actuaries with underwriting and claims teams.
 - ii. Review of technical provision results by an escalating series of reviews from reserving actuaries to the global AXA XL Chief Actuary.
 - iii. Review of technical provisions to provide sufficient independence from management; and
 - iv. Independent external analysis of the reserving requirements.
- Ensuring that the actuarial methods and techniques are compliant with all the appropriate regulatory requirements where applicable.
- Assisting with the underwriting process, including those surrounding pricing and design of underwriting contracts and risk transfer mechanisms where applicable and appropriate.
- Helping to maintain a competent, effective and efficient approach to pricing; and
- Comparing best estimates against experience, i.e. performing analysis comparing the estimated policyholder obligations against actual policyholder obligations paid.

B.7. Outsourcing

The Company's approach to outsourcing applies to all AXA XL material outsourcing arrangements. We follow a risk-based approach with criticality grids being defined by the specific type of activity being outsourced. This considers topics such as the following:

- Materiality thresholds based on the economic value of the relationship.
- The potential impact of a failure or issue including our ability to readily find substitutes.
- Considerations as to the type of activity being outsourced.
- Outsourcing arrangements that meet the agreed criticality criteria and are subject to governance based on the results of the criticality grids; for the most critical / material arrangements, visibility is provided to the 3rd Party Governance (previously named "the Umbrella Outsourcing Committee").
- Other ad hoc outsourcing arrangements that the Umbrella Outsourcing Committee may consider as being material to AXA XL for any financial, operational or reputational reasons.

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 covering Information Security, Data Privacy, Operational Resilience, Finance, Health, Legal, Compliance and Risk Management. These reviews leverage our internal expert teams primarily but may also use external experts when appropriate.

Contracting and Negotiations - All material outsourcing agreements must be undertaken using a written, legally binding agreement approved by the AXA XL Legal team in accordance with agreed minimum standards.

Regulatory Notification - The Local Outsourcing Officers will ensure that there is communication with the AXA XL Legal and/or Compliance teams during the approval process in sufficient time to enable any required prior notification to be provided to the relevant regulatory supervisory body should this be required.

Performance Monitoring - Whenever AXA XL undertakes a material outsourcing arrangement, procedures to monitor the service provider's performance and risk must be put in place. Accountability for managing the outsourcing arrangement should be assigned to a designated business owner, wherever applicable.

Exit Phase - Termination of material outsourcing agreements may only occur on the direction of the business owner. Ensure all necessary exit strategies and business continuity plans are in place, relevant information exchanges are 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.

B.8. Other Material Information

Please refer to Section A.8. Other Material Information .

C. Risk Profile

C.1. Material Risks the Insurer is Exposed to during the Period

C.1.1. Insurance Risk

Insurance risk is defined using the following categories:

Component	Definition
Underwriting risk	Underwriting risk derives from insurance and 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.
Reserve risk	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:

- **Business planning** - 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.
- **Underwriting processes (including guidelines and escalation authorities)** - Each individual contract written is assessed, by 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.
- **Reserving and claims process** - On an ongoing basis, claims trends are monitored and analyzed for any indications of change in the nature of the underlying insurance risk.
- **RM risk assessment process** - Through the risk assessment processes, the Company quantifies existing risks and identifies new risks.
- **Development of realistic disaster scenarios ("RDS") and other scenarios** - Used to monitor exposure to the defined scenarios and monitor compliance with underwriting risk tolerances and limits; and
- **Independent underwriting reviews** - Conducted on a risk-based approach by the Underwriting Governance team.

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 AXA XL Investment Portfolio Authorities and Guidelines Framework sets maximum risk tolerances 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.

C.1.3. 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 embedded credit risk products, (ii) Investments, (iii) Treasury, (iv) Unsecured Reinsurance Recoverable and (v) Brokers. Credit risk arising from country specific exposures is captured as part of the country risk framework.

Credit risk is managed with 3 sets of limits: 1) a Systemic Credit Clash scenario limit, 2) a Systemic Financial Institution RDS limit and 3) Obligor idiosyncratic concentration risk limits. Guidelines are used to manage concentration to brokers and issuers of incoming letters of credit

Credit risk through the risk framework is categorized 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.
Premium counterparty risk	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 insurance/reinsurance contracts written.
Underwriting counterparty risk	Exposure to credit risk through certain credit sensitive underwriting activities which include, but are not limited to, Surety, Professional Lines, Political Risk, Credit and Bond.

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 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.
Risk assessment and processes	Through the risk assessment processes, the Company quantifies existing risks and identifies new risks.
Emerging risks	The Company 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 liquidity positions with simultaneous capital market and insurance shocks as well as stressed operating cashflows.
Treasury	Treasury has responsibility to identify and monitor concentration risk of cash at banks, along with funding requirements.
Risk assessment and processes	Through the risk assessment processes, the Company quantifies existing risks and 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. This includes legal risk and excludes risks arising from strategic decisions. 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 operational 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 teams are responsible for reviewing the proposed changes and for highlighting any changes in regulatory risk that might arise. When new financial reporting regulations are announced, the CFO of AXA XL is responsible for reviewing the proposed changes and for highlighting any change 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 that any required changes to the risk register can be implemented.
Emerging risks	The Company operates a Division wide 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

Strategic Risk

A strategic risk is the risk that a negative impact (current or prospective) on earnings or capital, material at the AXA XL Divisional level, arises from a lack of responsiveness to industry changes or adverse business decisions regarding:

- Significant changes in footprint, including through mergers and acquisitions.
- Product offering and client segmentation.
- Distribution model (channel mix including alliances/partnerships, multi-access and digital distribution).

Given the nature of strategic risks, there is no capital charge assessment but rather a strong strategic RMF in place in order to assess, anticipate and mitigate these risks.

Group Risk

Group risk is the 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 Risk

Asset liability matching 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 from events affecting both asset and liability values.

In particular, four market risks influence both assets and liabilities and are hence key drivers of risk:

Component	Definition
Interest rate and spread risk and asset composition risk	Mismatches between asset composition and maturities and the profile of liability cash flows creates economic risks from changes in benchmark interest rates, spreads and asset values. This is due to changes in the nominal mark-to-market (MTM) value of assets not exactly offsetting changes in the nominal economic value (net-present value) of liability cash flows.
Inflation risk	Inflation risk stems from the general increase of prices. Inflation decreases the value of fixed income assets while it may increase the value of liabilities. There should be insignificant inflation risk due to asset liability mismatch as AXA XL's liabilities are P&C focused.

Foreign exchange ("FX") risk is also a key consideration under asset liability mismatch risk which was outlined in Section C.1.2 Market Risk. FX risk arises from mismatches in the currency denomination of assets relative to that of financial liabilities.

The following outlines the processes used to identify asset liability mismatch risk:

Process	Description
Business planning	As part of the annual strategic planning process, a review is undertaken of the nature (quality, duration, currency and liquidity) of assets required to support the business plan and the expected liabilities.
Investment decisions and asset allocation	The Risk Appetite Framework and Authorities & Guidelines control the maximum levels of acceptable risk and are reviewed annually and set in conjunction with the SAA benchmark.
Risk assessment and processes	The risk assessment processes assists in identifying if there are any changes to asset liability mismatch risks from those that had been identified in the previous risk assessment.

The Company controls asset liability mismatch risk through:

- **Asset Liability Management ("ALM") analysis**

The Company will conduct detailed ALM analyses to match the average duration and currency of its liabilities with appropriate assets. The SAA process which it follows determines the target allocation that maximizes the value of the Company subject to risk tolerance and other constraints. The SAA considers management's risk tolerance, liability cash flows, business plan, liquidity considerations, capital market forecasts and regulatory considerations. The ALM/SAA process is centralized at the AXA XL Division level and then target allocations are propagated down to the legal entity level further taking into account local considerations. This is typically performed annually and is mandatory to be completed at least once in every three years.

- **Investment authorities and guidelines**

Board approved market risk authorities and guidelines are in place that address all the key market risk factors and are commensurate with the volume and complexity of activity undertaken by the Company.

- **Reserving process controls**

Among the key drivers of the Company's reserve risks are inflation, correlation across lines of business, legislative and regulatory changes, loss trend movements, timing and reporting changes at underlying ceding companies, and the excess nature of exposures in certain lines including non-proportional reinsurance.

- **Stress testing framework**

The Company uses scenario testing as one method to assess asset liability mismatch risk exposures. Investments undertakes a number of stress tests covering historical events and hypothetical scenarios to understand the impact of such scenarios to the investment portfolio.

Reputational Risk

Reputation risk is the risk that an event will negatively influence the stakeholders' perceptions of the company. AXA XL maintains a Reputational Risk Framework which encompasses a set of planned actions and established policies to reduce the probability and/or the expected costs if the latent reputational problems become actual.

Emerging Risk

Emerging risks are risks which may develop or which already exist that are difficult to quantify and may have a high loss potential. To assess the impact of emerging risks at AXA XL, the Emerging Risks Committee as well as the Emerging Risks Task Force are tasked with identifying, analyzing, prioritizing, quantifying, monitoring and reporting on emerging risks that could have an impact on our existing and future product offerings and business operations. The Emerging Risks Committee and Task Force work together to undertake both strategic and risk management processes, assisting in identifying potential opportunities in the market and providing thought leadership around emerging risk issues to optimize underwriting and strategic decisions.

Climate Change

As part of the AXA Group and the AXA XL Division, the Company benefits from being part of widely supported climate change initiatives. Since becoming part of the AXA Group, and aligning with AXA Group strategy, the AXA XL Division and entities within the AXA XL Division, have adopted AXA's Corporate Social Responsibility Policy. As a result, business written has been adjusted to account for an underwriting approach that restricts coverage for certain risks such as coal and oil-sands related assets, and arctic drilling.

Climate risk is a key area of risk consideration. There is a cross functional working group which includes Company representation, that meets on a regular basis to discuss climate risk and the associated action plans. The Division working group is charged with developing the roadmap for AXA XL Division and advising the AXA XL Division Leadership Team. Activities within the working group have included development of stress tests around climate risks and the consideration of future climate risk appetites. Further development of climate stress tests is being considered as part of ongoing climate analysis.

The company is exposed to all forms of climate and climate change risk, namely:

- **Physical risks:** These are the first-order risks which arise from weather-related events, such as floods and storms. They comprise impacts directly resulting from such events, such as damage to property, and those that may arise indirectly through subsequent events, such as disruption of global supply chains or resource scarcity. The Company has exposure to natural catastrophes which therefore might be impacted and is supported by an AXA XL Division Science & Natural Perils team who consider the impact of climate change on the natural catastrophe models.
- **Transition risks:** These financial risks which could arise from the transition to a lower-carbon economy. This can include both loss-causing impacts and the future stability of some of our product portfolios e.g. in carbon-intensive sectors such as motor. This risk impacts the Company in, for example, the energy sector where we are seeing the impact of COP 21 and a move towards insuring renewable energy initiatives as well as areas such as the fine art book where vintage car business could be impacted.
- **Liability and litigation risks:** These are risks that could arise from parties who have suffered loss or damage from climate change, and then seek to recover losses from others who they believe may have been responsible. Where such claims are successful, those parties against whom the claims are made may seek to pass on some or all the cost to insurance firms under third-party liability contracts such as professional indemnity (PI) or directors' and officers' (D&O) insurance. Where liability is not ruled or settled, the Company is still exposed to the costs of duty to defend, should clients seek to recover costs. The Company has exposure to this through exposure across a range of industries which could be targeted in climate change litigation.

To understand these risks within the Division, a number of workshops have been held with the underwriters, a review of wordings was undertaken, and an analysis of prior claims events performed, as well as a review of

external data. The Company has used these to identify a set of "candidate stress tests". Furthermore, our operational resilience work considers the potential impact of climate change in terms of its impact on our office locations. During 2021 as the AXA XL Division climate strategy evolves, we shall be looking to enhance the current Company climate strategy.

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

C.2. Risk Mitigation in the Organization

Insurance Risk

Reinsurance Purchase

The Company participates in the AXA XL managed outwards 3rd 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.

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.

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.

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 insured is placed, the corresponding industry sector rating, and the perceived risk of the insured relative to the others in that group. The rating methodology used for individual insureds 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.

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 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 of 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 insurance contracts through terms and conditions, policy limits and sub-limits, attachment points and reinsurance arrangements on certain types of risks.

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.

Market Risk

Strategic Asset Allocation

The Strategic Asset Allocation ("SAA") process for the AXA XL Division establishes a target allocation that is constructed to maximize enterprise value, subject to various considerations and constraints. It is subject to the risk tolerances recommended by management and is approved at least every 3 years by the Company's Board.

- **Authorities Framework / Risk Appetite Framework**

As part of the implementation of AXA XL's SAA Benchmark, a comprehensive framework of Investment Authorities are employed for the AXA XL Division ("Investment Authorities Framework"). The objective of the Investment Authorities Framework is to ensure that the risk profile of the investment portfolio is consistent with AXA XL's risk tolerance and liabilities in conjunction with the Risk Appetite Framework.

The Investment Risk Management Policy and market risk limits under the RAF 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.

- **Service Level Agreements**

A service level agreement is in place between XL Group Investments Ltd ("XLGIL"), an indirect, wholly owned subsidiary of the Company, 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 Company's Board.

Currency Risk Mitigation

The Company's currency exposure is dominated by the Euro, British Pound, Canadian dollar and Australian dollar. 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 exposure by currency:

Foreign currency exposures represent all net assets and liabilities held in currencies other than U.S. dollars that generate foreign exchange volatility.

<i>(Foreign currency in millions)</i>	December 31, 2020	December 31, 2019
Canadian dollar	294.9	229.4
Australian dollar	(307.9)	(39.1)
British pound	612.1	314.0
Euro	(11.7)	658.4

Credit Risk

Credit risk is managed through:

- **Credit risk framework** - AXA XL and the Company manage enterprise credit risk through a set of limits, including portfolio, obligor / issuer and country limits. Indirect credit risk is managed through a set of guidelines. Issuer / obligor concentration limits relate to issuer / obligor idiosyncratic concentration risk, which is managed with thresholds and limits set as a function of issuer / obligor credit quality. The framework applies to issuer / obligor exposures aggregated at their ultimate shareholder levels. Exposures are aggregated from AXA XL corporate functions (Reinsurance Recoverables, Treasury and Investments) and from Underwriting Businesses with embedded credit risk exposure / activities.

- 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, Fixed Income Concentration, Sovereign Risk Appetite, and Country of Risk. These address the credit quality of obligors and counterparties, diversification and exposure vs limits by rating, term and seniority.
- FRM Internal Credit Ratings ("ICR") have been developed by taking into account the AXA Group Credit Team ("GCT") Internal Ratings to decrease the dependency on the 3 main Rating Agencies.
- Credit spreads in the investment portfolio are regularly reviewed in terms of the inherent potential for downgrade of individual obligors as well as the wider impact on the overall credit risk of the portfolio.
- **Underwriting authorities and limits** - See C.1.1 Insurance Risk.
- **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.
- **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 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, 2020:

Reinsurer Financial Strength Rating	% of Total
AAA	0.7 %
AA	37.1 %
A	55.2 %
BBB	0.7 %
BB and below	0.6 %
Captives	5.7 %
Total	100.0 %

- **Premium payment and brokers** - The Company underwrites a significant amount of its (re)insurance business through brokers and credit and premium risk exists should any of these brokers be unable to pay premium due. A list of approved broking houses is maintained.

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 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 manage the Duration Gap of assets and liabilities within a +/- 1-year 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 state of our liquidity is routinely reported to the Board and monitored as part of the RAF.

Operational Risk

The Company's risk register takes into account 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.

An annual risk assessment is performed for all risks on the risk register. The assessment involves capturing the risk owner's view of the potential severity should an incident occur relating to the risk, and the likelihood of such incident occurring. Together this establishes the profile of each risk, allowing identification of top risks, thereby facilitating appropriate risk-based monitoring.

Purchase of Insurance

It is recognized 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.

Risk Appetite

The operational risk appetite is established as an amount of financial impact to individual risks with an alert and limit set up.

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 to the Board.

C.3. Material Risk Concentrations

Material concentrations can occur within risk categories 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. The Risk Appetite Framework is reviewed and approved annually by the AXA XL Risk and Compliance Committee and the XLB Board, with the next review in April 2021, reflecting the risk profile of the Company and the 2021 business plan.

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

- **Earnings** - This considers impact of a 1 in 20 years financial event on the Adjusted Earnings to Net Income ("AE to NI"). The definition of this statement is being reviewed by AXA Group and an update will be shared with entities in Q2 2021 and will be subject to further governance at AXA XL.
- **Value** - 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).

- **Solvency** - This considers the buffer that should be held in excess of regulatory capital. The target level of solvency is for the Company to withstand the largest of a 1 in 20 years financial event or insurance event without the need to call on AXA Group for support.
- **Liquidity** - This considers ability to pay claims in the event of a stress event.

The risk exposure limits cover market risk, credit risk, reserve risk, underwriting risk, operational risk and life risk:

- **Market risk** - indicators exist for exposures per asset class, duration gap and foreign exchange.
- **Credit risk** - indicators exist for fixed income concentration, global issuer exposure and sovereign exposure.
- **Reserve risk** - the reserving risk appetite monitors booked reserves against a limit and alert level. The limit is defined as the best estimate level and the alert is positioned ten percentile points higher than the best estimate level in the modelled loss distribution net of reinsurance.
- **Underwriting risk:**
 - Underwriting limits are spread across Property (where the limit is based on Probable Maximum Loss ("PML")), Liability, Marine, Aviation, D&O and Cyber lines. The limits are based on exposure to a single insured and equal the sum of the contractual limits (direct or facultative) net of reinsurance.
 - Natural catastrophe - exposures are monitored for North Atlantic Windstorm, North Atlantic Earthquake and European Windstorm for a 1 in 200 year event net of reinsurance.
 - The Cyber per event appetite monitors cyber affirmative exposure per guarantee (first party and third party).
- **Operational risk** - this appetite is set to the amount of financial impact per individual risk, based on a local severity assessment table.
- **Life risk** - indicators exist for longevity risk, per event for pandemic, terrorism and earthquake and per life.

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 AXA XL Risk and Compliance Committee on a monthly basis. The frequency of update of the exposure positions is as follows:

- Over-arching risk appetite statements (net income volatility, solvency, single event and liquidity) - quarterly
- Risk appetite exposures:
 - Market risk - quarterly
 - Credit risk - monthly
 - Reserve risk - semi-annually
 - Underwriting per risk - quarterly
 - Natural catastrophe exposures - quarterly
 - Cyber per event - annually
 - Operational risk - annually
 - Life risk - annually

Loss exposure estimates for all event risks are derived from a combination of commercially available and internally developed models and methodologies together with the judgment 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 modeled 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.

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 the Company and managed with the objective to meet the annual investment earnings target and maximize the risk adjusted return on economic capital subject to agreed risk constraints and other considerations. Our investments are managed and monitored by XLGIL and governed through an investment agreement and guidelines. The RM department oversee adherence to these guidelines.

XLGIL is 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

Insurance Risk

There is an embedded stress testing framework that is used to understand possible impacts of major risks, including underwriting and reserving risks. These impacts include the earnings, underwriting, investments, liquidity and capital implications of low frequency, high severity events. For underwriting risks the main stress test approaches used cover natural catastrophe peril exposure projection and RDS projection as outlined below.

Test type	Reason performed
Nat Cat reporting	To monitor Nat Cat exposures against risk appetite
RDS reporting	To monitor non-Nat Cat exposures against risk appetite and to assist in the setting of overall risk limits

Natural catastrophe exposure results and RDS exposure results are used to monitor exposure to the defined scenarios and monitor compliance with risk appetite, underwriting risk tolerances and limits. RDS are produced a minimum of twice per year to understand the Company's exposure to defined non-Nat Cat scenarios, which have been designed by experts and cover both short and long tail lines of business and cross class event exposures. The Board is informed of results of stress tests performed via risk dashboards and the CISSA report throughout the year where discussions and challenge include whether the results fall within relevant approved risk tolerances and limits.

We examine a range of extreme events intended to stress our capital position considering the 1 in 200 underwriting risk for natural catastrophes. Following the loss implied by the largest event as at January 1, 2021, the Company remains solvent.

Following an event derived from the net exposure of the largest RDS scenario for the Company as at January 1, 2021, the Company remains solvent. A series of recovery actions have been identified to recapitalize in the event that solvency moves below internal solvency targets.

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:

- Net Income Volatility stress testing
- 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 and the potential impact to the investment portfolio.
- RDS aggregations; and
- Ad hoc review of enterprise risk scenarios.

As part of the testing process, AXA XL has developed scenarios based on the results and the outcomes that manifested themselves in large historical market events. The Board are informed of results of stress tests performed throughout the year including whether the results fall within relevant approved risk tolerances and limits set out in the investment guidelines. A series of recovery actions have been identified to recapitalize in the event that solvency moves below internal solvency targets.

The Board are informed of results of stress tests performed throughout the year including whether the results fall within relevant approved risk tolerances and limits set out in the investment guidelines

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.

The Company remains solvent after considering the loss potential implied by the exposure to these scenarios at December 31, 2020. A series of recovery actions have been identified to recapitalize in the event that solvency moves below internal solvency targets.

Liquidity Risk

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 excess liquidity post simultaneous stresses from cashflows, capital markets and natural catastrophes over each horizon.

Operational Risk

To support the identification and quantification of operational risks within the business the Company has a stress and scenario testing framework.

The stress testing includes multiple operational risk scenarios, which are evaluated over multiple return periods for each scenario. The largest scenario is considered as part of the Single Event Risk Appetite Statement.

The operational scenarios are developed from the top risks assessed during the annual risk assessment process on a net assessment basis. The scenarios have multiple uses including:

- To monitor against tolerances; and
- To better understand economic and reputational impact of the identified top operational risk exposures.

C.6. Other Material Information

Please refer to Section A.8. Other Material Information

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" comprise 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. Cash and cash equivalents are included in the Economic Balance Sheet ("EBS") at fair value in line with IFRS with both changes in fair value and realized gains / losses netted off Statutory Economic Capital and Surplus.

"Quoted Investments" the 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.

"Unquoted investments" are the fair values of assets and liabilities that are not traded in an active market and are estimated using:

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

Fair values of assets and liabilities that are not traded in an active market, and are mainly based on observable market data, are disclosed as level 2 financial instruments in the Notes to the Company's audited financial statements for the Year Ended December 31, 2020 (the "Financial Statement Notes").

Fair values that are mainly not based on observable market data are disclosed as level 3 financial instruments in the Financial Statement Notes.

No Active Market: Use of External Pricing Services

External pricing services may be derived by fund asset managers in the case of non-consolidated investments in funds or brokers. To the extent possible, the Company 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.

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 based on cross checks using different methodologies such as discounted cash flows techniques, price earnings ratio

multiples, 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 underlying data (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 inherently scarcely traded 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, inexistence 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, the Company uses valuation techniques including observable data whenever possible and relevant, adjusted if needed to develop the best estimate of fair value, including adequate risk premiums or develops a valuation model 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 likely not be determinative and unobservable data may be more appropriate than observable inputs.

Investments in and Advances to Affiliates - The Company consolidates holdings in affiliates where it is deemed to have control under its IFRS principles.

Investments in related affiliates where the Company does not hold a majority equity interest but has the ability to exercise significant influence over operating and financial matters are valued with the equity method and to arrive at an EBS valuation, deductions including goodwill and other intangible assets are made. Holdings where the Company has neither control nor significant influence are treated as quoted / unquoted investments as described above.

Advances to affiliates are recorded at fair value in line with IFRS. 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.

In the EBS the goodwill and intangible asset element of the participation valuation is eliminated, in accordance with the reasons given above. After the end of each period the performance of all affiliate investments are reviewed and our share of the company's change in equity is recorded each period based on the financial information received directly from the affiliate. The Company also receives the audited financial statements from affiliates when available. This valuation adjustment was \$0.0m at December 31, 2020.

When financial statements of the affiliate are not available on a timely basis to record the Company's share of income or loss for the same reporting periods as the Company, the most recently available financial statements are used. This lag in reporting is applied consistently. The Company generally records its alternative and private investment fund affiliates on a one-month and three-month lag, respectively, and its operating affiliates on a three-month lag. Significant influence is generally deemed to exist where the Company has an investment of 20% or more in the common stock of a corporation or an investment of 3% or more in closed end funds, limited partnerships, LLCs or similar investment vehicles. Significant influence is considered for other strategic investments on a case-by-case basis. Investments in participations are not subject to fair value measurement guidance as they are not considered to be fair value measured investments under IFRS or EBS. However, impairments associated with investments in affiliates that are deemed to be other-than-temporary are calculated in accordance with fair value measurement guidance and appropriate disclosures included within the financial statements during the period the losses are recorded.

Real Estate - Investment in real estate properties is recognized at cost. The properties' components are depreciated 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, at the level of each reporting entity, if the cumulated amount of unrealized losses under 15% (without offsetting with unrealized gains) represents more than 10% of the cumulated net cost of real estate assets, additional impairments are booked on a line-by-line approach until the 10% threshold is reached.

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

Accounts and Premiums Receivable - Accounts and premiums receivable are recorded at fair value in line with IFRS. Premiums due but not yet received are included on this line while premiums not yet due are included as part of premium provisions. Balances due in more than one year have not been discounted as this is not considered to be material.

Reinsurance Balances Receivable - Reinsurance balances receivable are recorded at fair value in line with IFRS. Losses and loss expenses recoverable are included on line 17 of the Company's EBS. Balances due in more than one year have not been discounted as this is not considered to be material.

Funds Held by Ceding Reinsurers - Funds held by ceding reinsurers (whether affiliate or not) are recorded at fair value in line with IFRS.

Deferred Acquisition Costs ("DAC") - Deferred acquisition costs, which vary with and are directly related to the acquisition of policies, consist primarily of a) commissions paid to brokers and cedants, and b) premium-related taxes. These costs are deferred by recognizing a DAC asset which is amortized over the period during which the premiums are earned.

Sundry Assets - Any asset not accounted for in lines 1 to 12 and 14 of the Company's EBS 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.

Derivatives - 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.

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 portion is directly recognized in the income statement.

Cash Flow Hedge - The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedge is recognized in shareholders' equity. The gain or loss relating to any ineffective portion is recognized in the income statement. Cumulative gain or loss in shareholders' 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 shareholders' equity are held until the initially hedged future transaction ultimately impacts the income statement.

Net Investment Hedge - The accounting for 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 shareholders' equity; the gain or loss relating to the ineffective portion is recognized in the income statement. Cumulative gains and losses in shareholders' equity impact the income statement only on disposal of the foreign operations.

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 a few hedges are eligible to hedge accounting provisions described above. However, most of the derivatives used by the Company are purchased with a view to hedge or for example to use such

instruments 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. For the statement of financial position, derivatives are presented alongside the underlying assets or liabilities for which they are used, regardless of whether these derivatives meet the criteria for hedge accounting.

All other assets categorized under sundry assets are recorded at fair value in line with IFRS.

Deferred Tax Assets and Liabilities - Deferred tax assets and liabilities are recognized in relation to all assets and liabilities that are recognized for solvency or tax purposes in conformity with IFRS principles adopted by the insurer. Notwithstanding the above, the Company values deferred taxes, other than deferred tax assets arising from the carry-forward of unused tax credits and the carry-forward of unused tax losses, on the basis of the difference between the values ascribed to assets and liabilities recognized and valued in accordance with the requirements of the Economic Balance Sheet and the values ascribed to assets and liabilities as recognized and valued for tax purposes.

A positive value is only ascribed to deferred tax assets where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized, taking into account any legal or regulatory requirements on the time limits relating to the carry-forward of unused tax losses or the carry-forward of unused tax credits.

Intangible Assets - Intangible assets are assets other than financial assets that lack physical substance. Goodwill is valued at nil in the EBS. The Company's indefinite lived intangible assets consist primarily of acquired insurance and reinsurance licenses. These do not meet the definition of intangible assets under EBS and therefore eliminated. Other intangible assets are carried at their fair value where all of the following conditions are met:

- they can be sold separately
- the expected future economic benefits will flow to the company
- the value of the assets can be reliably measured.
- there is evidence of exchange transactions for the same or similar assets indicating that they are saleable in the marketplace.

The Lloyd's capacity asset of \$579 million at December 31, 2020, meets all of the above criteria and as such is recognized on the EBS.

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

Technical Provisions are valued based on best estimate cash flows, adjusted to reflect the time value of money using risk-free discount rate term structures with appropriate illiquidity adjustments. In addition, there is a risk margin to reflect the uncertainty inherent in the underlying cash flows which is calculated using the cost of capital approach and risk-free discount rate term structures. The discount rate term structures are prescribed by the BMA for each reporting period.

The best estimate for the claims provision is calculated by using IFRS reserves as the starting point and then performing a series of adjustments:

- Unwinding of discounting permissible under IFRS (e.g. Periodic Payment Orders and Workers' Compensation).
- Incorporation of expected reinsurance counterparty defaults (bad debt).
- Incorporation or the identification of events not in data ("ENID") as appropriate.
- Other adjustments related to the consideration of investment and operating expenses, etc.; and
- Discounting credit.

The best estimate for the premium provision is calculated by using the gross unearned premium reserve on an IFRS basis, and then performing a series of adjustments:

- Gross and ceded premiums on already obliged but yet to incepted business.
- Applying expected future gross loss ratios.
- Reinsurance recoveries (less bad debt).
- Future Losses Occurring During (LOD) reinsurance cost covering existing incepted policies.
- Events not in data (ENID) calculated for the period as is appropriate.
- Future premiums (payables and receivables).
- Other adjustments related to the consideration of investment and operating expenses, etc.
- Adjustments for lapses as appropriate.
- Discounting credit.

In the valuation of the non-life (re)insurance obligations within the technical provisions, the Company has used the BMA prescribed risk-free discount rate curves by currency. For the life insurance obligations, the Company has used the BMA "standard approach" to illiquidity premium adjustment to the risk-free discount rate curve, also by currency.

At December 31, 2020 and 2019, the total net Technical Provisions amounted to \$34.3 billion and \$31.1 billion, respectively, comprising the following:

As at December 31, 2020:

<i>(U.S. dollars in thousands)</i>	Non-Life	Life	Total
Claims Provision	32,337,891	318,339	32,656,230
Premium Provision	(931,578)	—	(931,578)
Risk Margin	2,476,001	7,079	2,483,080
Total Technical Provisions	33,882,314	325,418	34,207,732

As at December 31, 2019:

<i>(U.S. dollars in thousands)</i>	Non-Life	Life	Total
Claims Provision	28,455,580	290,609	28,746,189
Premium Provision	129,951	—	129,951
Risk Margin	2,237,833	6,872	2,244,705
Total Technical Provisions	30,823,364	297,481	31,120,845

D.2.2. Uncertainty/Limitations Associated with the value of the Technical Provisions

There is an inherent uncertainty in the estimates as there is in any estimate of claim reserves. The Company expects that actual future losses will not develop exactly as projected and may potentially vary significantly from our projections as actuarial indications are subject to uncertainty from various sources, including but not limited to changes in claim reporting patterns, claim settlement patterns, judicial decisions, legislation, and general economic conditions. This uncertainty stems from several factors including lack of historical data, uncertainty with regard to claim costs, coverage interpretations and the judicial, statutory and regulatory provisions under which the claims may be ultimately resolved. Further, our projections make no provisions for extraordinary future emergence of new classes of losses or types of losses not sufficiently represented in the historical data or that are not yet quantifiable.

D.3. Description of Recoverables from Reinsurance Contracts

The reinsurance recoverables for the claims provisions are sourced directly from the IFRS submissions.

Recoverables from reinsurance contracts are based on principles similar to the gross best estimate and include reinstatement premiums required to be paid to the reinsurer, and expenses in relation to the management and administration of reinsurance claims.

The balance is adjusted for counterparty credit rating based on rating agency and default statistics.

For Life business, reinsurance recoverables are calculated using the same principles as those used to calculate the gross reserves.

D.4. Valuation Bases, Assumptions and Methods used to derive the value of other liabilities

Insurance and reinsurance balances payable - Insurance and reinsurance balances payable are measured at amortized cost under IFRS and are not discounted. There is no difference under the EBS as undiscounted amortized cost is deemed a reasonable proxy for fair value, given the short-term nature of these liabilities. Reinsurance payables have been transferred to technical provisions under EBS and therefore there is no impact on capital for this adjustment (apart from an immaterial amount due to the discounting of reinsurance premium payables within technical provisions).

Deposit Liabilities - Contracts entered into by the Company that are not deemed to transfer significant underwriting and/or timing risk are accounted for as deposits, whereby liabilities are initially recorded at an amount equal to the assets received. Deposit liabilities are measured at fair value less an adjustment for own credit risk. The Company determined the estimated fair value of the deposit liabilities by assuming a discount rate equal to the appropriate U.S. Treasury rate plus 50.0 basis points.

The Company uses a portfolio rate of return of equivalent duration to the liabilities in determining risk transfer. An initial accretion rate is established based on actuarial estimates whereby the deposit liability is increased to the estimated amount payable over the term of the contract. The deposit accretion rate is the rate of return required to fund expected future payment obligations (this is equivalent to the "best estimate" of future cash flows), which are determined actuarially based upon the nature of the underlying indemnifiable losses. Accretion of the liability is recorded as interest expense. The Company periodically reassesses the estimated ultimate liability. Any changes to this liability are reflected as adjustments to interest expense to reflect the cumulative effect of the period the contract has been in force, and by an adjustment to the future accretion rate of the liability over the remaining estimated contract term.

Pension benefit obligations Under both IFRS and EBS the pension benefit obligations are measured as the excess of the projected benefit obligation over the plan assets. This is considered a reasonable proxy for fair value, particularly given the immateriality of the liability (just 0.1% of total EBS liabilities).

Derivative liabilities - Derivative liabilities are measured at fair value under both IFRS and EBS. The difference between the IFRS and the EBS basis relates to a Life contract that is classed as a derivative under IFRS but included within Life TPs under EBS. There is an equal and opposite adjustment to derivative assets and therefore the net impact on capital is nil.

Payables (trade, not insurance) - Payables (trade, not insurance) are held at amortized cost under both IFRS and EBS given that this is deemed a reasonable proxy for fair value given the short-term nature of this liability.

Contingent liabilities - Contingent liabilities are recognised as liabilities in the EBS and valued based on the expected present value of future cash-flows required to settle the contingent liability over the lifetime of that contingent liability, using the basic risk-free interest rate.

Where the present value of the contingent liability cannot be determined because the timing of likely scenarios cannot be reliably estimated, the amount of the liability should be recorded at its undiscounted value. In coming up with the expected values we take into account both a profit element and risk premium required by market participants. For cases in which the contingent liability has asymmetrical outcomes, the valuation of the contingent liability accounts for a range of possible outcomes. This may be accomplished through option pricing models or models that consider multiple outcomes.

Contractual Liabilities Other Than Technical Provisions - All contractual liabilities are recognised on the EBS. Contractual liabilities are valued consistent with GAAP. In cases where the GAAP principles do not require fair value, we value the contractual liabilities using the EBS valuation hierarchy.

Where the Authority has issued a direction under sections 6C or 56 of the Insurance Act to effectively allow an Insurer to treat a contractual liability as capital in its Statutory Financial Returns, rather than as a liability as GAAP would dictate, then a similar treatment may be adopted for the EBS.

Current tax liabilities or assets - Current tax liabilities or assets are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Funds Held Under Reinsurance ("RI") Contracts - Funds withheld liability net of RI recoveries related to the retrocession of the majority of the Group's Life business. Further information on this arrangement is found in the Future Policy Benefit Reserves note in the Company's IFRS financial statements for the year ended December 31, 2020. The reason for the valuation difference is that the RI recovery related to the retrocession contract is higher under EBS compared to IFRS (and therefore the net funds withheld liability is lower under EBS).

D.5. Other Material Information

For the year ended December 31, 2020, there is no other material information regarding solvency valuation required to be disclosed for purposes of this Financial Condition 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 AXA XL Treasury to ensure appropriate capital levels are managed and maintained.

E.1.2. Eligible Capital Categorized by Tiers in Accordance with the Eligible Capital Rules

(U.S. dollars in thousands)	
Tier 1	9,310,225
Tier 2	1,432,435
Tier 3	999,000
Total	11,741,660

The Tier 1 capital comprises fully paid common shares and the contributed surplus or share premium thereon. The Tier 2 capital is the difference between encumbered assets for policyholder obligations and policyholder obligations in addition to the \$1m in Preference shares issued by AXA SA. Tier 3 capital consists of ancillary capital in the form of Redeemable Preference Shares - (see E.1.6.)

E.1.3. Eligible Capital Categorized 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

(U.S. dollars in thousands)	Limits	MSM	ECR	Minimum Margin of Solvency	Enhanced Capital Requirement
Tier 1	Min	80%	60%	9,310,225	9,310,225
Tier 2	Max	25%	66.67%	1,432,435	1,432,435
Tier 3	Max		17.65%		999,000
Total				10,742,660	11,741,660

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 needed to meet the ECR is available and transferable.

E.1.6. Identification of Ancillary Capital Instruments that have been Approved by the Authority

- \$1bn capital commitment (executed on December 30, 2020)

The capital commitment is effectively an Ancillary Own Funds instrument: XLB issued new preference shares to AXA SA which were funded at the statutory minimum of \$1m. Subject to XLB's Enhanced Capital Requirement ("ECR") coverage ratio falling below 120% over the next 5 years, AXA SA is mandated to fund the other \$999 million. This capital commitment is eligible to form part of XLB's solvency capital as a Tier 3 Capital subject to a 15% cap (\$1m is eligible to be treated as Tier 2 Capital). Once called and fully funded this instrument will be eligible to form part of XLB's Tier 2 Capital.

E.1.7. Identification of Differences in Shareholders' Equity as Stated in the Financial Statements Versus the Available Statutory Capital and Surplus

The starting point to determine available statutory capital and surplus is to prepare the Company balance sheet on an Economic Balance Sheet ("EBS") basis. The EBS balance sheet is derived from the IFRS balance sheet by making adjustments to reflect the EBS basis of assets and liabilities. This EBS then provides the available capital and surplus which is then categorized into the three ECR tiers. There are restrictions on the amount of Tier 2 and Tier 3 capital which can be used to meet the ECR, as well as the minimum solvency margin ("MSM").

The IFRS Consolidated Total Shareholders' Equity and the solvency valuation of the excess of the assets over liabilities is set out below. The adjustments are documented in Section D covering valuation of assets and liabilities.

IFRS Consolidated Total Shareholders' Equity	\$13,238,052
Less: Goodwill & Intangible assets	(2,023,418)
Less: Adjustments for Technical provision and Risk Margin under EBS rules	1,076,978
Less: Adjustment for DAC	(1,112,816)
Less: Other net adjustments	562,864
Statutory Consolidated Total Shareholder's Equity	\$11,741,660

E.2. Regulatory Capital Requirements

E.2.1. ECR and MSM at the end of the Reporting Period

The Company's Minimum Margin of Solvency and Enhanced Capital Requirements as at December 31, 2020 are as follows:

	Amount	Ratio
Minimum Margin of Solvency	2,075,053	566%
Enhanced Capital Requirement	8,273,473	142%

E.2.2. Identification of Any Non-Compliance with the MSM and the ECR

The Company has met both the MSM and ECR requirements during the year.

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

Not applicable

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

Not applicable

E.5. Description of The Purpose and Scope of the Business and Risk Areas Where the Internal Model is Used.

For the year ended December 31, 2020, there is no other material information regarding capital management required to be disclosed for purposes of this Financial Condition Report.

F. Subsequent Events

In February 2021, the Company, together with XL Reinsurance America, Inc., an indirect subsidiary of the Company, reached an agreement on an adverse development cover ("ADC") with a wholly owned subsidiary of Enstar Group Limited. As per the ADC agreement, the Company will secure coverage for 90% of potential adverse developments on its legacy long tail line reserves for accident years 2019 and prior. The Enstar subsidiary will cover losses incurred on or prior to December 31, 2019 on a diversified mix of global casualty and professional lines for a premium equal to the transfer of loss reserves of 90% of \$1,550 million (or \$1,395 million). As per the agreement, the Enstar subsidiary provides 90% coverage, with the Company retaining 10%, on two layers, the first of which provides \$1,550 million of coverage in excess of a \$9,438 million retention. The second layer provides an additional \$1,000 million in cover in excess above \$11,363 million.

Appendix 01: AXA XL Structure Chart 2020 Q4

Appendix 02: XL Bermuda Ltd IFRS Consolidated Audited Financial Statements as at December 31, 2020