



XL Insurance
Reinsurance

XL Bermuda Ltd

Consolidated
Financial Statements
for the Years Ended
December 31, 2020
and 2019

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Report of Independent Auditors

To the Board of Directors of XL Bermuda Ltd

We have audited the accompanying consolidated financial statements of XL Bermuda Ltd and its subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the two years in the period ended December 31, 2020, which, as described in Note 2 to the consolidated financial statements, have been prepared on the basis of International Financial Reporting Standards as adopted by the European Union.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of XL Bermuda Ltd and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2020 in accordance with International Financial Reporting Standards as adopted by the European Union.

PricewaterhouseCoopers LLP

April 29, 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(US Dollars in thousands)

Notes	December 31, 2020	December 31, 2019
6 Goodwill	1,115,399	1,123,028
7 Deferred acquisition costs	1,966,904	1,895,278
8 Other intangible assets	908,019	969,799
Intangible assets	3,990,322	3,988,105
Investments in real estate properties	1,057,220	731,968
Financial investments	44,369,241	42,290,414
9 Investments	45,426,462	43,022,382
10 Investments accounted for using the equity method	39,357	39,782
13 Reinsurers' share in insurance contracts liabilities	21,487,691	17,229,958
Tangible assets	398,036	406,897
15 Deferred tax assets	310,063	517,449
Other assets	708,099	924,346
Receivables arising from direct insurance and inward reinsurance operations	11,755,842	11,171,975
Receivables arising from outward reinsurance operations	2,466,198	1,615,453
Receivables – current tax	118,516	68,290
Other receivables	832,529	1,038,092
11 Receivables	15,173,084	13,893,810
Assets held for sale	14,555	14,687
Cash and cash equivalents	5,226,179	3,500,507
TOTAL ASSETS	92,065,749	82,613,577

<i>(US Dollars in thousands)</i>		
Notes	December 31, 2020	December 31, 2019
Share capital and capital in excess of nominal value	14,490,143	13,490,144
Reserves and translation reserve	869,995	(470,039)
Net consolidated income (loss) – Company share	(2,138,198)	189,794
Shareholder's equity – Company share	13,221,940	13,209,899
Minority interests	16,112	29,888
12 TOTAL SHAREHOLDER'S EQUITY	13,238,052	13,239,787
Financing debt instruments issued	15,603	13,987
Financing debt	15,603	13,987
13 Liabilities arising from insurance contracts	63,280,437	54,742,802
Provisions for risks and charges	347,058	266,594
15 Deferred tax liabilities	337,989	307,348
Other debt instruments issued, notes and bank overdrafts	101,254	107,153
Payables arising from direct insurance and inward reinsurance operations	2,842,884	2,593,753
Payables arising from outward reinsurance operations	9,464,538	8,443,953
Payables – current tax	128,201	69,156
Collateral debts relating to investments under lending agreements or equivalent	377,980	414,616
Other payables	1,931,753	2,414,428
14 Payables	14,846,609	14,043,059
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	92,065,749	82,613,577

CONSOLIDATED STATEMENT OF INCOME

(US Dollars in thousands)

Notes	December 31, 2020	December 31, 2019
17 Gross written premiums (a)	21,302,389	18,332,863
Change in unearned premiums net of unearned revenues and fees	(462,193)	(1,129,546)
Net investment income (b)	1,213,339	1,038,156
Net realized gains and losses relating to investments at cost and at fair value through shareholder's equity (c)	153,794	86,862
Net realized gains and losses and change in fair value of investments at fair value through profit and loss (d)	(264,313)	(99,114)
Change in investments impairments (e)	(69,696)	(17,771)
18 Net investment result excluding financing expenses	1,033,124	1,008,133
Technical charges relating to insurance activities	(18,679,787)	(12,553,104)
19 Net result from outward reinsurance	212,912	(466,228)
20 Acquisition costs	(3,113,246)	(2,859,173)
20 Administrative expenses	(2,234,598)	(2,049,314)
20 Other income and (expenses)	(502)	24,815
Other operating income and expenses	(23,815,221)	(17,903,004)
Income (loss) from operating activities before tax	(1,941,901)	308,446
Income (net of impairment) from investments accounted for using the equity method	511	7,594
20 Financing expenses	(66,621)	(57,548)
Net income (loss) from operating activities before tax	(2,008,011)	258,492
15 Income tax	(137,605)	(68,866)
Net operating income (loss) and net consolidated income (loss) after tax	(2,145,616)	189,626
Split between:		
Net consolidated income (loss) - Company share	(2,138,198)	189,794
Net consolidated income - Minority interests	(7,418)	(168)

(a) Gross of reinsurance.

(b) Net of investment management costs.

(c) Includes impairment releases on investments sold.

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

(e) Excludes impairment releases on investments sold.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>(US Dollars in thousands)</i>	December 31, 2020	December 31, 2019
Reserves relating to changes in fair value through shareholder's equity	952,556	1,130,838
Translation reserves	147,219	(51,064)
Items that may be reclassified subsequently to Profit or Loss	1,099,775	1,079,774
Employee benefits actuarial gains and losses	(26,580)	(32,290)
Items that will not be reclassified subsequently to Profit or Loss	(26,580)	(32,290)
Net gains and losses recognized directly through shareholder's equity	1,073,195	1,047,484
Net consolidated income (loss)	(2,145,616)	189,626
<i>Split between:</i>		
Net consolidated income (loss) - Company share	(2,138,198)	189,794
Net consolidated income - Minority interests	(7,418)	(168)
TOTAL COMPREHENSIVE INCOME (LOSS)	(1,072,421)	1,237,110
<i>Split between:</i>		
Total comprehensive income (loss) - Company share	(1,056,090)	1,237,278
Total comprehensive income - Minority interests	(16,331)	(168)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(US Dollars in thousands, except for number of shares and nominal value)	Share Capital			
	Number of shares (in thousands)	Nominal value	Share Capital	Capital in excess of nominal value
Shareholder's equity opening January 1, 2020	12,500	0.10	1,250	13,488,894
Capital contributions from parent	—	—	—	1,000,000
Others (including impact on change in scope) (a)	—	—	—	—
Impact of transactions with shareholder	—	—	—	1,000,000
Reserves relating to changes in fair value through shareholder's equity	—	—	—	—
Translation reserves	—	—	—	—
Employee benefits actuarial gains and losses	—	—	—	—
Net consolidated income (loss)	—	—	—	—
Total Comprehensive Income (Loss)	—	—	—	—
Shareholder's equity closing December 31, 2020	12,500	0.10	1,250	14,488,894

(a) Relates mainly to acquisitions of companies under common control for the year ended December 31, 2019 (see Note 4.2). Changes in 2020 relate to adjustments made within components of Shareholder's Equity to align to final adjusted balances which were pushed down from AXA in 2020 as part of these common control acquisitions.

Attributable to shareholder					
Other reserves				Shareholder's equity Company share	Minority interests
Reserves relating to the change in fair value of financial instruments available for sale	Reserves relating to the change in fair value of hedge accounting derivatives (cash flow hedge)	Translation reserves	Undistributed profits and other reserves		
1,367,571	(670)	87,062	(1,734,208)	13,209,899	29,888
—	—	—	—	1,000,000	—
—	—	(62,220)	130,351	68,131	2,554
—	—	(62,220)	130,351	1,068,131	2,554
928,952	32,517	—	—	961,468	(8,912)
—	—	147,219	—	147,219	—
—	—	—	(26,580)	(26,580)	—
—	—	—	(2,138,198)	(2,138,198)	(7,418)
928,952	32,517	147,219	(2,164,778)	(1,056,090)	(16,331)
2,296,523	31,847	172,062	(3,768,636)	13,221,940	16,112

(U.S dollars in thousands, except for number of shares and nominal value)	Share Capital			
	Number of shares (in thousands)	Nominal value	Share Capital	Capital in excess of nominal value
Shareholder's equity opening January 1, 2019	12,500	0.10	1,250	12,064,416
Capital contributions from parent	—	—	—	863,874
Others (including impact on change in scope) (a)	—	—	—	560,604
Impact of transactions with shareholder	—	—	—	1,424,478
Reserves relating to changes in fair value through shareholder's equity	—	—	—	—
Translation reserves	—	—	—	—
Employee benefits actuarial gains and losses	—	—	—	—
Net consolidated income	—	—	—	—
Total Comprehensive Income	—	—	—	—
Shareholder's equity closing December 31, 2019	12,500	0.10	1,250	13,488,894

(a) Relates mainly to acquisitions of companies under common control (see Note 4.2).

Attributable to shareholder					
Other reserves					
Reserves relating to the change in fair value of financial instruments available for sale	Reserves relating to the change in fair value of hedge accounting derivatives (cash flow hedge)	Translation reserves	Undistributed profits and other reserves	Shareholder's equity Company share	Minority interests
(209,972)	—	55,214	(2,080,429)	9,830,479	549,525
—	—	—	—	863,874	—
446,035	—	82,912	188,717	1,278,268	(519,469)
446,035	—	82,912	188,717	2,142,142	(519,469)
1,131,508	(670)	—	—	1,130,838	—
—	—	(51,064)	—	(51,064)	—
—	—	—	(32,290)	(32,290)	—
—	—	—	189,794	189,794	(168)
1,131,508	(670)	(51,064)	157,504	1,237,278	(168)
1,367,571	(670)	87,062	(1,734,208)	13,209,899	29,888

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(US Dollars in thousands)</i>	December 31, 2020	December 31, 2019
Net income (loss) from operating activities before tax	(2,008,011)	258,492
Net amortization expense (a)	275,240	286,945
Change in goodwill impairment and other intangible assets impairment	—	1,184
Net change in deferred acquisition costs and equivalent	(47,247)	(173,032)
Net increase/(write back) in impairment on investments, tangible and other intangible assets	69,696	16,586
Change in fair value of investments at fair value through profit or loss	236,509	206,377
Net change in liabilities arising from insurance contracts	3,170,081	961,015
Net increase/(write back) in other provisions	67,685	51,779
Income (net of impairment) from investment accounted for using the equity method	(511)	(7,594)
Adjustment of non cash balances included in the operating income before tax	3,771,453	1,343,260
Net realized investment gains and losses	(125,830)	(194,124)
Financing debt expenses	66,621	57,559
Adjustment for reclassification to investing or financing activities	(59,209)	(136,565)
Dividends recorded in profit or loss during the period	(9,359)	(27,382)
Investment income & expense recorded in profit or loss during the period	(1,203,980)	(1,021,956)
Adjustment of transactions from accrued to cash basis	(1,213,339)	(1,049,338)
Net cash impact of deposit accounting	(106,871)	35,751
Dividends and interim dividends collected	9,944	29,524
Investment income	1,249,258	1,084,948
Investment expense (excluding interests on financing and undated subordinated debts, margin calls and others)	(62,973)	(65,605)
Change in operating receivables and payables	(414,804)	(1,059,300)
Net cash provided by other assets and liabilities	(325,631)	(239,616)
Tax expenses paid	(21,283)	(150,754)
Other operating cash impact and non cash adjustment	21,971	(1,755)
Net cash impact of transactions with cash impact not included in the operating income before tax	349,611	(366,807)
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	840,505	49,042
Purchase of subsidiaries and affiliated companies, net of cash acquired (b)	—	665,439
Disposal of subsidiaries and affiliated companies, net of cash ceded	—	8,075
Net cash related to changes in scope of consolidation	—	673,514
Sales of debt instruments	9,500,613	11,545,939
Sales of equity instruments and non-consolidated investment funds (c)	1,224,908	1,137,354
Sales of investment properties held directly or not	(179)	—
Sales and/or repayment of loans and other assets	(14,963)	4,669
Net cash related to sales and repayments of investments (c)	10,710,379	12,687,962
Purchases of debt instruments	(10,027,465)	(12,481,034)
Purchases of equity instruments and non-consolidated investment funds	(555,824)	(1,040,765)
Purchases of investment properties held direct or not	(256,511)	(8,761)
Purchases and/or issues of loans and other assets	(65,283)	(70,865)

<i>(US Dollars in thousands)</i>	December 31, 2020	December 31, 2019
Net cash related to purchases and issuance of investments	(10,905,083)	(13,601,425)
Sales of tangible and intangible assets	—	147
Purchases of tangible and intangible assets	(43,055)	(73,931)
Net cash related to sales and purchases of tangible and intangible assets	(43,055)	(73,784)
Increase in collateral payable/Decrease in collateral receivable	465,683	155,120
Decrease in collateral payable/Increase in collateral receivable	(485,014)	(126,496)
Net cash impact of assets lending/borrowing collateral receivables and payables	(19,331)	28,624
NET CASH PROVIDED/(USED) BY INVESTING ACTIVITIES	(257,090)	(285,109)
Issuance of equity instruments	1,000,000	927,402
Repayments of equity instruments	—	(60,000)
Dividends payout	(10,837)	(38,858)
Interests on undated subordinated debts paid	—	(168)
Acquisition/sale of interests in subsidiaries without change in control	4,608	(546,216)
Net cash related to transactions with shareholder	993,771	282,160
Cash provided by financial debts issuance	1,447	107,153
Cash used for financial debts repayments	(75,969)	—
Interests on financing debt paid	(37,357)	(26,405)
Net cash related to financing	(111,879)	80,748
NET CASH PROVIDED/(USED) BY FINANCING ACTIVITIES	881,892	362,908
CASH AND CASH EQUIVALENT AS OF JANUARY 1	3,500,507	3,314,698
Net cash provided by operating activities	840,505	49,042
Net cash provided by investing activities	(257,090)	(285,109)
Net cash provided by financing activities	881,892	362,908
Net impact of foreign exchange fluctuations and reclassification on cash and cash equivalents	260,366	58,968
CASH AND CASH EQUIVALENT AS OF DECEMBER 31	5,226,179	3,500,507

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

(b) Consists of acquisitions of entities under common control whereby cash acquired on purchase exceeded cash consideration paid (see Note 4.2).

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

Note 1 General Information

1.1 GENERAL INFORMATION

XL Bermuda Ltd (the “Company” or “XLB”) is an exempted company incorporated and domiciled in Bermuda and registered as a Class 4E insurer under the Insurance Act 1978. Its registered office is O’Hara House, One Bermudiana Road, Hamilton HM11 Bermuda.

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

The Company and its operating subsidiaries are a leading provider of Property & Casualty insurance and reinsurance coverages to industrial, commercial and professional firms, insurance companies and other enterprises on a worldwide basis. The Company and its various subsidiaries operate globally through the Company’s three business operations: Insurance, Reinsurance and Risk Consulting.

1.1.1 Insurance operations

The Company, through its insurance operations, offers a broad range of coverages, including property, primary and excess casualty, excess and surplus lines, environmental liability, professional liability, construction, marine, energy, aviation & satellite, fine art & specie, equine, livestock & aquaculture, accident & health and crisis management, among other risks.

1.1.2 Reinsurance operations

The Company, through its reinsurance operations, provides casualty, property risk, property catastrophe, specialty, and other reinsurance lines on a global basis with business being written on both a proportional and non-proportional treaty basis, as well as a facultative basis. Also included within reinsurance is the run-off life business, of which, most product lines are covered by 100% quota share retrocession (see Note 13.3).

1.1.3 Risk Consulting operations

In addition, the Company, through its risk consulting operations, offers both insurance and non-insurance clients customized risk management solutions and consulting services to understand and quantify the risks companies face or may face tomorrow, with the objective of avoiding preventable losses and mitigating the impact of losses which do occur.

/ Note 2 Significant Accounting Policies

2.1 BASIS OF PREPARATION

2.1.1 Statement of compliance

The consolidated financial statements of XLB have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and interpretations of the IFRS Interpretations Committee that have been endorsed by the European Union before the balance sheet date, and which have a compulsory adoption date of January 1, 2020 or earlier. The Company does not use the "carve out" option allowing not to apply all hedge accounting principles required by IAS 39.

The consolidated financial statements for XLB and its subsidiaries for the year ended December 31, 2020 were authorized for issue by the directors on April 27, 2021. The directors have the power to amend and reissue the financial statements.

2.1.2 Basis of accounting and going concern

The financial statements have been prepared on a going concern basis, based on the expectation that the Company will continue in operational existence for twelve months from the date of the financial statements. In making this assessment, the directors have considered the potential impact of COVID-19; for further details on COVID-19 refer to Note 5.7.

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

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

2.1.3 Functional and presentation currency

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

2.1.4 Use of estimates and judgments

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

- liabilities arising from insurance contracts and reinsurers' share in insurance contracts;
- valuation and impairment of investments;
- income taxes;
- reinsurance premium estimates; and
- carrying value of goodwill and intangible assets (in particular impairment tests described in Note 2.6).

In 2020, the environment in which the Company operates was deeply affected by the COVID-19 pandemic. In this context, the valuation of the ultimate cost of insurance and reinsurance claims liabilities triggered by the pandemic necessitated a high degree of judgment. These pandemic-related liabilities reflect management's best estimate of both the direct consequences of the pandemic and governmental measures implemented in response to the crisis.

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

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

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

2.2 IFRS STANDARDS AND AMENDMENTS

2.2.1 IFRS requirements adopted on January 1, 2020

The amendments below were applied on January 1, 2020, but had no material impact on the Company's consolidated financial statements.

Amendments	Publication date	Topic
Amendments to references to the Conceptual Framework in IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32	March 29, 2018	The amendments update some of the references to, and quotations from, the Conceptual Framework for Financial Reporting, so that they refer to the Conceptual Framework as revised in 2018. They also clarify which version of the Conceptual Framework is referred to in particular documents.
IFRS 3 Business Combination - Definition of Business	October 22, 2018	The amendments: <ul style="list-style-type: none"> confirm that a business must include inputs and a process; narrow the definitions of a business; and add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.
IAS 1 Presentation of financial statements & IAS 8 Accounting policy changes - Definition of "Material"	October 31, 2018	The amendments clarify the definition of "Material" and how it has to be applied, by adding in the definition the clarifications that were included so far in other IFRS standards.
IFRS 16 Leases - COVID-19 -Related Rent Concessions	June 1, 2020	The amendment permits lessees, as a practical expedient, not to assess whether particular COVID-19 related rent concessions are a lease modification and, instead, account for those rent concessions as if they were not lease modifications.

2.2.2 Standards and amendments published but not yet effective

2.2.2.1 IFRS 17 – Insurance contracts

IFRS 17 – Insurance contracts, published on May 18, 2017 and amended on June 25, 2020, establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 – Insurance contracts. The new standard applies to insurance contracts issued and to all reinsurance contracts.

The amendments issued on June 25, 2020 also include a two-year deferral to January 1, 2023 of the effective date of IFRS 17.

The current standard on insurance contracts, IFRS 4, has been amended accordingly to allow insurers qualifying for deferral of IFRS 9 (see below) two additional years of deferral, and thus, extending to 2023 the temporary exemption for those insurers to apply IFRS 9. This means that qualifying insurers can apply both standards for the first time to reporting periods beginning on or after January 1, 2023.

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

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

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

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

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

In addition, a simplified Premium Allocation Approach (PAA) is permitted for the measurement of the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. With the PAA, the liability for remaining coverage corresponds to premiums received at initial recognition less acquisition costs. However, the general model remains applicable for the measurement of incurred claims.

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

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

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

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

The standard has not yet been endorsed by the European Union. The implementation of IFRS 17 and assessment of its potential impact on XLB's consolidated financial statements is in progress.

XLB is evaluating the impact of adopting IFRS 17 on its financial statements which includes:

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

2.2.2.2 IFRS 9 – Financial instruments

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

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

The published effective date of IFRS 9 was January 1, 2018. However, XLB satisfies the criteria set out in IFRS 4 for the temporary exemption from applying IFRS 9, which as mentioned above, has been extended to annual periods beginning on or after January 1, 2023, in order to enable qualifying insurers to adopt IFRS 9 and IFRS 17 simultaneously. The additional disclosures related to financial assets which are required during the deferral period are given in Note 9.11.

At December 31, 2015 (the date specified by IFRS 4 for determining eligibility to defer the new standard), the carrying value of XLB's liabilities connected with insurance comprised over 90% of the total liabilities. The activities of XLB remain predominantly connected with insurance.

Under the current requirements of IAS 39, most of XLB's investments are classified as available for sale, measured at fair value at each reporting date, reflecting its business model for managing and evaluating the investment portfolio. Adoption of IFRS 9 is not

expected to result in any changes to the measurement of the Company's investments, which continues to be at fair value through shareholder's equity.

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

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

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

2.2.2.3 Other IFRS amendments and interpretations

The following amendments and interpretations published but not yet effective are not expected to have a material impact on the Company's consolidated financial statements:

Amendments and interpretations	Publication date	Effective for annual periods beginning on or after	Topic
IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous contract – cost of fulfilling a contract	May 14, 2020	January 1, 2022 *	The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.
IFRS 3 Business Combinations: Updating a reference to the conceptual Framework	May 14, 2020	January 1, 2022 *	The amendments update IFRS 3 by replacing a reference to an old version of the Board's Conceptual Framework for Financial Reporting with a reference to the latest version, which was issued in March 2018. They also introduce an exception from the requirement in IFRS 3 to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 Provisions, Contingent Liabilities and Contingent Assets.
Annual Improvements 2018-2020 Cycle	May 14, 2020	January 1, 2022 *	Collection of amendments to IFRS in response to issues that are not part of a major project, including the amendment to IFRS 9 related to the fees included in the '10 percent' test for derecognition of financial liabilities (see IFRS 9 above).
Amendments to IAS 39, IFRS 9, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2	August 28, 2020	January 1, 2021	The amendments provide a practical expedient for the situations where changes are made to contractual cash flows of financial assets and liabilities or leases, as a result of the transition from an IBOR benchmark rate to alternative benchmark rates, in the context of the ongoing risk-free rate reform. This practical expedient enables entities not to derecognize or adjust the carrying amounts of those assets and liabilities that are subject to a change with recognition of a corresponding modification gain or loss in profit or loss.

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

2.3 CONSOLIDATION

2.3.1 Scope and basis of consolidation

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

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

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

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

2.3.2 Business combinations and subsequent changes in the Company ownership interest

In accordance with the option made available by IFRS 1, XLB - as a first-time adopter - has elected not to apply IFRS 3 retrospectively to past business combinations prior to January 1, 2018 (business combinations that occurred before the date of transition to IFRS). The Company had no significant acquisitions during 2020. During 2019, the Company had several common control acquisitions discussed in Note 4.2.

2.3.3 Business combinations of entities under common control

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

2.3.4 Purchase and sale of minority interests in a controlled subsidiary

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

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

2.3.5 Intra-group transactions

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

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

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

In the event of an internal sale of an asset that is not intended to be held on the long term by the Company, deferred tax is recognized as the current tax calculated on the realized gain or loss and is eliminated.

2.4 FOREIGN CURRENCY TRANSLATION

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

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

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

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

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

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

Foreign exchange differences arising from the translation of a net investment in a foreign subsidiary, borrowings and other currency instruments qualifying for hedge accounting of such investment are recorded in shareholder's equity under translation differences and are recycled in the income statement as part of the realized gain or loss on disposal of the hedged net investment (see Note 16.2.3).

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

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

2.5 FAIR VALUE MEASUREMENT

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

2.5.1 Active market: quoted price

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

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

2.5.2 Active versus inactive markets – financial instruments

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

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

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

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

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

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

2.5.3 Assets and liabilities not quoted in an active market

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

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

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

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

- No active market: use of external pricing services.

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

- No active market: use of valuation techniques.

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

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

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

underlyings (index, credit spread, etc.) whenever such directly observable data are available and valuations are adjusted for liquidity and credit risk.

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

- Use of valuation techniques in dislocated markets.

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

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

2.6 INTANGIBLE ASSETS

2.6.1 Goodwill and impairment of goodwill

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

Goodwill on acquisitions prior to January 1, 2018 (date of transition to IFRS) is carried at its deemed cost, which represents the amount recorded under previous US GAAP principles.

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

2.6.1.1 Impairment testing

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

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

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

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

2.6.2 Deferred Acquisition Costs (DAC)

Acquisition costs, which vary with and are directly related to the acquisition of policies, consist primarily of commissions paid to brokers and cedants. These costs are deferred by recognizing a DAC asset which is amortized over the period during which the premiums are earned. DAC is also tested through the liability adequacy test (see Note 2.12.3).

2.6.3 Other intangible assets

The Company's indefinite-lived intangible assets consist primarily of Lloyd's syndicate capacity, and acquired insurance and reinsurance licenses. These assets are deemed to have indefinite useful lives and are therefore not subject to amortization. In accordance with IFRS, the Company tests non-amortized intangible assets for potential impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. If the carrying value of a non-amortized intangible asset is in excess of its fair value, the asset must be written down to its fair value through the recognition of an impairment charge to earnings.

All of the Company's definite-lived (amortizable) intangible assets such as agency relationships, distribution networks, trade names and internally-developed computer software are carried at net book value, and are amortized on a straight-line basis over the assets' estimated useful lives. The amortization periods approximate the period over which the Company expects to generate future net cash inflows from the use of each of the assets. All of these assets are subject to impairment testing in accordance with authoritative guidance for the impairment or disposal of long-lived assets when events or conditions indicate that the carrying value of an asset may not be fully recoverable from future cash flows. See Note 8 for further information.

2.7 INVESTMENTS

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

2.7.1 Investment in real estate properties

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

In case of unrealized loss over 15%, an impairment is recognized for the difference between the net book value of the investment property and the fair value of the asset based on an independent valuation. Furthermore, if the accumulated amount of unrealized losses under 15% (without offsetting with unrealized gains) represents more than 10% of the accumulated net cost of real estate assets, additional impairment is booked on a line-by-line approach until the 10% threshold is reached.

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

2.7.2 Financial instruments recognition

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

2.7.3 Financial instruments classification

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

- assets held to maturity, accounted for at amortized cost;
- assets held for trading and assets designated at fair value with changes in fair value recognized through profit or loss;
- available for sale assets accounted for at fair value with changes in fair value recognized through shareholder's equity;

- loans and receivables (including some debt instruments not quoted in an active market) accounted for at amortized cost.

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

- financial investments when electing the fair value option allows the Company to solve accounting mismatch, and in particular:
 - assets included in hedging strategies set out by the Company for economic reasons but not eligible for hedge accounting as defined by IAS 39;
 - debt held by structured bond (primarily Collateralized Debt Obligations) funds controlled and consolidated by the Company;
 - investments held supporting run-off life reinsurance operations whereby the investment results of these assets - including interest income, unrealized gains and losses, and gains and losses from sales - are transferred from the Company to a third party pursuant to a contractual arrangement (see Note 13.3).
- portfolios of managed financial investments whose profitability is valued on a fair value basis - mainly securities held by consolidated investment funds, managed according to the Company Risk Management policy ("Satellite Investment Portfolio", see definition below).

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

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

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

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

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

Assets designated as available for sale, trading assets, investments designated at fair value through profit or loss and all derivatives are measured at fair value, i.e. the amount for which an asset could be exchanged, between knowledgeable, willing parties in an arm's length transaction. The Company applies the IFRS 13 fair value hierarchy (see Note 9.10).

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

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

2.7.4 Impairment of financial instruments

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

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

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

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

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

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

2.7.5 Repurchase agreements and securities lending

The Company is party to repurchase agreements and securities lending transactions under which financial assets are sold to a counterparty, subject to a simultaneous agreement to repurchase these financial assets at a certain later date, at an agreed price. While substantially all of the risks and rewards of the financial assets remain with the Company over the entire lifetime of the transaction, the Company does not derecognize the financial assets. The proceeds of the sale are reported separately. Interest expense from repurchase and security lending transactions is accrued over the duration of the agreements.

Additionally, the Company is party to total return swaps under which financial assets are sold to a counterparty with a corresponding agreement. Cash flows equal to those of the underlying assets will be remitted to the Company in exchange for specified payments taking into account any increase or decline in the fair value of the assets. This results in substantially all of the risks and rewards of the financial assets remaining with the Company. As such, the Company does not derecognize the financial assets.

The Company is also party to reverse repurchase agreements under which financial assets are purchased from a counterparty, subject to a simultaneous agreement to return these financial assets at a certain later date, at an agreed price. If substantially all of the risks and rewards of the securities remain with the counterparty over the entire lifetime of the agreement of the transaction, the securities concerned are not recognized as financial assets of the Company. The amounts of cash disbursed are recorded under financial investments. Interest income on reverse repurchase agreements is accrued over the duration of the agreements (see Note 9.7).

2.8 DERIVATIVE INSTRUMENTS

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

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

2.8.1 Fair value hedge

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

2.8.2 Cash flow hedge

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedge is recognized in shareholder's equity. The gain or loss relating to any ineffective portion is recognized in the income statement. Cumulative gain or loss in shareholder's equity is recycled in the income statement when the hedged underlying item impacts the profit or loss for the period (for example when the hedged future transaction is recognized). When a hedging instrument reaches its maturity date or is sold, or when a hedge no longer qualifies for hedge accounting, the cumulative gains or losses in shareholder's equity are held until the initially hedged future transaction ultimately impacts the income statement.

2.8.3 Net investment hedge

The accounting of net investments in foreign operations hedge is similar to the accounting of cash flow hedge. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in shareholder's equity; the gain or loss relating to the ineffective portion is recognized in the income statement. Cumulative gains and losses in shareholder's equity impact the income statement only on disposal of the foreign operations.

2.8.4 Derivatives not qualifying for hedge accounting

Changes in the fair value of all other derivative instruments that do not qualify for hedge accounting are recognized in the income statement. Given IAS 39 constraints, only in certain situations are derivatives eligible to hedge accounting provisions as described above. While many derivatives used by the Company are purchased with a view to hedge, often such instruments as utilized as an alternative to gain exposure to certain asset classes through "synthetic positions" (see Note 16.2).

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.

The purpose and condition of the use of derivatives within the Company are detailed in Note 16.

2.9 NON-CURRENT ASSETS HELD FOR SALE

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

2.10 CASH AND CASH EQUIVALENTS

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

2.11 SHARE CAPITAL AND SHAREHOLDER'S EQUITY

2.11.1 Share capital

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

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

2.11.2 Compound financial instruments

Any financial instrument issued by the Company with an equity component (for example certain options granted to convert the debt instrument into an equity instrument of the Company) and a liability component (a contractual obligation to deliver cash) is classified separately on the liability side of the balance sheet with the equity component reported in Company shareholder's equity (in the "other reserves" aggregate). Gains and losses relating to redemptions or refinancing of the equity component are recognized as changes to shareholder's equity.

2.11.3 Minority interests

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

2.12 INSURANCE CONTRACTS

2.12.1 Classification

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

2.12.2 Liabilities arising from insurance contracts

Liabilities arising from insurance contracts include reserves for reported unpaid losses and loss expenses and for losses incurred but not reported. The reserve for reported unpaid losses and loss expenses for the Company's property and casualty ("P&C") operations is established by management based on claims reported from insureds or amounts reported from ceding companies, and represent the estimated ultimate cost of events or conditions that have been reported to or specifically identified by the Company.

The reserve for losses incurred but not reported is estimated by management based on loss development patterns determined by reference to the Company's underwriting practices, the policy form, type of program and historical experience. The Company's actuaries employ a variety of generally accepted methodologies to determine estimated ultimate loss reserves, including the "Bornhuetter-Ferguson incurred loss method" and frequency and severity approaches.

Certain workers' compensation and certain U.K. and French bodily injury liabilities are considered fixed and determinable and are discounted.

Management believes that the reserves for unpaid losses and loss expenses are sufficient to cover losses that fall within coverages assumed by the Company. However, there can be no assurance that losses will not exceed the Company's total reserves. The methodology of estimating loss reserves is periodically reviewed to ensure that the assumptions made continue to be appropriate and any adjustments resulting from such reviews are reflected in income in the year in which the adjustments are made.

The Company estimates the present value of Liabilities arising from insurance contracts related to long duration (Life) contracts using assumptions for investment yields, mortality, and expenses, including a provision for adverse deviation.

The assumptions used to determine Life Liabilities arising from insurance contracts are best estimate assumptions that are determined at the inception of the contracts and are locked-in throughout the life of the contract unless a premium deficiency develops. As the experience on the contracts emerges, the assumptions are reviewed. If such review would produce reserves in excess of those currently held, then the locked-in assumptions will be revised and a claim and policy benefit is recognized at that time. The Company includes the cost of reinsurance in its premium deficiency considerations.

Certain life insurance and annuity contracts provide the holder with a guarantee that the benefit received upon death will be no less than a minimum prescribed amount. For these contracts, the best estimate of future experience is combined with actual experience to determine the benefit ratio used to calculate the policy benefit reserve.

2.12.3 Liability adequacy test

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

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

2.13 REINSURANCE

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

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

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

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

Payables arising from direct insurance, inward reinsurance and direct outward reinsurance operations are measured at amortized cost.

2.14 OTHER LIABILITIES

2.14.1 Deposit liabilities

Contracts entered into by the Company that are not deemed to transfer significant underwriting risk and/or timing risk are accounted for as deposits, whereby liabilities are initially recorded at an amount equal to the assets received. 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 (Note 20).

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.

2.14.2 Income taxes

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

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

shares following the acquisition). The same approach applies to dividend payments that have been voted or deemed likely, to the extent that a tax on dividends will be due.

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

2.15 PROVISIONS, CHARGES AND CONTINGENCIES

2.15.1 Restructuring costs

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

2.15.2 Other provisions and contingencies

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

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

2.16 REVENUE

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

Other revenue is recognized when, or as, the control of the goods or services are transferred to a customer, i.e. performance obligations are fulfilled at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. See Note 17 for further details.

2.16.1 Gross written premiums

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

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

Life and annuity premiums from long duration contracts that transfer significant mortality or morbidity risks are recognized as revenue and earned when due from policyholders. Life and annuity premiums from long duration contracts that do not subject the Company to risks arising from policyholder mortality or morbidity are accounted for as investment contracts and presented within deposit liabilities.

2.16.2 Deposit accounting

Contracts entered into by the Company that are not deemed to transfer significant underwriting risk and/or timing risk are accounted for as deposits (see Note 2.14.1).

2.16.3 Net investment result excluding financing expenses

The net investment result includes:

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

2.17 SUBSEQUENT EVENTS

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

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

See Note 24 for further details.

Note 3 Scope Of Consolidation

3.1 CONSOLIDATED COMPANIES

3.1.1 Main fully consolidated companies

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

XLB Entities	Jurisdiction
AXA Corporate Solutions Seguros SA	Brazil
Catlin Australia Pty Limited	Australia
Catlin Insurance Company, Inc.	US (Texas)
Catlin Re Switzerland Ltd/Catlin Re Schweiz AG	Switzerland
Catlin Syndicate Limited	UK
Catlin US Investment Holdings LLC	US (Delaware)
Coliseum Reinsurance Company	US (Delaware)
Greenwich Insurance Company	US (Delaware)
Indian Harbor Insurance Company	US (Delaware)
Seaview Re Ltd	Bermuda
T.H.E. Insurance Company	US - Louisiana
XL Catlin Insurance Company UK Limited	UK
XL Catlin Services SE	Ireland
XL Group Investments Ltd	Bermuda
XL Innovate Fund, LP	US (Delaware)
XL Insurance America, Inc.	US (Delaware)
XL Insurance Company SE	Ireland
XL Insurance Switzerland Ltd	Switzerland
XL Investments Ltd	Bermuda
XL Life Ltd	Bermuda
XL Re Europe SE	Ireland
XL Reinsurance America Inc.	US (New York)
XL Services (Bermuda) Ltd	Bermuda
XL Specialty Insurance Company	US (Delaware)

Consolidated investment funds

As of December 31, 2020, consolidated investment funds represented a total of \$445.8 million invested assets (\$512.9 million at the end of 2019), mainly in France, Luxembourg and the United States.

3.1.2 Main investments in companies accounted for using the equity method

Companies accounted for using the equity method are discussed in Note 10 with the exception of equity-method investment funds. As of December 31, 2020, investment funds accounted for using the equity method amounted to \$1,025.3 million invested assets (\$1,105.9 million at the end of 2019), mainly in Ireland and the United States. See Note 2.7.3 for further details.

3.2 NON-CONSOLIDATED STRUCTURED ENTITIES

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

The Company does not hold significant interests in non-consolidated insurance/reinsurance structured entities.

Furthermore, given its insurance business, the Company holds direct investments in corporates of various sectors, such as debt instruments, equity securities and loans. These investments are not designed to be held in structured entities and the whole Company's exposure is reflected on the consolidated balance sheet.

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

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

The Company's asset manager companies also receive fees for the services they provide when they manage investment funds. Some non-consolidated funds managed by the Company are partially or fully held by external investors.

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

- Note 9 Investments, with the breakdown of investments and detail on non-consolidated investment funds in Note 9.8.
- Note 18 Net Investment Result Excluding Financing Expenses.

Note 4 Acquisitions

4.1 ACQUISITION BY AXA

On September 12, 2018, XL Group Ltd (“XL”) completed its previously announced merger with Camelot Holdings Ltd. (“Merger Sub”), a wholly owned subsidiary of AXA. Pursuant to the Agreement and Plan of Merger, dated as of March 5, 2018, by and among XL, Merger Sub and AXA (the “Merger Agreement”), and the statutory merger agreement required in accordance with Section 105 of the Bermuda Companies Act 1981, as amended (the “Companies Act”), by and among XL, Merger Sub and AXA, dated as of September 12, 2018, Merger Sub merged with and into XL in accordance with the Companies Act (the “Merger”), with XL continuing as the surviving corporation and as a direct wholly-owned subsidiary of AXA. Pursuant to the Merger Agreement, each issued and outstanding common share, par value \$0.01 per common share, of XL (each, a “Company Share”) (other than any Company Shares that were owned (i) by XL as treasury shares, (ii) by wholly owned subsidiaries of XL or (iii) by AXA, Merger Sub or by wholly owned subsidiaries of AXA (with certain exceptions)), including each outstanding restricted Company Share (unless otherwise agreed between AXA and the holder of the award), were automatically canceled and converted into the right to receive \$57.60 in cash, without interest and subject to any applicable tax withholdings. The completion of the transaction followed the fulfillment of customary closing conditions, including approval by XL’s shareholder and obtainment of all necessary regulatory approvals.

4.1.1 Transaction

The Company incurred certain costs related to the negotiation, preparation, execution and implementation of the AXA Merger. XL has recorded \$212.4 million of these costs for the year ended December 31, 2018 (year of the merger), of which \$77.8 million pertained to the Company.

As part of the ongoing integration into AXA's operations, the Company incurs costs associated with restructuring the systems, processes and workforce. These costs include such items as severance, retention, facilities and other costs. The Company separately identifies such costs as noted below:

<i>(US Dollars in thousands)</i>	Compensation Expenses	Other Expenses	Total
Liabilities at December 31, 2018	21,796	6,843	28,639
Costs incurred in 2019	126,730	184,198	310,928
2019 payments	73,712	106,282	179,994
Liabilities at December 31, 2019	74,814	84,759	159,573
Costs incurred in 2020	67,197	120,543	187,740
2020 payments	71,788	145,706	217,494
Liabilities at December 31, 2020	70,223	59,596	129,819

4.2 COMMON CONTROL ACQUISITIONS

During the year ended December 31, 2020, the Company did not enter into any common control acquisition transactions. During the year ended December 31, 2019, as a result of the acquisition of XL by AXA, the Company and its subsidiaries performed several internal reorganizations of legal entities as part of the subsequent establishment of the AXA XL division within AXA. These transactions were considered common control mergers and acquisitions.

4.2.1 Accounting method

The below acquisition transactions are classified as common control transactions, as the combining entities are ultimately controlled by the same party (or parties) both before and after the combination. As explained in Note 2.3.3, common control combinations are outside the scope of IFRS 3 and XLB has accordingly applied the predecessor value method to account for these business combinations. As applied by XLB, any difference between the consideration given and the aggregate carrying value of the assets and liabilities and certain components of shareholder's equity (retained earnings and reserves related to changes in fair value of available for sale financial instruments and other reserves) of the acquired entity, at the date of the transaction, was recorded in equity in retained earnings.

4.2.2 Acquisition of AXA Corporate Solutions Assurance

On September 26, 2019, an underlying subsidiary of the Company, XL Insurance Company SE (“XLICSE”) entered into a share purchase agreement to purchase 1.25% of AXA Corporate Solutions Assurance (“ACS”) from AXA Assurance IARD Mutuelle (“AXA Mutuelle”), a company ultimately controlled by the same parent company, AXA, at an agreed purchase price of €16.3 million.

On September 26, 2019, XL and AXA executed a contribution agreement whereby XL agreed to issue shares to AXA of equal value to the contribution shares in exchange for the transfer of the contribution shares to it by AXA. Prior to the effective date AXA held shares in ACS of 98.75% of its total share capital with a carrying value of €270.3 million. XL agreed to issue 10 common shares to AXA in exchange for their 98.75% shareholding in ACS. This contribution in kind was approved by the XL Board on August 8, 2019.

Effective October 1, 2019, these ACS shares were contributed to XLICSE through XL’s subsidiary companies. As a result, XLB received a capital contribution from its parent company, EXEL Holdings Limited, representing 98.75% of the shares of ACS.

Effective December 31, 2019, XLICSE executed a cross border merger to incorporate the assets and liabilities of ACS. The result was XLICSE, and therefore XLB, assumed the assets and liabilities of ACS on December 31, 2019. Effective December 31, 2019 the Company provided a capital commitment deed to XLICSE to provide €500.0 million (\$611.8 million) of capital should it be needed (see Note 22.3.2).

The table below provides the details of the net carrying value of net assets acquired net of reserves and translation reserves assumed of \$295.2 million. Reserves and translation reserves were comprised mainly of retained earnings and other comprehensive income relating to unrealized gains on investments. A total of \$295.2 million assumed share consideration equal to the share capital of ACS, was provided by XL on acquisition, represented by an equivalent capital contribution from EXEL Holdings Limited and resulting in a net adjustment to equity of \$nil.

(US Dollars in thousands)

Intangible assets	60,524
Investments	5,473,000
Reinsurers’ share in insurance contracts liabilities	2,272,904
Other assets	147,327
Receivables	2,580,504
Cash and cash equivalents	420,550
Total carrying value of assets acquired	10,954,809
Liabilities arising from insurance contracts	6,976,218
Provisions for risks and charges	39,626
Deferred tax liabilities	265,915
Payables	2,184,734
Total carrying value of liabilities assumed	9,466,493
Carrying value of net assets acquired	1,488,316
Less: reserves and translation reserves assumed	1,193,125
Carrying value of net asset acquired net of reserves and translation reserves assumed	295,191
Total consideration	295,191
Adjustment to equity on acquisition	—

4.2.3 Acquisition of AXA ART Versicherung AG

On December 31, 2019, XLICSE completed a Cross-Border Merger with AXA Art Versicherung AG (“AXA Art”), a company whose ultimate parent is AXA, pursuant to the Terms of Merger dated August 27, 2019 as approved by the order of the Irish High Court dated December 17, 2019. Pursuant to the Terms of Merger, as consideration for the merger XLICSE issued shares to AXA Konzern AG, a company ultimately controlled by the same parent company, AXA, equal to the fair market value of the entire issued share capital of AXA Art, being 55,812,589 ordinary shares.

Immediately after the Merger, and pursuant to the Agreement for the Sale and Purchase of a Minority Shareholding in XLICSE dated December 18, 2019, AXA Konzern AG agreed to sell the Shares in XLICSE to XL Insurance (UK) Holdings Limited (“XLUK”), the parent company of XLICSE, for the cash consideration of €330.4 million, ensuring that XLUK remained the sole parent of XLICSE. The result was XLICSE, and therefore XLB, assumed the assets and liabilities of AXA Art on December 31, 2019. The cash consideration was funded by AXA through a capital contribution to XL downstreamed to XLUK.

The table below provides the details of the net carrying value of net assets acquired net of reserves and translation reserves assumed of \$37.7 million. Reserves and translation reserves were comprised mainly of retained earnings and other comprehensive income relating to unrealized gains on investments. A total of \$369.9 million cash consideration was provided, subsequent to December 31, 2019, by XLUK on acquisition, representing a capital contribution from EXEL Holdings Limited and resulting in a net adjustment to equity of \$(332.2) million.

(US Dollars in thousands)

Intangible assets	11,654
Investments	183,896
Reinsurers' share in insurance contracts liabilities	10,849
Other assets	4,044
Receivables	202,150
Cash and cash equivalents	69,346
Total carrying value of assets acquired	481,939
Liabilities arising from insurance contracts	215,143
Provisions for risks and charges	5,105
Deferred tax liabilities	1,597
Payables	130,757
Total carrying value of liabilities assumed	352,602
Carrying value of net assets acquired	129,337
Less: reserves and translation reserves assumed	91,625
Carrying value of net asset acquired net of reserves and translation reserves assumed	37,712
Total consideration	369,949
Adjustment to equity on acquisition	(332,237)

4.2.4 Acquisition of AXA US Holdings Inc

On December 31, 2019, XL and AXA executed a contribution agreement, as amended by the First Amendment to Contribution Agreement dated February 27, 2020 (collectively the "Contribution Agreement"), whereby XL agreed to issue shares to AXA of equal value to the contribution shares in exchange for the transfer of the contribution shares to it by AXA. Prior to the effective date AXA held shares in AXA US Holdings Inc. ("US Holdings") of 100% of its total share capital with a carrying value of \$260.4 million. XL agreed to issue 1.65 common shares to AXA in exchange for their 100% shareholding in US Holdings.

Effective December 31, 2019, the US Holdings' shares were contributed downstream to XL Reinsurance America Inc. ("XLRA"), an indirect subsidiary of the Company, through XL's subsidiary companies. As a result, XLB received a capital contribution from its parent company, EXEL Holdings Limited, representing 100% of the shares of US Holdings.

The table below provides the details of the net carrying value of net assets acquired net of reserves and translation reserves assumed of \$260.4 million. Reserves and translation reserves were comprised mainly of retained earnings and other comprehensive income relating to unrealized gains on investments. A total of \$260.4 million assumed share consideration equal to the share capital of US Holdings, was provided by XL on acquisition, represented by an equivalent capital contribution from EXEL Holdings Limited and resulting in a net adjustment to equity of \$nil.

(US Dollars in thousands)

Investments	217,105
Reinsurers' share in insurance contracts liabilities	69,462
Other assets	30,494
Receivables	44,480
Cash and cash equivalents	118,394
Total carrying value of assets acquired	479,935
Liabilities arising from insurance contracts	123,556
Provisions for risks and charges	521
Deferred tax liabilities	1,825
Payables	114,379
Total carrying value of liabilities assumed	240,281
Carrying value of net assets acquired	239,654
Less: reserves and translation reserves assumed	(20,746)
Carrying value of net asset acquired net of reserves and translation reserves assumed	260,400
Total consideration	260,400
Adjustment to equity on acquisition	—

4.2.5 Acquisition of other common control entities

Effective February 1, 2019, XL Catlin Services SE ("XLCSE"), an indirect subsidiary of the Company, entered into business transfer agreements with the European businesses of ACS, AXA Art Europe, AXA Art and AXA Matrix Risk Consultants SA ("Matrix") to transfer its employees and non-insurance administration services to XLCSE. As a result, the European workforces and related assets and liabilities were transferred to the Company on February 1, 2019. As part of this transaction, XLCSE acquired assets of \$37 million and assumed liabilities of \$68 million with a net adjustment to equity on acquisition of \$(31) million, included in the table below.

During the year, XLICSE entered into three business transfer agreements with ACS's Asia branches Australia, Hong Kong and Singapore ("ACS Asia Pac"). Following completion, each of the ACS Asia Pac branches became fully-owned branches of XLICSE.

- Effective July 1, 2019, XLICSE through its Hong Kong branch ("XLICSE HK") received the branch business of the Hong Kong branch ("ACS HK") of ACS pursuant to a business transfer agreement dated April 3, 2019. As part of this, an instrument of transfer was then entered into to transfer all Hong Kong law-governed direct insurance and inward facultative reinsurance policies/contracts and approved by the Insurance Authority of Hong Kong as a scheme transfer pursuant to Section 25D of the Insurance Ordinance (Chapter 41 of the Laws of Hong Kong). The remainder of the assets and liabilities of ACS HK, including all outward facultative reinsurance, transferred through the business transfer agreement to XLICSE HK. It was agreed that the consideration price would be HK\$268 million.
- Effective August 1, 2019, XLICSE through its Singapore Branch ("XLICSE SG") received the branch business of the Singapore branch ("ACS SG") of ACS pursuant to a business transfer agreement dated July 22, 2019. In connection with the transfer, XLICSE SG and ACS SG obtained an order of the Singaporean Court on July 29, 2019 to transfer all ACS SG branch business including direct insurance, inward and outward facultative reinsurance policies/contracts, under the terms of a statutory transfer scheme document dated April 18, 2019. It was agreed that the consideration price would be S\$165 million.
- Effective September 1, 2019, XLICSE through its Australia Branch ("XLICSE AUS") entered into a Transfer Deed with the Australian branch ("ACSA") of ACS which transferred the insurance business carried out by ACSA, including all insurance contracts, insurance assets, insurance liabilities, business assets and business liabilities relating ACSA to the Australian branch of the Company. XLICSE AUS and ACSA obtained an order of the Australian Court to transfer all ACSA branch business as contemplated under the Transfer Deed. It was agreed that the consideration price would be AU\$85 million.

The total consideration given for the above three ACS Asia Pac transactions amounted to \$216 million with total acquired assets of \$568 million and assumed liabilities and reserves of \$389 million and a net adjustment to equity on acquisition of \$(37) million, included in the table below.

Effective September 26, 2019, XLUK acquired 99.9% of Matrix from ACS pursuant to a share purchase agreement dated September 26, 2019 for an agreed upon purchase price of \$8.5 million. As part of this transaction, XLUK acquired assets of \$68 million and assumed liabilities and reserves of \$65 million with a net adjustment to equity on acquisition of \$(5.5) million included in the table below.

The table below provides the details of the net carrying value of net assets acquired net of reserves and translation reserves assumed related to the above transactions of \$150.8 million. Reserves and translation reserves were comprised mainly of retained earnings and other comprehensive income relating to unrealized gains on investments. A total of \$224.3 million total consideration was provided by the Company, through its subsidiaries, on these acquisitions, and resulting in a net adjustment to equity of \$(73.5) million.

(US Dollars in thousands)

Intangible assets	14,243
Investments	238,736
Reinsurers' share in insurance contracts liabilities	104,309
Other assets	14,371
Receivables	197,080
Cash and cash equivalents	104,411
Total carrying value of assets acquired	673,150
Liabilities arising from insurance contracts	315,949
Provisions for risks and charges	13,217
Payables	182,094
Total carrying value of liabilities assumed	511,260
Carrying value of net assets acquired	161,890
Less: reserves and translation reserves assumed	11,108
Carrying value of net asset acquired net of reserves and translation reserves assumed	150,782
Total consideration	224,304
Adjustment to equity on acquisition	(73,522)

Note 5 Financial And Insurance Risk Management

5.1 RISK MANAGEMENT AND INTERNAL ORGANIZATION

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

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

The aim of the RMF is to:

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

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

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

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

5.1.1 Risk Management second opinions

The AXA Standards require Risk Management to provide formal "Second Opinions" in certain key areas of risk to ensure that the viewpoint of Risk is formally documented within any related concerns and mitigation plans. The "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

5.1.2 Internal control framework

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

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

The implementation of the 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.

5.1.3 Risk Appetite Framework ("RAF")

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

5.1.4 Risk management strategy

The risk management strategy is overseen by the Board and supports the delivery of the overall business strategy. To support the Board, the RM function oversees 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 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.

5.1.5 Risk management and solvency self-assessment systems implementation

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

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

The processes for the CISSA and production of the CISSA Report are tailored to fit into the Company's 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.

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

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

The Company uses the BSCR to calculate the required CISSA capital to support its business plans 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.

5.1.7 Internal Financial Control ("IFC")

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

The IFC's core strategic objectives include:

- Conducting an effective and efficient assessment of the design and operating effectiveness of internal controls over financial reporting;
- 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 financial reporting processes; and
- Adding value by helping management promote a robust control environment.

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

The team is also responsible for monitoring remediation plans until closure and for making regular reporting on controls results to AXA Group, to 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 control objective and mitigate the related key risk.

5.1.8 Compliance function

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

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

5.1.9 Internal Audit function

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

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

5.2 MARKET RISK

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

Component	Definition
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.

For further details of the Company's investment portfolio which is subject to the risks above, see Note 9.

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 Company 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.

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

- **Authorities Framework / Risk Appetite Framework**

In conjunction with the SAA, a comprehensive framework of Investment 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 and liability profile and applies in parallel with the Divisional Risk Appetite Framework (which covers all risk types).

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

- **Service Level Agreement**

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

5.2.1 Foreign exchange risk

The Company's foreign 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.

Foreign currency exposures represent all net assets and liabilities held in currencies other than US dollars that generate foreign exchange volatility. The majority of our exposure relates to subsidiaries of the Company which are denominated in the currencies below with our foreign currency exposure reported as translation reserves in the consolidated statement of changes in equity. Currency derivative instruments are used to hedge significant foreign exchange mismatch between assets and liabilities in subsidiaries of the Company resulting in a significant reduction in sensitivity to movements in foreign exchange rates impacting shareholder's equity (see Note 16.2.3).

The table below outlines the Company's year-end net asset exposure by major currency.

<i>(Foreign currency in USD thousands)</i>	December 31, 2020	December 31, 2019
Canadian dollar	294,900	229,400
Australian dollar	(307,900)	(39,100)
British pound	612,100	314,000
Euro	(11,700)	658,400

5.2.2 Sensitivity analysis on investment portfolio

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

- Net Income Volatility stress tests
- 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;
- Realistic Disaster Scenarios ("RDS") aggregation; and
- Ad hoc review of enterprise risk scenarios.

As part of the Stress Testing process, we have developed scenarios based on the results and outcomes that manifested themselves in large historical market events. A series of recovery actions have been identified to recapitalize in the event that solvency moves below internal solvency targets.

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

The Company analyzes sensitivities to movements in interest rates and equity markets looking at sensitivities of Shareholder's Equity, as described below.

The sensitivities of the Shareholder's Equity to changes in major economic assumptions were calculated as follows for the 2020 values:

- **Upward shift of 100 basis points in reference rates** simulates an instantaneous shock to the initial conditions. This means changes to: 1) the current market values of fixed-interest assets, with related possible changes to projected capital gains/losses and/or fee revenues, 2) future reinvestment rates for all asset classes, and 3) discount rates. The change is applied to the reference interest rates. Inflation rates, the volatility on interest rates and the ultimate forward rates are not changed;
- **Downward shift of 100 basis points in reference rates** is the same as above but with a shift downward;
- **10% higher value of equity markets** simulates a shock to the initial conditions for equities only. Listed equities and private equity values including the impact of equity hedges are shocked. This means changes to current market values of all these equities excluding hedge funds, with related possible changes to projected capital gains/losses and/or fee revenues;
- **10% lower value of equity markets:** same methodology as mentioned above assuming a decrease.

(US Dollars in thousands)	December 31, 2020		December 31, 2019	
	Amount	As a Percentage	Amount	As a Percentage
Investment Portfolio Sensitivities				
Shareholder's Equity	13,238,052	100%	13,239,787	100%
Interest rates +100bps	(1,580,778)	(11.9)%	(1,421,976)	(10.7)%
Interest rates -100bps	1,742,447	13.2%	1,436,634	10.9%
Equity markets +10%	17,964	0.1%	138,735	1.0%
Equity markets -10%	(17,964)	(0.1)%	(136,849)	(1.0)%

Note: All sensitivities are presented net of tax.

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.

5.3 CREDIT RISK

Credit risk is defined as the risk of loss resulting from migration and default. AXA XL is exposed to five sources of credit risk: (i) underwriting businesses with 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 three 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 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 and 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.

5.3.1 Credit risk framework

AXA XL and the Company manage enterprise credit risk through a set of limits, including portfolio, obligor/issuer and country limits. Concentration to brokers and issuers of incoming letters of credit 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 three main rating agencies.
- Credit Default Swaps are used regularly to detect early signs of credit deteriorations and their potential impact on limits and risk deployment.

5.3.2 Investment portfolio

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

At December 31, 2020 and 2019, the breakdown of the debt security portfolio (\$40.2 billion and \$38.0 billion, respectively) by credit rating category was as follows:

Debt Security Rating	Percentage of Total	
	December 31, 2020	December 31, 2019
AAA	33 %	37 %
AA	16 %	17 %
A	27 %	26 %
BBB	21 %	16 %
BB and below / other	3 %	4 %
TOTAL	100 %	100 %

The Investment Authorities & Guidelines directly limit concentrated exposures to various asset classes as well as corporate industry sectors, regions (for municipal securities, emerging markets), total BBB exposure, and indirectly limit concentrations by controlling risk. These controls are implemented through detailed guidelines and compliance monitoring. The Company's investment portfolio's credit exposure is additionally monitored under the Fixed-Income Concentration risk limit. The base limit applies to an individual issuer and is based on a percentage of the total assets. The base limit varies depending on issuer rating, which is supplied by AXA Group Risk Management. The base limit is then modulated based on the seniority and maturity of the bond. Secured/short-dated bonds have a larger limit compared to junior/long-dated bonds.

5.3.3 Reinsurance recoverables

The Company manages its credit risk in its external reinsurance relationships by transacting with reinsurers that it considers financially sound, and if necessary, collateral in the form of funds, 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 and 2019:

Reinsurer Financial Strength Rating	2020 Percentage of Total	2019 Percentage of Total
AAA	0.7 %	0.3 %
AA	37.1 %	30.0 %
A	55.2 %	58.2 %
BBB	0.7 %	0.2 %
BB and below	0.6 %	2.4 %
Captives	5.8 %	8.9 %
TOTAL	100 %	100 %

5.3.4 Sensitivity analysis

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

5.4 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:

Process	Description
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 to the underlying insurance risk.
RM risk assessment process	Through the risk assessment processes, the Company quantifies existing risks and identifies new risks.
Development of RDS' and other scenarios	Used to monitor exposure to the defined scenarios and monitor compliance with underwriting risk tolerances and limits.
Independent underwriting reviews	Conducted on a risk-based approach by the Underwriting Governance team.

5.4.1 Mitigation strategies

5.4.1.1 Reinsurance purchase

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

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

5.4.1.2 Actuarial function

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

5.4.1.3 Rating adequacy

Underwriters are supported by dedicated teams of claims personnel and pricing actuaries. Premiums are set and adjusted based in large part on the industry group in which the 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.

5.4.1.4 Underwriting authorities and guidelines

All underwriters are assigned individual underwriting authorities with the objective of preserving the capital base and controlling earnings volatility. Authorities within the business units are delegated through the underwriting management structure, and the annual review of underwriting limits is part of the business planning process. Authorities are also set in line with 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.

5.4.1.5 New product process

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

5.5 LIQUIDITY RISK

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.

5.5.1 Mitigation strategy

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

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

Liquidity risk is managed through:

- ALM - Treasury conducts detailed ALM analysis to match the currency mix of its liabilities with appropriate assets. Investments manages the Duration Gap of assets and liabilities within a +/- 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. Operating cash balances, together with cash managed within the investment portfolio, comprise the primary sources of liquidity with the Company. The Company has several credit facilities received which are detailed in Note 22.1.

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

5.5.2 Stress testing

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

5.5.3 Maturity of liabilities

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

(US Dollars in thousands)	December 31, 2020				December 31, 2019			
	12 months or less	More than 1 year up to 5 years	More than 5 years	Total	12 months or less	More than 1 year up to 5 years	More than 5 years	Total
Gross claims reserves relating to P&C insurance contracts	16,127,620	22,047,965	9,932,627	48,108,212	14,047,957	18,115,500	8,624,490	40,787,947

In addition to the above, there are other liabilities totaling \$30,719.5 million as of December 31, 2020 (\$28,585.8 million as of December 31, 2019). Of this amount \$11,554.9 million (\$10,906.7 million as of December 31, 2019) pertains to unearned premium reserves which are expected to earn within 12 months. Additionally \$3,764.9 million (\$3,661.2 million as of December 31, 2019) is related to funds withheld on reinsurers' share in future policy benefit reserves and \$2,968.4 million (\$3,048.2 million as of December 31, 2019) is related to future policy benefit reserves, both of which would generally have a maturity of more than 5 years. Maturity details related to Other Debt Instruments of \$479.2 million (\$521.8 million as of December 31, 2019) are provided in Note

14.3. The majority of the remaining balance of \$11,952.0 million (\$10,448.0 million as of December 31, 2019) is expected to have a maturity date of less than 12 months.

5.6 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. Risk appetite statements, exposures and limits will be reviewed for approval by the Board in April 2021 to reflect 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 earnings. The limit is set based on the target earnings for the AXA XL Division.
- **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 would be held in excess of regulatory capital. The factors considered in setting the solvency target included the ability of the Company to withstand the largest of a 1 in 20 years financial event or insurance event without the need to call on AXA Group for support.
- **Liquidity** - This considers ability to pay claims resulting from a stress event.

The risk exposure limits cover investments, credit, property and casualty underwriting and operational 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.

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

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

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

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

5.7 COVID-19 OUTBREAK

5.7.1 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 2020. 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 2020 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.

5.7.2 Activity and earnings

The COVID-19 pandemic negatively impacted the Company's 2020 earnings due to reported losses of \$1,985.4 million, 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 where a significant part of the premiums paid by its clients within the 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 equities, 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.

Note 6 Goodwill

6.1 GOODWILL

<i>(US Dollars in thousands)</i>	2020	2019
BEGINNING OF YEAR, TOTAL	1,123,028	1,088,345
Additions	—	34,099
Disposals (a)	(14,084)	—
Foreign Currency Translation	6,455	584
END OF YEAR, TOTAL	1,115,399	1,123,028

(a) The 2020 disposal is related to the sale of a small business unit/subsidiary within insurance operations.

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

6.1.1 Methodology by unit

The recoverability of goodwill is assessed using the value in use approach, as described in Note 2.6.1.1. The fair value is then compared to the carrying amount to assess the goodwill recoverability.

6.1.2 Main assumptions

The value in use approach uses cash flow projections based on business plans approved by management covering up to five years and discounted using a risk adjusted rate. Cash flows beyond that period are extrapolated, using a sustainable perpetual growth rate assumed to be achievable over the long term to derive a terminal value.

The earnings included in the business plan are agreed with XLB management and defined considering best estimate of operating assumptions, including expenses and loss ratios, investment income, economic capital, premium rates and taxes, all compliant with the various standards and the requirements of supervisory authorities, when applicable.

The discount rate of 5.9% used for the valuation has been derived using assumptions for risk-free interest rates, equity risk premiums, insurance activity beta and leverage ratios that are consistent with the view of XLB's management for the specific markets in which the CGUs operate.

The results of the cash flow projections exceeded the carrying amounts of each CGU. To the extent that the valuation of securities and interest rate levels remain low for prolonged periods of time, or volatility and other market conditions stagnate or worsen, profitability is likely to be negatively affected. In addition, the future cash flow expectations from both existing and new business and other assumptions underlying management's current business plans could be negatively impacted by other risks to which XLB's business is subject. Thus, subsequent impairment tests may be based upon different assumptions and future cash flow projections, which may result in an impairment of these assets in the foreseeable future.

Note 7 **Deferred Acquisition Costs**

7.1 ROLLFORWARD OF DEFERRED ACQUISITION COSTS

Changes in Deferred Acquisition Costs:

<i>(US Dollars in thousands)</i>	2020	2019
Deferred Acquisition Costs carrying value as of January 1	1,895,278	1,676,659
Acquisition costs incurred in relation to insurance contracts written	3,125,519	3,078,919
Acquisition costs expensed to the income statement	(3,113,246)	(2,859,173)
Increase in DAC for the period relating to new entities	—	34,910
Currency translation and other changes	59,353	(36,037)
Deferred Acquisition Costs carrying value as of December 31	1,966,904	1,895,278

Note 8 Other Intangible Assets

8.1 OTHER INTANGIBLE ASSETS

Other intangible assets represented \$908.0 million net value as of December 31, 2020 (\$969.8 million as of December 31, 2019) and included:

(US Dollars in thousands)	Intangible assets recognized in business combinations and other business operations		Other intangible assets	Total
	Indefinite Life (a)	Definite Life	Definite Life	
Balances at December 31, 2018	513,894	256,699	213,606	984,199
Year 2019 Activity				
Opening net carrying value	513,894	256,699	213,606	984,199
Additions during the period	—	21,786	40,460	62,246
Amortization	—	(18,957)	(58,032)	(76,989)
Currency impact	343	—	—	343
Closing net carrying value	514,237	259,528	196,034	969,799
Balances at December 31, 2019				
Gross value	699,014	375,973	528,840	1,603,827
Accumulated amortization	—	(100,230)	(332,806)	(433,036)
Accumulated currency impact	(6,783)	(4,659)	—	(11,442)
Accumulated impairment	(177,994)	(11,556)	—	(189,550)
Net carrying value	514,237	259,528	196,034	969,799
Year 2020 Activity				
Opening net carrying value	514,237	259,528	196,034	969,799
Additions during the period	—	—	39,392	39,392
Disposal during the period	—	(3,750)	—	(3,750)
Amortization	—	(19,117)	(70,190)	(89,306)
Currency impact	6,987	3,177	2,324	12,488
Impairment	—	—	(20,604)	(20,604)
Closing net carrying value	521,225	239,838	146,956	908,019
Balances at December 31, 2020				
Gross value	699,014	372,223	568,232	1,639,469
Accumulated amortization	—	(119,347)	(402,996)	(522,342)
Accumulated currency impact	204	(1,482)	2,324	1,046
Accumulated impairment	(177,994)	(11,556)	(20,604)	(210,154)
Net carrying value	521,225	239,838	146,956	908,019

(a) Indefinite life intangible assets is comprised mostly of the Lloyd's Syndicate.

8.1.1 Indefinite-lived assets

The Company's indefinite-lived intangible assets consist primarily of Lloyd's syndicate capacity plus acquired insurance and reinsurance licenses. These assets are deemed to have indefinite useful lives because there is no foreseeable limit to the cash flows generated by these assets and they are therefore not subject to amortization. In accordance with IFRS, the Company tests non-amortized intangible assets for potential impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. If the carrying value of a non-amortized intangible asset is in excess of its fair value, the asset must be written down to its fair value through the recognition of an impairment charge to earnings.

8.1.2 Definite-lived and other intangible assets

The Company's definite-lived intangibles consist primarily of acquired agency relationships, distribution networks, and trade names, and internally-developed computer software. These assets are deemed to have defined useful lives and are amortized on a straight-line basis. The amortization periods approximate the time over which the Company expects to generate future net cash inflows from the use of these assets, and range from three to twenty years depending on the nature of the asset. In accordance with IFRS, these assets are subject to impairment testing when events or conditions indicate that the carrying value of an asset may not be fully recoverable from future cash flows. If the carrying value of a definite-lived intangible asset is in excess of its fair value, the asset must be written down to its fair value through the recognition of an impairment charge to earnings.

8.1.3 Impairment testing

The Company tests indefinite-lived intangible assets on an annual basis, more frequently whenever events or circumstances indicate that carrying values may not be recoverable, and tests definite-lived intangible assets whenever events or circumstances indicate that carrying values may not be recoverable. For further details regarding the Company's impairment process, see Note 2.6.1.1.

During 2020, management performed a review of the intangible assets and concluded that their net carrying value of software exceeded the estimated fair market value. The Company recorded a non-cash impairment charge of approximately \$20.6 million.

Note 9 Investments

9.1 BREAKDOWN OF INVESTMENTS

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

(US Dollars in thousands)	Investments as per Consolidated Statement of Financial Position					
	December 31, 2020			December 31, 2019		
	Fair value	Carrying value	% (value balance sheet)	Fair value	Carrying value	% (value balance sheet)
Investment in real estate properties at amortized cost	1,287,845	1,057,220	2.3 %	958,336	731,968	1.7 %
Debt instruments available for sale	36,615,711	36,615,711	80.6 %	34,164,940	34,164,940	79.4 %
Debt instruments designated as at fair value through profit or loss (a) (b)	3,542,097	3,542,097	7.8 %	3,687,359	3,687,359	8.6 %
Debt instruments held for trading	—	—	— %	6,570	6,570	— %
Debt instruments (at cost) that are not quoted in an active market (c)	66,333	62,205	0.1 %	135,483	133,244	0.3 %
Debt instruments	40,224,142	40,220,013	88.5 %	37,994,352	37,992,113	88.3 %
Equity instruments available for sale	573,569	573,569	1.3 %	840,439	840,439	2.0 %
Equity instruments designated as at fair value through profit or loss (d)	—	—	— %	126,526	126,526	0.3 %
Equity instruments	573,569	573,569	1.3 %	966,965	966,965	2.2 %
Non-consolidated investment funds available for sale	1,125,953	1,125,953	2.5 %	879,149	879,149	2.0 %
Non-consolidated investment funds designated as at fair value through profit or loss (d)	1,684,719	1,684,719	3.7 %	1,660,002	1,660,002	3.9 %
Non-consolidated investment funds	2,810,673	2,810,673	6.2 %	2,539,151	2,539,151	5.9 %
Other assets designated as at fair value through profit or loss, held by consolidated investment funds	445,786	445,786	1.0 %	512,866	512,866	1.2 %
Macro-hedge and other derivatives	(45,839)	(45,839)	(0.1)%	(28,381)	(28,381)	(0.1)%
Sub total Financial instruments (excluding Loans)	44,008,330	44,004,201	96.9 %	41,984,953	41,982,714	97.6 %
Loans at cost	365,637	365,040	0.8 %	310,481	307,700	0.7 %
Total Financial instruments	44,373,967	44,369,241	97.7 %	42,295,434	42,290,414	98.3 %
INVESTMENTS	45,661,812	45,426,462	100.0 %	43,253,770	43,022,382	100.0 %

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

(b) Comprised mainly of investments relating to run-off life reinsurance operations (see Note 13.3).

(c) Eligible to the IAS 39 – Loans and receivables measurement category.

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

9.2 INVESTMENT IN REAL ESTATE PROPERTIES

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

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

(US Dollars in thousands)	December 31, 2020					December 31, 2019				
	Gross value	Amortization	Impairment	Carrying value	Fair value	Gross value	Amortization	Impairment	Carrying value	Fair value
Investment in real estate properties at amortized cost (a)	1,152,006	(94,786)	—	1,057,220	1,287,845	816,383	(84,415)	—	731,968	958,336
Total for all activities including derivatives	1,152,006	(94,786)	—	1,057,220	1,287,845	816,383	(84,415)	—	731,968	958,336

(a) Includes infrastructure investments.

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

(US Dollars in thousands)	Impairment – Investment in real estate properties		Amortization – Investment in real estate properties	
	2020	2019	2020	2019
Value as of January 1	—	—	(84,415)	(73,779)
Increase for the period	—	1,139	(10,371)	(10,636)
Write back following sale or repayment	—	(1,139)	—	—
Value as of December 31	—	—	(94,786)	(84,415)

9.3 UNREALIZED GAINS AND LOSSES ON FINANCIAL INVESTMENTS

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

(US Dollars in thousands)	December 31, 2020					December 31, 2019				
	Amortized cost (a)	Fair value	Carrying value (b)	Unrealized gains	Unrealized losses	Amortized cost (a)	Fair value	Carrying value (b)	Unrealized gains	Unrealized losses
Debt instruments available for sale	34,198,692	36,617,923	36,617,923	2,449,308	(30,077)	32,783,586	34,164,940	34,164,940	1,417,773	36,419
Debt instruments (at cost) that are not quoted in an active market	62,205	66,333	62,205	4,129	—	132,124	135,483	133,244	3,359	—
Equity instruments available for sale	267,976	573,596	573,596	307,685	(2,064)	578,123	840,439	840,439	275,116	12,800
Non-consolidated investment funds available for sale	1,120,253	1,125,953	1,125,953	34,253	(28,552)	821,814	879,149	879,149	61,701	4,366

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

(b) Net of impairment.

9.4 DEBT INSTRUMENTS BY TYPE OF ISSUER

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

	December 31, 2020	December 31, 2019
<i>(US Dollars in thousands)</i>	Carrying value	Carrying value
Corporate debt instruments (a)	22,211,557	20,353,893
Government and government-like debt instruments (b)	10,598,059	10,170,654
Other debt instruments issued by government related	7,346,177	7,471,950
Other debt instruments (b)	62,205	—
Hedging derivatives and other derivatives	2,015	(4,384)
TOTAL DEBT INSTRUMENTS	40,220,013	37,992,113

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

(b) Includes fixed maturity investment funds.

9.5 CONTRACTUAL MATURITIES AND EXPOSURE TO INTEREST RATE RISK

The table below sets out the contractual maturities of debt instruments held by the Company. Effective maturities may differ from those presented, mainly because some assets include clauses allowing early redemption, with or without penalty or duration extension features. In some cases, the effect of derivatives (detailed in Note 16.3) modifies the maturity profile of assets presented below.

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

	December 31, 2020 Net carrying amount by maturity					
<i>(US Dollars in thousands)</i>	12 months or less	More than 1 year up to 5 years	More than 5 years	Carrying value excluding derivatives	Impact of Derivatives	Total Carrying value including derivatives
Debt instruments	3,053,193	13,225,738	23,939,066	40,217,998	2,015	40,220,013
Loans	170,408	143,724	50,710	364,841	199	365,040
Total Financial investments exposed to interest rate risk	3,223,601	13,369,462	23,989,776	40,582,839	2,214	40,585,053

	December 31, 2019 Net carrying amount by maturity					
<i>(US Dollars in thousands)</i>	12 months or less	More than 1 year up to 5 years	More than 5 years	Carrying value excluding derivatives	Impact of Derivatives	Total Carrying value including derivatives
Debt instruments	2,592,877	14,706,609	20,697,011	37,996,497	(4,384)	37,992,113
Loans	4,479	259,729	106,844	371,052	—	371,052
Total Financial investments exposed to interest rate risk	2,597,356	14,966,338	20,803,855	38,367,549	(4,384)	38,363,165

9.6 EXPOSURE TO PRICE RISK

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

<i>(US Dollars in thousands)</i>	Financial	Consumer goods & Services	Energy	Communications	Industrial	Basic Materials	Technology	Other	Total value excluding derivatives	Total value including derivatives
Equity instruments as of December 31, 2020	453,951	24,370	146	47,434	10,481	323	35,968	924	573,596	573,569
Equity instruments as of December 31, 2019	524,512	147,791	6,718	64,498	103,126	33,599	86,721	—	966,965	966,965

9.7 TRANSFERS OF FINANCIAL ASSETS NOT QUALIFYING FOR DERECOGNITION

The Company is part of repurchase agreements and securities lending transactions under which financial assets are sold to a counterparty, subject to a simultaneous agreement to repurchase these financial assets at a certain later date, at an agreed price. As substantially all of the risks and rewards of the financial assets remain with the Company over the entire lifetime of the transaction, the Company does not derecognize the financial assets. The proceeds of the sale are reported separately. Interest expense from repurchase and security lending transactions is accrued over the duration of the agreements.

Additionally, the Company is party to total return swaps where financial assets are sold to a counterparty with an agreement in which the Company retains substantially all the risk and rewards of the financial instruments. Therefore, the Company doesn't derecognize the assets.

The breakdown of transferred financial assets/liabilities not qualifying for derecognition was as follows:

<i>(US Dollars in thousands)</i>	December 31, 2020			December 31, 2019		
	Debt instruments designated at fair value through profit or loss	Debt instruments available for sale	Debt instruments – Loans & Receivables	Debt instruments designated at fair value through profit or loss	Debt instruments available for sale	Debt instruments – Loans & Receivables
Carrying value of assets	—	395,401	—	—	428,845	—
Carrying value of associated liabilities (a)	—	377,980	—	—	414,616	—

(a) Amounts do not include securities received as collateral to securities lending transactions if such collateral is not recognized under the terms of the agreement because the risks and rewards have not been transferred to the Company.

9.8 NON-CONSOLIDATED INVESTMENT FUNDS

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

<i>(US Dollars in thousands)</i>	December 31, 2020	December 31, 2019
	Fair value	Fair value
Non-consolidated investment funds mainly holding equity securities	254,062	438,240
Non-consolidated investment funds mainly holding debt instruments	1,720,594	1,366,186
Other non-consolidated investment funds	836,016	734,725
TOTAL	2,810,673	2,539,151

The amortized cost of non-consolidated investment funds available for sale was as below:

- funds mainly holding equity securities: \$34.5 million in 2020 compared to \$192.6 million in 2019;
- funds mainly holding debt instruments: \$1,049.6 million in 2020 compared to \$561.6 million in 2019;
- other funds: \$36.2 million in 2020 compared to \$67.6 million in 2019.

9.9 FINANCIAL INSTRUMENTS SUBJECT TO IMPAIRMENT

9.9.1 Breakdown of financial investments subject to impairment

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

(US Dollars in thousands)	December 31, 2020				
	Cost before impairment and revaluation to fair value (a)	Impairment	Cost after impairment but before revaluation to fair value (b)	Revaluation to fair value	Fair value
Debt instruments available for sale	34,212,829	(14,137)	34,198,692	2,419,231	36,617,923
Debt instruments (at cost) that are not quoted in an active market	62,205	—	62,205	4,129	66,333
Debt instruments	34,275,034	(14,137)	34,260,897	2,423,360	36,684,257
Equity instruments available for sale	308,585	(40,609)	267,976	305,621	573,596
Non-consolidated investment funds available for sale	1,131,874	(11,622)	1,120,253	5,700	1,125,953
Loans at cost	365,040	—	365,040	—	365,040
TOTAL	36,080,533	(66,367)	36,014,166	2,734,681	38,748,847

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

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

(US Dollars in thousands)	December 31, 2019				
	Cost before impairment and revaluation to fair value (a)	Impairment	Cost after impairment but before revaluation to fair value (b)	Revaluation to fair value	Fair value
Debt instruments available for sale	32,783,586	—	32,783,586	1,381,354	34,164,940
Debt instruments (at cost) that are not quoted in an active market	133,244	—	133,244	2,239	135,483
Debt instruments	32,916,830	—	32,916,830	1,383,593	34,300,423
Equity instruments available for sale	817,888	(239,764)	578,124	262,315	840,439
Non-consolidated investment funds available for sale	830,773	(8,958)	821,815	57,334	879,149
Loans at cost	307,700	—	307,700	2,781	310,481
TOTAL	34,873,191	(248,722)	34,624,469	1,706,023	36,330,492

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

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

9.9.2 Change in impairment on financial investments

<i>(US Dollars in thousands)</i>	January 1, 2020	Increase for the period	Write back following sale or repayment	December 31, 2020
Impairment – Debt instruments	—	14,142	(5)	14,137
Impairment – Equity instruments	239,764	32,835	(231,990)	40,609
Impairment – Non-consolidated investment funds	8,958	11,719	(9,056)	11,622
Impairment – Loans	—	11,000	(11,000)	—
TOTAL	248,722	69,696	(252,051)	66,367

<i>(US Dollars in thousands)</i>	January 1, 2019	Increase for the period	Write back following sale or repayment	December 31, 2019
Impairment – Debt instruments	—	—	—	—
Impairment – Equity instruments	49,134	225,163	(34,533)	239,764
Impairment – Non-consolidated investment funds	—	8,958	—	8,958
Impairment – Loans	—	—	—	—
TOTAL	49,134	234,121	(34,533)	248,722

9.10 FAIR VALUE OF INVESTMENTS

9.10.1 Investments recognized at fair value

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

(US Dollars in thousands)	December 31, 2020				
	Assets quoted in an active market excluding derivatives		Assets not quoted in an active market or no active market excluding derivatives		
	Fair value determined directly by reference to active market excluding derivatives (level 1)	Fair value mainly based on observable market data excluding derivatives (level 2)	Fair value mainly not based on observable market data excluding derivatives (level 3)	Total excluding derivatives	Total including derivatives
Debt instruments	—	36,617,923	—	36,617,923	36,615,711
Equity instruments	368,762	19,276	185,559	573,596	573,569
Non-consolidated investment funds	—	291,781	834,172	1,125,953	1,125,953
Financial investments and loans available for sale	368,762	36,928,980	1,019,731	38,317,473	38,315,233
Debt instruments	—	3,537,870	—	3,537,870	3,542,097
Equity instruments	—	—	—	—	—
Non-consolidated investment funds	—	1,325,848	358,872	1,684,719	1,684,719
Other assets held by consolidated investment funds designated as at fair value through profit or loss	—	—	445,786	445,786	445,786
Financial investments and loans designated as at fair value through profit or loss	—	4,863,718	804,658	5,668,376	5,672,602
Debt instruments	—	—	—	—	—
Financial investments and loans held for trading	—	—	—	—	—
TOTAL FINANCIAL INVESTMENTS AND LOANS ACCOUNTED FOR AT FAIR VALUE	368,762	41,792,698	1,824,389	43,985,848	43,987,835

(US Dollars in thousands)	December 31, 2019				
	Assets quoted in an active market excluding derivatives	Assets not quoted in an active market or no active market excluding derivatives			Total including derivatives
	Fair value determined directly by reference to active market excluding derivatives (level 1)	Fair value mainly based on observable market data excluding derivatives (level 2)	Fair value mainly not based on observable market data excluding derivatives (level 3)	Total excluding derivatives	
Debt instruments	—	34,163,684	5,640	34,169,324	34,164,940
Equity instruments	530,587	36,264	273,588	840,439	840,439
Non-consolidated investment funds	113,239	326,963	438,947	879,149	879,149
Financial investments and loans available for sale	643,826	34,526,911	718,175	35,888,912	35,884,528
Debt instruments	—	3,649,289	38,070	3,687,359	3,687,359
Equity instruments	53,745	—	72,781	126,526	126,526
Non-consolidated investment funds	—	1,212,596	447,406	1,660,002	1,660,002
Other assets held by consolidated investment funds designated as at fair value through profit or loss	27,993	7,344	477,529	512,866	512,866
Financial investments and loans designated as at fair value through profit or loss	81,738	4,869,229	1,035,786	5,986,753	5,986,753
Debt instruments	—	6,570	—	6,570	6,570
Financial investments and loans held for trading	—	6,570	—	6,570	6,570
TOTAL FINANCIAL INVESTMENTS AND LOANS ACCOUNTED FOR AT FAIR VALUE	725,564	39,402,710	1,753,961	41,882,235	41,877,851

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

ASSETS CLASSIFICATION

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

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

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

The common characteristic of level 2 and 3 assets is that their markets are considered as less active. Their value is generally based on mark to market basis, except when there is no market or when the market is distressed, in which case a mark to model approach is used. Assets not quoted in an active market which are marked to market mainly using observable inputs are classified in level 2.

Assets not quoted in an active market for which fair value determination is not mainly based on observable inputs are classified as level 3. For all assets not quoted in an active market/no active market and for which a mark to model approach is used, the classification between level 2 and level 3 depends on the proportion of assumptions used supported by market transactions and observable data (market observable inputs):

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

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

As of December 31, 2020, the net transfer between level 1 and level 2 was \$68.9 million, primarily in non-consolidated investment funds.

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

OVERVIEW OF THE NATURE OF SUCH INVESTMENTS

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

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

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

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

From January 1, 2020 to December 31, 2020, the amount of level 3 assets increased to \$1,824.4 million, representing 4.1% of the total assets at fair value compared to \$1,754.0 million representing 4.2% of total assets at fair value in 2019.

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

- \$131.2 million of new investments;
- \$224.2 million of change in unrealized gains and losses;
- \$180.8 million of net asset transfers in and out of level 3 and foreign exchange fluctuation impact;
- \$(465.8) million of asset sales, redemptions and settlements mainly of debt instruments, equity securities and non-consolidated investment funds accounted as available for sale and of equity securities, non-consolidated investment funds, other assets held by controlled investment funds and debt instruments accounted as fair value through profit or loss.

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

9.10.2 Fair value of investments recognized at amortized cost

	December 31, 2020				
	Assets quoted in an active market	Assets not quoted in an active market or no active market			
	Fair value determined directly by reference to active market (level 1)	Fair value mainly based on observable market data (level 2)	Fair value mainly not based on observable market data (level 3)	Total excluding derivatives	Total including derivatives
(US Dollars in thousands)					
Investment in real estate properties at amortized cost	—	—	1,287,845	1,287,845	1,287,845
Debt instruments at cost (loans & receivables)	—	29,781	36,553	66,333	66,333
Loans at amortized cost	—	13,429	352,010	365,438	365,637
Financial investments and loans at amortized cost	—	43,210	1,676,407	1,719,616	1,719,815
TOTAL FAIR VALUE OF INVESTED ASSETS AT AMORTIZED COST	—	43,210	1,676,407	1,719,616	1,719,815

	December 31, 2019				
	Assets quoted in an active market	Assets not quoted in an active market or no active market			
	Fair value determined directly by reference to active market (level 1)	Fair value mainly based on observable market data (level 2)	Fair value mainly not based on observable market data (level 3)	Total excluding derivatives	Total including derivatives
(US Dollars in thousands)					
Investment in real estate properties at amortized cost	—	21,274	937,062	958,336	958,336
Debt instruments at cost (loans & receivables)	—	103,012	32,471	135,483	135,483
Loans at amortized cost	—	14,556	295,925	310,481	310,481
Financial investments and loans at amortized cost	—	138,842	1,265,458	1,404,300	1,404,300
TOTAL FAIR VALUE OF INVESTED ASSETS AT AMORTIZED COST	—	138,842	1,265,458	1,404,300	1,404,300

The Company applies the IFRS 13 fair value hierarchy as described in Note 2.5. Specifics to the valuation of investments are further described in Note 9.10.1 and the same principles apply to the fair value of investments at amortized cost.

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

9.11 DISCLOSURES ABOUT THE TEMPORARY EXEMPTION FROM IFRS 9

9.11.1 Solely Payments of Principal and Interest (SPPI) test

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

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

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

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

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

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

	December 31, 2020				December 31, 2019			
	Fail the SPPI test		Pass the SPPI test		Fail the SPPI test		Pass the SPPI test	
	Fair value	Change in unrealized gain or loss in 2020	Fair value	Change in unrealized gain or loss in 2020	Fair value	Change in unrealized gain or loss in 2019	Fair value	Change in unrealized gain or loss in 2019
(US Dollars in thousands)								
Debt instruments available for sale	36,223	4,531	36,581,700	1,028,486	141,192	(3,535)	34,023,748	1,229,719
Debt instruments (at cost) not quoted in an active market	—	—	66,333	2,418	—	—	135,483	2,239
Equity instruments available for sale	573,596	43,530	—	—	840,439	160,666	—	—
Non-consolidated investment funds available for sale	1,125,953	(51,728)	—	—	879,149	52,688	—	—
Loans at cost	—	—	365,438	(2,574)	145,558	31	164,923	(3,479)
TOTAL	1,735,772	(3,667)	37,013,472	1,028,330	2,006,338	209,850	34,324,154	1,228,479

9.11.2 Credit risk exposure

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

(US Dollars in thousands)	December 31, 2020						
	Fair value of debt instruments that pass the SPPI test						
	AAA	AA	A	BBB	BB and below	Other	Total
Debt Instruments available for sale	13,060,061	5,856,137	9,469,321	7,358,510	735,192	102,479	36,581,700
Debt instruments (at cost) not quoted in an active market	—	—	2,194	18,821	6,735	38,583	66,333
Total Fair value of debt instruments that pass the SPPI test	13,060,061	5,856,137	9,471,515	7,377,331	741,928	141,062	36,648,034

(US Dollars in thousands)	December 31, 2019						
	Fair value of debt instruments that pass the SPPI test						
	AAA	AA	A	BBB	BB and below	Other	Total
Debt Instruments available for sale	14,184,702	5,525,285	8,569,442	5,079,425	635,406	29,488	34,023,748
Debt instruments (at cost) not quoted in an active market	—	66,062	3,359	41,429	10,077	14,556	135,483
Total Fair value of debt instruments that pass the SPPI test	14,184,702	5,591,347	8,572,801	5,120,854	645,483	44,044	34,159,231

The table below contains the fair value of loans that pass the SPPI test by credit rating.

(US Dollars in thousands)	December 31, 2020	December 31, 2019
	Fair value of loans that pass the SPPI test	Fair value of loans that pass the SPPI test
AA	—	151,486
A	—	8,958
BBB	—	4,479
BB and below / other	365,438	—
Total amount of loans that pass the SPPI test and for which the credit risk information is based on ratings	365,438	164,923

/ Note 10 Investments Accounted For Using The Equity Method

As of December 31, 2020 and 2019, the Company had an investment of \$39.4 million (\$39.8 million in 2019), representing a 20.0% strategic ownership interest in Mahindra Insurance Brokers Limited, incorporated in India, and is accounted for using the equity method.

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

Note 11 Receivables

(US Dollars in thousands)	December 31, 2020				December 31, 2019			
	Gross value	Impairment	Carrying value	Fair value	Gross value	Impairment	Carrying value	Fair value
Deposits and guarantees	870,608	—	870,608	870,608	833,661	(2,239)	831,422	831,421
Receivables from policyholders, brokers and general agents	10,972,344	(87,111)	10,885,233	10,885,233	10,406,509	(65,956)	10,340,553	10,341,672
Receivables arising from direct insurance and inward reinsurance operations	11,842,953	(87,111)	11,755,842	11,755,842	11,240,170	(68,195)	11,171,975	11,173,093
Receivables from reinsurers	2,477,156	(43,924)	2,433,232	2,433,232	1,648,674	(39,632)	1,609,042	1,597,848
Receivables from brokers and general agents	32,966	—	32,966	32,966	6,411	—	6,411	6,411
Receivables arising from outward reinsurance operations	2,510,121	(43,924)	2,466,198	2,466,198	1,655,085	(39,632)	1,615,453	1,604,259
Current tax receivables	118,516	—	118,516	118,516	68,290	—	68,290	66,051
Other receivables	840,110	(7,582)	832,529	832,529	1,046,319	(8,227)	1,038,092	1,049,289
TOTAL RECEIVABLES	15,311,700	(138,616)	15,173,084	15,173,084	14,009,864	(116,054)	13,893,810	13,892,692

Note 12 Shareholder's Equity And Minority Interests

12.1 IMPACT OF TRANSACTIONS WITH SHAREHOLDER

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

12.1.1 Change in shareholder's equity Company share in 2020

SHARE CAPITAL AND CAPITAL IN EXCESS OF NOMINAL VALUE

The authorized share capital of XLB is 15,000,000 shares, par value \$0.10 each, and the total issued and outstanding shares as at December 31, 2020 was 12,500,000 representing \$1.3 million of share capital.

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

- a capital contribution of \$1.0 billion from the Company's parent entity, EXEL Holdings Limited;

DIVIDENDS PAID

The Company did not pay any common share dividends to EXEL Holdings Limited during 2020.

12.1.2 Change in shareholder's equity Company share in 2019

SHARE CAPITAL AND CAPITAL IN EXCESS OF NOMINAL VALUE

The authorized share capital of XLB is 15,000,000 shares, par value \$0.10 each, and the total issued and outstanding shares as at December 31, 2019 was 12,500,000 representing \$1.3 million of share capital.

During 2019, the following transaction had an impact on the Company's share capital and capital in excess of nominal value:

- a capital contribution of \$863.9 million from the Company's parent entity, EXEL Holdings Limited;
- a capital increase of \$560.6 million due to acquisitions of companies under common control (see Note 4.2).

DIVIDENDS PAID

The Company did not pay any common share dividends to EXEL Holdings Limited during 2019.

12.2 COMPREHENSIVE INCOME FOR THE PERIOD

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

12.2.1 Comprehensive income for 2020

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

The increase of gross unrealized gains and losses on assets available for sale totaling \$1,068.6 million, comprised mainly of \$1,033.0 million due to capital gains on debt securities which was mainly driven by a decline in interest rates across major jurisdictions offset by widening of credit spreads.

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

<i>(US Dollars in thousands)</i>	December 31, 2020	December 31, 2019
Gross unrealized gains and losses (a)	2,691,304	1,622,677
Deferred tax	(379,179)	(250,590)
UNREALIZED GAINS AND LOSSES (NET OF TAX) - TOTAL	2,312,124	1,372,087
Minority interests' share in unrealized gains and losses	(8,912)	(4,510)
Translation reserves	(6,689)	(6)
UNREALIZED GAINS AND LOSSES	2,296,523	1,367,571

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

The change in reserves related to changes in fair value of available for sale financial instruments included in shareholder's equity as of December 31, 2020, and December 31, 2019 is detailed as follows:

<i>(US Dollars in thousands)</i>	December 31, 2020	December 31, 2019
Unrealized gains and losses (net of tax), opening	1,367,571	(209,972)
Transfer in the income statement on the period (a)	111,689	166,626
Investments bought in the current accounting period and changes in fair value	833,333	976,045
Foreign exchange impact	(470)	16
Change in scope and other changes (b)	—	439,372
Unrealized gains and losses (net of tax) 100%, closing	2,312,124	1,372,087
Minority interests' share in unrealized gains and losses	(8,912)	(4,510)
Translation reserves	(6,689)	(6)
UNREALIZED GAINS AND LOSSES	2,296,523	1,367,571

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

(b) 2019 relates mainly to acquisitions of companies under common control (see Note 4.2).

12.2.2 Comprehensive income for 2019

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

The increase of gross unrealized gains and losses on assets available for sale totaling \$1,838.3 million, comprised mainly of \$980 million increase in unrealized capital gains on debt securities which was mainly driven by a decline in interest rates across major jurisdictions and to a lesser extent due to tightening of credit spreads. In addition, an increase of \$578.5 million is attributed to the acquisition of entities under common control (see Note 4.2).

12.3 CHANGE IN MINORITY INTERESTS

As of December 31, 2020 and December 31, 2019, the Company's minority interest balance consists of external investments in the Company's subsidiaries operating in the P&C insurance and reinsurance sector.

12.3.1 Change in minority interests for 2020

The \$13.8 million decrease in minority interests to \$16.1 million was largely driven by distributions made to alternative capital investors.

12.3.2 Change in minority interests for 2019

The \$519.6 million decrease in minority interests to \$29.9 million was largely driven by the redemption of the Catlin-Bermuda non-cumulative perpetual preferred shares effective October 21, 2019 (\$519 million). As a result of this redemption, the Company recorded a loss of \$35 million.

Note 13 Liabilities Arising From Insurance Contracts

13.1 BREAKDOWN OF LIABILITIES ARISING FROM INSURANCE CONTRACTS (GROSS AND REINSURERS' SHARE)

Liabilities arising from insurance contracts were split by as follows:

(US Dollars in thousands)	December 31, 2020			December 31, 2019		
	Property & Casualty	Life	Total Insurance	Property & Casualty	Life	Total Insurance
Future policy benefit reserves	—	2,968,428	2,968,428	—	3,048,152	3,048,152
Unearned premiums reserves	11,554,895	—	11,554,895	10,906,703	—	10,906,703
Gross claims reserves	48,757,115	—	48,757,115	40,787,947	—	40,787,947
of which IBNR	27,594,010	—	27,594,010	21,741,193	—	21,741,193
Liabilities arising from insurance contracts	60,312,009	2,968,428	63,280,437	51,694,650	3,048,152	54,742,802
Reinsurers' share in future policy benefit reserves	—	2,704,478	2,704,478	—	2,805,719	2,805,719
Reinsurers' share in unearned premiums reserves	3,619,995	—	3,619,995	2,983,138	—	2,983,138
Reinsurers' share in claims reserves	15,163,218	—	15,163,218	11,441,101	—	11,441,101
of which IBNR	9,371,640	—	9,371,640	6,640,900	—	6,640,900
Reinsurers' share in liabilities arising from insurance contracts	18,783,213	2,704,478	21,487,691	14,424,239	2,805,719	17,229,958
TOTAL LIABILITIES ARISING FROM INSURANCE CONTRACTS, NET OF REINSURERS' SHARE	41,528,797	263,949	41,792,746	37,270,411	242,433	37,512,844

13.2 CHANGE IN CLAIMS RESERVES FOR PROPERTY AND CASUALTY INSURANCE CONTRACTS

13.2.1 Change in gross of reinsurance Property & Casualty claims reserves

The table below gives information on the change in claims reserves in Property & Casualty presented in Note 13.1:

(US Dollars in thousands)	2020	2019
	Property & Casualty	Property & Casualty
Claims reserves as of January 1	39,288,861	31,302,712
Claims handling cost reserves as of January 1	1,499,086	1,735,837
Gross claims reserves as of January 1	40,787,947	33,038,549
Total claims expenses	18,171,129	12,294,461
Claim payments	(11,554,241)	(11,084,942)
Change in scope of consolidation and change in accounting method (a)	—	6,624,781
Impact of foreign currency fluctuation (b)	1,352,280	(84,902)
Claims reserves as of December 31	47,945,624	39,288,861
Claims handling cost reserves as of December 31	811,491	1,499,086
Gross claims reserves as of December 31	48,757,115	40,787,947

(a) Relates to acquisitions of companies under common control (see Note 4.2).

(b) The change in foreign currency fluctuation in 2020 is mainly impacted by the revaluation of Euro and British pound denominated claims reserves.

13.2.2 Change in reinsurers' share in Property & Casualty claims reserves

The table below gives information on the change in reinsurers' share in claims reserves in Property & Casualty presented in Note 13.1:

	2020	2019
(US Dollars in thousands)	Property & Casualty	Property & Casualty
Reinsurers' share in claims reserves as of January 1	11,441,101	8,523,997
Reinsurers' share in total claims expenses	6,532,702	3,816,050
Reinsurers' share in claims payments	(3,003,217)	(2,961,524)
Change in scope of consolidation and change in accounting method (a)	—	2,094,369
Impact of foreign currency fluctuation	192,631	(31,791)
Reinsurers' share in claims reserves as of December 31	15,163,218	11,441,101

(a) Relates to acquisitions of companies under common control (see Note 4.2).

13.3 CHANGE IN LIABILITIES ARISING FROM INSURANCE CONTRACTS - LIFE

Run-Off Life Reinsurance Operations

As a result of a transaction in 2014, the Company has ceded the majority of the life reinsurance business to Monument Segregated Account Company Ltd ("MSAC"), formerly GreyCastle Life Reinsurance (SAC) Ltd, via 100% quota share reinsurance (the "Monument Life Retro Arrangements").

The Company entered into long duration contracts that subject the Company to mortality and morbidity risks and that were accounted for as life premiums earned. Future policy benefit reserves were established using appropriate assumptions for investment yields, mortality, and expenses, including a provision for adverse deviation. The average interest rate used for the determination of the future policy benefits for these contracts was 4% at December 31, 2020 and 2019.

Under the terms of the sale of the life reinsurance subsidiary in 2014, the Company has reinsured \$2,550.0 million and \$2,627.6 million at December 31, 2020 and 2019 respectively, of its future policy benefit reserves under the Monument Life Retro Arrangements. The Company continues to own, on a funds withheld basis, assets supporting the Monument Life Retro Arrangements consisting of cash, fixed maturity securities and accrued interest. Based upon the contractual right of offset, the funds withheld liability owing to MSAC is recorded within "Payables arising from outward reinsurance operations" on the Consolidated Statement of Financial Position at December 31, 2020 and 2019.

The designated investments that support the Monument Life Retro Arrangements, are classified as "Debt instruments designated as at fair value through profit or loss". Investment results for these assets - including interest income, unrealized gains and losses, and gains and losses from sales - are passed directly to the reinsurer pursuant to a contractual arrangement. The total value passed on, representing the total return on these designated investments, is recorded as an offsetting amount within "Net realized gains and losses and change in fair value of other investments at fair value through profit or loss" within the Consolidation Statement of Income and as part of funds withheld liability within "Payables arising from outward reinsurance operations" on the Consolidated Statement of Financial Position. The overall net impact within the Consolidation Statement of Income relating to the Monument Life Retro Agreements was \$nil for the years ended December 31, 2020 and 2019.

13.3.1 Change in gross of reinsurance Life future policy benefit reserves

The table below gives information on change in Life future policy benefit reserves presented in Note 13.1:

	2020	2019
<i>(US Dollars in thousands)</i>	Life	Life
Future policy benefit reserves as of January 1	3,048,152	3,208,281
Collected premiums net of loadings on premiums (+)	209,676	213,976
Surrenders, maturities and other claims and benefits paid net of charges and penalties (-)	(474,284)	(472,003)
Change in reserves relating to technical and actuarial items (+/-)	48,668	61,819
Impact of foreign currency fluctuation	136,216	36,079
Future policy benefit reserves as of December 31	2,968,428	3,048,152

13.3.2 Change in reinsurers' share in Life future policy benefit reserves

The table below gives information on change in Life future policy benefit reserves presented in Note 13.1:

	2020	2019
<i>(US Dollars in thousands)</i>	Life	Life
Reinsurers' share in future policy benefit reserves as of January 1	2,805,719	3,007,466
Reinsurers' share in collected premiums net of loadings on premiums (+)	199,342	198,998
Reinsurers' share in surrenders, maturities and other claims and benefits paid net of charges and penalties (-)	(451,024)	(453,069)
Reinsurers' share in change in reserves relating to technical and actuarial items (+/-)	14,743	13,038
Impact of foreign currency fluctuation	135,698	39,286
Reinsurers' share in future policy benefit reserves as of December 31	2,704,478	2,805,719

13.4 PROPERTY & CASUALTY LOSS RESERVE DEVELOPMENT TABLE

The loss reserve development table shows movements in incurred losses and paid losses between 2015 and 2020, based on previously applied accounting standards. All contracts concerned are insurance contracts as defined by IFRS.

Progression of incurred losses and paid losses are net of external reinsurance placements and indicate progression of claim development over subsequent calendar periods for each year of occurrence.

The first triangle labeled "P&C Incurred Losses And Allocated Loss Expenses, Net of Reinsurance" represents the net incurred loss progression for calendar years 2015 to 2020. For example, the amount of \$5,671.1 million appearing in the first line of the table in the 2016 column represents net incurred loss for 2015 year of occurrence as at year ending 2016. The amount of \$6,133.9 million appearing in the first line of the table in 2017 would represent the progression of the net ultimate loss for 2015 year of occurrence as at year ending 2017.

The second triangle labeled "P&C Cumulative Paid Losses And Loss Expenses, Net of Reinsurance" represents the net paid loss progression for calendar years 2015 to 2020. For example, the amount of \$2,211.9 million appearing in the first line of the table in the 2016 column represents cumulative payments net of external reinsurance for 2015 year of occurrence as at year ending 2016. The amount of \$3,266.5 million appearing in the first line of the table in 2017 would represent the cumulative payments net of external reinsurance for 2015 year of occurrence as at year ending 2017.

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

P&C Incurred Losses And Allocated Loss Expenses, Net of Reinsurance						
(US Dollars in thousands)		For the years ended				
Accident Year	2015	2016	2017	2018	2019	2020 (a)
2015	5,539,112	5,671,145	6,133,879	6,147,102	6,137,704	6,192,801
2016		6,160,461	6,736,279	6,844,620	6,840,242	6,857,404
2017			8,894,506	9,349,297	9,319,266	9,148,837
2018				7,995,132	8,234,819	8,562,354
2019					8,424,058	8,841,796
2020						11,577,424
P&C Incurred Losses And Allocated Loss Expenses, Net of Reinsurance						51,180,617

(a) Net favorable development of \$205.3 million in 2020 relating to accident years prior to 2015 is not reflected in the table above.

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

P&C Cumulative Paid Losses And Loss Expenses, Net of Reinsurance						
(US Dollars in thousands)		For the years ended				
Accident Year	2015	2016	2017	2018	2019	2020
2015	995,791	2,211,865	3,266,486	3,919,651	4,422,876	4,808,659
2016		1,231,622	2,753,124	3,817,864	4,527,720	5,079,222
2017			1,678,623	4,586,487	5,692,427	6,773,897
2018				1,155,650	4,024,082	5,725,654
2019					1,265,673	3,991,981
2020						1,526,610
P&C Cumulative Paid Losses And Loss Expenses, Net of Reinsurance						27,906,022
P&C Incurred Losses and Allocated Loss Expenses, Net of Reinsurance						51,180,617
All outstanding liabilities prior to 2015 including reserves acquired in common control acquisitions, net of reinsurance						6,094,880
Reserves acquired in common control acquisitions post 2015						3,356,472
P&C Cumulative Paid Losses and Loss Expenses, Net of Reinsurance						(27,906,022)
Liabilities for unpaid losses and loss expenses, net of reinsurance						32,725,947

For entire business operations in total, all five accident years have developed unfavorably since the first evaluation primarily due to large loss activity in several lines including professional and casualty.

The 2015, 2016 and 2017 accident years were adjusted effective January 1, 2018 and presented in the table above in 2017 year end to reflect the adoption of IFRS which resulted in a cumulative adjustment of \$1,460.0 million in line with the adoption of AXA's P&C reserving framework.

Accident year 2016 developed adversely in 2017, primarily due to large loss activity in long tail lines.

Accident year 2017 developed adversely in 2018 due primarily to claims relating to natural catastrophes (Hurricanes Harvey, Irma and Maria, along with California Wildfires).

The 2018 accident year adverse development in 2019 is driven primarily by 2018 natural catastrophe losses that occurred during the first 3 quarters of 2018. The adverse development in 2020 was driven by loss activity in long tail lines.

The 2019 accident year adverse development in 2020 is primarily driven by large loss activity in long tail lines.

13.4.3 Reconciliation between developed P&C reserves and total liabilities arising from insurance contracts, net of reinsurers' share

The table below gives a reconciliation between developed P&C reserves and total liabilities arising from insurance contracts, net of reinsurers' share as disclosed in Note 13.1:

<i>(US Dollars in thousands)</i>	December 31, 2020
Subtotal from triangles above	32,725,947
Unallocated loss expenses	784,752
Discounting of reserves	(367,895)
Provision for uncollectible reinsurance	30,117
Other	420,977
Liabilities for P&C unpaid losses and loss expenses, net of reinsurance	33,593,898
Future policy benefit reserves - Life	263,949
Liabilities for total unpaid losses and loss expenses, net of reinsurance	33,857,847
Unearned premiums reserves	11,554,895
Reinsurers' share in unearned premiums reserves	(3,619,995)
TOTAL LIABILITIES ARISING FROM INSURANCE CONTRACTS, NET OF REINSURERS' SHARE	41,792,746

13.5 ASBESTOS

The Company continues to receive claims from policies written in prior years asserting damages from asbestos-related exposures.

There is considerable uncertainty as to the future cost of asbestos claims. The ultimate cost of claims is very much dependent on legal factors that are difficult to predict with any certainty. It is common to have issues of allocation of responsibility among parties, as well as involvement of multiple insurers and multiple policy periods. This causes considerable coverage issues.

The calculation of reserves for asbestos risks raises specific difficulties as conventional reserving techniques cannot be used for evaluating IBNR. The Company evaluates the future cost of those claims using a range of specific methods based either on exposure analysis, frequency/cost projections or reserving benchmarks. Asbestos reserves are reviewed on a yearly basis to ensure that they adequately reflect the latest claims experience, as well as legal and economic developments. Consistent with the Company's reserving practices, and despite the particularly long-tail nature of those risks, reserves for asbestos are undiscounted.

Due to the uncertainty surrounding asbestos claims, it is not possible to determine their future cost with the same degree of certainty as for other types of claims. Although the Company considers its reserves for asbestos claims to be adequate, it is possible that, under some adverse scenarios, they may turn out to be insufficient to cover future losses.

13.6 LOSS RESERVE DISCOUNTING

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

The Company utilizes tabular reserving for workers' compensation (including long-term disability) unpaid losses that are considered fixed and determinable, and discounts such losses using an interest rate of 3.75% in 2020 and 2019. The interest rate approximates the implied return on the market-based assets supporting the expected cash flows of the Company's liabilities. The tabular reserving methodology results in applying uniform and consistent criteria for establishing expected future indemnity and medical payments (including an explicit factor for inflation) and the use of mortality tables to determine expected payment periods. Tabular unpaid losses and loss expenses, net of reinsurance, at December 31, 2020 and 2019 on an undiscounted basis were \$642.7 million and \$690.0 million, respectively. The aggregate discount for the time value of money deducted to derive the liability for unpaid losses and loss expenses were \$225.7 million and \$251.9 million at December 31, 2020 and 2019, respectively.

The related discounted unpaid losses and loss expenses were \$417.0 million and \$438.0 million at December 31, 2020 and 2019, respectively. The interest accretion related to the unwind of the discounted reserves was \$19.6 million and \$19.5 million during the years ended December 31, 2020 and 2019, respectively. This interest accretion was recorded in the incurred loss line as adverse prior year development.

The Company records a specific reserve allowance for Periodical Payment Orders ("PPOs") related to bodily injury liability claims. This allowance includes the unpaid losses for claims already settled and notified as PPOs at December 31, 2020, as well as the unpaid losses for claims to be settled in the future. The future care element of the unpaid losses was discounted using an interest rate of 2% at both December 31, 2020 and 2019. Unpaid losses and loss expenses, net of reinsurance, at December 31, 2020 and 2019 on an undiscounted basis were \$332.5 million and \$316.4 million, respectively. The aggregate discount for the time value of money deducted to derive the liability for the unpaid losses and loss expenses were \$141.2 million and \$136.5 million at December 31, 2020 and 2019. After discounting the future care element, the unpaid losses and loss expenses were \$191.3 million and \$179.8 million at December 31, 2020 and 2019, respectively. The increase in the net undiscounted unpaid losses and loss expenses between December 31, 2020 and 2019 is mainly due to foreign exchange rate movements. The interest accretion related to the unwind of the discounted reserves was \$3.3 million and \$3.0 million during the calendar years ended December 31, 2020 and 2019. This interest accretion was recorded in the incurred loss line as adverse prior year development.

The Company records a specific reserve allowance for bodily injury liability claims from French exposures, which have been settled as annuities. These unpaid losses were discounted using an interest rate of 2% at both December 31, 2020 and 2019. Unpaid losses and loss expenses, gross and net of reinsurance, at December 31, 2020 and 2019 on an undiscounted basis were \$114.2 million and \$95.0 million, respectively. The aggregate discount for the time value of money deducted to derive the liability for the unpaid losses and loss expenses were \$2.7 million and \$5.8 million at December 31, 2020 and 2019, respectively. After discounting, the unpaid losses and loss expenses were \$111.5 million and \$89.3 million at December 31, 2020 and 2019, respectively.

Note 14 Payables

14.1 BREAKDOWN OF PAYABLES

	Carrying value	Carrying value
<i>(US Dollars in thousands)</i>	December 31, 2020	December 31, 2019
Debts relating to investments under total return swap agreement ("TRS")	101,254	99,897
Other debt instruments issued, notes and bank overdrafts excluding TRS	—	7,256
Other debt instruments issued, notes and bank overdrafts	101,254	107,153
Deposits and guarantees	1,021,372	1,160,340
Payables to policyholders, brokers and general agents	1,821,512	1,433,423
Payables arising from direct insurance and inward reinsurance operations	2,842,884	2,593,763
Deposits and guarantees	310,212	344,862
Current accounts payable to other companies (a)	9,154,326	8,099,091
Payables arising from direct outward reinsurance operations	9,464,538	8,443,953
Payables – current tax	128,201	69,156
Collateral debts relating to investments under lending agreements or equivalent	377,980	414,616
Other payables (b)	1,931,753	2,414,428
TOTAL PAYABLES	14,846,609	14,043,069

(a) Includes \$3,764.9 million (\$3,661.2 million as of December 31, 2019) of Life funds withheld liabilities relating to run-off life reinsurance operations (see Note 13.3).

(b) Other payables in 2019 includes a related party payable totaling \$370 million to AXA Konzern AG relating to consideration for the merger of AXA Art (see Note 4.2.3). This was a short-term non-interest bearing payable which was settled in January 2020.

14.2 PAYABLES ARISING FROM DIRECT INSURANCE, INWARD REINSURANCE OPERATIONS AND DIRECT OUTWARD REINSURANCE OPERATIONS

As of December 31, 2020, payables arising from direct insurance and inward reinsurance operations as disclosed in Note 14.1, totaled \$2,842.9 million, an increase of \$249.1 million compared to December 31, 2019, mainly related to an increase in payables to clients and brokers partially offset by a reduction in settled claims payable.

As of December 31, 2020, payables arising from direct outward reinsurance operations totaled \$9,464.5 million, an increase of \$1,020.6 million compared to December 31, 2019, mainly related to growth in certain insurance lines with high quota share cessions and an overall increase in quota share reinsurance across the portfolio relative to prior year.

14.3 EXPOSURE TO INTEREST RATE RISK AND CONTRACTUAL MATURITIES

The table below sets out the contractual maturities of other debt instruments and collateral debts relating to investments under lending agreements or equivalent, which are exposed to interest rate risk. Effective maturities may differ from those presented, mainly because some instruments include clauses allowing early redemption, with or without penalty.

	December 31, 2020				December 31, 2019			
	Carrying value of other debt instrument by contractual maturity				Carrying value of other debt instrument by contractual maturity			
	12 months or less	More than 1 year up to 5 years	More than 5 years	Total carrying value	12 months or less	More than 1 year up to 5 years	More than 5 years	Total carrying value
(US Dollars in thousands)								
Debts relating to investments under total return swap agreement ("TRS")	—	—	101,254	101,254	—	99,897	—	99,897
Other debt instruments issued, notes and bank overdrafts excluding TRS	—	—	—	—	7,256	—	—	7,256
Collateral debts relating to investments under a lending agreement or equivalent	317,429	60,550	—	377,980	246,661	167,955	—	414,616

Note 15 Tax

15.1 TAX EXPENSE

15.1.1 Breakdown of tax expense between current and deferred tax

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

<i>(US Dollars in thousands)</i>	December 31, 2020	December 31, 2019
Current income tax	25,022	68,950
Deferred income tax	112,583	(84)
TOTAL INCOME TAX	137,605	68,866

15.1.2 Tax proof

The notional tax charge/(benefit) is calculated using the pre-tax accounting income (loss) in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. A reconciliation of the difference between the notional tax charge (benefit) and the effective tax charge (benefit) for the years ended December 31, 2020 and 2019 is provided below.

<i>(US Dollars in thousands)</i>	December 31, 2020	December 31, 2019
Income/(loss) from operating activities, gross of tax expenses (excluding result from investments consolidated using equity method)	(2,008,522)	250,898
Notional tax rate	(2.32)%	25.58 %
Notional tax charge/(benefit)	46,593	64,169
Impact of change in tax rates	(2,804)	11,300
Impact of differences in tax rate and impact of taxes not linked to pre-tax income	44,726	11,667
Impact of differences in tax rates and tax bases	41,922	22,967
Impact of permanent differences	(25,860)	55,060
Adjustments on tax relating to prior years - Current Tax	(35,682)	(11,628)
Adjustments on tax relating to prior years - Deferred Tax	9,898	14,619
UTP gross amount (Unrecognized Tax Position)	16,843	8,900
Derecognition/(recognition) of DTA on temporary differences	83,891	(85,221)
Impact of adjustments, decrease in value and other items	74,950	(73,330)
EFFECTIVE TAX CHARGE	137,605	68,866
EFFECTIVE TAX RATE (%)	(6.85)%	27.45 %

Effective tax rate stood at (6.9)% in 2020 versus 27.4% in 2019. The decrease in the rate is primarily driven by a combination of profits in taxable jurisdictions (primarily France, Germany, Italy), and unbenefited losses in non-taxable jurisdictions (Bermuda) and taxable jurisdictions where the Company has a full valuation allowance (the UK, Switzerland):

- Impact of differences in tax rates and tax bases of \$41.9 million comprised primarily of the impact of legal entity Branch Income computations;
- Impact of permanent differences of \$(25.9) million comprised primarily of non-taxable foreign exchange gains and a tax benefit from the restructuring of a legal entity, partially offset by notional investment income allocations and uncreditable withholding tax on investments;
- Derecognition/(recognition) of DTA on temporary differences of \$83.9 million related primarily to the de-recognition of DTA as cumulative loss history and future income projections do not support continued recognition primarily in Brazil, Canada and Sweden. In addition, the non-recognition of DTAs on losses and new temporary differences in the year, primarily in the UK.

15.2 DEFERRED TAX

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

	December 31, 2020			December 31, 2019
	Deferred tax assets	Deferred tax liabilities	Net deferred tax position	Net deferred tax position
(US Dollars in thousands)				
Value of Business In-force	—	—	—	(3,359)
Deferred Acquisition Costs	87,051	88,141	(1,090)	25,574
Other intangible assets (including Goodwill)	14,471	107,195	(92,724)	(65,069)
Real estate	18,177	6,996	11,182	19,113
Financial assets	210,633	505,974	(295,341)	(227,752)
Technical reserves	285,517	307,583	(22,066)	131,970
Pensions and other employees benefits	113,283	3,396	109,888	91,264
Tax losses carried forward	254,923	—	254,923	252,438
Other	93,218	85,915	7,304	(14,078)
TOTAL DEFERRED TAX BY NATURE	1,077,273	1,105,199	(27,926)	210,101
<i>of which deferred tax through Profit and Loss</i>	<i>1,043,888</i>	<i>704,463</i>	<i>339,424</i>	<i>441,958</i>
<i>of which deferred tax through reserves relating to the change in fair value of financial instruments available for sale and financial liabilities measured at fair value through profit and loss that are attributable to changes in own credit risk</i>	<i>20,135</i>	<i>399,330</i>	<i>(379,195)</i>	<i>(244,683)</i>
<i>of which deferred tax through other equity reserves</i>	<i>13,250</i>	<i>1,405</i>	<i>11,845</i>	<i>12,826</i>

As of December 31, 2020, the \$(27.9) million net DTL related primarily to entities located in France (\$182.7 million) and Germany (\$109.9 million), offset by DTAs on entities located in the United States (\$215.1 million), United Kingdom (\$17.7 million), Italy (\$15.5 million) and other jurisdictions (\$16.4 million).

	December 31, 2020	December 31, 2019
(US Dollars in thousands)		
Deferred tax assets	310,063	517,449
Deferred tax liabilities	337,989	307,348
Net deferred tax position	(27,926)	210,101

The \$238.0 million decrease in the net deferred tax position from \$210.1 million in 2019 to \$(27.9) million in 2020 relates primarily to the combination of an increase in the DTL due to the appreciation of the value of financial assets, plus reversal of DTAs from the amortization of reserves.

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

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

(US Dollars in thousands)	2020									
	DTA maturity date 1 year	DTA maturity date 2 years	DTA maturity date 3 years	DTA maturity date 4 years	DTA maturity date 5 years	DTA maturity date 6 years	DTA maturity date between 7 and 11 years	DTA maturity date > 11 years	No maturity date	Total
Recognized DTA										
Recognized DTA - Tax loss carryforwards	105	33	—	4,551	455	306	36,674	—	212,799	254,923
Recognized DTA - Other items not related to tax losses	—	—	—	—	—	—	1,046	7,613	813,691	822,350
Total recognized DTA	105	33	—	4,551	455	306	37,720	7,613	1,026,491	1,077,273
Corresponding carry forward losses	499	156	—	23,102	1,821	1,487	174,637	—	889,070	1,090,772
Unrecognized DTA										
Unrecognized DTA - Tax loss carryforwards	7,024	5,285	6,367	13,944	339	2,585	40,710	—	261,364	337,619
Unrecognized DTA - Other items not related to tax losses	—	—	—	—	—	—	—	—	161,406	161,406
Total unrecognized DTA	7,024	5,285	6,367	13,944	339	2,585	40,710	—	422,770	499,025
Corresponding carry forward losses	47,616	32,967	44,168	86,358	1,364	12,710	212,972	—	1,128,655	1,566,811
2019										
(US Dollars in thousands)	DTA maturity date 1 year	DTA maturity date 2 years	DTA maturity date 3 years	DTA maturity date 4 years	DTA maturity date 5 years	DTA maturity date 6 years	DTA maturity date between 7 and 11 years	DTA maturity date > 11 years	No maturity date	Total
	DTA maturity date 1 year	DTA maturity date 2 years	DTA maturity date 3 years	DTA maturity date 4 years	DTA maturity date 5 years	DTA maturity date 6 years	DTA maturity date between 7 and 11 years	DTA maturity date > 11 years	No maturity date	Total
Recognized DTA										
Recognized DTA - Tax loss carryforwards	12,062	4,929	—	—	—	—	416	66,716	168,315	252,438
Recognized DTA - Other items not related to tax losses	—	—	—	—	—	—	8,142	5,076	753,623	766,841
Total recognized DTA	12,062	4,929	—	—	—	—	8,558	71,792	921,938	1,019,279
Corresponding carry forward losses	57,439	23,470	—	—	—	—	953	317,695	680,251	1,079,808
Unrecognized DTA										
Unrecognized DTA - Tax loss carryforwards	752	3,300	3,185	3,179	9,942	—	10,652	644	274,677	306,331
Unrecognized DTA - Other items not related to tax losses	—	—	—	—	—	—	—	—	124,914	124,914
Total unrecognized DTA	752	3,300	3,185	3,179	9,942	—	10,652	644	399,591	431,245
Corresponding carry forward losses	8,015	41,696	29,923	39,923	52,209	—	114,596	3,062	1,230,841	1,520,265

15.3 UNCERTAIN TAX POSITIONS

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

For the years ended December 31, 2020 and 2019, the Company had unrecognized tax benefits of \$113.2 million and \$94.1 million, respectively. The increase in 2020 relates primarily to the ongoing audit underway by the Spanish taxing authority related to one of the Company's subsidiaries.

The Company does not currently anticipate any significant change in the unrecognized tax benefits in 2021.

Note 16 Derivative Instruments

This Note includes all types of derivatives which are recognized at fair value in accordance with the IFRS hierarchy as described in Note 2.5.

16.1 DERIVATIVE INSTRUMENTS: MATURITIES, NOTIONAL VALUES AND FAIR VALUES

(US Dollars in thousands)	Maturity of notional amount as of December 31, 2020 (a)			Notional amount		Positive fair value		Negative fair value		Net fair value	
	< 1 year	1 to 5 years	> 5 years	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Interest rates derivatives	26,379	20,944	47,418	94,741	1,457,958	271	—	4,228	17,989	(3,957)	(17,989)
Equity derivatives	177,020	—	—	177,020	286,644	—	4,479	55,934	664	(55,934)	3,815
Currencies derivatives	1,784,380	—	57,471	1,841,851	2,369,157	16,773	35,538	41,644	55,049	(24,870)	(19,511)
Credit derivatives	234,109	201,616	—	435,725	222,074	4,907	2,488	168	2,304	4,739	184
Other derivatives	100,553	55,112	—	155,665	144,387	—	1,196	1,255	4,058	(1,255)	(2,862)
TOTAL	2,322,441	277,671	104,889	2,705,002	4,480,220	21,951	43,701	103,229	80,064	(81,278)	(36,363)

Note: This table includes all derivatives (assets and liabilities) as described in Note 2.8, i.e. hedge, macro-hedge and other asset or liability positions.

(a) By convention, notional amounts are displayed in absolute value, and exclude potential netting out.

The main reasons for the evolution in the use of derivatives (mostly interest rates, currencies and equity derivatives) are detailed in Note 16.2 below.

16.2 DERIVATIVE INSTRUMENTS BY IAS 39 TYPE OF HEDGE

Derivative instruments are broken down as follows:

(US Dollars in thousands)	December 31, 2020									
	Derivative instruments used in fair value hedging relationship		Derivative instruments used in cash flow hedging relationship		Derivative instruments used in hedges of net investment in a foreign operation		Macro-hedges and other derivative instruments not qualifying under IAS 39 but generally used as economic hedges		Total	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
Interest rates derivatives	—	—	—	—	—	—	94,741	(3,957)	94,741	(3,957)
Equity derivatives	—	—	—	—	—	—	177,020	(55,934)	177,020	(55,934)
Currencies derivatives	—	—	24,471	1,773	1,246,301	(36,762)	571,079	10,118	1,841,851	(24,870)
Credit derivatives	—	—	—	—	—	—	435,725	4,739	435,725	4,739
Other derivatives	—	—	55,112	(1,255)	—	—	100,553	—	155,665	(1,255)
TOTAL	—	—	79,583	519	1,246,301	(36,762)	1,379,118	(45,034)	2,705,002	(81,278)

Note: This table includes all derivatives (assets and liabilities) as described in Note 2.8, i.e. hedge, macro-hedge and other asset or liability positions.

December 31, 2019										
(US Dollars in thousands)	Derivative instruments used in fair value hedging relationship		Derivative instruments used in cash flow hedging relationship		Derivative instruments used in hedges of net investment in a foreign operation		Macro-hedges and other derivative instruments not qualifying under IAS 39 but generally used as economic hedges		Total	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
Interest rates derivatives	—	—	—	—	—	—	1,457,958	(17,989)	1,457,958	(17,989)
Equity derivatives	—	—	—	—	—	—	286,644	3,815	286,644	3,815
Currencies derivatives	—	—	15,676	(1,120)	881,367	(13,996)	1,472,114	(4,395)	2,369,157	(19,511)
Credit derivatives	—	—	—	—	—	—	222,074	184	222,074	184
Other derivatives	—	—	50,387	(1,120)	—	—	91,751	(1,742)	142,138	(2,862)
TOTAL	—	—	66,063	(2,240)	881,367	(13,996)	3,530,541	(20,127)	4,477,971	(36,363)

Note: This table includes all derivatives (assets and liabilities) as described in Note 2.8, i.e. hedge, macro-hedge and other asset or liability positions.

As of December 31, 2020, the notional amount of all derivative instruments totaled \$2,705.0 million (\$4,478.0 million at the end of 2019). Their net fair value totaled \$(81.3) million as of December 31, 2020 (\$(36.4) million at the end of 2019), comprised of the fair value of derivatives on invested assets of \$(43.9) million (\$(4.4) million at the end of 2019) and the fair value of derivatives on liabilities of \$37.6 million (\$2.2 million at the end of 2019) (see Note 16.3).

The Company enters into derivative instruments for both risk management and investment purposes. The Company is exposed to potential loss from various market risks, and manages its market risks based on the Authorities Framework (see Note 5.2). The Authorities Framework is intended to align the risk profile of the Company's investment portfolio to be consistent with the Company's risk tolerance, and other guidelines established by the XLB Board of Directors.

The Company, either directly or through third party investment managers, may use derivative instruments within its investment portfolio, including interest rate swaps and options on interest rate swaps, total return swaps, credit derivatives (including single name and index credit default swaps and options on credit default swaps), equity options, forward contracts and futures (including foreign exchange, bond and stock index, interest rate and commodity futures), primarily as a means of reducing investment risk by economically hedging exposures to interest rate, credit spread, equity price changes and foreign currency risk or, in limited instances, for efficient portfolio management. When using exchange traded or cleared over-the-counter derivatives, the Company is exposed to the credit risk of the applicable clearing house and of the Company's futures commission merchant. When using uncleared over-the-counter derivatives, the Company is exposed to credit risk in the event of non-performance by the counterparties to such derivative contracts. To manage this risk, the Company requires appropriate legal documentation with counterparties that has been reviewed and negotiated by legal counsel on behalf of the Company and complies with the Company's documentation standards, investment guidelines and policies.

The notional amount of derivatives which is used to express the volume of instruments outstanding and to provide a basis for comparison with other financial instruments most certainly overstates the level of activity and does not directly measure risk as it greatly exceeds the possible credit and market loss that could arise from such transactions. It does not represent the amounts that are effectively exchanged by the parties, and thus is not a measure of the Company's exposure to derivative instruments. For example, the Company is exposed to credit risk in respect of its counterparties to the derivative instruments, but is not exposed to credit risk on the entire notional amounts. The Company may also use derivatives as an alternative to gain exposure to certain asset classes through "synthetic positions", for example, holding cash and equity futures instead of physical equities. Another example is the combination of government bonds and credit default swaps as a synthetic position and an alternative to the direct purchase of a corporate bond. These schemes do not add any specific risks compared with other investment assets.

In 2020, the use of derivatives within the Company decreased overall by \$1,773.0 million in terms of notional amount, as the notional amount of interest rates derivatives decreased by \$1,363.2 million mainly due to unwinding of interest rate swaps used by the Company to manage duration.

In the tables above, the fourth column includes derivatives that do not qualify for hedge accounting under IAS 39, but whose objective is nevertheless to provide economic hedging of a risk, with the exception notably of certain credit derivatives. They also include "macro-hedging" derivatives as defined by IAS 39.

As of December 31, 2020, the notional amount of hedging derivative instruments as defined by IAS 39 (fair value hedge, cash flow hedge and net investment hedge) of the Company was \$1,325.9 million versus \$947.4 million at the end of 2019. The net fair value recorded was \$(36.2) million as of December 31, 2020 versus \$(16.2) million at the end of 2019.

16.2.1 Interest rate derivative instruments

The Company utilizes risk management and overlay strategies that incorporate the use of derivative financial instruments, primarily to manage its fixed income portfolio duration and net economic exposure to interest rate risks. The Company may also use interest rate swaps to convert certain liabilities from a fixed rate to a variable rate of interest or use them to convert a variable rate of interest from one basis to another.

As of December 31, 2020, the notional amount of interest rate derivative instruments totaled \$94.7 million (\$1,458.0 million at the end of 2019). Their net fair value as of December 31, 2020 totaled \$(4.0) million (\$(18.0) million at the end of 2019). The Company mainly uses interest rate swaps.

16.2.2 Equity derivative instruments

Stock index futures may be purchased within the Company's investment portfolio to create synthetic equity exposure and to add value to the portfolio with overlay strategies where market inefficiencies are believed to exist. Stock index futures may be sold to facilitate the timely and efficient reduction of equity exposure. Equity option strategies, including both purchases and sales of options, may be used to add value or reduce exposure with overlay or other strategies. From time to time, the Company may enter into other financial market exposure derivative contracts on various indices and other underlying financial instruments including, but not limited to, equity options, total return swaps, and commodity contracts.

As of December 31, 2020, the notional amount of equity derivative instruments totaled \$177.0 million (\$286.6 million at the end of 2019). Their net fair value totaled \$(55.9) million as of December 31, 2020 (\$3.8 million at the end of 2019). The Company mainly uses equity option and forward contracts.

16.2.3 Currency derivative instruments

The Company has entered into different currency instruments to reduce its exposure to foreign currency risk. Currency derivative instruments represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date.

As of December 31, 2020, the notional amount of currency derivative amounted to \$1,841.9 million versus \$2,369.2 million at the end of 2019. Their market value was \$(24.9) million versus \$(19.5) million at the end of 2019. The Company mainly uses forward contracts.

One of the main objectives of currency derivatives instruments is to limit variations in net foreign currency-denominated assets resulting from movements in exchange rates in order to protect partially or in full the value of the Company's net foreign-currency investments in its subsidiaries and thus reduce the variability of the Company's consolidated shareholder's equity against currency fluctuations, but also of other key indicators such as liquidity, gearing and solvency ratios. The majority of these foreign-currency subsidiaries have functional currencies of either the British pound or the Euro. Notional amount of derivatives used by the Company to hedge the foreign currency exposure increased from \$881.4 million at the end of 2019 to \$1,246.3 million at the end of 2020.

Currency derivative instruments are also used to hedge foreign exchange mismatch between assets and liabilities in subsidiaries of the Company. While most of the operating units' commitments are matched by assets denominated in the same currency, some entities may invest in foreign currency denominated assets to diversify their investments.

A description of exchange-rate risk related to the operating activities of Company subsidiaries and the Company is included in Note 5.2 with amounts of exposures to exchange-rate risk and corresponding hedges.

16.2.4 Credit derivative instruments

The Company, as part of its investment and credit risk management activities, uses strategies that involve credit derivatives, which consist mainly of credit default swaps. These instruments are used as an alternative to corporate bonds portfolios, when coupled with government debt instruments, but also as a protection on single names or specific portfolios. Credit derivatives may be purchased within the Company's investment portfolio in the form of single name and basket credit default swaps and swaptions, which are used to mitigate credit exposure through a reduction in credit spread duration (i.e. macro credit strategies rather than single-name credit hedging) or exposure to securities of selected issuers. Credit derivatives may also be used to efficiently gain exposure to credit markets, subject to guidelines that prohibit the introduction of effective leverage.

As of December 31, 2020, the notional amount of credit derivatives held by the Company was \$435.7 million compared to \$222.1 million at the end of 2019.

16.3 EFFECT OF HEDGING ON FINANCIAL INSTRUMENTS

The impact of derivative instruments is presented in the consolidated statement of financial position within their related underlying financial assets and liabilities. The table below sets out the impact of derivative instruments on the related underlying assets and liabilities.

	December 31, 2020			December 31, 2019		
	Net book value excluding effect of derivatives (a)	Impact of derivative instruments (b)	Net book value including effect of derivatives (c)	Net book value excluding effect of derivatives (a)	Impact of derivative instruments (b)	Net book value including effect of derivatives (c)
Investment in real estate properties	1,057,220	—	1,057,220	731,968	—	731,968
Debt instruments	40,217,998	2,015	40,220,013	37,996,497	(4,384)	37,992,113
Equity securities	573,596	(28)	573,569	966,965	—	966,965
Non-consolidated investment funds	2,810,673	—	2,810,673	2,539,151	—	2,539,151
Other investments (d)	445,786	—	445,786	512,866	—	512,866
Macro-hedge and other derivatives - assets	—	(45,839)	(45,839)	(28,381)	—	(28,381)
TOTAL FINANCIAL INVESTMENTS	44,048,053	(43,852)	44,004,201	41,987,098	(4,384)	41,982,714
Loans	364,841	199	365,040	307,700	—	307,700
TOTAL INVESTMENTS	45,470,115	(43,653)	45,426,462	43,026,766	(4,384)	43,022,382
Other payables	1,894,128	—	1,894,128	2,412,179	—	2,412,179
Macro-hedge and other derivatives - liabilities	—	37,625	37,625	—	2,249	2,249
Total other payables	1,894,128	37,625	1,931,753	2,412,179	2,249	2,414,428

(a) Carrying value, i.e. net of impairment, discount premiums and related amortization, including accrued interest, but excluding any impact of derivatives.

(b) Including macro-hedge and other derivatives.

(c) Carrying value (see (a)), including effect of hedging instruments (IAS 39), economic hedging instruments not acting as hedging under IAS 39, macro-hedge and other derivatives.

(d) Other investments held through consolidated investment funds designated as at fair value through profit or loss.

16.4 BREAKDOWN OF DERIVATIVE INSTRUMENTS BY VALUATION METHOD

	December 31, 2020				December 31, 2019			
	Instruments quoted in an active market	Instruments not quoted in an active market – No active market			Instruments quoted in an active market	Instruments not quoted in an active market – No active market		
	Fair value determined directly by reference to an active market (Level 1)	Fair value mainly based on observable market data (Level 2)	Fair value mainly not based on observable market data (Level 3)	Total	Fair value determined directly by reference to an active market (Level 1)	Fair value mainly based on observable market data (Level 2)	Fair value mainly not based on observable market data (Level 3)	Total
(US Dollars in thousands)								
Net value of derivative instruments – assets	16,820	(60,473)	—	(43,653)	(23,903)	(10,211)	—	(34,114)
Net value of derivative instruments – liabilities	37,625	—	—	37,625	2,249	—	—	2,249
Net fair value				(81,278)				(36,363)

Principles applied by the Company in order to proceed with the classification of financial instruments into the IFRS 13 fair value hierarchy categories and the fair value hierarchy applicable to such instruments are described in Note 2.5. The same principles apply as far as derivatives instruments are concerned.

The Company mitigates counterparty credit risk of derivative instruments by contractually requiring collateral for the majority of derivative contracts. As of December 31, 2020, the adjustment to the fair value of derivatives for non-performance risk was not material.

Note 17 Gross Written Premiums

<i>(US Dollars in thousands)</i>	December 31, 2020	December 31, 2019 (a)
Property (b)	3,503,270	2,677,322
Casualty	4,813,598	4,755,946
Specialty	4,024,144	2,954,223
Professional	3,423,997	2,712,350
P&C Insurance	15,765,010	13,099,841
Property catastrophe	946,588	935,642
Property other	1,416,129	1,187,024
Other (c)	2,964,967	2,900,196
P&C Reinsurance	5,327,684	5,022,862
Total P&C operations	21,092,694	18,122,703
Life operations	209,695	210,160
GROSS WRITTEN PREMIUMS	21,302,389	18,332,863

Note that prior year results include only 3 months of ACS which was acquired September 26, 2019 (see Note 4.2.2)

(a) Amounts from the prior year have been re-presented to reflect current mapping of underlying lines of business to be consistent with the manner in which they are reflected in the current period.

(b) Property within the Insurance segment includes risk consulting fee income of \$105.7 million in 2020.

(c) Other within the Reinsurance segment includes: multi-line, crop, credit surety, casualty professional and other lines.

Products and Services

The Company, through its operating subsidiaries, is a leading provider of Property & Casualty insurance and reinsurance coverages to industrial, commercial and professional firms, insurance companies and other enterprises on a worldwide basis, through:

- its insurance operations, the Company offers a broad range of coverages, including property, primary and excess casualty, excess and surplus lines, environmental liability, professional liability, construction, marine, energy, aviation & satellite, fine art & specie, equine, livestock & aquaculture, accident & health and crisis management, among other risks;
- its reinsurance operations, the Company provides casualty, property risk, property catastrophe, specialty, and other reinsurance lines on a global basis with business being written on both a proportional and non-proportional treaty basis, as well as a facultative basis;
- its risk consulting operations, the Company offers both insurance and non-insurance clients customized risk management solutions and consulting services to understand and quantify the risks companies face or may face tomorrow, with the objective of avoiding preventable losses and mitigating the impact of losses which do occur.

Distribution Channels

The majority of the Company's business originates via a large number of international, national and regional producers, acting as the brokers and representatives of current and prospective policyholders. This channel is supported by client and country management teams, which include sales and distribution representatives in key markets throughout the world.

Underwriting authority is also contractually delegated to selected third parties which are subject to a financial and operational due diligence review prior to any such delegation of authority, as well as ongoing reviews and audits as deemed necessary with the goal of assuring the continuing integrity of underwriting and related business operations.

Note 18 Net Investment Result Excluding Financing Expenses

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

	December 31, 2020				
	Net investment income (a)	Net realized gains and losses relating to investments at cost and at fair value through shareholder's equity	Net realized gains and losses and change in fair value of other investments at fair value through profit or loss	Change in investment impairments	Net investment result
<i>(US Dollars in thousands)</i>					
Investment in real estate properties at amortized cost	19,886	—	—	—	19,886
Investment in real estate properties as at fair value through profit or loss	—	—	—	—	—
Investment in real estate properties	19,886	—	—	—	19,886
Debt instruments held to maturity	—	—	—	—	—
Debt instruments available for sale	878,410	34,728	—	(14,142)	898,996
Debt instruments designated as at fair value through profit or loss (a)	82,771	—	173,717	—	256,488
Debt instruments held for trading	—	—	—	—	—
Non quoted debt instruments (amortized cost)	5,317	(4)	—	—	5,313
Debt instruments	966,498	34,723	173,717	(14,142)	1,160,797
Equity instruments available for sale	9,359	125,603	8,560	(32,835)	110,688
Equity instruments designated as at fair value through profit or loss (b)	(628)	—	—	—	(628)
Equity instruments	8,731	125,603	8,560	(32,835)	110,060
Non-consolidated investment funds available for sale	53,236	(5,364)	—	(11,719)	36,153
Non-consolidated investment funds designated as at fair value through profit or loss	171,956	—	78,572	—	250,528
Non-consolidated investment funds held for trading	26	—	—	—	26
Non-consolidated investment funds	225,218	(5,364)	78,572	(11,719)	286,707
Other assets held by consolidated investment funds designated as at fair value through profit or loss	741	—	6,903	—	7,643
Loans at cost	17,093	—	—	(11,000)	6,093
Loans	17,093	—	—	(11,000)	6,093
Derivative instruments (c)	1,495	—	(435,634)	—	(434,139)
Investment management expenses	(78,716)	—	—	—	(78,716)
Other	52,394	(1,169)	(96,431)	—	(45,206)
NET INVESTMENT RESULT	1,213,339	153,794	(264,313)	(69,696)	1,033,124

(a) Includes debt instruments held by consolidated investment funds, designated as at fair value through profit or loss.

(b) Includes equity instruments held by consolidated investment funds, designated as at fair value through profit or loss.

(c) Comprised mainly of investment returns passed on relating to run-off life reinsurance operations (see Note 13.3).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	December 31, 2019				
<i>(US Dollars in thousands)</i>	Net investment income (a)	Net realized gains and losses relating to investments at cost and at fair value through shareholder's equity	Net realized gains and losses and change in fair value of other investments at fair value through profit or loss	Change in investment impairments	Net investment result
Investment in real estate properties at amortized cost	5,740	12,588	—	—	18,328
Investment in real estate properties as at fair value through profit or loss	—	—	(63)	—	(63)
Investment in real estate properties	5,740	12,588	(63)	—	18,265
Debt instruments held to maturity	2,313	—	—	—	2,313
Debt instruments available for sale	858,423	18,094	4,122	(4,232)	876,407
Debt instruments designated as at fair value through profit or loss (a)	95,416	—	251,527	—	346,943
Debt instruments held for trading	74	—	(278)	—	(204)
Non quoted debt instruments (amortized cost)	—	—	—	—	—
Debt instruments	956,226	18,094	255,371	(4,232)	1,225,459
Equity instruments available for sale	15,231	37,167	529	(12,354)	40,573
Equity instruments designated as at fair value through profit or loss (b)	(48)	—	—	—	(48)
Equity instruments	15,183	37,167	529	(12,354)	40,525
Non-consolidated investment funds available for sale	16,484	19,162	—	—	35,646
Non-consolidated investment funds designated as at fair value through profit or loss	43,130	—	50,802	—	93,932
Non-consolidated investment funds held for trading	—	—	—	—	—
Non-consolidated investment funds	59,614	19,162	50,802	—	129,578
Other assets held by consolidated investment funds designated as at fair value through profit or loss	12,802	—	(3,050)	—	9,752
Loans at cost	12,941	(149)	(318)	—	12,474
Loans	12,941	(149)	(318)	—	12,474
Derivative instruments (c)	6,072	—	(392,298)	—	(386,226)
Investment management expenses	(73,827)	—	—	—	(73,827)
Other	43,405	—	(10,087)	(1,185)	32,133
NET INVESTMENT RESULT	1,038,156	86,862	(99,114)	(17,771)	1,008,133

Note that prior year results include only 3 months of ACS which was acquired September 26, 2019 (see Note 4.2.2)

(a) Includes debt instruments held by consolidated investment funds, designated as at fair value through profit or loss.

(b) Includes equity instruments held by consolidated investment funds, designated as at fair value through profit or loss.

(c) Comprised mainly of investment returns passed on relating to run-off life reinsurance operations (see Note 13.3).

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

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

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

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

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

Note 19 Net Result Of Reinsurance Ceded

Net result of reinsurance ceded was as follows:

<i>(US Dollars in thousands)</i>	December 31, 2020	December 31, 2019
Premiums ceded and unearned premiums ceded	(7,812,828)	(5,460,447)
Claims ceded (including change in claims reserves)	6,781,925	4,084,909
Commissions received from/(paid) to reinsurers	1,243,815	909,310
NET RESULT OF REINSURANCE CEDED	212,912	(466,228)

Note that prior year results include only 3 months of ACS which was acquired September 26, 2019 (see Note 4.2.2)

Note 20 Expenses By Type

<i>(US Dollars in thousands)</i>	December 31, 2020	December 31, 2019
Acquisition costs - gross	3,123,383	3,072,518
Change in deferred acquisition costs	(10,137)	(213,345)
Acquisition costs	3,113,246	2,859,173

<i>(US Dollars in thousands)</i>	December 31, 2020	December 31, 2019
Breakdown of expenses by destination		
Acquisition costs	3,113,246	2,859,173
Administrative expenses	2,234,598	2,049,314
Other (income) and expenses	502	(24,815)
TOTAL EXPENSES EXCLUDING FINANCING EXPENSES	5,348,346	4,883,672
Financing expenses	66,621	57,548
TOTAL EXPENSES	5,414,967	4,941,220

<i>(US Dollars in thousands)</i>	December 31, 2020	December 31, 2019
Breakdown of expenses by type		
Acquisition costs	3,113,246	2,653,586
Employee benefit expenses	1,584,329	1,461,169
IT expenses	320,067	287,184
Charges relating to owner occupied properties	109,216	249,366
Outsourcing and professional services	143,775	218,056
Other expenses	77,713	14,311
TOTAL EXPENSES EXCLUDING FINANCING EXPENSES	5,348,346	4,883,672
Gross earned expense ratio (a)	25.7 %	28.4 %
Financing expenses	66,621	57,548
TOTAL EXPENSES	5,414,967	4,941,220

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

Financing expenses include accretion of deposit liabilities of \$33.3 million (\$35.5 million as of December 31, 2019) and interest expense on lease liabilities of \$12.0 million (\$12.6 million as of December 31, 2019).

Note 21 Related-Party Transactions

In 2020, the Company was party to the following transactions with related parties which may be deemed to have been material to the Company or the related party in question or unusual in their nature or conditions.

21.1 ASSUMED REINSURANCE CONTRACTS

In the normal course of business, the Company enters into assumed reinsurance contracts with certain of its insurance investments. During the years ended December 31, 2020 and 2019, these contracts resulted in reported net premiums, reported net losses and reported net acquisition costs with these affiliates, or their subsidiaries, which are included within the Consolidated Statements of Income, as summarized below.

<i>(US Dollars in thousands)</i>	December 31, 2020	December 31, 2019
Reported net premiums written	207,760	145,927
Reported net losses incurred	112,158	92,599
Reported net acquisition costs incurred	50,122	54,100

21.2 XL INNOVATE

The Company's wholly-owned subsidiary XL Innovate Fund, LP ("XL Innovate") is a venture capital initiative with a strategic focus on developing new capabilities in the insurance sector. XL Innovate primarily seeks investments in equity positions of entities that provide new market opportunities for the Company throughout the world, striving to create partnerships outside of the traditional underwriting space to find ways to underwrite currently uninsured risks.

A family trust related to the external 3rd party manager (a former employee) who maintains responsibility for overseeing XL Innovate's operations maintains a 5.21% non-controlling equity interest in XL Innovate; this manager also serves as a member of the Board of Directors of XL Innovate, and maintains management responsibility over its operations. The underlying investments held by XL Innovate are reflected in the Company's consolidated financial statements in accordance with the Accounting Policies provided in Note 2, based on the Company's varying level of investment in, and control over, such entities. Aside from investments made where the manager's family trust maintains non-controlling interest, there were no other material transactions between the Company and this manager for the years ended December 31, 2020 and 2019.

In addition, in the normal course of business, the Company enters into assumed reinsurance contracts with one of the insurance entities in which XL Innovate holds an investment. The underwriting results associated with these contracts are included in the table in Note 21.1.

21.3 AXA

On September 12, 2018, the Company was acquired by, and became a wholly-owned subsidiary of AXA. In the normal course of business, the Company enters into property & casualty assumed and ceded contracts which include various subsidiaries and affiliates of AXA as other parties. During the years ending December 31, 2020 and 2019, these contracts resulted in intergroup net premiums earned, net losses incurred, and net acquisition costs with the AXA entities, which are included in the Consolidated Statements of Income, as summarized below.

<i>(US Dollars in thousands)</i>	December 31, 2020	December 31, 2019
P&C net premiums earned	51,298	57,029
P&C net losses incurred	17,856	23,466
P&C net acquisition costs	4	15,835

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

In addition, as of December 31, 2020 and December 31, 2019 under these same contracts, the Company held intergroup net premiums receivable, net unearned premium reserves, and net unpaid losses and loss expense reserves with the AXA entities, which are included in the Consolidated Balance Sheets as summarized below.

(US Dollars in thousands)	December 31, 2020	December 31, 2019
P&C net premiums receivable	113,610	10,736
P&C net unearned premium reserves	1,162	27,743
P&C net unpaid loss and loss expense reserves	110,574	55,054

As of December 31, 2020, within "Debt instruments available for sale" (see Note 9.1), the Company held investments in publicly quoted bonds of AXA with a carrying value of:

(US Dollars in thousands)	December 31, 2020	December 31, 2019
AXA SA Floating Rate Bond 29/01/2024	374,983	335,614
AXA SA 2.875% Fixed Rate Bond 15/06/2024	170,219	139,412
TOTAL	545,202	475,026

As of December 31, 2020, within "Other payables" (see Note 14), the Company has recorded a financial liability for Redeemable Preference Shares issued to AXA amounting to \$1.0 million. In connection with this issuance, the Company has received a commitment from AXA that it will increase the purchase price of these Redeemable Preference Shares to total \$1.0 billion in order to assist in the Company's management and achievement of Enhanced Capital Requirement target levels, if needed (see Note 22.1).

Note 22 **Contingent Assets And Liabilities And Unrecognized Contractual Commitments**

22.1 BREAKDOWN OF COMMITMENTS RECEIVED

<i>(US Dollars in thousands)</i>	December 31, 2020	December 31, 2019
Credit facilities received (a)	3,732,135	3,483,059
Pledged securities and collateralized commitments	1,193	241,855
Other commitments	1,316	198,187
TOTAL	3,734,645	3,923,101

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

(a) As of December 31, 2020 total commitments used were \$2,606.6 million (\$3,105.4 million as of December 31, 2019).

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

AXA Syndicated Facilities

In October 2018, the Company acceded to an AXA Group unsecured credit facility that provides for the issuance of letters of credit, and this facility matures in December 2021. In July, 2019, the Company, with the support of a guarantee from AXA, its indirect, ultimate parent, entered into an unsecured credit facility that provides for the issuance of letters of credit and revolving credit loans up to \$1.0 billion, with the total amount of the revolving credit loans outstanding limited to \$500.0 million (the "AXA Unsecured Syndicated Facility II"). In connection with the Syndicated Facility, the Company's previous syndicated credit agreements originally entered into in August 2016, as well as certain related security arrangements, were terminated in July 2019. The commitments under the AXA Unsecured Syndicated Facility I are available until, the earlier of (i) July 11, 2024 (unless extended by the parties), and (ii) the date of termination in whole of the commitments upon an optional termination or reduction of the commitments by the account parties or upon the occurrence of certain events of default.

AXA Ancillary Own Funds

In October of 2019 the Company entered into an Ancillary Own Funds ("AOF") Facility with AXA, its indirect, ultimate parent, for the issuance of a guarantee for up to \$611.8 million (the "AXA AOF Facility"). The AXA AOF Facility was entered into in connection with the Capital Commitment Deed dated September 30, 2019 provided by the Company to XLICSE (see Note 22.3.2). The commitments under the AXA AOF Facility are available until, the earlier of (i) December 30, 2024 (unless extended by the parties), and (ii) the date of termination in whole of the commitments upon an optional termination or reduction of the commitments by the account parties or upon the occurrence of certain events of default.

AXA Redeemable Preference Shares

Effective December 30, 2020, the Company issued Redeemable Preference Shares to AXA, its indirect ultimate parent. Associated with this issuance, the Company received proceeds of \$1.0 million (see Note 21.3) and a commitment from AXA to receive an additional \$999.0 million of purchase price, if such funds are needed by the Company in order to meet Target Enhanced Capital Requirement of 120% for the Bermuda Monetary Authority.

Insurance Trusts and other matters

The Company's reinsurance assets result from reinsurance arrangements in the course of its operations. A credit exposure exists with respect to reinsurance assets as they may be uncollectible. The Company manages its credit risk in its reinsurance relationships by transacting with reinsurers that it considers financially sound, and if necessary, the Company may hold collateral in the form of funds, trust accounts and/or irrevocable letters of credit. This collateral can be drawn on for amounts that remain unpaid beyond specified time periods on an individual reinsurer basis. At December 31, 2020 the value of assets held in trust accounts was \$6,171.0 million (\$6,087.0 million in 2019) and the value of letters of credit was \$4,068.3 million (\$2,711.5 million in 2019).

22.2 BREAKDOWN OF COMMITMENTS GIVEN

	December 31, 2020					December 31, 2019
	Expiring date					
	12 months or less	More than 1 year up to 3 years	More than 3 years up to 5 years	More than 5 years	Total	Total
(US Dollars in thousands)						
Letters of credit	2,149,220	—	650,000	—	2,799,220	2,552,307
Pledged securities and collateralized commitments	28,122	2,960	60,625	383,383	475,090	1,312,581
Other commitments (a)	71,429	122,211	66,291	802,197	1,062,128	771,445
TOTAL	2,248,771	125,170	776,916	1,185,581	4,336,438	4,636,333

(a) The Company has committed to invest in certain real estate, private equity and private credit limited partnerships, limited liability companies or similar structures. At December 31, 2020, the Company had unfunded commitments with these entities totaling \$1,062.1 million over a weighted average period of 6.1 years. At December 31, 2019, the Company had unfunded commitments with these entities totaling \$596.7 million over a weighted average period of 7.6 years.

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

22.3 OTHER AGREEMENTS**22.3.1 Tax matters**

Neither the Company nor its non-US subsidiaries have paid US corporate income taxes on the basis that they are not engaged in a trade or business or otherwise subject to taxation in the United States. However, because definitive identification of activities that constitute being engaged in a trade or business in the United States is not provided by the Internal Revenue Code ("IRS Code"), regulations or court decisions, there can be no assurance that the Internal Revenue Service will not contend that the Company or its non-US subsidiaries are engaged in a trade or business or otherwise subject to taxation in the United States. If the Company or its non-US subsidiaries were considered to be engaged in a trade or business in the United States (and, if the Company or such subsidiaries were to qualify for the benefits under the income tax treaty between the United States and Bermuda and other countries in which the Company operates, such businesses would be considered to be attributable to a "permanent establishment")

in the United States), the Company or such subsidiaries could be subject to US tax at regular tax rates on their respective taxable income that is effectively connected with their US trade or business plus an additional "branch profits" tax (at a rate as high as 30%) on such income remaining after the regular tax, in which case there could be a significant adverse effect on the Company's results of operations and financial position.

22.3.2 Capital Commitment Deed provided to XLICSE

On September 30, 2019 the Company provided a Capital Commitment Deed to XLICSE for a 5 year term (commencing from the effective date of the merger with AXA Corporate Solutions Assurance). XLICSE received approval from the Central Bank of Ireland on December 6, 2019 to be able to recognize this as a Tier 2 Ancillary Own Fund item. To ensure that XL Bermuda has sufficient funds, the Company entered into an AOF Facility with AXA (see Note 22.1) pursuant to which AXA SA provided a €500.0 million (\$611.8 million) letter of credit for the benefit of XLICSE. XLICSE can only draw down up to €500.0 million between the Capital Commitment Deed and the letter of credit.

Note 23 Litigation

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

The Company and its subsidiaries are subject to litigation and arbitration in the normal course of business. These lawsuits and arbitrations principally involve claims on policies of insurance and contracts of reinsurance and are typical for the Company and for the property and casualty insurance and reinsurance industry in general. Such claims proceedings are considered in connection with the Company's loss and loss expense reserves. Reserves in varying amounts may or may not be established in respect of particular claims proceedings based on many factors, including the legal merits thereof. In addition to litigation relating to insurance and reinsurance claims, the Company and its subsidiaries are subject to lawsuits and regulatory actions in the normal course of business that do not arise from or directly relate to claims on insurance or reinsurance policies. This category of business litigation typically involves, among other things, allegations of underwriting errors or misconduct, employment claims, regulatory activity, or disputes arising from business ventures. The status of these legal actions is actively monitored by management. In addition, the Company and certain of its subsidiaries are also involved in tax assessment negotiations and/or active litigation with tax authorities over contested assessments or other matters in a number of jurisdictions. These actions or assessments arise in a variety of circumstances including matters in connection with restructuring and financing transactions, as well as in the ordinary course of business.

Legal actions are subject to inherent uncertainties, and future events could change management's assessment of the probability or estimated amount of potential losses from pending or threatened legal actions. Based on available information, it is the opinion of management that the ultimate resolution of pending or threatened legal actions other than claims proceedings, both individually and in the aggregate, will not result in losses having a material adverse effect on the Company's financial position or liquidity at December 31, 2020.

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

/ Note 24 Subsequent Events

24.1 LOSS PORTFOLIO TRANSFER AND ADVERSE LOSS DEVELOPMENT REINSURANCE AGREEMENT

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.

24.2 LOSS PORTFOLIO TRANSFER RELATED PARTY

Effective January 1, 2021, XLICSE, an indirect subsidiary of the Company, entered into a loss portfolio transfer agreement with AXA Global Re (AGRe), an indirect subsidiary of AXA, to reinsure €1.1 billion of net reserves which represent approximately 90% of legacy-ACS net reserves on accident years 2009-2018. The net premium paid by XLICSE as part of this agreement was €128 million with a loss limit on adverse development to AGRe of €385 million representing 35% of these net reserves. In periods subsequent to December 31, 2020 activity relating to this agreement will be reflected in Note 21.3.