

XL Life Ltd

AN XL GROUP LTD COMPANY

Financial Condition Report

31 December 2017

forming part of the annual regulatory reporting package
submitted to the Bermuda Monetary Authority ("BMA") by 30 April 2018

Declaration Statement

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

Mark Twite

President

April 27, 2018

Chris Brough

Assistant General Counsel

April 27, 2018

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Summary

XL Life Ltd (the "Company") was incorporated in Bermuda on November 10, 1997 as Reeve Court Insurance Limited and changed its name in 2001 to XL Life Ltd. The Company is a wholly-owned subsidiary of XL Bermuda Ltd (the "parent company"). The ultimate parent is XL Group Ltd, a company incorporated in Bermuda, and is part of a group of companies ("XL Group") which operate under the trading name of 'XL Catlin'.

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

A. Business and Performance

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

A.1. Name of insurer

XL Life Ltd (the "Company").

A.2. Supervisors

	Insurance Supervisor	Group Supervisor
Name:	Bermuda Monetary Authority	Bermuda Monetary Authority
Jurisdiction:	Bermuda	Bermuda
Email Address:	info@bma.bm	info@bma.bm
Phone Number:	441-295-5278	441-295-5278

A.3. Approved auditor

Organisation:	PricewaterhouseCoopers Dorchester House, 7 Church Street West, Hamilton, HM11 Bermuda
Name:	Damian Cooper
Jurisdiction:	Bermuda
Email Address:	damian.cooper@bm.pwc.com
Phone Number:	441-299-7685

A.4. Ownership details

Owner
XL Bermuda Ltd

Ownership
100.00%

A.5. Group structure

See [Appendix 01 – XL Group Ltd Structure Chart 2017 Q4](#)

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

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

Geographical location	Gross premium written 2017 USD '000s	Gross premium written 2016 USD '000s
United States of America	42,823	57,909
Australia and New Zealand	0	537
United Kingdom	352	350
Total	43,175	58,796

Line of Business	Gross premium USD '000s	Net premium written 2017 USD '000s	Gross premium USD '000s	Net premium written 2016 USD '000s
Mortality	43,175	10,594	58,796	10,936
Total	43,175	10,594	58,796	10,936

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

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

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

The Company invests in high quality fixed interest securities. The table below shows the market values and gross redemption yields at year end 2016, split by type of investment.

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

2016		
	Market Value (USD 000's)	Average YTM (%)
US Government (Federal)	40,493	1.53
US Government (Agency - mortgage backed)	22,532	2.4
US Government (Agency - other)	93,162	3.14
Non US Government	3,675	4.42
States, Municipalities and Political Subdivision	2,324	4.24
Corporate Securities	239,199	3.29
Total	401,385	

The above numbers agree with the Condensed Consolidated Balance Sheet.

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

USD 000's	2017	2016
<i>Income</i>		
Net Premiums	10,594	10,936
<i>Expenses</i>		
Claims	12,455	12,916
Commission	2,925	4,225
Operating Expenses	565	799
Total Expenses	15,945	17,940

The above numbers agree with the Condensed Consolidated Income Statement.

A.8. Other material information

XL Group Ltd ("XL") has entered into a definitive agreement and plan of merger (the "Merger Agreement") with AXA SA ("AXA") dated March 5, 2018, under which AXA would acquire 100% of XL's common shares in exchange for cash proceeds of \$57.60 per common share, or approximately \$15.3 billion in the aggregate (the "AXA Transaction"). The Merger Agreement provides that, subject to the satisfaction or waiver of certain conditions set forth therein, XL will merge with an existing AXA subsidiary in accordance with the Companies Act 1981 of Bermuda (the "Merger"), with XL surviving the Merger as a wholly owned subsidiary of AXA. All preferred shares issued by subsidiaries of XL will remain issued and outstanding upon completion of the Merger.

The Merger is expected to close during the second half of 2018, subject to approval by the XL shareholders and other customary closing conditions, including the receipt of required regulatory approvals. The Merger Agreement, among other stipulations, permits: (i) XL to pay out regular quarterly cash dividends not to exceed \$0.22 per XL common share per quarter, (ii) subsidiaries of XL to pay period cash dividends on preferred shares not to exceed amounts contemplated by the applicable bye-laws or resolutions approving such preferred shares, and (iii) subsidiaries of XL to pay dividends to XL or any subsidiary of XL.

B. Governance Structure

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

B.1. Board and Senior Executive

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

Board of Directors

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

Directors
Simon Argent
Mary Hayward
Mark Twite

Senior Executive

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

Senior executive	
Mark Twite	President
Mary Hayward	Senior Vice President
Christopher Brough	General Counsel, Corporate and Alternative Capital, Bermuda

B.1.2. Remuneration policy

Director Compensation

The directors are not separately compensated for their Board roles.

Executive Compensation

XL Life Ltd adheres to the XL Group remuneration policy.

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:

- Ensure alignment with shareholder interests and reward executives for enhancing long-term shareholder value
- 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

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. Remuneration for Company executives is comprised generally of three components:

- **Fixed Remuneration** - We consider multiple factors - including an individual's role and responsibilities, performance, experience, expertise and peer market compensation information in setting target levels of base compensation.
- **Variable Remuneration** - Individual bonus awards are determined based on performance reviews of individual and overall performance and are fully discretionary, allowing for full flexibility to award no variable remuneration if warranted. Staff have a bonus target amount expressed as a percentage of base pay.
- **Long-Term Incentive Plan** Long-term incentive awards are reserved for those who perform at a high level, recognize the recipient's anticipated future contributions, and take relative and absolute performance, individual potential and unique skills into consideration. Grants of long-term incentives are based on sustained individual performance and criticality of skills. For our most senior leaders, shares in XL Group awarded under our long-term incentive program are subject to mandatory holding periods and minimum ownership requirements. Individual awards under the Company's long-term incentive plans are also capped.

XL Group believes that it is important to review its incentive programs to ensure that the programs are operating as intended, have appropriate oversight, and motivate desired colleague behaviours. As a result, XL Group performs an annual assessment of the potential risks associated with its compensation policies and practices to ensure that its compensation programs do not encourage undue risk taking.

This review is performed by a cross-functional risk review team, and the results are presented to XL Group Ltd's Management Development and Compensation Committee of the Board of Directors ("MDCC"). Among its responsibilities, the MDCC is responsible for reviewing and approving the overall compensation structure of XL Group.

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

XL Life Ltd is not aware of any material transactions required to be disclosed for purposes of this financial condition report.

B.2. Fitness and Propriety Requirements

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

Board of Directors: Fit and Proper Assessment

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

- Personal qualities and characteristics, including business judgement, integrity, high standards of ethical conduct and distinction in their chosen fields of endeavour;
- Current knowledge of and experience in the areas of insurance, reinsurance, financial services or other aspects of XL Group's business, operations or activities;
- Diversity of viewpoints, skills, experience and other demographics in the context of the needs of the Board; and
- Such other attributes and external factors deemed appropriate.

Executive: Fit and Proper Assessment

The fit and proper assessment of a person shall include:

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

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

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

Board of Directors

Simon Argent: Mr Argent is Senior Vice President, Head of Credit Risk Management for XL. He joined XL in 2004 and has more than 30 years of (re)insurance industry experience. Before joining XL, Simon spent 12 years in senior risk management, underwriting and account executive positions with Kingsway Financial Services and General Reinsurance. Prior to this he held underwriting positions with Progressive Casualty Insurance and Safeco Insurance. Mr.

Argent is a Chartered Financial Analyst, holds an MBA from the Schulich School of Business in Toronto and professional designations from the Insurance Institutes of Canada and America.

Mark Twite: Mr. Twite is currently XL Group Ltd's Head of Reinsurance Finance and has 19 years of experience working in the (Re)Insurance industry. Immediately prior to his current role Mark was CFO, Bermuda Reinsurance and has held progressively senior Finance roles during his 9 years with XL. Prior to joining XL, Mark was the Financial Controller of Liberty Syndicates (the Lloyd's of London operation of the Liberty Mutual Group). Mark is a fellow of the Institute of Chartered accountants in England and Wales and qualified from Deloitte & Touche in 1998 while working in their London Insurance practice. Mark holds a B.S. in Economics from the London school of Economics (LSE).

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

Senior Executive

For Mark Twite and Mary Hayward see above.

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

B.3. Risk Management and Solvency Self-Assessment

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

The Company faces strategic, financial and operational risks related to, among others: underwriting activities, financial reporting, changing macroeconomic conditions, investment, reserving, changes in laws or regulations, information systems, business interruption and fraud. An enterprise view of risk is required to identify and manage the consequences of these common risks and risk drivers on our profitability, capital strength and liquidity which are managed by the Enterprise Risk Management (ERM) function who implement the Risk Management Framework ("RMF").

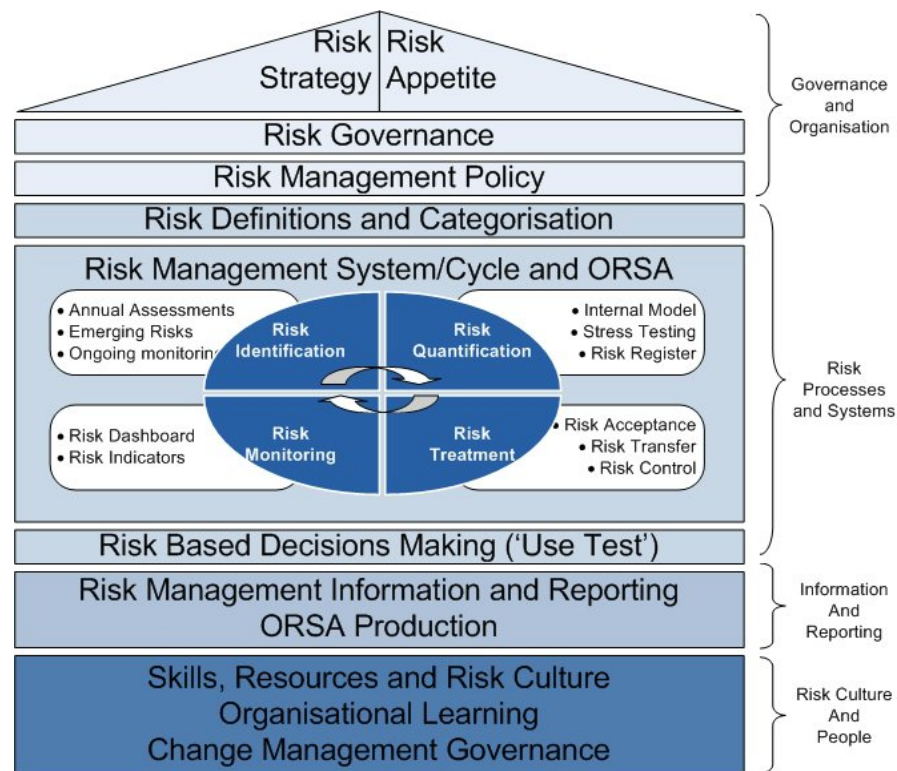
The Company adopts the XL Group Ltd's (the "Group") RMF which is reviewed and approved by the Board, at least annually. The RMF would be reviewed more regularly if the Company was subject to a major change in regulatory requirements, strategy or organisational structure. The aim of the RMF is to:

- Support business objectives and strategy;
- Provide management information to facilitate the identification and understanding of material risks including related mitigants;

- Contribute to the Company's overall internal control framework by helping to manage the inherent complexity within the business;
- Improve the Group's ERM rating and 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 RMF comprises the following:



Please note that the term ORSA is used to describe the CISSA above

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 ERM function oversees more detailed risk management activity and the Board approved risk appetites.

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

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

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

Risk Appetite Framework (RAF)

The Company's Risk Appetite Framework (RAF) is a key dimension to the risk management strategy and is used to provide governance for setting new monitoring requirements as well as reviewing and updating existing risk appetite statements, tolerances and limits so that these are aligned with business and risk management strategies. The Company's RAF focuses on regulatory capital at risk, tolerances to risks from material individual events, liquidity standards, tolerance to specific investment related risks and operational loss. The Board approved risk appetites and risk tolerances were reviewed during the 2017 business planning process and it was determined that all existing statements and tolerances were appropriate to allow the Company to execute the 2017 business plan.

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

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

- **Risk Governance** sets out a clear and cost effective organisational structure for risk management, including clear roles and responsibilities.
- **Risk Policies** document the Company's approach to the management of each category of risk to which the Company is exposed.
- **Risk definition and categorisation** provides a common taxonomy and language for risk to allow for categorisation of all risks in a way which facilitates links between the business and risk management processes.
- **Risk cycle and processes** are the approach taken to top down, bottom up and process led risk identification, quantification and management and control.
- **Risk Management Information and Reporting, including CISSA Production** ensuring timely and accurate information is reviewed in line with the governance structure.
- **Skills, Resources and Risk Culture. Organisational Learning. Change Management Governance** - All enable a mature risk culture throughout the Company.

Risk Reporting

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

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

The Company benefits from the XL Group Ltd's overall ERM framework which includes a Group ORSA assessment process. The Group ORSA incorporates outputs from the Group Internal Model and is produced in accordance with the Group ORSA Policy. As such, in addition to this standalone assessment, the Company's business and operations are also incorporated into the overall Group ORSA process and assessment which considers the risk, capital and solvency position of the Group as a whole.

It is the Group's capital management strategy that economic capital for legal entities is held as close to regulatory capital as possible but at the same time allowing the business to operate effectively. This ensures that adequate levels of surplus capital is held at the Group level for the potential benefit of all legal entities of the Group. The Bermuda Solvency Capital Requirement ("BSCR") methodology is used as a basis for the measure of our own view of the required capital for the business. This is consistent with prior years and we will continue to assess the appropriateness of this approach to the CISSA as the Company's risk exposures, outstanding liabilities and operating environment change.

B.3.3. Relationship between the solvency self- assessment, solvency needs, and capital and risk management

See section B.3.2.

B.3.4. Solvency self-assessment approval process

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

BOARD

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

- Oversees ERM activities, including the risk management framework employed by management. With respect to the overall risk management framework, the Company's Board (i) reviews the methodology for establishing our overall risk capacity; (ii) reviews the policies for the establishment of risk limit frameworks, and adherence to such limits; and (iii) reviews and approves Company risk limits.
- Oversees our compliance with any significant enterprise risk limits, authorities and policies. The Board evaluates what actions to take with respect to such limits, authorities and policies, and approves any exceptions thereto from time to time as necessary.
- Reviews our overall risk profile and monitors key risks to the Company.
- Monitors our risk management performance and obtains reasonable assurance from management that our risk management policies are effective and are being adhered to.

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

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

- Review and challenge outputs of CISSA process
- Review and challenge the overall annual CISSA report

The Board is made aware of the Group ORSA report and ORSA outcomes as appropriate.

CISSA PROCESS OWNERS

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

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

It should be noted that the CISSA process owners leverage Group processes and expertise in performance of their duties.

B.4. Internal Controls

B.4.1. Internal control system

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

FIC's core strategic objectives include:

- Conducting an effective and efficient assessment of the design and operating effectiveness of internal controls over financial reporting;
- Identifying areas in which the inherent risk of financial misstatement is high so that management can address these risks before they manifest themselves in an actual misstatement;
- Providing the XL Group Ltd Audit Committee and executive management with the information they need to make the assertions and certifications required.
- Adding value by helping management promote a robust control environment.

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

B.4.2. Compliance function

XL Life Ltd adheres to the XL Group Compliance Policy. What follows is therefore a description of the XL Group's overall approach to compliance.

The Chief Compliance Officer ("CCO") of XL Group is responsible for the formulation and implementation of an effective compliance program for the XL Group of Companies.

In order to ensure the independence of the CCO, the CCO reports directly to the XL Group Audit Committee on a periodic basis on matters relating to XL Group Ltd companies' compliance with applicable law and regulation and the Company's own general standards of legal, ethical and compliant conduct for its employees.

The Company has a designated compliance officer with reporting lines to the CCO.

XL Group Ltd's Enterprise Risk Committee, under delegated authority from the XL Group Ltd's Audit Committee, is responsible for approval of the XL Group's Compliance Policy and Program (the "Compliance Policy") a copy of which is available on the XL Group's public website.

The purpose of the Compliance Policy is to (a) protect XL Group Ltd companies from financial or reputational harm that could arise from noncompliant or unethical conduct; (b) assist to prevent, detect and remediate compliance failures or risks; and (c) seek to ensure that XL Group Ltd companies are in compliance with all applicable laws and regulations.

The CCO is responsible for overall implementation and evaluation of the Compliance Policy and reports, at least annually, on its effectiveness to the XL Group Ltd Audit Committee.

XL Group Ltd maintains a Code of Conduct (the "Code of Conduct ") that explains general standards of legal, ethical and compliant conduct. Material updates to or changes to the Code must be approved by the Board of Directors of XL Group Ltd. The Code of Conduct is available on XL Group's public website.

The CCO is responsible for leading an annual Group level assessment of compliance risks presented by the XL Group's business, operations and other activities.

The XL Group Ltd Audit Committee advises the XL Group Ltd Board, at least annually with respect to XL Group Ltd companies' policies and procedures regarding compliance with applicable laws and regulations and with the Code of Conduct. The XL Group Ltd Audit Committee also reviews at least annually, with the CCO, compliance with the Code of Conduct, as well as the implementation and effectiveness and the administration, training, monitoring and auditing of the Compliance Policy, and also will discuss with the CCO, the Group General Counsel and the independent auditor, as appropriate, any

correspondence with regulators or governmental agencies and any employee complaints or published reports which raise material issues regarding XL Group Ltd's financial statements or accounting policies, or material compliance weaknesses or violations.

Copies of the Compliance Policy and the Code of Conduct are available on XL Group's public website at <http://xlgroup.com/xl-investor-relations/corporate-governance>

The XL Group Ltd Audit Committee to the extent it deems necessary or appropriate, obtains at least annually, or more frequently if appropriate, written reports from the Group General Counsel, Group Compliance Director and CCOs as to whether XL Group Ltd and its subsidiary/ foreign affiliated entities are in material compliance with applicable legal requirements and the Code of Conduct and Compliance Program.

The XL Group Ltd Audit Committee advises the XL Group Ltd Board, at least annually, or more frequently if appropriate, with respect to the XL Group's policies and procedures regarding compliance with applicable laws and regulations and with the Code of Conduct and reviews at least annually or more frequently if appropriate, with the Group General Counsel, the Group Compliance Director, compliance with the Code of Conduct, as well as the implementation and effectiveness and the administration, training, monitoring and auditing of the Compliance Program.

B.5. Internal Audit function

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

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

B.5.1 Internal Audit independence, professional conduct and ethics

XL Life Ltd follows the XL Group internal audit process.

The internal audit process is set out below:

1. Engagement Planning: The objectives of this phase are to refine the scope of the internal audit plan; identify which business processes, systems and controls will be evaluated; determine which techniques will be used; manage expectations; and coordinate with FIC, external auditors, and IT Audit.
2. Risk and Control Evaluation: The objective of this phase to understand the business process, the key controls and the primary risks associated with the business process.
3. Fieldwork and Testing: The auditor will determine whether the controls supporting the audit objectives are adequately designed and effective through the gathering of audit evidence.
4. Reporting: This phase provides a well-supported opinion on the controls in place, provide value added recommendations and identify opportunities to improve the internal control environment.
5. Follow-up and Closure: The objective of this phase is to monitor the outstanding audit recommendations and agreed-upon audit issue resolutions to ensure their timely implementation.

B.5.2 Internal Audit independence

The Internal Audit Department complies with the International Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors (IIA). The Standards apply to individual internal auditors and internal audit activities. All internal auditors are accountable for conforming to the Standards related to individual objectivity, proficiency and due professional care.

The IIA has also established a Code of Ethics which covers basic principles of the internal auditing practice. Internal Audit has a responsibility to conduct itself so that its good faith and integrity are not open to question.

B.6. Actuarial function

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

Regulatory Compliance

The Actuarial Function operates in accordance with applicable Bermuda regulation.

Roles and Structure

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

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

Reports of the Actuarial Function to the Board and Regulators

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

Actuarial Function Responsibilities

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

Responsibilities outsourced to Willis Towers Watson:

- Estimating the gross and net technical provisions;
- Ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions and explaining any material effect of change of data, methodologies or assumptions between valuation dates on the amount of technical provisions;

- Assessing the sufficiency and quality of the data used in the calculation of technical provisions and where relevant providing recommendations on internal procedures to improve data quality;
- Informing the Board on the reliability and adequacy of the calculation of technical provisions; overseeing the calculation of technical provisions;
- Comparing best estimates against experience, i.e. performing analysis comparing the estimated policyholder obligations against actual policyholder obligations paid;

Additional responsibilities relating to risk management:

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

Additional responsibilities relating to capital modelling:

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

Additional responsibilities with regard to the internal model:

- The Actuarial Function is responsible for specifying which risks within their domain of expertise are covered by the Group's internal model. The Actuarial Function should also offers insights into the nature of dependencies between these risks.

B.7. Outsourcing

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

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

- Arrangements with an individual vendor covering business services to a certain annual value;
- Specific delegated claims handling arrangements identified by the Claims Delegated Arrangement team based upon certain outstanding claims reserves or the Group's Outsourcing Sub Committee ("GOSC");
- Specific Investment Management arrangements as identified by XL Investments Ltd, which is a subsidiary of the Company; and

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

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

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

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

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

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

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

B.7.2. Material intra-Group outsourcing

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

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

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

B.8. Other material information

None.

C. Risk Profile

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

See below.

C.1.1. Underwriting risk

Insurance Risk

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

C.1.2. Market risk

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

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

The Company identifies market risk through the following processes:

Process	Description
Business planning	As part of the annual planning process, a review is undertaken of the nature of assets required to support the business plan and the expected liabilities.
Investment decisions and asset allocations	The Group Investment Portfolio Guidelines, Authorities and Monitoring Framework, which applies to the Company, sets ranges for tactical deviation from the benchmark and is reviewed annually.
ERM Risk assessment and processes	The risk assessment process assists in identifying if there are any changes to market risks already identified in the previous assessment.

Market risk is also identified through the Group's Emerging Risk Taskforce which has Company representation.

C.1.3. Credit risk

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

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

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

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

The Company identifies credit risk through the following processes:

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

C.1.4. Liquidity risk

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

The Company identifies liquidity risk through the following processes:

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

C.1.5. Operational risk

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

Operational risk is identified through the following processes:

Process	Description
Annual risk assessment	A risk register is maintained of the material risks faced by the Company. On an annual basis an assessment is performed on the risks on the risk register.
Consultation regarding new regulations	When the regulatory authorities announce potential changes to the regulatory environment (such as new rules and regulations) the Legal and Compliance team is responsible for reviewing the proposed changes and for highlighting any increase in regulatory risk that might arise. When new financial reporting regulations are announced, the CFO is responsible for reviewing the proposed changes and for highlighting any increase in regulatory risk that might arise.
Business planning	Any changes to the operational risk environment that arise as a result of the business planning (such as entry into new territories) must be identified and accounted for during the planning process.
Ongoing operations	Function heads and Risk Owners are responsible for identifying any new (or changed) risks during the normal course of business, and notifying the Policy Owners so any required changes to the risk register can be implemented.
Emerging risks	The Company benefits from a Group 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 benefits from a Group process which 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 benefits from a Group process which 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

Asset liability mismatch risk arises directly from a mismatch between assets and liabilities due to changes in market and credit risks, liquidity and foreign exchange and also arises from events affecting both asset and liability values.

In particular, two 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	Differences in the inflation sensitivity of investments, liability and debt cash flows creates a risk to unexpected changes in different types of inflation (Consumer Price Index, wage, etc.). This is due to changes in the real Mark-to-Market value of assets not offsetting changes in the real economic value (net-present value) of liability cash flows.

Risk identification

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 Investment Portfolio Guidelines, Authorities and Monitoring Framework sets ranges for tactical deviation from the benchmark and is reviewed annually in conjunction with the Strategic Asset Allocation ("SAA") process as outlined in C2 Market Risk, and which establishes a benchmark portfolio for the Company.
ERM risk assessment and processes	The risk assessment processes assists in identifying if there are any changes to ALM risks from those that had been identified in the previous risk assessment.

Risk mitigation

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 of its liabilities with appropriate assets.

- **Investment authorities and guidelines**

Board approved market risk authority and guidelines are in place that addresses all the key market risk factors and is 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 loss trend movements, legislative and regulatory changes, inflation and timing and reporting changes at underlying ceding companies.

Stress testing framework

The Company uses scenario testing as one method to assess asset liability mismatch risk exposures. The Group undertakes a number of stress tests covering historical events and hypothetical scenarios to understand the impact of such scenarios to the investment portfolio, the consequences of which are examined across all legal entities within the Group, including the Company.

C.2. Risk mitigation in the organisation

The Company is closed to new business so no new underwriting risk is being assumed.

The Company participates in an XL Group managed outwards third party reinsurance risk transfer programme to support the Company's underwriting strategy within risk appetite and to ensure efficient use of capital.

Market risk

Strategic Asset Allocation

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

- **Authorities Framework**

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

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

- **Service level agreements**

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

The Company also has a Service Level Agreement in place with GreyCastle Services Ltd (UK) which provides reserving, administration and accounting services to the Company.

Currency risk mitigation

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

Credit risk

Reinsurance Credit Risk

Reinsurance credit risk arises from the RGA transaction. However, the funds held nature of the agreement reduces this risk. Also RGA, although unrated, has a parent company guarantee in place with its AA rated parent and therefore analysis has concluded that the risk of default is deemed to be low. See section C3 and below for more details.

Credit risk is managed through:

- **Credit risk framework:** Credit risk arising from credit sensitive underwriting activities is managed via the underwriting limit framework. Credit risk is managed within the investment portfolio through the Authorities Framework and established investment credit policies, which address the quality of obligors and counterparties, industry limits, and diversification requirements. Exposure to market credit spreads primarily relates to market price and cash flow variability associated with changes in credit spreads.
- **Investment portfolio:** Credit risk is managed in the investment portfolio, including fixed income, alternative and short-term investments, through the credit research performed by both investment management service providers and the in house portfolio management team.
- **Reinsurance Security Department:** Reinsurance credit risk exposure exists as a result of the retrocession agreement with RGA. However, the transaction mitigates the risk of loss because claims are recovered directly from funds withheld. The funds withheld are sufficient to meet the expected claim payments. The exposure is stressed annually, as part of the BSCR calculation. This involves assessing the increase in claims costs at the 99th percentile and applying the standard BSCR default parameters (both considering the current rating and a downgrade to a BBB level) to the excess of projected recoveries over the funds withheld. The following is an analysis of the largest recoverable and reinsurance balances receivable from external counterparties, net of collateral held, at December 31, 2017 and as at December 31, 2016:

Reinsurer name	Rating	2017 Total unsecured recoverables (\$000)	2016 Total unsecured recoverables (\$000)
RGA Reinsurance Company	AA	15,550	10,130

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

Liquidity risk

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

Cash needs include all possible claims on cash from policyholders, shareholders and operations. Some of these cash outflows are scheduled while others are known with much less certainty. The goal is to ensure sufficient liquidity in the asset portfolio, together with secured external cash sources, to provide for timely payment of potential cash demands under both normal business conditions and under extreme conditions resulting from unforeseen events over a 12 month horizon.

Liquidity risk is managed through:

- **Investment portfolio liquidity** - The annual SAA process determines the structure of the benchmark that maximises the value of the Company subject to risk tolerance and other constraints. The key output of the SAA process is an investment portfolio benchmark, which takes into account management's risk tolerance, liability cash flows, business plan, peer analysis and regulatory considerations.
- **Asset-Liability Management (ALM)** - See section C.1.6 for further details of the ALM framework.

Operational risk

The Company's risk register details the controls in place that mitigate specific risks. The nature of the controls (e.g. preventative or detective; manually operated or automatic) and the strength of control exercised are based upon the:

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

Purchase of insurance

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

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

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

With respect to operational risk, employees are expected to comply with the RMF, and to conduct themselves in accordance with XL Catlin's Code of Conduct. The Company will also conduct its business in such a way as to comply with laws and regulations.

C.3. Material risk concentrations

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

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

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

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

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

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

Underwriting risk

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

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

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

Market risk

The Company's main remaining risk exposure is through its investment portfolio which is invested in accordance with the approved investment guidelines.

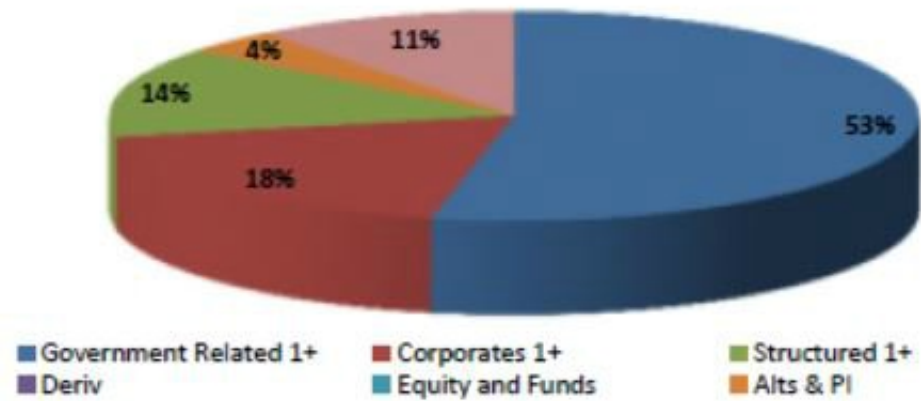
Day-to-day management of the investment portfolio is conducted through a combination of in-house portfolio management teams and external asset managers in accordance with detailed investment guidelines and risk tolerances. This hybrid implementation approach provides access to external asset managers with specialised skills across a broad range of investment products, as well as the flexibility to actively manage the overall structure of the portfolio in line with the Company's specific business needs. Interaction between the internal and external managers provides additional insight to take advantage of opportunities as they present themselves.

The delegation of investment authority is supplemented by robust compliance monitoring with defined escalation and notification procedures. This framework is designed to identify investment risks in absolute and relative terms, and to consistently and objectively measure, assess, manage and report such risks on an ongoing basis. The framework is cascaded down to the Company, and approved by the Board. Any breaches in limits of the authority framework are highlighted in the risk dashboard presented to the Board.

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

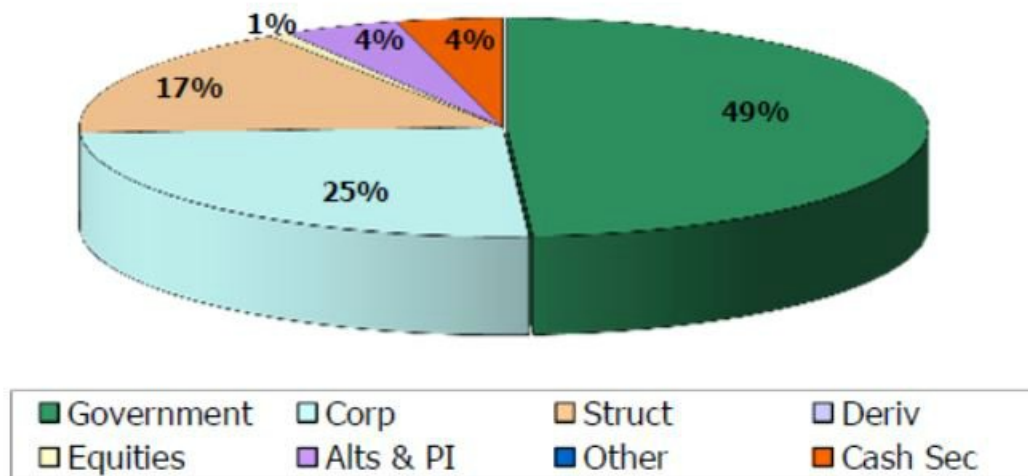
The Company's portfolio allocation at 31st December 2017 was as follows:

Asset Class Allocation



For comparison the portfolio at 31st December 2016 was:

Asset Class Allocation



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

- Interest rate and spread sensitivities: by re-valuing current portfolio holdings assuming various changes in the level and term structure of interest rates and the level of credit spreads;
- Historical stress tests and Black Swan scenarios identified by ERM and the XL Group Investments Ltd ("XLGIL") covering economic, financial and political events and the potential impact to the investment portfolio.

As part of our Stress Testing process, we examine large historical market events. Should losses be incurred in a magnitude implied by these simulated historical events at December 31, 2017, the Company's Bermuda based solvency ratio (BSCR) remains in excess of 200%.

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

Credit risk

ERM consolidates credit exposure reports from corporate functions and underwriting businesses on a regular basis for aggregating, monitoring and reporting to the Group Credit Risk Committee and Company Board.

On a regular basis a review is undertaken of the investment portfolio to enrich our understanding of asset concentrations as well as, credit quality and adherence to our credit limit guidelines. Any issuer over its credit limits or experiencing financial difficulties, material credit quality deterioration or potentially subject to forthcoming credit quality deterioration is placed on a watch list for closer monitoring. Where appropriate, exposures are reduced or prevented from increasing.

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, liquidity to manage through the event and maintain the Company as a going concern.

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

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

Liquidity risk

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

Operational risk

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

C.6. Other material information

There is no other material information regarding the risk profile.

D. Solvency Valuation

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

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

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

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

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

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

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

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

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

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

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

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

Investments in and Advances to Affiliates.

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

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

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

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

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

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

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

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

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

At December 31, 2017, the total net Technical Provisions amounted to \$49.3 million comprising the following (reported in USD thousand units):

	Mortality	
USD '000s	2017	2016
Claims provision	47,229	58,048
Premium provision		
Risk margin	2,106	2,553
Total technical provisions	49,335	60,601

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

D.2.3 Uncertainty/limitations Associated with the Value of the Technical Provisions

It is certain that actual future losses will not develop exactly as projected and may vary significantly from our projections as actuarial indications are subject to uncertainty from various sources, including but not limited to differences between the estimated future decrement rates (i.e. mortality and lapse rates) and those ultimately experienced.

D.3. Description of recoverables from reinsurance contracts

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

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

Other liabilities are valued on a fair value basis.

D.5. Other material information

No other material information to report.

E. Capital Management

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

E.1. Eligible Capital

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

XL Life Ltd 's Capital Management process is aligned with XL Group's.

XL Group Ltd has an overarching Capital Management process to ensure an appropriate level and form of capital. Thereby, the Group'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 1978, as amended, using the economic balance sheet framework to derive the Company's statutory economic capital and surplus, its enhanced capital requirement and its target capital levels as defined therein. There are appropriate levels of oversight from the Board, Risk and Compliance, Finance and Group Treasury to ensure appropriate capital levels are managed and maintained.

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

ii. Eligible Capital

USD '000s		
Eligible Capital	2017	2016
Tier 1	65,211	41,824
Tier 2	35,992	28,767
Tier 3	0	0
Total	101,203	70,591

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

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

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

2017					
Eligible Capital					
	Limits	MSM	ECR	MSM	ECR
Tier 1	min	80%	50%	65,211	65,211
Tier 2	max	25%	50%	16,303	35,992
Tier 3			18%	0	0
Total				81,514	101,203

2016					
Eligible Capital					
	Limits	MSM	ECR	MSM	ECR
Tier 1	min	80%	50%	41,824	41,824
Tier 2	max	25%	50%	10,456	20,912
Tier 3			15%		
Total				52,280	62,736

Above numbers are sourced from the Schedule of Eligible Capital in the BSCR.

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

None

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

The Capital to meet the ECR is available and transferable.

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

None

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

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

E.2. Regulatory Capital Requirements

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

2017

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

2016

USD '000s	Amount	Statutory Economic Capital & Surplus	Ratio
Minimum margin of solvency	7,939	105,900	1334%
Enhanced capital requirement	11,838	105,900	895%

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

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

None

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

Not applicable.

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

Not applicable

E.3. Approved Internal Capital Model

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

Not applicable.

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

Not applicable.

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

Not applicable.

E.3.4. Description of aggregation methodologies and diversification effects

Not applicable.

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

Not applicable.

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

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

Not applicable

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

Not applicable

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

Not applicable

iv. Description of aggregation methodologies and diversification effects

Not applicable

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

Not applicable

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

Not applicable

E.5. Other material information

Not applicable.

F. Subsequent Events

We do not expect this event to impact the solvency and financial condition of the Company.

F.1. Description of the significant event;

XL Group Ltd ("XL") has entered into a definitive agreement and plan of merger (the "Merger Agreement") with AXA SA ("AXA") dated March 5, 2018, under which AXA would acquire 100% of XL's common shares in exchange for cash proceeds of \$57.60 per common share, or approximately \$15.3 billion in the aggregate (the "AXA Transaction"). The Merger Agreement provides that, subject to the satisfaction or waiver of certain conditions set forth therein, XL will merge with an existing AXA subsidiary in accordance with the Companies Act 1981 of Bermuda (the "Merger"), with XL surviving the Merger as a wholly owned subsidiary of AXA. All preferred shares issued by subsidiaries of XL will remain issued and outstanding upon completion of the Merger.

The Merger Agreement, among other stipulations, permits: (i) XL to pay out regular quarterly cash dividends not to exceed \$0.22 per XL common share per quarter, (ii) subsidiaries of XL to pay period cash dividends on preferred shares not to exceed amounts contemplated by the applicable bye-laws or resolutions approving such preferred shares, and (iii) subsidiaries of XL to pay dividends to XL or any subsidiary of XL.

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

The Merger is expected to close during the second half of 2018, subject to approval by the XL shareholders and other customary closing conditions, including the receipt of required regulatory approvals.

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

We do not expect this event to impact the solvency and financial condition of the Company.

F.4. Other material information

Not applicable

Appendices

Appendix 1 – XL Group Ltd Structure Chart

