



Financial Condition Report ("FCR")

XL Bermuda Ltd
including:
AXA XL Reinsurance Ltd

Members of AXA Group

December 31, 2021

forming part of the annual regulatory reporting package
submitted to the Bermuda Monetary Authority ("BMA") by April 29, 2022

Table of Contents

A. Business and Performance	5
A.1. Name of Insurers	5
A.2. Supervisors	5
A.3. Approved Auditor	5
A.4. Ownership Details	5
A.5. Group Structure	6
A.5.1. AXA XL Reinsurance Ltd	6
A.6. Business Written by Business Segment, Line of Business, and by Geographical Region	6
A.6.1. Business Written by Business Segment, Line of Business, and by Geographical Region for the Company	6
A.6.1.1. Business Written by Line of Business and by Geographical Region for AXA XLRe	9
A.7. Performance of Investments and Material Income and Expenses for the Reporting Period	10
A.7.1. Performance of Investments for the Reporting Period for the Company	10
A.7.1.1. Performance of Investments for the Reporting Period for AXA XLRe	11
A.7.2. Material Income and Expenses for the Reporting Period for the Company	12
A.7.2.1. Material Income and Expenses for the Reporting Period for AXA XLRe	12
A.8. Other Material Information	13
A.8.1. Other Material Information for the Company	13
A.8.1.1. Other Material Information for AXA XLRe	14
B. Governance Structure	15
B.1. Board and Senior Executive	15
B.1.1. Structure of the Board and Senior Executive, Roles, Responsibilities and Segregation of Responsibilities	15
B.1.2. Executive/Employee Compensation	16
B.1.3. Pension or Early Retirement Schemes for Members, Board and Senior Employees	17
B.1.4. Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Executive Material Transactions	17
B.2. Fitness and Propriety Requirements	17
B.2.1. Fit and Proper Process in Assessing the Board and Senior Executive	18
B.2.2. Board and Senior Executives' Professional Qualifications, Skills, and Expertise	18
B.3. Risk Management and Solvency Self-Assessment	22
B.3.1. Risk Management Process and Procedures to Effectively Identify, Measure, Manage and Report on Risk Exposures	22
B.3.2. Risk Management and Solvency Self-Assessment Systems Implementation	24
B.3.3. Relationship between the Solvency Self- Assessment, Solvency Needs, and Capital and Risk Management	25
B.3.4. Solvency Self-Assessment Approval Process	25
B.4. Internal Controls	26
B.4.1. Internal Control System	26
B.4.2. Internal Control Function	27
B.4.3. Compliance Function	27
B.5. Internal Audit Function	28
B.6. Actuarial Function	28
B.6.1. Regulatory Compliance	28
B.6.2. Roles and Structure	28
B.6.3. Reports of the Actuarial Function to the XLB Board and Regulators	29
B.6.4. Actuarial Function Responsibilities	29
B.7. Outsourcing	29
B.8. Other Material Information	30
C. Risk Profile	31
C.1. Material Risks the Insurer is Exposed to during the Period	31
C.1.1. Insurance Risk	31

C.1.2. Market Risk	31
C.1.3. Credit Risk	32
C.1.4. Liquidity Risk	33
C.1.5. Operational Risk	33
C.1.6. Other Material Risks	34
C.2. Risk Mitigation in the Organization	37
C.3. Material Risk Concentrations	41
C.4. Investment in Assets in accordance with the Prudent Person Principles of the Code of Conduct	43
C.5. Stress Testing and Sensitivity Analysis to Assess Material Risks	43
C.6. Other Material Information	44
D. Solvency Valuation	45
D.1. Valuation Bases, Assumptions and Methods used to derive the value of each Asset Class	45
D.2. Valuation Bases, Assumptions and Methods used to derive the value of Technical Provisions	49
D.2.1. Valuation Bases, Assumptions and Methods to derive the value of Technical Provisions for the Company	49
D.2.1.1. Valuation Bases, Assumptions and Methods to derive the value of Technical Provisions for AXA XLRe	50
D.2.2. Uncertainty/Limitations Associated with the value of the Technical Provisions	50
D.3. Description of Recoverables from Reinsurance Contracts	50
D.4. Valuation Bases, Assumptions and Methods used to derive the value of other liabilities	50
D.5. Other Material Information	51
E. Capital Management	52
E.1. Eligible Capital	52
E.1.1. Capital Management Policy and Process for Capital Needs, how Capital is Managed and Material Changes During the Period	52
E.1.2. Eligible Capital Categorized by Tiers in Accordance with the Eligible Capital Rules for the Company	52
E.1.2.1. Eligible Capital Categorized by Tiers in Accordance with the Eligible Capital Rules for AXA XLRe	52
E.1.3. Eligible Capital for the Company Categorized by Tiers in Accordance with the Eligible Capital Rules used to meet the Enhanced Capital Requirement (ECR) and the Minimum Margin of Solvency (MSM) Requirements of the Insurance Act 1978	52
E.1.3.1. Eligible Capital for AXA XLRe Categorized by Tiers in Accordance with the Eligible Capital Rules used to meet the Enhanced Capital Requirement (ECR) and the Minimum Margin of Solvency (MSM) Requirements of the Insurance Act 1978	53
E.1.4. Confirmation of Eligible Capital that is subject to Transitional Arrangements	53
E.1.5. Identification of any Factors Affecting Encumbrances Affecting the Availability and Transferability of Capital to Meet the ECR	53
E.1.6. Identification of Ancillary Capital Instruments that have been Approved by the Authority	53
E.1.7. Identification of Differences in Shareholders' Equity as Stated in the Financial Statements Versus the Available Statutory Capital and Surplus for the Company	53
E.1.7.1. Identification of Differences in Shareholders' Equity as Stated in the Financial Statements Versus the Available Statutory Capital and Surplus for AXA XLRe	54
E.2. Regulatory Capital Requirements	54
E.2.1. ECR and MSM at the end of the Reporting Period for the Company	54
E.2.1.1. ECR and MSM at the end of the Reporting Period for AXA XLRe	54
E.2.2. Identification of Any Non-Compliance with the MSM and the ECR	54
E.2.3. A Description of the Amount and Circumstances Surrounding the Non-Compliance, the Remedial Measures and their Effectiveness	54
E.2.4. Where the Non-Compliance is Not Resolved, A Description of The Amount of The Non-Compliance	54
E.3. Approved Internal Capital Model	54
E.3.1. Description of the Purpose and Scope of the Business and Risk Areas where the Internal Model is used	54
E.3.2. Where a Partial Internal Model is Used, a Description of the Integration with the BSCR Model	55
E.3.3. Description of Methods Used in the Internal Model to Calculate the ECR	55
E.3.4. Description of Aggregation Methodologies and Diversification Effects	55
E.3.5. Description of the Main Differences in the Methods and Assumptions Used for the Risk Areas in the Internal Model Versus the BSCR Model	55

E.4. Description of the Nature and Suitability of the Data Used in the Internal Model	55
E.5. Description of The Purpose and Scope of the Business and Risk Areas Where the Internal Model is Used.	55
F. Subsequent Events	56
Declaration Statement	57
Appendices	
Appendix 1 - XL Group Structure Chart 2021 Q4	
Appendix 2 - XL Bermuda Ltd IFRS Consolidated Audited Financial Statements as at December 31 2021	
Appendix 3 - AXA XL Reinsurance Ltd IFRS Consolidated Audited Financial Statements as at December 31 2021	

A. Business and Performance

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

A.1. Name of Insurers

XL Bermuda Ltd ("the Company")

AXA XL Reinsurance Ltd ("AXA XLRe")

Unless the context requires otherwise, references in this Financial Condition Report ("FCR") to the "Company", "we", "us", "our" or "Group" refer to "XL Bermuda Ltd" and its subsidiaries, which includes AXA XL Reinsurance Ltd ("AXA XLRe"). The financial results of AXA XLRe are consolidated in the Company's financial statements.

A.2. Supervisors

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

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

A.3. Approved Auditor

Organisation:	PricewaterhouseCoopers Ltd. Washington House, 4th Floor, 16 Church Street, Hamilton, HM11 Bermuda
Name:	Damian Cooper
Jurisdiction:	Bermuda
Email Address:	damian.cooper@pwc.com
Phone Number:	+1-441-299-7685

A.4. Ownership Details

Legal Entity	Owner Name	Ownership Percentage
XL Bermuda Ltd	XL Group Ltd	100%*
AXA XL Reinsurance Ltd	AXA XL Reinsurance (Holdings) Ltd	100%**

* XL Group Ltd is 100% owned by AXA SA, which holds 1,000 Series A, Non-Voting Redeemable Preference Shares issued by the Company.

** AXA XL Reinsurance (Holdings) Ltd is a direct, wholly-owned subsidiary of the Company.

A.5. Group Structure

The Company is a member of the AXA XL Division ("AXA XL") of the AXA Group.

See Appendix 1 - XL Group Structure Chart 2021 Q4 effective as of December 31st, 2021.

A.5.1. AXA XL Reinsurance Ltd

At the end of 2020, the Company incorporated a new 100% owned subsidiary in Bermuda, AXA XL Reinsurance (Holdings) Ltd. This entity directly owns 100% of AXA XLRe, a newly licensed Class 4 company.

The primary business purpose of AXA XLRe is to provide, within the current structure of AXA XL, a single entity which ultimately will contain all the reinsurance assumed business written within AXA XL. AXA XLRe is a leading reinsurer writing casualty, property risk, property catastrophe, specialty, and other reinsurance lines on a global basis with business being written on both a proportional and non-proportional treaty basis, as well as facultative basis. AXA XLRe and its subsidiaries operate mainly in Bermuda, Europe, and Latin America.

A.6. Business Written by Business Segment, Line of Business, and by Geographical Region

A.6.1. Business Written by Business Segment, Line of Business, and by Geographical Region for the Company

The following tables summarize the Company's gross premiums written and net premiums written by line of business for the years ended December 31, 2021 and 2020:

2021 GROSS PREMIUMS WRITTEN BY BUSINESS SEGMENT AND BY LINE OF BUSINESS

<i>(U.S. dollars in thousands)</i>	<i>Insurance</i>	<i>Reinsurance</i>	<i>Corporate and Other (Note 1)</i>	<i>Total</i>
P&C Operations:				
Professional	\$ 4,295,972	\$ —	\$ —	\$ 4,295,972
Casualty	5,085,199	1,141,130	—	6,226,329
Property Catastrophe	—	984,285	—	984,285
Property	3,917,384	1,587,305	—	5,504,689
Specialty	3,408,430	425,378	—	3,833,808
Other (Note 2)	—	1,341,879	—	1,341,879
Total P&C Operations	\$ 16,706,985	\$ 5,479,977	\$ —	\$ 22,186,962
Life Operations (Note 3)	—	—	206,573	206,573
Total	16,706,985	5,479,977	206,573	22,393,535

2020 GROSS PREMIUMS WRITTEN BY BUSINESS SEGMENT AND BY LINE OF BUSINESS

<i>(U.S. dollars in thousands)</i>	<i>Insurance</i>	<i>Reinsurance</i>	<i>Corporate and Other (Note 1)</i>	<i>Total</i>
P&C Operations:				
Professional	\$ 3,423,997	\$ —	\$ —	\$ 3,423,997
Casualty	5,093,701	1,040,620	—	6,134,321
Property Catastrophe	—	946,588	—	946,588
Property	3,497,438	1,421,961	—	4,919,399
Specialty	4,024,144	428,908	—	4,453,052
Other (Note 2)	—	1,355,407	—	1,355,407
Total P&C Operations	\$ 16,039,280	\$ 5,193,484	\$ —	\$ 21,232,764
Life Operations (Note 3)	—	—	209,676	209,676
Total	16,039,280	5,193,484	209,676	21,442,440

2021 NET PREMIUMS WRITTEN BY BUSINESS SEGMENT AND BY LINE OF BUSINESS

<i>(U.S. dollars in thousands)</i>	<i>Insurance</i>	<i>Reinsurance</i>	<i>Corporate and Other (Note 1)</i>	<i>Total</i>
P&C Operations:				
Professional	\$ 1,921,309	\$ —	\$ —	\$ 1,921,309
Casualty	2,516,759	989,236	—	3,505,995
Property Catastrophe	—	603,840	—	603,840
Property	1,756,084	1,303,890	—	3,059,974
Specialty	2,359,269	376,896	—	2,736,165
Other (Note 2)	—	1,038,758	—	1,038,758
Total P&C Operations	\$ 8,553,421	\$ 4,312,620	\$ —	\$ 12,866,041
Life Operations (Note 3)	—	—	9,986	9,986
Total	8,553,421	4,312,620	9,986	12,876,027

2020 NET PREMIUMS WRITTEN BY BUSINESS SEGMENT AND BY LINE OF BUSINESS

<i>(U.S. dollars in thousands)</i>	<i>Insurance</i>	<i>Reinsurance</i>	<i>Corporate and Other (Note 1)</i>	<i>Total</i>
P&C Operations:				
Professional	\$ 2,119,466	\$ —	\$ —	\$ 2,119,466
Casualty	2,822,465	977,744	—	3,800,209
Property Catastrophe	—	416,832	—	416,832
Property	1,868,942	1,125,722	—	2,994,664
Specialty	2,470,079	402,154	—	2,872,233
Other (Note 2)	—	1,415,875	—	1,415,875
Total P&C Operations	\$ 9,280,952	\$ 4,338,327	\$ —	\$ 13,619,279
Life Operations (Note 3)	—	—	10,334	10,334
Total	9,280,952	4,338,327	10,334	13,629,613

Notes:

1. Corporate and Other includes the Company's run-off Life operations.
2. Other includes: whole account contracts, credit and surety, accident and health and other lines.
3. Life includes the Company's run-off Life operations.

The following table shows an analysis of the Company's net premiums written by geographical location of the subsidiary where the premium is written for the years ended December 31, 2021 and 2020:

2021 NET PREMIUMS WRITTEN BY BUSINESS SEGMENT AND BY GEOGRAPHICAL LOCATION

<i>(U.S. dollars in thousands)</i>	<i>Insurance</i>	<i>Reinsurance</i>	<i>Corporate and Other (Note 1)</i>	<i>Total</i>
P&C Operations:				
Bermuda	201,912	1,501,109	—	1,703,021
United States	3,525,878	1,111,447	—	4,637,325
Europe	2,644,969	1,035,219	—	3,680,188
United Kingdom	1,982,613	478,328	—	2,460,941
Other	198,049	186,517	—	384,566
Total P&C Operations	8,553,421	4,312,620	—	12,866,041
Corporate and Other:				
Bermuda	—	—	9,642	9,642
Europe	—	—	344	344
Total Corporate and Other	—	—	9,986	9,986
Total	8,553,421	4,312,620	9,986	12,876,027

2020 NET PREMIUMS WRITTEN BY BUSINESS SEGMENT AND BY GEOGRAPHICAL LOCATION

<i>(U.S. dollars in thousands)</i>	<i>Insurance</i>	<i>Reinsurance</i>	<i>Corporate and Other (Note 1)</i>	<i>Total</i>
P&C Operations:				
Bermuda	186,964	1,507,428	—	1,694,392
United States	3,702,304	1,180,520	—	4,882,824
Europe	2,389,097	752,217	—	3,141,314
United Kingdom	2,082,396	487,724	—	2,570,120
Other	920,191	410,438	—	1,330,629
Total P&C Operations	9,280,952	4,338,327	—	13,619,279
Corporate and Other:				
Bermuda	—	—	9,139	9,139
Europe	—	—	1,195	1,195
Total Corporate and Other	—	—	10,334	10,334
Total	9,280,952	4,338,327	10,334	13,629,613

Notes:

1. Corporate and Other includes the Company's run-off Life operations.

A.6.1.1. Business Written by Line of Business and by Geographical Region for AXA XLRe

The below tables summarize AXA XLRe's gross premiums written by line of business, and net premiums written by line of business and by geographical location of the subsidiary where the premium is written for the year ended December 31, 2021. Included within AXA XLRe's gross and net premiums written are amounts from affiliates within the AXA XL Division that are eliminated upon consolidation of XLB.

AXA XLRe GROSS PREMIUMS WRITTEN BY LINE OF BUSINESS

<i>(U.S. dollars in thousands)</i>	2021
P&C Operations:	
Specialty	\$ 395,823
Casualty	1,467,124
Property Catastrophe	302,697
Property Facultative	43,694
Property Other	1,019,557
Other (Note 1)	1,054,052
Total	4,282,947

Notes:

1. Other includes crop, credit & surety, accident and health and multi-line. Included within the balance is gross written premium of \$687 million from a large external Quota Share contract with a single cedant.

AXA XLRe NET PREMIUMS WRITTEN**BY LINE OF BUSINESS***(U.S. dollars in thousands)***2021****P&C Operations:**

Specialty	\$	257,778
Casualty		1,155,883
Property Catastrophe		120,978
Property Facultative		32,812
Property Other		749,619
Other (Note 1)		925,105
Total		3,242,175

Notes:

1. Other includes crop, credit & surety, accident and health and multi-line. Included within the balance is gross written premium of \$687 million from a large external Quota Share contract with a single cedant.

AXA XLRe NET PREMIUMS WRITTEN**BY GEOGRAPHICAL LOCATION***(U.S. dollars in thousands)***2021****P&C Operations:**

Bermuda	\$	2,333,137
United States		49,982
Europe		474,322
United Kingdom		227,069
Other		157,665
Total P&C Operations		3,242,175

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

A.7.1. Performance of Investments for the Reporting Period for the Company

The following table shows the fair market value of the fixed maturity portfolio (both quoted and unquoted) and the performance (i.e. returns calculated using mark to market valuation methodology) of those investments for the years ended December 31, 2021 and 2020:

(U.S. dollars in thousands)

	Market Value	Performance	Market Value	Performance
	2021	Year ended Dec 31 2021	2020	Year ended Dec 31 2020
		%		%
(1) U.S. Government				
(a) U.S. Government Federal	3,935,282	1.07 %	3,993,620	0.82 %
(b) U.S. Government Agency - mortgage-backed securities	5,372,893	1.96 %	6,257,470	1.3 %
(c) U.S. Government Agency - other	23,456	0.67 %	56,184	0.46 %
(2) Non-U.S. Government	7,878,334	0.94 %	8,462,262	0.73 %
(3) States, Municipalities, and Political Subdivision	2,380,143	2.56 %	1,587,592	2.8 %
(4) Corporate Securities				
(a) U.S. Government-backed Corporate	22,833	2.72%	—	— %
(b) Non-U.S. Government-backed Corporate	—	— %	—	— %
(c) FDIC Guaranteed Corporate	—	— %	—	— %
(d) Other Corporate	20,805,137	1.52 %	20,529,610	0.95 %
(5) Asset-backed Securities	1,394,043	2.28 %	847,276	1.85 %
(6) Mortgage-backed Securities				
(a) Residential Subprime	22,114	8.09 %	36,664	6.22 %
(b) Residential Non-subprime	11,010	2.9 %	14,570	1.36 %
(c) Commercial	210,709	3.68 %	271,780	2.13 %
(7) Mutual Funds	—	— %	—	— %
(8) Bank Loans	252,603	3.5 %	220,691	2.97 %
(9) Catastrophe Bonds and Insurance-Linked Securities	—	— %	—	— %
(10) Others	—	— %	—	— %
TOTAL PORTFOLIO	<u>\$ 42,308,557</u>		<u>\$ 42,277,719</u>	

A.7.1.1. Performance of Investments for the Reporting Period for AXA XLRe

The elements included above that relate specifically to AXA XLRe are detailed below.

(U.S. dollars in thousands)		Market Value	Performance
		2021	Year ended Dec 31 2021
			%
(1)	U.S. Government		
	(a) U.S. Government Federal	601,190	0.87 %
	(b) U.S. Government Agency - mortgage-backed securities	1,248,849	1.96 %
	(c) U.S. Government Agency - other	603	0.62 %
(2)	Non-U.S. Government	600,493	1.83 %
(3)	States, Municipalities, and Political Subdivision	180,375	1.98 %
(4)	Corporate Securities		
	(a) U.S. Government-backed Corporate	138	— %
	(b) Non-U.S. Government-backed Corporate	—	— %
	(c) FDIC Guaranteed Corporate	—	— %
	(d) Other Corporate	3,354,423	1.61 %
(5)	Asset-backed Securities	286,219	2.4 %
(6)	Mortgage-backed Securities		
	(a) Residential Subprime	—	— %
	(b) Residential Non-subprime	240	1.93 %
	(c) Commercial	1,542	— %
(7)	Mutual Funds	—	— %
(8)	Bank Loans	—	— %
(9)	Catastrophe Bonds and Insurance-Linked Securities	—	— %
(10)	Others	—	— %
TOTAL PORTFOLIO		<u>\$ 6,274,072</u>	

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

The Company's main revenue is premiums and its major expenses arise from claims losses. For the years ended December 31, 2021 and 2020, the Company realized a P&C combined ratio of 100.4% and 124.3% which includes natural catastrophe ("Nat Cats") pre-tax losses net of reinsurance and reinstatement premiums of \$1,774.5 million and \$1,436.4 million or 13.2 and 11.0 loss ratio points, respectively.

The Company also realized favorable net prior year development ("PYD") on losses of \$485.3 million and unfavorable PYD of \$222.7 million during the years ended December 31, 2021 and 2020, respectively. The combined ratio, excluding the impact of the Nat Cats and PYD, was 90.8% and 111.7% for the years ended December 31, 2021 and 2020 respectively.

(U.S. dollars in thousands)	2021	2020
Pre-Tax Expense Type		
Net losses and loss expenses incurred - P&C operations	9,012,182	11,890,702
Claims and policy benefits - run-off Life operations	32,026	43,416
Acquisition costs	3,533,070	3,253,298
Operating expenses	2,163,371	2,234,598
Amortization of Intangible Assets	—	—
Other	52,649	67,123
TOTAL	<u>\$ 14,793,298</u>	<u>\$ 17,489,137</u>

A.7.2.1. Material Income and Expenses for the Reporting Period for AXA XLRe

The elements included above that relate specifically to AXA XLRe are detailed below.

(U.S. dollars in thousands)	2021
Pre-Tax Expense Type	
Net losses and loss expenses incurred - P&C operations	2,559,610
Claims and policy benefits - run-off Life operations	41,954
Acquisition costs	1,043,641
Operating expenses	150,411
Amortization of Intangible Assets	—
Other	2,019
TOTAL	<u><u>\$ 3,797,635</u></u>

A.8. Other Material Information

A.8.1. Other Material Information for the Company

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

For the years ended December 31, 2021 and 2020, the Company has calculated its Enhanced Capital Requirement "ECR" using the BSCR standard formula. The results of XL Group (now AXA XL division) are consolidated in the AXA Group consolidated financial statements, which are prepared in accordance with International Financial Reporting Standards ("IFRS").

Effective October 29, 2021, the Company's direct shareholder EXEL Holdings Limited merged with indirect shareholders of the Company, XLIT Ltd. and XL Group Ltd, with XL Group Ltd as the surviving company in the merger, becoming the direct shareholder of the Company.

Please refer to Section A.5. Group structure refers to Group structure, included as Appendix 1 - XL Group Structure Chart 2021 Q4 effective as of December 31st, 2021.

AXA XL Reinsurance Ltd

AXA XLRe was licensed as a Class 4 Insurer by the BMA effective February 3, 2021. The ownership of the Company's reinsurance subsidiaries in Ireland, XL Re Europe SE, and Switzerland, Catlin Re Switzerland Ltd, was transferred to AXA XLRe in May and June of 2021 as described in more detail in Section A.8.1.1. Effective, as of January 1, 2022, the Company is no longer writing new or renewal assumed reinsurance business with unaffiliated parties and the writing of such business has moved from other subsidiaries of the Company to AXA XLRe.

Loss Portfolio Transfer and Adverse Loss Development Reinsurance Agreement

Effective May 3, 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.

Loss Portfolio Transfer Related Party

Effective January 1, 2021, the Company entered into a retroactive reinsurance contract with a related entity whereby the Company reinsured 90% of certain legacy ACS claims reserves for accident years 2009 - 2018. This excluded the Australia, Singapore and Hong Kong (APAC) branches and particular lines of business. The reinsurance contract was bound on 31 December 2020 and has been recognised in the calculation of the Company's technical provisions at December 31, 2020.

Other Material Activities

For the year ended December 31, 2021, there is no other material information regarding business and performance required to be disclosed for purposes of this Financial Condition Report.

A.8.1.1. Other Material Information for AXA XLRe

AXA XLRe was incorporated in Bermuda on December 10, 2020 in accordance with Section 14 of the Companies Act 1981 under the original name, Redesign Reinsurance Ltd, and changed its name to AXA XL Reinsurance Ltd on January 7, 2021. Effective February 3, 2021, AXL Re was licensed in Bermuda as a Class 4 insurer in accordance with Section 4 of the Insurance Act 1978.

On February 23, 2021, AXA XLRe, together with the Company and AXA XL Reinsurance (Holdings) Ltd, a direct, wholly-owned subsidiary of the Company and the direct, sole shareholder of AXA XLRe ("AXA XLRe Holdings"), entered into a contribution agreement pursuant to which 100% of XL Re Europe SE would be first contributed by the Company to AXA XLRe Holdings and then by AXA XLRe Holdings to AXA XLRe (the "XL Re Europe Contribution Agreement").

On May 21, 2021, the transactions contemplated by the XL Re Europe Contribution Agreement were consummated and the Company contributed all shares of XL Re Europe SE to AXA XLRe Holdings with no consideration paid by AXA XLRe Holdings.

Immediately subsequent the initial contribution, AXA XLRe Holdings contributed all assets and receivables of AXA XL Re Europe SE described above to AXA XLRe. As a result, XL Re Europe is now a directly, wholly-owned subsidiary of AXA XLRe.

On June 22, 2021, AXA XL Reinsurance (Holdings) Ltd, an underlying subsidiary of XL Bermuda Ltd ("XLB"), entered into a share contribution agreement to contribute 100% of AXA XL Luxembourg Sarl (formerly known as Catlin Luxembourg Sarl) from XLB. AXA XL Reinsurance (Holdings) Ltd and XLB are ultimately controlled by the same parent company, AXA. As a result, AXA XL Luxembourg Sarl is now a direct wholly-owned subsidiary of AXA XL Reinsurance (Holdings) Ltd, and Catlin Re Switzerland Ltd ("CRCH") and its subsidiaries are indirect subsidiaries of the AXA XL Reinsurance (Holdings) Ltd.

On June 22, 2021, AXA XLRe, AXA XLRe Holdings and the Company entered into and consummated a share contribution, transfer and assignment pursuant to which 100% of AXA XL Luxembourg Sarl (formerly known as Catlin Luxembourg Sarl) was first contributed by the Company to AXA XLRe Holdings and then by AXA XLRe Holdings to AXA XLRe (the "AXL Lux Contribution Agreement").

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

B. Governance Structure

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

AXA XLRe utilizes and benefits from a similar governance structure as the Company. For specific elements please see Note 5 of the AXA XLRe Financials included in Appendix 3.

B.1. Board and Senior Executive

B.1.1. Structure of the Board and Senior Executive, Roles, Responsibilities and Segregation of Responsibilities

Directors of the Company

The Board of Directors of the Company (the “XLB Board”) oversees the effective management of the Company’s business and affairs and is responsible for the maintenance of an effective corporate governance framework. The XLB Board is elected annually and as at December 31, 2021, consisted of the following five directors, each of whom, with the exception of William Pollett, is a senior executive of the Company, AXA XL or another member of the AXA Group.

Directors*
Scott Gunter
Doina Palici-Chehab
Jacques de Peretti
Charles Cooper**
William Pollett

* With the exception of Jacques de Peretti, all directors were on the XLB Board from January 1, 2021 through December 31, 2021. Mr. Peretti was appointed as a director effective June 4, 2021 to fill the vacancy resulting from the resignation of Antimo Perretta, who resigned effective May 30, 2021. Note that Alessandra Quane has since also been appointed as a director effective January 1, 2022.

** Charles Cooper resigned as a director of the Company effective March 31, 2022.

Directors of AXA XL Re

The Board of Directors of AXA XLRe (the “AXA XLRe Board”) oversees the effective management of AXA XLRe’s business and affairs and is responsible for the maintenance of an effective corporate governance framework. The AXA XLRe Board is elected annually and as at December 31, 2021, consisted of the following two directors, each of whom, is a senior executive of AXA XL.

Directors[#]
Charles Cooper ^{##}
Mark Twite

[#] All directors were on the AXA XLRe Board from February 3, 2021 through December 31, 2021. Note that Nancy Bewlay was appointed as a director effective April 14, 2022 and Helen Gillis was appointed as a director effective April 21, 2022.

^{##} Charles Cooper resigned as a director of AXA XLRe effective April 13, 2022.

XLB Executive Committee

The XLB Board has established a committee of senior executives of the Company representing key functions (e.g. insurance, reinsurance, legal, compliance and regulatory affairs, risk management, finance, and human resources) (the “XLB Executive Committee”). The XLB Executive Committee assists the XLB Board with its oversight responsibilities by its reporting to the XLB Board on the Company’s business activities. The XLB Executive Committee also makes recommendations to the XLB Board regarding, and are responsible for, the execution of the Company’s strategic plans and objectives. The XLB Executive Committee is responsible for the respective functions which they head and for ensuring the necessary resources, systems and controls required for the effective execution of the roles and responsibilities of those functions.

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

The AXA XLRe Board has established a committee of senior executives of AXA XLRe and its affiliates representing key functions (e.g. underwriting, legal, compliance and regulatory affairs, risk management, and finance) (the “AXA XLRe Executive Committee”). The AXA XLRe Executive Committee will assist the AXA XLRe Board with AXA XLRe oversight responsibilities by its reporting to the AXA XLRe Board on the Company’s business activities. The AXA XLRe Executive Committee also will make recommendations to the AXA XLRe Board regarding, and are responsible for, the execution of AXA XLRe strategic plans and objectives. The AXA XLRe Executive Committee is responsible for the respective functions which they head and for ensuring the necessary resources, systems and controls required for the effective execution of the roles and responsibilities of those functions.

AXA XLRe Executive Committee Members
Paul Simons – Chief Executive Officer, Reinsurance
Claudette Hodgson - Head of Finance, Bermuda Reinsurance
Simon Argent - Chief Risk Officer, Bermuda and Head of Financial Risk Management
Leila Madeiros – Head of Compliance and Regulatory Affairs, Bermuda
Carla Whitehurst - Secretary of AXA XLRe and Head of Legal, Bermuda

B.1.2. Executive/Employee Compensation

Director Compensation

With the exception of William Pollett, Doina Palici-Chehab, Alessandra Quane and Helen Gillis, Directors of the Company and AXA XLRe are not separately compensated for their roles on the XLB Board and AXA XLRe Board.

Executive Compensation

The Company has a Remuneration Policy in place, the purpose of which is to outline how the Company ensures that the setting of remuneration is appropriate and transparent and promotes sound and effective risk management within approved risk tolerance limits. The Remuneration Policy contains a multi-tiered governance and compliance structure including oversight at the AXA Group, AXA XL and Company levels. Together, the AXA Group and AXA XL Remuneration Policies are designed to support AXA Group and AXA XL’s long-term business strategy and to align the interests of its employees and other stakeholders, by:

- Establishing a clear link between performance and remuneration over the short, medium and long term;

- Ensuring that the Company can offer competitive compensation arrangements across the multiple markets in which it operates while avoiding potential conflicts of interest that may lead to undue risk taking for short-term gain; and
- Ensuring compliance with Solvency II regulations and any other applicable regulatory requirements wherever required.

AXA XL's Remuneration Policy follows four main guiding principles:

- Competitiveness and market consistency of the remuneration practices;
- Fairness, based on individual and collective performance in order to ensure remuneration is reflecting employee's individual quantitative and qualitative achievements and impact;
- Internal equity based on remuneration policies and procedures designed to ensure that employees are paid equitably based on criteria such as role, experience, education, skills, contribution or impact only; and do not discriminate on the basis of gender or other factors; and
- Achievement of AXA Group and AXA XL's overall financial and operational objectives over the short, medium and long-term as well as execution against medium and long-term strategic objectives as a prerequisite to fund any mid-to long-term award.

The Company ensures an appropriate balance between fixed and variable components of remuneration where the fixed component represents a sufficiently high proportion of the total remuneration to avoid employees being overly dependent on the variable components. AXA XL adheres to a clear distinction between the criteria used for setting fixed and variable remuneration.

In this context, the overall remuneration structure is based on the following components which are designed to provide balance and avoid excessive risk taking for short term financial gain:

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

B.1.3. Pension or Early Retirement Schemes for Members, Board and Senior Employees

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

B.1.4. Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Executive Material Transactions

Effective October 29, 2021, the Company's direct shareholder EXEL Holdings Limited merged with the company's indirect shareholders XLIT Ltd. and XL Group Ltd, with XL Group Ltd as the surviving company in the merger, becoming the direct shareholder of the Company.

The Company is not aware of any other material transactions required to be disclosed for purposes of this financial condition report.

B.2. Fitness and Propriety Requirements

B.2.1. Fit and Proper Process in Assessing the Board and Senior Executive

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

Board of Directors: Fit and Proper Assessment

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

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

Executive: Fit and Proper Assessment

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

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

Additionally, the Company maintains a standard recruitment process to assist in the assessment of whether candidates for executive positions are fit and proper. The recruitment process includes:

- i. ensuring that job specifications adequately reflect the position being recruited and appropriately identifies the necessary skills and qualifications required for the position,
- ii. contacting local recruitment agencies/executive search firms and establishing broad and informal panels of agencies for particular areas of expertise to ensure that the most appropriate matching can take place, and
- iii. undertaking, on an outsourced basis, a series of checks in relation to the candidate after the offer has been communicated to them and the satisfactory completion of detailed relevant background checks.

B.2.2. Board and Senior Executives' Professional Qualifications, Skills, and Expertise

XLB Board of Directors:

As of December 31, 2021 the following persons were appointed as the Directors of the Company:

Directors*

Scott Gunter

Doina Palici-Chehab

Jacques de Peretti

Charles Cooper[#]

William Pollett

- C. Scott Gunter: Mr. Scott Gunter is Chief Executive Officer at AXA XL, the property and casualty (P&C) and specialty risk division of AXA, a position he has held since February of 2020. He sits on AXA's Management Committee, reporting to Thomas Buberl, CEO of AXA. Mr. Gunter has over 30 years of insurance industry experience. He joined Chubb in 1986 as an underwriting trainee and progressively advanced through this company holding senior positions including Senior Vice President and Chief Underwriting Officer of Chubb Commercial Insurance. In 2017, Mr. Gunter was appointed Senior Vice President, Chubb Group and Division President, Chubb Commercial Insurance North America, a position he held until December 2019. Mr. Gunter has an Honors Bachelor of Administration degree from Wilfrid Laurier University (Ontario, Canada) and an executive management certificate from Queen's University.
- Doina Palici-Chehab: Mrs. Doina Palici-Chehab is a graduate of the University of Bucharest (Romania) (Magister Artium) and of the Deutsche Versicherungsakademie of Munich (Germany) (Degree in insurance management (Versicherungsbetriebswirt (DVA)). From 1980 to 1983, she was a teacher for foreign languages in Romania. From 1983 to 1990, she was Subject Matter Expert in AGF (now Allianz) in Cologne (Germany). In 1990, she joined the AXA Group as Reinsurance Director of AXA Germany (Germany). In 2000, she became head of Group Reinsurance of AXA Global P&C in Paris (France). From 2010 to March 2013, she was Chief Executive Officer of AXA Business Services in Bangalore (India). From April 2013 to December 2016, she was Chief Executive Officer of AXA Insurance Singapore (Singapore) and from July 2016 to December 2016, Chief Executive Officer of AXA Life Insurance Singapore. From January 1, 2017 to June 30, 2017, Mrs. Palici-Chehab was Chief Executive Officer of AXA Insurance Pte Ltd (Singapore) (new entity further to the merger of the two entities in Singapore). From July 1, 2017 to March 2018, she served as interim Chief Executive Officer of AXA Asia. From April 1, 2018 to December 31, 2019, she was the Executive Chairman of AXA Corporate Solutions and AXA ART; and she assumed the role of Chief Integration Officer following the acquisition of the XL Group. From April 1, 2018 to October 2020, she was Executive Chairman of AXA Matrix Risks Consultants. From February 2020 until her retirement on January 1, 2022 she assumed the role of Senior Advisor to the CEO of AXA. Mrs. Palici-Chehab served on the boards of XL Re Europe SE and Catlin Re Switzerland Ltd until December 2021 and April 2022 respectively. Since February 2020, she has served on the board of AXA Konzern (Germany), and since 2019 she has served on the board of the Company, XL Group, and XL Insurance Company SE.
- Jacques de Peretti*: Mr. Jacques de Peretti is a graduate of Ecole Polytechnique of Paris, Ecole Nationale Supérieure d'Aéronautique et de l'Espace of Toulouse (France), and the Institut d'Etudes Politiques of Toulouse (France). He holds a Master of Sciences from Stanford University (United States) and a post graduate degree in actuarial sciences from the Institut des Actuaire Français. Mr. de Peretti joined the AXA Group with the UAP merger in 1996. He managed different AXA France regions, before joining the AXA France Executive Committee in 2001 and being appointed Chief Executive Officer of AXA Courtage (the former broker dedicated company of AXA France) in 2001, Chief Executive Officer of AXA Entreprises in 2003, Chief Executive Officer of AXA Particuliers/Professionnels in 2009. From 2015 to June 2016, he was Chairman & Chief Executive Officer of AXA Japan and a member of the AXA Group Executive Committee. From July 2016 to April 2021, he was Chairman & Chief Executive Officer of AXA France and a member of the Group's Management Committee. Since May 2021, Mr de Peretti is Senior Advisor to Thomas Buberl, CEO of AXA Group and member of the AXA Group Executive Committee.
- Charles Cooper#: Mr. Charles Cooper served as Chief Executive of AXA XL's Global Reinsurance operations and was a member of AXA XL's Leadership Team from January 1, 2017 until March 8, 2022. Prior to 2017, he was Chief Executive of Bermuda Reinsurance for XL Catlin. Mr. Cooper has more than 20 years of experience in the industry. He began his career with AIG and Zurich North America in New York, writing International Primary Casualty business. He transitioned to reinsurance when he joined XL Reinsurance America, Inc. in Stamford, Connecticut, in 2000 as an Assistant Vice President and Corporate Planning Analyst. In 2005, he transferred to the Bermuda office where he was Senior Vice President & Underwriter for XL Re Ltd with responsibility for Property catastrophe and specialty accounts business. In 2010, Mr. Cooper assumed the role of President and Chief Underwriting officer of XL Re Ltd.
- William Pollett: In addition to serving as an independent Director of AXA XL, Mr. William Pollett currently serves as a non-executive director of White Rock Bermuda, a segregated accounts company wholly-owned by AON, as a non-executive director of Sutter Re Ltd, a Special Purpose Insurer sponsored by the California Earthquake Authority, as a non-executive director of Pearl Island Ltd, a local marketing company, and as the Treasurer of Council Partners Endowment Trust, a registered charity. He served as the Interim Chief Financial Officer of Oceanview Insurance Ltd, a newly formed Life Reinsurance Company in Bermuda, from December 2018 to September 2019. Until August 2015 Mr. Pollett was Chief Executive Officer of Blue Capital. Under his leadership, the company raised nearly one billion dollars of capital in various private and public investment vehicles, investing primarily in catastrophe reinsurance products, including leading the initial public offering in 2012 of Blue Capital Global Reinsurance Holdings Ltd on the London Stock Exchange and Blue Capital Reinsurance Holdings Ltd in 2013 on the New York Stock Exchange. Mr. Pollett concurrently acted as Chief Executive Officer and a Director of BCRH, President, Chief Executive Officer of Blue Water Re, a licensed reinsurance company, and Blue Capital Management Ltd., a registered

investment advisor, as well as Chief Corporate Development and Strategy Officer and Treasurer of Montpelier Reinsurance Holdings Ltd. (NYSE: MRH). Mr. Pollett resigned from all positions at Blue Capital and Montpelier following its acquisition by Endurance Specialty Holdings Ltd. Mr. Pollett was Chief Financial Officer of SELLAS, a Bermuda domiciled life sciences company, from September 2016 to March 2018. Prior to joining Montpelier in 2006, Mr. Pollett was with the ACE Group (now Chubb) for five years, initially as Chief Financial Officer of ACE Tempest Re and then as Senior Vice President of ACE Limited. Prior to the ACE Group, Mr. Pollett worked for the OIL Group of Companies for seven years, latterly as Treasurer and, prior to that, was an auditor with Coopers & Lybrand in London and Bermuda for five years. He holds a Bachelor of Commerce (Honours) degree from Edinburgh University, and is a Chartered Accountant, a Chartered Financial Analyst and a Member of the Institute of Directors.

- **Alessandra (Alessa) Quane**:** In addition to serving as an independent Director of AXA XL, Ms. Quane recently joined Oscar Health as Executive Vice President, Chief Insurance Officer overseeing the Individual, Medicare Advantage and Small Group businesses that provide affordable, high quality healthcare that fits the lives of Oscar's members. Ms. Quane has extensive experience in both the domestic and international insurance markets through her nearly 25 year career at AIG through global roles in Enterprise Risk Management and Actuarial. She served as Executive Vice President, Chief Risk Officer for AIG as well as AIG Chief Corporate Actuary, Head of Global Actuarial and Value Management, and Chief Risk Officer of AIG Property Casualty during her tenure. Prior to her corporate roles, she spent 13 years overseas with AIG focused on the UK, European and Central Europe P&C businesses. Ms. Quane began her career at Allstate focused on non-standard auto pricing and research. She is a Fellow of the Casualty Actuarial Society, a member of the American Academy of Actuaries, and an affiliate member of the Institute of Actuaries. She has a Bachelor of Science degree in Business Administration with a major in Actuarial Science from Drake University.
- **Nancy Bewlay#:** Ms. Nancy Bewlay is Chief Executive of AXA XL's Global Reinsurance operations and is a member of AXA XL's Leadership Team. From 2020 until March 2022, she served as the Global Chief Underwriting Officer ("GCUO"), for AXA XL's insurance operations and was responsible for AXA XL's underwriting governance, pricing, and P&L globally. Prior to serving as GCUO, she served as Chief Underwriting Officer for AXA XL's Long Tail insurance line and for Casualty. Before joining AXA XL, she served as Swiss Re's Head of Underwriting for Casualty. Prior to joining Swiss Re, she served as President & Chief Executive Officer of C.V. Starr & Company (California) among other roles. She has a B.A. in Psychology from the Catholic University of America.

* With the exception of Jacques de Peretti, all directors were on the XLB Board from January 1, 2021 through December 31, 2021. Mr. Peretti was appointed as a director effective June 4, 2021 to fill the vacancy resulting from the resignation of Antimo Perretta, who resigned effective May 30, 2021.

** Note that Alessandra Quane was appointed as a director of XLB effective January 3, 2022.

Charles Cooper resigned as a director from the XLB Board effective March 31, 2022. Ms. Bewlay was appointed as a director effective March 31, 2022 to fill the vacancy resulting from Mr. Cooper's resignation. Mr. Cooper resigned as Chief Executive Officer, Reinsurance of AXA XL on March 9, 2022 and Ms. Bewlay was appointed March 9, 2022 as Mr. Cooper's replacement.

AXA XLRe Board of Directors:

As of December 31, 2021 the following persons were appointed as the Directors of AXA XLRe:

Directors^{##}

Charles Cooper^{##}

Mark Twite

- **Charles Cooper^{##}:** See above under "XLB Board of Directors"
- **Mark Twite:** Mr. Twite was appointed the Chief Financial Officer of XL Reinsurance during 2020. Prior to this appointment Mr. Twite undertook a number of roles within the AXA XL Group. In 2017 Mark was appointed as Head of Assumed Reinsurance Finance covering all the regions within the Reinsurance Segment. In December 2015 Mr. Twite was appointed Chief Financial Officer of Catlin Insurance Company Ltd while continuing to hold his previous roles. In November 2014 Mr. Twite was appointed President of XL Life Ltd while continuing to hold his Chief Financial officer roles within XL Re Ltd and XL Re America Inc. In June 2013 Mr. Twite was appointed Chief Financial Officer of XL Re America Inc., while continuing to undertake the role of Chief Financial Officer of XL Re Ltd. From 2009 to June 2013 Mr. Twite was responsible for the financial operations of both XL Re Latin America and XL Re Ltd holding a Financial Officer role for both entities. Prior to 2009, he was the Financial Controller of XL Re Ltd. Prior to joining AXA XL, Mr. Twite was the Financial Controller

of Liberty Syndicates (the Lloyd's of London operation of the Liberty Mutual Group). Mr. Twite is a fellow of the Institute of Chartered accountants in England and Wales and qualified from Deloitte & Touche in 1998 while working in their London Insurance practice. Mr. Twite holds a B.S. in Economics from the London school of Economics (LSE). He has 27 years of experience working in the (Re)Insurance industry, including over 17 years with AXA XL.

- Nancy Bewlay^{##}: See above under "XLB Board of Directors"
- Helen Gillis^{##}: Ms. Gillis served as Chief Financial Officer and an Executive Director of JRG Reinsurance Company Ltd ("JRG Re"), from April 2017 until July 2021. Prior to joining JRG Re, Ms. Gillis held the position of Senior Vice President Financial Reporting and Planning at Allied World Assurance Company, as well as other senior positions during her 10 years with Allied World. Prior to that, she served as Assistant Vice President, Accounting and Finance with American International Co Ltd and worked in the Insurance Group with PricewaterhouseCoopers Bermuda. Ms. Gillis graduated magna cum laude from Saint Mary's University in Halifax, Nova Scotia with a Bachelor of Commerce and holds a Chartered Accountancy Diploma from the Atlantic School of Chartered Accountancy.

^{##} Note that Mr. Cooper resigned from the AXA XLRe Board effective April 14, 2022. Ms. Bewlay was appointed to the AXA XLRe Board effective April 14, 2022 to fill the vacancy resulting from Mr. Cooper's resignation. Ms. Gillis was appointed to the AXA XLRe Board effective April 21, 2022.

XLB and AXA XLRe Senior Executives:

- Patrick Tannock: Mr. Patrick Tannock is an AXA XL Partner, Chief Executive Officer of the Company and a part of AXA XL's Managing Director team with over 30 years of experience in the international insurance and reinsurance industry. Prior to his current position he served as EVP of ACE Bermuda, as well as CUO and Director of the CODA and also held executive brokerage positions with Marsh & McLennan prior to this. Mr. Tannock holds a Bachelor of Science in Business Administration with a double major in Insurance and Finance from the University of Hartford.
- Paul Simons: Mr. Paul Simons has 30 years of experience in the reinsurance industry and is currently Chief Executive Officer, Reinsurance of XL Bermuda Ltd, and Head of Property, Global Markets, of AXA XL division. He is responsible for the day to day running of the Bermuda reinsurance operation, and for the property underwriting of Global Markets. Mr. Simons joined the reinsurance industry in 1993 with Mid Ocean Re and has held progressively senior underwriting roles within AXA XL. His product focus has been US property underwriting with specific emphasis on catastrophe business. Responsibilities include all underwriting related functions, including strategy, budgeting catastrophe management, retro buying, client/brokers relationships and marketing. He has also been active in many local education initiatives, including serving as immediate Past President and Chairman of the Board of Trustees of the Bermuda Foundation for Insurance Studies. Mr. Simons holds a Bachelor of Science degree in Management from Howard University in Washington DC.
- Collin Dill: Mr. Collin Dill is the Head of Finance, Bermuda Insurance. Prior to that he held the position as the Head of Finance Controllership for AXA's Canada operations. He joined AXA XL in 2003 and has over 18 years' experience in the Insurance industry. Mr. Dill initially joined the AXA XL Corporate Finance team and has held progressively senior roles within the Company. Prior to emigrating to Canada, Mr. Dill held the position as VP Financial Controller of XL Insurance Bermuda Ltd for seven years. Mr. Dill holds a Bachelor of Commerce degree from Mt. Allison University in New Brunswick, Canada and is a qualified accountant (CPA CA).
- Simon Argent: Mr. Simon Argent is Chief Risk Officer - Bermuda and Head of Financial Risk Management. Prior to that he held the position of Senior Vice President, Head of Credit Risk Management for XL Catlin. He joined AXA XL in 2004 and has 30+ years of insurance/reinsurance industry experience. Before joining AXA XL, Mr. Argent spent 12 years in senior risk management, underwriting and account executive positions with Kingsway Financial Services and General Reinsurance. Prior to this he held underwriting positions with Progressive Casualty Insurance and Safeco Insurance. Mr. Argent is a Chartered Financial Analyst and holds an MBA from the Schulich School of Business in Toronto along with professional designations from the Insurance Institutes of Canada and America.
- Leila Madeiros: Ms. Leila Madeiros is Head of Compliance and Regulatory Affairs-Bermuda. She joined AXA XL in April, 2018. She has more than 30 years of experience in the (re)insurance industry. Prior to joining AXA XL, Ms. Madeiros was the Senior Vice President, Deputy Director and Corporate Secretary of the Association of Bermuda Insurers and Reinsurers (ABIR). She also served on the staff of the Bermuda Monetary Authority (BMA) as the Deputy Director of Policy, Research and Communications directing the formulation and dissemination of appropriate policies, strategies and information for the BMA. Ms. Madeiros also served in various capacities as a Bermuda insurance regulator with the Registrar of Companies Department (prior to 2002, the agency charged with insurance supervision). Ms. Madeiros developed her insurance expertise working at Heddington Insurance Limited in Hamilton and London before becoming an insurance regulator.

- **Carla Whitehurst:** Mrs Carla Whitehurst is an attorney licensed to practice law in Bermuda, Maryland, and Jamaica. She has over 21 years of experience as in-house counsel at (re)insurance companies in Bermuda. She currently is SVP, Head of Legal, Bermuda at AXA XL Bermuda offices, having been with the company since 2015. Prior to that she was at Markel Bermuda Ltd for 10 years as VP Senior Legal Counsel, and before that she worked at Oil Insurance Limited and also at Commercial Risk Reinsurance. Her broad experience ranges from insurance and reinsurance law, claims supervision, and corporate governance to general company law. She has also been active in a number of local Bermuda initiatives for the youth, including serving on the Board of Trustees of the Bermuda Foundation for Insurance Studies and providing reading Mentorship for YouthNet as well as The Reading Clinic. Ms Whitehurst holds a Bachelor of Science degree in Chemistry from Howard University in Washington DC, and a Juris Doctorate degree from the University of Maryland School of Law, Maryland.
- **Claudette Hodgson:** Ms. Claudette Hodgson is currently Head of Finance, Bermuda Reinsurance and has 15 years of experience working in the (Re) Insurance industry. Prior to joining AXA XL, she was Financial Controller for Catlin Insurance Company Ltd. Prior to joining Catlin Insurance Company Ltd, she worked at ACE Bermuda. Ms. Hodgson is a Certified Public Accountant and qualified from PricewaterhouseCoopers in 2003. She holds a Bachelor of Commerce from Dalhousie University and is a member of the Institute of Chartered Accountants Bermuda.
- **Mandy White:** Ms. White is Human Resources Business Partner, Bermuda. Prior to assuming her role at AXA XL she held the position of Senior Vice President, Human Resources for Tokio Millennium Re Ltd. Ms. White has over 20 years of Human Resource Experience. She holds a Senior Professional Human Resources (SPHR) designation from the HR Certification Institute and a M.A. Human Resources Development and Business Management from Webster University.
- **Mark Twite:** See above under "AXA XL Re Board of Directors"

B.3. Risk Management and Solvency Self-Assessment

AXA XL Re follows a similar process with respect to Risk Management and Solvency Self-Assessment as the Company.

B.3.1. Risk Management Process and Procedures to Effectively Identify, Measure, Manage and Report on Risk Exposures

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

The Company RMF consists of a set of risk policies and standards. These are reviewed and approved by the XLB 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 XLB Board meets regularly and oversees the implementation and embedding of the RMF and monitoring of Company performance against risk appetite. The XLB Board also has responsibility for capital monitoring. The XLB 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 XLB Board and support understanding of the risk profile.

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 specificities as described in the AXA XL Solvency II Policies. These policies are also implemented at legal entity level with local addendums. The Solvency II Policies implement AXA's risk strategy, facilitate control mechanisms and consider the nature, scope and time horizon of the business and the associated risks.

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

Risk Management Second Opinions

The AXA Standards require Risk Management to provide formal "Second Opinions" in certain key areas of risk to ensure that the viewpoint of Risk is formally documented within any related concerns and mitigation plans. The "Second Opinions" are provided by Risk Management "Centers of Excellence" at the Divisional level and cover the following areas:

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

Internal Control Framework

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

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

The implementation of the framework is done through four waves of macro-processes, with a total of 30 macro-processes for AXA XL that constitute the AXA XL value chain for insurance and reinsurance business. For each macro-process, key risks are defined and for each key risk, control objectives are defined to cover them. For each control objective, controls are designed and operated locally to efficiently meet control objectives and mitigate the related key risk.

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

Risk Appetite Framework ("RAF")

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

2022 business planning process and it was determined that all statements and tolerances were appropriate to allow the Company to execute the 2022 business plan.

Risk Management Strategy

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

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

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

- Retaining risk within an approved risk appetite that is consistent with the Company's 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 XLB Board and other stakeholders (e.g. regulators).

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

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

Risk Reporting

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

The Risk Management and Appetite Framework remains appropriate for 2022.

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

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

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

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

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

B.3.3. Relationship between the Solvency Self- Assessment, Solvency Needs, and Capital and Risk Management

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

The Company uses the BSCR to calculate the required CISSA capital to support its business plans on the basis of risks facing the business. The Company also maintains its own internal model which is used to determine its contribution to the AXA Group consolidated solvency position and to inform portfolio shaping decisions and return metrics.

B.3.4. Solvency Self-Assessment Approval Process

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

XLB BOARD

With respect to the responsibilities relating to RM, the XLB Board:

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

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

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

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

CISSA PROCESS OWNERS

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

Key CISSA process owners are detailed below:

CISSA Process	Owner
Strategic Planning	Finance Controllership Function
BSCR Calculation and BSCR Projections	Finance Controllership and Risk Management Functions
Stress Scenarios	Finance Controllership and Risk Management Functions
EOF Calculation and EOF Projections	Finance Controllership Function
STEC Calculation and STEC Projections	Risk Management Function
Risk Appetite Setting and Monitoring	Risk Management Function
Sensitivities and Scenario Analysis	Finance Controllership and Risk Management Functions
Liquidity Risk Reporting	Treasury and Risk Management Function
Own Funds Tiering	Finance Controllership Function
Capital Allocation	Finance Controllership Function
Emerging Risks	Risk Management Function
Strategic Risks	Chief Executive Officer
Reputation Risks	Risk Management Function
Regulatory Risks	Legal and Compliance Department

B.4. Internal Controls

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

The Company is also part of AXA XL's divisional Internal Control Programme which addresses internal controls across 30 macro-processes covering all AXA XL departments and processes. This includes an Internal Financial Control Framework looking at key controls around financial reporting.

AXA XLRe operates a similar approach with respect to Internal Controls as the Company.

B.4.1. Internal Control System

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

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

AXA Internal Control Program was introduced year end 2018 at AXA XL in order to implement a robust and effective Internal Control Framework by:

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

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

Both the Internal Control Framework and the Internal Financial Control framework are primarily designed to operate across AXA XL, with output reported to legal entities.

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

B.4.2. Internal Control Function

The Internal Control function is committed to 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 Internal Control's core strategic objectives include:

- Conducting an effective and efficient assessment of the design and operating effectiveness of internal controls, including controls over financial reporting;
- Identifying areas in which the inherent risk of financial misstatement is high so that management can address these risks before they manifest themselves in an actual misstatement;
- Providing executive management, the XLB Board and AXA Group reasonable assurance over AXA XL's processes – in particular on financial reporting; and
- Adding value by helping management promote a robust control environment.

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

The team is also responsible for monitoring remediation plans until closure and for making regular reporting on controls results to AXA Group, to AXA XL Audit, 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. AXA XL has finished the implementation of the Internal Control Framework at the end of 2021 with the description of all controls in the 30 macro-processes and first round of testing performed on all controls. Starting from 2022, the AXA XL Internal Control Framework is in Business as Usual mode and controls will be tested over 3 years according to a test plan formalized and validated by the AXA XL Chief Risk Officer.

B.4.3. Compliance Function

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

The Head of Compliance has dual reporting lines to the Global Chief Compliance Officer and secondly, the Chief Executive Officer – Insurance.

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

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

The compliance activities within the Company are articulated around a number of AXA Group Standards and Policies which set the minimum requirements expected to be covered by the Company. The AXA XL Code of Conduct (the "Code") contains standards and policies on significant risks affecting the compliance activities as well as the high-level control and monitoring principles to which the Company must adhere. Both the standards and policies contained in the Code (e.g. compliance governance, anti-money laundering, sanctions, anti-bribery, etc.) are mandatory. In addition, the compliance function has adapted the AXA XL 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 XLB Board or the XLB Executive Committee.

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

B.5. Internal Audit Function

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

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

The Head of Internal Audit for the Company has a direct and unfettered reporting line directly to his/her respective Audit Committee Chairman.

The Head of Internal Audit functionally reports through to the Global Head of Audit who reports to the Group Audit Committee Chairman.

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 components for each entity are expected to be audited. Any exceptions identified are notified to the Audit Committee for ratification.

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

B.6. Actuarial Function

The Company's Actuarial Function is provided at the AXA XL level. AXA XL's Actuarial Function (the "Actuarial Function") assists the XLB Board with its oversight responsibilities.

B.6.1. Regulatory Compliance

The Actuarial Function operates in accordance with applicable Bermuda regulation.

B.6.2. Roles and Structure

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

The responsibilities of the Actuarial Function are shared by a number of key individuals who are supported by their respective teams. These teams are of sufficient size and consist of suitably qualified and experienced people that meet the Company's minimum fitness and proper employment criteria. The teams are structured with varying lines of defense to facilitate effective peer review and independent challenge.

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

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

B.6.4. Actuarial Function Responsibilities

The Actuarial Function is involved in many of the key processes across the business and provides technical expertise and assurance over the methods used. The key processes are:

- Calculating the gross and net technical provisions.
- Ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions and explaining any material effect of change of data, methodologies or assumptions between valuation dates on the amount of technical provisions.
- Informing the XLB Board on the reliability and adequacy of the calculation of technical provisions; overseeing the calculation of technical provisions.
- Assisting in the execution of the risk management framework and ensuring effective governance framework around the review and validation of loss reserves (including technical provisions), policyholder obligations and potential exposures, which includes:
 - i. Regular contact by reserving actuaries with underwriting and claims teams.
 - ii. Review of technical provision results by an escalating series of reviews from reserving actuaries to the AXA XL Global Chief Actuary.
 - iii. Review of technical provisions to provide sufficient independence from management; and
 - iv. Independent external analysis of the reserving requirements.
- Ensuring that the actuarial methods and techniques are compliant with all the appropriate regulatory requirements where applicable.
- Assisting with the underwriting process, including those surrounding pricing and design of underwriting contracts and risk transfer mechanisms where applicable and appropriate.
- Helping to maintain a competent, effective and efficient approach to pricing.
- Comparing best estimates against experience, i.e. performing analysis comparing the estimated policyholder obligations against actual policyholder obligations paid.

B.7. Outsourcing

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

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

The Outsourcing Process for all material outsourcing arrangements consists of the steps below:

Due Diligence - A thorough review of the service provider is to be performed covering Information Security, Data Privacy, Operational Resilience, Finance, Health, Legal, Compliance and Risk Management. These reviews leverage internal expert teams primarily but may also use external experts when appropriate.

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

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

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

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

B.8. Other Material Information

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

C. Risk Profile

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

AXA XLRe is exposed to similar risks as the Company. For specific elements please see Note 5 of the AXA XLRe financials included in Appendix 3.

C.1.1. Insurance Risk

Insurance risk is defined using the following categories:

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

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

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

C.1.2. Market Risk

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

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

The Company identifies market risk through the following processes:

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

C.1.3. Credit Risk

Credit Risk is defined as the risk of loss resulting from migration and default. The Company is exposed to five sources of credit risk: (i) underwriting businesses with embedded credit risk products, (ii) investments, (iii) Treasury, (iv) unsecured reinsurance recoverables and (v) broker premium receivables. Credit risk arising from country specific exposures is captured as part of the country risk framework.

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

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

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

The Company identifies credit risk through the following processes:

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

C.1.4. Liquidity Risk

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

The Company identifies liquidity risk through the following processes:

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

C.1.5. Operational Risk

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

Operational risk is identified through the following processes:

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

C.1.6. Other Material Risks

Strategic Risk

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

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

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

Group Risk

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

Asset Liability Matching Risk

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

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

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

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

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

The Company controls asset liability mismatch risk through:

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

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

- **Investment Risk Appetite Framework**

XLB Board approved Risk Appetite Framework limits are in place that address all the key market risk factors and are commensurate with the volume and complexity of activity undertaken by the Company.

- **Reserving Process Controls**

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

- **Stress Testing Framework**

The Company uses stress testing as one method to assess asset liability mismatch risk exposures.

Reputational Risk

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

Emerging Risk

Emerging risks are risks which may develop or which already exist that are difficult to quantify and may have a high loss potential. To assess the impact of emerging risks at AXA XL, the Emerging Risks Committee as

well as the Emerging Risks Task Force are tasked with identifying, analyzing, prioritizing, quantifying, monitoring and reporting on emerging risks that could have an impact on existing and future product offerings and business operations. The Emerging Risks Committee and Task Force work together to undertake both strategic and risk management processes, assisting in identifying potential opportunities in the market and providing thought leadership around emerging risk issues to optimize underwriting and strategic decisions.

Climate Change

As part of the AXA Group and AXA XL, the Company benefits from being part of widely supported climate change initiatives. Since becoming part of the AXA Group, and aligning with AXA Group strategy, AXA XL and entities within the AXA XL division, have adopted AXA's Corporate Social Responsibility Policy. As a result, business written has been adjusted to account for an underwriting approach that restricts coverage for certain risks such as coal and oil-sands related assets, and arctic drilling. Our underwriting commitments were further strengthened in 2021 around the Oil & Gas industry; these provided commitments on new upstream oil greenfield exploration projects, Arctic explorations and shale and fracking.

Climate risk is a key area of risk consideration. There is a cross functional working group which includes Company representation, that meets on a regular basis to discuss climate risk and the associated action plans. The Division working group is charged with developing the roadmap for AXA XL and advising the AXA XL Leadership Team. In addition, in 2021, AXA XL appointed a divisional Head of Climate to oversee AXA XL's climate strategy covering areas impacted by climate, such as underwriting, risk management, communications, employee engagement and sustainability. Through 2022, the governance and committee structures will be reviewed and optimized as appropriate.

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

- **Physical risks:** These are the first-order risks which arise from weather-related events, such as floods and storms. They comprise impacts directly resulting from such events, such as damage to property, and those that may arise indirectly through subsequent events, such as disruption of global supply chains or resource scarcity. The Company has exposure to natural catastrophes which therefore might be impacted and is supported by an AXA XL Science & Natural Perils team who consider the impact of climate change on the natural catastrophe models. Our ceded reinsurance protections act to mitigate the risks from natural perils, including those related to climate. However, the hazard changes from the impact of climate change on natural perils are likely to present themselves gradually over a long time period, and therefore we view this risk as chronic rather than acute. Our internal research suggests that, in the near term, the impact of climate change on the hazard will be within the natural variability of the peril for many perils and that other changes, such as changes in insured exposures, are likely larger drivers of changes in risk profile. With this in mind, AXA XL is embarking on further research into changes in exposure, as we consider this a key part of the risk equation, alongside hazard and vulnerability;
- **Transition risks:** These are financial risks which could arise from the transition to a lower-carbon economy. This can include both loss-causing impacts and the future stability of some of the Company's product portfolios e.g. in carbon-intensive sectors such as motor. This risk impacts the Company in, for example, the energy sector where we are seeing the impact of COP 21 & 26, and a move towards insuring renewable energy initiatives, as well as areas such as the fine art book where vintage car business could be impacted. Our underwriter workshops have enabled the dissemination of the wealth of knowledge and expertise underwriters have in their specific classes of business. For example, our aerospace underwriters are heavily involved in conversations with the airline industry as to how a transition to Sustainable Aviation Fuels could unfold. This expert knowledge and engagement with our clients enable AXA XL to be resilient to the changing risks we face in this area; and
- **Liability and litigation risks:** These are risks that could arise from parties who have suffered loss or damage from climate change, and then seek to recover losses from others who they believe may have been responsible. Where such claims are successful, those parties against whom the claims are made may seek to pass on some or all the cost to insurance firms under third-party liability contracts such as professional indemnity (PI) or directors' and officers' (D&O) insurance. Where liability is not ruled or settled, the Company is still exposed to the costs of duty to defend, should clients seek to recover costs. The Company has exposure to this through exposure across a range of industries which could be targeted in climate change litigation.

To understand these risks within the Division, a number of workshops have been held with the underwriters, a review of wordings was undertaken, and an analysis of prior claims events performed, as well as a review of external data. This is planned to expand during 2022, including the incorporation of climate change physical risk stress tests into the Company's CISSA. Furthermore, our operational resilience work considers the potential impact of climate change in terms of its impact on our office locations. During 2022 as the AXA XL climate strategy evolves, the company will continue looking to enhance the current company climate strategy.

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

C.2. Risk Mitigation in the Organization

Insurance Risk

Reinsurance Purchase

The Company participates in the AXA XL managed outwards 3rd party reinsurance risk transfer program to support the Company's underwriting strategy within risk appetite and to ensure efficient use of capital. AXA XL work with the AXA Group Reinsurance entity ("AXA Global Re") on the outwards reinsurance strategy placements, especially for placements where there is a Group Risk Appetite in place. Business ceded varies by location and line of business based on a number of factors, including market conditions. The goals of the outwards reinsurance risk transfer program include reducing exposure on individual risks, protecting against catastrophic risks, maintaining acceptable capital ratios and enabling the writing of additional business. The overall goal of the program is to reduce volatility and enhance overall capital efficiency.

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

Actuarial Function

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

Rating Adequacy

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

Underwriting Authorities and Guidelines

All underwriters are assigned individual underwriting authorities with the objective of preserving the capital base and controlling earnings volatility. Authorities within the business units are delegated through the underwriting management structure, and the annual review of underwriting limits is part of the business planning process. Authorities are also set in line with individual underwriter experience levels, 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 clients while controlling the Company's exposure both on a portfolio basis and on individual insurance contracts through terms and conditions, policy limits and sub-limits, attachment points and reinsurance arrangements on certain types of risks.

New Product Process

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

Market Risk

Strategic Asset Allocation

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

- **Authorities Framework/Risk Appetite Framework**

In conjunction with the SAA, the Company has a Risk Appetite Framework modeled off the AXA Group framework which limits exposure to various asset classes (with tighter limits for higher risk asset types), as well as duration and FX mismatches. There is also centralized investment risk monitoring through the

Investment Authorities and Guidelines, which further monitors exposures by average credit quality, corporate industry sector, region (for municipal securities and emerging markets), BBB exposure, and leverage. These controls are implemented through detailed compliance monitoring and reporting.

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

- **Service Level Agreements**

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

Currency Risk Mitigation

The Company's currency exposure is dominated by the Euro, British Pound, Canadian dollar and Australian dollar. The Company seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. Asset liability management analysis is run regularly to adjust surplus and shortfall currencies, ensuring that the entity exposures are broadly matched. The table below outlines the Company's year-end exposure by currency:

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

Table for XLB:

<i>(Foreign currency in millions)</i>	December 31, 2021	December 31, 2020
Euro	1,180.1	(11.7)
Canadian dollar	279.4	294.9
Australian dollar	240.1	(307.9)
British pound	150.5	612.1

Table for AXA XLRe:

<i>(Foreign currency in millions)</i>	December 31, 2021
Euro	994.9
British pound	143.7
Swiss franc	(35.3)

Credit Risk

Credit Risk Framework - Credit risk is managed across three sets of limits:

1. **The Systemic Credit Clash Scenario** is an enterprise view of portfolio risk to a systemic credit risk event that incorporates all relevant Division risk sources that could be impacted by a credit risk event.
2. **The Systemic Financial Institutions Realistic Disaster Scenario** is an underwriting view of portfolio risk to a defined global financial crisis.

These scenarios reflect an "instantaneous" view of the ultimate risk. The scenarios conservatively assume that the entirety of the losses, which are expected to be multi-year in nature, all occur on day one. The risk sources are diverse in terms of how they are expected to manifest themselves, thus creating a form of "time diversification". The scenarios are expressed in Probable Maximum Loss (PML) terms with methodologies aligned to tail events.

3. **Obligor Idiosyncratic Concentration Risk** is managed with alerts and limits set as a function of obligor credit quality. Alerts and limits are in USD net notional terms representing the amount at risk and assuming no recovery. Exposures are derived from the functional sources (reinsurance recoverables, Treasury, investments) and from the reinsurance underwriting businesses with embedded credit risk

activities. Alters and limits are in USD net notional terms representing the total amount at risk and assuming no recovery. In addition, obligor exposures are also required to align to the AXA Group Global Issuer Framework which can constrain AXA XL obligor deployment even if AXA XL credit risk framework capacity exists. Constraints from Group come in various forms:

- Names on Ban due to default risk, reputational risk, or high level of deployment
- Names on Watch where available capacity is limited
- Names with specific risk allocations to the credit sensitive businesses and to Treasury
- Credit risk arising from credit sensitive underwriting activities is also managed via the underwriting limit framework. Credit risk in the investment portfolio is also managed through various frameworks applied at AXA XL and the 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.
- Credit quality ratings are derived from AXA Group. When an obligor is not in the AXA Group universe, AXA XL applies its own credit rating methodology.
- Credit risk arising from country specific exposure is managed through the Country Risk Framework.
- **Underwriting Authorities and Limits** - See C.1.1 Insurance Risk.
- **Investment Portfolio** - Credit risk is also managed through the credit research performed by external investment management service providers, AXA Group Risk Management, and the in-house portfolio management team.
- **Reinsurance Security Department** - The Company manages its credit risk in its external reinsurance relationships by transacting with reinsurers that it considers financially sound, and if necessary, collateral in the form of funds, trust accounts and/or irrevocable letters of credit may be held.

The following table outlines the Company's top external reinsurance credit exposures, net of collateral, as at December 31st, 2021.

Name of Reinsurer	Reinsurer Financial Strength Rating	% of Total
National Indemnity Company	AA+/Stable	9.5%
Munich Reinsurance Co.	AA-/Stable	6.3%
Lloyd's Syndicate	A+/Stable	4.9%
Transatlantic Reinsurance Company	A+/Stable	4.3%
Renaissance Reinsurance U.S. Inc.	A+/Stable	3.8%
Hannover Rueck SE	AA-/Stable	3.2%
Everest Reinsurance (Bermuda) Ltd	A+/Stable	2.9%
Liberty Mutual Insurance Company	A/Stable	2.6%
AXIS Reinsurance Company	A+/Negative	2.4%
Arch Reinsurance Company	A+/Negative	2.2%

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

Reinsurer Financial Strength Rating	% of Total
AAA	0.1%
AA	33.8%
A	57.8%
BBB	0.8%
BB and below	0.8%
Captives	6.7%
Total	100.0%

Tables related to AXA XLRe:

The following table outlines AXA XLRe's top external reinsurance credit exposures, net of collateral, as at December 31st, 2021.

Name of Reinsurer	Reinsurer Financial Strength Rating	% of Total
XL Bermuda Ltd	AA-/Stable	75.6%
National Indemnity Company	AA+/Stable	4.1%
New Ocean Capital Re Ltd. - Lascaux Re	AAA/Stable	3.7%
Monument Segregated Account Company Ltd	AAA/Stable	2.1%
Daedalus I Re Ltd	AAA/Stable	1.8%
R & Q Quest Insurance Limited - Bluefire ACR	AAA/Stable	1.6%
Erie Insurance Exchange	AA/Stable	0.9%
Aioi Nissay Dowa Insurance Co. Ltd.	A+/Stable	0.9%
CSAA Insurance Exchange	A/Stable	0.9%
Renaissance Reinsurance Ltd.	A+/Stable	0.8%

The following table sets forth the ratings profile of the reinsurers that supports AXA XLRe's unpaid loss and loss expense recoverable and reinsurance balances receivable, net of collateral, at December 31st, 2021.

Reinsurer Financial Strength Rating	% of Total
AAA	3.4%
AA	88.5%
A	7.3%
BBB	0.4%
BB and below	0.1%
Captives	0.3%
Total	100.0%

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

Liquidity Risk

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

Cash requirements include all possible claims on cash from policyholders and operations. Some of these cash outflows are scheduled while others are known with much less certainty. The goal is to ensure

sufficient liquidity in the asset portfolio, together with secured external cash sources, to provide for timely payment of potential cash demands under both normal business conditions and under extreme conditions resulting from unforeseen events over multiple time horizons.

Liquidity risk is managed through:

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

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

The state of the company's liquidity is routinely reported to the XLB Board and monitored as part of the RAF.

Operational Risk

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

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

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

Purchase of Insurance

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

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

C.3. Material Risk Concentrations

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

The RAF has two key components, high level risk appetite statements and a set of risk exposure limits linked to specific risk types. The Risk Appetite Framework is reviewed and approved annually by the AXA XL Risk and Compliance Committee and the XLB Board, with the latest review in April 2022, reflecting the risk profile of the Company and the 2022 business plan.

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

- **Earnings** - This considers impact of a 1 in 20 years financial event on the Underlying Earnings to Net Income ("AE to NI").

- **Value** - This considers exposure to the largest natural catastrophe event (at 1 in 200 years), default of single counterparty (not risk adjusted), largest claim or operational risk event (at 1 in 200 years).
- **Solvency** - This considers the buffer that should be held in excess of regulatory capital. The target level of solvency is for the Company to withstand the largest of a 1 in 20 years financial event or insurance event without the need to call on AXA Group for support.
- **Liquidity** - This considers ability to pay claims in the event of a stress event.

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

- **Market Risk** - indicators exist for exposures per asset class, duration gap and foreign exchange.
- **Credit Risk** – indicators exist for fixed income concentration, global issuer exposure and sovereign exposure.
- **Reserve Risk** – the reserving risk appetite monitors booked reserves against a limit and alert level. The limit is defined as the best estimate level and the alert is positioned ten percentile points higher than the best estimate level in the modelled loss distribution net of reinsurance.
- **Underwriting Risk:**
 - Underwriting limits are spread across Property (where the limit is based on Probable Maximum Loss ("PML")), Liability, Marine, Aviation, D&O and Cyber lines. The limits are based on exposure to a single insured and equal the sum of the contractual limits (direct or facultative) net of reinsurance.
 - Natural catastrophe - exposures are monitored for the top 3 peril regions (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 loss expected to occur 1 in 200 years.
- **Life Risk** - indicators exist for longevity risk, per event for pandemic, terrorism and earthquake and per life.

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

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

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

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

For the above and other reasons, the incidence, timing and severity of catastrophes and other event types are inherently unpredictable, and it is difficult to estimate the amount of loss any given occurrence will generate. Consequently, there is material uncertainty around the 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 the Company's financial condition and results of operations and may result in substantial liquidation of investments, possibly at a loss, and outflows of cash as losses are paid.

C.4. Investment in Assets in accordance with the Prudent Person Principles of the Code of Conduct

In line with business objectives, market risk is accepted by the Company and managed with the objective to meet the annual investment earnings target and maximize the risk adjusted return on economic capital subject to agreed risk constraints and other considerations. The Company's investments are managed and monitored by XLGIL and governed through an investment agreement and guidelines. The RM department oversee adherence to these guidelines.

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

C.5. Stress Testing and Sensitivity Analysis to Assess Material Risks

An embedded stress testing framework is used to understand possible impacts across all major risks. The XLB Board are informed of results of stress tests performed throughout the year via risk dashboards and the CISSA report, including whether the results fall within relevant approved risk tolerances and limits. These stress tests help to understand potential losses from various events to ensure that the Company is prepared to withstand them, including ensuring that there is adequate capital and liquidity to manage through the event and maintain the Company as a going concern. Following the losses implied by exposure to these stress scenarios at December 31, 2021, the Company remains solvent. As part of the Company's Recovery Plan, a series of recovery actions have been identified to restore the Company's financial position and viability in the case of a severe stress event.

Insurance Risk

For underwriting risks, the main stress test approaches used cover natural catastrophe peril exposure projection and RDS projection as outlined below.

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

Natural catastrophe exposure results and RDS exposure results are used to monitor exposure to the defined scenarios and monitor compliance with risk appetites, underwriting risk tolerances and limits. RDS

are produced a minimum of twice per year to understand the Company's exposure to defined non-natural catastrophe scenarios, which have been designed by experts and cover both short and long tail lines of business and cross class event exposures.

Market Risk

AXA XL has developed market risk scenarios based on the results and the outcomes that manifested themselves in large historical market events. The following stress and scenario tests are used to identify risk exposures:

- Net income volatility stress testing.
- Interest rate and credit spread sensitivities: by re-valuing current portfolio holdings assuming various changes in the level and term structure of interest rates and the level of credit spreads.
- FX stress tests on assets and liabilities; and
- Ad hoc scenario stress testing as deemed appropriate by Risk Management.

Credit Risk

AXA XL stress tests the impact of downgrades against its country risk appetites. The Company initiates corrective actions by restricting any further capacity deployment in case of a high probability of downgrade that would breach the company credit or country risk limits.

Liquidity Risk

A stressed liquidity analysis report is prepared on a quarterly basis by Treasury and Risk Management, which includes the Company's own view of the stressed sources and uses of liquidity over multiple time horizons (ranging from 1 week to 12 months). Entities must maintain excess liquidity post simultaneous stresses from cashflows, capital markets and natural catastrophes over each horizon.

Operational Risk

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

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

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

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

C.6. Other Material Information

Please refer to Section A.8. Other Material Information

D. Solvency Valuation

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

D.1. Valuation Bases, Assumptions and Methods used to derive the value of each Asset Class

Cash and Cash Equivalents comprise cash on hand and demand deposits while cash equivalents are short-term, liquid investments that are readily convertible to cash and which are subject to low volatility. Cash and cash equivalents are included in the Economic Balance Sheet ("EBS") at fair value in line with IFRS with both changes in fair value and realized gains/losses netted off Statutory Economic Capital and Surplus.

Quoted Investments - the fair values of assets and liabilities traded on active markets are determined using quoted market prices when available. An instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis between a willing seller and a willing buyer. For financial instruments traded in active markets, quotes received from external pricing services represent consensus prices, i.e. using similar models and inputs resulting in a very limited dispersion. The fair value amounts of assets and liabilities for which fair value is determined in whole directly by reference to an active market are disclosed as level 1 in the Notes to the Company's audited IFRS financial statements for the year ended December 31, 2021 (the "Financial Statement Notes").

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.

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

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

Fair values of assets and liabilities that are not traded in an active market, and are mainly based on observable market data, are disclosed as level 2 financial instruments in the Financial Statement Notes.

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

No Active Market: Use of External Pricing Services

External pricing services may be derived by fund asset managers in the case of non-consolidated investments in funds or brokers. To the extent possible, the Company collects quotes from external pricing providers as inputs to measure fair value. Prices received may form tight clusters or dispersed quotes which may then lead to the use of valuation techniques. The dispersion of quotes received may be an indication of the large range of assumptions used by external pricing providers given the limited number of transactions to be observed or reflect the existence of distress transactions. 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 based on cross checks using different methodologies such as discounted cash flows techniques, price earnings ratio multiples, adjusted net asset values, taking into account recent transactions on instruments which are substantially the same if concluded at arm's length between knowledgeable willing parties, if any. The use of valuation techniques and assumptions could produce different estimates of fair value. However, valuations are determined using generally accepted models (discounted cash flows, Black & Scholes models, etc.) based on quoted market prices for similar instruments or underlying data (index, credit spread, etc.) whenever such directly observable data are available and valuations are adjusted for liquidity and credit risk.

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

Use of Valuation Techniques in Dislocated Markets.

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

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

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

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

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

In the EBS the goodwill and intangible asset element of the participation valuation is eliminated, in accordance with the reasons given above. After the end of each period the performance of all affiliate investments are reviewed and the share of the Company's change in equity is recorded each period based on the financial information received directly from the affiliate. The Company also receives the audited financial statements from affiliates when available. This valuation adjustment was \$0.0m and \$0.0m at December 31, 2021 and 2020 respectively.

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

Real Estate - Investment in real estate properties is recognized at cost. The properties' components are depreciated over their estimated useful lives, also considering their residual value if it may be reliably estimated. In case of unrealized loss over 15%, an impairment is recognized for the difference between the net book value of the investment property and the fair value of the asset based on an independent valuation. Furthermore, at the level of each reporting entity, if the cumulated amount of unrealized losses under 15% (without offsetting with unrealized gains) represents more than 10% of the cumulated net cost of real estate assets, additional impairments are booked on a line-by-line approach until the 10% threshold is reached.

In subsequent periods, if the appraisal value rises to at least 15% more than the net carrying value, the 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).

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

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

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

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

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

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.

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

Derivatives - Derivatives are initially recognized at fair value at purchase date and are subsequently re-measured at their fair value. Unrealized gains and losses are recognized in the statement of income unless they relate to a qualifying hedge relationship as described below. The Company designates certain derivatives as either: (i) hedging of the fair value of recognized assets or liabilities or of a firm commitment (fair value hedge); or (ii) hedging of highly probable expected future transactions (cash flow hedge); or (iii) hedging of net investments in foreign operations. The Company documents, at inception, the hedge relationship, as well as its Risk Management hedging objectives and strategy. The Company also documents the hedge effectiveness, both at inception and on an ongoing basis, indicating the actual or expected efficiency level of the derivatives used in hedging transactions in offsetting changes in the fair values or cash flows of hedged underlying items.

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

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

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

Derivatives not Qualifying for Hedge Accounting - Changes in the fair value of all other derivative instruments that do not qualify for hedge accounting are recognized in the income statement. Given IAS 39 constraints, only a few hedges are eligible to hedge accounting provisions described above. However, most of the derivatives used by the Company are purchased with a view to hedge or for example to use such instruments as an alternative to gain exposure to certain asset classes through 'synthetic positions'. The Company holds financial investments that also include embedded derivatives. Such embedded derivatives are separately recorded and measured at fair value through profit or loss if the impact is deemed material. For the statement of financial position, derivatives are presented alongside the underlying assets or liabilities for which they are used, regardless of whether these derivatives meet the criteria for hedge accounting.

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

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

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

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

- they can be sold separately
- the expected future economic benefits will flow to the company

- the value of the assets can be reliably measured.
- there is evidence of exchange transactions for the same or similar assets indicating that they are saleable in the marketplace.

The Lloyd's capacity asset of \$336.6 million and \$579.0 million at December 31, 2021 and 2020 respectively, meets all of the above criteria and as such is recognized on the EBS.

D.2. Valuation Bases, Assumptions and Methods used to derive the value of Technical Provisions

D.2.1. Valuation Bases, Assumptions and Methods to derive the value of Technical Provisions for the Company

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

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

- Unwinding of discounting permissible under IFRS (e.g. Periodic Payment Orders and Workers' Compensation).
- Incorporation of expected reinsurance counterparty defaults (bad debt).
- Other adjustments related to the consideration of investment and operating expenses, etc.; and
- Discounting credit.

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

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

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

At December 31, 2021 and 2020, the total net Technical Provisions amounted to \$33.6 billion and \$34.2 billion, respectively, comprising the following:

As at December 31, 2021:

<i>(U.S. dollars in thousands)</i>	Non-Life	Life	Total
Claims Provision	30,289,252	338,735	30,627,987
Premium Provision	881,194	—	881,194
Risk Margin	2,080,529	6,602	2,087,131
Total Technical Provisions	33,250,975	345,337	33,596,312

As at December 31, 2020:

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

D.2.1.1. Valuation Bases, Assumptions and Methods to derive the value of Technical Provisions for AXA XLRe

At December 31, 2021, the total net Technical Provisions relating to AXA XLRe amounted to \$7.5 billion, comprising the following:

<i>(U.S. dollars in thousands)</i>	Non-Life
Claims Provision	6,690,112
Premium Provision	197,754
Risk Margin	569,564
Total Technical Provisions	7,457,430

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

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

D.3. Description of Recoverables from Reinsurance Contracts

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

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

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

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

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

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

Deposit Liabilities - Contracts entered into by the Company that are not deemed to transfer significant underwriting and/or timing risk are accounted for as deposits, whereby liabilities are initially recorded at an amount equal to the assets received. Deposit liabilities are measured at fair value less an adjustment for own credit risk. The Company determined the estimated fair value of the deposit liabilities by using the BMA standard discount rates.

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

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

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

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

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

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

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

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

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

Funds Held Under Reinsurance ("RI") Contracts - Funds withheld liability net of RI recoveries related to the retrocession of the majority of the Group's Life business. Further information on this arrangement is found in the Future Policy Benefit Reserves note in the Company's IFRS financial statements for the year ended December 31, 2021. The reason for the valuation difference is that the RI recovery related to the retrocession contract is higher under EBS compared to IFRS (and therefore the net funds withheld liability is lower under EBS).

D.5. Other Material Information

For the year ended December 31, 2021, there is no other material information regarding solvency valuation required to be disclosed for purposes of this Financial Condition Report.

E. Capital Management

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

E.1. Eligible Capital

E.1.1. Capital Management Policy and Process for Capital Needs, how Capital is Managed and Material Changes During the Period

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

In addition, the Company ensures that it meets the appropriate levels/standards as defined under the Insurance Act 1978 using the economic balance sheet framework to derive the Company's statutory economic capital and surplus, its enhanced capital requirement and its target capital levels as defined therein. There are appropriate levels of oversight from the XLB Board, Risk and Compliance, Finance and AXA XL Treasury to ensure appropriate capital levels are managed and maintained.

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

<i>(U.S. dollars in thousands)</i>	December 31, 2021
Tier 1	11,269,545
Tier 2	670,147
Tier 3	999,000
Total	12,938,692

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

E.1.2.1. Eligible Capital Categorized by Tiers in Accordance with the Eligible Capital Rules for AXA XLRe

<i>(U.S. dollars in thousands)</i>	December 31, 2021
Tier 1	2,911,325
Tier 2	9,671
Tier 3	—
Total	2,920,996

The Tier 1 capital comprises fully paid common shares and the contributed surplus or share premium thereon.

E.1.3. Eligible Capital for the Company Categorized by Tiers in Accordance with the Eligible Capital Rules used to meet the Enhanced Capital Requirement (ECR) and the Minimum Margin of Solvency (MSM) Requirements of the Insurance Act 1978

<i>(U.S. dollars in thousands)</i>	Limits	MSM	ECR	Minimum Margin of Solvency	Enhanced Capital Requirement
Tier 1	Min	80%	60%	11,269,545	11,269,545
Tier 2	Max	25%	66.67%	670,147	670,147
Tier 3	Max		17.65%	—	999,000
Total				\$ 11,939,692	\$ 12,938,692

E.1.3.1. Eligible Capital for AXA XLRe Categorized by Tiers in Accordance with the Eligible Capital Rules used to meet the Enhanced Capital Requirement (ECR) and the Minimum Margin of Solvency (MSM) Requirements of the Insurance Act 1978

<i>(U.S. dollars in thousands)</i>	Limits	MSM	ECR	Minimum Margin of Solvency	Enhanced Capital Requirement
Tier 1	Min	80%	60%	2,911,325	2,911,325
Tier 2	Max	25%	66.67%	9,671	9,671
Tier 3	Max		17.65%	—	—
Total				\$ 2,920,996	\$ 2,920,996

E.1.4. Confirmation of Eligible Capital that is subject to Transitional Arrangements

None

E.1.5. Identification of any Factors Affecting Encumbrances Affecting the Availability and Transferability of Capital to Meet the ECR

The capital needed to meet the ECR is available and transferable.

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

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

The capital commitment is effectively an Ancillary Own Funds instrument: In connection with the capital commitment, the Company issued 1,000 Series A, Non-Voting Redeemable Preference Shares to AXA SA which were funded at the statutory minimum of \$1 million. Subject to the Company's Enhanced Capital Requirement ("ECR") coverage ratio falling below 120% at any time prior to December 31, 2025, AXA SA is contractually obligated to fund the remaining \$999 million. This capital commitment is eligible to form part of the Company's solvency capital as a Tier 3 Capital subject to a 15% cap (\$1 million is eligible to be treated as Tier 2 Capital). Any additional portion of the remaining \$999 million of the capital commitment received by the Company will be eligible to form part of the company's Tier 2 Capital.

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

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

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

<i>(U.S. dollars in thousands)</i>	December 31, 2021
IFRS Consolidated Total Shareholders' Equity	13,139,332
Less: Goodwill & Intangible Assets	(1,817,115)
Less: Adjustment for DAC	(757,502)
Add: Ancillary Capital Provided by Parent	1,000,000
Adjustments for Technical Provision and Risk Margin under EBS Rules	1,133,472
Other Net Adjustments	240,505
Statutory Consolidated Total Shareholder's Equity	\$ 12,938,692

E.1.7.1. Identification of Differences in Shareholders' Equity as Stated in the Financial Statements Versus the Available Statutory Capital and Surplus for AXA XLRe

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

<i>(U.S. dollars in thousands)</i>	December 31, 2021
IFRS Consolidated Total Shareholders' Equity	3,044,541
Less: Goodwill & Intangible Assets	(21,740)
Less: Adjustment for DAC	(708,989)
Adjustments for Technical Provision and Risk Margin under EBS Rules	(1,207,964)
Other Net Adjustments	1,815,148
Statutory Consolidated Total Shareholder's Equity	\$ 2,920,996

E.2. Regulatory Capital Requirements

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

The Company's Minimum Margin of Solvency and Enhanced Capital Requirements as at December 31, 2021 are as follows:

	Amount	Ratio
Minimum Margin of Solvency	\$ 2,123,238	609%
Enhanced Capital Requirement	\$ 8,492,952	152%

E.2.1.1. ECR and MSM at the end of the Reporting Period for AXA XLRe

AXA XLRe's Minimum Margin of Solvency and Enhanced Capital Requirements as at December 31, 2021 are as follows:

	Amount	Ratio
Minimum Margin of Solvency	\$ 504,429	579%
Enhanced Capital Requirement	\$ 2,017,715	145%

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

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

E.2.3. A Description of the Amount and Circumstances Surrounding the Non-Compliance, the Remedial Measures and their Effectiveness

Not Applicable

E.2.4. Where the Non-Compliance is Not Resolved, A Description of The Amount of The Non-Compliance

Not applicable

E.3. Approved Internal Capital Model

Not applicable

E.3.1. Description of the Purpose and Scope of the Business and Risk Areas where the Internal Model is used

Not applicable

E.3.2. Where a Partial Internal Model is Used, a Description of the Integration with the BSCR Model

Not applicable

E.3.3. Description of Methods Used in the Internal Model to Calculate the ECR

Not applicable

E.3.4. Description of Aggregation Methodologies and Diversification Effects

Not applicable

E.3.5. Description of the Main Differences in the Methods and Assumptions Used for the Risk Areas in the Internal Model Versus the BSCR Model

Not applicable

E.4. Description of the Nature and Suitability of the Data Used in the Internal Model

Not applicable

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

For the year ended December 31, 2021, there is no other material information regarding capital management required to be disclosed for purposes of this Financial Condition Report.

F. Subsequent Events

War in Ukraine

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

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

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

Declaration Statement

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

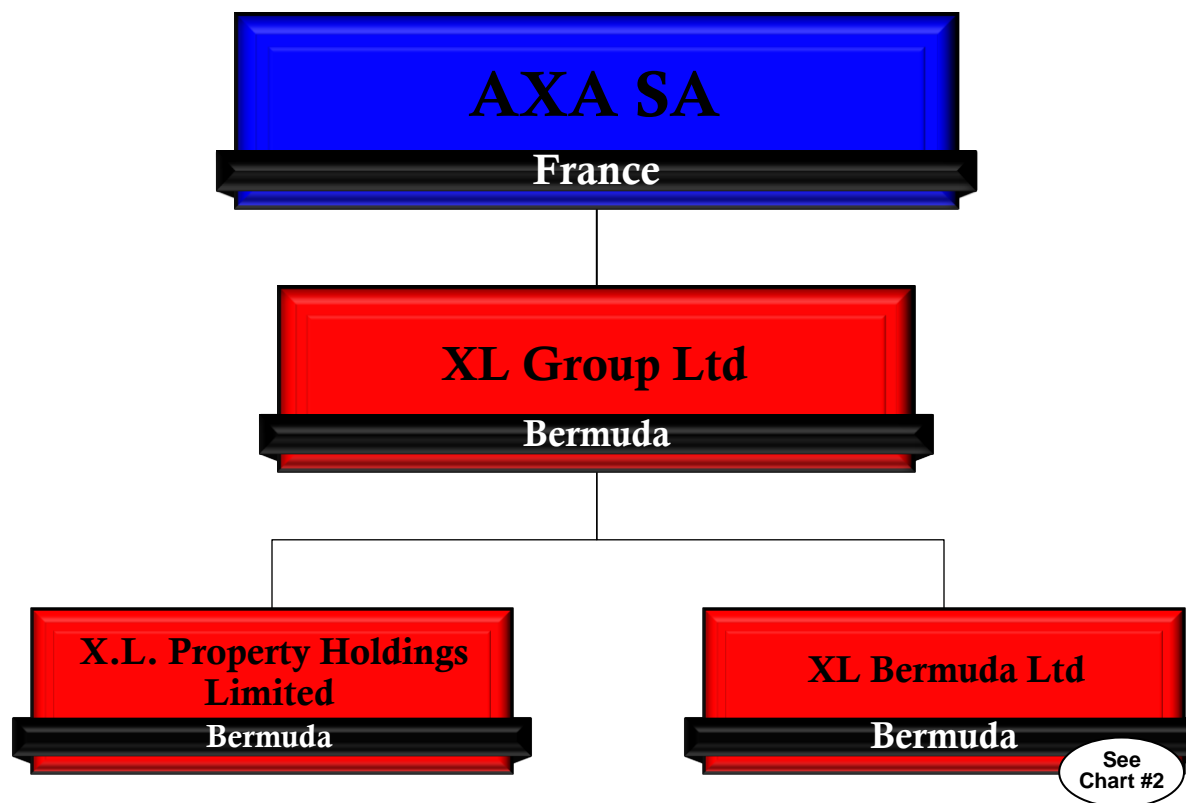


Patrick Tannock
AXA XL Partner, Chief Executive Officer (XL Bermuda), Insurance
April 28, 2022



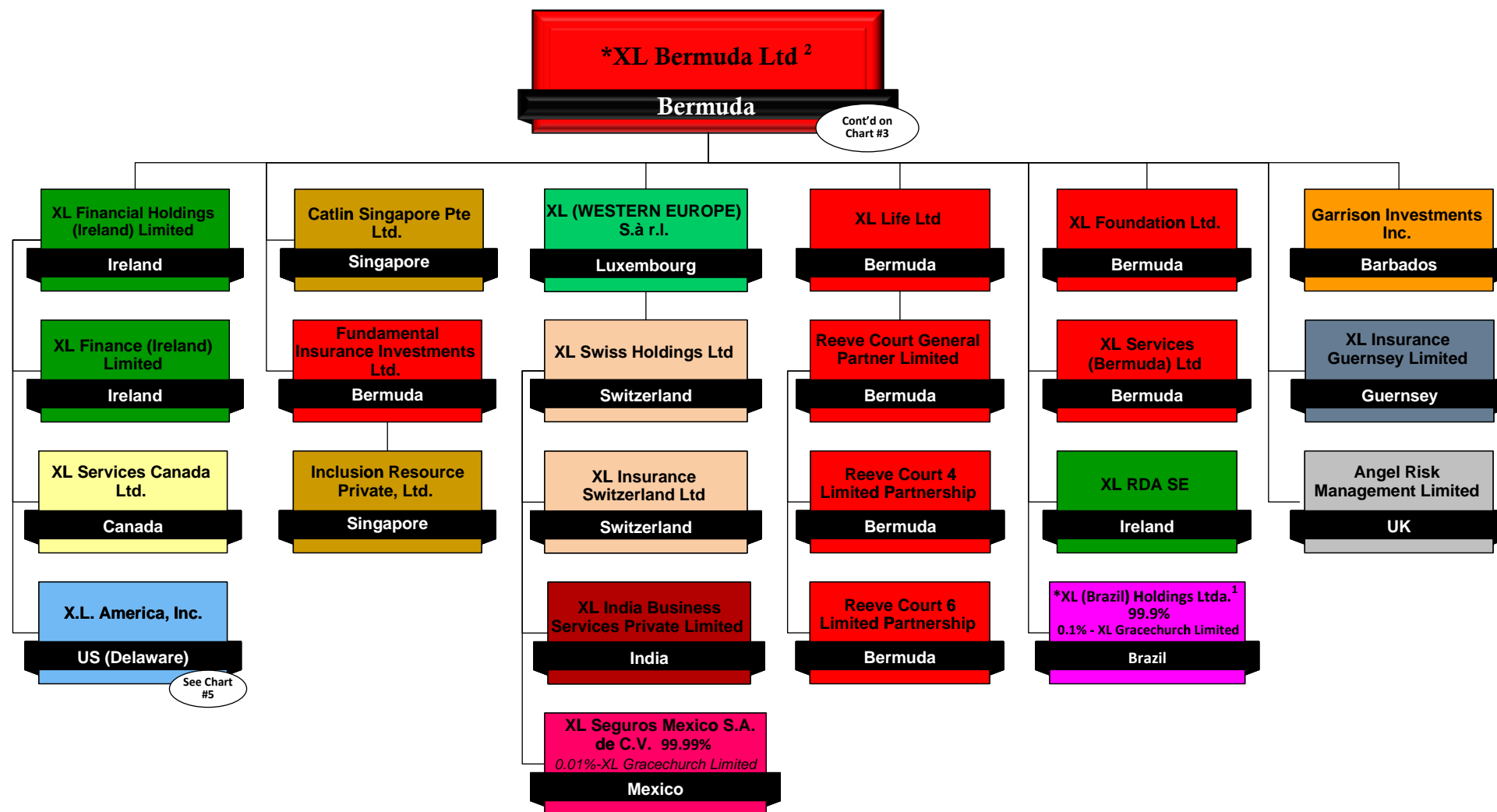
Simon Argent
Chief Risk Officer - Bermuda
April 28, 2022

Appendix 1 - XL Group Structure Chart 2021 Q4



4th Qtr. 2021

CHART #2

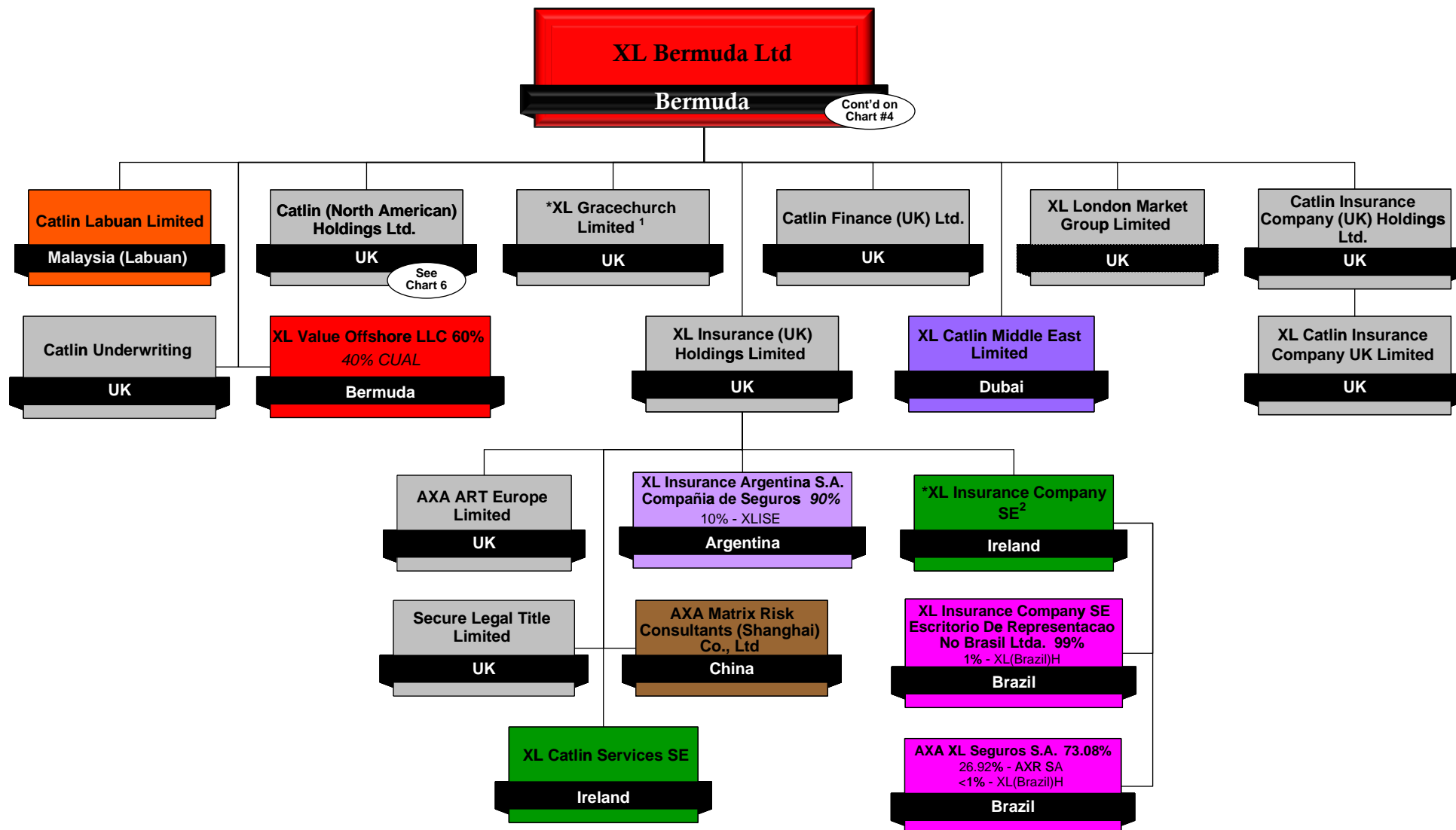


***Note:**

1. 1% ownership of XLICSE Escritorio de Representacao No Brasil Ltda; <1% of AXA XL Resseguros S.A.; <1% of AXA XL Seguros S.A.
2. Limited Partner of XLA Garrison L.P.

4th Qtr. 2021

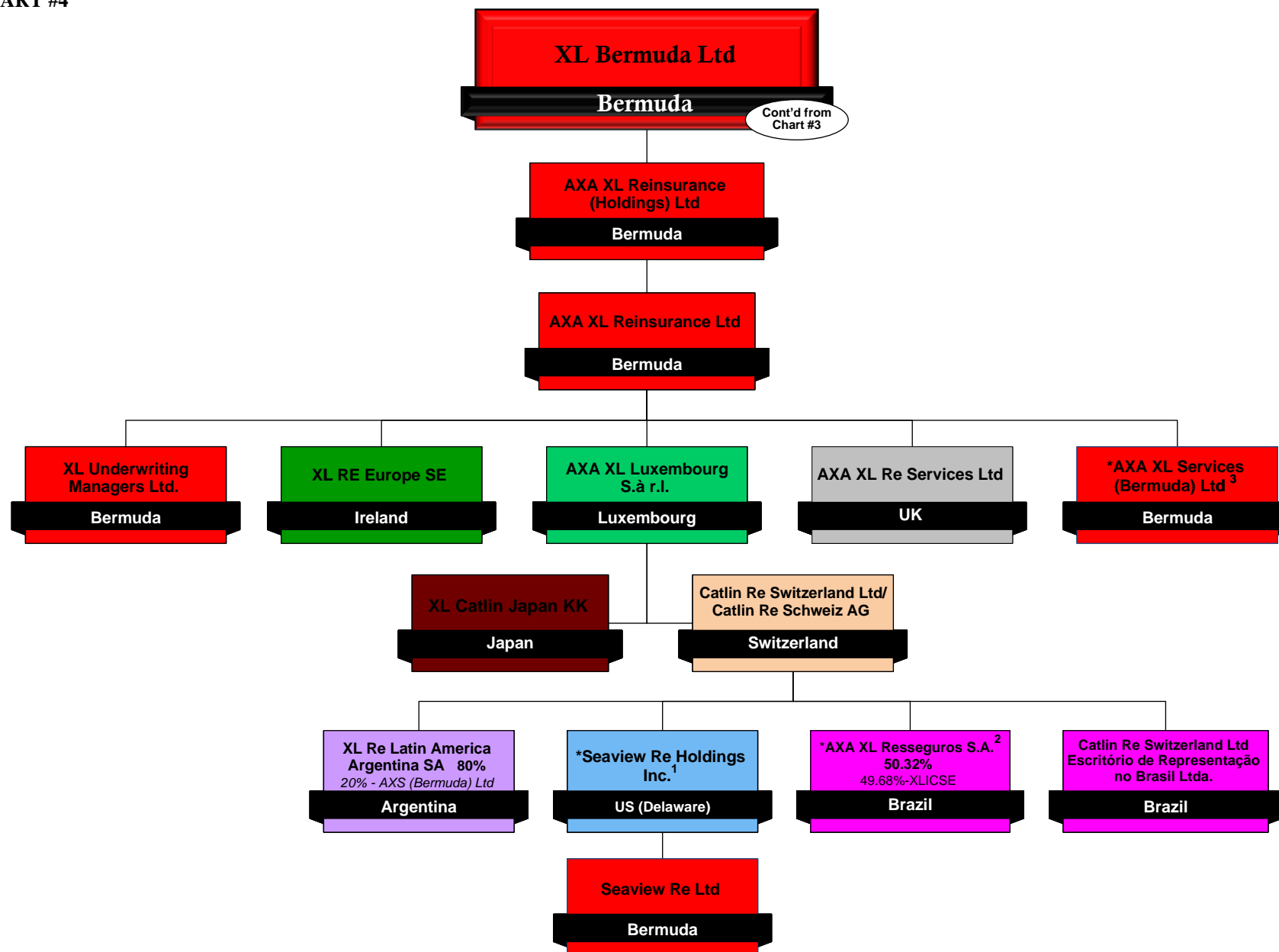
CHART #3



***Note:**

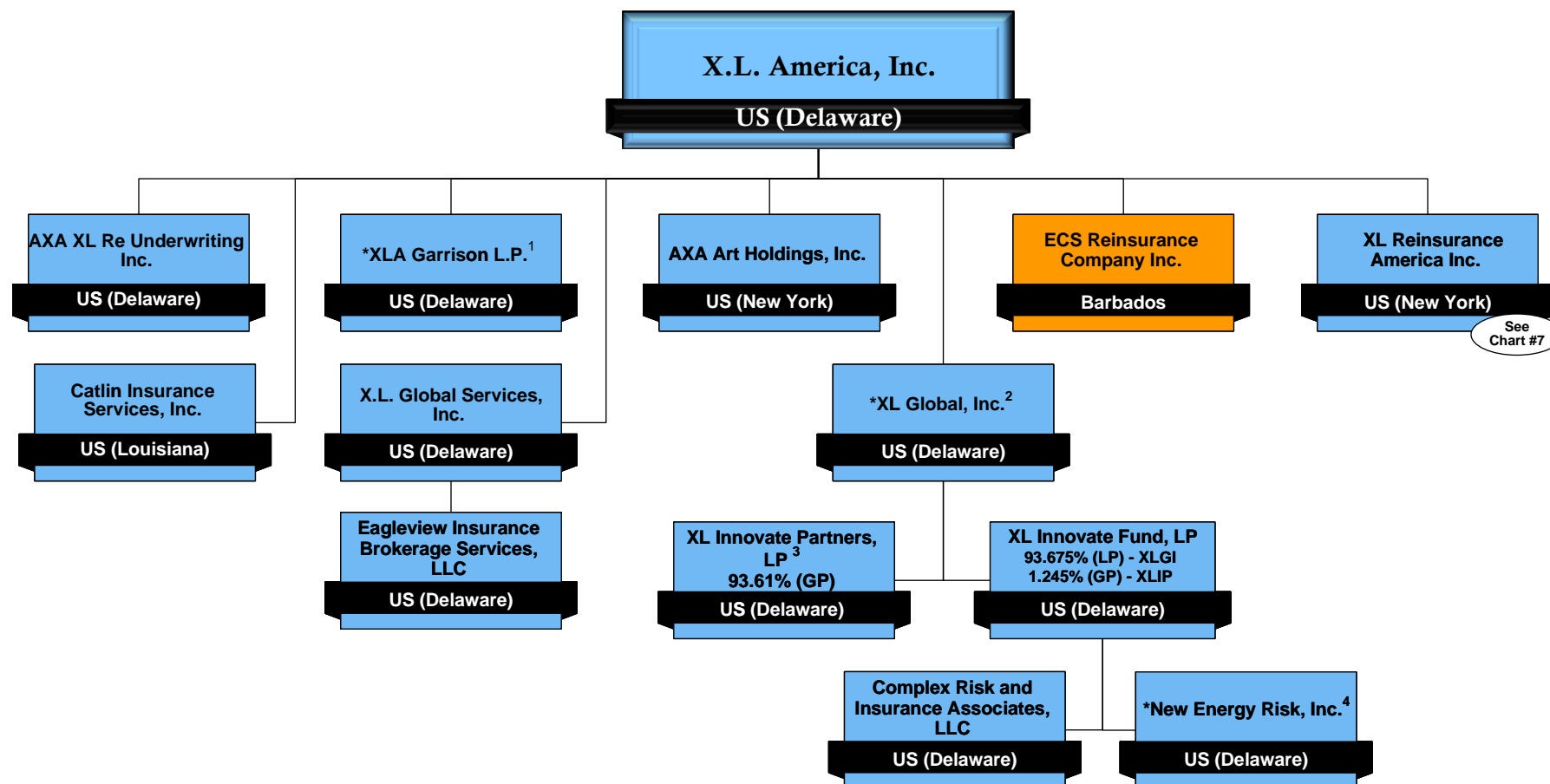
1. Percentage of ownership: .1% of XL (Brazil)H Ltd; 0.01% of XL Seguros Mexico S.A. de C.V.

2. Percentage of ownership: 49.68% of AXA XL Resseguros S.A.; 49% of XL Re (China) Company Limited; 10% of XLI Argentina S.A. Compañía de Seguros



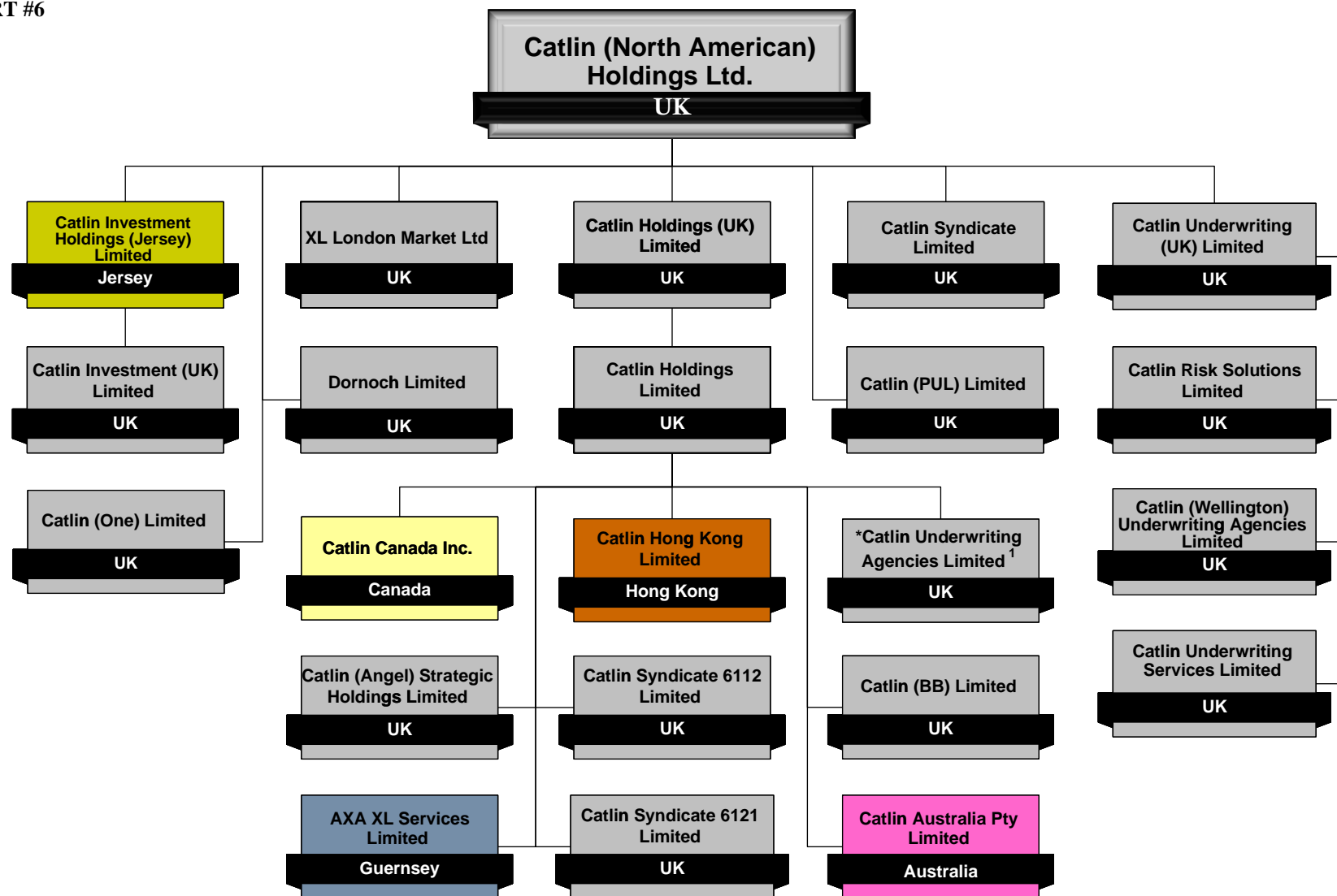
***Note:**

1. 21% ownership (common stock) of Maestro Health, LLC
2. Percentage of ownership: 26.92% of AXA XL Seguros S.A.; <1% - XL (Brazil)H
3. 20% ownership of XL Re Latin America Argentina SA



***Note:**

1. X.L. America, Inc. - General Partner; XL Bermuda Ltd – Limited Partner
2. General Partner of XL Innovate Partners, LP; Limited Partner of XL Innovate Fund, LP
3. 1.245% General Partner of XL Innovate Fund, LP
4. Management/employees hold vested options to purchase 13.2% of the New Energy Risk, Inc. shares.

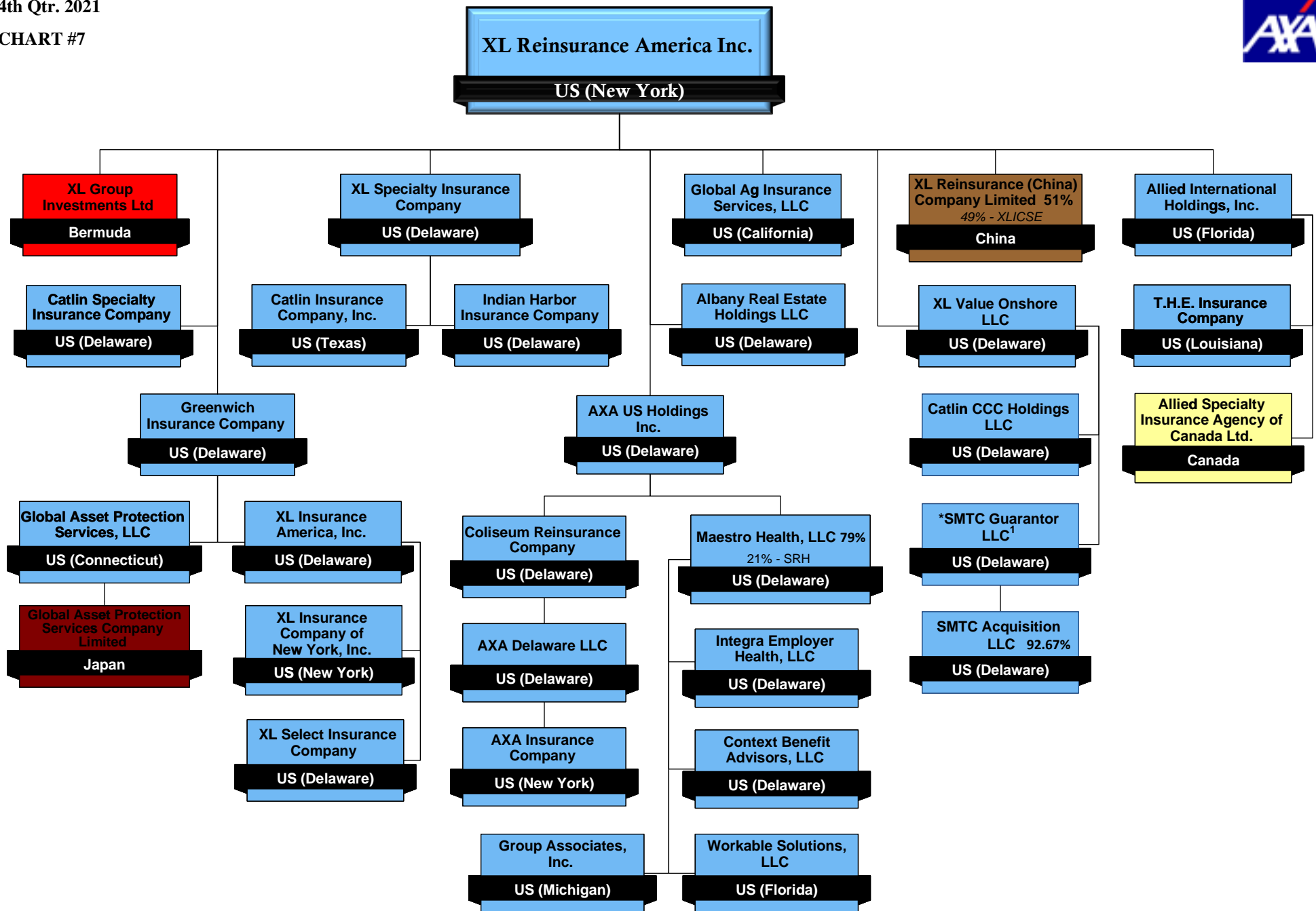


***Note:**

1. 40% ownership of XL Value Offshore

4th Qtr. 2021

CHART #7



***Note:**

1. 92.67% ownership of SMTC Acquisition LLC (the remaining 7.33% is NOT owned by AXA XL).

**Appendix 2 - XL Bermuda Ltd IFRS Consolidated Audited Financial
Statements as at December 31 2021**



XL Insurance
Reinsurance

XL Bermuda Ltd

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

CONTENTS

	Page Number
REPORT OF THE STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS	3
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	5
CONSOLIDATED STATEMENT OF INCOME	7
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	8
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	9
CONSOLIDATED STATEMENT OF CASH FLOWS	11
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	13
Note 1 General Information	13
Note 2 Significant Accounting Policies	14
Note 3 Scope Of Consolidation	30
Note 4 Financial And Insurance Risk Management	32
Note 5 Goodwill	45
Note 6 Deferred Acquisition Costs	46
Note 7 Other Intangible Assets	47
Note 8 Investments	49
Note 9 Investments Accounted For Using The Equity Method	61
Note 10 Receivables	62
Note 11 Shareholder's Equity And Minority Interests	63
Note 12 Liabilities Arising From Insurance Contracts	65
Note 13 Payables	71
Note 14 Tax	73
Note 15 Derivative Instruments	77
Note 16 Gross Written Premiums	82
Note 17 Net Investment Result Excluding Financing Expenses	83
Note 18 Net Result Of Reinsurance Ceded	86
Note 19 Expenses By Type	87
Note 20 Related-Party Transactions	88
Note 21 Contingent Assets And Liabilities And Unrecognized Contractual Commitments	90
Note 22 Litigation	92
Note 23 Subsequent Events	93



Report of Independent Auditors

To the Board of Directors of XL Bermuda Ltd

Opinion

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

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

Basis for Opinion

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

Basis of Accounting

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

Responsibilities of Management for the Consolidated Financial Statements

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

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



Auditors' Responsibility for the Audit of the Consolidated Financial Statements

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

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

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

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

PricewaterhouseCoopers LLP

April 28, 2022

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(US Dollars in thousands)

Notes	December 31, 2021	December 31, 2020
5 Goodwill	1,108,541	1,115,399
6 Deferred acquisition costs	1,917,707	1,966,904
7 Other intangible assets	708,574	908,019
Intangible assets	3,734,822	3,990,322
Investments in real estate properties	1,144,083	1,057,220
Financial investments	45,547,079	44,369,241
8 Investments	46,691,162	45,426,462
9 Investments accounted for using the equity method	31,484	39,357
12 Reinsurers' share in insurance contracts liabilities	26,202,845	21,487,691
Tangible assets	335,192	398,036
14 Deferred tax assets	360,407	310,063
Other assets	695,599	708,099
Receivables arising from direct insurance and inward reinsurance operations	12,283,366	11,755,842
Receivables arising from outward reinsurance operations	1,623,978	2,466,198
Receivables – current tax	129,136	118,516
Other receivables	253,959	832,529
10 Receivables	14,290,439	15,173,084
Assets held for sale	11,924	14,555
Cash and cash equivalents	2,507,572	5,226,179
TOTAL ASSETS	94,165,847	92,065,749

<i>(US Dollars in thousands)</i>			
Notes		December 31, 2021	December 31, 2020
	Share capital and capital in excess of nominal value	14,493,512	14,490,143
	Reserves and translation reserve	(2,643,050)	869,995
	Net consolidated income (loss) – Company share	1,286,331	(2,138,198)
	Shareholder's equity – Company share	13,136,793	13,221,940
	Minority interests	2,538	16,112
11	TOTAL SHAREHOLDER'S EQUITY	13,139,332	13,238,052
	Financing debt	14,856	15,603
12	Liabilities arising from insurance contracts	64,407,124	63,280,437
	Provisions for risks and charges	303,711	347,058
14	Deferred tax liabilities	155,189	337,989
	Other debt instruments issued, notes and bank overdrafts	—	101,254
	Payables arising from direct insurance and inward reinsurance operations	2,566,676	2,842,884
	Payables arising from outward reinsurance operations	11,058,651	9,464,538
	Payables – current tax	118,868	128,201
	Collateral debts relating to investments under lending agreements or equivalent	852,430	377,980
	Other payables	1,549,011	1,931,753
13	Payables	16,145,636	14,846,609
	TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	94,165,847	92,065,749

CONSOLIDATED STATEMENT OF INCOME

(US Dollars in thousands)

Notes	December 31, 2021	December 31, 2020
16 Gross written premiums (a)	22,346,632	21,302,389
Change in unearned premiums net of unearned revenues and fees	(159,901)	(462,193)
Net investment income (b)	1,015,839	1,213,339
Net realized gains and losses relating to investments at cost and at fair value through shareholder's equity (c)	267,011	153,794
Net realized gains and losses and change in fair value of investments at fair value through profit and loss (d)	99,886	(264,313)
Change in investments impairments (e)	(21,792)	(69,696)
17 Net investment result excluding financing expenses	1,360,944	1,033,124
Technical charges relating to insurance activities	(14,885,719)	(18,679,787)
18 Net result from outward reinsurance	(1,445,837)	212,912
19 Acquisition costs	(3,390,645)	(3,113,246)
19 Administrative expenses	(2,163,371)	(2,234,598)
Change in goodwill impairment and other intangible assets impairment and amortization	(146,224)	—
19 Other income and (expenses)	(1,850)	(502)
Other operating income and expenses	(22,033,645)	(23,815,221)
Income (loss) from operating activities before tax	1,514,029	(1,941,901)
Income (loss) from investments accounted for using the equity method (net of impairment)	(7,214)	511
19 Financing expenses	(50,799)	(66,621)
Net income (loss) from operating activities before tax	1,456,016	(2,008,011)
14 Income tax	(143,007)	(137,605)
Net operating income (loss) and net consolidated income (loss) after tax	1,313,009	(2,145,616)
Split between:		
Net consolidated income (loss) - Company share	1,286,331	(2,138,198)
Net consolidated income (loss) - Minority interests	26,678	(7,418)

(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, 2021	December 31, 2020
Reserves relating to changes in fair value through shareholder's equity	(1,257,284)	952,556
Translation reserves	(154,650)	147,219
Items that may be reclassified subsequently to Profit or Loss	(1,411,934)	1,099,775
Employee benefits actuarial gains and losses	43,099	(26,580)
Items that will not be reclassified subsequently to Profit or Loss	43,099	(26,580)
Net gains and losses recognized directly through shareholder's equity	(1,368,835)	1,073,195
Net consolidated income (loss)	1,313,009	(2,145,616)
<i>Split between:</i>		
Net consolidated income (loss) - Company share	1,286,331	(2,138,198)
Net consolidated income (loss) - Minority interests	26,678	(7,418)
TOTAL COMPREHENSIVE INCOME (LOSS)	(55,826)	(1,072,421)
<i>Split between:</i>		
Total comprehensive income (loss) - Company share	(89,586)	(1,056,090)
Total comprehensive income (loss) - Minority interests	33,760	(16,331)

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

	Share Capital			
<i>(US Dollars in thousands, except for number of shares and nominal value)</i>	Number of shares	Nominal value	Share Capital	Capital in excess of nominal value
Shareholder's equity opening January 1, 2021	12,500,000	0.10	1,250	14,488,894
Capital contributions from parent	—	—	—	15,511
Others (including impact on change in scope)	—	—	—	(12,143)
Impact of transactions with shareholder	—	—	—	3,368
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, 2021	12,500,000	0.10	1,250	14,492,262

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
2,296,523	31,847	172,062	(3,768,636)	13,221,940	16,112
—	—	—	—	15,511	—
905	—	(11,339)	11,504	(11,073)	(47,334)
905	—	(11,339)	11,504	4,438	(47,334)
(1,252,445)	(11,921)	—	—	(1,264,366)	7,082
—	—	(154,650)	—	(154,650)	—
—	—	—	43,099	43,099	—
—	—	—	1,286,331	1,286,331	26,678
(1,252,445)	(11,921)	(154,650)	1,329,430	(89,586)	33,760
1,044,983	19,926	6,072	(2,427,702)	13,136,793	2,538

(US Dollars in thousands, except for number of shares and nominal value)	Share Capital			
	Number of shares	Nominal value	Share Capital	Capital in excess of nominal value
Shareholder's equity opening January 1, 2020	12,500,000	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	—	—	—	—
Total Comprehensive Income	—	—	—	—
Shareholder's equity closing December 31, 2020	12,500,000	0.10	1,250	14,488,894

(a) 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 common control acquisitions.

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
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

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(US Dollars in thousands)</i>	December 31, 2021	December 31, 2020
Net income (loss) from operating activities before tax	1,456,016	(2,008,011)
Net amortization expense (a)	322,287	275,240
Change in goodwill impairment and other intangible assets impairment	144,071	—
Net change in deferred acquisition costs and equivalent	21,219	(47,247)
Net increase/(write back) in impairment on investments, tangible and other intangible assets	21,792	69,696
Change in fair value of investments at fair value through profit or loss	(169,963)	236,509
Net change in liabilities arising from insurance contracts	(2,778,970)	3,170,081
Net increase/(write back) in other provisions	(57,634)	67,685
Income (net of impairment) from investment accounted for using the equity method	7,214	(511)
Adjustment of non cash balances included in the operating income before tax	(2,489,985)	3,771,453
Net realized investment gains and losses	(199,003)	(125,830)
Financing debt expenses	50,799	66,621
Adjustment for reclassification to investing or financing activities	(148,204)	(59,209)
Dividends recorded in profit or loss during the period	(210,416)	(9,359)
Investment income & expense recorded in profit or loss during the period	(805,423)	(1,203,980)
Adjustment of transactions from accrued to cash basis	(1,015,839)	(1,213,339)
Net cash impact of deposit accounting	(39,171)	(106,871)
Dividends and interim dividends collected	57,438	9,944
Investment income	903,830	1,249,258
Investment expense (excluding interests on financing and undated subordinated debts, margin calls and others)	(77,768)	(62,973)
Change in operating receivables and payables	1,694,778	(414,804)
Net cash provided by other assets and liabilities	586,742	(325,631)
Tax expenses paid	(189,910)	(21,283)
Other operating cash impact and non cash adjustment	(45,270)	21,971
Net cash impact of transactions with cash impact not included in the operating income before tax	2,890,669	349,611
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	692,658	840,505
Disposal of subsidiaries and affiliated companies, net of cash ceded	71	—
Net cash related to changes in scope of consolidation	71	—
Sales of debt instruments	10,699,211	9,500,613
Sales of equity instruments and non-consolidated investment funds (b)	757,248	1,224,908
Sales of investment properties held directly or not	76,639	(179)
Sales and/or repayment of loans and other assets	229,112	(14,963)
Net cash related to sales and repayments of investments	11,762,210	10,710,379
Purchases of debt instruments	(13,817,901)	(10,027,465)
Purchases of equity instruments and non-consolidated investment funds	(936,158)	(555,824)
Purchases of investment properties held direct or not	(249,179)	(256,511)
Purchases and/or issues of loans and other assets	(94,401)	(65,283)
Net cash related to purchases and issuance of investments	(15,097,639)	(10,905,083)

<i>(US Dollars in thousands)</i>	December 31, 2021	December 31, 2020
Purchases of tangible and intangible assets	(68,751)	(43,055)
Net cash related to sales and purchases of tangible and intangible assets	(68,751)	(43,055)
Increase in collateral payable/Decrease in collateral receivable	440,378	465,683
Decrease in collateral payable/Increase in collateral receivable	(403,341)	(485,014)
Net cash impact of assets lending/borrowing collateral receivables and payables	37,038	(19,331)
NET CASH PROVIDED/(USED) BY INVESTING ACTIVITIES	(3,367,071)	(257,090)
Issuance of equity instruments	15,511	1,000,000
Dividends payout	(35,901)	(10,837)
Acquisition/sale of interests in subsidiaries without change in control	(4,583)	4,608
Net cash related to transactions with shareholder	(24,973)	993,771
Cash provided by financial debts issuance	863	1,447
Cash used for financial debts repayments	(1,696)	(75,969)
Interests on financing debt paid	(25,128)	(37,357)
Net cash related to financing	(25,962)	(111,879)
NET CASH PROVIDED/(USED) BY FINANCING ACTIVITIES	(50,935)	881,892
CASH AND CASH EQUIVALENT AS OF JANUARY 1	5,226,179	3,500,507
Net cash provided/(used) by operating activities	692,658	840,505
Net cash provided/(used) by investing activities	(3,367,071)	(257,090)
Net cash provided/(used) by financing activities	(50,935)	881,892
Net impact of foreign exchange fluctuations and reclassification on cash and cash equivalents	6,741	260,366
CASH AND CASH EQUIVALENT AS OF DECEMBER 31	2,507,572	5,226,179

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

(b) 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 XL Group Ltd and the ultimate parent is AXA SA, a French société anonyme that is the holding company of an international financial services group ("AXA"). Effective October 29, 2021, the Company's direct shareholder EXEL Holdings Limited merged with indirect shareholders of the Company, XLIT Ltd and XL Group Ltd, with XL Group Ltd as the surviving company in the merger, becoming the direct shareholder of the Company. 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, 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 12.3).

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 in the future, with the objective of avoiding preventable losses and mitigating the impact of losses that 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, 2021 or earlier. The Company does not use the "carve out" option allowing not to apply all hedge accounting principles required by IAS 39.

The consolidated financial statements for XLB and its subsidiaries for the year ended December 31, 2021 were authorized for issue by the directors on April 22, 2022. The directors have the power to amend and reissue the financial statements.

2.1.2 Basis of accounting and going concern

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

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

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

2.1.3 Functional and presentation currency

The consolidated financial statements are presented in US Dollars, which is 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).

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

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

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

2.2 IFRS STANDARDS AND AMENDMENTS

2.2.1 IFRS requirements adopted on January 1, 2021

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

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

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

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

2.2.1.2 Amendment to IFRS 4 – deferral of IFRS 9

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

2.2.2 Standards and amendments published but not yet effective

2.2.2.1 IFRS 17 – Insurance contracts

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

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

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

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

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

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

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

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

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

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

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

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

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

The implementation of IFRS 17 and assessment of its potential impact on 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 8.11.

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 the fees an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability (the “10 percent” test for derecognition of financial liabilities).

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

2.2.2.3 Other IFRS amendments and interpretations

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

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

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

2.3 CONSOLIDATION

2.3.1 Scope and basis of consolidation

Companies over which 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 (loss) from investments accounted for using the equity method (net of impairment), 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 2021 or 2020.

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 15.2.3).

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; and
- **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 7 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 recognized 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 recognized on the trade date, which is the date the Company commits to purchase or sell the asset. A financial asset is derecognized 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 derecognized 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 12.3).
- 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

- 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; or
- equity-method 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 8.10).

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.

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 8.7).

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 are utilized as an alternative to gain exposure to certain asset classes through “synthetic positions” (see Note 15.2).

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 15.

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 UK 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 administrative 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.

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

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

2.14 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 19).

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 16 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 issued:

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

See Note 23 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 Insurance Company	US (New York)
AXA XL Reinsurance Ltd	Bermuda
AXA XL Seguros S.A.	Brazil
Catlin Insurance Company, Inc.	US (Texas)
Catlin Re Switzerland Ltd/Catlin Re Schweiz AG	Switzerland
Catlin Syndicate Limited	United Kingdom
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	United Kingdom
XL Catlin Services SE	Ireland
XL Innovate Fund, LP	US (Delaware)
XL Insurance America, Inc.	US (Delaware)
XL Insurance Company SE	Ireland
XL Insurance Switzerland Ltd	Switzerland
XL Life Ltd	Bermuda
XL Re Europe SE	Ireland
XL Reinsurance America Inc.	US (New York)
XL Specialty Insurance Company	US (Delaware)

Consolidated investment funds

As of December 31, 2021, consolidated investment funds represented a total of \$617.3 million invested assets (\$445.8 million at the end of 2020).

3.1.2 Main investments in companies accounted for using the equity method

Companies accounted for using the equity method are discussed in Note 9 with the exception of equity-method investment funds. As of December 31, 2021, equity-method investment funds amounted to \$1,189.9 million invested assets (\$1,025.3 million at the end of 2020). See Note 2.7.3 for further details.

3.2 NON-CONSOLIDATED STRUCTURED ENTITIES

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

The Company 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 8 Investments, with the breakdown of investments and detail on non-consolidated investment funds in Note 8.8.
- Note 17 Net Investment Result Excluding Financing Expenses.

Note 4 Financial And Insurance Risk Management

4.1 RISK MANAGEMENT AND INTERNAL ORGANIZATION

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

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

The aim of the RMF is to:

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

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

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

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

4.1.1 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;
- Ceded reinsurance (outwards) program; and
- Major projects.

4.1.2 Internal control framework

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

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

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

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

4.1.3 Risk appetite framework ("RAF")

The Company's RAF is a key dimension of the risk management strategy and mirrors AXA Group'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 2022 business planning process and it was determined that all statements and tolerances were appropriate to allow the Company to execute the 2022 business plan.

4.1.4 Risk management strategy

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

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

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

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

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 Management 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.

4.1.5 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 capital necessary to ensure that the Company's overall solvency needs are met at all times.

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

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

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

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

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

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

4.1.7 Internal financial control ("IFC")

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

The IFC's core strategic objectives include:

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

- 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, the AXA XL Risk and Compliance Committee, the Audit Committee of key legal entities, executive management and external auditors and regulators.

4.1.8 Compliance function

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

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

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

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

On a regular basis, the Compliance function reports directly to the 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.

4.1.9 Internal audit function

The AXA XL 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 governance processes and risk and control management.

The Internal Audit function has an audit charter to document its mission, independence, scope, accountabilities, responsibilities, authorities and standards. The charter is approved by the Company's XL Bermuda Ltd 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 XL Bermuda Ltd 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 XL Bermuda Ltd Audit Committee for ratification.

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

4.2 MARKET RISKS

Market risks represent 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 credit 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 and liabilities 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 8.

The Company identifies and manages 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 risk appetite	The Company Risk Appetite Framework sets maximum risk tolerances and is reviewed annually.
Risk reporting process	The risk reporting process assists in identifying if there are any changes to market risks already identified in the previous assessment.

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

- **Authorities Framework / Risk Appetite Framework**

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

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

- **Service level agreement**

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

4.2.1 Foreign exchange risk

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

The Company seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. Asset liability management analysis is run regularly to adjust surplus and shortfall currencies, ensuring that the entity exposures are broadly matched. Currency derivative instruments are used to hedge foreign exchange mismatch between assets and liabilities in subsidiaries of the Company resulting in a reduction in sensitivity to movements in foreign exchange rates impacting shareholder's equity (see Note 15.2.3).

The table below outlines the Company's year-end adjusted, post hedge exposure.

<i>(Foreign currency in USD thousands)</i>	December 31, 2021	December 31, 2020
Australian Dollar	240,100	(307,900)
British Pound	150,500	612,100
Canadian Dollar	279,400	294,900
Euro	1,180,100	(11,700)

4.2.2 Stress testing and sensitivity analysis on the investment portfolio

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

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

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

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

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

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

(US Dollars in thousands)	December 31, 2021		December 31, 2020	
	Amount	Percentage	Amount	Percentage
Investment Portfolio Sensitivities				
Shareholder's Equity	13,139,332	100%	13,238,052	100%
Interest rates +50bps	(784,636)	(6.0)%	(791,154)	(6.0)%
Interest rates -50bps	843,950	6.4%	871,988	6.6%
Credit spreads +50bps	(407,055)	(3.1)%	(385,782)	(2.9)%
Credit spreads -50bps	457,101	3.5%	432,778	3.3%
Equity markets +10%	16,880	0.1%	18,436	0.1%
Equity markets -10%	(16,880)	(0.1)%	(18,436)	(0.1)%

Note: All sensitivities are presented net of tax.

4.3 CREDIT RISK

Credit risk is defined as the risk of loss resulting from migration and default. AXA XL is exposed to five sources of credit risk: (i) underwriting businesses with products with embedded credit risk exposures, (ii) investments, (iii) treasury, (iv) unsecured reinsurance recoverables, and (v) broker premium receivables. Credit risk arising from country specific exposures is captured as part of the Divisional country risk framework.

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

Component	Description
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 obligor credit risk default or deterioration of obligor that the Company is exposed to through certain credit sensitive underwriting activities which include trade credit, commercial and construction surety, and professional lines.
Treasury risk	Exposure to the risk of default or to the risk of credit deterioration of counterparty banks used by the company in its day-to-day treasury operations (deposits, cash balance and foreign exchange transactions).

The Company identifies credit risk through the following processes:

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

4.3.1 Credit risk framework

The Company credit risk framework is managed with four sets of limits:

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

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

- Names on Ban due to default risk, reputational risk, or high level of deployment;
- Names on Watch where available capacity is limited; and
- Names with defined risk capacity allocations.

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 including Authorities & Guidelines and fixed income concentration. These address the credit quality of obligors and counterparties, diversification, and exposure versus limits by rating, term, and seniority.

Credit quality ratings are derived from AXA Group. When an obligor is not in the AXA Group universe, AXA XL applies its legacy credit rating methodology.

Credit risk arising from country specific exposure is captured as part of the Country Risk Framework.

4.3.2 Investment portfolio

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

At December 31, 2021 and 2020, the breakdown of the investment portfolio (\$41.1 billion and \$40.2 billion, respectively) by credit rating category was as follows:

Investment Portfolio by Credit Rating Category	Percentage of Total	
	December 31, 2021	December 31, 2020
AAA	34%	33%
AA	17%	16%
A	28%	27%
BBB	18%	21%
BB and below / other	3%	3%
TOTAL	100%	100%

4.3.3 Reinsurance recoverables

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

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

Reinsurer Financial Strength Rating	2021 Percentage of Total	2020 Percentage of Total
AAA	0.1%	0.7%
AA	33.8%	37.1%
A	57.8%	55.2%
BBB	0.8%	0.7%
BB and below	0.8%	0.6%
Captives	6.7%	5.8%
TOTAL	100%	100%

4.3.4 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.

4.4 INSURANCE RISKS

Insurance risks are 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 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 through the underwriting process (which is subject to granular underwriting guidelines and escalation authorities) for the nature and level of insurance risk that it brings to the business including consideration of the exposure by nature of the limit, the risks insured, the location of the risks and other underwriting criteria.
Reserving and claims process	On an ongoing basis, claims trends are monitored and analyzed for any indications of change to the underlying insurance risk.
Risk assessment and process	Through the risk assessment processes, the Company quantifies existing risks and identifies new risks.
Development of Realistic Disaster Scenarios (RDS) and other scenarios	Used to monitor exposure to the defined scenarios and monitor compliance with underwriting risk tolerances and limits.
Independent underwriting reviews	Conducted on a risk-based approach by the Underwriting Governance team.

4.4.1 Mitigation strategies

4.4.1.1 Reinsurance purchase

The Company participates in the AXA XL managed outwards third party reinsurance risk transfer program to support the Company's underwriting strategy within risk appetite and to ensure efficient use of capital. AXA XL works with the AXA Group Reinsurance entity ("AXA Global Re") on the outwards reinsurance strategy placements, especially for placements where there is a Group Risk Appetite in place (i.e. Nat Cat, Cyber Per Event, Property Per Risk, Liability Per Event). 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, enabling the writing of additional business, reducing volatility and enhancing 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.

4.4.1.2 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.

4.4.1.3 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 an individual reinsured 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.

4.4.1.4 Underwriting authorities and guidelines

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

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

4.4.1.5 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 reviewed and approved by the Company.

4.5 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.

4.5.1 Mitigation strategy

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

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

Liquidity risk is managed through:

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

The AXA XL Treasury and Risk Management departments serve as the focal point for liquidity monitoring, drawing on the expertise of other internal functions, as well as managing cash held at bank accounts covering day-to-day cash requirements, typically referred to as operating cash. Operating cash balances, together with cash managed within the investment portfolio, comprise the primary sources of liquidity for the Company. The Company has several credit facilities received which are detailed in Note 21.1.

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

4.5.2 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.

4.5.3 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, 2021				December 31, 2020			
	12 months or less	More than 1 year up to 5 years	More than 5 years	Total	12 months or less	More than 1 year up to 5 years	More than 5 years	Total
Gross claims reserves relating to P&C insurance contracts	14,226,789	22,058,481	13,898,685	50,183,956	16,127,620	22,047,965	9,932,627	48,108,212

In addition to the above, there are other liabilities totaling \$30,842.6 million as of December 31, 2021 (\$30,719.5 million as of December 31, 2020). Of this amount \$11,537.7 million (\$11,554.9 million as of December 31, 2020) pertains to unearned premium reserves which are expected to earn within 12 months. Additionally, \$3,088.9 million (\$3,764.9 million as of December 31, 2020) is related to funds withheld on reinsurers' share in future policy benefit reserves and \$2,685.5 million (\$2,968.4 million as of December 31, 2020) 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 \$852.4 million (\$479.2 million as of December 31, 2020) are provided in Note 13.2. The majority of the remaining balance of \$12,678.1 million (\$11,952.0 million as of December 31, 2020) is expected to have a maturity date of less than 12 months.

4.6 MATERIAL RISK CONCENTRATIONS

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

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

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

- **Earnings** - This considers impact of a 1 in 20 years financial event on the underlying earnings to net income ("UE to NI").
- **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 is required to be held in excess of regulatory capital. The target level of solvency is for the Company to withstand the largest of a 1 in 20 years financial event or insurance event without the need to call on AXA Group for support.
- **Liquidity** - This considers the ability to pay claims resulting from a stress event.

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

- **Market risks** – 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 loss per individual risk (at 1 in 200 years).
- **Life risk** – indicators exist for longevity risk, per event risk for pandemic, terrorism and earthquake and per life risk.

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 risks - quarterly
 - Credit risk - monthly
 - Reserve risk - semi-annually
 - Underwriting per risk - semi-annually
 - Natural catastrophe exposures - quarterly
 - Cyber per event - semi- 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.

Note 5 Goodwill

5.1 GOODWILL

<i>(US Dollars in thousands)</i>	2021	2020
BEGINNING OF YEAR, TOTAL	1,115,399	1,123,028
Additions	—	—
Disposals (a)	—	(14,084)
Foreign Currency Translation	(6,858)	6,455
END OF YEAR, TOTAL	1,108,541	1,115,399

(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).

5.1.1 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.

5.1.2 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 5.7% 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 6 Deferred Acquisition Costs

6.1 ROLLFORWARD OF DEFERRED ACQUISITION COSTS

Changes in Deferred Acquisition Costs:

<i>(US Dollars in thousands)</i>	2021	2020
Deferred Acquisition Costs carrying value as of January 1	1,966,904	1,895,278
Acquisition costs incurred in relation to insurance contracts written	3,372,801	3,125,519
Acquisition costs expensed to the income statement	(3,390,645)	(3,113,246)
Currency translation and other changes	(31,353)	59,353
Deferred Acquisition Costs carrying value as of December 31	1,917,707	1,966,904

Note 7 Other Intangible Assets

7.1 OTHER INTANGIBLE ASSETS

Other intangible assets represented \$708.6 million net value as of December 31, 2021 (\$908.0 million as of December 31, 2020) 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, 2019	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
Year 2021 Activity				
Opening net carrying value	521,225	239,838	146,956	908,019
Additions during the period	—	—	37,804	37,804
Disposal during the period	—	—	—	—
Amortization	—	(18,303)	(50,040)	(68,342)
Currency impact	(6,743)	(3,229)	(502)	(10,474)
Impairment	(144,071)	—	(14,362)	(158,432)
Closing net carrying value	370,411	218,307	119,857	708,574
Balances at December 31, 2021				
Gross value	699,014	372,223	606,036	1,677,273
Accumulated amortization	—	(137,649)	(453,035)	(590,685)
Accumulated currency impact	(6,539)	(4,711)	1,822	(9,428)
Accumulated impairment	(322,065)	(11,556)	(34,966)	(368,586)
Net carrying value	370,411	218,307	119,857	708,574

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

7.1.1 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.

7.1.2 Definite-lived and other intangible assets

The Company's definite-lived intangibles consist primarily of acquired agency relationships, distribution networks, 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.

7.1.3 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 2021, management performed a review of the intangible assets and concluded that the carrying value of indefinite-lived intangible assets may not be recoverable. A non-cash impairment charge of \$144.1 million was recorded related to transferring capacity away from the Lloyd's syndicate within the reinsurance segment. Additionally, the Company concluded that the net carrying value of software exceeded the estimated fair market value, resulting in a non-cash impairment charge of approximately \$14.4 million.

During 2020, management performed a review of the intangible assets and concluded that the 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 8 Investments

8.1 BREAKDOWN OF INVESTMENTS

Each investment item is presented net of the effect of related hedging derivatives (IAS 39 qualifying hedges or economic hedges) except derivatives related to macro-hedges which are shown separately. Detailed effects of derivatives are also provided in Note 15.3.

(US Dollars in thousands)	Investments as per Consolidated Statement of Financial Position					
	December 31, 2021			December 31, 2020		
	Fair value	Carrying value	% (value balance sheet)	Fair value	Carrying value	% (value balance sheet)
Investment in real estate properties at amortized cost	1,498,913	1,144,083	2.5%	1,287,845	1,057,220	2.3%
Debt instruments available for sale	37,950,477	37,950,477	81.3%	36,615,711	36,615,711	80.6%
Debt instruments designated as at fair value through profit or loss (a) (b)	2,885,608	2,885,608	6.2%	3,542,097	3,542,097	7.8%
Debt instruments (at cost) that are not quoted in an active market (c)	242,077	235,554	0.5%	66,333	62,205	0.1%
Debt instruments	41,078,162	41,071,639	88.0%	40,224,142	40,220,013	88.5%
Equity instruments available for sale	377,525	377,525	0.8%	573,569	573,569	1.3%
Equity instruments	377,525	377,525	0.8%	573,569	573,569	1.3%
Non-consolidated investment funds available for sale	1,448,941	1,448,941	3.1%	1,125,953	1,125,953	2.5%
Non-consolidated investment funds designated as at fair value through profit or loss (d)	1,813,965	1,813,965	3.9%	1,684,719	1,684,719	3.7%
Non-consolidated investment funds	3,262,905	3,262,905	7.0%	2,810,673	2,810,673	6.2%
Other assets designated as at fair value through profit or loss, held by consolidated investment funds	617,293	617,293	1.3%	445,786	445,786	1.0%
Macro-hedge and other derivatives	(2,848)	(2,848)	—%	(45,839)	(45,839)	(0.1)%
Sub total Financial instruments (excluding Loans)	45,333,038	45,326,515	97.1%	44,008,330	44,004,201	96.9%
Loans at cost	221,593	220,564	0.5%	365,637	365,040	0.8%
Total Financial instruments	45,554,630	45,547,079	97.5%	44,373,967	44,369,241	97.7%
INVESTMENTS	47,053,543	46,691,162	100.0%	45,661,812	45,426,462	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 12.3).

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

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

8.2 INVESTMENT IN REAL ESTATE PROPERTIES

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

Breakdown of the carrying value and fair value of investment in real estate properties at amortized cost, except derivatives related to macro-hedges which are shown separately in Note 15.3, is as follows:

(US Dollars in thousands)	December 31, 2021					December 31, 2020				
	Gross value	Amortization	Impairment	Carrying value	Fair value	Gross value	Amortization	Impairment	Carrying value	Fair value
Investment in real estate properties at amortized cost (a)	1,278,195	(134,112)	—	1,144,083	1,498,913	1,152,006	(94,786)	—	1,057,220	1,287,845
Total for all activities including derivatives	1,278,195	(134,112)	—	1,144,083	1,498,913	1,152,006	(94,786)	—	1,057,220	1,287,845

(a) Includes infrastructure investments.

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

(US Dollars in thousands)	Impairment – Investment in real estate properties		Amortization – Investment in real estate properties	
	2021	2020	2021	2020
Value as of January 1	—	—	(94,786)	(84,415)
Increase for the period	—	—	(41,876)	(10,371)
Write back following sale or repayment	—	—	2,550	—
Value as of December 31	—	—	(134,112)	(94,786)

8.3 UNREALIZED GAINS AND LOSSES ON FINANCIAL INVESTMENTS

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

(US Dollars in thousands)	December 31, 2021					December 31, 2020				
	Amortized cost (a)	Fair value	Carrying value (b)	Unrealized gains	Unrealized losses	Amortized cost (a)	Fair value	Carrying value (b)	Unrealized gains	Unrealized losses
Debt instruments available for sale	36,887,427	37,950,477	37,950,477	1,343,046	(279,996)	34,198,692	36,617,923	36,617,923	2,449,308	(30,077)
Debt instruments (at cost) that are not quoted in an active market	235,554	242,077	235,554	6,523	—	62,205	66,333	62,205	4,129	—
Equity instruments available for sale	242,563	377,525	377,525	139,859	(4,897)	267,976	573,596	573,596	307,685	(2,064)
Non-consolidated investment funds available for sale	1,408,277	1,448,941	1,448,941	47,666	(7,002)	1,120,253	1,125,953	1,125,953	34,253	(28,552)

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

(b) Net of impairment.

8.4 DEBT INSTRUMENTS BY TYPE OF ISSUER

The table below sets out the debt instruments portfolio by issuer type, excluding macro-hedging derivatives, but including the effect of related hedging derivatives (IAS 39 qualifying hedges or economic hedges). Details of the effect of derivatives are also provided in Note 15.3. Additional information on the credit risk associated with debt instruments is provided in Note 4.3.

	December 31, 2021	December 31, 2020
<i>(US Dollars in thousands)</i>	Carrying value	Carrying value
Corporate debt instruments (a)	23,248,724	22,273,762
Government and government-like debt instruments	11,141,207	10,598,059
Other debt instruments issued by government related	6,689,780	7,346,177
Hedging derivatives and other derivatives	(8,071)	2,015
TOTAL DEBT INSTRUMENTS	41,071,639	40,220,013

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

8.5 CONTRACTUAL MATURITIES AND EXPOSURE TO INTEREST RATE RISK

The table below sets out the contractual maturities of debt instruments held by the Company. Effective maturities may differ from those presented, mainly because some assets include clauses allowing early redemption, with or without penalty or duration extension features. In some cases, the effect of derivatives (detailed in Note 15.3) 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, 2021 Net carrying amount by maturity					
<i>(US Dollars in thousands)</i>	12 months or less	More than 1 year up to 5 years	More than 5 years	Carrying value excluding derivatives	Impact of Derivatives	Total Carrying value including derivatives
Debt instruments	3,006,397	14,614,054	23,459,259	41,079,710	(8,071)	41,071,639
Loans	17,185	203,628	—	220,813	(249)	220,564
Total Financial investments exposed to interest rate risk	3,023,582	14,817,683	23,459,259	41,300,524	(8,320)	41,292,204

	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

8.6 EXPOSURE TO PRICE RISK

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

(US Dollars in thousands)	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, 2021	241,190	37,272	—	34,655	7,906	—	56,503	—	377,525	377,525
Equity instruments as of December 31, 2020	453,951	24,370	146	47,434	10,481	323	35,968	924	573,596	573,569

8.7 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:

(US Dollars in thousands)	December 31, 2021			December 31, 2020		
	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	—	843,647	—	—	395,401	—
Carrying value of associated liabilities (a)	—	852,430	—	—	377,980	—

(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.

8.8 NON-CONSOLIDATED INVESTMENT FUNDS

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

(US Dollars in thousands)	December 31, 2021	December 31, 2020
	Fair value	Fair value
Non-consolidated investment funds mainly holding equity securities	441,763	254,062
Non-consolidated investment funds mainly holding debt instruments	2,167,759	1,720,594
Other non-consolidated investment funds	653,383	836,016
TOTAL	3,262,905	2,810,673

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

- funds mainly holding equity securities: \$152.6 million in 2021 compared to \$34.5 million in 2020;

- funds mainly holding debt instruments: \$1,224.7 million in 2021 compared to \$1,049.6 million in 2020; and
- other funds: \$30.9 million in 2021 compared to \$36.2 million in 2020.

8.9 FINANCIAL INSTRUMENTS SUBJECT TO IMPAIRMENT

8.9.1 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, 2021				
	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	36,901,484	(14,057)	36,887,427	1,063,050	37,950,477
Debt instruments (at cost) that are not quoted in an active market	235,554	—	235,554	6,523	242,077
Debt instruments	37,137,038	(14,057)	37,122,981	1,069,573	38,192,553
Equity instruments available for sale	276,091	(33,528)	242,563	134,962	377,525
Non-consolidated investment funds available for sale	1,425,217	(16,940)	1,408,277	40,664	1,448,941
Loans at cost	229,696	(8,883)	220,813	780	221,593
TOTAL	39,068,042	(73,408)	38,994,634	1,245,978	40,240,612

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

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

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

8.9.2 Change in impairment on financial investments

(US Dollars in thousands)	January 1, 2021	Increase for the period	Write back following sale or repayment	December 31, 2021
Impairment – Debt instruments	14,137	334	(414)	14,057
Impairment – Equity instruments	40,609	4,893	(11,974)	33,528
Impairment – Non-consolidated investment funds	11,622	7,682	(2,363)	16,940
Impairment – Loans	—	8,883	—	8,883
TOTAL	66,367	21,792	(14,751)	73,408

(US Dollars in thousands)	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

8.10 FAIR VALUE OF INVESTMENTS

8.10.1 Investments recognized at fair value

The breakdown by valuation method of investments recognized at fair value including derivatives (also detailed in Note 15.3 and Note 15.4) is as follows:

(US Dollars in thousands)	December 31, 2021				
	Assets quoted in an active market excluding derivatives	Assets not quoted in an active market or no active market excluding derivatives			
	Fair value determined directly by reference to active market excluding derivatives (level 1)	Fair value mainly based on observable market data excluding derivatives (level 2)	Fair value mainly not based on observable market data excluding derivatives (level 3)	Total excluding derivatives	Total including derivatives
Debt instruments	—	37,965,062	—	37,965,062	37,950,477
Equity instruments	158,024	—	219,501	377,525	377,525
Non-consolidated investment funds	—	395,279	1,053,662	1,448,941	1,448,941
Financial investments and loans available for sale	158,024	38,360,340	1,273,163	39,791,527	39,776,942
Debt instruments	—	2,879,095	—	2,879,095	2,885,608
Non-consolidated investment funds	—	1,358,470	455,495	1,813,965	1,813,965
Other assets held by consolidated investment funds designated as at fair value through profit or loss	—	—	617,293	617,293	617,293
Financial investments and loans designated as at fair value through profit or loss	—	4,237,565	1,072,788	5,310,353	5,316,866
TOTAL FINANCIAL INVESTMENTS AND LOANS ACCOUNTED FOR AT FAIR VALUE	158,024	42,597,905	2,345,951	45,101,880	45,093,809

(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			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	—	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
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
TOTAL FINANCIAL INVESTMENTS AND LOANS ACCOUNTED FOR AT FAIR VALUE	368,762	41,792,698	1,824,389	43,985,848	43,987,835

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
 - are 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, 2021, the net transfer between level 1 and level 2 was nil.

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

OVERVIEW OF THE NATURE OF SUCH INVESTMENTS

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

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

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

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

From January 1, 2021 to December 31, 2021, the amount of level 3 assets increased to \$2,345.9 million, representing 5.2% of the total assets at fair value compared to \$1,824.4 million representing 4.2% of total assets at fair value in 2020.

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

- \$731.1 million of new investments;
- \$319.5 million of change in unrealized gains and losses;
- \$(71.4) million of net asset transfers in and out of level 3 and foreign exchange fluctuation impact; and
- \$(457.6) million of asset sales, redemptions and settlements mainly of debt instruments, equity securities and non-consolidated investment funds accounted as available for sale and of equity securities, non-consolidated investment funds, other assets held by controlled investment funds and debt instruments accounted as fair value through profit or loss.

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

8.10.2 Fair value of investments recognized at amortized cost

(US Dollars in thousands)	December 31, 2021				
	Assets quoted in an active market	Assets not quoted in an active market or no active market		Total excluding derivatives	Total including derivatives
	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)		
Investment in real estate properties at amortized cost	—	—	1,498,913	1,498,913	1,498,913
Debt instruments at cost (loans & receivables)	—	11,536	230,540	242,077	242,077
Loans at amortized cost	—	12,932	208,910	221,842	221,593
Financial investments and loans at amortized cost	—	24,468	1,938,363	1,962,831	1,962,582
TOTAL FAIR VALUE OF INVESTED ASSETS AT AMORTIZED COST	—	24,468	1,938,363	1,962,831	1,962,582

(US Dollars in thousands)	December 31, 2020				
	Assets quoted in an active market	Assets not quoted in an active market or no active market		Total excluding derivatives	Total including derivatives
	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)		
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

The Company applies the IFRS 13 fair value hierarchy as described in Note 2.5. Specifics to the valuation of investments are further described in Note 8.10.1 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.

8.11 DISCLOSURES ABOUT THE TEMPORARY EXEMPTION FROM IFRS 9

8.11.1 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.

(US Dollars in thousands)	December 31, 2021				December 31, 2020			
	Fail the SPPI test		Pass the SPPI test		Fail the SPPI test		Pass the SPPI test	
	Fair value	Change in unrealized gain or loss in 2021	Fair value	Change in unrealized gain or loss in 2021	Fair value	Change in unrealized gain or loss in 2020	Fair value	Change in unrealized gain or loss in 2020
Debt instruments available for sale	9,864	(382)	37,955,197	(1,341,214)	36,223	4,531	36,581,700	1,028,486
Debt instruments (at cost) not quoted in an active market	—	—	242,077	2,394	—	—	66,333	2,418
Equity instruments available for sale	377,525	(170,659)	—	—	573,596	43,530	—	—
Non-consolidated investment funds available for sale	1,448,941	34,963	—	—	1,125,953	(51,728)	—	—
Loans at cost	—	—	221,842	821	—	—	365,438	(2,574)
TOTAL	1,836,330	(136,077)	38,419,116	(1,338,000)	1,735,772	(3,667)	37,013,472	1,028,330

8.11.2 Credit risk exposure

The tables below set out 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, 2021						
	Fair value of debt instruments that pass the SPPI test						
	AAA	AA	A	BBB	BB and below	Other	Total
Debt Instruments available for sale	13,647,862	6,294,593	10,677,952	6,734,799	591,411	8,580	37,955,197
Debt instruments (at cost) not quoted in an active market	—	200,331	—	35,545	6,201	—	242,077
Total Fair value of debt instruments that pass the SPPI test	13,647,862	6,494,924	10,677,952	6,770,344	597,611	8,580	38,197,274

(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

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

(US Dollars in thousands)	December 31, 2021	December 31, 2020
	Fair value of loans that pass the SPPI test	Fair value of loans that pass the SPPI test
AA	1,516	—
A	8,498	—
BBB	4,434	—
BB and below / other	207,393	365,438
Total amount of loans that pass the SPPI test and for which the credit risk information is based on ratings	221,842	365,438

/ Note 9 Investments Accounted For Using The Equity Method

As of December 31, 2021 and 2020, the Company had an investment of \$31.5 million (\$39.4 million in 2020), 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 10 Receivables

(US Dollars in thousands)	December 31, 2021				December 31, 2020			
	Gross value	Impairment	Carrying value	Fair value	Gross value	Impairment	Carrying value	Fair value
Deposits and guarantees	1,419,791	—	1,419,791	1,419,791	870,608	—	870,608	870,608
Receivables from policyholders, brokers and general agents	10,967,895	(104,320)	10,863,575	10,863,575	10,972,344	(87,111)	10,885,233	10,885,233
Receivables arising from direct insurance and inward reinsurance operations	12,387,686	(104,320)	12,283,366	12,283,366	11,842,953	(87,111)	11,755,842	11,755,842
Receivables from reinsurers	1,673,139	(49,161)	1,623,978	1,623,978	2,477,156	(43,924)	2,433,232	2,433,232
Receivables from brokers and general agents	—	—	—	—	32,966	—	32,966	32,966
Receivables arising from outward reinsurance operations	1,673,139	(49,161)	1,623,978	1,623,978	2,510,121	(43,924)	2,466,198	2,466,198
Current tax receivables	129,136	—	129,136	129,136	118,516	—	118,516	118,516
Other receivables	258,030	(4,071)	253,959	253,959	840,110	(7,582)	832,529	832,529
TOTAL RECEIVABLES	14,447,991	(157,552)	14,290,439	14,290,439	15,311,700	(138,616)	15,173,084	15,173,084

Note 11 Shareholder's Equity And Minority Interests

11.1 IMPACT OF TRANSACTIONS WITH SHAREHOLDER

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

11.1.1 Change in shareholder's equity Company share in 2021

SHARE CAPITAL AND CAPITAL IN EXCESS OF NOMINAL VALUE

The authorized share capital of XLB is 15,000,000 shares, par value \$0.10 each, and the total issued and outstanding shares as at December 31, 2021 was 12,500,000, representing \$1.3 million of share capital.

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

- a capital contribution of \$15.5 million from the Company's parent entity, XL Group Ltd.

DIVIDENDS PAID

The Company did not pay any common share dividends to XL Group Ltd during 2021.

11.1.2 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 transaction 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.

11.2 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.

11.2.1 Comprehensive income for 2021

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

The decrease of gross unrealized gains and losses on assets available for sale totaling \$(1,512.9) million, comprised mainly of \$(1,341.6) million due to capital losses on debt securities which was mainly driven by an increase in interest rates across major jurisdictions and to a lesser extent due to the widening of credit spreads.

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

<i>(US Dollars in thousands)</i>	December 31, 2021	December 31, 2020
Gross unrealized gains and losses (a)	1,178,402	2,691,304
Deferred tax	(169,275)	(379,179)
UNREALIZED GAINS AND LOSSES (NET OF TAX) - TOTAL	1,009,127	2,312,124
Minority interests' share in unrealized gains and losses	(7,082)	(8,912)
Translation reserves	42,938	(6,689)
UNREALIZED GAINS AND LOSSES - COMPANY SHARE	1,044,983	2,296,523

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

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

<i>(US Dollars in thousands)</i>	December 31, 2021	December 31, 2020
Unrealized gains and losses (net of tax) 100%, opening	2,296,523	1,367,571
Transfer in the income statement on the period (a)	359,754	111,689
Investments bought in the current accounting period and changes in fair value	(1,647,150)	833,333
Foreign exchange impact	—	(470)
Unrealized gains and losses (net of tax) 100%, closing	1,009,127	2,312,124
Minority interests' share in unrealized gains and losses	(7,082)	(8,912)
Translation reserves	42,938	(6,689)
UNREALIZED GAINS AND LOSSES - COMPANY SHARE	1,044,983	2,296,523

(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.

11.2.2 Comprehensive income for 2020

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

The increase of gross unrealized gains and losses on assets available for sale totaling \$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.

11.3 CHANGE IN MINORITY INTERESTS

As of December 31, 2021 and December 31, 2020, the Company's minority interest balance consists of external investments in the Company's subsidiaries operating in the P&C insurance and reinsurance sector.

11.3.1 Change in minority interests for 2021

The \$13.6 million decrease in minority interests to \$2.5 million was largely driven by distributions made to alternative capital investors.

11.3.2 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.

Note 12 Liabilities Arising From Insurance Contracts

12.1 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, 2021			December 31, 2020		
	Property & Casualty	Life	Total Insurance	Property & Casualty	Life	Total Insurance
Future policy benefit reserves	—	2,685,499	2,685,499	—	2,968,428	2,968,428
Unearned premiums reserves	11,537,669	—	11,537,669	11,554,895	—	11,554,895
Gross claims reserves	50,183,956	—	50,183,956	48,757,115	—	48,757,115
of which IBNR	28,810,241	—	28,810,241	27,594,010	—	27,594,010
Liabilities arising from insurance contracts	61,721,624	2,685,499	64,407,124	60,312,009	2,968,428	63,280,437
Reinsurers' share in future policy benefit reserves	—	2,409,815	2,409,815	—	2,704,478	2,704,478
Reinsurers' share in unearned premiums reserves	4,322,153	—	4,322,153	3,619,995	—	3,619,995
Reinsurers' share in claims reserves	19,470,878	—	19,470,878	15,163,218	—	15,163,218
of which IBNR	13,125,572	—	13,125,572	9,371,640	—	9,371,640
Reinsurers' share in liabilities arising from insurance contracts	23,793,030	2,409,815	26,202,845	18,783,213	2,704,478	21,487,691
TOTAL LIABILITIES ARISING FROM INSURANCE CONTRACTS, NET OF REINSURERS' SHARE	37,928,594	275,684	38,204,279	41,528,797	263,949	41,792,746

Effective May 3, 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 XL 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 \$1,550.0 million (or \$1,395.0 million). As per the agreement, the Enstar subsidiary provides 90% coverage, with the Company retaining 10%, on two layers, the first of which provides \$1,550.0 million of coverage in excess of a \$9,438.0 million retention. The second layer provides an additional \$1,000.0 million in cover in excess above \$11,363.0 million. The contract premium of \$1,395.0 million was reported as reinsurers' share in claims reserves in table above. The premium was partially paid in cash, \$358.8 million representing 25% of the premium plus an interest charge, with the remaining balance of \$1,046.2 million (75%), recorded as funds withheld liability and reported within payables arising from outward reinsurance operations (see Note 13.1). As of December 31, 2021, the funds withheld liability reported, including accumulated interest was \$1,083.3 million.

Effective January 1, 2021, XLICSE, an indirect subsidiary of the Company, entered into a loss portfolio transfer ("LPT") agreement with AXA Global Re (AGRe), an indirect subsidiary of AXA, whereby the Company reinsured 90% of certain legacy AXA Corporate Solutions Assurance (ACS) claims reserves for accident years 2009 - 2018 amounting to \$1,392.3 million. Covered lines of business include Property, Casualty, Professional Lines and certain Specialty Lines. The agreement also includes cover of potential future adverse development above the ceded reserves equal to 35% of the initial ceded reserves. The net loss reserves ceded upon execution of the contract of \$1,392.3 million was reported as reinsurers' share in claims reserves in table above with an offsetting amount recorded as funds withheld liability and reported within payables arising from outward reinsurance operations (see Note 13.1). As part of this agreement the Company paid \$154.4 million to AGRe, representing a loss to the Company and was expensed immediately in net result from outward reinsurance.

12.2 CHANGE IN CLAIMS RESERVES FOR PROPERTY AND CASUALTY INSURANCE CONTRACTS

12.2.1 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 12.1:

	2021	2020
<i>(US Dollars in thousands)</i>	Property & Casualty	Property & Casualty
Claims reserves as of January 1	47,945,624	39,288,861
Claims handling cost reserves as of January 1	811,491	1,499,086
Gross claims reserves as of January 1	48,757,115	40,787,947
Total claims expenses	14,294,275	18,171,129
Claim payments	(11,380,566)	(11,554,241)
Currency translation and other changes	(1,486,868)	1,352,280
Claims reserves as of December 31	49,330,712	47,945,624
Claims handling cost reserves as of December 31	853,243	811,491
Gross claims reserves as of December 31	50,183,956	48,757,115

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

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

	2021	2020
<i>(US Dollars in thousands)</i>	Property & Casualty	Property & Casualty
Reinsurers' share in claims reserves as of January 1	15,163,218	11,441,101
Reinsurers' share in total claims expenses	5,565,743	6,532,702
Reinsurers' share in claims payments	(3,439,344)	(3,003,217)
Change in scope of consolidation (a)	2,787,275	—
Currency translation and other changes	(606,015)	192,631
Reinsurers' share in claims reserves as of December 31	19,470,878	15,163,218

(a) Relates to the Enstar ADC and AGRe LPT transactions (see Note 12.1).

12.3 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, 2021 and 2020.

Under the terms of the sale of the life reinsurance subsidiary in 2014, the Company has reinsured \$2,287.8 million and \$2,550.0 million at December 31, 2021 and 2020 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, 2021 and 2020.

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, 2021 and 2020.

12.3.1 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 12.1:

	2021	2020
(US Dollars in thousands)	Life	Life
Future policy benefit reserves as of January 1	2,968,428	3,048,152
Collected premiums net of loadings on premiums (+)	206,573	209,676
Surrenders, maturities and other claims and benefits paid net of charges and penalties (-)	(486,886)	(474,284)
Change in reserves relating to technical and actuarial items (+/-)	66,611	48,668
Currency translation and other changes	(69,226)	136,216
Future policy benefit reserves as of December 31	2,685,499	2,968,428

12.3.2 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 12.1:

	2021	2020
(US Dollars in thousands)	Life	Life
Reinsurers' share in future policy benefit reserves as of January 1	2,704,478	2,805,719
Reinsurers' share in collected premiums net of loadings on premiums (+)	196,587	199,342
Reinsurers' share in surrenders, maturities and other claims and benefits paid net of charges and penalties (-)	(468,077)	(451,024)
Reinsurers' share in change in reserves relating to technical and actuarial items (+/-)	45,538	14,743
Currency translation and other changes	(68,711)	135,698
Reinsurers' share in future policy benefit reserves as of December 31	2,409,815	2,704,478

12.4 PROPERTY & CASUALTY LOSS RESERVE DEVELOPMENT TABLE

The loss reserve development table shows movements in incurred losses and paid losses between 2015 and 2021, 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 2021. For example, the amount of \$5,627.7 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 \$6,089.0 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 2021. For example, the amount of \$2,194.2 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 \$3,241.9 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.

12.4.1 P&C Incurred Losses and Allocated Loss Expenses, Net of Reinsurance

P&C Incurred Losses and Allocated Loss Expenses, Net of Reinsurance							
<i>(US Dollars in thousands)</i>							
Accident Year	For the years ended						
	2015	2016	2017	2018	2019	2020	2021 (a)
2015	5,491,705	5,627,725	6,088,952	6,105,114	6,092,708	6,139,724	6,155,518
2016		6,126,453	6,699,502	6,802,611	6,791,421	6,805,018	6,879,759
2017			8,844,825	9,296,150	9,257,293	9,084,044	9,118,720
2018				7,910,785	8,135,957	8,448,380	8,514,562
2019					8,334,838	8,896,790	8,998,171
2020						11,230,941	10,406,227
2021							8,998,066
P&C Incurred Losses and Allocated Loss Expenses, Net of Reinsurance							59,071,021

(a) Net favorable development of \$80.3 million in 2021 relating to accident years prior to 2015 is not reflected in the table above.

12.4.2 P&C Cumulative Paid Losses and Loss Expenses, Net of Reinsurance

P&C Cumulative Paid Losses and Loss Expenses, Net of Reinsurance							
<i>(US Dollars in thousands)</i>							
Accident Year	For the years ended						
	2015	2016	2017	2018	2019	2020	2021
2015	988,336	2,194,249	3,241,885	3,888,870	4,386,683	4,768,884	5,073,147
2016		1,224,000	2,735,051	3,792,004	4,497,913	5,043,117	5,424,015
2017			1,668,118	4,560,442	5,652,184	6,722,007	7,295,842
2018				1,146,546	3,977,700	5,652,849	6,475,060
2019					1,253,593	3,927,316	5,457,445
2020						1,510,256	4,269,612
2021							1,180,175
P&C Cumulative Paid Losses and Loss Expenses, Net of Reinsurance							35,175,295
P&C Incurred Losses and Allocated Loss Expenses, Net of Reinsurance							59,071,021
All outstanding liabilities prior to 2015 including reserves acquired in common control acquisitions, net of reinsurance							5,476,038
Reserves acquired in common control acquisitions post 2015							3,151,303
P&C Cumulative Paid Losses and Loss Expenses, Net of Reinsurance							(35,175,295)
Liabilities for unpaid losses and loss expenses, net of reinsurance							32,523,067

For entire business operations in total, with the exception of 2020, most 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.

The 2020 accident year developed favorably in 2021 due to releases on natural catastrophes, large losses and Covid-19 losses on short tail lines.

12.4.3 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 12.1:

<i>(US Dollars in thousands)</i>	December 31, 2021
Subtotal from triangles above	32,523,067
Unallocated loss expenses	829,148
Discounting of reserves	(345,227)
Provision for uncollectible reinsurance	35,748
LPT retrocession and ADC	(2,584,397)
Foreign Exchange and other	254,741
Liabilities for P&C unpaid losses and loss expenses, net of reinsurance	30,713,079
Future policy benefit reserves - Life	275,684
Liabilities for total unpaid losses and loss expenses, net of reinsurance	30,988,763
Unearned premiums reserves	11,537,669
Reinsurers' share in unearned premiums reserves	(4,322,153)
TOTAL LIABILITIES ARISING FROM INSURANCE CONTRACTS, NET OF REINSURERS' SHARE	38,204,279

12.5 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.

12.6 LOSS RESERVE DISCOUNTING

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

The Company utilizes tabular reserving for workers' compensation (including long-term disability) unpaid losses that are considered fixed and determinable, and discounts such losses using an interest rate of 3.75% in 2021 and 2020. The interest rate approximates the implied return on the market-based assets supporting the expected cash flows of the Company's liabilities. The tabular reserving methodology results in applying uniform and consistent criteria for establishing expected future indemnity and

medical payments (including an explicit factor for inflation) and the use of mortality tables to determine expected payment periods. Tabular unpaid losses and loss expenses, net of reinsurance, at December 31, 2021 and 2020 on an undiscounted basis were \$598.2 million and \$642.7 million, respectively. The aggregate discount for the time value of money deducted to derive the liability for unpaid losses and loss expenses were \$200.2 million and \$225.7 million at December 31, 2021 and 2020, respectively. The related discounted unpaid losses and loss expenses were \$398.0 million and \$417.0 million at December 31, 2021 and 2020, respectively. The interest accretion related to the unwind of the discounted reserves was \$17.6 million and \$19.6 million during the years ended December 31, 2021 and 2020, respectively. This interest accretion was recorded in the incurred loss line as adverse prior year development.

The Company records a specific reserve allowance for Periodical Payment Orders ("PPOs") related to bodily injury liability claims. This allowance includes the unpaid losses for claims already settled and notified as PPOs at December 31, 2021, as well as the unpaid losses for claims to be settled in the future. The future care element of the unpaid losses was discounted using an interest rate of 2.0% at both December 31, 2021 and 2020. Unpaid losses and loss expenses, net of reinsurance, at December 31, 2021 and 2020 on an undiscounted basis were \$323.7 million and \$332.5 million, respectively. The aggregate discount for the time value of money deducted to derive the liability for the unpaid losses and loss expenses were \$136.3 million and \$141.2 million at December 31, 2021 and 2020. After discounting the future care element, the unpaid losses and loss expenses were \$187.3 million and \$191.3 million at December 31, 2021 and 2020, respectively. The increase in the net undiscounted unpaid losses and loss expenses between December 31, 2021 and 2020 is mainly due to foreign exchange rate movements. The interest accretion related to the unwind of the discounted reserves was \$2.8 million and \$3.3 million during the calendar years ended December 31, 2021 and 2020. This interest accretion was recorded in the incurred loss line as adverse prior year development.

The 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 0.1% at both December 31, 2021 and 2020. Unpaid losses and loss expenses, gross and net of reinsurance, at December 31, 2021 and 2020 on an undiscounted basis were \$111.0 million and \$114.2 million, respectively. The aggregate discount for the time value of money deducted to derive the liability for the unpaid losses and loss expenses were \$7.7 million and \$2.7 million at December 31, 2021 and 2020, respectively. After discounting, the unpaid losses and loss expenses were \$103.3 million and \$111.5 million at December 31, 2021 and 2020, respectively.

Note 13 Payables

13.1 BREAKDOWN OF PAYABLES

	Carrying value	Carrying value
<i>(US Dollars in thousands)</i>	December 31, 2021	December 31, 2020
Debts relating to investments under total return swap agreement ("TRS")	—	101,254
Other debt instruments issued, notes and bank overdrafts	—	101,254
Deposits and guarantees	1,023,111	1,021,372
Payables to policyholders, brokers and general agents	1,543,566	1,821,512
Payables arising from direct insurance and inward reinsurance operations	2,566,676	2,842,884
Deposits and guarantees	1,512,646	310,212
Payables to other companies (a)	9,546,005	9,154,326
Payables arising from outward reinsurance operations	11,058,651	9,464,538
Payables – current tax	118,868	128,201
Collateral debts relating to investments under lending agreements or equivalent	852,430	377,980
Other payables	1,549,011	1,931,753
TOTAL PAYABLES	16,145,636	14,846,609

(a) Includes \$3,088.9 million (\$3,764.9 million as of December 31, 2020) of Life funds withheld liabilities relating to run-off life reinsurance operations (see Note 12.3).

As of December 31, 2021, payables arising from direct insurance and inward reinsurance operations as disclosed in Note 13.1, totaled \$2,566.7 million, a decrease of \$(276.2) million compared to December 31, 2020, mainly related to a reduction in payables to clients and brokers partially offset by an increase in settled claims and commissions payable.

As of December 31, 2021, payables arising from direct outward reinsurance operations totaled \$11,058.7 million, an increase of \$1,594.1 million compared to December 31, 2020, mainly related to the increase in funds held resulting from the ADC cover with Enstar and the LPT with AGRe (see Note 12.1), plus 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; partially offset by a decrease in funds held relating to ceded legacy Life programs.

13.2 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, 2021				December 31, 2020			
	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
Collateral debts relating to investments under a lending agreement or equivalent	723,726	128,704	—	852,430	317,429	60,550	—	377,980

Note 14 Tax

14.1 TAX EXPENSE

14.1.1 Breakdown of tax expense between current and deferred tax

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

<i>(US Dollars in thousands)</i>	December 31, 2021	December 31, 2020
Current income tax	168,975	25,022
Deferred income tax	(25,968)	112,583
TOTAL INCOME TAX	143,007	137,605

14.1.2 Tax proof

The notional tax charge/(benefit) is calculated using the pre-tax accounting income (loss) in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. A reconciliation of the difference between the notional tax charge (benefit) and the effective tax charge (benefit) for the years ended December 31, 2021 and 2020 is provided below.

<i>(US Dollars in thousands)</i>	December 31, 2021	December 31, 2020
Income/(loss) from operating activities, gross of tax expenses (excluding result from investments consolidated using equity method)	1,456,016	(2,008,522)
Notional tax rate	14.16%	(2.32)%
Notional tax charge/(benefit)	206,237	46,593
Impact of change in tax rates	25,205	(2,804)
Impact of differences in tax rate and impact of taxes not linked to pre-tax income	6,235	44,726
Impact of differences in tax rates and tax bases	31,440	41,922
Impact of permanent differences	27,363	(25,860)
Adjustments on tax relating to prior years - Current Tax	22,799	(35,682)
Adjustments on tax relating to prior years - Deferred Tax	13,712	9,898
UTP gross amount (Unrecognized Tax Position)	(11,368)	16,843
Derecognition/(recognition) of DTA on temporary differences	(147,175)	83,891
Impact of adjustments, decrease in value and other items	(122,032)	74,950
EFFECTIVE TAX CHARGE	143,007	137,605
EFFECTIVE TAX RATE (%)	9.82%	(6.85)%

Effective tax rate stood at 9.8% in 2021 versus (6.9)% in 2020. The increase in the tax rate is primarily driven by a combination of increased profits in taxable jurisdictions (primarily the United States) and unbenefited losses in taxable jurisdictions, partially offset by profits in non-taxable jurisdictions (Bermuda) and a significant discrete tax benefit related to the recognition of prior year unrecognized deferred tax assets (DTA) in the UK and Germany:

- Impact of differences in tax rates and tax bases of \$31.4 million comprised primarily of the impact of legal entity branch income computations, UK tax rate change and US BEAT charge;
- Impact of permanent differences of \$27.4 million comprised primarily of notional investment income allocations and uncreditable withholding tax on investments; and
- Derecognition/(recognition) of DTA on temporary differences of \$(147.2) million related primarily to the recognition of previously unrecognized DTA in the UK and Germany based on projected future profitability.

14.2 DEFERRED TAX

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

	December 31, 2021			December 31, 2020
(US Dollars in thousands)	Deferred tax assets	Deferred tax liabilities	Net deferred tax position	Net deferred tax position
Deferred Acquisition Costs	114,529	50,418	64,111	(1,090)
Other intangible assets (including Goodwill)	57,628	86,682	(29,055)	(92,724)
Real estate	16,959	14,370	2,588	11,182
Financial assets	143,792	280,560	(136,768)	(295,341)
Technical reserves	284,339	294,498	(10,158)	(22,066)
Pensions and other employees benefits	121,802	7,271	114,531	109,888
Tax losses carried forward	219,741	—	219,741	254,923
Other	60,178	79,951	(19,773)	7,304
TOTAL DEFERRED TAX BY NATURE	1,018,967	813,749	205,218	(27,926)
<i>of which deferred tax through Profit and Loss</i>	977,926	616,269	361,657	339,424
<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>	25,068	197,066	(171,998)	(379,195)
<i>of which deferred tax through other equity reserves</i>	15,973	414	15,559	11,845

As of December 31, 2021, the \$205.2 million net DTA related primarily to entities located in the United States (\$254.6 million), Italy (\$14.8 million), UK (\$10.4 million), and other jurisdictions (\$33.1 million) offset by DTLs in entities located in France (\$(59.5) million) and Germany (\$(48.2) million).

	December 31, 2021	December 31, 2020
(US Dollars in thousands)		
Deferred tax assets	360,407	310,063
Deferred tax liabilities	155,189	337,989
Net deferred tax position	205,218	(27,926)

The \$(233.1) million decrease in the net deferred tax liability position from \$(27.9) million in 2020 to \$205.2 million in 2021 relates primarily to the combination of a decrease in the DTL due to the depreciation of the value of financial assets, plus an increase in DTA recognition for previously unrecognized DTAs in the UK and Germany.

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

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

(US Dollars in thousands)	2021									
	DTA maturity date 1 year	DTA maturity date 2 years	DTA maturity date 3 years	DTA maturity date 4 years	DTA maturity date 5 years	DTA maturity date 6 years	DTA maturity date between 7 and 11 years	DTA maturity date > 11 years	No maturity date	Total
Recognized DTA										
Recognized DTA - Tax loss carryforwards	—	—	—	—	785	4,822	659	19,835	193,640	219,741
Recognized DTA - Other items not related to tax losses	—	—	—	—	—	—	12,402	1,737	785,087	799,226
Total recognized DTA	—	—	—	—	785	4,822	13,062	21,572	978,727	1,018,967
Corresponding carry forward losses	—	—	—	—	3,139	24,475	2,947	94,453	807,409	932,423
Unrecognized DTA										
Unrecognized DTA - Tax loss carryforwards	1,336	9,615	85	9,636	30,840	11,355	24,651	113	236,056	323,687
Unrecognized DTA - Other items not related to tax losses	—	—	—	—	—	—	—	—	72,399	72,399
Total unrecognized DTA	1,336	9,615	85	9,636	30,840	11,355	24,651	113	308,455	396,086
Corresponding carry forward losses	6,782	47,393	341	48,453	156,726	57,359	93,446	538	1,059,670	1,470,707
2020										
(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	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

14.3 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, 2021 and 2020, the Company had unrecognized tax benefits of \$100.4 million and \$113.2 million, respectively. The 2021 decrease primarily relates to a decrease in ICSE France technical 'TEP' provision following the closure of the 2017 and 2018 audit and a reduction to the ICSE intra-group reinsurance provision based on revised calculations; partially offset by additional Spanish provisions for the ongoing audit, and new provisions established for the risk of permanent establishment in certain jurisdictions.

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

Note 15 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.

15.1 DERIVATIVE INSTRUMENTS: MATURITIES, NOTIONAL VALUES AND FAIR VALUES

(US Dollars in thousands)	Maturity of notional amount as of December 31, 2021 (a)			Notional amount		Positive fair value		Negative fair value		Net fair value	
	< 1 year	1 to 5 years	> 5 years	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Interest rates derivatives	3,132	974	20,500	24,605	94,741	—	271	2,550	4,228	(2,550)	(3,957)
Equity derivatives	—	120,368	—	120,368	177,020	—	—	1,367	55,934	(1,367)	(55,934)
Currencies derivatives	2,084,434	—	98,478	2,182,912	1,841,851	5,079	16,773	18,575	41,644	(13,496)	(24,870)
Credit derivatives	26,156	309,744	—	335,899	435,725	6,683	4,907	1,456	168	5,228	4,739
Other derivatives	—	51,174	—	51,174	155,665	—	—	6,559	1,255	(6,559)	(1,255)
TOTAL	2,113,721	482,259	118,978	2,714,958	2,705,002	11,762	21,951	30,505	103,229	(18,743)	(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.

(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 15.2 below.

15.2 DERIVATIVE INSTRUMENTS BY IAS 39 TYPE OF HEDGE

Derivative instruments are broken down as follows:

(US Dollars in thousands)	December 31, 2021									
	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	—	—	—	—	—	—	24,605	(2,550)	24,605	(2,550)
Equity derivatives	—	—	—	—	—	—	120,368	(1,367)	120,368	(1,367)
Currencies derivatives	—	—	60,478	(3,424)	1,750,972	(5,583)	371,462	(4,489)	2,182,912	(13,496)
Credit derivatives	—	—	—	—	—	—	335,899	5,228	335,899	5,228
Other derivatives	—	—	51,174	(6,559)	—	—	—	—	51,174	(6,559)
TOTAL	—	—	111,652	(9,983)	1,750,972	(5,583)	852,334	(3,177)	2,714,958	(18,743)

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, 2020										
(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	—	—	—	—	—	—	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.

As of December 31, 2021, the notional amount of all derivative instruments totaled \$2,715.0 million (\$2,705.0 million at the end of 2020). Their net fair value totaled \$(18.7) million as of December 31, 2021 (\$(81.3) million at the end of 2020), comprised of the fair value of derivatives on invested assets of \$(11.2) million (\$(43.9) million at the end of 2020) and the fair value of derivatives on liabilities of \$7.6 million (\$37.6 million at the end of 2020) (see Note 15.3).

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 4.2). 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 2021, the use of derivatives within the Company increased overall by \$10.0 million in terms of notional amount, mainly due to increase in notional of currency derivatives offset by decrease in the notional on equity forwards and due to unwinding of total return swap and interest rate swap 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, 2021, 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 \$1,862.6 million versus \$1,325.9 million at the end of 2020. The net fair value recorded was \$(15.6) million as of December 31, 2021 versus \$(36.2) million at the end of 2020.

15.2.1 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, 2021, the notional amount of interest rate derivative instruments totaled \$24.6 million (\$94.7 million at the end of 2020). Their net fair value as of December 31, 2021 totaled \$(2.5) million (\$(4.0) million at the end of 2020). The Company mainly uses interest rate swaps.

15.2.2 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, 2021, the notional amount of equity derivative instruments totaled \$120.4 million (\$177.0 million at the end of 2020). Their net fair value totaled \$(1.4) million as of December 31, 2021 (\$(55.9) million at the end of 2020). The Company mainly uses equity option and forward contracts.

15.2.3 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, 2021, the notional amount of currency derivative amounted to \$2,182.9 million versus \$1,841.9 million at the end of 2020. Their market value was \$(13.5) million versus \$(24.9) million at the end of 2020. 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 \$1,246.3 million at the end of 2020 to \$1,751.0 million at the end of 2021.

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 4.2 with amounts of exposures to exchange-rate risk and corresponding hedges.

15.2.4 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, 2021, the notional amount of credit derivatives held by the Company was \$335.9 million compared to \$435.7 million at the end of 2020.

15.3 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, 2021			December 31, 2020		
	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	1,144,083	—	1,144,083	1,057,220	—	1,057,220
Debt instruments	41,079,710	(8,071)	41,071,639	40,217,998	2,015	40,220,013
Equity securities	377,525	—	377,525	573,596	(28)	573,569
Non-consolidated investment funds	3,262,905	—	3,262,905	2,810,673	—	2,810,673
Other investments (d)	617,293	—	617,293	445,786	—	445,786
Macro-hedge and other derivatives - assets	—	(2,848)	(2,848)	—	(45,839)	(45,839)
TOTAL FINANCIAL INVESTMENTS	45,337,434	(10,919)	45,326,515	44,048,053	(43,852)	44,004,201
Loans	220,813	(249)	220,564	364,841	199	365,040
TOTAL INVESTMENTS	46,702,330	(11,168)	46,691,162	45,470,115	(43,653)	45,426,462
Other payables	1,541,435	—	1,541,435	1,894,128	—	1,894,128
Macro-hedge and other derivatives - liabilities	—	7,575	7,575	—	37,625	37,625
Total other payables	1,541,435	7,575	1,549,011	1,894,128	37,625	1,931,753

(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.

15.4 BREAKDOWN OF DERIVATIVE INSTRUMENTS BY VALUATION METHOD

	December 31, 2021				December 31, 2020			
	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	8,413	(19,580)	—	(11,168)	16,820	(60,473)	—	(43,653)
Net value of derivative instruments – liabilities	7,575	—	—	7,575	37,625	—	—	37,625
Net fair value				(18,743)				(81,278)

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, 2021, the adjustment to the fair value of derivatives for non-performance risk was not material.

Note 16 Gross Written Premiums

<i>(US Dollars in thousands)</i>	December 31, 2021	December 31, 2020
Property	3,943,981	3,503,270
Casualty	5,056,513	4,813,598
Specialty	3,418,933	4,024,144
Professional	4,241,512	3,423,997
P&C Insurance	16,660,940	15,765,010
Property catastrophe	996,973	946,588
Property other	1,173,249	1,416,129
Other (a)	3,308,878	2,964,967
P&C Reinsurance	5,479,100	5,327,684
Total P&C operations (b)	22,140,041	21,092,694
Life operations	206,591	209,695
GROSS WRITTEN PREMIUMS	22,346,632	21,302,389

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

(b) Includes risk consulting fee income of \$95.5 million in 2021 and \$105.7 million in 2020.

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 17 Net Investment Result Excluding Financing Expenses

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

	December 31, 2021				
	Net investment income	Net realized gains and losses relating to investments at cost and at fair value through shareholder's equity	Net realized gains and losses and change in fair value of other investments at fair value through profit or loss	Change in investment impairments	Net investment result
<i>(US Dollars in thousands)</i>					
Investment in real estate properties at amortized cost	(3,968)	7,975	—	—	4,008
Investment in real estate properties	(3,968)	7,975	—	—	4,008
Debt instruments available for sale	825,588	9,844	—	(334)	835,098
Debt instruments designated as at fair value through profit or loss	73,253	—	(147,500)	—	(74,247)
Non quoted debt instruments (amortized cost)	2,572	—	—	—	2,572
Debt instruments	901,413	9,844	(147,500)	(334)	763,422
Equity instruments available for sale	7,199	253,544	—	(4,893)	255,850
Equity instruments designated as at fair value through profit or loss	30,532	—	114,927	—	145,459
Equity instruments	37,731	253,544	114,927	(4,893)	401,308
Non-consolidated investment funds available for sale	44,371	(4,579)	—	(7,682)	32,110
Non-consolidated investment funds designated as at fair value through profit or loss	130,134	—	36,965	—	167,098
Non-consolidated investment funds held for trading	—	—	—	—	—
Non-consolidated investment funds	174,504	(4,579)	36,965	(7,682)	199,209
Other assets held by consolidated investment funds designated as at fair value through profit or loss	—	—	—	—	—
Loans at cost	6,452	(46)	—	(8,883)	(2,477)
Loans	6,452	(46)	—	(8,883)	(2,477)
Derivative instruments (a)	5,049	—	19,725	—	24,775
Investment management expenses	(92,753)	—	—	—	(92,753)
Other	(12,589)	273	75,769	—	63,453
NET INVESTMENT RESULT	1,015,839	267,011	99,886	(21,792)	1,360,944

(a) Comprised mainly of investment returns passed on, relating to run-off life reinsurance operations (see Note 12.3).

	December 31, 2020				
	Net investment income	Net realized gains and losses relating to investments at cost and at fair value through shareholder's equity	Net realized gains and losses and change in fair value of other investments at fair value through profit or loss	Change in investment impairments	Net investment result
<i>(US Dollars in thousands)</i>					
Investment in real estate properties at amortized cost	19,886	—	—	—	19,886
Investment in real estate properties	19,886	—	—	—	19,886
Debt instruments available for sale	878,410	34,728	—	(14,142)	898,996
Debt instruments designated as at fair value through profit or loss	82,771	—	173,717	—	256,488
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	(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 (a)	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) Comprised mainly of investment returns passed on, relating to run-off life reinsurance operations (see Note 12.3).

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 18 **Net Result Of Reinsurance Ceded**

Net result of reinsurance ceded was as follows:

<i>(US Dollars in thousands)</i>	December 31, 2021	December 31, 2020
Premiums ceded and unearned premiums ceded	(8,731,006)	(7,812,828)
Claims ceded (including change in claims reserves)	5,812,780	6,781,925
Commissions received from/(paid) to reinsurers	1,472,389	1,243,815
NET RESULT OF REINSURANCE CEDED	(1,445,837)	212,912

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

Note 19 Expenses By Type

<i>(US Dollars in thousands)</i>	December 31, 2021	December 31, 2020
Acquisition costs - gross	3,370,380	3,123,383
Change in deferred acquisition costs	20,265	(10,137)
Acquisition costs	3,390,645	3,113,246

<i>(US Dollars in thousands)</i>	December 31, 2021	December 31, 2020
Breakdown of expenses by destination		
Acquisition costs	3,390,645	3,113,246
Administrative expenses	2,163,371	2,234,598
Other (income) and expenses	1,850	502
TOTAL EXPENSES EXCLUDING FINANCING EXPENSES	5,555,865	5,348,346
Financing expenses	50,799	66,621
TOTAL EXPENSES	5,606,664	5,414,967

<i>(US Dollars in thousands)</i>	December 31, 2021	December 31, 2020
Breakdown of expenses by type		
Acquisition costs	3,390,645	3,113,246
Employee benefit expenses	1,605,657	1,584,329
IT expenses and overhead allocations	327,467	397,780
Charges relating to owner occupied properties	93,377	109,216
Outsourcing and professional services	138,718	143,775
TOTAL EXPENSES EXCLUDING FINANCING EXPENSES	5,555,865	5,348,346
Gross earned expense ratio (a)	25.0%	25.7%
Financing expenses	50,799	66,621
TOTAL EXPENSES	5,606,664	5,414,967

(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 \$29.8 million (\$33.3 million as of December 31, 2020) and interest expense on lease liabilities of \$11.2 million (\$12.0 million as of December 31, 2020).

Note 20 Related-Party Transactions

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

20.1 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, 2021 and 2020, 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, 2021	December 31, 2020
Reported net premiums written	95,154	207,760
Reported net losses incurred	100,697	112,158
Reported net acquisition costs incurred	47,591	50,122

20.2 AXA GROUP

On September 12, 2018, the Company was acquired by, and became a wholly-owned subsidiary of the AXA Group. 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, 2021 and 2020, 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, 2021	December 31, 2020
P&C net premiums earned	48,872	51,298
P&C net losses incurred	56,539	17,856
P&C net acquisition costs	842	4

In addition, as of December 31, 2021 and December 31, 2020 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.

<i>(US Dollars in thousands)</i>	December 31, 2021	December 31, 2020
P&C net premiums receivable	129,022	113,610
P&C net unearned premium reserves	1,000	1,162
P&C net unpaid loss and loss expense reserves	160,698	110,574

As of December 31, 2021, within "Debt instruments available for sale" (see Note 8.1), the Company held investments in publicly quoted bonds of AXA with a carrying value of:

<i>(US Dollars in thousands)</i>	December 31, 2021	December 31, 2020
AXA SA Floating Rate Bond 29/01/2024	344,839	374,983
AXA SA 2.875% Fixed Rate Bond 15/06/2024	153,274	170,219
TOTAL	498,113	545,202

As of December 31, 2021 and December 31, 2020, reported within financing debt, the Company has recorded a financial liability for Redeemable Preference Shares issued to AXA amounting to \$1.0 million. 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 21.1).

Note 21

Contingent Assets And Liabilities And Unrecognized Contractual Commitments

21.1 BREAKDOWN OF COMMITMENTS RECEIVED

<i>(US Dollars in thousands)</i>	December 31, 2021	December 31, 2020
Credit facilities received (a)	3,585,600	3,732,135
Pledged securities and collateralized commitments	24,388	1,193
Other commitments	—	1,316
TOTAL	3,609,988	3,734,645

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, 2021 total commitments used were \$3,260.5 million (\$2,606.6 million as of December 31, 2020).

The Company has several credit facilities provided on both syndicated and bilateral bases from commercial banks as well as facilities entered into with 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.

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. This facility was renewed in July 2021 and matures in July 2026. 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 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 \$568.6 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 21.3.2). 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 20.2) 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, 2021, the value of assets held in trust accounts was \$6,714.9 million (\$6,171.0 million in 2020) and the value of letters of credit was \$6,029.7 million (\$4,068.3 million in 2020).

21.2 BREAKDOWN OF COMMITMENTS GIVEN

(US Dollars in thousands)	December 31, 2021					December 31, 2020
	Expiring date					Total
	12 months or less	More than 1 year up to 3 years	More than 3 years up to 5 years	More than 5 years	Total	
Letters of credit	2,041,921	—	650,000	—	2,691,921	2,799,220
Pledged securities and collateralized commitments	78,309	24,485	73,077	708,510	884,382	475,090
Other commitments (a)	126,699	537,096	219,874	534,665	1,418,333	1,062,128
TOTAL	2,246,929	561,580	942,951	1,243,175	4,994,636	4,336,438

(a) The Company has committed to invest in certain real estate, private equity and private credit limited partnerships, limited liability companies or similar structures. At December 31, 2021, the Company had unfunded commitments with these entities totaling \$1,418.3 million over a weighted average period of 5.2 years. 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.

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. If 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.

21.3 OTHER AGREEMENTS

21.3.1 Tax matters

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

21.3.2 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 21.1) pursuant to which AXA SA provided a €500.0 million (\$568.6 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 22 Litigation

The Company and its subsidiaries are subject to litigation and arbitration in the normal course of business. These lawsuits and arbitration 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.

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

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

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

Note 23 Subsequent Events

23.1 WAR IN UKRAINE

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

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

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

Appendix 3 - AXA XL Reinsurance Ltd IFRS Consolidated Audited Financial Statements as at December 31 2021



XL Reinsurance

AXA XL Reinsurance Ltd

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

CONTENTS

	Page Number
REPORT OF THE STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS	3
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	5
CONSOLIDATED STATEMENT OF INCOME	6
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	7
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	8
CONSOLIDATED STATEMENT OF CASH FLOWS	10
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	12
Note 1 General Information	12
Note 2 Significant Accounting Policies	13
Note 3 Scope Of Consolidation	27
Note 4 Acquisitions	28
Note 5 Financial and Reinsurance Risk Management	30
Note 6 Goodwill And Other Intangible Assets	44
Note 7 Deferred Acquisition Costs	45
Note 8 Investments	46
Note 9 Investments Accounted For Using The Equity Method	57
Note 10 Receivables	58
Note 11 Shareholder's Equity And Minority Interests	59
Note 12 Liabilities Arising From Reinsurance Contracts	61
Note 13 Payables	65
Note 14 Tax	66
Note 15 Gross Written Premiums	70
Note 16 Net Investment Result Excluding Financing Expenses	71
Note 17 Net Result Of Reinsurance Ceded	72
Note 18 Expenses By Type	73
Note 19 Related-Party Transactions	74
Note 20 Contingent Assets And Liabilities And Unrecognized Contractual Commitments	76
Note 21 Litigation	78
Note 22 Subsequent Events	79



Report of Independent Auditors

To the Board of Directors of AXA XL Reinsurance Ltd

Opinion

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

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

Basis for Opinion

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

Basis of Accounting

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

Responsibilities of Management for the Consolidated Financial Statements

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

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



Auditors' Responsibility for the Audit of the Consolidated Financial Statements

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

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

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

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

PricewaterhouseCoopers LLP

April 27, 2022

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(US Dollars in thousands)

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

CONSOLIDATED STATEMENT OF INCOME

(US Dollars in thousands)

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

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

(b) Gross of reinsurance.

(c) Net of investment management costs.

(d) Includes impairment releases on investments sold.

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

(f) Excludes impairment releases on investments sold.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital			
<i>(US Dollars in thousands, except for number of shares and nominal value)</i>	Number of shares	Nominal value	Share Capital	Capital in excess of nominal value
Shareholder's equity opening January 1, 2021	—	—	—	1,902,177
Capital contributions from parent	10,000,000,000	0.01	100,000	1,258,714
Others (including impact on change in scope) (a)	—	—	—	—
Impact of transactions with shareholder	10,000,000,000	0.01	100,000	3,160,891
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, 2021	10,000,000,000	0.01	100,000	3,160,891

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

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

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

(U.S dollars in thousands, except for number of shares and nominal value)	Share Capital			
	Number of shares	Nominal value	Share Capital	Capital in excess of nominal value
Shareholder's equity opening January 1, 2020	—	—	—	—
Capital contributions from parent	—	—	—	—
Others (including impact on change in scope) (a)	—	—	—	1,902,177
Impact of transactions with shareholder	—	—	—	1,902,177
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, 2020	—	—	—	1,902,177

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

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

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

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

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

Note 1 General Information

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

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

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

/ Note 2 Significant Accounting Policies

2.1 BASIS OF PREPARATION

2.1.1 Statement of compliance

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

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

2.1.2 Basis of accounting and going concern

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

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

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

2.1.3 Functional and presentation currency

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

2.1.4 Use of estimates and judgments

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

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

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

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

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

2.2 IFRS STANDARDS AND AMENDMENTS

2.2.1 IFRS requirements adopted on January 1, 2021

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

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

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

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

2.2.1.2 Amendment to IFRS 4 – deferral of IFRS 9

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

2.2.2 Standards and amendments published but not yet effective

2.2.2.1 IFRS 17 – Insurance contracts

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.2.2.2 IFRS 9 – Financial instruments

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

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

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

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

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

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

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

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

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

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

2.2.2.3 Other IFRS amendments and interpretations

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

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

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

2.3 CONSOLIDATION

2.3.1 Scope and basis of consolidation

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

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

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

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

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

2.3.2 Business combinations of entities under common control

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

2.3.3 Purchase and sale of minority interests in a controlled subsidiary

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

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

2.3.4 Intra-group transactions

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

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

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

2.4 FOREIGN CURRENCY TRANSLATION

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

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

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

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

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

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

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

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

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

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

2.5 FAIR VALUE MEASUREMENT

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

2.5.1 Active market: quoted price

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

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

2.5.2 Active versus inactive markets – financial instruments

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

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

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

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

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

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

2.5.3 Assets and liabilities not quoted in an active market

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

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

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

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

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

- No active market: use of external pricing services.

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

- No active market: use of valuation techniques.

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

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

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

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

- Use of valuation techniques in dislocated markets.

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

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

2.6 INTANGIBLE ASSETS

2.6.1 Goodwill and impairment of goodwill

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

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

2.6.1.1 Impairment testing

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

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

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

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

2.6.2 Deferred Acquisition Costs (DAC)

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

2.6.3 Other intangible assets

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

2.7 INVESTMENTS

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

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

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

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

2.7.2 Financial instruments recognition

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

2.7.3 Financial instruments classification

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

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

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

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

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

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

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

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

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

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

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

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

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

2.7.4 Impairment of financial instruments

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

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

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

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

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

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

2.8 DERIVATIVE INSTRUMENTS

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

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

2.8.1 Fair value hedge

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

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

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

2.8.2 Cash flow hedge

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

2.8.3 Net investment hedge

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

2.8.4 Derivatives not qualifying for hedge accounting

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

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

2.9 NON-CURRENT ASSETS HELD FOR SALE

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.

2.11.3 Minority interests

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

2.12 REINSURANCE

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

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

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

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

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

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

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

2.12.1 Liability adequacy test

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

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

2.13 OTHER LIABILITIES

2.13.1 Income taxes

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

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

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

2.14 PROVISIONS, CHARGES AND CONTINGENCIES

2.14.1 Restructuring costs

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

2.14.2 Other provisions and contingencies

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

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

2.15 REVENUE

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

2.15.1 Gross written premiums

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

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

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

2.15.2 Deposit accounting

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

2.15.3 Net investment result excluding financing expenses

The net investment result includes:

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

2.16 SUBSEQUENT EVENTS

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

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

See Note 22 for further details.

Note 3 Scope Of Consolidation

3.1 CONSOLIDATED COMPANIES

3.1.1 Main fully consolidated companies

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

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

3.1.2 Main investments in companies accounted for using the equity method

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

3.2 NON-CONSOLIDATED STRUCTURED ENTITIES

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

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

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

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

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

Note 4 Acquisitions

4.1 COMMON CONTROL ACQUISITIONS

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

4.1.1 Accounting method

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

4.1.2 Acquisition of AXA XL Luxembourg SARL

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

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

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

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

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

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

(US Dollars in thousands)

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

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

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

4.1.3 Acquisition of XL Re Europe SE

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

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

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

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

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

(US Dollars in thousands)

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

Note 5 Financial and Reinsurance Risk Management

5.1 RISK MANAGEMENT AND INTERNAL ORGANIZATION

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

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

The aim of the RMF is to:

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

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

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

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

5.1.1 Risk management second opinions

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

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

5.1.2 Internal control framework

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

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

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

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

5.1.3 Risk appetite framework ("RAF")

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

5.1.4 Risk management strategy

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

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

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

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

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

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

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

5.1.5 Risk management and solvency self-assessment systems implementation

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

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

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

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

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

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

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

5.1.7 Internal financial control ("IFC")

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

The IFC's core strategic objectives include:

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

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

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

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

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

5.1.8 Compliance function

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

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

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

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

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

5.1.9 Internal audit function

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

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

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

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

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

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

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

5.2 MARKET RISK

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

Component	Definition
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 reinsurance liability cash flows and to changes in the level or volatility of benchmark interest rates and credit 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 and liabilities 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 8.

The Company identifies and manages 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 risk appetite	The Company Risk Appetite Framework sets maximum risk tolerances and is reviewed annually.
Risk reporting and processes	The risk reporting process assists in identifying if there are any changes to market risks already identified in the previous assessment.

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

▪ **Authorities Framework / Risk Appetite Framework**

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

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

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

Service Level Agreement

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

5.2.1 Foreign exchange risk

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

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

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

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

5.2.2 Stress testing and sensitivity analysis on the investment portfolio

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

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

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

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

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

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

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

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

Note: All sensitivities are presented net of tax.

5.3 CREDIT RISK

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

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

Component	Description
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 reinsurance contracts written.
Underwriting counterparty risk	Exposure to obligor credit risk default or deterioration of obligor that the Company is exposed to through certain credit sensitive underwriting activities which include, Trade Credit, Commercial and Construction Surety, and Professional Lines.
Treasury risk	Exposure to the risk of default or to the risk of credit deterioration of counterparty banks used by the company in its day-to-day Treasury operations (deposits, cash balance and foreign exchange transactions).

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

The Company identifies credit risk through the following processes:

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

5.3.1 Credit risk framework

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

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

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

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

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

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

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

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

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

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

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

5.3.3 Reinsurance recoverables

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

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

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

5.4 INSURANCE RISK

Insurance risk is defined using the following categories:

Component	Definition
Underwriting risk	Underwriting risk derives from reinsurance policies written for the current period and from unearned exposure from prior periods. The risk is that the corresponding premium will be insufficient to cover future claims and other costs or more generally that the underwriting profitability from this tranche of business will be less than expected; underwriting risk includes man-made catastrophe events and natural catastrophe events.
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, through the underwriting process (which is subject to granular underwriting guidelines and escalation authorities) for the nature and level of insurance risk that it brings to the business including consideration of the exposure by nature of the limit, the risks insured, the location of the risks and other underwriting criteria.
Reserving and claims process	On an ongoing basis, claims trends are monitored and analyzed for any indications of change to the underlying insurance risk.
Risk assessment and process	Through the risk assessment processes, the Company quantifies existing risks and identifies new risks.
Development of Realistic Disaster Scenarios (RDS) and other scenarios	Used to monitor exposure to the defined scenarios and monitor compliance with underwriting risk tolerances and limits.
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 the AXA XL managed outwards third party reinsurance risk transfer program to support the Company's underwriting strategy within risk appetite and to ensure efficient use of capital. AXA XL work with the AXA Group Reinsurance entity ("AXA Global Re") on the outwards reinsurance strategy placements. Business ceded varies by location and line of business based on a number of factors, including market conditions. The goals of the outwards reinsurance risk transfer program include reducing exposure on individual risks, protecting against catastrophic risks, maintaining acceptable capital ratios and enabling the writing of additional business. The overall goal of the program is to reduce volatility and enhance overall capital efficiency.

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

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

5.4.1.2 Actuarial function

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

5.4.1.3 Rating adequacy

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

5.4.1.4 Underwriting authorities and guidelines

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

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

5.4.1.5 New product process

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

5.5 LIQUIDITY RISK

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:

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

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

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

5.5.2 Stress testing

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

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

5.5.3 Maturity of liabilities

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

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

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

5.6 MATERIAL RISK CONCENTRATIONS

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

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

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

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

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

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

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

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

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

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

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

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

/ Note 6 Goodwill And Other Intangible Assets

6.1 GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

6.1.1 Goodwill

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

6.1.2 Other Intangible Assets

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

Note 7 Deferred Acquisition Costs

7.1 ROLLFORWARD OF DEFERRED ACQUISITION COSTS

Changes in Deferred Acquisition Costs:

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

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

Note 8 Investments

8.1 BREAKDOWN OF INVESTMENTS

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

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

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

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

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

8.2 INVESTMENT IN REAL ESTATE PROPERTIES

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

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

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

(a) Includes infrastructure investments.

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

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

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

8.3 UNREALIZED GAINS AND LOSSES ON FINANCIAL INVESTMENTS

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

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

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

(b) Net of impairment.

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

8.4 DEBT INSTRUMENTS BY TYPE OF ISSUER

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

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

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

8.5 CONTRACTUAL MATURITIES AND EXPOSURE TO INTEREST RATE RISK

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

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

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

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

8.6 EXPOSURE TO PRICE RISK

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

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

8.7 NON-CONSOLIDATED INVESTMENT FUNDS

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

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

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

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

8.8 FINANCIAL INSTRUMENTS SUBJECT TO IMPAIRMENT

8.8.1 Breakdown of financial investments subject to impairment

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

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

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

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

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

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

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

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

8.8.2 Change in impairment on financial investments

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

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

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

8.9 FAIR VALUE OF INVESTMENTS

8.9.1 Investments recognized at fair value

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

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

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

(US Dollars in thousands)	December 31, 2020				
	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	—	4,467,937	—	4,467,937	4,467,937
Equity instruments	—	—	—	—	—
Non-consolidated investment funds	—	165,708	143,977	309,685	309,685
Financial investments and loans available for sale	—	4,633,645	143,977	4,777,622	4,777,622
Debt instruments	—	84,464	—	84,464	84,464
Non-consolidated investment funds	—	—	55,622	55,622	55,622
Financial investments and loans designated as at fair value through profit or loss	—	84,464	55,622	140,086	140,086
TOTAL FINANCIAL INVESTMENTS AND LOANS ACCOUNTED FOR AT FAIR VALUE	—	4,718,109	199,599	4,917,708	4,917,708

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

ASSETS CLASSIFICATION

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

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

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

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

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

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

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

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

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

OVERVIEW OF THE NATURE OF SUCH INVESTMENTS

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

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

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

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

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

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

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

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

8.9.2 Fair value of investments recognized at amortized cost

(US Dollars in thousands)	December 31, 2021				
	Assets quoted in an active market	Assets not quoted in an active market or no active market			Total including derivatives
	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	
Investment in real estate properties at amortized cost	—	—	106,008	106,008	106,008
Financial investments and loans at amortized cost	—	—	106,008	106,008	106,008
TOTAL FAIR VALUE OF INVESTED ASSETS AT AMORTIZED COST	—	—	106,008	106,008	106,008

(US Dollars in thousands)	December 31, 2020				
	Assets quoted in an active market	Assets not quoted in an active market or no active market			Total including derivatives
	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	
Investment in real estate properties at amortized cost	—	—	110,628	110,628	110,628
Financial investments and loans at amortized cost	—	—	110,628	110,628	110,628
TOTAL FAIR VALUE OF INVESTED ASSETS AT AMORTIZED COST	—	—	110,628	110,628	110,628

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

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

8.10 DISCLOSURES ABOUT THE TEMPORARY EXEMPTION FROM IFRS 9

8.10.1 Solely Payments of Principal and Interest (SPPI) test

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

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

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

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

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

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

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

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

8.10.2 Credit risk exposure

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

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

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

/ Note 9 Investments Accounted For Using The Equity Method

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

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

Note 10 Receivables

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

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

/ Note 11 Shareholder's Equity And Minority Interests

11.1 IMPACT OF TRANSACTIONS WITH SHAREHOLDER

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

11.1.1 Change in shareholder's equity Company share in 2021

SHARE CAPITAL AND CAPITAL IN EXCESS OF NOMINAL VALUE

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

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

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

DIVIDENDS PAID

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

11.1.2 Change in shareholder's equity Company share in 2020

SHARE CAPITAL AND CAPITAL IN EXCESS OF NOMINAL VALUE

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

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

DIVIDENDS PAID

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

11.2 COMPREHENSIVE INCOME FOR THE PERIOD

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

11.2.1 Comprehensive income for 2021

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

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

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

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

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

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

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

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

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

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

11.2.2 Comprehensive income for 2020

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

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

11.3 CHANGE IN MINORITY INTERESTS

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

11.3.1 Change in minority interests for 2021

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

Note 12 Liabilities Arising From Reinsurance Contracts

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

Liabilities arising from reinsurance contracts were split by as follows:

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

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

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

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

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

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

12.2 CHANGE IN CLAIMS RESERVES FOR PROPERTY AND CASUALTY REINSURANCE CONTRACTS

12.2.1 Change in assumed reinsurance Property & Casualty claims reserves

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

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

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

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

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

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

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

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

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

12.3 PROPERTY & CASUALTY LOSS RESERVE DEVELOPMENT TABLE

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

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

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

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

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

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

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

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

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

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

12.4 LOSS RESERVE DISCOUNTING

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

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

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

Note 13 Payables

13.1 BREAKDOWN OF PAYABLES

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

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

13.2 PAYABLES ARISING FROM ASSUMED AND OUTWARD REINSURANCE OPERATIONS

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

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

Note 14 Tax

14.1 TAX EXPENSE

14.1.1 Breakdown of tax expense between current and deferred tax

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

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

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

14.1.2 Tax proof

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

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

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

Effective tax rate stood at 12.2% in 2021. The rate is primarily driven by a combination of losses in taxable jurisdictions (primarily France and the UK), and profits in taxable jurisdictions where the Company has unrecognized carryforward losses (primarily Switzerland and Luxembourg):

- Impact of permanent differences of \$(24.7) million comprised primarily of non-taxable intercompany dividends;
- Derecognition/(recognition) of DTA on temporary differences of \$22.1 million related primarily to the derecognition of DTA in the US as future income projections do not support continued recognition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020

14.2 DEFERRED TAX

In the table below, the net deferred tax position corresponds to the difference between Deferred Tax Assets (DTA) and Deferred Tax Liabilities (DTL) carried on the Company's consolidated statement of financial position. Note that the breakdown of DTA/DTL disclosed in these tables corresponds to the deferred tax before the netting that occurs for balance sheet presentation purposes as required by IAS 12. Net deferred tax balances are broken down as follows:

	December 31, 2021			December 31, 2020
(US Dollars in thousands)	Deferred tax assets	Deferred tax liabilities	Net deferred tax position	Net deferred tax position
Deferred Acquisition Costs	804	46,535	(45,731)	(58,072)
Other intangible assets (including Goodwill)	—	2,753	(2,753)	(1,783)
Real estate	40	—	40	46
Financial assets	24,813	25,758	(945)	(21,051)
Technical reserves	49,837	39,714	10,123	5,809
Pensions and other employees benefits	522	4,460	(3,938)	494
Tax losses carried forward	48,156	—	48,156	41,101
Other	4,182	6,624	(2,442)	(464)
TOTAL DEFERRED TAX BY NATURE	128,354	125,845	2,509	(33,920)
<i>of which deferred tax through Profit and Loss</i>	<i>123,521</i>	<i>106,203</i>	<i>17,319</i>	<i>2,034</i>
<i>of which deferred tax through reserves relating to the change in fair value of financial instruments available for sale and financial liabilities measured at fair value through profit and loss that are attributable to changes in own credit risk</i>	<i>4,833</i>	<i>19,642</i>	<i>(14,810)</i>	<i>(35,954)</i>

As of December 31, 2021, the \$2.5 million net DTA related primarily to entities located in Ireland (\$4.8 million), France (\$2.3 million), and other jurisdictions (\$0.5 million), offset by net DTLs on entities located in Brazil (\$3.8 million) and Switzerland (\$1.3 million).

	December 31, 2021	December 31, 2020
(US Dollars in thousands)		
Deferred tax assets	7,582	1,328
Deferred tax liabilities	5,073	35,247
Net deferred tax position	2,509	(33,920)

The \$(36.4) million decrease in the net deferred tax liability position from \$(33.9) million in 2020 to \$2.5 million in 2021 relates primarily to the combination of a decrease in the DTLs due to the depreciation of the value of financial assets, plus increased DTAs for the recognition of current year losses, partially offset by the derecognition of US DTAs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020

14.2.1 Recognized and unrecognized deferred tax assets (DTA) by expiration date

The tables below provide the total recognized and unrecognized deferred tax assets, as well as the corresponding tax loss carryforward with the expiration date (i.e. the latest possible date available for use).

(US Dollars in thousands)	2021									
	DTA maturity date 1 year	DTA maturity date 2 years	DTA maturity date 3 years	DTA maturity date 4 years	DTA maturity date 5 years	DTA maturity date 6 years	DTA maturity date between 7 and 11 years	DTA maturity date > 11 years	No maturity date	Total
Recognized DTA										
Recognized DTA - Tax loss carryforwards	—	—	—	—	—	4,576	—	16	43,564	48,156
Recognized DTA - Other items not related to tax losses	—	—	—	—	—	—	—	—	80,198	80,198
Total recognized DTA	—	—	—	—	—	4,576	—	16	123,762	128,354
Corresponding carry forward losses	—	—	—	—	—	23,227	—	78	248,575	271,881
Unrecognized DTA										
Unrecognized DTA - Tax loss carryforwards	1,336	8,301	—	—	31,003	8,732	20,885	19,508	4,424	94,189
Unrecognized DTA - Other items not related to tax losses	—	—	—	—	—	—	—	—	13,844	13,844
Total unrecognized DTA	1,336	8,301	—	—	31,003	8,732	20,885	19,508	18,268	108,033
Corresponding carry forward losses	6,782	42,136	—	—	157,376	44,325	82,409	92,895	17,777	443,700
2020										
(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
Recognized DTA										
Recognized DTA - Tax loss carryforwards	—	—	—	—	—	—	36,674	—	4,428	41,101
Recognized DTA - Other items not related to tax losses	—	—	—	—	—	—	—	—	49,880	49,880
Total recognized DTA	—	—	—	—	—	—	36,674	—	54,307	90,981
Corresponding carry forward losses	—	—	—	—	—	—	174,637	—	11,802	186,439
Unrecognized DTA										
Unrecognized DTA - Tax loss carryforwards	6,493	3,911	6,199	8,399	—	—	33,987	—	6,512	65,500
Unrecognized DTA - Other items not related to tax losses	—	—	—	—	—	—	—	—	2,348	2,348
Total unrecognized DTA	6,493	3,911	6,199	8,399	—	—	33,987	—	8,860	67,849
Corresponding carry forward losses	45,493	27,401	43,432	58,844	—	—	192,043	—	28,766	395,977

14.3 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 year ended December 31, 2021, the Company had unrecognized tax benefits of \$2.7 million relating to the risk of permanent establishment existing in Italy.

The Company does not currently anticipate any significant change in the unrecognized tax benefits in 2022.

Note 15 Gross Written Premiums

<i>(US Dollars in thousands)</i>	December 31, 2021 (a)
Specialty	395,823
Casualty	1,467,124
Property Catastrophe	302,697
Property Facultative	43,694
Property Treaty	1,019,557
Other (b)	1,054,052
P&C Reinsurance	4,282,947
Life operations	14,441
GROSS WRITTEN PREMIUMS	4,297,389

(a) No comparative balances since the Company had no activity in 2020 and common control acquisitions were effective December 31, 2020 (see Note 4.1).

(b) Other includes: crop, credit and surety, accident and health, and multiline. Included within the balance is gross written premium of \$687.2 million from a large external Quota Share contract with a single cedant.

The Company, through its operating subsidiaries, is a leading provider of Property & Casualty reinsurance coverages to insurance companies on a worldwide basis. It provides casualty, property risk, property catastrophe, specialty, and other reinsurance lines being written on both a proportional and non-proportional treaty basis, as well as a facultative basis. The Company and its various subsidiaries operate mainly in Bermuda and Europe. The majority of the Company's business originates via a large number of international, national and regional brokers.

Note 16 Net Investment Result Excluding Financing Expenses

Net investment result (excluding financing expenses) from the financial assets of insurance companies was as follows:

	December 31, 2021 (a)				
	Net investment income	Net realized gains and losses relating to investments at cost and at fair value through shareholder's equity	Net realized gains and losses and change in fair value of other investments at fair value through profit or loss	Change in investment impairments	Net investment result
<i>(US Dollars in thousands)</i>					
Investment in real estate properties at amortized cost	658	—	—	—	658
Investment in real estate properties	658	—	—	—	658
Debt instruments available for sale	117,023	(47,710)	—	(5)	69,307
Debt instruments designated as at fair value through profit or loss	895	—	(6,704)	—	(5,809)
Debt instruments	117,918	(47,710)	(6,704)	(5)	63,498
Equity instruments available for sale	66,003	—	—	—	66,003
Equity instruments	66,003	—	—	—	66,003
Non-consolidated investment funds available for sale	6,887	837	—	(1,411)	6,312
Non-consolidated investment funds designated as at fair value through profit or loss	72	—	43,875	—	43,947
Non-consolidated investment funds	6,959	837	43,875	(1,411)	50,259
Derivative instruments	1	—	(1,223)	—	(1,222)
Investment management expenses	(16,519)	—	—	—	(16,519)
Other	15,839	—	(3,056)	—	12,783
NET INVESTMENT RESULT	190,859	(46,873)	32,892	(1,416)	175,461

(a) No comparative balances since the Company had no activity in 2020 and common control acquisitions were effective December 31, 2020 (see Note 4.1)

Net investment income is presented net of impairment charges on directly-owned investment properties, and net of amortization of debt instruments premiums/discounts. All investment management fees are also included in the aggregate figure.

Net realized gains and losses relating to investments at cost and at fair value through shareholder's equity include write back of impairment following investment sales.

Net realized gains and losses and change in fair value of investments designated as at fair value through profit or loss consist mainly of:

- changes in the fair value of investments designated as at fair value through profit or loss held by funds of the "Satellite Investment Portfolios" as defined in Note 2.7.3;
- changes in fair value of underlying hedged items in fair value hedges (as designated by IAS 39) or "natural hedges" (i.e. underlying assets designated as at fair value through profit or loss part of an economic hedge not eligible for hedge accounting as defined by IAS 39).

The changes in investment impairments for available for sale assets include impairment charges on investments, and release of impairments only following revaluation of the recoverable amount. Write back of impairments following investment sales are included in the net realized capital gains or losses on investments in aggregate.

Note 17 Net Result Of Reinsurance Ceded

Net result of reinsurance ceded was as follows:

<i>(US Dollars in thousands)</i>	December 31, 2021 (a)
Premiums ceded and unearned premiums ceded	(913,002)
Claims ceded (including change in claims reserves)	561,818
Commissions received from/(paid) to reinsurers	188,165
NET RESULT OF REINSURANCE CEDED	(163,019)

(a) No comparative balances since the Company had no activity in 2020 and common control acquisitions were effective December 31, 2020 (see Note 4.1)

The Company utilizes reinsurance and retrocession agreements principally to increase aggregate capacity and to reduce the risk of loss on business assumed. The Company's reinsurance and retrocession agreements provide for recovery of a portion of losses and loss expenses from reinsurers and reinsurance recoverables are recorded as assets. The Company is liable if the reinsurers are unable to satisfy their obligations under the agreements. The effect of reinsurance and retrocessional activity is shown in the table above.

Included in the above table are reinsurance amounts from AXA XL affiliates. The main retrocession being the 50% Quota Share arrangement between XL Re Europe and XL Bermuda Ltd. Respective amounts from this retrocession included above being, premium ceded and unearned premiums ceded of \$438.6 million, claims ceded (included change in claims reserves) of \$431.6 million and commissions received from reinsurers of \$124.4 million.

Note 18 Expenses By Type

<i>(US Dollars in thousands)</i>	December 31, 2021 (a)
Acquisition costs - gross	1,174,868
Change in deferred acquisition costs	56,938
Acquisition costs	1,231,806

<i>(US Dollars in thousands)</i>	December 31, 2021 (a)
Breakdown of expenses by destination	
Acquisition costs	1,231,806
Administrative expenses (b)	150,411
Other (income) and expenses	2,019
TOTAL EXPENSES EXCLUDING FINANCING EXPENSES	1,384,235
Gross earned expense ratio (c)	31.5 %
Financing expenses	24,254
TOTAL EXPENSES	1,408,489

(a) No comparative balances since the Company had no activity in 2020 and common control acquisitions were effective December 31, 2020 (see Note 4.1).

(b) Administrative expenses include operational costs, technology, employee benefits, and other expenses.

(c) Total Expenses excluding financing expenses divided by Gross written premiums plus Change in unearned premiums net of unearned revenues and fees.

Note 19 Related-Party Transactions

In 2021, the Company was party to the following transactions with related parties which may be deemed to have been material to the Company or the related party in question or unusual in their nature or conditions.

19.1 ASSUMED REINSURANCE CONTRACTS

In the normal course of business, the Company enters into assumed and outwards reinsurance contracts with certain of its AXA XL Affiliates. During the year ended December 31, 2021, these contracts resulted in reported net premiums written, reported net losses incurred and reported net acquisition costs incurred with these affiliates, or their subsidiaries, which are included within the Consolidated Statements of Income, as summarized below.

<i>(US Dollars in thousands)</i>	December 31, 2021 (a)
Reported net premiums written	1,033,701
Reported net losses incurred	(636,546)
Reported net acquisition costs incurred	(345,669)

(a) No comparative balances since the Company had no activity in 2020 and common control acquisitions were effective December 31, 2020 (see Note 4.1).

Included within the above values are amounts from three significant related party contracts with AXA XL Affiliates.

Seaview Re Ltd, a subsidiary of Catlin Reinsurance Switzerland, assumes a 30% Whole Account Quota Share from XL Reinsurance America Inc, which inceptioned in 2019 and has been renewed in 2020 and 2021. Amounts included above from this retrocession are respectively, reported net premiums written \$1.4 billion, reported net losses incurred of \$867.5 million, and reported net acquisition costs incurred of \$422.8 million.

During 2021, AXLRE assumed a 100% quota share contract from Syndicate 2003, an affiliate operating from the UK. This particular contract includes both prospective and retrospective elements. In accordance with our accounting policy since the retrospective premiums received by AXLRE were in excess of the estimated undiscounted ultimate losses payable, a deferred gain liability was recorded for the excess, such that we have not recorded any gain or loss at the inception of the contract. This deferred gain liability recorded is \$17.4 million and will be amortized over the estimated claim payment period of the related contract with the periodic amortization reflected in earnings as a component of net losses incurred. No amortization has occurred in 2021.

The prospective element included above represents, reported net premiums written of \$79.0 million, reported net losses incurred of \$nil, and reported net acquisition costs incurred of \$nil.

XL Re Europe participates in a Quota Share arrangement between itself and XL Bermuda Ltd, an AXA XL Affiliate by which XL Re Europe cedes 55% of its assumed reinsurance book to XL Bermuda Ltd. Respective amounts from this retrocession included above are ceded written premiums of \$464.4 million, claims ceded (included change in claims reserves) of \$431.6 million and commissions received from reinsurers of \$124.4 million.

As at December 31, 2021, and December 31, 2020 the following amounts with AXA XL Affiliates were recorded on the Consolidated Statement of Financial Position

<i>(US Dollars in thousands)</i>	December 31, 2021	December 31, 2020
P&C net deferred acquisition costs	208,588	189,902
P&C net premiums receivable	1,570,917	205,643
P&C net unearned premium reserves	618,955	534,241
P&C net unpaid loss and loss expense reserves	2,142,512	5,131
Intercompany Loans	(192,398)	(531,854)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020

Included within the above values are amounts from three significant related party contracts with AXA XL Affiliates.

Seaview Re Ltd amounts included above from this retrocession are: deferred acquisition costs of \$220.6 million (2021) and \$214.6 million (2020); net premiums receivable of \$278.4 million (2021) and \$287.8 million (2020); net unearned premium reserves of \$712.2 million (2021) and \$692.1 million (2020); and net unpaid loss and loss expense reserves of \$1.9 billion (2021) and \$1.4 billion (2020).

Syndicate 2003 amounts included above from this retrocession in 2021 are: deferred acquisition costs of \$15.8 million, net premiums receivable \$1.6 billion, net unearned premium reserves of \$79.0 million, and net unpaid loss and loss expense reserves of \$1.7 billion.

XL Re Europe amounts included above from this retrocession are: payables arising from outward reinsurance operations of \$247.6 million (2021) and \$46.8 million (2020); ceded unearned premium reserves of \$208.4 million (2021) and \$188.6 million (2020); and ceded claims reserves of \$1.5 billion (2021) and \$1.3 billion (2020).

In addition to the above, operational intercompany amounts payable between the Company and other AXA XL Affiliates existed as at December 31, 2021, and December 31, 2020, these amounts were respectively \$192.4 million and \$531.9 million.

19.2 AXA

On September 12, 2018, the Company was acquired by, and became a wholly-owned subsidiary of AXA. In the normal course of business, the Company enters into property & casualty assumed and ceded contracts which include various subsidiaries and affiliates of AXA as other parties. Included within liabilities arising from assumed reinsurance contracts in the Consolidated Balance Sheets are amounts from AXA Group entities of \$(47.4) million and \$(48.3) million as of December 31, 2021, and 2020, respectively.

Note 20 **Contingent Assets And Liabilities And Unrecognized Contractual Commitments**

20.1 BREAKDOWN OF COMMITMENTS RECEIVED

<i>(US Dollars in thousands)</i>	December 31, 2021	December 31, 2020
Credit facilities received (a)	204,519	202,435
Other commitments	75,000	75,000
TOTAL	279,519	277,435

Note: This table excludes collateral received from reinsurers in the form of funds, trust accounts and/or irrevocable letters of credit representing collateral on reported receivables and other assets (see "Reinsurance Trusts and other matters" below).

(a) Total commitments used were \$204.5 million as of December 31, 2021 (\$202.4 million as of December 31, 2020).

The Company has several credit facilities provided on both a committed syndicated and uncommitted bilateral bases from commercial banks as well as facilities entered into with its ultimate parent. The Company may utilize the full capacity of these credit facilities to issue letters of credit in support of non-admitted reinsurance operations in the US. Alternatively, under certain of the credit facilities, the Company instead may elect to utilize a stated portion of such facilities' capacity for revolving loans to support other operating or financing needs, which would reduce the amount available for the letters of credit.

Reinsurance Trusts and other matters

The Company's reinsurance assets result from reinsurance arrangements in the course of its operations. A credit exposure exists with respect to reinsurance assets as they may be uncollectible. The Company manages its credit risk in its reinsurance relationships by transacting with reinsurers that it considers financially sound, and if necessary, the Company may hold collateral in the form of funds, trust accounts and/or irrevocable letters of credit. This collateral can be drawn on for amounts that remain unpaid beyond specified time periods on an individual reinsurer basis. At December 31, 2021, the value of assets held in trust accounts was \$50.3 million (\$51.1 million in 2020) and the value of letters of credit was \$10.0 million (\$6.8 million in 2020).

20.2 BREAKDOWN OF COMMITMENTS GIVEN

<i>(US Dollars in thousands)</i>	December 31, 2021					December 31, 2020
	Expiring date					Total
	12 months or less	More than 1 year up to 3 years	More than 3 years up to 5 years	More than 5 years	Total	
Letters of credit	646,637	—	—	—	646,637	625,838
Other commitments (a)	—	—	—	41,751	41,751	45,392
TOTAL	646,637	—	—	41,751	688,388	671,230

(a) The Company has committed to invest in certain real estate, private equity and private credit limited partnerships, limited liability companies or similar structures. At December 31, 2021, the Company had unfunded commitments with these entities totaling \$41.8 million over a weighted average period of 5.1 years. At December 31, 2020, the Company had unfunded commitments with these entities totaling \$45.4 million over a weighted average period of 6.4 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 AND FOR THE PERIOD FROM DECEMBER 10, 2020 (DATE OF INCORPORATION) TO DECEMBER 31, 2020

In addition to letters of credit, the Company has established reinsurance trusts in the US that provide cedants with statutory relief required under state insurance regulation in the US. It is anticipated that the commercial facilities may be renewed on expiry but such renewals are subject to the availability of credit from banks utilized by the Company and may be renewed with materially different terms and conditions. In the event that such credit support is insufficient, the Company could be required to provide alternative security to cedants. This could take the form of additional reinsurance trusts supported by the Company's investment portfolio or funds withheld using the Company's cash resources. The value of letters of credit required is driven by, among other things, loss development of existing reserves, the payment pattern of such reserves, the expansion of business written by the Company and the loss experience of such business.

20.3 OTHER AGREEMENTS

20.3.1 Tax matters

With the exception of Seaview Re Ltd., which has made an election under Section 953(d) of the US Internal Revenue Code to be taxed as a US insurance company, neither the Company nor its non-US subsidiaries have paid US corporate income taxes on the basis that they are not engaged in a trade or business or otherwise subject to taxation in the United States. However, because definitive identification of activities that constitute being engaged in a trade or business in the United States is not provided by the Internal Revenue Code ("IRS Code"), regulations or court decisions, there can be no assurance that the Internal Revenue Service will not contend that the Company or its non-US subsidiaries are engaged in a trade or business or otherwise subject to taxation in the United States. If the Company or its non-US subsidiaries were considered to be engaged in a trade or business in the United States (and, if the Company or such subsidiaries were to qualify for the benefits under the income tax treaty between the United States and Bermuda and other countries in which the Company operates, such businesses would be considered to be attributable to a "permanent establishment" in the United States), the Company or such subsidiaries could be subject to US tax at regular tax rates on their respective taxable income that is effectively connected with their US trade or business plus an additional "branch profits" tax (at a rate as high as 30%) on such income remaining after the regular tax, in which case there could be a significant adverse effect on the Company's results of operations and financial position.

Note 21 Litigation

The Company and its subsidiaries are subject to litigation and arbitration in the normal course of business. These lawsuits and arbitrations principally involve claims on policies of insurance and contracts of reinsurance and are typical for the Company and for the property and casualty insurance and reinsurance industry in general. Such claims proceedings are considered in connection with the Company's loss and loss expense reserves. Reserves in varying amounts may or may not be established in respect of particular claims proceedings based on many factors, including the legal merits thereof.

In addition to litigation relating to reinsurance claims, the Company and its subsidiaries may, from time to time, be subject to lawsuits and regulatory actions in the normal course of business that do not arise from or directly relate to claims on reinsurance policies. This category of business litigation may involve, among other things, allegations of underwriting errors or misconduct, employment claims, regulatory activity, or disputes arising from business ventures. The status of these legal actions is actively monitored by management. In addition, the Company and certain of its subsidiaries may, from time to time, also be involved in tax assessment negotiations and/or active litigation with tax authorities over contested assessments or other matters in a number of jurisdictions. These actions or assessments may arise in a variety of circumstances including matters in connection with restructuring and financing transactions, as well as in the ordinary course of business.

Legal actions are subject to inherent uncertainties, and future events could change management's assessment of the probability or estimated amount of potential losses from pending or threatened legal actions.

With respect to all significant litigation matters, we consider the likelihood of a negative outcome. If we determine the likelihood of a negative outcome is probable, and the amount of the loss can be reasonably estimated, we establish a reserve and record an estimated loss for the expected outcome of the litigation. However, it is often difficult to predict the outcome or estimate a possible loss or range of loss because litigation is subject to inherent uncertainties, particularly when plaintiffs allege substantial or indeterminate damages, the litigation is in its early stages, or when the litigation is highly complex or broad in scope.

Based on available information, it is the opinion of management that the ultimate resolution of pending or threatened legal actions other than claims proceedings, both individually and in the aggregate, will not result in losses having a material adverse effect on the Company's financial position or liquidity at December 31, 2021.

No material provisions have been established for non-claims-related litigation, nor have any such contingent liabilities been identified that require disclosure.

Note 22 Subsequent Events

22.1 WAR IN UKRAINE

On February 24, 2022, Russia invaded Ukraine, triggering a war and worldwide geopolitical tensions, leading the United States, Europe and some other countries to impose unprecedented financial and trade sanctions on the Russian economy, including asset freezes and restrictions on individuals and institutions, notably the Russian Central Bank. As a consequence, the Ruble has significantly weakened and the Russian economy is facing a major crisis with repercussions on the global economy.

Under a new law signed by Russian President Vladimir Putin in early March 2022, Russian insurers have been banned from entering into transactions with foreign insurers, reinsurers and brokers from a group of “unfriendly countries” that includes every EU state, Japan, Switzerland, the UK and the US. The ban also applies to the transfer of funds by Russian insurers under contracts that were agreed prior to the new rules coming into effect. The newly introduced law will currently be in effect until 31 December 2022. The amount of premium derived from Russian cedants is immaterial to the Company.

Although no material claims have been reported at this stage, the Company closely monitors exposures to the conflict, including (i) the operational impact on its business, (ii) the consequences from a potential deterioration in macroeconomic conditions, (iii) exposure through its Property, Casualty and Specialty policies and (iv) change in asset prices and financial conditions (including interest rates).

22.2 US RESTRUCTURING

In April 2022, as part of a US restructuring initiative, Seaview Re Ltd entered into a commutation and release agreement with XL Re America, as XL Pool leader on behalf of itself and its Pool members. The impact of this transaction resulted in the settlement and commutation of all Insurance business obligations and liabilities assumed by Seaview Re Ltd, effective January 1, 2022. In addition, Seaview Re Ltd agreed to commute, and XL Re America to recapture all unearned premium reserves associated with the Insurance business and Reinsurance business, effective January 1, 2022. Seaview Re Ltd agreed to make a commutation payment of \$2,091.2 million to XL Re America as a part of the agreement. The commutation will result in a reduction in loss reserves of \$1,623.4 million and an elimination of all unearned premium reserves balances. The difference between the commutation payment and the carrying value of the net liabilities commuted will result in a commutation gain of \$20.1 million which will be recognized in 2022.

Also in regard to the US restructuring the Company agreed to assume via substitution and novation all US Reinsurance business originally assumed by an AXA XL affiliate via the US Quota Share Reinsurance Agreement effective July 1, 2000 and relevant amendments and an Adverse Development Reinsurance agreement dated January 1, 2004.

The net impact of these three reinsurance agreements was a reduction in claims reserves of \$1.1 billion, a reduction in unearned premiums reserves of \$0.7 billion and a subsequent reduction in investments of \$1.6 billion and deferred acquisition costs of \$0.2 billion.